

FROM THE BOARDROOM TO THE WAR ROOM

America's Corporate Liberals and
FDR's Preparedness Program



Richard E. Holl

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To Jody, with enduring affection

Contents

List of Illustrations	viii
Acknowledgments	ix
Introduction	1
1. Meet the New Era Corporate Liberals: Supporters of Welfare Capitalism and Hooverian Associationalism	9
2. Bad Times and a New Deal: The Corporate Liberals Accede to Sustained Business–Government Collaboration	22
3. The Unready State	39
4. The Corporate Liberals, the War Resources Board, and Industrial Mobilization Planning	60
5. Preparedness Proper: The Corporate Liberals and the National Defense Advisory Commission	82
6. One Step Short of War: The Corporate Liberals and the Office of Production Management	103
Epilogue	125
Notes	139
Bibliography	171
Index	183

Illustrations

Following page 53:

1. Henry S. Dennison, president of Dennison Manufacturing Company, Framingham, Massachusetts.
2. Eastman Kodak Management Advisory Committee (1926).
3. Key Roosevelt advisor Harry Hopkins with Colonel McDonough at a Boston Works Progress Administration meeting on June 17, 1938.
4. Secretary of the Interior Harold Ickes, a long-time critic of the corporate liberals.
5. William S. Knudsen, president of General Motors Company, bows to President Roosevelt.
6. Assistant Attorney General Thurman Arnold, head of the Anti-Trust Division of the Justice Department.
7. United Automobile Workers executives Walter Reuther and R. J. Thomas confer with government officials Sidney Hillman and William S. Knudsen.
8. Major participants of a lend-lease conference of the Office of Production Management on August 19, 1941.
9. Under Secretary of War Robert P. Patterson tries out a light machine gun at Fort Leonard Wood, Missouri, August 21, 1942.
10. President Roosevelt and Mrs. Roosevelt inspect an automobile plant that has been converted to war production.
11. Edward R. Stettinius, Jr., converses with President Franklin D. Roosevelt, December 11, 1942.
12. Lieutenant General Brehon Somervell, head Army Services of Supply, with Lord Louis Mountbatten in January 1943.

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Acknowledgments

This book has been so many years in the making that I find it almost embarrassing. In 1989, I selected the corporate liberals and American preparedness for World War II as the topic for my doctoral dissertation at the University of Kentucky. Young and naïve back then, I underestimated the complexity of the subject and consequently spent many more years on it than I had anticipated trying to get it right. Teaching five classes a semester at Lees College along the way did not make the task any easier. Doubts about whether or not I would ever finish crept into my mind. Final approval of the dissertation in 1996 (and acquisition of the Ph.D.) brought both relief and satisfaction. Tired of the corporate liberals at that point, and much too close to them to have any real objectivity, I put the manuscript aside for a half-dozen years until my good friend Keith Harper persuaded me to dust it off, make revisions, and seek out a publisher.

As one might expect, given such an elongated path to publication, I owe numerous debts. The History Department at the University of Kentucky provided me with financial aid from 1986 to 1990. President Charles M. Derrickson and Dean Kathy Smoot of Lees College helped me secure a Mellon Fellowship for the 1994–1995 academic year. Dorothy Graddy, then director of the U.K. Faculty Scholars Program, always took time to encourage me. Tim Madigan, editorial director of the University of Rochester Press, liked the manuscript topic from the beginning, and it has been a pleasure to work with him. An anonymous reviewer for the University of Rochester Press provided a valuable critique of the entire work, which resulted in more than a few improvements. I thank each of them.

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R. E. H.
April, 2005

Introduction

War is almost always an agent of tremendous social change, and World War II proved no exception. Much attention has been devoted to the role of American women in defense plants and to the stimulus that the war provided to the civil rights movement, to name just two examples, but other changes were also important. Indeed, the conjunction of the Great Depression, the late New Deal, and European war fundamentally altered the contours of the modern American state, while U.S. entry into the conflict itself consolidated these changes.

