

DISSERTATION

THE POLITICAL ECONOMY OF REXFORD G. TUGWELL

Submitted by

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In partial fulfillment of the requirements

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ABSTRACT OF DISSERTATION

THE POLITICAL ECONOMY OF REXFORD G. TUGWELL

This study provides an intellectual portrait of Rexford Guy Tugwell. The purpose of this study is to examine the works and career of Tugwell with an eye toward understanding the “Tugwellian system”, i.e., Tugwell’s notion of the scope and method of economic analysis and his vision of a new economic order - a system of economic planning and social management within the context of democracy and cherished American liberal values.

The thesis of this work is twofold: 1) this study asserts that Tugwell’s work is thoroughly compatible with the OIE tradition. To validate this point, Tugwell’s work will be organized into a framework that is consistent with OIE in terms of both its methodological approach and its policy prescriptions; and 2) the concept of economic balance is crucial to Tugwell’s system of thought, and this study will demonstrate the centrality, importance, and validity of balance to the Tugwellian system and the continuing relevance of Tugwell’s “balanced economy“ framework to the modern economy.

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Introduction

This study provides an intellectual portrait of Rexford Guy Tugwell. The purpose of this study is to examine the works and career of Tugwell with an eye toward understanding the Tugwellian system, i.e., Tugwell's notion of the scope and method of economic analysis and his vision of a new economic order - a system of economic planning and social management within the context of democracy and cherished American liberal values.

A fresh assessment of Tugwell's career holds some interest as a piece of Americana and as a chapter in the history of economic thought. But, there is added significance given Tugwell's importance in a forgotten and neglected history of American economic thought and in the formulation of the New Deal policies that shaped the American economy, as we know it today. Both the controversial position in the history of economic thought of Tugwell's version of economic analysis and the recent rethinking of the foundations of the corporate welfare state that he helped to shape, provide added significance to the study.

This study simultaneously strikes at a paradox: Despite his current obscurity and neglect by researchers, Tugwell was a very public and influential man for his times - particularly in the midst of the Great Depression. Perhaps best known as a controversial figure in FDR's New Deal and Brains Trust, Tugwell made significant contributions in academia and public service as an economist, planner, statesman, and legal reformer throughout his long and productive life, 1891-1979. But, his work is presently seldom cited and his role in American history is not often noted. For example, a representative sample of relatively recent New Deal histories reveals

that Tugwell indeed played a significant though controversial role in the shaping of American interwar policy (Leuchtenburg, 1995; Lash, 1988; Davis, 1986; Moley, 1966). Yet, on the other hand, other studies make only a tangential connection between Tugwell, a fringe Brains Trustee, and the bulk of New Deal policy (Rosenof, 1997; Dubofsky, 1992; Biles, 1991; Olson, 1985; Sitkoff, 1985). Furthermore, examination of the *Social Science Citations Index* reveals that Tugwell's works are seldom cited in contemporary historical and economic research.

From the perspective of the history of economic thought, such a paradox in and of itself may capture the interest of the researcher, but in Tugwell's case, there is a further significance. He represented the American institutionalist school of economics (or OIE, original or old institutional economics). There is growing recognition that OIE was of much greater importance in the American history of economic thought than is suggested by the conventional canon of heterodox or mainstream economics. Yuval Yonay emphasizes this in his *The Struggle Over the Soul of Economics* by describing the indisputable and concrete contributions of OIE to the larger discipline (Yonay, 1998, pp. 60-65). In his 1997 presidential address to the History of Economics Society, Malcolm Rutherford made a similar point in asserting that the marginalization of OIE in American economics is of recent vintage and that the history of economic thought needs to be corrected field by field by careful analysis of OIE and its place in the American history of economic thought (Rutherford, 1997, p. 187). Similarly, in his 1995 presidential address before the Association for Institutional Thought, Ronnie Phillips indicated a similar point concerning the publications of OIE articles in the *American Economic Review* until about 1960 (Phillips, 1995, p. 4). Phillips also asserted the need to correct the record as a prelude to greater OIE involvement in the profession's mainstream (Phillips, 1995, p. 13).

A further source of significance is found in the post-1975 decline of the Keynesian neoclassical synthesis. The monetarist expectationist counter-revolution has led the profession into policy conclusions that some find problematic, even dangerous (Tabb, 1999, p. 207). The recent surge of protest against international organizations that enforce the “Washington consensus” (Gray, 1998, p. 22) may be the harbinger of a new turn in economic thought (Tabb, 1999, p. 219). There is also the risk that the globalization led by capital markets is creating excess capacity and financial fragility (Clarke, 1988, p. 357; Palley, 1998, p. 46).

If a new economic direction is to be undertaken, it must be based on a sound understanding of the modern economy. The reasons for the collapse of the Keynesian neoclassical synthesis should be examined and alternatives to the monetarist expectationist framework should be explored. It is quite likely that the forgotten history of American economic thought contains useful insights in this regard; and Tugwell’s substantial contribution to this important body of thought is no exception given his prominence in both academia and public service during the momentous interwar years.

Methodology

The approach taken in this study is that of an intellectual portrait. This approach emphasizes the place and significance of the individual’s work in intellectual history. Studies in this tradition have been written in recent years on Max Weber, John Dewey, John Kenneth Galbraith, Karl Polanyi, and Louis Brandeis, to mention only a handful (Bendix 1998; Hook 1995; Stanfield 1996, 1986; Baskerville, 1994). Such studies are unquestionably important unto themselves, but, more significantly, they also represent important contributions to the history of economic thought in general. As such, they are also part of the ethnographic record of particular cultures.

Despite the general lack of interest from within the mainstream economics profession, several reasons have been identified why studies in the history of economic thought are necessary. First, such studies broaden our horizons as economists, making us better informed as to the variety of thought on the economic problem. Second, the history of economic thought teaches the economist humility by placing the subject matter within a contextual comparative framework that sheds considerable light on the merits and demerits of competing bodies of thought. And, third, studies in the history of economic thought can provide invaluable inspiration and impetus for further economic inquiry; on this point it can be asserted confidently that no notable economist has ever operated in an intellectual vacuum detached from antecedents in both history and theory (Landreth and Colander, 1994, p. 16).

What justification is there for an intellectual portrait of Rexford Tugwell, and what justification exists for the unusually lengthy biographical sketch of Tugwell contained within this study? There are several persuasive reasons that tend to complement and reinforce each other as to why and how this study was undertaken.

First, intellectual portraits typically emphasize the “great man” aspect of their subject, the implication being of course that single individuals have the power to change or reflect history; conversely, historical events and the intellectual milieu in which the subject operates will likewise continue to shape and re-shape the individual’s views. While the influence of Tugwell was not as great as such towering “worldly philosophers” (Heilbroner, 1953) as Marx and Keynes, there can be little doubt that the world of today would be a different place had Tugwell not lived and left a considerable imprint upon economic thought and public policy, particularly during the first New Deal. As described within this study, Tugwell’s influence on the social legislation of the interwar years is difficult to overestimate. It would seem then that merely from this consideration alone a contextual study of Tugwell’s life and works is long overdue.

Secondly, even if Tugwell did not fall into the “great man” category, his relative neglect by economic historians, particularly with respect to his contribution to OIE, seems unjustifiable - especially in light of his eminent career and the considerable body of intellectual output that he left behind. Neither Sternsher’s (1964) nor Namorato’s (1988) impressive studies of Tugwell fall cleanly into the genre of a typical history of economic thought intellectual portrait because neither attempts to establish Tugwell’s relative position and importance within the pantheon of OIE thinkers, or more generally within the history of economic thought writ large; thus they can be dismissed as not meeting a fundamental requirement of the intellectual portrait proper. The author of this study is unaware of *any* published intellectual portraits on Tugwell by economist and non-economist alike that attempt to fulfill this defining purpose and feature of the intellectual portrait. Tugwell was an important OIE thinker and one of the key purposes of this study is to firmly establish his importance and position in OIE thought.

Third, Tugwell’s career and works suffer from a chronic condition of indifference and neglect in both the secondary and tertiary literature, particularly with respect to the apogee of his influence during the momentous decade of the 1930s. For example, a survey of the interpretive literature repeats the same pattern observed in the examination of the *Social Science Citations Index* mentioned above: In the view of the present study, Tugwell is not accorded fair treatment commensurate with his elevated status within the Rooseveltian coterie or as an important member of the OIE school (See Fine, 1956; White, 1976; Noble, 1958; Lawson, 1971; Lowi, 1969; Schlesinger, 1949; Straight, 1943; Markowitz, 1973). Furthermore, a survey of the tertiary literature once again repeats this all too familiar pattern by essentially neglecting Tugwell altogether or relegating him to a somewhat periphery role in the institutionalist camp of subversives (See Blaug, 1985; Roll, 1952; Spiegel, 1991; Seligman, 1962; Mitchell, 1969). Was Tugwell’s thought not original enough? Did

his proselytizing from economist/scholar to public servant/political scientist somehow translate into a diminishment of his stature as a New Deal intellectual luminary or the “professor on the Potomac” (Sternsher, 1964)? Or, was he simply too “radical” to be taken seriously within the context of his political economy surroundings, particularly given his refusal to climb aboard the Keynesian bandwagon? The answers to these and other questions will emerge during the course of this study. However, for the purpose at hand, the paradox of Tugwell’s relative obscurity in light of his considerable New Deal service and scholarly accomplishments is sufficient in providing further justification for this study.

The fourth and final justification for this intellectual portrait is 1) to demonstrate the application of Tugwell’s OIE ideas to policy; and 2) to stress his role as a key shaper of the American welfare state, particularly in light of his solid OIE orientation. In the author’s view, Tugwell’s ideas often best come to the fore in an examination of both his intellectual life - especially with an eye toward identifying key influences that formed the basis of his OIE - and in his public service career. Hence, this study provides an unusually lengthy review of Tugwell’s life and career. A substantive contextual review of the public Tugwell is crucial in developing a deeper understanding of his system of thought and his place within the OIE tradition. Furthermore, an extended review of his intellectual evolution and professional activities may help to elevate Tugwell from relative obscurity and dismiss any lingering doubts concerning his role as a champion of American liberalism and democracy.

Structure of the Work

The thesis of this work is twofold: 1) this study asserts that Tugwell’s work is thoroughly compatible with the OIE tradition. To validate this point, Tugwell’s work will be organized into a framework that is consistent with OIE in terms of both

its methodological approach and its policy prescriptions; and 2) the concept of economic balance is crucial to Tugwell's system of thought, and this study will demonstrate the centrality, importance, and validity of balance to the Tugwellian system, i.e., his conception of the economic problem and his proposed solutions, and the continuing relevance of Tugwell's "balanced economy" framework to the modern economy. This dual thesis is significant because its validation will demonstrate 1) that Tugwell's neglect in the canons of economic thought, including the OIE tradition, is largely unjustifiable in light of his substantive contribution to political economy; and 2) that his ideas relating to economic and social balance are an important and integral part of the OIE tradition and that they have continuing relevance to current political economy issues.

Chapter One, "Early Influences", begins a biographical sketch of Tugwell by focusing on his formative years with an eye toward identifying key influences that were persistently present throughout his lengthy career. Tugwell's mature mindset is firmly rooted in a well-established body of homegrown American heterodoxy - particularly the works of Thorstein Veblen and Simon Nelson Patten. Although Tugwell was reluctant to explicitly acknowledge any substantial intellectual debt to Veblen, this study will nevertheless reveal that much of Tugwell's thought flowed from the works of Veblen, particularly the latter's famous dichotomy and model of oligopoly that were later refined into the dual economy concept by Galbraith (Galbraith, in Dahms, ed., 2000, pp. 51-65; Stanfield, 1996).

Heavily influenced by Patten, Tugwell likewise believed in the awesome potentialities of the modern surplus economy. True to his OIE origins, Tugwell shunned the methodological individualism of orthodox economics. He, like Patten before him, believed that beneath society's thin veneer of individualistic and acquisitive tendencies lay a suppressed wellspring of cooperative impulses. In previous historical eras these impulses had been given much wider expression than

presently permitted by the modern business order. An important function of the educator and planner was to facilitate the return of these cooperative relations in the form of a cooperative, voluntary planning ethos (Patten, 1912, p. 77). As will be evident shortly, Tugwell's scholarly and professional activities throughout the years would continuously reflect this commitment.

In Tugwell's view, one could not have asked for a more convincing demonstration of the salutary effects of cooperation than the cooperative economic arrangements imposed upon the nation by the exigencies of World War I. The war would have a foundational, multifaceted effect upon Tugwell's psyche, with the primary lesson gleaned from this experience being the inexorable trend toward cooperation and planning, lest humankind destroy itself in a competitive struggle over wealth and power (Tugwell, 1927a, pp. 364-66; 1928a, p. 265).

Chapter Two, "In Brains We Trust: The Emergence of Tugwell's Experimental Economics", continues the chronological survey of the early years of Tugwell's scholarly development and his entry into the national political arena as a charter member of the original Brains Trust of Franklin D. Roosevelt. This chapter is not merely a descriptive account of his transition from academia to the public policy sphere; rather, it will trace this transition with an eye toward appreciating the role of Tugwell's ever-evolving body of institutional thought and how his solid OIE orientation was instrumental to his inclusion in Roosevelt's inner circle of advisors. This chapter will continue to explore intellectual currents and environmental influences that shaped Tugwell's thought, including his contact with Carleton H. Parker and William F. Ogburn at the University of Washington and his involvement with the celebrated Contemporary Civilization course at Columbia University. This chapter will also highlight John Dewey's critical role in providing the philosophical foundation of what Allan Gruchy called Tugwell's "experimental economics" (Gruchy, 1947). Finally, the chapter will expose the obvious connections between

Tugwell's OIE thought and its applicability to the major economic and social problems of his time, but a more intensive treatment of this theme will be reserved for Chapter Four.

Chapter Three, "The New Deal and Beyond", continues the chronological exploration of Tugwell's thought and professional activities from the New Deal until his death in 1979. This chapter will introduce and underscore the paramount importance of that most quintessential of all Tugwellian concepts: *balance*. Tugwell's emphasis on this concept will be demonstrated by reviewing those policies in which he actually operationalized or attempted to operationalize this concept in praxis. It will become apparent to the reader that this concept pervaded the entire expanse of Tugwell's career from start to finish. The purpose of this chapter is merely to introduce Tugwell's notion of balance within the context of his public life. A more penetrating discussion of this theme and its relevance to policy and economics methodology will be reserved for Chapters Four through Six.

Significant milestones in this broad swath of Tugwell's life included his controversial involvement in the first New Deal, first as Assistant Secretary and then Under Secretary of the Department of Agriculture under Henry A. Wallace, followed by his even more controversial role as the Director of the Resettlement Administration. During this time, Tugwell was intimately involved with the formulation and implementation of both the National Industrial Recovery Act and the Agricultural Adjustment Act of 1933; both programs clearly reflected Tugwell's imprint by their emphasis on balance and parity.

Tugwell's brief, highly publicized, flash-in-the-pan tenure as the controversial and purportedly left wing ivory tower reformer of the New Deal was then followed by a lengthy and remarkable career in public service and academia. Following the New Deal, Tugwell continued his crusade in support of social management and economic planning, first as Chairman of the New York City Planning Commission

(1938-1940), and then again as Governor of Puerto Rico (1941-1946). In these two assignments, Tugwell was to see in smaller and more tractable form many of the same planning problems he had grappled with earlier on the national level, and, akin to these earlier efforts, his overarching vision for both New York City and Puerto Rico was to institute an equitable balance of power between all key players in the social provisioning process to ensure economic empowerment and material abundance for all.

After Puerto Rico, Tugwell returned to academia, not as an economist but as a political scientist intent upon restructuring the American three-branch system of government. Tugwell had learned from bitter experience, that without fundamental legal reform, no significant degree of planning and redistribution of power toward balance and abundance were possible in the face of a structurally archaic political system. Therefore, he devoted the latter half of his long life to the rewriting of an American constitution that would better serve the needs of a genuine public interest.

Clearly, the balance concept spanned the entire girth of Tugwell's career and was always central to his system of thought; it was clearly visible in the hastily conceived structuralist patchwork approach of the ill-fated NIRA, and it was likewise apparent in later years in a more graceful and articulate expression, being woven into the institutional and legal fabric through the revision of the American Constitution.

Having provided the reader with a contextual review of Tugwell's contentious position within the American political economy landscape, the purpose of Chapter Four, "The End of Laissez Faire", is to examine more closely Tugwell's ideas and policies relating to industry and the dualized nature of the modern economy. The above commanded the bulk of Tugwell's attention during the interwar years, and it was around these problems that Tugwell's system of thought began to crystallize.

In Tugwell's view, the fundamental role of the economist was to guide the direction and progress of the industrial system by utilizing an experimentalist or

instrumentalist methodology, the tenets of which explicitly acknowledged the continual malleability of society's institutions. The industrial system, Tugwell noted, "is like a ship with no rudder, no compass, and no captain . . . and whose crew we cannot control because we lack the idea of discipline" (Tugwell, 1927b, p. 208). The essence of Tugwell's thought centered on his concern for the provision of this "industrial discipline" to facilitate urgently needed control over the inherently unstable laissez faire business order. And, apart from the exigent nature of any current or imminent crises at hand, Tugwell generally believed that there was an inexorable logic of reform in utilizing economic controls to enhance human welfare (Tugwell, 1927b, p. 210; 1933, p. 207).

Working from Veblen's crisis theory, Tugwell implicitly recognized the bifurcated nature of the modern economy and the destabilizing influence of the administered sector upon the entire economic process. The heart of the problem was the habitual tendency of large corporate enterprises to merge and engage in administered pricing while they simultaneously strove to suppress real wage growth. Even as mass purchasing power began to evaporate, these firms would continue to pour residual earnings into overly speculative pools of investment, a practice that would frequently lead to over-expansion followed by painful periods of contraction (Veblen, 1958; Tugwell, 1927b, pp. 204-08). Analyzed in this chapter are those measures Tugwell proposed to wrest control of the industrial system from the hands of the gamblers and the captains of industry and to institute a new framework of sensible social controls over what was essentially a social provisioning process.

Chapter Five, "The Balanced Economy: Tugwell's Vision of the Agri-Industrial Complex", delves into Tugwell's thoughts on the agricultural problem and the relationship of this sector to the rest of the economy. On a theoretical level, Tugwell envisioned a "balanced economy" in which industry and agriculture functioned in a balanced and coordinated fashion (Tugwell, 1927b, p. 104; 1933, p. 18; Gruchy,

1939, p. 135). With the terms of trade between the two sectors properly defined and with each pushing economies of scale to the maximum, feasible limit through technology, Tugwell anticipated the long-awaited arrival of Patten's surplus economy. He perceived industry and agriculture as the key interdependent sectors of an integrated economy - each unable to function without the other and both vitally important to the continuation of humankind's material, technocentric advancement (Tugwell, 1927b, pp. 230-44; 1935a, pp. 147-48). But, economic theory and reality were glaringly disparate: Unfortunately, what he and his fellow heterodox economists actually observed was an agricultural sector perennially cursed with surpluses that frequently translated into penury for many farmers, and an administered manufacturing sector that deliberately maintained scarcity in the face of plenty, in many instances abandoning any pretense of social responsibility in the pursuit of private gain (Tugwell, 1935a, p. 7). What was the solution to this perceived structural impasse from which a morass of socio-economic maladies festered? This chapter will examine Tugwell's views on the agricultural problem vis-à-vis industry, his suggested remedies, and the application of his proposed remedies to public policy. This analysis will further validate the second point of the thesis of this work: the centrality, validity, and importance of balance to Tugwell's system of thought. The continuing relevance of Tugwell's notion of balance to the modern economy will be discussed in Chapter Eight.

Tugwell's proposed remedies for the farm problem were also part and parcel of his all-inclusive vision of social management based upon the concepts of balance and cooperation. Agriculture, noted Tugwell, was the country's most "backward industry" due largely to its traditional affinity for the principle of *laissez faire*, a principle that nativistically resonated with other kindred nineteenth century ideals such as rugged individualism and manifest destiny (Tugwell, 1929, p. 277). In reality though, *laissez faire* merely pitted farmer against farmer in a vicious cycle of

over-expansion and economic disadvantage. According to Tugwell, the plight of the farmer centered principally on the absence of a balance of power or parity between the agricultural and industrial sectors due to the dualized nature of the economy. In contrast to the oligopolistic and monopolistic manufacturer, the competitive, small farm enterprise was highly vulnerable to fluctuations in the business cycle given the atomistic nature of the operation and the inelasticity of its output relative to the market. In effect, the farmer had become economically prostrated vis-à-vis the administered sector of the economy (Tugwell, 1924b, p. 576; 1927b, pp. 208-11; 1929, p. 281). Analyzed in this chapter are the various remedies Tugwell proposed to empower the farmer, strike a balance between the interests of all key players in the economy, and thus guide the economic process toward stability, balance, and abundance.

The central purpose of Chapter Six, “Tugwell the Institutionalizer”, is to validate the first point of the thesis of this work: specifically, that Tugwell’s work can be organized into a framework that is compatible with the OIE tradition in terms of both methodology and policy. This chapter will also demonstrate the importance of balance to the OIE planning ethos. But, as an essential prelude to this discussion, this study must first clearly outline the scope, method, and significance of OIE.

In his 1999 presidential address before the Association for Evolutionary Economics, Ron Stanfield, spoke of the pressing need to establish “economics as a cultural system to which a critical attitude must be applied if we are to have any confidence in the generality of its outlook and conclusions” (Stanfield, 1999, p. 245). In contrast to conventional economics, OIE asserts that human wants and technology are endogenous to the human social and cultural system. Thus, the scope of OIE is grounded in the belief that “theoretical and empirical examination of the social process by which these changes occur is essential to the comprehension of the economic activities of any human group” (Stanfield, 1999, p. 234). Of particular

concern to OIE is the process of institutional adjustment, with “institution” being defined as “a cluster of mores that configures power or authority over things and people that are relevant to the material and social continuity of human life” (Stanfield, 1996, p. 132). Stanfield asserted that institutional adjustment is *the* economic problem for OIE and that this adjustment process is a reflection of society’s evolutionary, holistic, and interdependent nature; therefore, economics methodology and policy must also reflect these salient features (Stanfield, 1999, p. 235).

The methodology of OIE is that of the comparative method or the critical historical method as described by Stanfield (1999). In short, this method employs pattern modeling or story telling in conjunction with instrumental reasoning. The emphasis is first upon a holistic and evolutionary purview followed by an instrumental validation or “praxis test” of theory and policy through participant observation. Accordingly, social science is then transformed into purposeful social reform through a trial-and-error adaptive process. As will be demonstrated by this study, both the scope and method of OIE as described above are consistent with Tugwell’s approach to the political economy issues of his day.

The significance of the OIE approach rests largely upon its evolutionary emphasis that “introduces social change and therefore power and culture into the analysis” (Stanfield, 1999, p. 238). This approach, in tandem with the emphasis on the endogeneity of human wants and technology in the human system, prompted several prominent OIE thinkers (Tugwell, 1927, 1933; Gruchy, 1947; Hamilton, Polanyi, 1957; Galbraith, 1967; Stanfield, 1996) to question the conventional market view and explore the role of the administered economy as both a determinant of socially structured inequality and as the impetus behind the countervailing undercurrent of reform (Stanfield, 1999, pp. 238-39; in Tool, ed., 1984, p. 30). As Stanfield maintained: “In the institutionalist view, the growth of the administered economy is

part and parcel of the inherent logic of the combustible admixture of industrial technology and market capitalist institutions” (Stanfield, in Tool, ed., 1984, p. 29), and the corporate welfare state is the outcome of a spontaneous reform process directed at preserving the fabric of social process. And, Stanfield continued: “The thesis that the industrial social economy contains a logic of reform toward increasing collective and state action has always been a strong theme in institutional economics” (Stanfield, in Tool, ed., 1984, p. 30). To wit, OIE economists have typically supported the stock Keynesian measures aimed at aggregate demand stabilization, but more significantly, they have emphasized the absolute *necessity* of structural policies or direct adjustment mechanisms, affirming Keynes’ more ambiguous call for a “somewhat comprehensive socialization of investment” (Mitchell, 1950; Clark, 1936, 1939; Tugwell, 1933, 1935; Ezekiel, Gruchy, 1939; Galbraith, 1967; Tool, 1984; Dugger, 1992). As this study will demonstrate, Tugwell’s methodology and policies accorded well with OIE’s recognition of both the “inherent logic” of the economic process and the “logic of reform” in policy formulation (Gruchy, 1947, p. 620). And like many of his fellow institutionalists, Tugwell was a strong advocate of the corporate welfare state and its progressive policies aimed at both reform and restructuring. And, as further evidence of Tugwell’s strong OIE orientation, this study will confirm that Tugwell’s political economy both exemplified Tool’s celebrated social value principle: a policy should be pursued if it eventuates in that “which provides for the *continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge*” (Tool, 1979, p. 293), and continuously affirmed the Ayresian commitment to freedom, security, abundance, excellence, and equality (Ayres, 1961).

The main purpose of Chapter Seven, “The Tugwellian System”, is to provide a definitive explanation of the term “Tugwellian system” and to demonstrate the

permanent influence of OIE on Tugwell's thought. The term "Tugwellian System" is offered to suggest a consummate stage of development in Tugwell's thought - a weaving together of his ideas and policy proposals into a comprehensive and conclusive statement of his views on the economic problem. To this end, this study will briefly examine what was perhaps the crowning intellectual achievement of Tugwell's long and remarkable life: his rewriting of the US Constitution. As will be demonstrated, Tugwell's controversial reformulation of this sacrosanct document would represent the distillation and ultimate articulation of his complete system of thought - everything he had been thinking and writing about for years. And despite Tugwell's evolution toward an apparent political science solution to the economic problem, this chapter will demonstrate that Tugwell's OIE orientation was overwhelmingly the dominant influence during this culminating project. In short, the purpose of this chapter is to further validate the dual thesis of this study: to reinforce Tugwell's importance as an OIE thinker and to once again stress the importance of balance to his system of thought and to the OIE tradition.

The purpose of the concluding chapter, Chapter Eight, "The American Faith", is to explore the paradox of Tugwell's relative neglect in the history of economic thought, his continuing relevance to political economy, to provide some suggestions for further research, and to further validate the dual thesis of this study.

Tugwell's system of thought essentially consisted of an experimental economics methodology that stressed both the logic of the economic process and a corresponding logic of reform. In Tugwell's view, the trend toward large-scale production was an inexorable process that would ultimately transform prodigious efficiency gains due to economies of scale into plentiful goods and services for all. The chief impediment to this process was a structurally archaic legal system that camouflaged and sustained the negative Veblenian trait of predation in various guises. Competition and the invisible hand may have served the public interest well

during pre-industrial America, but with the rise of modern industry and the behemoth corporation, guiding principles such as these had been grossly distorted into tools of propaganda to institute the myth of market automaticity. Tugwell implicitly recognized various manifestations of Veblen's famous dichotomy in the form of enabling myths that allowed large corporations and their overseers to preserve both status and perquisites at the expense of higher social goals. Their role as society's preeminent institution for social provisioning to sustain the maximum output of goods and services was becoming increasingly compromised by the pursuit of private pecuniary gain. This opened a Pandora's box of economic and social ills to which the "protective response" of the corporate welfare state then arose (Polanyi, 1957). Although Tugwell played an important role in the shaping of the early corporate welfare state, in later years he would look with jaundiced eye at the New Deal legacy (Tugwell, 1968, p. 521). Within the context of America's extant legal framework, the "broker state" approach of the New Deal, characterized by high-powered, vested interest politics and uncoordinated, contradictory policy responses, was a necessary evil and represented the best society could do in staving off the socially corrosive impacts of modern corporate capitalism (Braeman, 1972, p. 409). But, Tugwell had set his sights considerably higher. Like Patten before him, Tugwell firmly believed in the preeminence of humankind's cooperative traits over those of competition, predation, and barbarism, and until the end of his life he vigorously promoted his grand vision of a democratic system of planning and social management as embodied in his *Constitution of the Newstates of America*. Permanently embedded within the legal framework of "an adequate and self-repairing government", this optimistic vision offered enduring freedom, security, abundance, excellence, and equality for all (Tugwell, 1974).

Chapter One

Early Influences

This study opens with a biographical sketch of Tugwell that focuses on his formative years with an eye toward identifying key influences that were persistently present throughout his lengthy career. The purpose of this chapter is to demonstrate that Tugwell's ever-evolving system of thought was firmly rooted in a well-established body of homegrown American heterodoxy - particularly the ideas of Simon Nelson Patten and Thorstein Veblen. Other important influences such as World War I and the general political economy and intellectual landscapes of Tugwell's early years are also taken into account in this chapter. Considered collectively, these influences - and others to be discussed in Chapters Two and Three - formed the solid foundation of Tugwell's emerging OIE thought.

Early Years

Rexford Guy Tugwell was born on July 10, 1891 to Charles Tugwell and Dessie Rexford of Sinclairville, New York, a small upstate village (see Namorato, 1988, the basis of this section). In *The Light of Other Days* (1962), one of Tugwell's autobiographies, he described his upbringing and the influence of his parents in great detail. Naturally, the influence of both parents was highly visible in the intellectual development of their son. Nevertheless, Rexford's mother was to have the stronger influence over him owing largely to her involvement as an educator at Chautauqua and a well-developed literary bent - characteristics largely absent, Tugwell observed, in his father. Dessie Rexford frequently wrote papers to read at women's meetings

and, as Tugwell noted, “her output of what I am afraid was very bad verse was immense” (Tugwell, 1962, p. 26). An avid reader, artistic, and generally one sensitive to the finer aspects of life, Rexford’s mother naturally introduced her son to the world of literature; her particular weakness was for nature lore and she introduced young Rexford to John Burroughs, Ernest Thompson Seton, and John Muir. She impressed upon her son the naturalists’ inclinations to underscore the beauties and triumphs of nature and not to attend too much to the savagery of natural selection. In contrast to many of their rural neighbors who understood their natural surroundings in the narrow context of economic importance or commoditization, Dessie’s conservationist bent nurtured a similar spirit in her son - an influence readily apparent in his later work with the USDA and the Resettlement Administration.

Further commenting on his mother’s literary inclinations, Tugwell observed that “books to her were as necessary as food”, and they were always about her. She read prolifically and widely to the extent permitted by her onerous domestic duties and social engagements (Tugwell, 1962, p. 26). This thirst for knowledge and gentility carried over to her son as well; faithfully reflecting his mother’s wide-ranging interests, young Rexford’s literary tastes also meandered aimlessly and included dime novels, classical literature, Jules Verne, Horatio Alger, Kipling and other romantic authors - an impressive list of readings for a boy of the tender age of ten years.

As early as age eleven, young Rexford began what he termed a “secret life” of writing (Tugwell, 1962, p. 186). Though his formal schoolwork received scant attention - a fact sadly reflected in his exam scores, young Rexford diligently applied himself to his reading and writing. A wide range of readings continued to absorb his attention - fiction, poetry, biography and romances. As young Rexford began to approach his teenage years, his readings took on a more realistic, socially relevant,

politically motivated nature. The themes that captured his interest were those that resonated with his work later in life as activist and social reformer. James Bryce's *American Commonwealth*, Sinclair's *The Jungle*, Bellamy's *Looking Backward* all left a lasting impression on Tugwell, but he was particularly fond of the writings of H. G. Wells and his commentaries on the future of humankind (Tugwell, 1962, pp. 270-72).

As a young boy, Rexford went fishing and hunting, skating and sledding, and played baseball to the extent that his asthmatic condition would permit. Susceptibility to bouts with colds and the croup, however, lead young Rexford to develop a passion for reading and study at an early age. He was aided in this pursuit no doubt by his mother's involvement in Chautauqua - the semi-religious, semi-intellectual gathering of thinkers in the disciplines of education, politics, economics, theology, and others on the shore of Chautauqua Lake. Reflecting on these times years later, Tugwell wrote that Chautauqua was indeed an important influence on him, especially in later boyhood; it represented "a genuine influence in the freeing of the American mind" and made him "more respectful of learning, more disposed to serious study, less inclined to accept dogmas, and more aware of the wide world" (Tugwell, 1962, pp. 124, 119).

In 1904, when Rexford was thirteen years old, Charles Tugwell moved his family to Wilson, New York, about one hundred miles from Sinclairville. There he established a successful fruit and vegetable canning business that facilitated the Tugwell's becoming a family of "moderately wealthy" means. It was at this time in Wilson, however, that young Rexford began to raise objections to some of his father's business practices - particularly the treatment of immigrant workers. Rexford himself worked for his father as a field man and it was in this capacity that he became familiar with the working conditions and lives of many of his father's employees. Tugwell recalled that even as he became more useful to his father, they

developed differences that would trouble their relationship for years. Young Rexford began to identify with his father's downtrodden employees for reasons that he confessed were not altogether clear at the time (Tugwell, 1962, p. 219). Tugwell became painfully aware of the discrepancy in remuneration paid to himself - "something I could spend for extras" - and that paid to workers who were the sole income earners of a family. Moreover, Tugwell vividly recounted witnessing the deplorable living conditions of his father's workers. Many of the workers' children were young Rexford's friends, and Charles was amazed at his son's resentment toward him as he drove hard bargains with his friends' fathers. After all, Charles' business practices were indistinguishable from other businessmen generally - "he regarded it as a matter of principle." Reflecting conventional business practices, Charles was of the opinion that there was no connection at all between the company's financial situation and the wages it paid; workers who were fortunate enough to have employment ought to thank their employers for providing it, and they ought not to expect more than a rate determined by competitive market conditions (Tugwell, 1962, p. 220). Tugwell recalled with retrospective modesty that his disapproval of his father's business practices at this time was largely rooted in his concern for close associates and friends; these philanthropic sentiments did not display any deep sense of social consciousness as they would in his future professional life. Rather, the objections he raised toward everyday business practices were idealistic impulses soon suppressed and forgotten when practical daily interests intervened (Tugwell, 1962, p. 221). Despite such candid statements, this is clearly when Tugwell began both questioning the business system in general and developing an unwillingness to accept the status quo even when doing so was contrary to his direct personal gain.

