

NEW YORK CITY AND THE NEW DEAL

Session One | The Old New Deal

NELSON LICHTENSTEIN | University of California, Santa Barbara

A Marx for the Shareholder Class

It is surely a coincidence that the fiery destruction of the World Trade Center, located just a few blocks from the stock exchange, and the tragic home to so many stock, bond, and currency traders, was followed within a year by the self-destruction of Enron, World Com, and so many other icons of corporate power and market triumphalism. These two calamities are of vastly different meanings, but they do serve to illustrate just how naturalized, normalized, and pervasive has become the giant corporation and its financial handmaidens in contemporary American life. The 9/11 attacks were not just upon Wall Street, but upon the United States of America. The Enron implosion was dramatic, the largest bankruptcy in history, but it seems to have had little ripple-effect in either our politics or corporate culture. In the contemporary U.S. corporate capitalism is truly hegemonic.

It was not always so. In the post civil war history of American capitalism, the New Deal represented the most powerful, sustained, and culturally resonant effort to transform the corporation and accommodate it to an ethos that was far more democratic and pluralistic. The New Deal seems radical to us, but only because we have become so complicit with the idea that the great American corporations are resistant to any fundamental reform. Indeed, the ideological impulse behind the New Deal effort was neither socialist, anti-capitalist, or authoritarian, but it was a radical experiment nevertheless, certainly when measured against the tepid reforms of recent years. In this brief moment of great reforms, the Great Depression was the occasion, the opportunity, the event that generated the ideological vacuum into which new ideas about corporate governance could pour. But those ideas had been germinating for more than a generation.

The key text for this effort, the book which a contemporary described as “the law, the logic and the philosophy of the New Deal,” was The Modern Corporation and Private Property, published in August 1932 by Adolf Berle and Gardner Means. Berle was a lawyer and Means an economist, Both were the offspring of congressional ministers, both were familiar with the practical operation of the American corporation. Their collaboration began before the Crash, indeed, when the book appeared three years later, they hardly took note of the Great Depression, because their argument hardly depended upon the existence of an immediate economic crisis.

But the book, which instantly became a controversial classic, provided an ideological rationale for New Deal planning, consumer activism, labor organizing, and financial regulation of the large corporation, indeed of all American capitalism. Berle and Means argued that America's

200 largest corporations, which then controlled one-third of the national wealth, had themselves abridged the fundamentals of a liberal capitalist order. Berle and Means were not Brandeisian “small is beautiful” trustbusters. The giant corporation was “the flower of our industrial organization.” Concentration was a problem, but not for its own sake. Something more fundamental was wrong, which is why Adolf Berle was happy to think of him self as the Marx of the shareholder class.

Wrote Berle and Means: “It has often been said that the owner of a horse is responsible. If the horse lives he must feed it. If the horse dies he must bury it. No such responsibility attaches to a share of stock. The owner is practically powerless...The spiritual values that formerly went with ownership have been separated from it...the responsibility and the substance which have been an integral part of ownership in the past are being transferred to a separate group in whose hands lies control.”

Not only had oligarchy replaced competition, but of even more consequence, management usurped the prerogatives of traditional ownership. If the shareholders had therefore lost control of the corporation to a set of unelected, self-perpetuating managers, then the modern corporation could best be understood not in terms of “the traditional logic of property and profits...not in terms of business enterprise but in terms of social organization.” And like the church, the military, and the state, such power had to be either regulated or democratized if a republican government were to exist. The rise of these illegitimate controlling elements, with their potential for abuse, have now “placed the community in a position to demand that the modern corporation serve not alone the owners or the control but all society.”

Over and over again they say, the American corporation has “ceased to be a private business device” and has become “a major social institution.” The words favored in the vocabulary of Adam Smith, private property, private enterprise, individual initiative, the profit motive, wealth, competition, have simply “ceased to be accurate.” Thus the financial manipulations that had become such a scandal during the 1920s, and which have reemerged in the years since the decay of the New Deal order in the 1970s, have disrupted, distorted, and delegitimized the whole system of private capitalism. Thus did Charles Beard applaud the book as the most important work bearing on American Statecraft “since the federalist papers,” while 50 years later the conservative economist George Stigler remarked ruefully that “There was no better date in modern history to launch an attack on the large corporations than 1932, and no better place than New York City.”