The personnel and structure of the U.S. state was transformed even before the Japanese attack on Pearl Harbor. During the period from 1939 to 1941, a small band of visionary businessmen accepted key positions within the federal government; they chose cooperation with the Roosevelt administration rather than joining mainstream capitalists in opposition to the reform-minded New Deal. Known collectively as corporate liberals, these businessmen-bureaucrats helped strengthen the United States' national defense during a time of weakness. In the process, the U.S. state grew larger and more powerful, developing a greater planning capacity than ever before in its history. By December 7, 1941, a modified American state had emerged, wherein corporate liberals had effectively substituted their version of state building for that advocated by ardent New Dealers and organized labor. The resultant institutional configuration ensured ample provisions for the military, while big businessmen received better treatment than any other group within U.S. society.

This general state of affairs persisted throughout World War II. Whereas the military lacked weapons up to August 1939, it possessed a multitude of arms and munitions by 1942 and even more thereafter. Allied nations also benefited from American plenty. By December 7, 1942, the United States alone outproduced all Axis nations combined. Given economic realities and the time frame, this result would have been impossible without corporate liberal exertions during the preparedness period. Even after World War II ended, the military-industrial complex and big business dominance of the political economy remained fixtures of American life.

Corporate liberalism, however, did not arrive full blown in 1939 or 1941; it is a strain of enlightened business thinking that has been influential throughout the twentieth century. This philosophy holds that corporate

capitalism is the best economic system ever conceived, but it is not perfect, and must therefore be reformed from time to time. Advocates of corporate liberalism—the corporate liberals—view reform as a means to sustain and strengthen the existing business regime. Reform, in this light, undercuts radical critics and furthers goals of prosperity and fairness for all.

Historians and social scientists have treated corporate liberalism and its practitioners in widely divergent ways. Martin Sklar, James Weinstein, and other neo-leftist revisionists depict corporate liberals as crafty, even devious conservatives whose reforms perpetuated capitalism, a rotten system, and were therefore negative. William Appleman Williams, Ronald Radosh, and Murray Rothbard continued in this vein, insisting that corporate liberals had fashioned a pernicious corporate system that “carried the [American people] well onto the threshold of a gentle totalitarianism.” G. William Domhoff views the corporate liberals as “sophisticated conservatives,” who occasionally sponsored semi-enlightened measures as a means of heading off more far-reaching objectives of labor, farmers, and consumers for true social justice. As Howell John Harris observes, corporate liberals “were not unduly perturbed by the recent increases in power of unions and the federal government.” Organizational historians have resisted sweeping generalizations of this sort. They emphasize the complexity of the modern political economy and search for ways to better understand the interstices between the public and private sectors.

From the organizational perspective, corporate liberals appear to be agents of a modern, more rational capitalist order. Disdainful of internecine struggles among business firms and businessmen, indeed repulsed by the counterproductive battles between a variety of American special-interest groups, corporate liberals strove to bring about compromise, cooperation, stability, and progress. Ellis W. Hawley notes that they abhorred “Balkanization” and constantly sought “corporative structures . . . to discipline such impulses and achieve coordination through enlightened concerts of recognized interests.” Similarly, Kim McQuaid asserts that corporate liberals emphasized “re-ordering of inter- and intra-industry competition” and “intelligent collaboration” between business, labor, and the state.

The interpretative framework of the organizational school is more useful than that of the New Left for the purpose of my study, so long as it is understood that business-led associationalism and corporate liberal efforts to secure a more rational world do not automatically preclude pluralistic conflict or humanitarian motivations. Business fought with other special interests, and within itself, despite corporatist undertakings. Corporate liberals exhibited a high degree of self-interest on some occasions and impressive human sympathies on others. It is also wise to heed Gerald Berk’s admonition that “corporate elites do not automatically discover their interests in reform or easily realize their advantage in politics.”¹

Even taking Berk's caution into account, corporate liberal ideology has attracted some of the most talented businessmen around, who have displayed substantial flexibility. Although it is true that corporate liberals have never deviated from certain bedrock beliefs (such as the predominant role private enterprise should play in a capitalistic system, the importance of extensive managerial autonomy, or the pivotal nature of profit as an incentive to production), their views on many subjects have evolved to keep pace with changing economic, political, and diplomatic conditions.²

Nowhere is this process of adjustment more evident than when it comes to their conception of the state. Early on, corporate liberals abandoned the doctrinaire *laissez-faire* of mainstream businessmen; they envisioned a supporting role for government in the private economy. During the 1920s, corporate liberals pursued private, company-specific solutions for the ailments and inequities bred by capitalism while simultaneously exploring associational prescriptions. In the 1930s, more extensive contacts with government were established. Many corporate liberals took leave from their companies, entering public service in order to combat Depression. Still later, efforts to restore prosperity necessarily yielded to preparations for war. Once again, corporate liberals cooperated with the state, civil servants, and politicians.