During the off season in the canning factory, young Rexford was to find an outlet for his writing in the *Niagara Falls Gazette*; for nearly a year he wrote the local

news section for Wilson, New York. In retrospect, Tugwell considered such real-life experiences as the true source of his education rather than the Wilson schools (Namorato, 1988, p. 15).

In 1909, at the age of seventeen, Tugwell began to display a remarkable sense of independence. He decided to attend a military academy in Virginia in the belief that such preparation would guarantee his acceptance at nearly any college; in any event it was an exciting prospect considering the limited scope of his travels thus far. This experience was to prove unsatisfactory and short-lived. He returned home two weeks later and rather than brood over painful explanations during his homeward flight he resolved to focus on the future and made plans to attend Masten Park high school in Buffalo - an old and well-respected institution (Tugwell, 1962, p. 295).

While in Buffalo, young Rexford lead the life of a typical youth; he developed friendships, learned about city life, played sports, and explored “further the enchantments offered by girls - all this sort of casual thing.” Yet, this typical industrial American city began to call forth the social critic and reformer in Tugwell. Tugwell, however, candidly admitted that whatever generalizations he arrived at during this time were slow in formulating themselves. He enjoyed a lighthearted, carefree existence for the most part and what trenchant iconoclastic views he may have stumbled on were not sought after but rather a “by-product of wasted time” (Tugwell, 1962, p. 298). Despite such retrospective modesty, the inhuman and contradictory features of the modern industrial city were all too apparent to this critical and idealistic youth.

At Masten Park high school in Buffalo, Tugwell established a strong student-mentor relationship with Marion Gemmel, a biology instructor to whom Tugwell credited his introduction to important biological concepts and the evolutionary processes - themes later reinforced and refined under the guidance of Simon Nelson Patten and ones which play a major role in Tugwell’s mature institutionalist thought.

Young Tugwell would also form a bond with Jay Stagg whose course in elementary economics would capture the keen interest of his pupil when many other subjects, such as English, chemistry and physics held no such appeal (Tugwell, 1962, p. 298). Under the tutelage of Stagg, Tugwell continued to study economics and politics, and it was Stagg that gave Tugwell “a real sight of an important intellectual country . . . It was that region where businessmen operated and politicians competed for position. His lessons had to do with the bread-and-butter matters all my other studies failed to touch” (Tugwell, 1962, p. 298). Also at this time, Tugwell began to learn and simultaneously question formal mainstream economics; his passion for the elegant formalism of orthodoxy was short-lived. He observed, “Like many others, I assumed that the supply-and-demand formula, for instance, was an active law operating in the market place. I was different only in not holding onto this belief for long” (Tugwell, 1962, p. 373).

It was also at this time that young Tugwell became acutely aware of yet another all too apparent contradiction of American capitalism: businessmen paid lip service to the virtues of competition and heaped praise upon Adam Smith and the invisible hand, yet they simultaneously strove to undermine this ideal through acquisition, merger and the destruction of one’s competitors. But in Tugwell’s mind this was only part of the paradox; it was rational that firms become larger and produce more goods as efficiently as possible, provided the gains are shared by all in society. The chief absurdity lay in the progressive belief, then in fashion, that monopoly could be and should be prevented somehow. Years later, as Tugwell reflected on this theme while writing *The Light of Other Days*, he recalled how the necessity of continuous enforcement of anti-trust laws, which spanned the entirety of his rather lengthy life, attests to the impotence, perversity and untoward nature of this failed progressive policy. Presaging his interest in social management, he recalled,

With what I regarded as a new sophistication, I had a fresh look around, at Buffalo, at my nation, bulging with industrial giants. And I began to think of government not only as a caretaker and policeman but as somehow responsible for maintaining freedom (Tugwell, 1962, p. 378).

The Wharton Years and the Influence of Nearing, Patten, Veblen, and Taylor, 1911-1917

In *The Light of Other Days*, Tugwell noted that the Wharton School and a young man of his intellectual leanings were perhaps an unlikely and ill-fated match from the outset, and yet, the Wharton years played a foundational role in the development of Tugwell's intellectual orientation. Founded in 1881, the Wharton School of the University of Pennsylvania was the creation of Joseph Wharton, an enormously successful steel tycoon who gave the University generous financial support with the expectation that young men would be molded in a pro business-establishment manner. Of particular interest to Wharton was the issue of the tariff; he insisted that all who went through the doors of his institution be ingrained with the fundamental virtue of tariff protection. The importance of this issue to Wharton led to the appointment of Simon Nelson Patten as the Chairman of the Committee on Economics - largely due to his brilliant defense of the tariff in his *Economic Basis of Protection*. Patten, as will be discussed shortly, was to play a foundational role in the development of Rexford Tugwell.

In Tugwell's time, the Wharton school was primarily a place for learning the skills of an effective business leader; yet, Joseph Wharton wanted his institution to train young men for careers in teaching and public service as well. Tugwell's Wharton experience prompted the observation years later that it was at this time that his mind began to open, orthodoxies previously unquestioned no longer seemed too sacrosanct for critical analysis, and the "great teacher" was discovered and under his guidance, intellectual character was formed and shaped (Tugwell, 1982, p. 3). At the

Wharton School, Tugwell encountered the life-long influences of Simon Nelson Patten and Scott Nearing. Both would have a lasting impact upon Tugwell.

Thus, in September of 1911, Tugwell entered the Wharton School of Commerce and Finance as a freshman. Amidst an active and socially focused existence, Tugwell continued with a more systematic exploration of the “literature of revolt and reconstruction” (Tugwell, 1982, p. 24). Apart from the standard readings related to his curriculum, Tugwell began to branch out into the minority history of America and the accounts of movements to attain social and economic justice. The labor and agrarian movements, racial discrimination, municipal corruption, careers of the “robber barons”, the stock-watering and trust-building of the late nineteenth century, the manner in which regulators had been captured by the regulatees - all whetted Tugwell’s appetite for a deeper heterodox understanding of his environment. Gradually, Tugwell advanced to the study of the stark alternatives to the mainstream: the political and economic reconstruction suggested by the Populists, the Grangers, and the Farmer’s Alliance; he became intrigued with the progressive ideas of William Jennings Bryan and Robert La Follette - even supporting the latter in his failed Republican presidential bid in 1912. Tugwell’s inquisitiveness carried him even further from the mainstream as he explored the socialist doctrines of various stripe - orthodox Marxism, Christian socialism, the Fabians, the ideas of Eugene Debs and Morris Hillquit, and Henry George’s single tax movement - followed by the even more radical proposals of the Communists, the Syndicalists, and the Anarchists.

Scott Nearing

It is important to note that these explorations were largely extraneous to Scott Nearing’s freshman course in economics; this underscores the intellectual sophistication, the self-motivation, and the self-inspiration that Tugwell displayed at

such a relatively tender age. Nearing's heterodox impact, broadly speaking, is visible in all of Tugwell's work; and yet, ironically, Nearing's freshman course was no more than an orthodox litany with some modification under Patten's influence, such as the emphasis on Patten's sociologically-based version of consumption theory. Nevertheless, Nearing's influence upon Tugwell - initially formative - was multifaceted and ultimately extended over the lifetimes of both teacher and pupil.

Nearing reinforced Tugwell's developing sense of the need for social improvement through institutional change and infused Tugwell with a "fire in the belly" spirit to actively participate in this process. In Nearing's freshman economics course, Tugwell's incipient radicalism of his high school days began to mature into "a kind of hopeful social morality" (Tugwell, 1982, p. 27). It was in his early undergraduate days that Tugwell began to realize that existing past-binding institutions must be improved. This conviction would determine Tugwell's decision to become an economics instructor and to focus simultaneously on both the political and economic dimensions of modern social problems. This social philosophy, broadly conceived, was a direct outgrowth of Nearing's work, particularly *The Super Race* (1912), in which the author articulated the thesis that a super race was possible through 1) eugenics - the science of race culture; 2) social adjustment - the science of molding institutions; and 3) education - the science of individual development. It is important to note that eugenics in this context was unrelated to the post World War I, hate-based ideology of the Nazis and did not advocate racial intolerance in any manner or degree. Many of Wharton's sociology courses at this time focused on a biologically based means of racial and social improvement. Fusing these ideas with elements of American culture, Nearing maintained that America was thrust into the foreground as the land ideally suited for the development of the super race. "The American people have within their grasp the torch of human progress", Nearing wrote (Nearing, 1912). Such hyperbole was not lost on young Tugwell who, swept

up in this fresh outlook of continual social improvement and institutional experimentation, penned the following verse for *Intercollegiate* in 1915:

I am strong,
I am big and well-made,
I am muscled and lean and nervous,
I am frank and sure and incisive.

I bend the forces untamable;
I harness the powers irresistible-
All this I do; but I shall do more.

I am sick of a nation's stench,
I am sick of propertied czars . . .
I have dreamed my great dream of their passing,
I have gathered my tools and my charts;
My plans are fashioned and practical;
I shall roll up my sleeves - make America over!
(Tugwell, 1915, Tugwell papers, FDR Library, box 51)

This verse would haunt Tugwell years later during his tenure as a New Dealer; it was frequently cited by his sharpest critics as evidence of an anti-American totalitarian bent; as will be demonstrated in subsequent chapters, nothing could have been further from the truth.

Over the course of his undergraduate studies Tugwell began to forge a personal relationship with Scott Nearing and his family. Nearing's wife Helen (a.k.a. Nellie) was also highly educated, taking her Ph.D. from the University of Pennsylvania. Nellie, no less than her husband, was caught up in the general movement for social change and reform. This must have struck Tugwell as somewhat incongruous, for it was to leave a lasting impression upon his youthful mind. For here was a family whose interests were mainly intellectual and yet whose scholarly affairs were not confined within cerebral boundaries. The Nearings were social activists and applied their knowledge in the ordinary daily occupations of understanding and solving the social problems in their midst. This would also be a trademark of the mature Tugwell of later years.

By all accounts, Nearing served as an excellent role model as both teacher and scholar during Tugwell's Wharton years. Nearing, no doubt, provided Tugwell with much of the inspiration and intellectual impetus of his early years. His introductory economics lectures typically attracted about 500 students, the largest enrollment in the university. Simon Nelson Patten observed that Nearing occupied "a very key position in the whole academic pattern at the Wharton School", and that Nearing's "ability to understand, befriend, and help the newly arrived freshman almost amounted to genius" (Whitfield, 1974, p. 18). In addition to the gift of pedagogy, Nearing was quite prolific in his writings at this time, publishing two books per year from 1911 to 1916 as well as numerous scholarly and popular articles. Several of these books dealt with specific social or economic issues: *Financing the Wage Earner's Family* (1913), *Social Sanity* (1913), *Wages in the United States* (1914), *Income* (1915), and *Anthracite: An Instance of a Natural Resources Monopoly* (1915); Nearing's writings - as well as his teaching - were significant contributions to the development of a distinctly American challenge to the hegemony of the received theory of the day.

Scott Nearing, unlike any other teacher in Tugwell's view, was capable of vividly exposing the maladies of modern industrial capitalism on an issue by issue basis through course readings in factual expository accounts of social and economic problems or fictional treatments of injustice or exploitation that were having an effect on public opinion. An introduction to such books and the opportunity to discuss them with instructors were regarded as among the most rewarding freshman activities. Young Tugwell's writings on some of these books first brought him to Nearing's notice. He sent for Tugwell more than once to probe the apparently unusual attitudes of this recent neophyte to economics. Additionally, through both economics and sociology courses, Tugwell began to develop a deeper interest in the amelioration of social conditions by the professional social workers in the Carnegie,

Russell Sage, Rockefeller, and Fels charity organizations. Again, Nearing's imprint is clearly visible in Tugwell's intellectual leanings. According to the new economics being taught by Patten and Nearing, the moral, social and economic regeneration of America lay largely in the hands of the privileged class. The hegemony of the dominant class was clearly the source of many of society's ills, yet that class, Patten and Nearing were convinced, maintained the power of cultural control.

Paradoxically, if there was a spirit of revolt in the air, Patten and Nearing were inclined to view it not as a revolt of the masses but rather as a revolt of the masters, whereby "even the exploiters - the masters - are leading revolts against industrial and social injustice" (Saltmarsh, 1991, p. 35). Tugwell's interest in the various charitable organizations of this time was his first organized exposure to the pressing social issues of the day: poverty, child labor, juvenile delinquency, racial prejudice, women's suffrage and legal rights, in sum, all of the evils of the "free economy" of his time (Tugwell, 1982, p. 37). This kind of knowledge and understanding was quite new to young Tugwell with his idyllic agrarian upbringing.

Nearing's "specialty was facts" (Tugwell, 1982, p. 39) and nearly all discussions revolved about them. This too was something new to young Tugwell. Nearing impressed upon his students the need to buttress criticisms by careful research and that the process was difficult and painstaking at times. He was one of the first economists to systematically examine wage and income distribution in the United States - despite the paucity of raw data. His economic analysis led him to a social classification based upon the distinction between "earned" and "unearned" income or "service" and "property" income. It was not unusual for economists and social critics at this time to perceive a social rift reflecting the Veblenian distinction between the labor and leisure classes, but Nearing was the first to quantify and solidify these notions by the standardization of the major categories - "earned" and "unearned" income - in the national income studies. Pressing his case for

formulating a systematic analysis of distribution of income based upon these categories, Nearing's "The 'Why' of Income" (1915) boldly justified this approach based on the conclusion "that the participants in production and the sharers in distribution are not identical groups" (Saltmarsh, 1991, p. 33).

When Nearing began teaching freshman economics at the Wharton School in 1906, Simon Nelson Patten called him into his office to discuss the subject matter of Nearing's course. "Stress anything you care to in the field," Patten advised, "though it might be wise to go light on distribution of income. It is a delicate subject here. But above all, be sure of your facts, then go ahead" (Nearing, 1972, p. 37). But alas, it was Nearing's penchant to discover facts and piece together an unpleasant mosaic of economic and social reality that placed him squarely in opposition to Philadelphia's reactionary elite; this, coupled with his pacifism toward World War I, would ultimately result in his summary dismissal from the Wharton School, which in turn would ignite a fierce national debate over academic freedom and related issues. Nearing's intellectual integrity and determination to pursue the truth - even at substantial personal cost - were closely paralleled by Tugwell's experience throughout his own professional and public careers.

Simon Nelson Patten

In September 1877, an awkward, rural-mannered Illinois scholar by the name of Simon Nelson Patten greeted Richard T. Ely, a recent graduate of Columbia University, in Halle, Germany, the gateway to a then typical educational pilgrimage. Both young men were in Germany to study at the famous universities. Because of the inspiration they received from the German historical school of economics, both returned to America with a pronounced disdain for the divisive American social and political landscape, as well as for their mutual archenemy, classical economic thought (Fine, 1956, pp. 212-17).

In 1885, Patten, Ely, John Bates Clark, Edmund J. James (who would recruit Patten into the faculty of the Wharton School two years later), and Henry C. Adams, and other economists who were in revolt against classical economic theory, founded the American Economic Association. At its first annual meeting in 1886, the American Economic Association adopted a four-point platform, the most revealing passages of which read:

1. We regard the state as an agency whose positive assistance is one of the indispensable conditions of human progress.
2. We believe that political economy as a science is still at an early stage of its development. While we appreciate the work of former economists, we look not so much to speculation as to the historical and statistical study of actual conditions of economic life for the satisfactory accomplishment of that development (Witte, 1957, p. 1).

Melding ethical zeal with a new economic radicalism, the charter members of the AEA called for an interventionist role for the state in matters of social and economic uplift. Unquestionably, the multiple reforms of the emerging progressive era were, in part, manifestations of the pioneering efforts of this newly formed organization.

Patten studied for two years in Germany where he absorbed the German university ideal, which was currently enjoying a warm reception in America for its scientific discovery and practicality. In general, the field of economics was then experiencing a state of upheaval due primarily to a heated conflict over economics methodology. This *methodenstreit*, or “controversy about methods” pitted the new theory of value advanced by the marginalist school against the holistic-contextual approach of the German historical school (Dorfman, 1949, p. 87; Spiegel, 1991, p. 427). Eagerly embraced by Patten and others, the German historical method centered on the research laboratory and seminar, drawing heavily upon original documents and empirical evidence as the basis for studying the development of social institutions. Patten experienced, as did other American scholars who studied in Germany at this time, the intellectual liberation of a holistic methodology that

directly challenged the foundations of classical economic thought and focused on society instead of the individual as the principal subject of analysis. This new methodology offered organic, contextual and interventionist premises as an alternative to the individualistic bias of laissez faire and the axiomatic presuppositions of traditional moral philosophy, natural law and classical economic theory. Moreover, the emphasis in German scholarship fell heavily on the use of research in the training of leaders and the formulation of public policy; the university had a social function, and the active state had a positive role to play in social change. In this sense, Patten's educational background complemented the original purposes of the Wharton School and largely explains the strong affinity between Patten and the school's founder, Joseph Wharton (Saltmarsh, 1991, p. 17). By the time Nearing arrived as a student at the Wharton School - followed by Tugwell nine years later - Patten had become a leading American economist as well as a major force at the school. Focusing on a variety of issues - such as protectionism, consumption and distribution - Patten drew eclectically from the fields of economics, history, psychology, sociology, philosophy and religion for his analysis (more on the intellectual antecedents of this methodology momentarily). Patten's methodological orientation was foundational in the intellectual development of both Nearing and Tugwell, and a brief detour into Patten's influence on Nearing, prior to Tugwell, will enhance the reader's appreciation of the impact of Patten's ideas on his two most outstanding protégés.

Apart from his mother and grandfather, no person influenced Scott Nearing more than Simon Nelson Patten. Often regarded as a somewhat timid teacher and an abstruse, yet brilliant thinker, Patten nevertheless became a founding father of the American Economics Association, helped construct the intellectual foundations of American institutionalism, pioneered the field of social work, and constantly felt "the tension within him between the prophet and the professional" (Whitfield, 1974, p. 8).

In his *The Making of a Radical*, Nearing recounted the stark contrast between the teaching styles and mannerisms of the stock Wharton professors and Patten. While many of Nearing's and Tugwell's professors delivered staid and scripted lectures detached from the many pressing social issues of the day, Patten's lectures were dynamic and relevant, and he possessed, Nearing recalled, the rare talent of insinuating the most alert and curious students into his own thought processes, daring them to emulate the imaginative thrusts of his own mind (Nearing, 1972, p. 22).

As both Nearing and Tugwell recalled, there was never a dull moment in Patten's classes; Patten spent a great deal of time culling through newspapers and magazines in an effort to gear his courses toward current events and issues. He actively encouraged discussions and questions and was never too busy to give students a hearing, in or out of class. Moreover, Patten's interest in his students did not end with graduation. He followed them out into the world, gave them advice, and secured them positions (Patten was instrumental in securing teaching positions for both Nearing and Tugwell early in their careers). In Nearing's view, Patten's ideal was to get the right person in the right place and encourage him to do his best (Nearing, 1972, p. 23).

During his later years, Patten was actively interested and engaged in social work. Although Patten's mind was primarily speculative, he guided Samuel McCune Lindsay, Edward T. Devine, Frances Perkins, and other students into significant positions in what he was first to call "social work" (Whitfield, 1974, p. 9). He was thoroughly convinced of the desirability and feasibility of social management - an ideal vividly reflected in the careers of many of his pupils, Nearing and Tugwell serving as prime examples. As Nearing recalled, "he (Patten) was concerned with the underdog: the poor, the ignorant, the untrained, the misfits, the delinquents. Though he and I differed on many issues, there was one subject on which our minds met solidly: everyone must have a chance to make good" (Nearing, 1972, p. 23).

While in his youth, Nearing came across a poem called *The Fence and the Ambulance*. The theme, Nearing recounted, was of a dangerous cliff from which people fell and were killed or badly injured. Kindhearted citizens subscribed to buy and maintain an ambulance at the foot of the cliff to care for the victims. Others, however, demanded that a fence be built along the cliff so that people would no longer fall over. Nearing drew the allegorical parallel between those who operated the ambulance in the poem and social workers in modern society. Similarly, the fence-builders were society's radicals. Under Patten's tutelage, a generation of ambulance drivers was trained and equipped to administer to society's victims. As Nearing recalled, "for years I subscribed, figuratively and literally, to the ambulance fund. Gradually I turned my thoughts and energies to fence building" (Nearing, 1972, p. 24). In other words, Nearing, while embracing the new economics of Patten, nevertheless repudiated specific intellectual debts to Patten, a socially conservative Republican and devout Presbyterian who perceived advantages to empire and did not object to war. Even Patten's prophetic formulation of the implications of post-scarcity economics - the need to raise aggregate demand and multiply the number of serviceable goods and income flows in the economy - flowed from a pronounced faith in manifest destiny and American nationalism - sentiments which Nearing, Tugwell, and others of their generation placed little stock in (Whitfield, 1974, p. 9).

Despite Patten's conservative proclivities, his star pupils, Nearing and Tugwell, eagerly embraced his articulation of a new mode of economic analysis and its implications for social uplift. Patten's dynamic new economics offered Nearing and Tugwell a way of reconciling progressive social reform with the ideals retained from the moral universe of their youth. In time, both students forcefully rejected the deterministic, amoral dogma of classical economic theory in favor of Patten's holistic approach.

This holistic approach was the basis of the novel intellectual orientation of the new economics, or the Pattenesque variant of American institutionalism, which stood in marked contrast to the orientation of orthodox economists (see Gruchy, 1947, the basis of this section). The *weltanschauung* of the former group was a product of the nineteenth century, and especially of the progress in human thought, in general, which occurred in the latter part of the century. This heterodox orientation combined both European and indigenous American influences and was indebted to the thinking of George Hegel, Karl Marx, Charles Darwin, and Herbert Spencer of Europe, and of Charles Pierce, William James, and John Dewey in the United States. Early in the nineteenth century Hegel introduced the concept of the dialectical process of change in the realm of ideas and later applied this concept to the physical world, thereby challenging the dominant mechanistic view inherited from Sir Isaac Newton. In place of Newton's concept of a closed, static universe, Hegel advanced an evolutionary or dialectical view of the universe. Taking Hegel's dialectical concept and applying it to the production and reproduction of material life, Marx was able to develop his historical materialism - a foundational element in his analysis - to explain the economic organization of industrial capitalism. The 1859 publication of Charles Darwin's *The Origin of Species* served to further solidify the methodological and scientific validity of the evolutionary view and lent considerable credence to the ideas of both Hegel and Marx. Moreover, the effect of the penetration of the evolutionary processes into the biological sciences served to enhance the general awareness and acceptance of this new view. Herbert Spencer, in turn, was the first to popularize the evolutionary outlook among social scientists by demonstrating the applicability of the evolutionary processes to the various fields of social science. Spencer's principles of social Darwinism would spread throughout Europe and the United States in the last quarter of the nineteenth century.

As Allan Gruchy observed, from the perspective of many American thinkers, this new anti-mechanistic way of looking at the world order was not merely a borrowed intellectual tradition from the Continent and England. A unique movement in the intellectual history of the United States had begun in 1868 when Charles Pierce published several essays on the nature of scientific thought. Paralleling the thoughts of his European counterparts, Pierce's conception of the universe centered on the notions of change and diversity, and his point of departure for intelligent penetrating thought centered on a dynamic universe fraught with continual change, thus suggesting its potential for human manipulation. He thus substituted a world of flux and probabilities for a world of absolutes and immutable laws and in so doing, facilitated the development of a new framework of analysis and interpretation, especially in the fields of social science.

Pierce's views on a universe filled with spontaneity, diversity, and flux were warmly received by William James and John Dewey, who came to regard Pierce as the founder of American pragmatism or instrumentalism - a distinct philosophical tradition in its own right - but also the underlying value system of American institutionalism. James and Dewey similarly interpreted their surroundings not in terms of a stable mechanism but rather as a continuum or emergent process. The world order was composed of many parts that were undergoing changes at different rates, and which consequently, did not lend themselves to a static, mechanistic view. Rather, this order should be viewed from both structural and functional perspectives - but it was the functional aspect that was most significant for the pragmatists. In the view of the pragmatists, an understanding of the world around them was best attained in terms of the functional relationship of the elements that comprised their surroundings. Thus, this interpretation called attention to the dynamic, emergent features of social relationships; at the same time, this mode of perception, while attempting to discern patterns of an underlying order, eschewed the reductionist

penchant to distill the daily fluctuations of human affairs and institutional changes to a system of general relations or a set of immutable, universal principles or "laws".

As Gruchy noted, this newly emerging mode of economic inquiring was unified by a common framework of interpretation, a psychological theory, and various methodological features which stood in stark contrast to those of the classical or neoclassical schools. In addition to the interpretation of the economic and social order as developing along evolutionary lines, the holistic or new economics should be viewed as a *cultural* rather than as a formal science. And perhaps the term "cultural" best conveys an understanding of the basis of rejection of the post-Darwinian intellectual tradition by the holistic economists.

When the economist made his or her science a cultural rather than a formal science, he or she endeavored to provide a much deeper, contextual understanding of social and economic realities: "The cultural scientist seeks to achieve the aim of a broader and more realistic science by systematizing his thought within a new conceptual scheme which is broad enough to make room for the recent contributions of cultural anthropology, sociology, and social psychology" (Gruchy, 1947, p. 24).

By contrast, the formalized version of economic science, centered upon a precarious foundation of preposterously simplistic assumptions, (i.e., homo economicus, utility maximization, perfect information, zero transactions costs, etc.) and a beguilingly elegant theoretical core, suffered from both a profound analytical dysfunction and a genuine indifference to the human condition; it was nevertheless skillfully packaged and marketed - nearly to the threshold of enshrinement - to affirm the almighty beneficence of competition, laissez faire and the invisible hand, to which economic reality lent little credence in light of manifest examples of market failure and the threat that policies aimed at their amelioration posed to the powerful and those of vested interests.

Gruchy's exposition pithily described the rich intellectual milieu of the last quarter of the nineteenth century from which Patten, Veblen, Ely and other early institutionalists emerged as seminal thinkers in their fields. These early institutionalists were actively engaged in developing and advancing the new cultural economics beyond the basic framework established by their forerunners. As stated earlier, the holistic or collectivist view borrowed from the German historical economists, in tandem with the *weltanschauung* of the evolutionists and the pragmatists, became the point of departure of Patten's dynamic economics - an intellectual orientation embraced by both Nearing and Tugwell.

Several salient features of Patten's new economics left lasting imprints upon the life and work of Rexford Tugwell. In the years 1913-17, as he was completing his undergraduate studies, Tugwell recalled, "in this period Patten was incomparably the most influential of my teachers" (Tugwell, 1982, p. 47). Whereas Tugwell's indebtedness to the influence of Scott Nearing stemmed from the latter's revolutionary zeal, his command of factual knowledge, and his friendship for young Tugwell, Nearing's mind, nevertheless, was disposed toward factual knowledge rather than creativity. In Patten, on the other hand, Tugwell witnessed a highly gifted and original thinker *par excellence* (Tugwell, 1923a, p. 192).

Despite Patten's aversion to methodological reductionism and universal axiomatic truths, his objections to orthodoxy rested on the simple assumption of a material environment which was the source of an economic surplus rather than a deficit - an environment which was becoming increasingly productive as a result of the ceaseless improvements in experimental science and industrial technique (Patten, 1892, p. 84). In contrast to the Malthusian perspective offered by classical economics, nature, according to Patten, was not a material barrier to humankind's desire for a higher standard of material existence, but rather a great reservoir of potential abundance waiting to be tapped by advances in technology and industry. This view, as Tugwell

pointed out, came quite naturally to Patten, who had grown up in an atmosphere of great abundance in the burgeoning Midwest (Tugwell, 1923a, pp. 182, 282).

Patten viewed humankind's economic evolution as a progression through three stages of development based upon 1) the form of human struggle, 2) the form of economic control, and 3) the character of the social bonds. The first stage or the "pain economy" was the most primitive economy; race struggle, ancestral control, and blood bonds characterized it. Class struggle, wealth control, and interest bonds characterized the second stage, the "pleasure economy". The third and final stage was the "creative economy" or the modern surplus economy; this economy was characterized by self-direction, character control, and social beliefs, all of which were defined and guided by the use of pragmatic knowledge (Patten, 1924, pp. 338-39). As this study will demonstrate shortly, Tugwell was an ardent disciple of Patten's economics of surplus, and his entire career would be a testament to this. Visible throughout various career assignments are Tugwell's repeated attempts to establish the institutional basis necessary to propel the "modern" economy toward its full creative potential.

In addition to his challenge against the classical assumption of the parsimonious nature of the material environment, Patten also questioned the validity of the assumption of a competitive economy. Patten and his contemporaries witnessed the unfolding of the second industrial revolution or the "machine age" and the ascendancy of the corporation to a prominent role in society. Patten, and later Tugwell, called into question the validity of the invisible hand or the "Smithian total" - the conquering of human frailties and the attainment of social harmony through competition (Tugwell, 1935a, p. 14). Both Patten and Tugwell regarded the invisible hand as one of several myths associated with laissez faire and contemporary political economy. Despite the agglomeration of corporate power, Patten firmly believed that the competitive struggle was giving way to a new era of cooperative

methods to meet the economic problems of the day. Patten impressed upon Tugwell the idea that humankind could make an efficient adjustment to the material environment through planning. This planning ethos was an extension of the pragmatism or instrumentalism advanced by John Dewey of Columbia University. Dewey maintained that humankind could assure progress by designing social mechanisms to meet specific needs, emphasizing experimentation as the technique of planning. Pragmatism forcefully rejected intellectual regimentation, including the dogmas of Marx and classical economics. Patten, and later Tugwell, asserted that effective social policy must be dictated by contemporary resources, techniques, and circumstances; planning must be flexible and tuned to the times rather than to any imaginary utopian construct (Tugwell, 1939, p. 30).

Patten, however, tempered his optimism concerning the feasibility of social management and planning by pointing to humankind's "social heredity" or "psychological environment". According to Patten, the social heredity of humankind consisted of two sets of institutions. The first set was related to man's predatory habits, which sought to accumulate property and protect it from the claims of those less fortunately situated. The second set of institutions was connected with man's work habits, which were concerned with the provision of goods and services through cooperation with the forces of the material environment. Akin to the Veblenian dichotomy of pecuniary versus industrial employments, Patten approached the economic problems of his day in light of the conflicts between the new industrialism with its implications for universal prosperity and the past-binding mental attitudes and traditions inherited from earlier generations. In Patten's view, the "economy" was actually a cultural process or an emerging whole, the nature of which was constantly unfolding by the course of human events. Coupled with this concept of *cultural emergence* was the related concept of *cultural lag*. Cultural emergence was not a gradual, uninterrupted process but rather a stochastic development in which

certain cultural elements, such as institutions and social attitudes, failed to change as rapidly as other elements, particularly technology. This uneven cultural development created cultural lags that were the source of various social and economic ills. Again, similar to the Veblenian view, Patten and Tugwell recognized that the cultural emergence of modern production techniques via technology were also accompanied by various enabling myths or ceremonial attitudes and beliefs - manifestations of cultural lag - associated with the laissez faire business order. Like Veblen, both Patten and Tugwell firmly rejected the notion that the social provisioning process should be secondary or subservient to the machinations of self-serving businessmen - a conviction that Tugwell would hold near and dear throughout his life.

Tugwell, again following Patten's lead, was vocal about several other myths in the area of political economy besides the aforementioned invisible hand. Most economic or social myths, in Tugwell's view originated from the "overworked" concept of laissez faire. In several of his writings, Tugwell explored the origins and history of the doctrine noting its "useful" nature in the revolt against mercantilism and divine-right monarchies on the one hand, while on the other he lamented its modern exploitation in the hands of American vested interests who conveniently clothed the concept in constitutional sanctity with no theoretical or historical justification (Tugwell, 1952, pp. 484-85).

Both Patten and Tugwell were disturbed by the erroneous views held by the public, the business community, and members of their own profession with respect to the nature of economic principles developed by the classical economists and their habitual tendency to fall prey to Schumpeter's *Ricardian vice*, i.e., the proclivity of mainstream theorists to elevate their insights to universal generic "laws" and axioms. Patten was particularly discouraged by his frequent discovery that the economic "laws" of "rent, profits and wages are treated . . . by the majority of people as the

functioning of pure law emanating from a remote province of nature” (Patten, 1912, p. 77). Tugwell affirmed this point by underscoring the misconception or myth of the significance of profits as a measure of national welfare (Tugwell, 1952, p. 484). Tugwell pointed out that excessive profits resulted in over-speculation and over-expansion, deflecting potential purchasing power into sterile pools of investment that actually damaged - not enhanced - the national welfare. Tugwell also recognized that the profit motive and the individual ethic, in general, were deeply ingrained and indelible features of the human psyche; but, when these traits were reinforced by the various enabling myths and popular platitudes of orthodox economics, a deeper appreciation of the dependence of production on collective organizations and the need to form more sophisticated, instrumentalist modes of thought and action were subordinated to the reactionary dictates of the classicalists (Tugwell, 1940, p. 107).