Adolf Berle was a sometime speech writer for President Roosevelt, but his ideas were so potent and so resonant that they echoed throughout FDR’s speeches long after Berle had ceased to be a member of the President’s famous “brains trust.” In his famous speech before the 1936 Democratic convention in Philadelphia, FDR attacked the “money changers” and “economic royalists” when he accepted his party’s renomination. “Philadelphia is a good city in which to write American history,” began the President began, evoking a Jeffersonian-Madisonian theory of republican citizenship. In 1776 the patriots had thrown off the political yoke of their oppressors, but now the men and women of the 20th century faced a new autocracy:

“Out of our modern civilization economic royalists carved new dynasties. New kingdoms were built upon concentration of control over material things. Through new uses of corporations, banks and securities – all undreamed of by the fathers – the whole structure of modern life was impressed into this royal service...

The privileged princes of these new economic dynasties, thirsting for power, reached out for control over government itself. They created a new despotism and wrapped it in the robes of legal sanction. In its service new mercenaries sought to regiment the people, their labor, and their property. And as a result the average man once more confronts the problem that faced the Minute Man.

The hours men and women worked, the wages they received, the conditions of their labor – these had passed beyond the control of the people, and were imposed by this new industrial dictatorship. The savings of the average family, the capital of the small businessman, the investments et aside for old age – other people’s money – these were tools which the new economic royalty used to dig itself in.”

The royalists of the economic order have conceded that political freedom was the business of the government, but they have maintained that economic slavery was nobody’s business. They granted that the citizen could protect the citizen his right to vote, but they denied that the government could do anything to protect the citizen in his right to work and his right to live.”

So if those who control the giant corporations had demonstrated the illegitimacy of their power, what could be done about. As a Roosevelt brains truster, Adolf Berle and other like-minded reformers played a large role in writing some of the key regulatory laws of the early New Deal, laws designed to correct the specific abuses illuminated by The Modern Corporation and Private Property and the many books, investigations, and congressional hearings that followed. Three pieces of legislation in particular – the Securities Act of 1933, the Securities Exchange Act of 1934, and the Public Utility Holding Company act of 1935 addressed the issues Berle and Means raised in their book: the transparency of financial activities, equal treatment between corporate insiders and outside shareholders, some limitation on the concentration of control in basic infrastructure industries. We know something about the importance of such regulation, and the resistance offered by those who will be regulated, simply by recalling how difficult it has become to regulate the contemporary accounting industry, even in the wake of such huge scandals as Enron and World Com.

But of far more important than these pieces of regulatory control, whose efficacy would become attenuated in the long run, was the early New Deal impulse to get inside the black box of the corporation and transform it in some democratic and pluralist fashion. Berle and Means and other Depression-era reformers wanted to make American capitalism more legitimate by creating a set of countervailing forces that could challenge and restrain the control deployed by managers

and financiers, whose unaccountable power had so deeply eroded the whole edifice of American democracy. Between the revolution and unconstrained capitalism lay a middle way the New Dealers thought. If capitalism is to survive, wrote Berle and Means “the control of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity.” What the New Deal promised, according to Berle, was to serve as a “counterbalance [to] the effects of organization gone wrong.” The New Deal acted by “mobilizing industry and requiring it to meet the responsibilities of an income-distributing group.”

New Deal regulation required the mobilization of new groups and new elements of the body politic. By far the most important such countervailing force was a reinvigorated labor movement whose voice and clout was essential if incomes were to be raised and if a highly regulated capitalism was to function in an equitable fashion. Labor’s voice was crucial to New Deal capitalism, because the trade unions themselves possessed an intimate understanding of business practice, conditions, and outcome. Only they could “enforce” government mandated minimum wage standards and maximum-hour regulations. As retailer Edward Filene noted wryly in 1933, “Our labor unions have a better understanding of what is good for business today than our chambers of commerce have.” Self-organization was essential, argued Robert Wagner to ensure that “the fruits of industry must be distributed more bounteously among the masses of wage-earners who create the bulk of consumer demand.”

Historians today recognize that New Deal advocacy of a bountiful consumption – what labor leaders like Walter Reuther would later call “purchasing power for prosperity” did not generate an insular or depoliticized privatization of family or community life. A century before, when the “producing classes” bulwarked a virtuous republic, the designation “consumer” seemed not far removed from that of dysfunctional “parasite.” But the New Deal worked an imaginative revolution: now mass consumption stood shoulder to shoulder with mass production as a foundational component of both a humane capitalism and a reinvigorated democracy. The New Deal and the new labor movement took the nascent consumer culture of the twentieth century and made of it a political project. An “American” standard of living was becoming a right of citizenship, and if the achievement of that new entitlement required a radical transformation of the American political economy, so be it. Roosevelt’s secretary of labor, Frances Perkins, put it this way in 1933: “If ...the wages of mill workers in the South should be raised to the point where workers could buy shoes, that would be a social revolution.” Far from generating a sense of passive dependency, New Deal relief programs, and especially those involving work and wages, generated an active sense of citizenship. Indeed, against fear and dependency, the New Deal counterpoised “security,” precisely in order to generate that participatory democracy desired by the founders. In 1944 President Roosevelt would propose a Second Bill of Rights in which he asserted, “The one supreme objective for the future can be summed up in one word: Security, and that means not only physical security...it means also economic security, social security, moral security.”