During the New Era, corporate liberals such as Henry Dennison helped construct a public-private system designed to achieve their goals of economic stability and growth. This system required appropriate action on the part of individual firms and the state. Corporate liberals implored firms to adopt "welfare capitalism": an innovative program of non-wage benefits for their employees.³ They asked the state to back up business by discouraging destructive competition and by encouraging socially responsible behaviors.

The logic was impeccable. Grant workers non-wage benefits as a supplement to their pay in order to maximize job satisfaction, regularize production, and insure the well-being of all persons with a stake in corporate capitalism. Have the state stand behind privately arranged standards and norms so that companies would be less likely to depart from them for selfish reasons. In this way, according to the corporate liberals, a new economic order slowly emerged during the 1920s, characterized by greater rationality, order, and progress. Here private interests took the lead, performing public functions such as maintenance of employment, stabilization of the business cycle, and achievement of prosperity, with the state lending its assistance whenever asked. Corporatism, rather than pluralism, suffused this structure.⁴

The combination of Hooverian associationalism and welfare capitalism operated well enough for a while, despite criticism from planners, free marketers, and trade unionists.⁵ Advocates of stronger government planning, including cartelistic arrangements, deemed associationalism too weak to

cure sick industries or prevent cyclical contractions. Proponents of laissez-faire wished to return to natural market forces, rather than rely on the loose web of government agencies, trade associations, corporations, scientific management societies, and social science research councils that Secretary of Commerce Herbert Hoover helped assemble.⁶ Trade unionists and class-conscious workers preferred more powerful industrial unions to employer paternalism.⁷ Yet the “new capitalism” seemed to work. Welfare capitalism did provide a cushion for companies and their workers during recessions in 1920–1921 and 1927. Many workmen did view non-wage benefits as protection against economic vagaries. Best of all, New Era prosperity reasserted itself after the downturns and the dream of everlasting progress remained intact.

Unfortunately, the Great Depression proved that the corporate liberals had greatly exaggerated the potential of this public–private matrix for lasting systemic reform. Most firms that had instituted welfare capitalistic programs simply could not cope with such a treacherous economy: a lack of funds rendered private unemployment insurance reserves, and other benefit schemes, insolvent.⁸ Associationalism fared no better. President Hoover called on allied corporations, trade associations, and other organizations to counteract adverse forces at work in the economy. He asked businesses to have confidence, to maintain employment and wages, and to invest. He urged trade associations to spread optimism among firms in their industries. They should also spur construction.⁹ After their initial exertions of 1929–1930 brought little relief, corporations and trade associations became dispirited. By 1931, pessimism reigned, and companies responded to depression in the traditional manner, by retrenching. Wages were slashed, layoffs mounted, investment dropped to almost nothing. The Great Depression intensified.

With the rout of the “new capitalism,” corporate liberals looked elsewhere. Henry Dennison of Dennison Manufacturing Company, Gerard Swope of General Electric, Marion Folsom of Eastman Kodak Company, and others chose to link hands with the incoming Franklin D. Roosevelt administration, accepting the necessity of an expanded role for the federal government. Dennison and Swope reaffirmed their belief in public–private cooperation, which deepened. Folsom concluded, rather ruefully, that large-scale government intervention in the economy was unavoidable and that negotiation, compromise, and partnership between federal authorities and enlightened businessmen was preferable to other alternatives. Their final object remained the same: preservation of corporate capitalism, with all its attendant virtues, through implementation of sensible reforms.

From 1933 through the New Deal, the preparedness period, and war, corporate liberals favored “intelligent collaboration” between business and government.¹⁰ They appeared in a variety of agencies, and although their

influence fluctuated up to 1938, it grew steadily thereafter. Corporate liberals played a fundamental role in the National Recovery Administration (NRA). They lent significant support to the Social Security Act of 1935, whose benefits conformed rather nicely to those offered by welfare capitalist companies prior to the Depression. But when the Supreme Court declared NRA unconstitutional, corporate liberal influence waned—in a period that coincided with the time of greatest hostility between Roosevelt and mainstream businessmen. The winter of 1938–1939 saw corporate liberal clout increase again. FDR listened to their appeals for aid to business, naming Harry Hopkins as Secretary of Commerce and spearhead of a major new economic recovery bid based around the traditional concept of building business confidence.