Thorstein Veblen

Given Tugwell’s evolving institutionalist mindset, one of the more curious and seemingly inexplicable aspects of his intellectual development was the contradictory attitude he held toward Thorstein Veblen. On the one hand, Tugwell was reluctant to openly acknowledge any significant intellectual debt to the renowned father of OIE. In fact, near the end of his life Tugwell’s glowing recollections of Nearing’s and Patten’s ubiquitous influences were tantamount to a renunciation of Veblen (Tugwell, 1978a, p. 69). Yet, on the other hand, as we will see in greater detail in Chapters Four through Seven, Veblen’s influence is undeniable and is quite strident in Tugwell’s works, particularly as it relates to Tugwell’s methodology and his conceptualization of the economic problem. Specifically, Tugwell’s methodological orientation bears all of the earmarks of OIE’s holistic evolutionary approach. Also, Tugwell’s works are thoroughly suffused with the operational presence of Veblen’s famous dichotomy as well as his crisis theory. Tugwell knew full well that the

awesome production potentialities of the modern corporation were subordinated to and hindered by the pecuniary interests of the captains of industry. Furthermore, Veblen's model of the bifurcated oligopolistic economy lies at the very heart of Tugwell's conceptualization of the economic problem (Veblen, 1923, p. 231). In Tugwell's framework, practically all socio-economic ills stem from this notion of a dualized economy.

Tugwell was first introduced to the ideas of Veblen while at Wharton. Not surprisingly, *The Theory of the Leisure Class* (1899) and *The Theory of Business Enterprise* (1904) were the works that particularly influenced him due to their sensational reception in the literary and academic circles of the time. In Tugwell's opinion, Veblen was a "strange creature" whose economic studies were animated largely by racial bitterness and a thirst for intellectual revenge (Tugwell, 1939a, p. 215). Generally impressed by Veblen's scientific insight, reliance upon social science, and an evolutionary - holistic approach, Tugwell felt he portrayed free enterprise in a truer light than orthodoxy's mechanistic and reductionist representations. The dominance of the machine process in tandem with technological change, the barbaric and predatory origins of the business order, and the ceremonial institutions and policies sustaining the capitalist system - all Veblenian themes - attested to an original and brilliant mind geared toward insightful and poignant analyses. Nevertheless, Tugwell concluded that Veblen was too much of a theorist, relying on broad and vague generalizations without attempting to verify them; Tugwell criticized Veblen's use of "heroic terms" such as "the business order" and "pecuniary emulation", etc., as evidence of his succumbing to orthodoxy's weakness for universal generic categories which were too broad and over-inclusive for purposeful analysis and policy formulation (Tugwell, 1931, p. 190). Moreover, according to Tugwell, Veblen's rejection of experimentalism and quantitative analysis severely limited the efficacy and appeal of many of his arguments (Tugwell,

1931, p. 191). And finally, whereas Veblen was pessimistic about humankind's ability to overcome the lag between past-binding institutions and the machine process, Tugwell, following Patten and later Dewey, was an optimist. Despite these deficiencies, Tugwell openly credited Veblen for having launched a most formidable and scathing attack against the institutions of competitive capitalism; he described Veblen as "an academic dweller who fouled the neat nest of economics with slurring doubts of his colleagues' intellectual honesty" (Tugwell, 1939a, p. 218). And, most significantly, Tugwell openly commended Veblen for having advanced a convincing theme of business dominance, via Veblen's model of oligopoly, with its attendant dire implications for economic and social order; as will be demonstrated in Chapters Four and Five, Tugwell readily incorporated this model into his own analytical framework.

Frederick W. Taylor

Disappointed by Veblen's pessimistic outlook on the future, Tugwell turned instead toward the sanguine ideas of Frederick W. Taylor. In terms of a bold, pioneering, systematic set of ideas emphasizing boundless economic possibilities, Taylorism was to occupy much of Tugwell's early economic thinking. His knowledge of Taylorism was gained through formal study as well as exposure to the celebrated Interstate Commerce Commission investigation of the railroads in 1911. Judge Louis Brandeis was to coin the term "scientific management" in his recommendation to the railroads that higher wages could be paid at existing freight-rates if they would make a genuine effort toward greater efficiency and reduced costs. By 1912, the Taylor Society was formed, becoming the focus of the scientific management movement - although these techniques had been subject to elaboration and experimentation for some thirty years previously by Taylor and his collaborators. Essentially, Taylorism sought to increase industrial productivity by

using technology and scientific labor policies, and by eliminating rule-of-thumb management practices. Tugwell was particularly impressed by its experimental attitude and its reliance upon experts - although he felt that earlier applications of scientific management to industry had relied heavily upon “a rigid and monopolized body of doctrine” and that Taylor had initially erred in “trying to confine his procedure to a set of principles” (Tugwell, 1927, pp. 124-25). Tugwell was later satisfied to see that this increasingly variegated and flexible body of techniques was no longer called “scientific management”, having been broken up and diffused into a general body of knowledge and new methods in attacking problems. Despite both organized labor’s and management’s reluctance to warmly embrace the machine process and Taylorism, the tantalizing prospect of transforming a faltering industrial system into a veritable economy of abundance was profoundly appealing to Tugwell, and in his view, was both highly feasible and clearly within humanity’s grasp.

Near the end of his life Tugwell made the following observation concerning his Wharton years: “But the thing that made the most impression on me and gave me the theme that I pursued through many years was my interest in planning. This came about because of Frederick W. Taylor” (Tugwell, 1978a, p. 69).

World War I and Other Key Influences

In writing his memoirs of his pre-New Deal years, Tugwell was attentive in describing both the rich intellectual milieu - particularly relating to heterodox economic thought - and the social and political environment of which he was an active participant. As a faithful practitioner of the institutionalist method, this attentiveness to his social surroundings serves to underscore Tugwell’s adherence to the intellectual tradition inherited from his mentor, Simon Nelson Patten, as well as the other influences discussed previously. Also, Tugwell’s participation in the

American experience undoubtedly helped to mold his down-to-earth contextual approach in addressing the dysfunctional aspects of modern industrial capitalism.

As noted earlier, Tugwell began to form a political and social conscience at an early age - even before he departed the idyllic surroundings of his agrarian youth in Wilson, New York. When Tugwell arrived at the Wharton School in 1912, his eyes were opened to the national political arena for the first time - an arena circumscribed by the struggles between La Follette's *Progressivism*, T. Roosevelt's *New Nationalism*, and Wilson's *New Freedom* - each doctrine intimately intertwined with divergent views on political and economic reality. This political divisiveness was mirrored by a parallel divergence of views in the field of economics, culminating in the emergence of the methodological collectivism of American institutionalism in revolt against both the methodologically individualism of classical economics and the equally untenable deterministic framework offered by the proponents of Marx. Tugwell's freshman economics class, despite Nearing's evolving radicalism, was strongly skewed toward the classical view, yet there was an incipient awareness afoot of the divergence between orthodox precept and economic reality. In light of the contemporary socio-economic landscape - in particular the rise of big business with its deliberate suppression of competition through both political and economic means, academic self-suppression in deference to orthodoxy became increasingly intolerable. Thus, the fundamental contradiction of laissez faire capitalism - *the corporate use of freedom to suppress freedom* - was now all too apparent, and many thinkers began to speak out against this injustice. This would be the dominant theme in one of Tugwell's later works (Tugwell, 1935a).

Other events as well shaped Tugwell's world view and pushed him closer toward heterodoxy: the panic of 1907 - the weight of the depression largely being borne by those least able to bear it, the accounts of municipal corruption and greed by the early muckrakers such as Lincoln Steffens, Ida Tarbell, Ray Stannard Baker, and

others, and - perhaps most importantly - the touchstone of his generation - World War I. The latter permeated a wide range of Tugwell's thought.

Not surprisingly, Tugwell's attitude toward the war largely followed that of his mentor, Simon Nelson Patten. Patten - ever faithful to his methodological roots - viewed the war through the prism of his evolutionary economics and his German schooling. Patten concluded that the American pluralistic system - laissez faire in industry, checks and balances in government and so on - must be shaped into a socially-managed unity lest its inherent conflicts destroy the nation. He believed the Germans held the key to that unity in philosophy, economics, and perhaps in politics as well. Germany's struggle for unification, culminating in 1870 with the solution of the German federal problem, and the progress toward social integration were familiar historical developments of Tugwell's generation. These developments were treated sympathetically by many of the American intelligentsia as the most recent example of a people's struggle for union. Moreover, the Germans had progressed further toward the establishment of the welfare state than any other nation of this period; they had grasped the technological imperative and moved forward toward unification rather than division, yet they had bypassed the predicted pattern of Marxian revolution in light of the rigidity and the outworn, dogmatic, and deterministic nature of this doctrine.

Patten perceived the conflict, now so ominously appearing on the horizon, as one between the "living wholeness" of the German tradition and the social disintegration and divisiveness of the pluralistic Anglo-American system. Yet, he was hopeful for and anticipated a peaceful absorption into the American psyche of the German intellectuals' conception of integration and collectivism. Patten founded his optimism on the technological and managerial sophistication evident in the modern economy: the discoveries of both the pure and applied sciences, cost accounting and scientific management, serialization in factories, and the general trend toward

consolidation and efficiency in business. While others cast a skeptical eye on many of these developments, recognizing the dominant role of the profit-seekers in the promotion of the uncertainties of division and competition, Patten held fast to his dream of integration and cooperation. In Patten's view, technological development and unification called forth the higher human drive to shape society into a great, unified organism. To achieve this, it was only necessary to establish institutions capable of resuscitating the cooperative and creative elements of human nature while suppressing the competitive and destructive ones - a reasonable and modest program for a relatively well-educated America. As will be evident throughout the remaining chapters in this study, this aspect of Patten's analysis is clearly visible throughout the span of Tugwell's career as both a planner/administrator and as an educator/scholar (Tugwell, 1923a, pp. 200-08). It will be particularly evident in Tugwell's revision of the US Constitution - a subject reserved for Chapter Seven.

As Tugwell observed, "Patten's certainty that Germanism was in tune with modernism - a drawing into unity - and that the British pluralistic philosophy was one of disunity, class discrimination, laissez-faire, and exploitation, influenced us deeply" (Tugwell, 1982, p. 62). Prior to irrefutable evidence of German military arrogance and brutality during World War I - particularly the arbitrary submarine attacks - Tugwell and many of his contemporaries were initially strong supporters of American neutrality, yet they were far from being anti-British or anti-American. Tugwell recalled, "We knew where the common law, civil liberties - the whole Bill of Rights - came from; but that did not mean to us that contemporary British imperialists had a right to exploit all the dependent peoples of the earth and choke off any progress threatening their prerogatives" (Tugwell, 1982, p. 63). When the war finally arrived at America's front door, Germany's laudable organizing and integrative capabilities were successfully transformed by the American propaganda machine into a ruthless statism likely to extinguish the liberties of Anglo-Saxondom.

At the advent of American involvement in the European war, Tugwell, lamenting the perversion of the technological imperative and the consequent sorrowful state of world affairs, expressed himself in the following manner.

The direction of our lives was shifting uncertainly. A torrent of events tossed us about like small boats in the rapids of a stream . . . Universal brotherhood supported by immensely increased productivity, now seemed to have been an infantile dream. Hatred had come to take the place of anticipated mutual trust. Destruction was suddenly the aim of our technology, not progress and welfare. The readjustments were painful. I could no longer feel myself a part of a vast constructive enterprise leading to a better world (Tugwell, 1982, p. 89).

After Wharton

The European upheaval and the rapid social and economic forces of change of the early twentieth century exercised a profound influence on Tugwell's generation and - coupled with a continuum of intellectual influences - were pivotal in defining Tugwell's destiny - not only in molding his philosophical and methodological mindset but also in governing the day-to-day direction of his professional life. By the end of his junior year at Wharton, Tugwell had completed the requirements for his degree. Much to his surprise, he was offered an instructorship at Wharton; thus, he spent his senior year at Wharton teaching, studying and completing his bachelor's degree by 1915. In the following two years, Tugwell would complete his master's degree in economics. During this time he also worked as a researcher for Pennsylvania's Tri-State Milk Commission investigating the economic woes of dairy operators and as a fact finder for Gifford Pinchot, conservationist and former chief of the US Forest Service and then president of the Pennsylvania Rural Progress Association.

During his tenure with the Milk Commission, Tugwell co-authored - with Charles Reitel, a fellow instructor at the Wharton School - several articles on the issue of

milk strikes. These articles represented the budding economist's first opportunity to present some of his ideas - unquestionably an amalgam of Pattenesque nuances fused with observations of the political and economic machinations of the "free" market - in a professional context. Not surprisingly, Tugwell's recommendations to address the plight of dairy farmers clearly showed early intimations of his mature thinking on cooperation and planning. Clearly, these successful initial forays into applying his institutionalist ideas to real problems under the surveillance of professional review instilled confidence in Tugwell and gave him a strong sense of direction and methodological rectitude.

Several other events in the years 1915-1917 were key in determining the course of young Tugwell's career. In the spring of 1915, Nearing was dismissed from the Wharton School by the board of trustees. Shortly after this, Patten was forced into retirement because of his contentious views toward the European war - and also, undoubtedly similar to Nearing's case, due to his general heterodox orientation. Tugwell was embittered toward the Wharton School by both of these events - despite the fact that both Nearing and Patten continued unabated in their war against the American oligarchy - particularly Nearing - both continuing to play an influential role in Tugwell's intellectual and professional development; Patten, the "old man" took his dismissal in stride and continued to watch over and aid his young protégé, helping young Tugwell to secure a job at Columbia in 1920. But, by early 1917, Tugwell was determined to abandon the Wharton School; angry and frustrated he was searching for an out. The opportunity for a fresh beginning presented itself when Tugwell decided to move to Seattle to work under Carleton H. Parker - another key shaper of Tugwell's mind. Chapter Three will begin with a discussion of Parker's influence on Tugwell.

Summary

This chapter highlighted the origins of Tugwell's emerging OIE mindset. In particular, the ideas of Simon Nelson Patten and Thorstein Veblen, which emphasized a contextual, holistic, and evolutionary interpretation of economic phenomena, were foundational in Tugwell's intellectual development. Veblen's dichotomy and crisis theory were to have a profound impact on Tugwell's analytical perspective. Other important influences that formed the basis of Tugwell's OIE thought included the influence of Taylorism, World War I and America's tentative experiments into planning and "wartime socialism", and, more generally, the divisive political economy landscape of early twentieth century America. These, and other influences discussed in the following two chapters, continued to work upon Tugwell's keen analytical mind and were instrumental in shaping his OIE approach to economics.

Chapter Two

In Brains We Trust: The Emergence of Tugwell's Experimental Economics

This chapter continues the chronological survey of the early and middle years (1917-1932) of Tugwell's scholarly development, including his entry into the national political arena as a charter member of the original Brains Trust of Franklin D. Roosevelt. This chapter is not merely a descriptive account of his transition from academia to the public policy sphere; rather, it will trace this transition with an eye toward appreciating the role of Tugwell's ever-evolving body of institutional thought and how his "experimentalist" OIE orientation was instrumental to his inclusion in Roosevelt's inner circle of advisors. This chapter will continue to explore intellectual currents and environmental influences that shaped Tugwell's thought, including his contact with Carleton H. Parker and William F. Ogburn at the University of Washington and his involvement with the celebrated Contemporary Civilization course at Columbia University. This chapter will also highlight John Dewey's critical role in providing the philosophical foundation of what Allan Gruchy called Tugwell's "experimental economics", with more being said on this subject in Chapter Six (Gruchy, 1947). Finally, this chapter will expose the obvious connections between Tugwell's OIE thought and its applicability to the major economic and social problems of his time, but a more intensive treatment of this theme will be reserved for Chapters Four and Five.

University of Washington: The Influence of Carleton H. Parker and William F. Ogburn

Carleton H. Parker was an outspoken and dynamic economics scholar who had been at the University of California and then became dean of the new School of Commerce at the University of Washington in Seattle in 1916 (see Malone, 1934, the basis of this section). Early interested in engineering and mining, he later became absorbed in economics, and attended various German universities. While in Germany, Parker became interested in the problem of conflict between employers and labor, and he later specialized in the study of the “casual” worker, i.e., the industrial migratory worker, who, Parker believed, was a hapless byproduct of the industrial revolution. Parker sought in psychological maladjustment an explanation for the antisocial and militant behavior of discontented labor, particularly the casual. His eclectic psychological analysis of the discontented worker borrowed heavily from such diverse sources as the psychoanalytical school, the behaviorists, John Dewey, Thorstein Veblen, Simon Nelson Patten, and many others (Parker, 1915, 1920).

In 1916, Parker, who was engaged in an intellectual tour of America to solicit help for his makeover of *homo economicus*, recruited young Tugwell, a budding scholar already partially inimical to many of the assumptions of classical economics. Tugwell was instantly enamored with Parker’s efforts to overhaul “the weakest foundation in economic theory” and to release economics from “intolerable theoretical confines”; Tugwell recalls that Parker’s influence was so overwhelming that “I became his slave” (Tugwell, 1982, p. 75). Since Parker was combining anthropology and psychotherapy to study labor-employer relations, Tugwell began to read extensively in abnormal psychology and related areas, “exploring man’s instinctive machinery, and in general looking at the human equipment in wholly new eyes” (Tugwell, 1982, p. 75). In Tugwell’s view, Parker (1920) demonstrated an

understanding of the casual laborer far in advance of many of his contemporaries. He poignantly portrayed casual and agricultural migrant workers as hapless victims who were “nothing more nor less than the finished products of their environment” (Parker, 1920, p. 88). When migrant workers or the industrial irregulars protested over their intolerable plight, they were branded by many as isolated yet dangerous revolutionaries; in Parker’s eyes, however, they were the tragic symptoms of a systemically-sick social order. The casual, facing nearly insurmountable obstacles to upward mobility, was marginalized from mainstream society from the very beginning of his earthly existence; many, lamented Tugwell in “The Gypsy Strain” (1921), were driven into an unseemly world of moral debauchery, shiftlessness, and grinding, hopeless poverty.

Clearly, the element of human suffering - inseparable from a modern laissez faire industrial economy with its inherent susceptibility to the heartless and irrational business cycle - became increasingly apparent to an astute and sensitive Tugwell; and, Parker furthered this deepening awareness by forcefully disabusing Tugwell of any lingering classical misconceptions concerning the limitations of the human dimension in economic analysis. In Tugwell’s words, “Carl took me into a lighted room” (Tugwell, 1982, p.78). Previously, under the tutelage of Stagg (Masten Park), Nearing and Patten, Tugwell had begun a somewhat timorous critique of the wisdom of the classical masters. Now, under Parker’s sway, and as a natural result of the steady accretion of scholarly acumen and confidence, Tugwell began a serious and steadfast renunciation of classical methodology and its laissez faire policy implications. Tugwell became fully enlightened to the classicalists’ unwarranted appropriation of the methodological devices of the physical sciences and their questionable adaptation to economic phenomena. In Tugwell’s view, nowhere was this more pronounced and more egregiously exploited than in orthodoxy’s conception of economic man.

Parker's influence extended beyond simply fostering a robust skepticism of orthodoxy in Tugwell and others. To Tugwell, Parker's most enduring and significant contribution was in the area of labor relations. While in Seattle, Tugwell worked with Parker for the War Labor Board, which investigated labor conditions in the lumber camps. Before 1917, the struggle between employer and employee, in general, had been growing steadily more vicious. After the establishment of conciliatory mechanisms at the beginning of World War I - in which Parker played an instrumental role - this struggle, in Tugwell's view, would never be quite so brutal again. Parker's humanism was transmitted to his young disciple, Tugwell, who faithfully reflected this in his life's work. Additionally, Tugwell found in Parker's mediation work a striking illustration - *par excellence* - of the role of the academic expert in public affairs, a wartime development which excited much interest among young progressive thinkers and represented a model for future experiments such as the Brains Trust and modern welfare capitalism in general.

While at the University of Washington, Tugwell began to forge an enduring and promising professional association with yet another prominent colleague - William Fielding Ogburn - another scholar with an original and flourishing mind whose touch is much in evidence in Tugwell's development. Their careers enjoyed a curious overlap as both served at the University of Washington, the University of Columbia, in the New Deal, and at the University of Chicago at approximately the same times. Not surprisingly, Ogburn's intellectual orientation and ideological stance roughly comported with those of Tugwell.

Ogburn's teaching covered a wide range of courses, including economics, political science, history, and statistics as well as sociology (see Garrity, 1980, the basis of this section). His research activities and publications similarly encompassed this broad range of disciplines. Akin to his fellow University of Washington colleagues, Parker and Tugwell, Ogburn attempted to merge his considerable

knowledge of the anthropological and psychoanalytical literature with his teaching and research interests. In the tradition of the anthropological school of Franz Boas, Ogburn approached social phenomena in terms of the analysis of cultural processes and institutional growth. Additionally, his analysis combined the recognition of the distinct character of social arrangements with a recognition of their dependence on the cultural and psychological order, and on the non-human order, or the physical environment as well. His most important work was *Social Change: With Respect to Culture and Original Nature* (1923). In this treatise, Ogburn expounded upon his conception of *cultural lag* - a concept that attracted much interest in the literature of the early institutionalists and pragmatists and, not surprisingly, formed an integral component of the mature Tugwell's *experimental economics*. Essentially, Ogburn distinguished - as Veblen did before him - between material and nonmaterial culture. Another key publication of Ogburn's was the two-volume *Recent Social Trends in the United States* (1933) - the summary report of President Hoover's Research Committee on Social Trends, of which Ogburn was director of research. This report established a model followed by Ogburn in his subsequent annual series on social change, which he edited in the *American Journal of Sociology* from 1928 to 1935; this seminal work foreshadowed the contemporary practice of identifying "social indicators" as the basis for public policy, which flowed directly into the path-breaking efforts of the New Deal to erect the apparatus of the modern welfare state.

Like many pioneers in the burgeoning fields of social science, Ogburn was an activist in the pursuit of social reform - particularly in the early years of his career. His enthusiasm for social change, akin to that of Scott Nearing's, was tempered by the sober realization that credible policy prescriptions for social change must be buttressed by solid, persuasive empirical work guided by the procedural requirements of the scientific method or, quite simply, by a command of the facts. His research formed the basis of his seminal interpretation of social change and its

profound and all-pervasive consequences, which he felt clarified the process of social evolution. Moreover, his methodology exerted considerable influence on later social scientists through his influence on graduate students at Columbia and the University of Chicago, where Tugwell served as a professor of political science and director of the Planning Program from 1946 to 1957.

The Northwest, 1917-1918

Apart from the intellectual currents swirling around Tugwell at the University of Washington, his physical surroundings similarly played a key role in forging his evolving mindset. While in Seattle, Tugwell's work with the War Labor Board placed him in close proximity to the chaotic economic expansion of the Northwest. Tugwell realized that it was in this somewhat anachronistic setting, perhaps more so than in any other part of the country, that Adam Smith's invisible hand was on trial. Conventional economic theory dictated that all factors of production must combine and cooperate and that a just remuneration to each would result from the free play of competitive forces. As far as Tugwell could discern, the practical results diverged sharply from the predicted theoretical ideal. The economic process was essentially a nasty struggle to suppress freedom in which all competing parties were guilty of advancing a narrowly focused, self-serving agenda at the expense of others (Tugwell, 1935, pp. 193-207). Neither workers nor owners cared, to any appreciable degree, to sacrifice their narrow interests in deference to a nation at war, and just as during peaceful times, both parties regarded the consumer as an inconvenient economic nuisance even though their very livelihoods depended upon him. This lamentable situation left a lasting impression upon Tugwell as evidenced by the various techniques used by the National Industrial Recovery Act of 1933 to create a level playing field for all key participants in the national economy.

It was also during Tugwell's Northwest experience that his thoughts on economic planning and resource conservation began to germinate - prefiguring his work with the USDA, the Resettlement Administration, and various other planning efforts throughout his career. As he recalled, it was impossible to live in the Northwest, even for a few months, and not be conscious of the forests and how the region's economy was predominately dependent upon this commodity. Resources, chiefly lumber, were being used up at an extravagant rate - a situation made worse by the war. The Northwest, then being so ruthlessly gutted, was approaching economic suicide. Seattle, in Tugwell's view, had already lost all form and cohesion; scarcely a settlement roughly seven decades earlier, the city was approaching a quarter-million in population with sprawled-out communities lacking basic municipal services and any pretense of deliberate planning. In communities such as these, all of the genuine grievances of the rank and file became intensified - particularly during the unanticipated influx of war workers. It was in this confusion, primarily caused by private enterprise, that Tugwell first began to think of cities as social organisms, and as Tugwell retrospectively wrote, "If I had not before been a convinced collectivist, that winter would have made me one" (Tugwell, 1982, p. 94).

Tugwell's tenure at the University of Washington was of short duration - beginning in the fall of 1917 and ending the following March. Seattle, unfortunately, proved to be far less promising than he had hoped for. In March of 1918, Carleton Parker died of pneumonia - after which Tugwell had no further interest in remaining in Washington. Despite this dismal event that prompted his premature departure from the university, Tugwell nevertheless left with several important insights. As he noted, "The lessons I learned in the dark and misty days of that winter were indelible ones" (Tugwell, 1982, p. 93).

Paris and the American University Union, 1918

While working for the War Labor Board in Seattle, Tugwell met Felix Frankfurter, who was then a professor of Law at Harvard University serving as a visiting member of the Board. Like many of Tugwell's early contacts, his association with Frankfurter would continue as both would serve as advisors to FDR and as functionaries within the New Deal. In the spring of 1918, on Frankfurter's recommendation, Tugwell was offered a civilian job in Paris with the American University Union - a combined club and service station for university men who would be in Paris temporarily. Since Tugwell's asthmatic condition was severe, he could not serve in a combat capacity and no armed service would accept him. By this time, in view of German militarism, Tugwell, as well as many of his fellow countrymen, had grudgingly accepted President Wilson's explanation for American entry into the European conflict. He felt this assignment would provide both an opportunity to serve his country as well as a singularly unique opportunity to witness history in the making - although his role would be less heroic than many of his compatriots.

Since his assignment placed few demands upon him, Tugwell spent much of his time in Paris studying French culture and society, visiting with friends who were passing through, and reflecting upon the war and its consequences. Tugwell's Paris experience also appreciably enhanced his consciousness of the splendor of the American liberal tradition as well as reinforcing his choice of experimentalism or pragmatism as the preferred vehicle for progressive social change. While in Paris, Tugwell was exposed to an array of radical ideologies strikingly *dissimilar* to the homegrown Progressivism, with its distinct Jeffersonian character, that he had grown accustomed to in the United States. The extremism inherent in the movements of the French equivalents of the Bolsheviks, the Wobblies, and others, in tandem with their general disdain for liberal democratic values compelled Tugwell to reject such

radicalism and to probe more deeply into his own political consciousness. He recounts how out of place progressives such as La Follete and Theodore Roosevelt would have felt in the political landscape of France - both of these figures essentially espousing a moderate or conservative variant of American liberalism. This observation then prompted Tugwell to reflect upon his own values by raising a revealing question.

Was I, also, a conservative? I wondered. I found communism basically less attractive than capitalism as a philosophy. Capitalism had the seeds in it of self-destruction, but communism had a kind of iron logic I instinctively distrusted. It was of a piece with Newtonian physics, Smithian economics, and other mechanistic doctrines. I was, I could see, an incorrigible experimentalist (Tugwell, 1982, p. 120).

Over the course of his career, Tugwell employed many words and expressions that sounded “radical” such as “socialism”, “communism”, “collectivism”, etc., but he also formulated his own definitions and ideas as to their meanings. He was never an extremist as caricatured by many of his detractors; rather, as he steadfastly maintained, he was an *experimentalist* and a *collectivist*, in the literal sense of the word, and one who yearned for voluntary cooperation and all of its assumed benefits. As will be seen shortly, FDR’s acceptance of Tugwell into both the Brains Trust and the New Deal was partly because of this experimentalist orientation.

As noted earlier, the war had engrossed much of Tugwell’s thoughts even before his arrival in France. Resigned to the notion that American involvement in the war was a regrettable necessity, Tugwell, nevertheless, remained stalwart in his Pattenesque interpretation as to the ultimate causes of the horrendous conflict. Influenced by Patten, he blamed British imperialism for the war. Patten believed that prior to the rise of militarism, Germany had grasped the technological imperatives of the twentieth century and was progressing toward unification and collectivism. At war’s end, Tugwell clung to a short-lived hope that nationalism and imperialism -

manifestations of cultural lag - would yield to the collectivist wisdom embodied in Wilson's League of Nations and the Treaty of Versailles. Despite the prodigious waste, loss of life, and the eventual failure of Wilson's untenable proposals, the war effort engendered new cooperative arrangements between countries and between traditionally antagonistic elements within society, portending the alluring possibility of a renewal of civilization based upon coordination and cooperation. Tugwell believed rather sanguinely that the war experience was not entirely devoid of salutary purpose in that the antediluvian principle of laissez faire was no longer considered to be inviolable. America's wartime "socialism" had been predicated on the assumption that coordination within business and between business and government would lead to increased productivity. In reality, the new cooperative regime surpassed this modest expectation as the economy, in general, functioned quite well. The War Industries Board had managed the industrial system like a "well-oiled machine" with much economic coordination conducted upon a *voluntary* rather than a coercive basis. Moreover, wartime cooperation had greatly accelerated economic growth while occasioning broader acceptance of a "kind of voluntary socialism" in an arrangement that business found much to its liking (Tugwell, 1927a, pp. 365-66). In Tugwell's view, America had become more "socially-minded", while "organization became functional and experimental" (Tugwell, 1928a, p. 264). Planning and experimental economics were beginning to take root in the United States- if only temporarily. Not only was this new age of cooperation highly desirable - it was necessary. The war had been much more than a clash between rival imperialist powers; it was the embodiment of an epic struggle between two great camps and their contrasting visions of the future: "It had not been the Triple Alliance versus the Allied and Associated Powers; it had been Adam Smith versus Patten; it had been Agassiz versus Darwin; it had been Spencer versus Dewey. There had to be an effort to substitute the new sciences for the old orthodoxies,

which now ended in collisions of opposed ignorances and prejudices” (Tugwell, 1982, p. 127). Clearly, Tugwell saw the world around him in very stark terms.

The University of Columbia, 1920 -1932

The Columbia years were good for Tugwell, and an exhaustive description of all of the events which played a role in his maturation would take us too far afield for the chief purpose of this chapter. Rather, this study will turn toward an examination of Tugwell’s Columbia experience with the aim of isolating those influences that were foundational in advancing his evolving institutionalism. In this respect, three key influences become apparent and are sequenced in the order of their importance: 1) the impact of John Dewey’s work upon Tugwell; 2) Tugwell’s insistence upon the need for a revitalization of the American educational system in conjunction with a general reassessment of the function of education in a democratic society (this imperative largely explains his enthusiastic participation in Columbia’s Contemporary Civilization course); and 3) the role of Wesley C. Mitchell in promoting Tugwell’s professional advancement.

In November of 1919, Tugwell began to make preparations to return to academia and obtain his Ph.D. Many of Tugwell’s teachers, particularly Patten, encouraged him to return to the University of Pennsylvania to complete his studies. By this time, however, Patten’s ostracism had left Ernest Patterson as the chairman of the economics department. Patterson was skeptical of Tugwell’s abilities as a serious scholar, pointing to the latter’s mediocre work at both the undergraduate and post-graduate levels and to Tugwell’s keen interest in social causes rather than serious scholarship. In Patterson’s view, Tugwell was another Scott Nearing in the making. Despite Patterson’s chilly reception and negativity, by the summer of 1920, Tugwell had successfully passed his examinations and had secured an instructorship - largely due to Patten’s influence - at Columbia University for the 1920 -1921 academic year.

With the strong conviction that academic life was his principal destiny and with his “foot in the door” at Columbia, Tugwell began his professional and scholarly development in earnest. While at Columbia, Tugwell attained important professional milestones and, in keeping with a well-established pattern, continued to make important personal and professional contacts and to encounter powerful intellectual influences that reinforced his commitment to social uplift and to OIE. Moreover, it was during his Columbia years that Tugwell’s thoughts began to evolve and mature more rapidly and from which a unified framework began to emerge from previously inchoate and tenuously related Tugwellian themes. His attacks on neoclassical economics, laissez faire, and the modern American business system, his analysis of cultural lag and the role of technology and Taylorism, and his nascent thoughts on planning and cooperation all began to coalesce around the major political economy issue of the day: the plight of the farmers and the sectoral imbalance between agriculture and industry and the dire possibility of complete macroeconomic collapse. To wit, Tugwell was one of only a handful of thinkers whose analyses prior to the Great Depression predicted a major economic downturn (Tugwell, 1928a, p. 265).

Tugwell’s Columbia experience also served a more mundane but still important purpose: the Machiavellian political environment of academia, replete with jealousy, pettiness, and mean-spirited ideologues, strengthened his self-confidence and toughened his skin against unwarranted criticism. Initially, Tugwell was adversely affected by this climate, as evidenced by his hasty and acrimonious departure from the Wharton school in 1917, but over the long run, his ability to transcend painful experiences proved to be invaluable preparation for his future in government service. During the 1930s, Tugwell would serve as the high-profile whipping boy for several unpopular New Deal policies that menaced a variety of interest groups and the “business as usual” oligarchs. Although Tugwell was professionally damaged by

this criticism and subsequently ostracized from government service at the federal level, he kept faith with his views and maintained a dauntless resolve and confidence - lessons learned through hard experience.

In light of Tugwell's Columbia experience and the propitious career opportunities that evolved from this experience, Patterson's dim forecast regarding Tugwell's future was proven to be wildly erroneous. By as early as 1925, Tugwell had published nearly two dozen journal articles, co-authored a textbook used in Columbia's celebrated Contemporary Civilization course, *American Economic Life and the Means of Its Improvement* (1924a), edited two important treatises in contemporary economic theory, and published his dissertation, *The Economic Basis of Public Interest* (1922b) thereby earning his Ph.D. and securing his position as an assistant professor of economics at Columbia. Before Tugwell's departure from Columbia in 1932 to serve as a member of the Brains Trust, he attained the rank of full professor (1931) and became a contributing editor for the *New Republic* (1928); he became heavily involved in efforts at educational reform, tapping into his experiences with the Columbia's Contemporary Civilization course; through his tentative, evolving solutions for American agricultural and industrial problems, he began to establish a reputation as an expert straight-talking advisor to presidential hopefuls (Governor Frank Lowden of Illinois and Governor Al Smith of New York in 1928 followed by Franklin Roosevelt in 1932); and he published an additional thirty articles in professional journals, popular magazines, and academic society bulletins and wrote, co-authored or edited several more books including his own *Industry's Coming of Age* (1927b), *Mr. Hoover's Economic Policy* (1932a), and *The Industrial Discipline and Governmental Arts* (1933); these latter three works - representing vintage Tugwellian *experimental economics* - were instrumental in placing Tugwell on the "short list" of potential members of the Brains Trust.