So universal was this security consciousness that even opponents of the New Deal sought to champion that aspiration. At the 1939 New York World's Fair, the Equitable Insurance Company sponsored a "Garden of Security." Nine years later the militantly conservative National Association of Manufacturers admitted that "The employee's urge for security is stronger than ever, and every company has responsibility to make maximum provision...to cushion employees against the economic hazards." And of course every post World War II president has borrowed moral capital from the New Deal when they invoke "national security."

But if the New Deal state and the newly vigorous trade unions had only been successful as wage fixing institutions, their would not have gone very far, either among policy-making elites or the mass of American workers. A huge proportion of the latter were African-Americans or immigrants from Eastern or Southern Europe. For them the New Deal and the new unionism represented not just a higher standard of living, but a doorway that opened onto the democratic promise of American life. Security constituted not just freedom from material want, but a social, psychological fortress from which to challenge illegitimate power, both on the job and off.

Berle and Means' book on corporate governance struck a chord because most reformers and radicals thought that a great contradiction lay at the heart of American capitalism. Outside the walls of the private enterprise, American political culture celebrated a Jeffersonian world of free speech, democratic participation, and masterless autonomy. But within the corporate world, and the nearby industrial municipalities, autocracy, obedience, and social deference were the order of the day, bolstered by a century of legal precedent and business practice. When confronting their employer, American workers had no statutory right to free speech, assembly, or petition. In the reactionary era right after the First World War, thousands of unionists were fired, blacklisted, and literally forced out of town. The judiciary stubbornly adhered to an imaginary world of "free labor" in which individual workers freely and equitably negotiated their pay and perks with those who hired them at the great corporations that now bestrode the land. Pro-union workers called Aliquippa, Pennsylvania "Little Siberia," because of the Czar-like rule of the Jones & Laughlin Steel Company. J & L president Tom Girdler was a paternalist who paid good wages and boasted that his door was always open. But "we couldn't call our souls our own," reported a fearful steelworker, "We couldn't think unionism."

No contradiction in American life, save that of African-American slavery and its Jim Crow offspring, so violated the nation's democratic norms. With the rise of the continental corporation at the end of the 19th century, this dichotomy became the very essence of the "labor question." President Roosevelt himself was acutely aware of this dilemma; indeed, his reconceptualization of American liberalism was predicated upon the belief that the greatest threat to the republican form of government now came from concentrated capital far more than that of an overweening state. He argued argued that in the 20th century world economic inequality made political equality meaningless. Before the New Deal, charged FDR "(a) small group had concentrated into their own hands an almost complete control over other people's

property, other people's money, other people's labor - other people's lives. For too many of us life was no longer free; liberty was no longer real; men could no longer follow the pursuit of happiness." Such rhetoric opened the door not only to a season of social democratic statecraft, but to the most expansive ambitions of the union movement. As John L. Lewis declaimed in a national radio address just a week later, "Let him who will, be he economic tyrant or sordid mercenary, put his strength against this mighty upsurge of human sentiment now being crystallized in the hearts of thirty millions of workers who clamor for the establishment of industrial democracy and for participation in its tangible fruits."

The "industrial democracy" of John L. Lewis, no less than that of Franklin Roosevelt, was therefore predicated upon a thoroughly republican sense of democratic governance. Advocates of "industrial democracy" were Whiggist evolutionaries who saw the new system as but the next stage in the evolution of American freedom. It encompassed collective bargaining, of course, but it evoked a far more ambitious social agenda. On the shop floor industrial democrats envisioned an "industrial jurisprudence," a constitutionalization of factory governance, and the growth of a two-ety - due process, free speech, the right of assembly and petition - would now find their place in factory, mill, and office. This was a radical prospect indeed and a frightful threat to property and its prerogatives.