Far greater strides toward improved business–government relations were made after the outbreak of European war in September 1939. Conflict abroad necessitated an American defense–preparedness campaign, since the condition of the U.S. military was unacceptable. President Roosevelt opted to bring corporate liberals into government to help him upgrade the United States’ defense. He relied on the corporate liberals specifically, and the business community generally, to supply him with expertise, plant, and equipment available nowhere else. In essence, the state joined private resources to the existing organizational structure to perform a vital public service.

Roosevelt thought this approach best. Though other alternatives might have been pursued, such as a market-driven system, a New Deal–national security state equipped with enhanced regulatory powers, or a government-run munitions complex, he settled on a type of cooperative undertaking along the lines of the World War I War Industries Board and the National Recovery Administration. Tradition, of course, was on this side, as well as expediency. Other options would have required more faith in a relatively unvarnished capitalism or more drastic change in the system as it actually existed, and were therefore ruled out.

Preparedness required a major exercise in state building. According to Theda Skocpol and Stephen Skowronek, among others, the American state passed into the twentieth century a relative weakling compared to other advanced industrial nations. The state structure was characterized by fragmentation and divided against itself. Although the New Deal did result in substantial enlargement of government’s ability to provide goods and services, infighting between executive branch and legislative branch agencies performing nearly identical functions was institutionalized. On the eve of World War II, Roosevelt discovered that the state did not have the wherewithal to carry out industrial mobilization. Alan Brinkley correctly asserts that the federal authority, even taking into consideration “its considerable expansion during the 1930s, still lacked anything approaching sufficient bureaucratic capacity for managing a mobilization effort.” This being the

case, Roosevelt turned to the corporate liberals, who helped overcome the state's semi-dysfunctional nature.¹¹

More specifically, Roosevelt and the corporate liberals set up a hybrid organization that borrowed heavily from what Ellis Hawley has described as the "business commonwealth" and "emergency state" formulations. Under the "business commonwealth" idea, business institutions were encouraged by government to develop innovative planning and welfare programs. Government, in effect, acted as a midwife, giving birth to private programs and services available to the citizenry. In this way, business might develop a social conscience and social machinery, while potentially harmful government growth did not occur. The "emergency state" idea postulated the existence of some "crisis," which alone justified the construction of a temporary, emergency administration that coexisted with permanent organs of government. Once the "crisis" passed, the emergency form of the administrative state would be dismantled. Again, government was restrained and individual autonomy protected. The preparedness organization Roosevelt ultimately established drew from both models, emphasizing the importance of business initiative, business-led corporatism, crisis management, and dissolution once the European war ended. As Hawley shows us, antibureaucratic impulses have informed American state-building efforts, and this case proved no exception.¹²

From August 1939 through December 7, 1941, corporate liberals Edward R. Stettinius Jr. of United States Steel Corporation, William S. Knudsen of General Motors, and Donald Marr Nelson of Sears, Roebuck and Company ran the emergency-preparedness agencies that set about rearming the nation. They dominated the 1939 War Resources Board, the 1940 National Defense Advisory Commission, and the 1941 Office of Production Management. Holdovers from the New Deal period, such as Marion Folsom and Averell Harriman of the Union Pacific Railroad, assisted them. New men entered the equation. In the process, these businessmen imparted much needed coordination to the evolving federal establishment, creating a structure more and more like the World War I War Industries Board model. Highly visible figures, Stettinius, Knudsen, Nelson, and their colleagues constituted a managerial-technocratic elite pressing Roosevelt's ends in a shadowy but significant area connecting the public and private spheres.