The Influence of John Dewey

As noted in the preceding chapter, the fecund but often abstruse ideas of John Dewey played a foundational role in the larger intellectual milieu from which institutional economics emerged in the opening decades of the twentieth century; his impact was interdisciplinary and was enormous in both breadth and depth - extending well beyond the ethereal realm of his principal field - philosophy.

When Tugwell arrived at Columbia in 1920, Dewey was approaching the apogee of his influence (see Garrity, 1980, the basis of this section). Living in New York City placed Dewey at the center of America's cultural and political life. In addition to his exceptional scholarly accomplishments, Dewey actively supported the Progressive party, helped found both the American Civil Liberties Union and the American Association of University Professors, and, like Tugwell, served as a contributing editor to the *New Republic* magazine. After World War I, Dewey became a worldwide traveler, lecturing in Japan and teaching at the Chinese universities in Peking and Nanking. He also studied the educational systems of several foreign countries, and his praise for the Russian system he inspected on a 1928 visit to the Soviet Union earned him much criticism. In 1930, Dewey retired from teaching, but he continued to publish prolifically on various themes in both philosophy and politics.

Although his earlier studies had aroused an interest in Hegelian philosophy, Dewey's reading of William James' *The Principles of Psychology* (1890) represented a momentous turning point in his intellectual evolution; as a result, Dewey de-emphasized Hegelianism in favor of *instrumentalism* or *pragmatism* (Hook, 1995). Throughout his long life, Dewey continued to expound upon and clarify his philosophy of pragmatism - a tradition foundational in the thinking of many early institutionalists, including Tugwell. In the development of pragmatism, Dewey endeavored to transcend what he considered the misleading distinctions made

by previous philosophers. By focusing on experience, Dewey bridged the gulf between the organism and its environment to emphasize their interaction. He rejected the dualism of spirit versus matter, insisting that the mind was a product of evolution, not some infusion from a superior being. While he perceived much of human behavior as conditioned by habit, he emphasized that humankind's world of flux often produced conditions which customary mental activity could neither grapple with nor explain; the resulting tension led to creative thought and adaptive experimental action whereby humans attempted to reestablish control over their ceaselessly changing environment. These adaptive thought processes, in Dewey's view, were not merely a form of habituated, context-specific introspection or mental reflex; rather, they were the essence of human identity and brilliance, whereby humans dynamically interacted with their surroundings and formulated solutions to problems. Moreover, Dewey firmly believed that universal education could train humans to transcend habitual patterns of thought, placing the human mind on a higher plane of creativity and experimentation.

In Dewey's view, education was the domain of critical thought while politics was the arena of corresponding action. He was convinced that democracy was the best form of government and that the effectiveness of democracy postulated the existence of an enlightened citizenry. Yet, like many of his contemporaries, he saw American democracy challenged by the effects of the industrial revolution, which had produced an over-concentration of wealth in the hands of the few and the corresponding plutocratic control of the polity. This threat, he believed, could be countered by the right kind of education. The *progressive education* movement of the 1920s was an effort to implement Dewey's pedagogical ideas. His educational theory emphasized the classroom as a place for the student to encounter the "present" and to grapple with contemporary issues; hence, Columbia's celebrated Contemporary Civilization course was directed toward this end.

Tugwell on Education Reform

Tugwell considered himself a disciple of Dewey - the latter's ideas exerting an especially powerful influence upon both his experimental economics and his philosophy of education. As noted earlier, Tugwell was intimately involved in the Columbia's Contemporary Civilization course (or C.C. course). This course represented the first of various comprehensive study programs in which the social sciences and various cultural subjects were amalgamated into a blend that would seem relevant to life in the contemporary world. In Tugwell's view, it seemed almost "providential" that he should have arrived at Columbia just when the C.C. course was taking shape. At this time, the C.C. course marked an abrupt departure from the conventional elective system or "department store education" that had spread from Harvard during the late eighteenth hundreds. Tugwell felt that students in American colleges had, until the advent of the C.C. course, spent too many years in "dilettante activities" - in many cases simply selecting courses and fields of studies that were reputed to be easy (Tugwell, 1982, p. 143). With respect to the field of economics, the architects of the C.C. course proposed not to approach economic questions as though all undergraduates were embryonic economists, but rather to assume that they were responsible members of society who would be expected to act as citizens should in a democracy. Like Dewey, Tugwell and his colleagues firmly believed that the functioning of a truly representative democracy postulated the existence of an intelligent and enlightened citizenry. The C.C. course, which soon spread to many other colleges and which used a review of Western civilization from the beginning - economic, governmental, political, historical, and even philosophical - put into focus the present state of Western humankind and explored the various potentialities of the free democratic world.

In an attempt to turn economics toward a more realistic assessment of modern problems, and because it was needed for the C.C. course, Tugwell co-authored

American Economic Life and the Means of Its Improvement. Tugwell recalled, “when it came out in 1925, all of us had some reason to be proud. It was, we thought, quite satisfyingly in the Dewey tradition” (Tugwell, 1982, p. 150). A detailed review of this work is beyond the scope of this chapter; however, it is sufficient to note that this work eschewed a conventional, theoretical, textbook treatment in preference to a contextual, contemporary portrayal of economic and social life in America, with special emphasis placed on the disparity in income distribution, purchasing power, and general living conditions of the American populace - especially between the rural and urban citizens.

In 1934, Tugwell and fellow economist and New Deal colleague, Leon Keyserling, edited *Redirecting Education*, a comparative study of the world’s educational systems featuring the ideas of several prominent academicians and educators; again, this work bore the markings of Dewey’s pervasive influence and is significant in that it represented the mature Tugwellian view of education and its critical importance to humanity’s future. Tugwell’s contribution in *Redirecting Education* begins with a meticulous description of the corrosive and corruptive influence of laissez faire upon America’s educational tradition. Consistent with his methodological penchant for historical-contextual analysis, Tugwell portrayed the American educational system as a direct outgrowth of laissez faire and the rugged individualism of the nineteenth century. In Tugwell’s opinion, the clustering of American ideology about a ruthless, democratic individualism was an overworked theme of many historians. Technological imperatives had pushed society beyond the outmoded credo of individualism, rendering many institutions - education included - outmoded and unresponsive to pressing social needs. According to John Dewey’s double dictum, society should 1) be self-repairing and 2) be a function of education. (Tugwell was sufficiently impressed by this notion of a “self-repairing” society that he used this expression years later in the preamble to his *Constitution for the*

Newstates of America.) Tugwell asked: Why has this not been the case for much of American history? Despite America's bedrock orientation toward individualism and laissez faire, a less skewed interpretation of our history clearly reveals a deeper balance between individualism and collectivism (Tugwell, 1934a, p. 31). We are, Tugwell suggested, something now that we hardly recognize. The transformation of "the composite Yankee-frontiersman-farmer" and merchant into "organizer and administrator" and, "into the technological master of natural things and forces, needs a philosophy to complete its evolution, to weld the past to the present, to make clear what it is to be American, and where our destiny lies" (Tugwell, 1934a, p. 33).

Conflict becomes, in this evolving process, cooperation; individualism becomes collectivism; liberty becomes government; self-interest becomes social aspiration. But these evolving realities need recognition; until they have it they will be something below the instrumentalities of progress they might be (Tugwell, 1934a, p. 33).

What specifically is the relationship between education and society, and what are the concrete steps necessary to reformulate education? The most fundamental step is to realize that Dewey's dictum - that society should be a function of education - largely does not hold under the American laissez faire regime - quite the contrary. Furthermore, society is not a function of education because education likewise adheres to no aims. The issue then becomes one of leadership. But Tugwell cautioned against an educational process that commits the system to a social ideal, however well conceived, which has a fixed pattern and defined objectives; under such a regime, education would be especially susceptible to institutional ossification. In Tugwell's view, humankind's future should be visualized as a series of technological problems that are best solved by the tentative evolving programs of the flexible "management idea" (Tugwell, 1934a, p. 90). Thus, the real possibility that society may become a function of education is implicit in the idea of a managed society. Moreover, the avoidance of "fixed patterns" and "defined objectives"

necessitates the choice of instrumentalism as the guiding force in the educational process at all levels. Tugwell queried: Shall we ask that education serve a defined social purpose, infuse society with propaganda, teach the answers to the problems we raise, or should we define a sphere of liberty in which experimental thought shall be free to probe and scrape all premises, problems, institutions and proposals? In Tugwell's mind, the answer was obvious. Millions of students discussing social projects, formulating alternatives, and exploring hypotheses, and the vast enlargement of adult education flowing from this approach, would undoubtedly be a constructive social force presently lacking in modern society.

The Influence of Wesley C. Mitchell

This synoptic description of Tugwell's Columbia years would be incomplete without addressing Wesley Mitchell's influence upon Tugwell. Both thinkers' economic philosophy flowed from the works of the pioneering institutionalists - Tugwell's from both Patten and Veblen and Mitchell's primarily from Veblen [Contrary to Tugwell's ebullient acceptance of all ideas Pattenesque, Mitchell was rather tepid toward Patten's ideas, finding them to be the whimsical notions of the "purely speculative" mind of a "utilitarian philosopher" (Mitchell, 1969, p. 236)].

While at Columbia, Tugwell continued his studies of Patten and probed more deeply into the psychological leads that Parker and Ogburn had introduced him to in Seattle. Despite Mitchell's renowned quantitative approach to economic inquiry, he too held a strong interest in these qualitative channels of thought. As a student of Veblen's at Chicago, Mitchell had come to consider the perennial wars of competition absurd. His collective works left an enduring impression upon Tugwell. Tugwell became enamored with Mitchell's lectures on theory - in particular, his critique of the English economists' concepts of value. Mitchell's sardonic exposition of the "felicific calculus," a concept descended from Bentham and hardened into law

to suit his classical successors' purposes, was one that left an indelible imprint upon Tugwell's mind. Tugwell regularly attended Mitchell's lectures, in many instances attending them twice.

As noted in the previous chapter, Tugwell was reluctant to express his intellectual debt to Veblen, but, as will be evident in Chapters Four and Five of this study, Tugwell's indebtedness to Veblen is quite substantial. Tugwell's suppressed ambivalence toward Veblen is once again evident in his exaltation of Mitchell's work. For example, Tugwell asserted that Mitchell was a more effective "home-grown" conduit of Veblenian themes than Veblen himself. In Tugwell's view, Veblen's interpretation was excessively critical of the alien culture in which he was forced to make his way as a scholar - his acerbity flowing largely from his inability to acclimate to mainstream American life and to establish himself as a respectable scholar. Although serious students of Veblen defended his cynicism as pure detached assessment, Tugwell was never convinced. Again, as will be evident in Chapters Four through Six of this study, Tugwell's ambivalence toward Veblen will be exposed as being somewhat disingenuous and hypocritical.

By contrast, Mitchell's work, while faithful to Veblenian origins, was largely devoid of such feelings of personal alienation, according to Tugwell. In Tugwell's view, this imparted a credibility, objectivity and scholarly acumen to Mitchell's work that were partially lacking in Veblen's; he observes, Mitchell "was at home in America. His work on the business cycle was one of the earliest approaches to pure science in economics" (Tugwell, 1982, p. 156). To Tugwell, Mitchell was an experimental economist who was "interested in policy, in fact, and in the future" - a free spirit who was "the best we have" in economics (Tugwell, 1937b, pp. 238-40). Tugwell observed, "He was the sort of scholar who had to explore the last corner of his subject before admitting to any competence in it. He worked at the description of economic behavior in a system with so few uniformities that bare enumeration was

almost impossible, say nothing of generalization” (Tugwell, 1982, p. 152). Tugwell described both Dewey and Mitchell as a “great influence”. While Dewey emphasized the gap between formal education and social experience, Mitchell’s work formed “the bridge between classicism and instrumentalism in economics” (Gruchy, 1947, p. 406).

Mitchell’s involvement in Tugwell’s Columbia experience extended beyond the intellectual sphere. Tugwell described Mitchell as one who possessed a great amount of integrity and fortitude - on occasion taking unpopular positions and supporting them unyieldingly; he was not adverse to protest and conflict, and yet he was modest. During the Columbia years, Tugwell so greatly admired these characteristics of Mitchell that he consulted him more often than anyone else. Undoubtedly, these laudable traits rubbed off on Tugwell, and as a result, he became increasingly confident and inured to the destructive and hurtful effects of departmental politics. With Tugwell’s editorship and publication of the symposium volume *The Trend of Economics* (1924, in collaboration with Mitchell, et al.) and *Industry’s Coming of Age* (1927), he began to incur the disapproval of his more orthodox Columbia colleagues. The latter book in particular placed him at odds with his peers, for it was admittedly a modest attempt to underscore the mainstream economists’ neglect of the economic realities around them, particularly the sweeping changes occasioned by technological advancement. His detractors were quick to point out that *Industry’s Coming of Age* fell into neither of the recognizable categories of theory or statistics. As a result, his superiors decided, with only Mitchell dissenting, that Tugwell might stay on at Columbia solely in light of his success as a teacher, but he was never likely to develop into a “real economist” (Tugwell, 1982, p. 185).

The Brains Trust, 1932

In March 1932, Tugwell was approached by his neighbor and fellow Columbia colleague Raymond Moley, who was “putting together some material” for Governor Roosevelt. A political scientist by training, Moley was having difficulty penetrating some of the pressing economic issues of the day - such as what could be done about the persistent depression, especially the farm problem. Unbeknownst to Tugwell during this initial contact, Moley was executing the wishes of Roosevelt’s closest advisors - Doc O’Connor, the governor’s former law partner, and Samuel Rosenman, Counsel to the Governor - who had instructed him to probe the possibility of recruiting university professors for advice on campaign issues (Moley, 1939, pp. 5-23; Rosenman, 1952, p. 59). Tugwell met the key requirement for admission into Roosevelt’s inner circle: he passed the test which, as Moley noted, others had failed - he was not overspecialized intellectually, and he was able to sufficiently simplify and generalize ideas for campaign purposes. Since all agreed that agricultural policy was going to play a prominent role in the campaign, Tugwell seemed to be a natural first choice; he had published several articles on the farm problem, advised Governor Al Smith on the issue during his 1928 campaign, and formulated a plan to reduce surpluses and raise prices on agricultural commodities. Although Moley knew Tugwell only casually as a colleague at Columbia, he had been sufficiently impressed by these achievements to solicit Tugwell’s assistance in the Brains Trust.

Thus, three Columbia professors - Moley, Tugwell, and Adolf Berle, a professor of law - and the two lawyers, Rosenman and O’Connor - composed the original “Brains Trust” (Tugwell credits James Kieran, staff correspondent for *The New York Times* as having originated the curious use of the plural “brains” in “brains trust”; before long, other reporters would follow Kieran’s lead. The term gradually acquired capitals and lost its quotation marks, and thus quietly passed into common parlance). Contrary to common belief, the Brains Trust was not a permanent fixture

of Roosevelt's government; it was dissolved on election night of 1932. Of the original academic members, only Tugwell would remain in Roosevelt's service after the election, first serving the newly elected president in various capacities within the USDA, and then serving several years later as Governor of Puerto Rico.

Within the Brains Trust, Moley was the principal speechwriter, with Roosevelt typically making last-minute revisions, while the others conducted studies and submitted memoranda on key issues. In essence, the brains trusters enabled Roosevelt to present himself as the people's candidate, sensitive to the issues and needs of America's main constituencies, brimming with confidence, and armed with cutting-edge perspectives on how to return the nation to prosperity. By contrast, President Hoover's candidacy - as history would soon attest - would suffer grievously from several abysmal campaign blunders and a fatally arrogant adherence to the outmoded doctrine of *laissez faire*, the *business confidence thesis*, or more generally, a Pollyannic faith in economic and social atomism, positions which Tugwell so resoundingly critiqued in his *Mr. Hoover's Economic Policy* (1932a); in this monograph, Tugwell easily persuaded many of his readers that in light of the nation's current problems not only were President Hoover's policies intellectually bankrupt - they were economically and socially irresponsible as well.

During his matriculation visit to Albany, Tugwell's OIE philosophy was immediately apparent in his first in-depth discussions with Roosevelt. In the *Brains Trust* (1968), Tugwell vividly recounted these first meetings and how he adumbrated upon the causes of the depression and possible cures thereof. He reminded Roosevelt that the decade of the booming twenties had followed a vast war expansion. During the war competition had been adjourned, and both resources and management had been marshaled and pooled. This shift away from competition toward cooperation, facilitated largely by a temporary suspension of antitrust laws, resulted in an enormous increase in productivity and output - with the curve of

efficiency making its most startling climb after the war. Scientific management and economies of scale had spread from confined beginnings into many industries. In *one decade*, humans had increased their power to produce more than in any previous *millennium* of their history, or century for that matter - except for the previous. Mechanization had revolutionized agriculture as well; the tractor had released nearly half of the cropland previously used to sustain horses and mules - the farmers' traditional sources of power. No one knew what to do with the surplus product now being produced upon this acreage, and falling commodity prices simply encouraged farmers - many with heavily leveraged debt burdens - to produce even more, thereby compounding their problems.

Clearly, the era of Patten's economy of abundance had arrived at America's door, yet attitudes and institutions were presently unamenable to Patten's conception of progress and equalitarian prosperity. To Tugwell, "the single most disturbing adjustment" - one that was conspicuously absent in the modern economy - was the requirement that everyone share in the product (Tugwell, 1968, p. 40). If the present institutional configuration of society impeded this process, then economic stagnation would be the inevitable result. During the 1920s, productivity gains - rather than resulting in lower prices, higher wages, and enhanced purchasing power - had been wastefully diverted into enormously enlarged profits and dividend payments or sterile pools of investment and reckless speculation. Diminished purchasing power had resulted in fading markets for goods as early as 1926-27, but installment debt, enormously expanded at this time, postponed the day of reckoning until 1929. As Depression Decade began, the appalling miscalculation was all too apparent - many more goods had been produced than could be paid for by consumers with diminished or non-existent incomes (Tugwell, 1932a).

Where did the cure begin, queried Roosevelt of Tugwell and the other brains trusters? Their response: relief was the first priority, followed by structural reform.

Consumers must be supplied with purchasing power in order to stimulate employment and production. But stimulation by the distribution of relief funds, what would soon be dubbed as Keynesian pump-priming, would not make a permanent change; it did not address the pernicious and deeply embedded imbalances that suggested a need for a comprehensive structural readjustment toward fair prices and fair exchange so that all may share in the fruits of the surplus economy. Nothing short of this, Tugwell asserted, would do, and the failure to achieve a permanent institutional shift toward economic cooperation would imperil the nation by continuing to place it at the mercy of speculators and the vicissitudes of the business cycle. As the current paralysis so poignantly illustrated, an economic system in which a certain group gained at another's expense not only created severe economic hardships and intolerable social tensions, but also called into question the compatibility of such a system with the increasingly illusive American dream. Yet, Tugwell - leery of wading into a morass in defining terms such as "justice" and "welfare" - accentuated the productivity argument to Roosevelt. Contemporary America had recently entered a new phase in economic evolution wherein people could not exploit each other without disruptive ripple effects upon nearly all aspects of the economy, particularly productivity and full employment. Roosevelt was particularly fascinated with this issue, one that was explored in Tugwell's *Industrial Discipline and the Governmental Arts* (1933). Modern efficiency gains were such a clear instance of an advance in humanity's struggle with parsimonious nature, yet they had been so woefully mismanaged as evidenced by the present economic debacle (Tugwell, 1968, p. 42). Therefore, economic coordination along the lines of America's wartime experience presented itself as the most plausible course of action. Whether it was politically feasible or not was another matter, and *this*, Roosevelt explained to the brains trusters, was *his* problem (Fusfeld, 1956, pp. 207-22).

This divergence between political feasibility and economic necessity was the most vexing issue for Tugwell during his tenure as a brains truster. He was essentially a political naive when he entered Roosevelt's think tank, and he found it exceedingly difficult to abide by the candidate's cautious conservative practicality and the fail-safe strategy of expediency - i.e., the overriding concern not to alienate any segment of the constituency - in light of the gravity of the crises at hand. Dismayed by Roosevelt's promiscuous use of empty campaign promises and his foisting of nebulous contradictory policy positions upon the public, Tugwell's emotions on election night were torn between elation at the long-overdue Democratic victory and utter bewilderment toward the political process and its seemingly inherent lack of social vision and higher purpose. During the campaign, he was particularly frustrated with Roosevelt's refusal to outline a specific program for industrial recovery based upon what Tugwell described as a "concert of interests" or a comprehensive scheme of industrial cooperation (Tugwell, 1968, pp. 27-32). Tugwell was so frustrated by this aspect of the campaign, that following the Democratic convention in July, during which the party glibly subscribed to the Wilsonian shibboleths of the past and the contradictory "old-fashioned, free-enterprise, balanced-budget pronouncement", he presented a memorandum to Roosevelt suggesting that the nominee publicly endorse the creation of a National Economic Council - a recommendation presaging the establishment of the post-World War II Council of Economic Advisors or CEA - to directly and authoritatively deal with the problems associated with the Depression. Thus, Tugwell began to operationalize some of his planning concepts by calling for the creation of a twenty-one-member council composed of economists and representatives from industry. With nine subordinate divisions, the council would in essence coordinate all aspects of the modern macro economy. Although Roosevelt dismissed this specific recommendation, the spirit behind this plan would materialize to a significant degree

within the structure of the first New Deal's two main policy pillars - the Agricultural Adjustment Act and the National Industrial Recovery Act of 1933 (Tugwell, 1968, p. 525). Tugwell's role in the formulation of the AAA and the NIRA will be discussed in Chapters Three and Five.

Summary

This chapter surveyed the early and middle years (1917-1932) of Tugwell's scholarly development, up to and including his entry onto the national political scene as a charter member of the original Brains Trust. Specifically, this chapter discussed the continuum of influences that left an indelible imprint upon Tugwell's evolving OIE weltanschauung; the commonality between these influences (Parker, Ogburn, Dewey, Mitchell, the Northwest, the American University Union, Columbia's C.C. course, etc.) was a distinct methodological approach that stressed a holistic and instrumentalist mode of analysis. Consequently, the methodological collectivism-instrumentalism inherent in both OIE and the progressive education movement were further solidified in Tugwell's mind as his preferred methodological approach. The contextual approach of this chapter also exposed the clear linkage between Tugwell's OIE approach to economics and its implications for policy formulation. Consistent with OIE methodology, Tugwell's thoughts clearly reflected his recognition of the "inherent logic" of the economic process, i.e., the inexorable trend toward large scale production units, followed by a "logic of reform", i.e., the imperative to replace the outmoded doctrines of the laissez faire business order with a practical framework of social controls that emphasized experimentation and voluntary cooperation as the foundation necessary for economic balance and abundance.

Chapter Three

The New Deal and Beyond

This chapter continues the chronological exploration of Tugwell's thought and professional activities from the New Deal until his death in 1979. In keeping with the approach taken in the previous two chapters, Tugwell's development will be presented in a contextual mode; this approach, as mentioned earlier, will enhance the reader's appreciation of the continuum of ideas and experiences that molded Tugwell's mature OIE mindset. This chapter will also introduce and underscore the paramount importance of that most quintessential of all Tugwellian concepts: *balance*. Tugwell's emphasis on this concept will be demonstrated by reviewing those policies in which he actually operationalized or attempted to operationalize this concept in praxis. It will become apparent to the reader that this concept encompassed the entire expanse of Tugwell's career from start to finish. The purpose of this chapter is merely to introduce Tugwell's notion of balance within the context of his public life. A more penetrating discussion of the balance theme and its policy implications will be the focus of Chapters Four and Five. Chapter Six will then address the place of the balance concept within the OIE tradition.

The New Deal, 1933-1936

In early 1932, Tugwell observed that since the autumn of the previous year, there had been a taint of panic in the air as more and more people concluded that the capitalistic structure was collapsing around them (Tugwell, 1932a, p. 5). Hoover's attempts at recovery were failing, owing largely to their passive nature as dictated by

the moribund business confidence thesis. By the spring of the following year, panic began to grip the land as the American people, even those previously left unscathed by misfortune, began to perceive the unprecedented nature of the economic downturn. Many were now ready for new departures in governmental action, and Tugwell would play an instrumental role in shaping these new approaches.

Roosevelt considered Tugwell's contribution to the Brains Trust so invaluable that he was considering him for a prominent position within the new administration. Tugwell's initial ambivalence toward such a position succumbed to both his sense of duty and a feeling of excitement in reshaping America's institutional framework. Surprisingly, Tugwell expressed retrospectively, some regret in not returning to Columbia following the Brains Trust, for when he planned to return there following his resignation from the Resettlement Administration in 1936, Columbia no longer wanted him. Tugwell observed, "The fact is that I was no very reputable person . . . If there was one word used more than any other it was 'crackpot' . . . I was the chief 'crackpot' . . . I could understand that the Columbia trustees were probably taken in by all this" (Namorato, 1992, pp. 310-11). He was hurt by this rejection, stressing years later that Columbia's "humiliation" of him was " . . . perhaps the hardest to bear of any in the whole episode of my retreat from Washington" (Namorato, 1992, p. 311).

Reinforcing this sense of lost opportunity was Tugwell's equally surprising revelation in later life that the New Deal's gradual accretion of approval and legitimacy over the years was largely unwarranted and misplaced; indeed, rather than representing fresh departures in American government and a redefining of the basic business-government relationship along the lines of his "concert of interests" or economic balance theme, the two New Deals ultimately yielded to various interest group pressures, degenerating into a kind of "broker state" welfarism (Braeman, 1972, p. 409). It was predominantly the Rooseveltian "cult of personality" - Tugwell

stressed - that deserved the accolades for navigating the nation through one of the most difficult periods in its history. In Tugwell's estimate, FDR was truly one of America's most remarkable presidents (Tugwell, 1968, p. 521).

Similar to the Brains Trust experience, Tugwell's entry into the New Deal was accompanied by an unabashed display of his OIE orientation and his fixation with the concepts of economic and social balance. Prior to his appointment as Assistant Secretary of Agriculture under Henry Wallace, Tugwell was initially offered a position as an Undersecretary in the Commerce Department. In considering the offer, he indicated that his acceptance of a position was conditional upon several key departmental reforms. In keeping with his "concert of interests" or balanced economy philosophy, he felt that business must be placed under closer "general government direction" and that the government had to "change over from the old anti-trust law repressions to recognition and control of present trends and scales" (Tugwell, 1968, pp. 27-32). Pursuant to this, he called for a more stringent policing of corporations through the Federal Trade Commission and the then-defunct Bureau of Corporations and the implementation of his planning program, one stressing economic balance, as outlined in his *The Industrial Discipline and the Governmental Arts* (1933). If these recommendations were followed, and if an acceptable Secretary of Commerce was placed in charge, then he could accept the position in clear conscience and strive to accomplish the goals of Roosevelt's agenda. If not, he might better serve the president as a critical outside observer (Tugwell, 1982, pp. 241-42). What may have struck some as an intolerable degree of hubris on the part of Tugwell as he made these conditions known was in fact a revealing statement concerning his economic philosophy. Despite his emphasis on the enlargement of governmental intervention, he felt strongly that the primary responsibility for planning *remained with business*. The government's role was to be supervisory and regulatory rather than compulsory and directive. *Cooperation* between business and

government was the key to success. Facilitated by the intra- and inter-industrial councils of *The Industrial Discipline and Governmental Arts* (1933), he was confident that planning would be implemented within the American democratic system without any resort to more extreme measures. In particular, the last chapter of this book outlined a program for business-government cooperation, aimed at the overarching goal of economic balance, which would serve as a rough blueprint for key elements of the National Industrial Recovery Act, or NIRA, of 1933.

While his appointment to Commerce never materialized, this did not inhibit Tugwell from continuing to advise Roosevelt on the importance of planning and on the need to adopt a specific program for confronting the immediate problems caused by the Depression. After Roosevelt's inauguration, Tugwell assumed the important post of Assistant Secretary of Agriculture and became actively involved in formulating and administering policies. During his first two years of public service, he was intimately involved with the Agricultural Adjustment Administration (AAA) and the National Recovery Administration (NRA). In both cases, Tugwell aided in drafting the legislation, worked to make the programs effective, and advised the president on alternatives after the Supreme Court declared them unconstitutional in 1935. Not surprisingly, Tugwell considered the AAA and NRA - as flawed and short-lived as they were - to be America's first significant steps toward a balanced, peacetime, planned economy (Tugwell, 1948, pp. 57-58; 1957, p. 348).

Despite Tugwell's heavy involvement with the AAA and NRA, these activities did not limit his purview. Officially, he held three positions within the New Deal - all in the USDA. Between March 1933 and December 1936, Tugwell was Assistant Secretary of Agriculture (1933-1934); following a much-deserved promotion, he then became Under Secretary of Agriculture (1934-1936), and lastly, Director of the Resettlement Administration (1935-1936).

Throughout his New Deal service, Tugwell was given special assignments by the President and by Henry Wallace, Secretary of the USDA. For example, he played a role in establishing the Civilian Conservation Corps (CCC) while also serving in the Surplus Relief Corporation (later known as the Commodity Credit Corporation) - an entity established to distribute surplus food to those in need. He was also instrumental in the founding of the Soil and Conservation Service, eventually adopting the program from the Department of the Interior into his own USDA. In the same vein, Tugwell was responsible for having his friend and renowned conservationist, Ferdinand Silcox, appointed head of the Forest Service. With Silcox at the helm, the Forest Service began to assume a more active conservationist role with such programs as the Great Plains shelterbelt and more aggressive plans for reforestation. And lastly, Tugwell was involved in the allocation of sugar production quotas among the western hemisphere's key producers. His travels in connection with this matter took him to Puerto Rico for the first time in 1934; henceforth, Tugwell would enjoy a life-long relationship with the island, first as Governor (1941-1946), then as a columnist for the *San Juan Star* (1961-1962), and as Chancellor (1941) of and private consultant (1961-1964) to the University of Puerto Rico.

Despite such a burdensome workload, Tugwell assumed several more responsibilities. Unofficially, he assisted the President by serving as a liaison with the key congressional Progressives, particularly Robert La Follette and Robert Wagner, and several others. This task was particularly pleasing to Tugwell, since he tended to associate himself with the ideas and programs of the *collectivist* Progressives, distinct from those of Brandeisian persuasion. Additionally, he attended the International Agricultural Conference in Rome in 1934, where he met briefly with Benito Mussolini. During this encounter, Mussolini suggested to Tugwell that Roosevelt's programs were doomed to certain failure. When Tugwell

asked why, Mussolini replied, “You have to shut down the press.” In later years, Tugwell would wryly recall the Italian dictator’s failure to appreciate the American heritage (Sternsher, 1964, p. 24). As a New Dealer - particularly in reference to the rancorous struggle to reform the Pure Food and Drug Act of 1906 - Tugwell waged a fierce battle against false advertising. Yet, he never suggested, as he was accused of doing, any abridgment of or interference with the freedom of the press - an American tradition and liberty that he considered to be inviolable. But, the episode with Mussolini does raise some interesting questions: Did the major New Deal policies fail because they were unenforceable in a comprehensive totalitarian sense? And, was Roosevelt’s attempt at “court packing” during the second New Deal tantamount to achieving this type of control? These and related questions will be addressed in Chapter Eight.

Although this multitude of activities provided Tugwell with an opportunity to offer his own ideas on policy, there were two areas in particular where he actually formulated and implemented his own decisions: in the pure food and drug reform legislation, variously known as S.1944, the Copeland bill, or the Tugwell bill, and in the Resettlement Administration. It was primarily in these two areas that Tugwell discovered the authoritative leeway to apply his own ideas on consumer protection, resource conservation, and planning - always with an overriding concern for striking a balance of power between the key participants in the national economy.

Tugwell assumed direct responsibility for consumer protection as Assistant Secretary in charge of the various divisions of the USDA. Not surprisingly, the far-reaching Food and Drug Administration was one such division in which Tugwell would concentrate his efforts. His work within the AAA and NRA Consumer Counsels compelled him to conclude by May 1934, that they had made “very little progress of an uncertain and feeble sort” in enunciating and in protecting the interests of consumers. Consumers’ concerns were invariably subordinated to those

of the workers' and the producers' - with administrators, labor, and business interests alike - treating the Counsels with either indifference or disdain (Tugwell, 1935a, p. 268). Tugwell laid the failure of consumers to enjoy equal protection with producers in the AAA and NRA to the same general difficulty that had always plagued consumerism. Everyone was a consumer, but first and foremost, nearly all were forced to make a living as dictated by the rigors of the laissez faire economy; clearly, one's source of income would strongly dictate where one's loyalties would lie. This was particularly vexing to Tugwell since the ostensible purpose of the AAA and NRA rested on the clear premise that a balance *must* be struck between *all* major players in the economy to ensure social order and prosperity for all. He asserted that the consumer was the key to prosperity and an ever-expanding economy of abundance. The problem, he stated in a speech in February, 1934, was to discover ways to peacefully "shift from a producer economy to a consumer economy, from habits and institutions which were appropriate to the vast stretches of human scarcity to new institutions and new habits which will be appropriate to the new possibility of plenty for everyone" (Tugwell, 1934b, p. 1). Despite the idealism of such a sweeping and public statement, Tugwell would have to content himself with hard-won, incremental, policy improvements in the interest of the American consumer, even though his sights were set considerably higher.