If the content of such rights and norms were thoroughly bourgeois, their achievement required something close to revolutionary action, or so it seemed during the years between 1933 and 1938. Factory militancy in the 1930s was inspired far less by the Bolshevik aspirations of 1917 than by the virtuous republican values of 1776, but in either case much turmoil was to follow. In Toledo, Minneapolis, San Francisco, and Kohler, Wisconsin pitched battles in the streets put a set of fledgling unions at odds with the police, the national guard, and employer sponsored militia. Farm laborers and cannery workers battled against tremendous odds in the California fields and packing houses. And in the nation's largest single strike, 350,000 textile workers walked out in a massive uprising that shut down mills from Maine to Alabama. These walkouts often took on the flavor of a general political strike, and these upheavals were often led by radicals: Communists on the San Francisco docks and in the California fields; Trotskyists among the Minneapolis truckers, independent leftists in Toledo, and Christian populists and all along the Piedmont textile belt. There were thousands of arrests, hundreds of injuries, and dozens of dead, including six killed by vigilantes in Honea Path, South Carolina. Workers faced a crushing defeat in the Piedmont mills, the California fields, and in the company town of Kohler, even as militant new unions emerged in San Francisco and Minneapolis. But whatever the outcome, the upheaval of '34 put a resolution of the labor question at the very center of American politics and culture.

These upheavals came at a transitional moment in American political culture. Since the days of Jefferson and DeTocqueville, the nation's leading men of politics and enterprise have celebrated a society that is formally democratic and individualist, thus rendering the deep class divides that emerged later in the 19th century anomalous. Conservative elites have often asserted that any conflict between capital and labor or between right and left is a product of

either internal corruption, outside agitation or alien ideologies. In the U.S. therefore, even more than in Europe or Latin America, those who defend the industrial and social status quo have deployed a racially tinged nationalism in their own class interest. Late in the 19th century employers and politicians blamed radical immigrants and unpatriotic socialists for the strikes of that era. During and after World War I "100 percent Americanism" became synonymous with the anti-socialist, anti-immigrant efforts of vigilante groups like the American Legion or the KKK to smash the labor movement and the left. Union organizers and radical agitators manhandled by such groups, or by the police themselves, were often forced to kneel and kiss the American flag as a sign of their loyalty to the nation and its institutions.

But the New Deal and its liberal-labor supporters successfully captured the flag during the 1930s. Franklin Roosevelt proved a master manipulator of the symbols of national pride and identity. His fireside chats, which so often announced an expansive New Deal program, drew listeners into the Oval Office, where the president told them of his absolute confidence in the ability of the American people to pull themselves out of the Depression. The early New Deal employed marching bands, parades, and the ubiquitous Blue Eagle symbol to heighten the feelings of national unity and national mobilization. And so too did the union movement, whose leaders cloaked themselves in the expansive, culturally pluralist patriotism that the New Deal sought to propagate. "Unionism is the spirit of Americanism," asserted a union newspaper that appealed to immigrant workers long excluded from a full sense of citizenship.

An emblematic moment came on the day in 1934 when Secretary of Labor Frances Perkins visited the unorganized steel workers of Homestead, Pennsylvania to hear their grievances and explain to them New Deal labor policy. In a town tightly controlled by the United States Steel Corporation, the mayor abruptly cut short a Perkins speech in the city hall when union militants – he called them “undesirable Reds” - sought to make their voices heard. Ushered onto the street amid a crowd of angry steelworkers, Perkins and her party were temporarily bewildered. Where would she continue her talk and answer the many questions anxious steelworkers put to her? The city park? “You can’t do that,” shouted the red-faced mayor, “there is an ordinance against holding meetings in a public park.”

But the Secretary of Labor would not be stymied, and when she saw a an American flag flying above the local post office building she quickly led the working-class throng inside. There, in the lobby of this federal institution, under a flag representing the power of a self-confident national government, Perkins resumed her speech detailing for a largely immigrant audience their new rights under the law. She later wrote, “We ended the meeting with hand-shaking and expressions of rejoicing that the New Deal wasn’t afraid of the steel trust.”

All of America’s great reform movements, from the crusade against slavery onward, have defined themselves as champions of a moral and patriotic nationalism, which they counterpoised to the parochial and selfish elites who stood athwart their vision of a virtuous society. Success is well advanced when a Lincoln, a Roosevelt, or a Johnson links his statecraft to the growing

power of an insurgent social movement. Indeed, such legitimization is an essential element in the movement's capacity to transform dissent and protest into a new hegemony. Thus, the Depression-era labor movement deployed huge American flags in all their struggles, even those led by avowed leftists. The national banner symbolized the power of a newly assertive federal government and the kind of ethnically diverse Americanism the new unionism and the New Deal sought to build. Waving the stars and stripes, American unionists announced that they too were part of a patriotic tradition that was expansive enough to enfold a new industrial democracy.