Contrary to the prevailing historiographical assessment, Stettinius, Knudsen, Nelson, and the other corporate liberals performed their work more than well enough. Rather than being the "failures" and "weaklings" so often described in standard accounts, they carried out a difficult task successfully.¹³ Interacting with civil authorities, the military, businessmen of all types, and labor, frequently mediating disputes between these groups, the corporate liberals made uneven but significant headway. Relying heavily on

persuasion, compromise, and conciliation, partly as a result of a lack of statutory authority during the preparedness period and partly because that was the way they preferred to operate, the corporate liberals helped amass raw materials and stimulated military production in myriad ways. Confronted by a daunting array of constraints, among them President Roosevelt's disdain for both administrative clarity and delegation of power, isolationist opposition to even modest preparations for the possibility of war, lingering hostility between the New Deal state and most businessmen, and military intransigence of a high order, they persevered. Corporate liberal exertions paid off handsomely despite all the discord, adversity, and criticism, pushing industrial mobilization to the mass production stage or beyond by the time Japanese bombs rained down on Pearl Harbor.

The corporate liberals influenced President Roosevelt's attitude toward business. Through bad times and good, they stuck with him. The president and the corporate liberals were united by their common desire to strengthen capitalism and spread its rewards more evenly. They might disagree on specifics, but not on these general goals. Corporate liberal efforts to win FDR over to the broader business community ultimately paid dividends.

Roosevelt's public pronouncements illustrate his conversion. With NRA's demise and the approach of the 1936 presidential election, he had turned against business and it against him. FDR denounced industrialists as "entrenched greed," "money changers," and "economic royalists."¹⁴ He portrayed them as foes of "the needy," "the weak," and "the people's liberties."¹⁵ His rhetoric was such that the majority of businessmen took offense. *Nation's Business* spoke for them, saying businessmen knew full well that Roosevelt's "imputation of [their] arrogant indifference to the common welfare is as undeserved as it is gratuitous."¹⁶ After winning reelection, FDR gradually softened his stance, seeking to placate businessmen, then to entice them. The business aid program of 1938–1939 materialized. By 1940, Roosevelt told corporate liberal Averell Harriman that a "bridge between business and government . . . is indispensable to the effective functioning of our system."¹⁷ In 1944, he congratulated businessmen for playing "a vital part in this war," alluding to "the miracle of [defense] production here at home."¹⁸ He praised them for displaying the "highest type of patriotism by their devotion, their industry, their ingenuity, their cooperation with their government."¹⁹ Roosevelt's turnabout was profound, signaling as it did business' reintegration into the highest public policy circles under Democratic party leadership.

America's corporate liberals, in short, tied the burgeoning public and private sectors together into a more harmonious collectivity. Along the way, they proved themselves trustworthy subordinates of the president; pursued their corporatist vision through a variety of reincarnations; guided

preparedness from the outbreak of European war to Pearl Harbor, seeing to it that U.S. soldiers would have their weapons; facilitated construction of the great arsenal of democracy; hastened the demise of totalitarianism; and helped renegotiate business–government partnership. By World War II's end, corporate liberals had done much to restore business power and prestige, bequeathing to oligopoly capital a far greater say in public policy formation than that which prevailed before 1939.

Chapter 1

Meet the New Era Corporate Liberals Supporters of Welfare Capitalism and Hooverian Associationalism

One important characteristic of corporate liberalism has always been its inventiveness. Corporate liberals have understood the importance of adapting their business practices to changing economic and political conditions—they have been proactive, not reactive. Throughout the 1920s, corporate liberals constantly devised and revised various welfare capitalistic schemes, and the widespread, lasting prosperity of that era convinced them that these programs were working exceedingly well. As company welfare proliferated, its proponents made lavish claims about the benefits this approach conferred on individual firms and the economy as a whole.

The concept of business–government interaction, though less well entrenched in the thinking of corporate liberals, also attracted considerable attention and experimentation in the 1920s. On this issue, however, a split occurred: some corporate liberals favored limited contact between business groups and various agencies of the federal government, whereas others deemed such contact unnecessary or even counterproductive. Support among corporate liberals for welfare–capitalist formulations remained strong until the advent of the Great Depression; although a certain ambivalence about associationalism existed, it did not preclude study of such ideas and even action.

Corporate liberals devoted themselves to creating a more rational, modern economy, one that would be largely liberated from strikes, recessions, and depressions. They sought greater stability for business enterprise and ways to sustain prosperity for major stakeholders: corporate executives, stockholders, and workers. Corporate liberals insisted on business control over the economy and tended to see government and labor as occupying subordinate but supportive positions. The economy they envisioned could be achieved through expansion of company welfare or, perhaps, by application of modest associational prescriptions. Some New Era corporate liberals, such as Gerard Swope or Marion Folsom, emphasized private welfarism while shying away