Frustrated by bureaucratic wrangling and confusion, and thwarted by a variety of entrenched powers, Tugwell was nevertheless determined to make a difference, particularly within the confines of his official domain. Thus, he targeted the F&DA as a department in need of some long overdue reform. He found that the F&DA had been laboring under several handicaps, including an indifferent public, unenthusiastic Secretaries of Agriculture, and perhaps most importantly, the defects in the Pure Food and Drug Act of 1906.

Tugwell asserted that the Act of 1906 was hopelessly outdated. Its authors could not possibly have foreseen the trend of modern advertising, and most of the growth in the cosmetics industry had occurred since 1906. Moreover, close examination of the Act revealed a number of loopholes and omissions, particularly “negative labeling” and “distinctive name” clauses which lent considerable muscle to the producers’ ability to rebuff product liability claims, the lack of clear regulations concerning package fill and standards designations, and perhaps most serious of all, scant or no regulation of advertising. Furthermore, abuses under the Act of 1906 were horrific. By 1933, businessmen had devised so many legal ways to avoid the law that they were abusive and callous toward the public, selling worthless and even harmful products - including “fiendishly conceived” mechanic devices - as panaceas for practically all ills. Many medical products and cosmetics contained actually or potentially harmful ingredients; advertising merely exacerbated the problem by facilitating outright fraud or gross misrepresentation. The products of the patent medicine industry in particular were susceptible to outrageous distortions. Tugwell drove this point home by making reference to a specific cure-all product called “B & M” - a phony medicinal concoction consisting of ammonia, turpentine, and eggs. In this instance, it took the government eleven long years of legal wrangling to stamp out the sale of the vile potion (Sternsher, 1964, p. 224).

This menagerie of abuses and regulatory dysfunctions, in tandem with Tugwell’s far-sighted social vision, explain his steadfast desire to improve the lot of the consumer. In February 1933, he remarked in his diary that, besides reorganization, the F&DA would be one of the first problems in the USDA. Foreshadowing his acrimonious and unwilling departure from the New Deal, he added this expression of determination: “I have long wanted this chance and shall make the best use I can of it, though I realize how much risk I shall run in doing it” (Namorato, 1992, p. 85).

When given approval by Roosevelt in March 1933, Tugwell enthusiastically pressed for the rapid enactment of a new Food and Drug Act. Introduced by Senator Copeland of New York as S.1944, the bill intended to “prevent the manufacture, shipment, and sale of adulterated, misbranded food, drugs, and cosmetics, and to regulate traffic therein; to prevent . . . false advertisement . . .”, and to rectify the aforementioned regulatory shortcomings of the 1906 Act (Sternsher, 1964, p. 225). There were objections to all of these provisions, but the clauses on advertising ran into the fiercest resistance. Ultimately, after several revisions and much compromise to suit the demands of various trade groups, a much-diluted Food, Drug and Cosmetic Act was enacted in June, 1938 - two years after Tugwell’s departure from the New Deal. No other policy position taken by Tugwell during his New Deal years, with the possible exception of the Resettlement Administration’s greenbelt towns, engendered as much invective toward “Rex the Red” as this salutary attempt to afford the hapless consumer minimal protection against the greedy mega-hucksters of the food, drug, and cosmetic industries. This particular reform was a lightning rod for criticism, representing to the conservative mind the culmination of Tugwell’s efforts to disrupt “business as usual”. By this time, Tugwell so rankled conservative sensibilities, including those of certain Congressmen, business groups, and members of the press, that Roosevelt grudgingly began to consider him as a political liability. Tugwell’s involvement with this and other controversial New Deal causes would inevitably exact a heavy toll upon his career in public service.

The Resettlement Administration, 1935-1936

In the summer of 1932, Rexford Tugwell met with Milburn L. Wilson, a former student of Richard T. Ely and a farm economist from Montana, to begin mapping a possible program of national agricultural planning. A kindred spirit of Tugwell in terms of influences, Wilson drew his philosophy from three related sources:

pragmatism, cultural anthropology, and, most clearly, the institutional economics of John R. Commons and the “Wisconsin School”(Conkin, 1959, p. 94).

As noted earlier, Tugwell was already trying to steer Roosevelt ever closer to full commitment on economic planning. The advocacy of major planning policies by Wilson and Tugwell represented the fruition of ideas and policies advocated some fifty years earlier by Ely, Simon Nelson Patten, and a few other economic rebels, following the latter's educational pilgrimages to Halle, Germany in 1877. An acorn of 1877 was about to become a full-grown oak: Tugwell and Wilson, in addition to their general policy-making influence within the AAA - were also destined to shape and direct the activities of the Resettlement Administration (RA), particularly the controversial community programs (Wilson was a widely-recognized authority on the farm problem in general, but his specialization was in crop-reduction programs - thus explaining his heavy involvement with the AAA. He also served as director of the Subsistence Homesteads Program in the Interior Department before its functions were transferred to Tugwell's RA in the spring of 1935.) (Conkin, 1959, p. 84).

Although the AAA had been established to resolve the farm crisis caused by the Depression, it tended to focus on the farmers of large staple crops, without considering those in more desperate straits - the rural poor - who collectively represented the poorest one-third of the nation's populace. In Tugwell's view, those most in need of urgent assistance were the innumerable subsistence farmers who worked the sub-marginal lands; after despoiling the land in a futile attempt to eke out a livelihood, many were forced to migrate to the cities, where a horrible lack of sensible city planning had created a gamut of problems even more grave than those from which they had fled. The establishment of suburban towns or garden cities would provide both a “more orderly pattern for the inevitable movement from farm to city” and resettlement opportunities for urban slum dwellers and displaced farm workers (Tugwell, 1936a, pp. 33-38). These relocation efforts, in tandem with a

system of land-use planning, would ensure that the nation would make the most of its natural and human resources in a manner that was balanced, sensible, and humane.

The activities of the RA certainly exemplified Tugwell's attempt to implement his concept of economic and social balance. Considered in this light, the RA functioned as an adjunct program to the AAA; whereas the latter attempted to establish economic balance within agriculture and between agriculture and industry, the RA's function, in part, was to assist those who had been excluded or marginalized by the AAA. In Tugwell, they found a devoted champion and promoter of their welfare.

Tugwell was eager to begin the unprecedented task of rearranging the physical face of America. In early 1935, he suggested to Secretary Wallace that an agency be created to consolidate and coordinate the overall government effort in land use and relocation programs. Wallace and FDR both concurred and Executive Order 7027 created the RA on May 1, 1935. Upon its inception, Tugwell stressed that the RA's purpose would be four-fold: rural relief, land utilization and conservation, rural resettlement, and suburban resettlement. Although Tugwell wanted the RA to deal primarily with suburban resettlement and land utilization issues, he reluctantly agreed to administer the rural resettlement (the establishment of new subsistence homesteads with the aim of attracting industry to these locations) and rural rehabilitation programs inherited by the RA for two reasons. First, he felt that both programs were in some respects necessary due to the emergency conditions created by the depression; second, in light of FDR's predilection for the "back-to-the-farm" movement, he felt duty-bound to focus some effort in this direction. Nonetheless, Tugwell strenuously objected to FDR's new subsistence homesteads by pointing out that substantial *rural* industrialization was an unrealistic expectation (Myhra, 1974, p. 179). Moreover, on a more fundamental level, Tugwell disapproved of the whole rural homestead approach. The family farm seemed to him to be as much a relic of the primitive past as was the small business; both were structural defects in an

economy committed to large-scale units. He felt that the “back to the land” ideology was the antithesis of the technological imperative, providing yet another glaring example of cultural lag. If the family farm or the rural homestead had a role, it was at best peripheral, exacting a far higher economic cost than social value justified (Schlesinger, 1958, p. 369).

The RA essentially became a “repository for a multitude of New Deal programs”. Its objectives at times were so far-flung that one newspaper editorial quipped that the order creating the RA might have better read, “To rearrange the earth and the people thereof and devote surplus time and money, if any, to a rehabilitation of the Solar System” (Conkin, 1959, p. 153). In light of the diverse and varied tasks assigned to the new agency, this comment was somewhat justifiable. To accomplish the objectives of the RA, Tugwell divided the country into eleven regions and established four main divisions within the RA. Twelve subordinate divisions and numerous subsections would deal with all specialized functions and tasks, including management, planning, procedure, information, investigation, personnel, labor relations, business management, finance, and construction (Conkin, 1959, p. 155). A hodgepodge of federal bureaucracy, the RA consolidated all of these functions into one agency under the direction of one administrator. It was a gargantuan administrative task - one that Tugwell tried to handle largely by himself.

Although highly decentralized by contemporary standards, the internal organization of the RA drew harsh criticism from conservative quarters on the general grounds that it was over-organized, wasteful, and an egregious affront to the American spirit of individualism (Kent, 1936, pp. 231-32); the organization was further criticized for a wasteful overlapping of functions, high administrative expenses, and difficulties in allotting responsibilities. Certainly it was not set up as a temporary agency, since whole divisions were devoted to determining procedures, to publishing information, and to making investigations. At the agency’s zenith, the

personnel of the RA would number a robust 13,000, with workers earning an average annual salary of \$3000, compared to the Veteran's Administration's \$1,600 (Sternsher, 1964, p. 281).

But, by far, the sharpest criticism of the RA was reserved for the chief administrator, Tugwell himself, and one of his favorite programs - the greenbelt towns. In the first year and a half of the RA, the community-building program reached its climax. A large administrative organization was developed, policies were determined, and an ambitious program was launched; and, by the beginning of 1937, the RA was sufficiently stabilized to begin a lengthy period of liquidation of unsound farm operations and construction of planned communities. Nevertheless, opposition to the planned communities mounted in direct proportion to the RA's determination to complete them. In the minds of skeptics, the term "Resettlement Administration" was nearly synonymous with the name "Tugwell". Already dubbed "Rex the Red", "Tugwell, Rex" (i.e., Tugwell Wrecks), and "Rex, the Sweetheart of the Regimenters" by the oppositional press during the F&DA conflict, Tugwell himself, as head of the RA, insured that its programs would be the object of similar attacks and abuse. Although no more to blame for every policy error made by the RA than he was responsible for every successful program, Tugwell did far more than anyone else to determine the policies of his organization. His early guidance gave the agency and its successor, the Farm Security Administration, an orientation that was to remain virtually intact for several years following his departure from the Roosevelt Administration (Namorato, 1988, p. 115).

Stimulated by his avid interest in the well-developed ideology and literature of the garden city movement, Tugwell's greatest interest was the establishment of garden cities or greenbelt towns, pejoratively dubbed "Tugwell Towns" by his critics. The RA's Division of Suburban Resettlement planned, constructed, and controlled the greenbelt towns and assumed management of the stranded and incomplete, suburban-

type, subsistence homesteads inherited from the Interior Department. The greenbelt towns, examples of miniature regional planning, housed 500 to 800 families each; they were to serve full-time industrial workers and their families as an oasis from the miseries of uncontrolled urbanization. In light of the farm-to-city migrations, the impossibility of resettling thousands of slum dwellers in semi-agricultural communities in accordance with Roosevelt's quaint notion of a back-to-the-farm movement and the unwillingness of industry to follow suit and to relocate accordingly, Tugwell was driven to the conclusion that the greenbelt town was the ideal solution to many urban woes. The officially stated purpose of each town was 1) to provide useful work for men on unemployment relief; 2) to provide low-rent housing in healthful surroundings for low-income families; and 3) to demonstrate the soundness of planning and operating towns according to certain garden-city principles. Tugwell communicated his optimism toward the towns by stating that the peripheral areas of cities offered the "best chance we have ever had in this country for affecting our living and working environment favorably" (Tugwell, 1937a, p. 42). The towns were designed to assure better living through the prevention of crowding within and encroachment from without. They were surrounded by a "greenbelt" of field and forest. Emphasizing light, air, and space, playgrounds and parks, accessible gardens, and foot-traffic pathways, they were to be ideal for children.

Initially, Tugwell planned to build twenty-five greenbelt communities, but due to financial and legal complications, he completed only three: Greenbelt, Maryland; Greenhills, Ohio; and Greendale, Wisconsin. Critics of the towns advanced the predictable arguments that the projects were too expensive (conveniently dismissing the fact that the RA's land conservation programs - low-profile and largely successful - absorbed most of the agency's funding and manpower), that they were alien to American traditions and principles, and that they were incapable of solving the problems of urban life. Moreover, Tugwell's opponents used the greenbelt towns

as a “straw man” to extrapolate their criticisms to nearly all of the RA’s activities. Although criticism of Tugwell in relation to the Food and Drug bill had subsided by this time, he still remained under persistent pressure on this and several other fronts, including the RA, and the now-defunct AAA and NRA, for which Tugwell was continually devising alternative strategies following their recent nullification by the Supreme Court. In general, those who disapproved of his collectivist, balanced economy philosophy persisted in their opposition to any and all programs in which he played a significant role. Furthermore, Tugwell’s support from within the New Deal began to erode with the sea change in economic philosophy accompanying the inauguration of the second New Deal in 1935. With the defeat of the AAA and the NRA, planning and collectivism were out while the “horse and buggy” approach of Brandeisian trust-busting and economic atomism enjoyed a resurgence (Tugwell, 1977, p. 145). Jim Farley, campaign manager for FDR and chairman of the DNC, was one among a handful of high-level officials who was now convinced of Tugwell’s destabilizing influence within the Administration and cautioned Roosevelt against any further association with “whipping boy” Tugwell. Indeed, Farley went so far as to refuse having Tugwell participate in the 1936 reelection campaign (Tugwell, 1950a, p. 69). Recognizing himself as both a political liability to the president and as an impediment to the future success of various New Deal programs, Tugwell resigned from the RA and the New Deal in September of 1936.

The New York City Planning Commission, 1938-1941

After a brief stint with the American Molasses Company in 1937, Tugwell returned to the public sector with the New York City Planning Commission in 1938. Tugwell announced his resignation from the RA with the surprising revelation that he was departing government service indefinitely to assume the position of traveling consultant and executive vice-president for the American Molasses Company, but,

his tenure as a businessman would be of short duration (see Namorato, 1988, and Gelfand, 1985, the basis of this section). Once again Tugwell presented himself as an easy target for his critics; was the “professor on the Potomac”, who frequently vituperated against the various institutions of private enterprise, not now committing a flagrant act of hypocrisy by exchanging his books and mortarboard for the generous perquisites of the modern big businessman? Superficially, Tugwell’s actions certainly conveyed this impression, but on closer examination, the truth was that he was no longer welcome in academia - particularly at Columbia University, his academic home during the 1920s. Indeed, his image as a trouble-making New Dealer would shadow him for many years following his resignation from the RA. In light of this situation, it was not surprising that he accepted the generous offer of his close friend, Charles Taussig, who owned the American Molasses Company.

True to character, Tugwell was far from abandoning his institutionalist views in exchange for a cushy corporate position. As vice-president of American Molasses, he intended to capitalize on the relative importance of this position by continuing to exert influence in both the government and business spheres to promote his vision of a balanced economy. For example, in late 1937, Tugwell along with Charles Taussig and former fellow brainstruster Adolf Berle, arranged several meetings between the leaders of organized labor and big business to formulate a plan to resuscitate the faltering economy, which was then experiencing the sharpest cyclical decline since 1931-32. The conferees agreed to a comprehensive plan which called for policies to aid the unemployed, ease the credit situation for business, establish tax incentives for both business and labor, relax the antitrust laws, encourage the consolidation and conversion of the railroads into public utilities, and implement a large housing program (Namorato, 1988, p. 129). In January of 1938, Tugwell and his associates presented the plan to Roosevelt, who subsequently dismissed the agenda in favor of the recently resurrected Wilsonian antitrust doctrine. Tugwell was disappointed by

this abrupt about-face in Roosevelt's economic philosophy, but he also knew the President well enough to recognize this stance as both a political necessity and as an instance of economic experimentation, albeit a reactionary one. Furthermore, he remained convinced that Roosevelt was both a planner and a collectivist at heart and that he would undoubtedly return to the balanced economy approach in the future (Tugwell, 1958, p. 273).

Clearly, Tugwell had fallen from grace in terms of his impact upon Roosevelt and public policy formulation. Although his imprint was still discernible in various New Deal programs, his collectivist institutionalist philosophy had been thoroughly supplanted by a confusing amalgam of progressivist trust-busting and a variant of institutionalism, advanced by the disciples of Richard Ely and John R. Commons, which was far less insistent upon the necessity of planning and Patten's "private socialism" (Barber, 1994, p. 570). This issue will be discussed in greater detail in Chapter Six.

By early 1938, Tugwell began to tire from his stint at American Molasses and yearned to once again ply his skills as a public servant. His timing for a graceful exit from his political "purgatory" was nearly perfect when he was presented with the opportunity to serve as chairman of the recently established New York City Planning Commission (NYCPC) under the colorful and popular mayor, Fiorello La Guardia. Created by a new municipal charter in 1936, the NYCPC's purpose was to provide for the improvement of the city and for its future growth and development while attenuating the demands of various special interest groups. Its primary duty was to prepare and "from time to time modify a master plan of the city" in terms of its physical and aesthetic growth. Combining some of the activities and powers of the legislative, executive, and judicial branches of government in one agency, it was hoped that the Commission would promote and protect the public interest in a more satisfactory way than previous approaches, yet every effort was made to structure the

Commission in such a way as to preserve a large measure of borough autonomy - a sensitive and politically explosive issue at that time (Gelfand, 1985, p. 152).

With the creation of the NYCPC, it was Tugwell's fondest hope that New York City's pioneering efforts in planning would ultimately lead to the creation of a permanent planning branch or "fourth power" on the national level. Staffed by experts appointed for long terms, the "fourth power" or "directive" would establish a "genuinely social policy, as contrasted with private policies, dictated by contemporary resources, techniques, and circumstances, rather than by political expediency" (Tugwell and Banfield, 1951a, p. 49). Recognizing this goal as more visionary than practical in light of the politically hostile climate, Tugwell lowered his sights and focused upon the microcosm of planning challenges in the nation's largest metropolis. Not surprisingly, he attempted to fashion the NYCPC into a virtually autonomous "fourth power" of local government with the capacity to force its rational decisions upon the city's elected officials; this effort faithfully reflected his belief that the "discipline of fact" was a better guarantor of democracy than the "discipline of legal ethics or even of watchful constituency" (Tugwell, 1939b, p. 31). Thus, he was once again attempting to operationalize his notions of economic and social balance.

But New York City's politicians, bureaucrats, businessmen, and - by its silence - the general public wanted very little to do with Tugwell's "fourth power". Akin to his New Deal days, Tugwell's NYCPC experience proved to be a blend of small, hard-fought successes and abysmal defeats. In terms of practical results, his efforts to improve the quality of New York City were severely hampered by vested interests, particularly the real estate and banking interests, and by La Guardia himself, whose frequent hedging and half-hearted support of his chairman's agenda, betrayed the underlying reason why Tugwell was placed in the position in the first place; as an aspirant in the 1940 presidential election, La Guardia believed that the

former New Dealer could help him establish fruitful contacts with Roosevelt, key congressional progressives, and other key functionaries (Gelfand, 1977, p. 20).

On three issues in particular - housing, zoning, and the Master Plan - Tugwell encountered deeply entrenched opposition to his planning proposals. Again, paralleling his New Deal experience, this opposition escalated *pari passu* with his determination to see his ideas come to fruition. With such mounting pressure, Tugwell's departure from the NYCPC was inevitable, and the fatal blow descended upon him as a result of his position concerning New York City's *1940 Master Plan of Land Use*.

Tugwell considered the Master Plan to be a critical instrument in the planner's toolbox; it was - in his view - the equivalent of an architect's rough sketch. Perhaps this sketch conveyed less detail than a finished working drawing, but it conveyed "the most important influence, determining the nature of the city structure that is to be built" (Tugwell, 1940a, p. 42). Moreover, out of all of the tools at the planner's disposal, the Master Plan was the one in which Tugwell placed his highest hopes. To Tugwell, the Plan represented "the first forthright institutionalization of the superpolitical, the forcing of mechanism and nature, into mold and pattern of man's considered wish" (Tugwell, 1940b, p. 114).

Contrary to such rhapsodic characterizations, the proposed Master Plan of Land Use, released to the public in the fall of 1940, was a curiously contradictory statement calling for a radically experimental land-use policy while simultaneously affirming the beneficence of certain time-honored business practices and mores; as it peered fifty years into the future, the Plan emphasized balance, efficiency, and convenience as the underlying guiding forces in social progress. And, in view of the economic foundations of urban society, the Plan gave considerable attention to the needs of commerce and industry. Despite its somewhat contradictory support of new zoning laws which reflected an antipathy toward "business as usual", the

Commission's recommendations vis-à-vis business were well within the confines of mainstream policy; for example, the Commission urged that steps be taken to ensure the continued vitality of Manhattan's office and shopping districts and that factories be provided with better access to port facilities. On the subject of housing, the Commission again made a rather conservative pronouncement: population densities should reflect a healthy balance between a family-friendly living environment and a sufficient level of integration to maintain economic vitality and to facilitate the economical provision of municipal services (Gelfand, 1985, p. 156).

But when the Master Plan turned its attention to recreational land-use - a grandiose, pie-in-the-sky theme reminiscent of Tugwell's greenbelt towns - it was bound to attract an assortment of enemies. Pushing the garden city concept once again, Tugwell wanted to set aside large parcels of undeveloped land to serve as buffers against obnoxious encroachments, thereby fusing the best aspects of both urban and rural life within the confines of the metropolis. To this end, the Master Plan called for a *tripling* of the amount of land designated as open space, so that by 1990 roughly *one-third* of the land surface of New York City would consist of such areas! In Tugwell's view, this proposal - if acted upon - would transform New York City from "the shrine of the market place spirit" into a producer of "social income" (Tugwell, 1942, p. 27).

As distributed for public perusal, the Master Plan consisted of five pages of text and three maps. Emphasizing flexibility and open-ended solutions to problems, the explanatory statements portrayed the Plan in a relatively innocuous light. But the maps, with their sharply drawn boundaries and colorfully contrasting parts, conveyed the opposite impression and were easily misinterpreted as the "final word" of "master planners trying to put something over on New Yorkers" (Gelfand, 1985, p. 156). Such an attitude was held by many of Tugwell's staunchest critics, including the legendary Robert Moses - the savvy, hard-nosed, administrative handyman of

several popularly elected New York officials - who launched a successful smear campaign that ultimately eviscerated the NYCPC. Dedicated to preserving the broker-type political universe in which he flourished, Moses vowed to wage holy war against the “fanatic and irresponsible” proponents of economic and political experimentation. To Moses, the accomplishments of the NYCPC were confined to a handful of piddling “water-color planning” maps composed by “itinerant carpet-bag experts splashing at a ten-league canvas with brushes of comet’s hair” (Gelfand, 1985, p. 158). According to Moses, if the planners - with their distinct preference for green paint - gained control over the city’s future, the engulfing non-commercial greenbelt areas would undoubtedly impede the economic progress of the city and eventually deplete the city’s tax coffers.

On a broader level, the Moses critique began to cast a probing light upon issues which Tugwell had previously refused to confront as chairman of the NYCPC: What was to be the role of private enterprise and the profit motive in a planned economy? What were to be the sources of municipal revenues in a society where individual moneymaking endeavors were increasingly subordinated to general needs? What was to happen to the traditional American right to migrate almost at will? Unable to formulate persuasive answers to such questions for both his critics and an increasingly curious and hostile press, Tugwell knew all too well that his demise was imminent. A la 1936, with the November mayoral election on the horizon, Tugwell became acutely aware of his status as a political pariah, and he also recognized the futility of planning within the present political economy landscape of New York City. Therefore, in May of 1941, he accepted the timely offer, extended by the Secretary of the Interior, Harold Ickes and President Roosevelt, to become the Governor of Puerto Rico, and in his diary entry of August 2, he noted that “there is no public outcry at my leaving New York” (Gelfand, 1985, p. 158).

Despite the terrible difficulties that thwarted Tugwell at every turn, his involvement with the NYCPC proved to be of inestimable importance to his evolution as a planner. First, it provided him with a deeper understanding of the complexities of planning. Previously, his elevated status within the bureaucracy of the New Deal precluded a familiarity with many of the “nuts and bolts” details of planning. As a high ranking official in the war against economic atomism, he was in many instances nowhere near the front lines of battle, even though the bulk of the blame for the failures of New Deal “planning” would ultimately rest on his shoulders. By contrast, issues such as annual budgets, master plans, and zoning regulations - issues which Tugwell had previously considered beneath his administrative purview - were now “ground zero” and at the very heart of the hottest controversies, a situation that firmly buttressed the notion that “the devil is in the details”. Furthermore, his critics - best exemplified by the aforementioned Robert Moses - took every opportunity to discredit and to attack Tugwell by taking him to task on the more difficult details of planning, and unlike Roosevelt, La Guardia was incapable or unwilling to protect him. Therefore, in a politically hostile climate and under the harshest scrutiny, Tugwell was forced to air his ideas and to persuasively argue for their implementation. Overall, he was unsuccessful at this effort, but the lessons learned throughout this experience would serve him well during his governorship of Puerto Rico, a position in which he would hone his political skill and tact - qualities he lacked during his NYCPC days - and in which he would subsequently develop a lasting and positive legacy as a planner.

This municipal “micro-planning” experience possessed an additional benefit for Tugwell. Despite the image of having to perform a political tightrope act as chairman of the NYCPC, by virtue of his position Tugwell actually possessed considerable authoritative leeway in the formulation and implementation of policies. Specifically, the devolution of his status from the national to the municipal level

carried with it a corresponding autonomy of action, in relative terms of course. Previously, during the 1920s and 1930s, his proposals had focused on the large aggregate institutions of planning - such as the AAA and the NRA - and his administration of certain aspects of such programs was burdensome, to say the least, due to the sheer complexity of the issues and by the number of people involved; similarly, his writings on these issues abstained from a focused treatment of the intimate details of planning and dwelled rather upon broad expansive themes such as the social control of the machine process and the sectoral balance of the macro economy. But, during his NYCPC experience, opposition to his planning ideas abruptly pushed him to adjust and to narrow his ideas and theories to the realities of social and political life, more so than during his New Deal days. The somewhat serendipitous outcome of this process was that Tugwell's planning efforts evolved ever closer toward a congruence with the Deweyian tradition, a methodology upon which Tugwell frequently heaped praise in his writings on social management and uplift. The impoverished island of Puerto Rico would soon provide a fertile test-bed for Tugwell to continue to apply an instrumentalist or experimentalist approach to a vast array of social and economic problems.

Puerto Rico, 1941-1946

As noted earlier, Tugwell's connection with Puerto Rico dated back to 1934, when he first visited the territorial island as an official in the USDA to study the sugar problem. Afterward, Roosevelt and others were sufficiently impressed by Tugwell's knowledge of insular affairs that they began to consider him as an authority on the subject and frequently tapped his expertise on a wide range of problems relating to the island's social and economic woes. Tugwell's appointment as Governor was undoubtedly the result of his familiarity with the island as well as Interior Secretary Ickes' firm belief that Tugwell had been unfairly red baited and

railroaded out of government service during his New Deal days. In contrast to his New Deal years, his return to public service at the federal level would prove to be more fruitful and professionally rewarding.

Tugwell's transition into the governorship was preceded by his spearheading an investigation - at the suggestion of Ickes - into the 500-acre law of land ownership in Puerto Rico. Although the law expressly forbade anyone to acquire more than 500 acres, many American corporations continued to violate it with impunity, thus owning sizable parcels of land well in excess of the statutory limit. Tugwell's task was to determine the extent to which the law was violated and to devise new enforcement strategies. After an exhaustive study, he submitted a report with several specific recommendations, one of which called for the redistribution of the land among the people of Puerto Rico. This investigation set the tone for Tugwell's impending governorship and also served as a testimonial to his resolve - despite the drubbing he had received at the hands of the New York City oligarchs - never to abandon his life-long commitment to advance the public interest by molding human institutions to serve economic justice, balance, and higher social goals.

When Tugwell took office as the Governor of Puerto Rico in 1941, he was immediately thrust into a seething caldron of social, political, and economic turmoil. With anti-colonial/anti-American sentiments running strong, the Populares party, led by Luis Munoz Marin, had successfully launched a political revolution against the land-holding classes in Puerto Rico. Desiring to implement broad political, social, and cultural changes, Munoz Marin built up a large following in the legislature to achieve certain goals, but like many Puerto Rican leaders of his time, he was unclear on how to go about implementing change given the existing political economy landscape. As a result, he gradually allied himself with Governor Tugwell. United in purpose, Munoz Marin and Tugwell recruited a cadre of young ambitious Puerto Ricans to fill important administrative positions; they were given considerable

authoritative leeway to develop and implement their own ideas and to hone their administrative abilities in preparation for future leadership roles within the emerging civil service apparatus. Over the course of the next several years, these new administrators succeeded in radically transforming the political and economic landscapes of Puerto Rico.

With the assistance of Munoz Marin and others, Tugwell signed into law numerous landmark pieces of legislation, many of which - not surprisingly - comported well with Tugwell's thoughts on planning and a balanced economy, particularly as manifested in his "Fourth Power" (1939) article. The legislation mandated sweeping changes that impacted nearly all facets of the political economy of the island; essentially, it sought to revitalize and greatly extend the island's infrastructure and industrial base and to institute the necessary measures to achieve much needed socio-economic reform, particularly agrarian reform.

First and foremost was the Land Law, creating a Land Authority empowered to purchase, for just compensation, land held in excess of the 500-acre limitation. Farm wages would include proportionate shares of the profit, and homestead or subsistence farms would be parceled out to land-less peasants. Small farms, clustered in villages, would be supplied with water, electricity, and other facilities. These measures started a whirlwind of legislative activity destined to change the role of government. Other basic reforms followed, including the transferring of the municipal water systems to the Water Resources Authority (1941); the enactment of minimum wage legislation (1941); a more efficient fire service and park management system under insular control were established; the university was purged of much of its political orientation under the University Reform Law (1942); the Transportation Authority (1942) was created; the sugar mills were placed under government regulation; a Puerto Rican state guard was established; a modern budget bureau was devised; and the Puerto Rico Development Company, the Development

Bank of Puerto Rico, the Institute of Tropical Agriculture and the Agricultural Company were also established. As a testimonial to Tugwell's far-sighted social vision and bold leadership, much of this legislation is still in effect today (Goodsell, 1965, pp. 21-23, pp. 90-139; Carrion, 1983, pp. 249-55).

Despite this vigorous reconstruction effort, Tugwell's vision of Puerto Rico as a planned society was nonetheless incomplete without the coordinating function of a central planning agency such as his "fourth power". To achieve this end, Tugwell, in collaboration with the National Resources Planning Board in Washington, DC and the Puerto Rican legislature, painstakingly crafted a compromise bill that created such an agency.

In keeping with the "fourth power" concept, Tugwell intended to create a "near-perfect" planning agency that was independent, holistically oriented, and filled with experts. Working closely with his friend Frederick Bartlett, Tugwell drafted a bill calling for the creation of a central planning agency with total jurisdiction over the island. The agency was to have sole authority to plan for and regulate the use of all land in Puerto Rico, the power and obligation to prepare annual and long-range budgets, and the right to be free from any legislative and/or executive interference. To achieve this high degree of autonomy, the planning board would consist of three individuals serving staggered six-year terms and whose salaries and budgets would be immune from gubernatorial control. Furthermore, the board's programs would be binding and automatically implemented unless a majority of the insular legislature vetoed them. Although some of these features were eventually deleted or watered down by the legislature in the final draft, the bill was nevertheless signed into law by Governor Tugwell as the *Puerto Rican Planning Act of 1942*; not surprisingly, he considered it to be one of the most momentous achievements of his five year term in office and his most successful attempt at actually operationalizing his concept of economic balance (Tugwell, 1947a, pp. 256-61).

The Planning Act of 1942 - as passed - established a three-person *Puerto Rico Planning, Urbanizing and Zoning Board* with the power to prepare plans for land use as well as fiscal policy. But, contrary to Tugwell's wishes, the law did not grant the Board complete jurisdiction over the island, nor did it authorize Tugwell's "automatic implementation" provision, especially with respect to budgetary matters. In effect, the Planning Board - although powerful - was to be neither omnipotent nor independent of the insular government. Despite the emasculation of his "fourth power", Tugwell remained confident that the newly created Board was a positive step in the right direction and that it might serve as a successful trial balloon for the type of comprehensive planning that he envisioned for the United States as a whole (Goodsell, 1965, pp. 147-49). As postwar history would soon attest, Tugwell's dreams for Puerto Rico as a planned society went largely unfulfilled, but the monumental efforts at institutional reconstruction during and following his tenure as governor paved the way for the island's successful transformation into a vibrant and advancing Commonwealth in the postwar era.

There are two other remarkable features concerning Tugwell's governorship of Puerto Rico that attest to his skill as both an administrator and as a champion of democracy and liberalism. First, as wartime governor, Tugwell was acutely aware of Puerto Rico's strategic position as a "Caribbean Malta" vulnerable to enemy occupation. He held the onerous responsibility of ensuring that the island was thoroughly prepared in the event of an invasion. He had to maintain law and order among the people, provide air raid shelters and fire protection services, and protect food and water supplies and other necessities. Throughout 1942 and 1943, the crisis atmosphere in Puerto Rico intensified, with severe problems developing in the island's food and fuel supplies and in its defensive measures against the German U-boat menace. Tugwell's war-related efforts, in conjunction with those of the Anglo-American Caribbean Commission, played a central role in ensuring that Puerto Rico

and Latin American survived the war intact, with Puerto Rico even making significant gains in its standard of living (Wilgus, ed., 1958, pp. 262-75).

Secondly, before leaving office, Tugwell wanted to advance the cause of Puerto Rican self-rule by ensuring that he would be the island's last colonial governor. He began to consider the island's political status, searching for a new relationship that would avoid the traditional statehood-independence dichotomy. World War II had unleashed numerous liberation movements and a profound change in the relationships of peoples all over the world. The Puerto Rican experience was no exception to this trend; after years of "benign neglect" by the US Congress, Puerto Ricans embarked upon a socio-economic "revolution", with the issue of self-determination naturally coming to the fore. With the end of the war in sight, and with Washington at least outwardly committed to the freedom of all people, as expressed in the Atlantic Charter, Tugwell believed that an auspicious time had arrived to resolve the Puerto Rico self-governance issue once and for all.

Tugwell pondered: was Congress to be bound by the Atlantic Charter, arguably little more than a gentleman's agreement between Roosevelt and Churchill, or by the principle of congressional supremacy over territories and dependent areas in the tradition of nineteenth century expansionism? He clearly recognized that the old tutorial relationship had come to an end (Tugwell, 1947a, p. 595). His experience showed that an appointed governor whose power came from Washington could no longer function unless he was subservient to a Puerto Rican legislative majority, and he could no longer serve two masters, particularly if they happened to be at odds. Thus, Tugwell began to advocate for the revision of the Organic Act so that Puerto Rico might be given self-government and the opportunity to elect its own governor. Not surprisingly, Tugwell was to repeat what by now had become a very familiar pattern: he quickly encountered heavy opposition, especially from the Coalitionists and the landed classes. In spite of this opposition, political events transpired in such

a way as to ensure that he would indeed be Puerto Rico's last appointed colonial governor, the crowning achievement to an already impressive list of accomplishments. Understandably, near the end of his life, Tugwell considered the Puerto Rico experience to be the most rewarding period of his entire career (Tugwell, 1978a, p. 68).

After Puerto Rico, 1946-1979

Tugwell's resignation as the governor of Puerto Rico marked the end of his public service career (see Namorato, 1988, the basis of this section). From 1946 until his death in 1979, he remained within the confines of academia, making only a brief foray into the political world in 1948, during Henry Wallace's unsuccessful presidential bid. The years following his departure from public service were, from a publishing standpoint, comparable with the 1920s and early 1930s, even surpassing that prolific period. In his last 33 years, he published 15 books, wrote over 200 published and unpublished articles, and gave numerous speeches. And, at last, after years of excoriation by various groups, his contributions to scholarship and public service were finally recognized with prestigious awards such as the Woodrow Wilson Foundation Award (1958), the silver medal of the American Association of Planning (1967), the Bancroft Award for *The Brains Trust* (1969), an honorary degree from the University of Pennsylvania (1971), and the Veblen-Commons Award (1978) (Namorato, 1988, p. 150).

As Tugwell's biographer Michael Namorato noted, the activities of Tugwell's postwar career were guided principally by two factors. First, Tugwell returned to academe not as a professor of economics but as a professor of political science. Two key factors explain this apparent methodological shift: 1) Tugwell's recognition of the failure of mainstream economics in articulating a tenable post-laissez faire vision of social order, particularly one that emphasized economic and social balance; and 2)

the profound impact of the atomic bomb upon Tugwell's perceptions concerning humankind's destiny. These concerns dominated much of Tugwell's postwar thought in some form or fashion.

In Tugwell's view, the neoclassical paradigm, cloaked even in its latest manifestations as Keynesianism and/or the neoclassical synthesis, refused to acknowledge the forceful trend of the technological imperative and the necessity of economic cooperation and social management to fully harness technological advancement. And, despite the raging *methodenstreit* in the field of economics resulting from the Great Depression, the core elements of the classical school still reigned supreme, with mainstream thinkers adamantly refusing to yield to the merits and insights offered by their heterodox counterparts, particularly Patten's and Tugwell's vision of the surplus economy and economic balance. But, of crucial importance to Tugwell's intellectual evolution was the dawning realization, principally as a result of his vast public service experience, that the key to genuine institutional reform was *not* to be found by mucking about in a quixotic struggle to foment a kind of Kuhnian revolution within the economics discipline in the hope that the appropriate policy prescriptions would then soon materialize, *but rather in reconfiguring the legal foundation upon which the business order found its legitimacy*, hence his choice of political science as the preferred vehicle of inquiry. Despite this apparent proselytization in methodology, it must be emphasized that Tugwell's postwar thought was a logical extension of and is completely consistent with his OIE thought of earlier years. After all, Tugwell's vision of a balanced and planned economy within the context of America's liberal democratic tradition remained constant throughout all phases of his career. Hence, his home in the pantheon of great political economists is certainly within the OIE fold.

The atomic destruction of Hiroshima and Nagasaki imparted a sense of urgency and desperation to Tugwell's work unlike any other event of the twentieth century.

World War I had shocked and disappointed him, but it was not entirely devoid of salutary effect in light of the advances made toward economic cooperation and planning as evidenced by the American war economy. During the Second World War, Tugwell of course recognized the need to repel and nullify the spread of fascism, but he was angered and disgusted by the means by which the Pacific war was brought to a close. The dropping of the atomic bombs represented to Tugwell the almost complete failure of humanity's ability to tap the technological imperative and to harness its forces beneficially. Henceforth, he would devote much of his energy to issues such as constitutional reform and national economic planning in a valiant effort to place the technological imperative back on track. Moreover, Tugwell's deep concern for the survival of humankind prompted him to join the *Committee to Frame a World Constitution* in 1945. In 1948, the committee published its "Preliminary Draft of a World Constitution" calling for the establishment of a federated world government consisting of twelve branches, including a Planning Agency, whose purpose was to estimate the needs of the world and to bring world society into accord with its full development potential (Tugwell, 1955, pp. 329-45).

Tugwell's postwar thoughts remained cautiously optimistic concerning the preeminence of humankind's cooperative impulses over those of predation and competition - despite the advent of the nuclear age. The technological imperative of the twentieth century coupled with the abundance of the surplus economy suggested to Tugwell that the era of the invisible hand was over; if institutions could be devised that nurtured and encouraged humankind's cooperative impulses, then economic planning would no longer remain an illusory theoretical construct but would become rather a realistic vision for the future. But, Tugwell had learned through his vast and somewhat bittersweet experience with public policy that the central encumbrance to achieving the planner's dream of a balanced economy with an equalitarian

distribution of goods, services, and income was the antiquated American legal system - especially the US Constitution with its pre-industrial revolution conceptions. This was particularly evident in the Supreme Court's overturn of the AAA and the NIRA, only two short years after their inception, well before these "planning" programs were given a fair chance to demonstrate their feasibility and their compatibility with the liberal democratic tradition. How might the legal system be reformed to unite American liberal ideals with the institutions necessary to execute national economic planning? This theme dominated much of Tugwell's post-1946 thinking, eventually culminating in his attempt to rewrite the US Constitution and thereby establish the *Newstates of America*, an endeavor that represented the capstone of his impressive career. Tugwell's rewriting of the Constitution will be addressed in greater detail in Chapter Seven.

The second factor influencing the course of Tugwell's postwar intellectual development was his desire not to be place-bound, but rather to experience a diverse array of professional assignments that would keep his mind active and engaged, and that would provide sufficient opportunity for him to continue his advocacy of institutional reform and social management. A chronicle of his professional appointments clearly demonstrates this. He served as a professor of political science at the University of Chicago (1946-1957); director of the Planning Program at the University of Chicago (1946-1952); visiting professor at the London School of Economics (1949-1950); Hillman lecturer at Howard University (1959); consultant to the chancellor of the University of Puerto Rico (1961-1964); professor at Columbia University summer session (1962); visiting fellow at the Center for the Study of Democratic Institutions (1964-1965); research professor of political science at Southern Illinois University (1965-1966); and senior fellow, Center for the Study of Democratic Institutions (1966-1979) (Namorato, 1988, pp. 150-51).

Of all of these appointments, Chicago, Howard, Puerto Rico, and the Center were ones that would prove especially fruitful for Tugwell. While at the University of Chicago, Tugwell developed a graduate program for the teaching and training of planners. His success in establishing planning as a legitimate academic discipline is of particular significance given both the university's conservative orientation and Tugwell's controversial background. In spite of these apparent obstacles, as well as others of less significance, the University of Chicago came to be known as a pioneer in the professionalization of planning as well as one of the most renowned institutions in the discipline. Moreover, his commitment to the education of future planners underscored his shift away from economics and into a discipline that he felt ultimately held the key to unlocking humankind's full development potential.

Similarly, Tugwell's participation in the Hillman Lectures at Howard University was highly significant in that it emphasized once again the evolution of his thinking away from the strictures of the economics discipline and toward a deeper comprehension of the foundational institutions of democratic society and their amenability to social management. Both the Hillman Lectures and his writings at this time reflected Tugwell's deepening interest in the role of the American legal framework and the democratic processes as determinants of business behavior and the configuration of economic institutions. In much of his earlier work, Tugwell challenged the hegemony of mainstream economic thought by emphasizing various economic justifications in his urgent appeals for institutional change. Now, however, he began to shift the focus of his study to the development of the democratic tradition, tracing it from the framers of the Constitution through the succession of American presidents to the problems of contemporary society. Furthermore, his thoughts began to hone in on major themes that would dominate his intellectual curiosity for the rest of his life: the presidency, Franklin Roosevelt, the American Constitution, planning and economic balance, and lastly, atomic

annihilation and the Cold War policy of containment - a policy upon which he cast a critical eye, considering it to be a regrettable symptom of cultural lag relating to humankind's gross mismanagement of nuclear technology (Tugwell, 1971, pp. 73-74). The rift between technology and society's ability to cope with it effectively was a theme that transfixed Tugwell throughout his professional life.

As noted earlier, Tugwell maintained a life-long connection with the island of Puerto Rico and its people. During the 1960s, Tugwell continued with his efforts to modernize Puerto Rico's institutions by serving as a consultant to the Chancellor of the University of Puerto Rico on developing a program of training and research relevant to the economic development of Latin America. Tugwell's efforts were focused on establishing and stabilizing the administrative structure of the University, developing graduate programs, and solidifying the University's relationship with the island's junior colleges. In a similar vein, Tugwell served as a Parvin Foundation visitor to Venezuela in 1962, studying education there and elsewhere in Latin America.

The aforementioned assignments were obviously of great importance to Tugwell; they allowed him to engage various issues in a practical, tangible "hands on" manner and to institute his concepts of economic and social balance; clearly, this activist approach harked back to his earlier contact with Scott and Nellie Nearing and typified much of his career since his entry into the Brains Trust in 1932. The evolution of Tugwell's ideas concerning social advancement were certainly embodied in his involvement in these activities as well as conveyed through his vast writings during this period. And, as noted earlier, Tugwell's tenure as governor of Puerto Rico represented the zenith of his career with respect to social management, for it occasioned his in-depth involvement with the formulation and implementation of his "balanced economy" framework.

In spite of these impressive achievements, it was Tugwell's tenure at the Center for the Study of Democratic Institutions in Santa Barbara, California that was instrumental in unifying and weaving the various strands of his thought into the complete tapestry of mature Tugwellian OIE. From 1964 until his death in 1979, Tugwell found the Center to be the ideal environment in which to ruminate freely on themes that he thought were of paramount and enduring importance to the nation and to the world.

In evaluating the evolution of American democracy, Tugwell was thoroughly convinced of the compatibility of the American tradition with planning. He was so emphatic about the need for planning within the United States - and absolutely convinced of its feasibility - that, less than a year before his death in 1979, he wrote "Planning and Democracy", a distillation of everything he had been saying for years with respect to the subjects of planning and democracy. He expressed a new sense of urgency in adapting America's institutions to planning and insisted that it was time to get down to the fine details. He outlined four fundamental rules concerning planning: 1) planning and democracy can coexist, but it must not be wholly entrusted in the president or Congress; 2) planning must involve all vital areas of public welfare in its design; 3) planning must be separated from other activities associated with it, such as research; and 4) there must be a development plan encompassing the nation's aspirations, always with an eye toward the overarching goal of economic and social balance (Tugwell, 1978b, pp. 59-67). Tugwell's ideas on planning will be discussed in greater detail in Chapters Six and Seven.

Tugwell believed that the nation's tentative forays into planning thus far (the NIRA, the National Resources Planning Board, the NYCPC, the Puerto Rico Planning Board, the Employment Act of 1946, and the Full Employment and Balanced Growth Act of 1978) were steps in the right direction, but it was now time to embed the planning process within the institutional fabric of the nation's political

system. Although he was eternally optimistic about the prospects of American planning, the window of opportunity to establish such a system was narrowing given the ominous shifts of power within the postwar American polity. He was deeply troubled by the increasing power of business, labor, and government, each advancing its own agenda at the expense of higher social goals. And, complementing this disintegration of the postwar social contract, in its various manifestations, was the inability of elected leaders to govern the nation effectively. Tugwell firmly believed that America's postwar leaders were inching the nation ever closer toward two of the most ominous outcomes possible: command-socialism (a framework completely antithetical to Tugwell's system of planning) and/or nuclear annihilation. At all costs, this disastrous trend had to be stopped and reversed, and Tugwell felt the only way to do it was to elect another Franklin D. Roosevelt as President and to revise the basic structure of government via bold constitutional reform (Tugwell, 1971, pp. 69-110). Tugwell remained active and steadfast in promoting this agenda until his death in July 1979 at the age of 89; he constantly developed his ideas and advocated for what he felt was the most promising path for America and for the world.

Summary

This chapter surveyed the middle and later years (1933-1979) of Tugwell's public life with the aim of identifying those policies in which Tugwell played an influential role in attempting to implement his OIE ideas. Of particular interest to this chapter were those policies in which Tugwell's notion of balance was operationalized; this is the common link between all of the events discussed in this chapter. Concurrent with his entry into the New Deal, Tugwell promoted his concept of balance in *The Industrial Discipline and the Governmental Arts* (1933), one of his flagship publications of the interwar period. In this work, Tugwell articulated his vision of much needed structural reform based upon his "concert of interests" or balance

theme. The ill-fated NIRA of 1933 was Tugwell's first practical application of this concept to policy. As discussed in this chapter, he would make repeated attempts at its implementation throughout his professional life.

Clearly, the balance concept encompassed the entire expanse of Tugwell's career from start to finish. The purpose of this chapter was merely to introduce Tugwell's notion of balance within the context of his public life. A more penetrating discussion of this theme and its implications for policy will be the focus of the next two chapters. Chapter Six will then address the place of Tugwell's ideas - including the balance theme - within the OIE tradition.

Chapter Four

The End of Laissez Faire

This chapter examines Tugwell's views on the major political economy problems of the interwar years, his suggested remedies, and the application of his proposed remedies to public policy. The purpose of this analysis is to validate the second point of the thesis of this work: the centrality, importance, and validity of balance to Tugwell's system of thought, i.e., his conception of the economic problem and his proposed solutions. A discussion of the continuing relevance of Tugwell's concept of balance to the modern economy will be reserved for Chapter Eight. Specifically, this chapter will critically examine Tugwell's ideas relating to economic balance, the dualized nature of the American economy, and the key institutional problems of modern industry. The above commanded the bulk of Tugwell's attention during the interwar years, and it was around these problems that Tugwell's framework of thought began to crystallize.

This chapter will begin with an overview of Tugwell's concept of balance. It will then turn toward a critical examination of those aspects of the modern economy that Tugwell believed were the root causes of economic imbalance: 1) *administered pricing* - as an adverse consequence of the combination movement in key industries; 2) *unemployment* - due to a) the existence of corporate surpluses and their uses; b) the failure of demand regularization by industrial combinations; and c) increasing structural unemployment due to technological change; and 3) *the lack of social controls*, in general, to achieve greater human welfare through efficiency gains. The fourth and final dimension of Tugwell's framework was *the agricultural problem*.

The failure of agricultural to appropriate its share of the national income was a problem that fixated Tugwell for years. This issue will be reserved for the following chapter, in which it will be demonstrated that Tugwell's balance concept encompassed both industry and agriculture and their crucial interlocking relationship.

The above themes will be presented and analyzed individually as "issues" in the subsequent sections of this and the following chapter. Tugwell never explicitly stated this grouping constituted *his* framework or system. Instead, it is a synthesis of Tugwell's ideas by this study to demonstrate the pervasive nature of the balance concept in Tugwell's thought. A secondary goal of this chapter is to lay the foundation necessary to demonstrate the compatibility of Tugwell's work with the OIE tradition. This latter issue will be discussed in detail in Chapters Six and Seven.

Tugwell's Concept of Balance

What exactly was meant by the term "balance" as invoked by Tugwell? It is important to note that Tugwell seldom used the term "balance" explicitly in his numerous writings and public addresses, but the notion was clearly implied and affirmed in practically everything he wrote. This study has already sketched the general contours of Tugwell's system and made clear the institutional context within which Tugwell's vision evolved. The incongruity between the industrial system's marvelous productive capabilities, on the one hand, and the deliberate efforts on the part of businessmen to maintain artificial scarcity, on the other, is the point of departure for understanding Tugwell's notion of balance. The Veblenian dichotomy was foundational to Tugwell's thought, and curiously, it imbued much of Tugwell's work with a subtle tinge of frustration: industry's "coming of age" in the form of "industrial discipline" portended material abundance for all - if humans could only transcend the various ceremonial institutions and enabling myths that thwarted

economic progress (Tugwell, 1927b; 1933, p. 7). Chief among these was a blind faith in the beneficence of laissez faire and the invisible hand. In Tugwell's view, these classical notions had failed the modern economy miserably. Responding to an article in the *New Republic* (1925) in which J. M. Keynes eviscerated these hallowed precepts, Tugwell offered the following affirmation:

Sir: May I endorse what Maynard Keynes has written so trenchantly on "The End of Laissez Faire"? The ground has long been cut from under laissez faire; and it must be concluded that it continues to exist only because business men are idealists, not the practical men they imagine themselves to be. As to the shaping of the new order, Mr. Keynes is practically at one with a whole school of young economists in America who are experimental in their attitudes. They believe in intelligent control, not from dogmatic principles but toward favorable results . . . (Tugwell, 1926a, p. 222).

In reference to the invisible hand, Tugwell observed: "We have liked to fancy that our business men act to further a self-interest which also favors the rest of us. We have somewhat easily assumed that this self-interest would be an enlightened one. It may be the reverse. And we have likewise assumed certain benefits to the rest of us which may or may not accrue" (Tugwell, 1933, p. 12). Tugwell considered the invisible hand concept ". . . to be so obviously an instance of wishful borrowing, as to give its persistence something of a stubborn and determined air. For persons with the usual intellectual contacts of our time to go on harboring these views, there has to be some violent rationalization" (Tugwell, 1932c, pp. 78-79). This "violent rationalization" was the obstinate belief in the "ancient paradox of business", despite overwhelming evidence that it was not the primary actuating principle of the industrial era. In an address to the Federation of Bar Associations in 1933, Tugwell noted: "The jig is up. The cat is out of the bag. There is no invisible hand. There never was . . . We must now supply a real and visible guiding hand to do the task which that mythical, nonexistent, invisible agency was supposed to perform, but never did" (Tugwell, 1935a, p. 14). He continued: "Laissez faire exalted the

competitive and maimed the cooperative impulses . . . Men were taught to believe that they were, paradoxically, advancing cooperation when they were defying it. That was a viciously false paradox” (Tugwell, 1935a, p. 14). Indeed, in Tugwell’s view, there were no overriding organizing principles evident in economic affairs other than an insatiable thirst for speculative activity and the concomitant struggle for power, and this situation was clearly reflected in the most conspicuous features of corporate capitalism: the increasing size of industrial organizations, the growing separation between ownership and control, and the trend toward fewer people sharing in profits “in any direct sense” (Tugwell, 1932c, p. 79).

To Tugwell, the increasing concentration of economic power raised the paramount issue of the role of power in the development of society’s institutions. Adopting Veblen’s crisis theory, he maintained that economic concentration was driven by both technological change, i.e., real economies of scale, and by power, i.e., pecuniary economies of scale (Veblen, 1958 [1904]). But, the following quote suggests that Tugwell viewed the latter as being the dominant force:

Since we have no way of keeping a balance among the groups which function in our economy, there are created many problems. A constant disharmony of purpose is apparent and, what is almost as bad, a constant contest of strength among them. And the result of possessing no agreed rationale, from which control might emerge to create harmony and to balance strength, is that there is a constant titanic struggle . . . It is all about who is to boss the whole business and to get all the profit (Tugwell, 1933, pp. 18-19).

Therefore, society was confronted with a stark choice: “We have the choice between a supertrust outside our political forms . . . or an assimilation to the State of the going system. They cannot exist together and separately” (Tugwell, 1933, p. 19). In other words, society faced corporate plutocracy, on the one hand, or a scheme of social control, on the other. Tugwell preferred the latter course; and to “supply a real and visible guiding hand to do the task . . . “ was now a social imperative that was

highly feasible, for, in Tugwell's view, "men are, by impulse, predominantly cooperative. They have their competitive impulses, to be sure; but these are normally subordinate" (Tugwell, 1935a, p. 14).

In Tugwell's view, the problem was mainly political in nature rather than technical (The political dimension of Tugwell's thought will be discussed in more detail in Chapter Seven). He noted: "National planning can be thought of - in a technical rather than a political sense - merely as a normal extension and development of the kind of planning which is a familiar feature of contemporary business. It is not as a technical problem that the idea gives us pause; it is . . . the implications for other institutions . . ." (Tugwell, 1932c, p. 76). In other words, the technical hurdles to a planned economy were easily surmountable because a type of "private planning" was already being practiced by corporate America. Thus, he added:

The first series of changes will have to do with statutes, with constitutions, and with government. The intention of eighteenth and nineteenth century law was to install and protect the principle of conflict; this, if we begin to plan, we shall be changing once and for all . . . Planning is by definition the opposite of conflict . . . Planning will necessarily become a function of the federal government . . . such a scheme will eventually be assimilated to the state (Tugwell, 1932c, p. 88).

And, with respect to balance as *the* new guiding precept, he added: "Planning implies guidance of capital uses . . . Planning also implies adjustment of production to consumption . . . It would never be sufficient to plan production for an estimated demand if that demand were likely to fail for lack of purchasing power. The insurance of adequate buying capacity would be a first and most essential task of any plan which was expected to work" (Tugwell, 1932c, pp. 89-90). Here, Tugwell was unquestionably invoking the balance principle: Capital allocations should not be driven by a speculative "casino" mentality; instead, they should be balanced to the

material needs of society. Similarly, output should be balanced to demand, and income should be distributed in a “balanced” manner to ensure sufficient market-clearing purchasing power. *All* must be in balance. Whether Tugwell was simply substituting his concept of balance for classicism’s notion of equilibrium, or somehow modifying it, is a point of interest that will be addressed shortly.

Tugwell was insistent upon the revitalization of cooperation in economic affairs in light of the displacement of atomistic competition by the more salutary aspects of corporate capitalism: mass production, Taylorism, serialization, economies of scale, etc., or, considered collectively, the “inevitable, unconquerable industrial forces”, i.e., those *beneficial* features of modern industry that translated into affordable and plentiful goods for all. He added: “Our economic course has carried us from an era of economic *development* to an era which confronts us with the necessity for economic *maintenance*. In this period of maintenance, there is no scarcity of production” (Tugwell, 1935a, p. 6). There was, in Tugwell’s view, a present capacity for more production than was consumable, particularly from a system that habitually created excess capacity by curtailing the very purchasing power necessary to absorb the “excess” output. The crux of the problem was the accustomed practice of large corporate enterprises to merge and engage in administered pricing while they simultaneously strove to suppress real wage growth. Even as mass purchasing power began to evaporate, these firms would continue to pour residual earnings into overly speculative pools of investment, a practice that would frequently lead to over-expansion followed by painful periods of contraction (Tugwell, 1927b, pp. 204-08). This scenario encapsulated two key concerns that captured Tugwell’s interest during the interwar years: administered pricing, and unregulated capital allocations, and the role they played in destabilizing or “unbalancing” the economy. These, he believed, were largely to blame for the business cycle and all of its attendant woes.

Tugwell observed: “This era of maintenance is the era of our present and future existence. The inextricable interdependence of its multiple factors demands a new control, a control designed to conserve their ability to function, a control to conserve and maintain our economic existence” (Tugwell, 1935a, p. 8). In essence, Tugwell was calling for a new era in American business - a new set of institutional arrangements or a new ethos geared toward the permanent maintenance of a balanced economy that would lead to a more cohesive and prosperous society (Tugwell, 1925; 1932c, pp. 90-92).

This Promethean challenge to America to undertake such a radical “experiment” was paralleled by analogous efforts elsewhere in the world, and these were of keen interest to Tugwell. In 1927, he visited the Soviet Union as a member of an American trade delegation. As Tugwell observed the Soviet system firsthand, he was frequently reminded of T. N. Carver’s definition of “a balanced industrial system” (Carver, 1925). Deeply impressed by this idea, Tugwell directly quoted Carver’s definition of this concept for the sake of emphasis: “The most revolutionary idea ever injected into economic discussion is that of a balanced economic system. A balanced economic system is one in which all factors of production are combined in such proportions as will yield the most satisfactory results; and yield them automatically” (Tugwell, 1928b, p. 184). Clearly, Tugwell interpreted this from the perspective of his “concert of interests” concept discussed earlier. Surprisingly, it was not so much the concept of balance per se in Carver’s description that transfixed Tugwell, but rather the conventional belief that balance should occur *automatically*. Tugwell observed that the Soviet planners rightly left nothing to market automaticity - the latter being an article of radical faith in the outmoded world of laissez faire capitalism. To Tugwell, the concept of market automaticity - as an operational principle - was undeniably counterfactual in light of the pernicious and recurrent nature of the business cycle. A balanced economy, or

analogously, an economy guided by the invisible hand toward “general equilibrium” was of paramount interest to economists across the ideological spectrum, but *it would not and could not materialize automatically through the free play of market forces*, Tugwell insisted (Tugwell, 1928b, p. 187).

When Tugwell described the Soviet planning effort as an “experiment”, he employed this term in its literal sense. He explained: “The word experiment is so frequently misused that it may be well to point out that those who speak of Soviet Russia as a ‘communist experiment’ are no more correct than those who speak of America as a ‘capitalist experiment’. It is not a communist or a socialist experiment. It is simply an experiment” (Tugwell, 1928b, p. 161). Balance was central and crucial to Tugwell’s system of thought, and the history of the American capitalist “experiment” clearly indicated that some scheme of “industrial discipline” or coordination was essential to achieving it (Tugwell, 1928b, pp. 184-85).

Issue One: Administered Pricing and the Rise of the Dual Economy

This section begins an examination of the first of the four components of Tugwell’s system as identified in this chapter’s introduction: the trend toward increasing industry concentration and administered pricing - particularly within the “key” and “secondary” industries as defined below. As noted earlier, Tugwell’s concept of balance was rooted in Veblen’s model of the dualized economy. As Veblen observed:

In America, as an outcome of the nineteenth century, the industrial work of the community has fallen into the shape of a three-fold division or stratification of industries which work together in a balanced whole, a moving equilibrium of interlocking processes of production: a) the primary, initial, or key industries, so called, which command the greater natural resources of the country and turn out the prime staple necessities of the mechanical industry in the way of power, transportation, fuel, and structural material; b) the secondary or continuation industries, manufactures, which turn these crude

supplies and services into consumable goods and distribute them; c) agriculture (Veblen, 1923, p. 231).

But this “balanced whole” was now breaking down under the misguided direction of the captains of industry. Veblen continued: “Technologically, the key industries come into the same class with manufactures . . .”, and “in practice there is no sharp line to be drawn between the key industries and the common run of manufactures”. “They hold the initiative by virtue of their hold on the staple natural resources; and by active collusion . . . exercise decisive control over the industrial system at large . . . guided not by consideration of serviceability to industry at large or to the livelihood of the underlying population but by pursuit of the largest obtainable net gain for themselves” (Veblen, 1923, p. 235). Veblen also noted that as the business order encompassed more and more of the economic landscape, the economy was becoming increasingly bifurcated or dualized:

So also there are industrial business concerns that have to do with manufacturing and that would have to be classed as manufactures in the technological respect, at the same time that they occupy a strategical position of much the same character as the key industries. Such are, e.g., the meat-packers and the flour-millers; and there are other concerns interested in sugar, gas, electricity, telephones, trolley lines, and the like, that fall more or less patently in the same doubtful or ambiguous class (Veblen, 1923, p. 236).

Tugwell reaffirmed Veblen's observations regarding the domination of the industrial apparatus by pecuniary interests. Tugwell noted that the industrial apparatus of the United States was rapidly approaching a state of maturity and was poised at the threshold of a new era of “economic maintenance”. As he observed in the opening pages of his flagship publication of the 1920s, *Industry's Coming of Age* (1927), “industry” had nearly “come of age”, but, regrettably, the same could not be said of modern “business” (Tugwell, 1927, p. 3).

When Tugwell employed the term “industry”, he was invoking the theoretical ideal of a firm operating at the low point of its long-run, average total cost curve, i.e.,

production efficiency as described by modern microeconomic theory or “engineering efficiency”, as termed by Tugwell (As will be evident shortly, this point has important implications for Tugwell’s analysis). Like Veblen (1923) before him, he reserved the term “business” as a mildly acerbic sobriquet for the pell-mell world of the pecuniary machinations of the profit seekers and the captains of industry. Again following in Veblen’s (1921) footsteps, Tugwell viewed the modern businessman as being concerned primarily with the maintenance of profitable markets through artificial scarcity rather than advancing the salutary aspects of industrial organization for the benefit of society as a whole. This was accomplished through the creation of artificially high prices by administered pricing and the constriction of supply through what Tugwell termed “associatism” or combinations of producers (Tugwell, 1927, pp. 204-10; 1933, pp. 27-33; 1935a, p. 8).

The “market co-ordination”, which characterized the atomistic economy of the nineteenth century, had been supplanted by “corporate co-ordination” (Tugwell, 1927, p. 111; 1933, pp. 22-31). The appropriate governmental response, in Tugwell’s view, was not that of the economic atomizer as epitomized by the various trust busting activities authorized by the Sherman and Clayton Acts. To the contrary, the government should be promotive of the combination movement *provided the resulting efficiency gains accrued to workers and consumers through higher wages and a surfeit of affordable goods*. In Tugwell’s view, the combination movement, in tandem with technological improvements in production, was the principal wellspring of productivity growth of the industrial era. On the one hand, horizontal integration both facilitated the dissemination of technological improvements throughout various industries and enhanced the use of research and development centers. On the other, vertical combinations, by bringing under central control not only competing firms, but also the sources of raw materials, availed themselves of the aforementioned advantages while largely nullifying the role of the middleman - the latter being a

recurrent kink in the otherwise efficient flow of goods from producer to consumer under the system of atomistic competition (Tugwell, 1927, pp. 111-13). Moreover, trade associations - which would soon play a prominent role in the NIRA of 1933 - had historically been an important complement to the combination movement despite the occasional counterproductive hoarding of trade secrets and other information during periods of intensified competition. And, apart from the underlying pecuniary motivations that resulted in administered prices, the general trend toward combinations and the use of trade associations represented a vast improvement - in the eyes of Tugwell - over atomistic competition since these forces had generally promoted and advanced the salutary impacts of technology in economic affairs. What was obviously lacking in this institutional scheme was a mechanism that ensured the “regularization” or balance between the supply of and the demand for goods at prices that reflected engineering efficiency (Tugwell, 1933, pp. 120-21).

Similar to Veblen, Tugwell believed that the persistent disparities observed between supply and demand were caused by the pecuniary market machinations of businessmen, who ostensibly exercised their powers as free economic agents in accordance with an overly-zealous liberal interpretation of their so-called rights under the aegis of “free” enterprise and “free” competition (Veblen, 1921, pp. 27-51; Tugwell, 1927, p. 210; 1935a, pp. 31-33). As mentioned earlier, Tugwell was optimistic in the belief that the vagaries of a market system held captive by the captains of industry could be overcome by the establishment of a more coordinated market place using a novel framework of government-industry cooperation that actually encouraged the continuation of industrial concentration.

Industrial combinations were able to produce at lower costs fundamentally because of economies of scale. According to Tugwell, during and immediately following the first combination movement (circa 1880-1900), these lowered costs were passed on to the consumer in the form of lower prices (Tugwell, 1927, pp. 157-

58). Unfortunately, as the United States entered what should have been its “era of economic maintenance”, this policy was hijacked toward the maintenance of inflated profit margins by the restriction of supplies and administered pricing. In this brief interregnum of high output and low prices, Tugwell began to discern and delineate the pathway along which the post-scarcity economy must travel in order to achieve balance and abundance. Clearly, with respect to economic affairs, the government’s primary function was indicated as being not that of economic atomizer but one of industrial coordinator; it must attempt to retain the propitious non-invidious aspects of industrial combination, while at the same time purging the undesirable ceremonial features (Tugwell, 1927, pp. 221-25; 1933, pp. 189-93).

The Theoretical Basis of the Balanced Economy

In Tugwell’s view, the combination movement was a desirable and salutary result of economic development, but the process was much too momentous to be left entirely in the hands of the businessmen. The corporate business establishment in a variety of industries had clearly abused its power: “Unabated associatism” and “monopolization” (Tugwell used these terms interchangeably, along with “combination movement”) typically lead to the exploitation of consumers, or the “economic consenters”, through the resulting opportunities made available to producers, or the “economic deciders”, to manipulate both prices and capital allocations in a manner that was deleterious to the social provisioning process. As noted earlier, this broad Veblenian theme was one that transfixed Tugwell throughout his career, and his doctoral dissertation was his first formal attempt to grapple with the issue.

In his dissertation, *The Economic Basis of Public Interest* (1921), Tugwell outlined his economic justification for the regulation of consumer prices only - his analysis did not quite penetrate into the control of capital allocations and the overall

social control and balancing of the macro economy. But there were clear intimations in this direction visible throughout his study. Tugwell pointed out that any business “affected with a public interest” was subject to justifiable regulation by the government under current law - the doctrine of public interest being part of the general police powers of the state (Tugwell, 1921, p. 4).

There were two overarching concerns that guided Tugwell’s dissertation: 1) what constitutes a “public interest”; and 2) why do those businesses being so defined as “affected with a public interest”, in fact, need to be controlled by the government?

Public interest was a legal term by which the state was delegated the responsibility of protecting the economic interests of the consumer. Tugwell observed: “The principal branches of legislation falling under this head are the following: trade regulations for the prevention of fraud; the control of combinations, trusts and corporations; certain phases of labor legislation; regulation of the business of railroads, banking, insurance . . .” (Tugwell, 1921, p. 9). But, Tugwell intended to modify and extend this arrangement by calling for a broader interpretation of the public interest doctrine to 1) include the marketing of “necessities”, i.e., popular consumption goods that exhibited relatively inelastic demand; and 2) more importantly, apply the concept to all large-scale business enterprises, under the blanket qualification that their manipulatory powers in the marketplace qualified them as being “affected with a public interest”. Tugwell noted that the US Supreme Court had held that railroads, light and gas companies, banks, and grain elevators might be legally regulated by the state. Unfortunately, it “ . . . has been very slow to take the position that under modern industrialism any large business is affected with a public interest . . .” and is therefore subject to the same regulation (Tugwell, 1921, pp. 71-73; 1935b, p. 298). Tugwell’s insistence upon the necessity of the pervasive regulation of large-scale business - even when the latter did not conform to the dubious features of a natural monopoly - lends his dissertation its uniqueness,

especially when one considers it was authored at a time when unfettered capitalism still retained much of its pre-Great Depression institutional credibility.

In justifying the need for more government control over business under the public interest doctrine, Tugwell pointed to the increasing industry concentration of large-scale producers and their habitual recourse to administered pricing. He contended that “. . . a price fair to consumers cannot be reached where there is no perfect and free competition” (Tugwell, 1921, p. 18). The necessity of control was, therefore, clearly justified; indeed, Tugwell maintained that it was an obligation on the part of the state to intervene. Moreover, the regulation of these enterprises may actually be of benefit not only to the consumer, but also to the regulated producer as well (Tugwell, 1921, p. 19).

Tugwell observed that the industries composed of businesses that were affected with a public interest were usually those that provided necessities. As such, these businesses typically exhibited economies of scale or decreasing costs. By accepting the direction of a “price fixing body” (to be discussed shortly), and directing their efforts toward greater production and diminished per unit profits, the “regularized” firm may actually maximize its total revenue and net profits (Tugwell, 1921, p. 19). But, Tugwell queried, if this were indeed the case, would it not be reasonable to conclude that profit-maximizing firms would self-effectuate such measures without government interference? No, Tugwell contended, because of a particular prevalent demand condition: “The demand for necessities is a highly inelastic one until rates are very much reduced, when a great strengthening of demand is felt. The curve of elasticity would fall off sharply in its upper reaches . . . but would tend to flatten out lower down in the scale” (Tugwell, 1921, p. 20). In other words, the profit-maximizer was quite reluctant to reduce his prices to the extent that would be required to attract the marginal consumer, especially if the former was enjoying an already high profit level. Thus, many consumers were priced out of the market.

This, Tugwell maintained, was a prevalent feature of the modern business landscape, and it provided solid justification for the regulation of businesses that exhibited increasing returns to scale (Tugwell, 1921, p. 21).

On this particular point, Tugwell's analysis was incomplete because of his underdeveloped and inconsistent model of human economic nature: Tugwell questioned or rejected the "economic man" assumptions of neoclassical theory by attacking the "myths" that humans were perfectly rational and self-interested and that they responded principally to the profit motive (Tugwell, 1922, 1930). As noted earlier, this heterodox conception of human nature evolved as a result of his exposure to the ideas of Patten, Parker, Ogburn, Veblen, et al. Yet, he explicitly and inconsistently accepted the human agent as a profit-maximizer in his theoretical justification for regulation. In fact, by invoking this assumption, Tugwell's analysis appears to be overly simplistic in that he failed to consider various patterns of oligopolistic firm behavior. For example, producers may display sales-leader behavior by increasing output past the point of maximum profit in order to capture market share. Or, similarly, producers may exhibit price-leader behavior, with industry followers not responding to a leader's price increase but perhaps following a price decrease. In both instances, the producers may behave in ways that are inconsistent with the axiom of short-run profit maximization. On a broader level, Tugwell was also remiss in not carefully explaining to what degree oligopolistic and monopolistic practices had displaced atomistic competition in the macro economy. As will be demonstrated shortly, this is not the only problematic aspect of Tugwell's analysis: In general, he tended to invoke certain assumptions and theoretical insights offered by neoclassical economics to buttress his argument for the social control of business while at the same time deriding these very same features as being instruments of propaganda and gross distortions of economic reality. An analysis of Tugwell's price fixing entity will help to illustrate this point.

Tugwell's Price Fixing Body: The Problem of Balancing Supply with Demand

On what theoretical grounds were the prices of Tugwell's "price fixing body" to be determined? According to Tugwell, the body must first make a determination of the "optimal supply". This would be achieved by the utilization of different sets of criteria. For example, the body might study historical consumption habits; or, based upon the belief that former consumption patterns were non-optimal, it may take a more normative approach and use "other guides". Unfortunately, Tugwell was quite vague in his discussion of these "other guides". He did mention, however, that the body should use as a "large guiding principle" a "purely competitive regime" (Tugwell, 1921, p. 33; 1932, p. 83). This is where Tugwell's methodological approach was either inconsistent or too vague: Was he advocating the use of a model in which the industry under consideration could be viewed as if it were purely competitive when, in fact, it was comprised of monopolistic elements? How then could the "optimal supply" of a firm that exhibited economies of scale be determined from the theoretical supply schedule of a model that did not posit a similar decreasing cost structure? Also, in light of Tugwell's frequent vituperations against "unbridled competition", does it not seem contradictory that he would associate anything "optimal" with perfect competition? This implied an underlying faith in the model of perfect competition and the beneficence of economic atomism - notions anathema to Tugwell's vision of a massive coordinated industrial complex. The most plausible explanation of this contradictory aspect of Tugwell's analysis is that, if pressed, Tugwell would have probably acknowledged that a perfectly competitive system - in long-run equilibrium - would have allowed the provision of maximum goods at prices as low as the existing technology would have permitted. Thus, from the very outset his "optimal supply" concept was not defined coherently. What Tugwell probably meant by this concept was that enough output should be produced to meet the current or "optimal" demand and that this output should be priced in

accordance with the allocative and productive efficiency criteria inherent in the model of perfect competition, even though 1) he did not know precisely how to determine this optimal price; and 2) he was vague on how this optimal price may have actually brought forth the necessary “balancing” supply from imperfectly competitive firms. Therefore, there is considerable confusion on the determination of both prices and output in Tugwell’s framework, and there are a host of applied issues relating to this problem that he simply chose to ignore.

After determining the optimal supply as described above, the price fixing body would set the price at the level that would bring into the market the marginal producer, i.e., “. . . the producer who rounds out the supply: this supposing there is more than one producer in the single market” (Tugwell, 1921, p. 31). And, if there is only one producer, the price, according to Tugwell, should be set high enough to allow the production of the entire pre-determined optimal supply. But, this single producer, noted Tugwell, may own several distinct plants with varying cost structures, and one of these plants may be considerably less efficient than the others; if this plant’s addition to the total product was necessary to round out the optimal supply, its costs must be covered by the fixed price. Why did Tugwell insist that the price be pegged high enough to cover the costs of the least efficient factory? This is another inconsistency in his analysis as evidenced by the following description of the nature of price determination by the price fixing body. Tugwell stated: “. . . it must constantly endeavor to have price really represent the favor in which certain goods and services are held by nature . . . Regulation will not be successful that does not perceive and hold to a system of prices which represents this natural determination” (Tugwell, 1921, pp. 33-34). Why did Tugwell invoke the “natural” or competitively determined price while at the same time calling for a fixed price that would bring forth the marginal supply of the least efficient producer? This contradiction suggests that Tugwell was confused on whether prices should conform to their traditional free

market functions or whether they should be utilized, as they were in centrally planned economies, as mere statistical tools to induce into the market the pre-determined optimal supply. Hence, he made a significant contradiction by alluding to the “natural determination” of price in the above quotation. Although he did not explicitly state that the price fixing body should adopt the criterion of the “natural price”, he came very close to doing so.

The concept of the “natural price” has been discussed in political economy for hundreds of years, and Tugwell essentially upheld the mainstream definition by describing it as being “approximately equal to the cost of production . . .” and that “only purely competitive arrangements could bring it about” (Tugwell, 1933, p. 178). Reiterating the question posed above, how could the regulating body utilize the price mechanism as a statistical tool to bring forth the pre-determined supply, and at the same time perceive this fixed price to be the “natural price”? The answer to this conundrum arises from Tugwell’s state of cognitive dissonance concerning economic theory versus reality. Tugwell wanted to attain the unattainable: he wanted to determine *both* output and prices, with output balanced perfectly to demand and prices reflective of engineering efficiency. *And*, he wanted to create some universal facsimile of this end result (the model of perfect competition in long-run equilibrium) by utilizing devices that were completely alien to it. In this sense, Tugwell’s framework appears to be both inconsistent and impractical.

Issue Two: The Unemployment Problem

This section begins an examination of the second of the four components of Tugwell’s system as identified in this chapter’s introduction: the problem of unemployment and its control. In addition to taking an activist role in consumer welfare, Tugwell believed that the state should also take a leading role in addressing the welfare of workers - particularly the problem of unemployment. Paralleling his

somewhat unique approach toward the social control of prices, Tugwell's thoughts on the root causes of unemployment were also unique. The purpose of this section is to begin to trace Tugwell's theoretical considerations of this recurring phenomenon and his suggestions for its control. Tugwell submitted three main reasons for the existence of unemployment in the modern industrial economy: 1) the existence of corporate surpluses and their uses; 2) the failure of demand regularization, or balance, under the regime of industrial combination; and 3) increasing structural unemployment. As with administered pricing, his recommendations with respect to the unemployment problem, in general, also attempted to operationalize his concept of balance.

Corporate Surpluses and the Capital Allocation Problem

Tugwell stressed that unemployment - whether it was structural, frictional, or cyclical - was the ineluctable result of technological advance and that this condition was exacerbated primarily by the uncontrolled or "haphazard" allocations of capital funds by businessmen under the regime of corporate capitalism. He realized that his thesis was in direct conflict with the accepted neoclassical theory. In fact, he stressed that the consideration of unemployment had never been accepted as a legitimate facet of mainstream theory, and that by and large, mainstream theorists had not allowed for its occurrence, much less its predominance (Tugwell, 1931, p. 175).

According to mainstream theory, Tugwell explained, efficiency gains lead to lower costs and reduced prices, which in turn translated into higher levels of income and effective demand, and consequently, higher demand for labor. If this theory were empirically valid, then unemployment would be unrelated to or an aberrant feature of technological improvement. Was this theory, Tugwell queried, applicable to the modern economy? No, he contended, for the following reasons.

Tugwell observed that contemporary business practices significantly hindered the transformation of technology-driven efficiency gains into lower prices and increased purchasing power. Steadily increasing purchasing power, Tugwell maintained, was *essential* for market clearance because ever-increasing amounts of goods were flooding the markets. Technological improvements in production made this trend possible, but administered pricing and bloated cost structures due to over-expansion made these goods less and less affordable to consumers (Tugwell, 1932b, pp. 526-27). On this subject, Tugwell came very close to articulating a structural deficiency or stagnation thesis akin to that of Veblen (Veblen, 1958, pp. 117-20). The economy invariably suffered lapses because purchasing power was always insufficient to buy increasing amounts of goods at inflated prices relative to income. Additionally, Say's Law was postulated to be inoperative because increasing amounts of income were accruing in the form of profits, or "corporate surpluses" - to use Tugwell's term - rather than in wages.

Tugwell maintained that purchasing power had not increased concomitantly with efficiency gains because of the failure of businessmen to adopt large-volume, low-profit policies. Instead of reducing prices, corporate directors had kept prices and profits high and retained large portions of their earnings, thereby creating large pools of liquid surpluses. The directors adopted this policy for several reasons: they wished to 1) invest in the securities of other corporations; 2) have available funds for advertising and promotions; 3) insure the payment of future dividends; and 4) expand their plant facilities with capital funds drawn from these surpluses (Tugwell, 1935a, pp. 188-92).

Capital, noted Tugwell, was directed into productive use in two distinct manners: it was channeled to the entrepreneur through the financial markets in the form of securities, or it was extracted from internal funds. Although both channels were inherently suspect, it was this latter method, Tugwell maintained, that created

enormous difficulties for the economic system to attain a state of balance. Whereas item 4) above was perhaps the most visible culprit in the problem, items 1) through 3) were similarly conducive to over-expansion and the creation of speculative bubbles in securities markets. Unregulated producers were free to allocate capital to *any* expansion project they deemed promising, and in many instances, this over-expansion was predicated upon inflated estimates of demand (Tugwell, 1928c, pp. 323-25).

Similar to Tugwell's analysis of the price fixing problem, there are conceptual problems with Tugwell's framework relating to the issue of capital allocations and unemployment: First, consider the key role played by consumer demand in Tugwell's system: Tugwell stressed the foundational role of balance in the optimal demand-supply-price relationship. Everything in his framework hinged upon this critical relationship. As noted earlier, Tugwell deplored the absence of a reliable method in accurately gauging demand in the modern market economy. Uncontrolled capital allocations - reflecting over-zealous estimates of demand - typically resulted in over-expanded production facilities. Higher consumer prices - the result of the additional fixed costs due to over-expansion - further amplified the decline in purchasing power caused initially by administered pricing (Tugwell, 1935a, pp. 188-92). Thus, the whole system was prone to recurring periods of recession or stagnation. But, as noted earlier, Tugwell's system similarly lacked a tenable method of determining the optimal demand-supply-price relationship, and because of this fundamental weakness, it appears as if his entire intellectual edifice is in danger of collapsing like a house of cards.

Second, Tugwell often referred to the problem of "over-expanded productive facilities" without offering a precise theoretical explanation as to the meaning of this term. He glibly justified his advocacy of the social control of corporate surpluses merely on the grounds that "haphazard" over-expansion was evident in the economy.

Hence, he cast his justification in a somewhat vague and negative light. But, considered in a constructive sense, what was his *theoretical* basis for implying the existence of some attainable ideal, and what precisely was this ideal? And, can we use this ideal to understand what he meant by “over-expansion”? If Tugwell were pressed to demonstrate his *theory* on the issue at hand, methodological consistency would have demanded that he use mainstream microeconomic theory as his benchmark because his notions of efficiency and equilibrium - preconditions for economic balance - originated from within this paradigm. Once again, Tugwell placed himself in a contradictory methodological position because he implicitly adopted the competitive ideal as his standard of efficiency while simultaneously stressing the need for increased industry concentration to attain this standard.

So what precisely did Tugwell mean by over-expansion, and how would the controlling board know if a firm or industry were operating optimally with respect to both output and prices? In short, Tugwell’s over-expansion thesis is confronted with several implausible outcomes when viewed through the prism of mainstream theory.

The root of the problem has to do with Tugwell’s desire to set the price of a particular good at a level that is consistent with engineering efficiency, i.e., where price equals the minimum point of the long-run, average total cost curve, *and* have this price be equal to the market-clearing price as well for the optimum, pre-determined level of output. The concurrence of these may be dubbed “Tugwellian equilibrium”. The type of industry under consideration complicates this situation: decreasing, increasing, or constant returns to scale, or some combination thereof. Tugwell largely neglected this aspect of the problem.

With respect to Tugwell’s intention to provide the market-clearing quantity of goods at prices that reflected engineering efficiency, decreasing returns to scale technology can be dismissed as infeasible simply because it is ill-suited for mass production; with average costs positively related to output over a broad range of

production, this arrangement would have been antithetical to Tugwell's call for industrial combination and coordination. Similarly, increasing returns to scale technology can also be dismissed because it is doubtful that the enormous variety of goods to which a modern market society is accustomed could be produced under this specific arrangement; increasing returns to scale is typically associated with the extraordinary features of natural monopolies, i.e., massive fixed costs with average and marginal cost falling over a wide range of output. Clearly, this condition applies mainly to public utilities and not to the vast majority of firms producing consumer goods. Constant returns to scale technology is also implausible since it implies that input costs do not rise with increasing levels of output; but mass production of any good eventually entails rising input prices because of inflationary pressures in input markets. This is particularly the case for firms that have become over-expanded. Therefore, it is reasonable to conclude that the most plausible production technology would embody increasing returns to scale followed by decreasing returns to scale due to the onset of long-run diminishing returns, i.e., the long-run cubic cost curve case (Nicholson, 1992, pp. 357-59).

Thus, the representative Tugwellian short-run firm may be either "under-expanded", of optimal size, or over-expanded, relative to both the optimum, pre-determined output level criterion and the engineering efficiency criterion. In graphical terms, the long run, average total cost curve envelopes these three distinct possibilities. If it is assumed that the optimum, pre-determined level of output closely corresponds to the point of maximum efficiency - to both long-run productive and allocative efficiencies - precisely at or near the minimum point of the long-run, average total cost curve, i.e., Tugwellian equilibrium, how could Tugwell have proposed maintaining this ideal arrangement in light of the likelihood of either under- or over-expansion? In the former case ("under-expansion"), the short-run firm would incur a substantial loss at the price consistent with engineering

efficiency; therefore it would need to expand. This is consistent with Tugwell's economic vision. But, what if this firm operated a plant that was one of the aforementioned inefficient plants necessary to "round out" the optimum supply? As noted earlier, Tugwell asserted that the price would have to be set high enough to allow for this possibility. But, if the price fixing body sets this price, engineering efficiency would necessarily be sacrificed for the sake of attaining optimum supply. And - even more problematic for Tugwellian equilibrium - what about the over-expanded firm? Such a firm would need to scale back its production to restore both profitability and efficiency, but this would involve atomization - a policy that would have been antithetical to Tugwell's system of thought.

So, Tugwell knew what he wanted but failed to clearly articulate a method of attaining it, or he simply refused to acknowledge the practical limits to industrial combination and economies of scale. But, let us assume hypothetically that he could have devised some method of attaining his theoretical ideal. How could he have confirmed this outcome, in praxis, against the benchmark of perfect competition, or a close approximation thereof? Obviously, this is something that Tugwell would not have been able to confirm empirically, and, therefore, this problematic dimension of his framework again underscores the incomplete or inconsistent nature of some of his ideas.

There is an additional problem with Tugwell's over-expansion thesis that concerns the control of corporate surpluses: the mechanism he proposed for controlling them. Tugwell observed:

We have trusted the functions of gathering and allocation to the wrong individuals. We have too easily assumed that the power to make profits implies wisdom in the disposal of them. These are distinct functions . . . Some control is needed here, perhaps, more than any point in our system (Tugwell, 1931, p. 200).

Clearly, Tugwell was intimating the need for the control of corporate surpluses by an entity sequestered from the corporation itself. Concerning this matter, Tugwell observed: "In general, the principle invoked would be to drive corporate surpluses into the open investment market . . ." (Tugwell, 1933, p. 206). To do this, Tugwell proposed a special tax on earnings for purposes other than the normal replacement of equipment or general contingency funds. As a result, most earnings would be distributed to the shareholders in the form of dividends. According to Tugwell, these dividends would be transformed subsequently into investable funds in the general securities market. Under this improved arrangement, a firm seeking capital for expansion " . . . would be subject to check in the investment market" (Tugwell, 1933, p. 206).

Some criticism of Tugwell's scheme is in order on this point: There is absolutely *no assurance* that all - or even most - of the dividends would enter the money market through this channel. Evidently, Tugwell was assuming that the shareholders were comprised predominantly of individuals from upper income strata, who exhibited a relatively large marginal propensity to save. If this were indeed the case, the majority of dividends *might* actually travel this path. Once these funds were embodied in the investment market, Tugwell proposed an additional check upon them via Federal incorporation laws; these, he maintained, would enable the control of both new and seasoned capital issues by a central "controlling board" - one of a handful of functions of Tugwell's important "controlling board" - an entity that will be discussed shortly (Tugwell, 1933, pp. 204-07).

The Failure of Demand Regularization

As in the case of administered pricing, Tugwell again cast a critical light upon the classical assertion that efficiency gains would be transmuted into reduced prices through the free play of market forces. His intention this time, however, was to

expose the linkages between the lack of demand regularization or the demand-supply imbalance, uncontrolled or imbalanced capital allocations, and cyclical unemployment.

According to Tugwell, classical economists asserted that the following would eventuate: the profit-maximizing producer would be motivated to reduce price in an effort to enhance consumer purchasing power and thereby increase sales. Increased sales would then translate into falling levels of unemployment until the latter bottomed out at the “natural rate”. Therefore, by invoking the concepts of market automaticity and Say’s Law, the problem of unemployment was, according to the classical formulation, a moot issue. Employment would be maximized and demand would be regularized, i.e., in equilibrium with supply. Tugwell expressed strong skepticism toward this idealized outcome:

Only in exceptional cases, in our system, may any one concern find in this a motive for price-reduction. Only if there were some guarantee that *his* price reductions would be spent for *his* goods would there be, for a manufacturer, a genuine business reason for this argument. Indeed he stands to gain by the reverse. He would like to keep his own prices up and have all other sellers reduce theirs, thus enlarging his potential market (Tugwell, 1931, p. 189).

Tugwell was attempting to debunk the classical concepts of market automaticity and Say’s Law, but here again he runs afoul of methodological consistency by ascribing an element of market power to producers in a manner that was at variance with classical theory. Basically, Tugwell conveniently suspended the classical bedrock assumption of perfect competition, even though, as noted earlier, he frequently utilized the theoretical tools of the classical paradigm to support his own system of thought.

The classical litany assumes a perfectly competitive world. Accordingly, from the perspective of the individual price-taking firm, price is exogenous as dictated by the interaction of supply and demand in the industry market. The producer can sell

all he wants at this price but nothing at all at any other; therefore, the elasticity of demand is infinite, and price can never be reduced to increase sales. Hence, Tugwell essentially set up a straw man to be attacked in the above quotation to support his proposed solution for the dilemma of unemployment versus the unregulated allocation of corporate surpluses, even though he nuanced the problem slightly by presenting it in the context of demand regularization.

In general terms, Tugwell offered the following solution: “. . . only by a more complete merging of the interests of all sellers of goods can interests be so fused as to create any sufficient motive of this sort . . .”(Tugwell, 1931, p. 189). In other words, Tugwell was once again pressing his case for a scheme of industrial coordination and balance - an arrangement that would necessarily fall under the auspices of his all-powerful “controlling board”.

Structural Unemployment and Technological Change

Tugwell asserted that even if the surplus problem could be solved according to his plan, and industrial coordination was successful at transforming efficiency gains into lower prices, the economy would still be plagued by the problem of technological unemployment. Even under these conducive arrangements, the classical theory of unemployment would still not hold water because of the adverse impact of technology on employment (Tugwell, 1931, p. 194).

Tugwell queried: Will greater demand for goods under the above conditions result in an increased demand for labor in general? No, he contended, because these employment opportunities were quite likely to require a higher level of human capital than was readily available. Moreover, he observed: “We need also to note that any new employments which may open up are apt to be the very ones in which the man-machine ratio is least favorable to enlarge employment” (Tugwell, 1931, p. 194). Tugwell reserved the term “occupational obsolescence” for this type of

structural unemployment, and he believed that technological gains had substantially increased the likelihood of its occurrence (Tugwell, 1931, p. 220).

In advancing this thesis, Tugwell was remiss in not exploring other possible causes. For example, he might have considered the phenomenon of decreased work hours. Mechanization resulted in more leisure for the worker while simultaneously allowing the output of the firm to remain constant or to rise. The overall result, then, was not higher structural unemployment, but the satisfaction of increasing human wants with cheaper goods supplied with less effort. Nor does Tugwell explore the influence of the various trade union movements, in general, and their efforts to improve working conditions and to shorten the workweek.

Also, the title of Tugwell's essay under present consideration ("The Theory of Occupational Obsolescence") is somewhat of a misnomer. This becomes evident as one reads the article. Its main focus is the failure of the modern industrial system to provide an institutional framework that lends favorable support to the attainment of full employment; "occupational obsolescence" is but one facet of this broad issue. Tugwell's balance theme - although never explicitly mentioned - is strongly implied throughout the article as illustrated by the following:

Curiously, Tugwell observed, "There is no cure for that obsolescence which is traceable to technical change and to more efficient arrangements" (Tugwell, 1931, p. 216). However, he stressed, simply because structural unemployment was an inherent incident of advancing technology did not mean that those adversely affected should be ignored. Society must attempt to re-train and re-educate its structurally unemployed workers, and if these efforts should fail, permanent support should be provided. Tugwell added, "This we cannot do at any small cost. But we can do it at smaller than is involved in present procedure; the incidence would not be the same . . ." (Tugwell, 1931, p. 217). Specifically, this responsibility should fall on society and not the individual. According to Tugwell, efficiency gains - on the whole - had

resulted in cost savings sufficient to rehabilitate or support the incidental indigents, and all that was lacking was a mechanism to channel this assistance. To Tugwell, the appropriate medium for such efforts was the “controlling board” (Tugwell, 1931, p. 217).

Tugwell argued for the creation of an “Industrial Reserve Fund”, under the auspices of the board, for the benefit of the structurally unemployed (more will be said about this fund shortly). The monies of the fund would be procured from participating producers. The board would determine an individual firm’s contribution by balancing the social costs of re-education or support against the cost-of-production savings reaped by the firm through efficiency gains (Tugwell, 1931, p. 217; 1933, p. 213).

Some scrutiny of Tugwell’s fund is in order on this point: What method would Tugwell have used to determine this “balance”? Once again, what *ought* to be done was clear, but *how* to do it was another matter. Tugwell himself acknowledged one difficulty inherent in such a scheme by observing “only when the area considered reaches over a whole industry, or a group of them, do gains become greater than the costs borne by workers” (Tugwell, 1931, p. 218). But how would one allocate the costs to particular industries and producers even if gains were greater than total costs?

Tugwell proceeded by acknowledging the possibility that such measures might have the unintended effect of curtailing the efficiency movement. But, he countered: “That is possible; but it is also possible to answer to this that their [the producers] reductions of cost in the first instance were illusory in any social sense” (Tugwell, 1931, p. 218). The social costs, in other words, had offset the gains that had accrued from the efficiency movement. Clearly, another function of Tugwell’s controlling board would be to ensure the accountability of industry for any external costs imposed upon society.

The Controlling Board

Tugwell submitted three main reasons for the existence of unemployment in the modern economy: 1) the existence of corporate surpluses and their uses; 2) the failure of demand regularization; and 3) increasing structural unemployment. And, he believed these embodied a basic dilemma facing the modern economy: “how to have increased production with the benefit of a spreading efficiency and to escape from its incidental result of human distress” (Tugwell, 1931, p. 223). According to Tugwell, a number of modifications of existing institutions would be necessary to solve this dilemma and thus establish economic balance:

The transformation of lowered costs into reduced prices must be direct and certain. Only in this way can consumer’s purchasing power be really enlarged. Demands must somehow be regularized and steadied so that the continuity of operations can be maintained. There must be a vast enlargement and revision of educational devices guided by the requirements of modern technology (Tugwell, 1931, p. 223).

This passage pithily expressed Tugwell’s call for: 1) the control of corporate surpluses; 2) demand regularization through industry cooperation and coordination; and 3) increased social welfare measures. But, what entity - specifically - should effectuate these proposals? As noted earlier, Tugwell supplied the blueprint for this entity in the closing pages of *The Industrial Discipline and the Governmental Arts* (1933). He suggested it be designated the “United States Industrial Integration Board”. It would serve as the central body of a group of closely coordinated industrial associations “expected to set up their own planning boards and central management devices for maintaining standards of competition and for controlling maximum prices and minimum wages”. These subordinated associations were to be composed of producers within a particular industry, and each of these associations would be designated as a “(Blank) Integration Association” (Tugwell, 1933, p. 212).

What is important to note at this point is that Tugwell was calling for the establishment of these bodies by the producers, themselves, and not by the state. It should be recalled that Tugwell was influential in the passage of the National Industrial Recover Act in 1933. The “central body” called for in this legislation was the National Recovery Administration, or NRA - a governmental agency. How did Tugwell reconcile this agency with his theoretically autonomous entity in *The Industrial Discipline*? This issue is another problematic feature of Tugwell’s scheme of control, and it repeats an all-too-familiar pattern: the difficulty in applying his ideas to economic reality.

The answer to the above question lies in the realization - one that undoubtedly emerged during the implementation of the ill-fated NIRA - that any central controlling entity, whose primary function was a fundamental reorientation of industry away from money-making toward social provisioning, while utilizing a stable, balanced, and complete employment of resources, must by necessity, embody the features of a powerful quasi-governmental entity. Moreover, Tugwell’s program of control called for the reconciliation of the various “associations” plans with an integrative coordinative governmental program of projected production and price schedules - a confusing dimension of Tugwell’s scheme - as noted earlier - that was not fully explicated in his writings of the 1930s.

So, Tugwell wanted his USIB to be both powerful and semi-autonomous, and to appeal to business on the basis of voluntary cooperation. In reality, the confluence of these elements was an unlikely event, particularly in light of the dismal experience of the NIRA. But, Tugwell was not entirely Pollyannic in his views regarding the motivational forces behind businessmen. He knew that his framework would need to embody both the “carrot” and the “stick” approach. Accordingly, the board would necessarily possess de facto governmental-legal powers to investigate any association or individual corporation suspected of noncompliance and to levy fines

and/or authorize expulsion, if deemed necessary. Fines could be efficiently collected by deducting the required amount from the member's account in the "Industrial Reserve Fund" (Tugwell, 1933, p. 213).

This proposed IRF was a key element in Tugwell's framework necessary to effect economic balance. It would be comprised of monies collected from the members of each association utilizing a three percent excise tax. The fund would be divided into three parts: one-third would be returned to those industries which adhered to the plan, in proportion to the tax yield from their products; one-third would be retained until its size equaled approximately twice the paid-in capital of the member industries, after which it could be drawn on for the payment of dividends to stockholders; and the remaining one-third would be transferred to a wage reserve fund to be returned proportionately to those states which implemented programs for unemployment insurance (Tugwell, 1933, p. 213).

The IRF was the key institutional tool proposed by Tugwell to address the three factors he stressed as being the root causes of structural unemployment. The first one-third of the fund was obviously designed to encourage compliance with the Board, government, and the particular association to which the member corporation belonged. If members adhered to the plan, the desired amount of cooperation would have resulted. The second one-third of the fund addressed the pooling of corporate surpluses; this portion of the fund would effectively prevent uncontrolled capital allocations with their attendant disruptive effects upon the economy. And, finally, the third part of the fund obviously operated as an incentive to stimulate the spread of social insurance and to provide for the re-education or support of those adversely impacted by "occupational obsolescence" (Tugwell, 1933, p. 213).

Were Tugwell's USIB and IRF really feasible, particularly with respect to the overall goals of full employment and economic balance? Two potential problems regarding both the USIB and the IRF warrant closer examination: First, would

Tugwell's scheme of control have engendered the kind of voluntarism he envisioned while at the same time addressing one of the most intractable age-old problems in the history of economic thought: the free-rider problem? No, because this was precisely the problem encountered by the Blue Eagle campaign of the NIRA. Otherwise known as the Re-Employment Agreement of the NIRA, the Blue Eagle campaign was a program designed to "fast-track" the code-making process and to provide an opportunity for the NIRA to grapple immediately with the issue of economic balance. Incorporated into Section 7(a) of Title I of the NIRA legislation, the Blue Eagle program set minimum wages and maximum hours and prohibited the use of child labor in industry. Additionally, signatories agreed not to raise prices beyond stipulated payroll increases and not to buy from non-signatories. Many firms outwardly displayed compliance with the program to boost their sales - even patriotically displaying the Blue Eagle logo - while they surreptitiously undermined it by not complying with the code-making process in an effort to boost profits. And, could the various industry integration boards *seriously* be entrusted with policing themselves?

Another controversy swirling about the Blue Eagle program that is relevant to Tugwell's plan involved the bureaucratic process of code making. In a matter of months, approximately two million employers, representing a vast array of businesses and nearly three-quarters of a potential twenty-five million workers, enrolled in the Blue Eagle program. A deluge of industry- and firm-specific codes poured into the NRA bureaucracy for approval; the agency was simply overwhelmed. This brings up a second potential problem with Tugwell's scheme of control: Quite simply, how could the USIB and IRF be able to manage the massive amounts of information necessary to control the macro economy - particularly at time when both quantitative methods and information technology were in a relatively primitive state? Furthermore, given both the conceptual and practical difficulties

previously discussed involving the determination of the optimal price/quantity relationship of goods, how could *any* rational system of planning exist in praxis? And, there are many other practical problems Tugwell simply chose to ignore: the political feasibility of his framework; the proprietary nature of a firm's cost, production, and product information; the long-term solvency of the IRF, particularly the social insurance fund; and many others, ad infinitum.

The USIB vs. Alternative Plans for Employment Regularization

How did Tugwell's plan compare with those offered by his contemporaries, and how was his plan unique? Various schemes for recovery were proposed during the early 1930s as the roles of the unemployed steadily increased. For example, Henry I. Harriman, President of the US Chamber of Commerce, called for the "stabilization of business and employment" by the creation of "strong trade organizations". In turn, the leaders of these associations were to "act as an advisory board to . . . a national economic council" (Harriman, 1932, p. 69). Existing antitrust laws, observed Harriman, were "not in consonance with present day needs" and should be revised to promote the association movement. But, going hand-in-hand with their increased power, businesses must have "responsibility for setting up reserves to tide over periods of unemployment" (Harriman, 1932, pp. 67, 74).

Similar features were embodied in the Swope Plan. Gerard Swope, then CEO of General Electric, also urged the initiation of trade associations with broad powers to "outline trade practices, business ethics, and methods of standard accounting" (Loth, 1958, p. 204). These powers were intended to enable the associations to "stabilize prices" and to essentially license a "benign cartel" of producers. Those left unemployed despite these regularization efforts were to be compensated from pension and unemployment funds maintained by the companies themselves (Loth, 1958, p. 205).

Although proposals such as these were condemned by many as “state socialism”, “fascism”, and “capitalist-socialism”, they clearly reflected a dawning realization by erstwhile skeptics that the answer to the unemployment situation laid in “the self-conscious direction of the mechanism of economic and social life to ends of general well-being” (Flanders, 1932, p. 35). And, it was in this general spirit that other planning proposals were offered during the interwar years (Clark, 1936; Foster, 1932; Person, 1932; Tugwell, 1933; Mitchell, 1950 [1937]; Ezekiel, 1939).

Compared to the Harriman-Swope type proposals, Tugwell’s USIB was unique because it represented a much more formidable force than the “trade associations” offered by the above. As noted earlier, under Tugwell’s scheme, a government outline of projected production and prices was to be reconciled with the separate plans of the various industry associations. By comparison, the Harriman-Swope trade associations were only to be loosely supervised by a “national economic council” incorporated by a “special federal charter” (Harriman, 1932, p. 69). Furthermore, the obligatory nature of Tugwell’s fund and its penalizing powers underscored the potentially heavy-handed dominance of the USIB. It will be recalled also that the IRF had, as one of its primary functions, the repression of private capital allocations from corporate surpluses. This feature was clearly not a part of the Harriman-Swope plans: Harriman and Swope believed that private capital allocations for the maintenance of high employment levels would be forthcoming, provided the trade associations had previously resolved the underlying issue of balance between production and consumption (Harriman, 1932, pp. 63-74). On this matter, Tugwell was less sanguine: He recognized the danger of over-expansion and its implications for employment and balance.

Thus, relative to others, Tugwell’s plan was definitely atypical in its emphasis on a powerful controlling board as the essential arbiter and facilitator of economic balance. And, as radical a suggestion as the board may have seemed, it was

conservative compared to Tugwell's battle cry calling for the "abolition of business" and the establishment of a comprehensive system of economic planning in his address before the American Economic Association in 1932. Were such proposals antithetical to the American liberal democratic tradition, or were they the next logical step in its evolution? This issue as well as others will be probed in Chapter Seven.

Issue Three: Social Control and Economic Welfare

This section begins an examination of the third of the four components of Tugwell's system as identified in this chapter's introduction: the lack of social controls, in general, to achieve greater human welfare through efficiency gains.

The USIB and the IRF were proposed by Tugwell to partially alleviate the "basic dilemma" facing the modern economy: how to increase human welfare through efficiency gains and at the same time avoid the recurring periods of high unemployment that were inherent to industrialized society. Or, in other words, how to capture the gains from industrialization so that all in society may share in the wealth, while at the same time maintaining full employment and macroeconomic balance. The preceding section probed the latter aspect of this dilemma. The focus of this section will be on the efficiency aspect of Tugwell's dilemma.

Serialization and the Continuous Process: The Need for Government Control

The consequences of increasing industrialization were myriad, observed Tugwell. One of the more curious of these, he noted, was a "historic homesickness": The complexities and adverse features of modern industrialized life had somehow eclipsed its advantages, and, individuals now increasingly longed for the simpler idyllic lifestyles of the pre-industrial past. In referring to these "complexities", Tugwell was clearly making reference to the negative externalities, i.e., pollution, urban congestion, crime, etc., that so blighted modern society. But, more

fundamentally, he was also referring to the de-institutionalization of previous modes of production, namely the artisan and the craft guild, and their displacement by the machine process and the assembly line (Tugwell, 1933, p. 25).

What was the “solution” to this paradox of a “historic homesickness”, in which humanity was torn between the amenities of modernity and technology, on the one hand, and the simplicity of the idyllic past, on the other? The solution was a kind of “industrial epiphany” in which it was clearly recognized that industrialization provided the means for the attainment of a much more satisfactory existence. Tugwell stressed that it must be accepted that mechanization was here to stay, and, if it were properly developed and managed, it would result in colossal advances in human welfare (Tugwell, 1927b, p. 120).

According to Tugwell, this romantic yearning for the simpler life of times past mostly emanated from the disgruntled factory worker who despised the tedium of his assembly line job. The relief for this individual, Tugwell asserted, was not in the elimination of the assembly line, but in its logical extension and completion, since the human element was the weakest link in the machine, or *serialized* process, i.e., the linking of machines to perform entire sequences. The elimination of this link was imperative for the completion of the process. As a result, the worker would then be able to escape the drudgery of the assembly line and enjoy pursuits of his own choosing. But Tugwell was unclear on what these pursuits might be and how these structurally displaced workers might generate income. Some, no doubt, would be joining the ranks of the emerging technocrat class (Tugwell, 1931, p. 194).

Tugwell proceeded to state his hypothesis “that industry will continue to become more mechanized”, and “the industrial discipline will therefore consist in learning the lessons of adaptation to it”. This adaptation process would require the initiation of economic controls (Tugwell, 1933, p. 29). But why, precisely, were controls needed to push industry further along the path toward complete serialization?

In Tugwell's view, the future of industrial workers was inextricably linked to the continuation of mechanization and the inevitable completion of the machine serialization process. This much was clear to Tugwell. What was not clear were the reasons why the corporate industrialists persistently impeded this logical development.

According to Tugwell, during the nineteenth century, industrialists were forced by the pressures of competition to take advantage of any and all cost-saving innovations. But, the present era of corporate concentration afforded the businessman protection from competition in the form of administered pricing and industrial combination. Also, the corporate industrialist was reluctant to make large capital expenditures for mechanization realizing that the gains from such outlays might accrue only in the long run (Tugwell, 1933, p. 68).

Observations such as these serve as prime examples of the kind of imprecision on Tugwell's part that creates confusion concerning the perceived obstacles to complete serialization. There are two closely related sources of confusion here: First, was Tugwell implying that the typical corporate industrialist had no concept of a rational capital budgeting criterion or the marginal efficiency of investment?

The rational investment decision is that which equates the cost of a unit of capital equipment with the present discounted value of the stream of expected returns from the machine over its serviceable life. The discount rate that provides for this relationship is the marginal efficiency of investment. Investment will be carried to the point where the latter equals the market rate of interest. If investment were pushed further, the industrialist would be losing future income since he could earn a higher return by purchasing bonds, for example, with his surpluses (Keown, 2004, p. 299).

But, Tugwell stressed that businessmen would *not* invest until the marginal efficiency of investment equaled the market rate of interest. Hence, Tugwell implied

that these individuals were not rational investors in the conventional sense as described above. Instead, there was some sort of “hesitancy to invest” thesis underlying their investment decisions (Tugwell, 1933, p. 69).

Businessmen, Tugwell contended, were apt to demote the concept of the marginal efficiency of investment: They would not invest to the point where the marginal efficiency of capital was equated with the expected return of the investment because the demand function for investment under depressed economic conditions was acutely sensitive to the level of profit. During depressions, profits were unusually low; therefore, the corporate industrialist was hesitant to invest at *any* rate of interest. This formulation suggested that during business slumps investment might decrease even though interest rates remain relatively low. Thus, in Tugwell’s view, some form of government control over the investment process was called for to ensure the perpetuation of the serialization process (Tugwell, 1933, p. 69).

Tugwell further buttressed his “hesitancy to invest” theory by re-examining the long-run cubic cost curve case discussed earlier. This is where the second point of confusion arises. When “afforded protection from competitive pressures”, such a producer would maximize profits at the output level that equated marginal revenue with *short-run* marginal cost. This, according to Tugwell, was sub-optimal since average total costs could be reduced if output was expanded to the point where *long-run* average total costs were minimized (Tugwell, 1933, p. 204).

Confusion arises here because of Tugwell’s contradictory justifications for control: on the one hand, he presented his argument in the context of over-expansion as discussed earlier; on the other, he justified control because of the businessman’s reluctance to mechanize. Which way was it? How did Tugwell reconcile these two polar positions? Basically, he failed to clarify that these two situations were simply different manifestations of the same issue: the volatile nature of the investment decision. Certainly he was aware of this aspect of the issue but chose to de-

emphasize it, the implication of this being that he favored a somewhat comprehensive socialization of investment precisely *because of* the business cycle and the volatility of investment. This position was completely consistent with his vision of economic balance. But, perhaps he felt he could not state this in a more forthright manner lest he appear too eager to conform to his critics' characterization of him as "Rex, the Sweetheart of the Regimenters" (Tugwell, 1933, p. 70).

So, Tugwell then queried: How does the state actually facilitate the serialization process, particularly with respect to the social control of investment? And, was there any extant model that could be employed? Not surprisingly, Tugwell suggested that the governmental direction of investments might be patterned on the World War I experience. As noted earlier, Tugwell believed the War Industries Board, the Food and Fuel Administration, and the Price Fixing Committee - tolerated at the time because of the "controlling emergency" of the war - were significant experiments in the type of economic controls that society needed to institute permanently (Tugwell, 1928a, pp. 263-64).

In Tugwell's view, these controls encouraged individual businessmen to cooperate and coordinate their efforts instead of engaging in the legalized economic conflict called forth by the dogmatic tenets of *laissez faire*. Consequently, the "normal progress" of a decade was accomplished between April 1917 and September 1918. Progress was accelerated by a number of factors, among which were "the pooling of trade secrets" and the concomitant "simplification and standardization of materials and processes" (Tugwell, 1927, p. 365). More significantly, this process was manifested in the implementation - for the first time - of near-complete serializations. Only the end of the war halted the experiment: "As a result of this post-war lassitude and the recrudescence of old ideas, we have returned - as far as the government can effect it - to the days of 1910" (Tugwell, 1927, p. 366).

Tugwell apparently used the word “progress” to denote the adoption by industrialists of the most efficient production techniques. Had he conveniently overlooked the fact that a laissez faire policy was also aimed toward this goal? Returning again to the long-run cubic cost curve case used earlier to discuss Tugwell’s over-expansion thesis, it was clear that only one plant size was consistent with long-run engineering efficiency. The competitive pressures of laissez faire would certainly have forced the adoption of this plant size. Was Tugwell denying the legitimacy of the laissez faire goal? As discussed earlier, the answer to this question is no: Tugwell embraced the laissez faire notion of production efficiency but dismissed the assumption of perfect competition as a means of attaining it as pure folly (Tugwell, 1927, p. 210; 1933, p. 20).

Is it possible that other factors besides social controls were responsible for the “progress” made during World War I? For example, there was a willingness on the part of individuals to work overtime as part of the war effort; the increased input of this variable factor into the production function would have tended to cause an expansion of the fixed factor, capital. Was this indeed the case? Again, Tugwell conveniently ignored this dimension of the problem.

Another method of encouraging the serialization movement was through the control of the various “social aids to spreading serialization” (Tugwell, 1933, p. 73). Serial operations of a high order are impossible without the assistance of well-developed systems of communication and transportation. In this sense, these industries are clearly “affected with a public interest”. In fact, Tugwell argued, one can extrapolate this logic to many aids to serialization: financial institutions, brokerage agencies, and insurance concerns might all be considered to be “affected with a public interest”, since they too require an extensive support infrastructure. In fact, “. . . the growing number and importance of these social aids to industrial functioning makes the necessity for public control more and more apparent . . . “

(Tugwell, 1933, p. 77). But, Tugwell was unclear on how to determine precisely which institutions were affected with a public interest. Was Tugwell advocating universal government ownership of these functions? Nowhere in Tugwell's collective works is there any specific call for the state ownership of industries of the type mentioned above. This is an important point since much of the criticism leveled against Tugwell during his New Deal years was based upon his supposed affinity for communistic or socialistic remedies for the nation's economic woes. To a certain degree, however, this criticism may have been somewhat justifiable in light of the following statement by Tugwell: "Regulation [of the "social aids"] may be a prelude to public ownership; but the nature of our traditions makes it likely that we shall try it pretty thoroughly before we go on to socialization in any complete sense" (Tugwell, 1933, p. 77).

A caveat is in order here: Much of what Tugwell advocated for throughout his professional life, whether it be the social control of industry, planning, legal reform, etc., must be placed into proper historical context. Many of Tugwell's planning ideas were not pie-in-the-sky theoretical schemes; rather, these ideas flowed from solid institutional experience and experimentation. With respect to the process of serialization, Tugwell emphasized that America's wartime experience was a successful demonstration of this process (Tugwell, 1927, p. 365).

Assuming the problems hindering the serialization movement had been overcome or alleviated through government control, the next step was in the completion of the "continuous process". The latter concept entailed the integration of the myriad serial units into cohesive links. An economy composed of industries utilizing the continuous process principle would be characterized by "the even, persistent flow of all contributory goods and services from their sources to the ultimate finished thing" (Tugwell, 1933, p. 79). The outstanding advantage of the continuous process was the elimination of operations that entailed excess costs: handling and re-handling,

storage, and inefficient back-and-forth transportation. These costs arose because of the discontinuities and wanderings a product encountered along its path from raw materials to consumable good. The journey, noted Tugwell, was not coordinated or properly controlled. He suggested that it was a clarifying exercise to envision a continuum, on which one extreme lay the disorganized atomistic activity characterizing the modern economy, and on the other, the “continuous process”. The goal, of course, was to develop institutional mechanisms that pushed the economy toward the continuous process system.

In Tugwell’s view, one economy that exemplified this transformation process on a vast scale was the Soviet economy of the 1920s. Tugwell’s interest in planning for the goal of an increased national prosperity had been stimulated - in part - by his trip to the Soviet Union in 1927. Tugwell, et al., published a joint volume entitled *Soviet Russia in the Second Decade* (1928), in which the authors concurred that much could be learned by the study of the Soviet system of planning.

The Soviets, noted Tugwell, have a great respect for American production techniques. However, they believed that many American social institutions were obsolete and superfluous - a theme that also permeated much of American institutional thought (Tugwell, 1928b, p. 183). The Soviet “experimenters”, as Tugwell termed them, were attempting to duplicate American production methods while prohibiting the “business” methods of free competition, independent allocation of capital, etc. They believed that the route to rapid industrialization and prosperity depended upon central economic control. The immediate task of the Soviet controllers, observed Tugwell, was in the achievement of a “balanced” industrial system. (The reader may recall Tugwell’s reference to T. N. Carver’s description of a “balanced” industrial system as an apt characterization of the overall Soviet planning ethos.) Furthermore, the efforts of the Soviet planners could pithily be described by the Marxian slogan: “From each according to his ability, to each

according to his needs”. In order to achieve this result the planners were anticipating the inception of a truly “balanced economic system”. The latter would be characterized by, among other features, the fully developed continuous processes and serializations that were epitomized by the production techniques of Henry Ford in the United States (Tugwell, 1926b, p. 18). To Tugwell, the American equivalent of Marx’s slogan was “necessities for all before luxuries for any” (Tugwell, 1928b, p. 185). In propounding this point of view, Tugwell was not advocating a Soviet-type totalitarian system of controls for the United States; his interest in the Soviet system was of a detached and technical nature. He was staunchly committed to the preservation of American liberal ideals, but the greatest threat posed to these ideals was - in his view - not a cooperative American planning ethos but rather *the imbalances created by the corrosive and disintegrative impacts of the laissez faire capitalist order.*

Tugwell and Worker Welfare

According to Tugwell, one of the principal benefits resulting from the attainment of a “balanced” industrial system would be the vast improvement in worker welfare. One of the consequences of industrialization was that the typical assembly line worker had become a mere cog, or the “weak link”, in the serialization process (Tugwell, 1921, p. 195). Tugwell believed that the social control of industry would bring much needed relief for this worker while at the same time facilitating industry’s transition to complete serialization and the continuous process (Tugwell, 1922c, p. 284). As noted earlier, gains for the worker would result, not from the arrest or hindrance of the serialization movement, but from its logical completion. Upon this occurrence, the former assembly line worker would reap the benefits in the form of increased wages (from efficiency gains) and a new participation in the production process as a machine technician (Tugwell, 1933, p. 62). This

transformation involved an added human dimension, however: the origin of control would emanate largely from the workers themselves and not the central government (Tugwell, 1922, pp. 283-84).

There are three points of concern here. First, Tugwell seems to be contradicting himself: He stated that efficiency gains were effectively registered as increases in purchasing power in the form of higher wages. But, as was noted earlier, the blockage of this very flow was, according to Tugwell, the most serious cause of depression and unemployment. Was he suspending this problem for the sake of explicative convenience? Second, Tugwell overlooked the distinct possibility that the former assembly line worker may not be the individual who would actually fill the technical position. And, third, Tugwell's generalities along these lines were concerned with the long-term benefits of the complete serialization of industry. He conveniently overlooked the short-run implications.

If increased worker welfare lay in the completion of the serialization movement, as Tugwell maintained, then it is clear why the impetus for this development would have arisen from the workers themselves. They would only need some type of control over company policies to achieve the above. There is another potential problem here with Tugwell's analysis: even if workers were cognizant of the fact that completed serializations would be beneficial to them in the long run, they may place more emphasis on the short-run. Even if they were to participate extensively in the management of the firm, they, like their managers, may be fixated on short-run goals.

Commenting further on worker democratization policies, Tugwell maintained that the system of free competition was based upon the "concept of conflict". In accordance with the invisible hand concept, the operation of opposing interests would eventually bring forth a beneficial outcome for all concerned parties. Tugwell observed that, unfortunately, a great deal of effort might be dissipated needlessly in

the myriad encounters necessary to effect this outcome (Tugwell, 1933, pp. 140-50). But, Tugwell neglected to mention an analogous waste involved in the efforts by planners to allocate capital efficiently. Through the “conflict” of the marketplace, a price for capital is determined - the interest rate. Capital is utilized to the point where the marginal efficiency of investment equals this rate. The planner, however, does not have this guide. Consequently, allocations may be made to projects where the capital intensity is already excessive or some projects may receive an under-allocation of capital. Waste, therefore, would be a likely feature of Tugwell’s system as well.

Tugwell noted that just as the opposing interests composing the overall system were identifiable, so were the divergent groups in a single industrial enterprise. These “. . . groups . . . spend a considerable part of their effort in neutralizing the efforts of other groups, just as businesses do in competition with each other” (Tugwell, 1933, p. 154).

Tugwell identified the several groups as capitalists, workers, and technicians, and stated that the task facing the economist was in the resolution of the conflicts among them: “. . . the solution of the difficulty must lie in the domination of one of them and such a subordination of the other two as will eliminate the frictions of dissension” (Tugwell, 1933, p. 154). But Tugwell was unclear as to the reasons for the necessity of “domination” and “subordination”. This statement was clearly at odds with his repeated calls for cooperation and coordination; he simply made the statement above and proceeded to the consideration of which group should predominate. Perhaps Tugwell was implicitly invoking his concept of balance and the notion that some element of coercion may be necessary to realign economic progress toward its attainment. But, this point draws attention to a potentially fatal flaw in the Tugwellian framework: he seemed to place too much confidence in the inherent ability of human beings to cooperate in collective enterprises. The

competitive marketplace, of course, does not have to rely on this practice. And the economist need not dogmatically accept the concept of “economic man” as *only* a maximizer and one who engages primarily in conflict as Tugwell asserted. In other words, the ethic of competition compels economic agents to not be entirely reliant upon cooperation or what usually arises out of this reliance - coercion.

The capitalists, continued Tugwell, were the prevailing group of the nineteenth century, during which “resources were wasted, consumers were exploited, and workers suffered as never before or since” (Tugwell, 1933, p. 155). They have had their opportunity to control the economic forces of society and have abused this responsibility; therefore, they should be relegated to a less than dominant echelon in any discussion of future industrial organization. However, Tugwell failed to mention that economic growth during the nineteenth century was quite phenomenal. And, also, the exploitative practices of the capitalists, circa 1930, were not nearly as egregious as those of the early industrial revolution.

The technical group, Tugwell continued, has only recently ascended as a recognizable interest and, as yet, holds only insignificant power; but it possesses a nascent “unselfconsciousness” that is crystallizing into a potentially formidable force. Hopefully, Tugwell opined, this shift of control will cause a transformation of the goals of the current labor union movement. If labor leaders will come to the realization that *permanent* gains in worker welfare will be the result of completed serializations, they may use their newly acquired power to effectuate such a development (Tugwell, 1933, p. 157).

The *Industrial Discipline* can become confusing when the reader attempts to reconcile the fact that Tugwell was urging worker control of factors of production, with his more persistent emphasis on government control of the same. Was Tugwell providing, yet again, a somewhat confusing dichotomized argument in terms of who should direct the control and balancing of industry? Should “cooperation” and the

“concert of interests” concept be the guiding principles, or will organized labor or the government assume control of the planning process? Tugwell assumed that “workers, in a democracy, always have a majority of votes” (Tugwell, 1933, p. 63). Consequently, government regulation of productive facilities would be tantamount to both organized worker control and cooperation. It only remains to be seen if workers - or, equivalently, the rank and file citizenry - will effectively use the elective process to gain control of the productive facilities in a democracy. Hence, Tugwell never clearly articulated the respective roles of the key players in his scheme of economic balance as, for example, Smith and Marx had done in outlining their systems of economic order.

Summary

The purpose of this chapter was to validate the second point of the thesis of this work: the centrality, importance, and validity of balance to Tugwell’s system of thought. This chapter began with an overview of Tugwell’s concept of balance. It then examined those aspects of the modern economy that Tugwell believed were the root causes of economic imbalance: 1) *administered pricing*; 2) *unemployment*; and 3) *the lack of social controls*. This chapter exposed both strengths and weaknesses in Tugwell’s system of thought. Namely, it was clear that balance played a central and important role in Tugwell’s framework, paralleling the analogous role played by “equilibrium” in mainstream economic theory; each of the issues analyzed in this chapter underscored this point. However, the validity of balance to Tugwell’s thought - in the sense that it could be operationalized in praxis - was a point of considerable contention as evidenced by the inconsistency and incompleteness of some of his ideas as outlined in this chapter. Also, the practical application of his ideas to economic reality - particularly the balance concept - was something that bedeviled Tugwell throughout his career. As will be discussed in Chapter Seven, his

response to this would be to fundamentally redefine the legal basis of capitalism in order to make the economic system more amenable to social control.

After an examination of Tugwell's analysis of the agricultural problem in the next chapter, Chapter Six will shift the focus of this study toward a discussion of how Tugwell's analysis of the above "issues" comported with the scope, method, and significance of the OIE tradition. The purpose of this discussion will be to validate the first point of the thesis of this work: that Tugwell's work can be organized into a framework that is compatible with OIE in terms of both methodology and policy - thus firmly establishing him as an important OIE thinker.

Chapter Five

The Balanced Economy: Tugwell's Vision of the Agri-Industrial Complex

The previous chapter traced Tugwell's evolving thoughts on the necessity of the central control of industry due to corporate capitalism's inherent incapacity to provide rational and stable mechanisms for resource allocation and for the consistent maintenance of an equalitarian material abundance. Another phenomenon that Tugwell believed necessitated socio-economic controls on a central level was the relationship between the agricultural sector and the economy as a whole - a relationship that either escaped the attention of mainstream policy-makers or was largely ignored by them during the early interwar years. In 1928, Tugwell noted that our *integrated* economy was vulnerable to weakness in *any* of its parts and cited low farm income as an ominous sign on the horizon, and with the fortunes of roughly one-quarter of the population linked to the livelihood of farmers, the farm problem could no longer be ignored (Tugwell, 1928c, p. 323). By 1932, the position of the farmers had collapsed as the entire economy began its slide into the nadir of the Great Depression.

This chapter will trace Tugwell's thoughts on agricultural relief and reform, underscoring his emphasis on the need for the agri-industrial complex to be envisioned and managed as an integrated and balanced whole. The purpose of this chapter is twofold: First, it provides an overview of Tugwell's thoughts as they relate specifically to the farm problem and its relevance to macroeconomic stability and balance; in this sense, the ideas and policies discussed in this chapter will

augment those discussed earlier in the contextual review of Tugwell's career. More importantly, this chapter continues with the important task of the previous one - the validation of the second thesis of this work: the centrality, importance, and validity of balance to Tugwell's system of thought. And like the previous chapter, this chapter exposes various problematic features of Tugwell's ideas relating to economic balance, particularly with respect to its implementation.

Issue Four: The Farm Problem

During the nineteenth and early twentieth centuries, the prices of agricultural commodities in the American economy had risen in relation to non-farm prices until roughly 1920. This was largely due to the synergistic relationship between industry and agriculture as the result of the industrial revolution. In 1920-21, a severe economic contraction occurred in both industry and agriculture, with the brunt of the hardship descending upon the nation's farmers. Demand for farm products decreased sharply due mainly to the collapse of European purchasing power; this situation was also exacerbated by the termination of the artificial prices fixed for food products during World War I. The ensuing agricultural depression lasted throughout the nineteen twenties. Tugwell directed his attention to this crisis in what was perhaps his most definitive work on the farm problem, "The Problem of Agriculture" (1924b).

Agriculture, noted Tugwell, can logically be referred to as this country's most "backward industry". The basic reason for the unfortunate situation of the farmers was the lack of economic "balance" between the agricultural and industrial sectors. According to Tugwell, the monetary value of the products of each sector, when they were neither over-valued nor under-valued, *should* be roughly equivalent: "the total dollars received by either group will in the long run about equal the total number received by the other group" (Tugwell, 1924b, p. 554).

The validity of the above assumption is questionable: First, Tugwell was invoking a rather unsophisticated two-sector model that assumed that each sector did not consume any of its own products. If the value of each sector's output was considered in this light, a more reliable and valid comparison could be made. Secondly, why did Tugwell assume that the value of the output of the two sectors would be roughly equivalent? There was simply no empirical basis for this assertion. It appears that Tugwell was simply invoking this assumption to further solidify the theoretical validity of his balance concept.

But, Tugwell continued, this apparent "balance" between the values of each sector's output was, in actuality, somewhat misleading. This value was the mathematical product of the quantities produced multiplied by the prices received, and herein, of course, laid the crux of the problem. When farm prices declined, the farmer habitually increased output to maintain his current income; as a result, surpluses appeared and prices declined even further. This development translated into a loss of purchasing power for the farmer. Tugwell observed:

The number of dollars in farmers' hands at the end of the year may equal those in manufacturers' hands; but manufacturers are able to buy a relatively increased volume of agricultural goods. That there is a monetary equilibrium only makes clear the fact that there is not an equilibrium in any other sense (Tugwell, 1924b, p. 565).

Here again Tugwell contradicted himself. He stated that farming was an industry with a relatively inelastic supply: "... the supply of farm goods can expand and contract" less rapidly than that of manufacturers (Tugwell, 1924b, p. 567). And, that "it is this actual unresponsiveness . . . that results in surpluses" (Tugwell, 1924b, p. 569). But, he had previously indicated that the farmer typically increased output (in the short-run) in response to a price decline. Was Tugwell somehow confusing this with the *long-run* tendency for farm outputs to increase as prices fell as a consequence of productivity gains? He was not clear on this point.

According to Tugwell, due to the atomistic and competitive nature of the typical small farm enterprise - as reflected in the inelasticity of farm output - any abrupt changes in demand, such as downswings in the business cycle, would not be met with a corresponding decrease in supply. Unlike the oligopolistic and monopolistic manufacturer, the farmer was highly vulnerable to such drastic market swings. This vulnerability, contended Tugwell, was due primarily to the farmer's lack of bargaining power. In Tugwell's view, agriculture was an individualistic industry, and the concept of *laissez faire* was, as in no other sector of the economy, the all-commanding precept in agrarian economic thought (Tugwell, 1929, p. 277).

Agriculture, Tugwell continued, obviously embodied a great share of the "social interest"; therefore, the reliance on *laissez faire* by farmers had extenuating and profound effects on society at large. Even with a strong "social interest", the agricultural sector had failed in its potentialities. Did the farmer have the vested right to actuate any economic decision he may arrive at given his critical role in society? Tugwell thought not. The preservation of the country's natural resources stood alone as sufficient justification for the entrance of a public authority into the farm sector (Tugwell, 1929, p. 281). Moreover, noted Tugwell, since agriculture was the very basis of our civilization, special attention should be given to it, for the "intelligent use of the land is the first criterion of any civilization. The fertility of the soil is the ultimate source of wealth. When that is gone, the civilization built upon it soon decays" (Tugwell, 1935a, pp. 147-48). Since industry depended upon agriculture, a balance must be maintained if trouble was to be averted. There was, then, the clear need for government economic controls in the farm economy (Tugwell, 1929, p. 281).

The next question pertinent to Tugwell's analysis concerned the general nature of possible programs for farm relief. Fundamentally, Tugwell believed that policy-makers had a dichotomized choice in front of them: 1) Should relief programs

promise to remedy the weakness of the farmer vis-à-vis the industrialist by strengthening the former's hand in the marketplace? "This might be done . . . in any one of a number of ways, such as assisting to change the nature of the industry (making it more independent of extraneous natural forces such as the weather); or absorbing the surpluses which break markets, holding them against leaner years and so stabilizing prices; or stimulating association or cooperation in bargaining". Or, 2) should relief programs look toward some general scheme for social stabilization, "such as the control of production and consumption or the regulation of prices, into which agriculture would fit . . ." (Tugwell, 1924b, p. 576)? The answer to these questions, in Tugwell's view, was a policy approach that addressed both issues simultaneously, but the key point here was that he continued to emphasize the importance of parity and balance.

Following the initiation of the agricultural depression in 1920-21, various groups advanced a number of proposals for farm relief. None of these gained more prominence and general discussion than the McNary-Haugen Farm Bills, which "had been in and about the Congress for years" (Tugwell, 1957, p. 159). Before outlining Tugwell's proposals for agricultural control and balance, it will be useful to place his ideas within the broader policy context by reviewing his thoughts on McNary-Haugenism.

Tugwell's Thoughts on McNary-Haugenism

The original McNary-Haugen Farm Bill was introduced in Congress in 1924 by G. N. Haugen and, for a variety of reasons, had failed to pass by a narrow margin. In 1927-28, similar bills successfully passed through Congress but were subsequently vetoed by President Coolidge. The intricate details of the various bills differed, but the basic idea was to effectuate a "two-price plan"; both a domestic price and a world market price would be sustained, with the former being greater than the latter.

The Bill of 1924 was designed for the purpose of maintaining parity or balance by keeping the prices of farm products roughly in line with the general price level. The federal government would provide for an Agricultural Export Corporation to function as a buyer of commodity surpluses. The market price, however, would not be paid: a “ratio price” - equal to that of the marginal product - would be received by the farmers for their surpluses:

It would be based . . . upon the idea that the price for the whole of a crop is set by the price for which the last - or marginal - bushel of it can be sold. This is, or course, a truism in economics, if the whole crop is to be disposed of at once as it normally is (Tugwell, 1924b, p. 589).

The marginal product, or surplus, would be sold abroad by the government for whatever price it would bring. In effect, however, the prices paid American farmers would thus be determined in a market characterized by producers (European peasants) willing to accept a low price. The occurrence of this would be prevented by a “simultaneous manipulation of tariffs and of the prices for specified products which fall below the general price level” (Tugwell, 1924b, p. 589). Tugwell continued: “The tariffs are to prevent the Liverpool price from fixing our prices by prohibiting the importations that normally would occur when our prices rise higher than abroad”. The purchase of specified products at the “ratio price” would bring their prices into line with the general price level. In essence, the protection given to industries in the past, in the form of artificially inflated prices, would thus be extended to the farm sector (Tugwell, 1924b, p. 590).

Tugwell stressed that the “equalization fees” were to be the most important mechanism built into the McNary-Haugen scheme. According to the plan, the losses the government incurred on the sale of surpluses abroad were to be partially covered by taxes (equalization fees) assessed against every unit of the product sold; thus, a very large surplus would result in a small net return to the producer. Additionally,

“stabilization funds” were to be instituted by the government and “used to carry out the ‘insurance of prices’ for the organizations of farmers with whom agreements were made”. The “agreements” concerned the withholding of surpluses by farm “cooperatives” (Tugwell, 1927c, p. 665).

Some of the general objections to the McNary-Haugen Plan were that it would: 1) encourage bureaucracy; 2) stimulate profiteering; 3) invite retaliation by foreign governments; and 4) result in overproduction and more surpluses. President Coolidge listed these and other objections as reasons for his vetoes of both the ‘27 and ‘28 versions of the bill. While Tugwell partially agreed with several of these objections, particularly 3) and 4) above, he implicitly denied that Coolidge’s veto was, in fact, based on these objections: “It seems only fair to infer that the veto message proceeded rather from preconceptions of what general economic policies are best than from any desire to assist in the solution of our agricultural problem” (Tugwell, 1927c, p. 665). Unfortunately, Tugwell noted, the opposition to the Plan was based primarily on the dogma of *laissez faire*. The controls proposed were, in actuality, only nominal; in no sense was the state authorized to use coercive means to achieve desired ends. Nevertheless, Tugwell contended, “. . . they did not go far enough in the direction of control” (Tugwell, 1929, p. 279).

Price vs. Production Controls: The Necessity of Central Control for Economic Balance

Although Tugwell granted the McNary-Haugen Plan “would undoubtedly make a breach in our careful attitudes of individualism”, the course charted by the plan was - in his view - seriously flawed. What was called for was the *central control* of agricultural production. The McNary-Haugenites were attempting to *control surpluses* while the *limitation of production* should have been their immediate aim: According to Tugwell, the problem of immediate farm relief was, then, primarily one

of limiting production. But, how shall this be achieved, Tugwell queried? “The simplest scheme would seem to be one which would contain the following elements: 1) survey of the amounts necessary to meet normal needs and which will command a profitable price; 2) notice of limitation of planting . . . ; and 3) enforcement through denial of the use of railways and warehouses to produce grown on unauthorized acreage” (Tugwell, 1928d, p. 490). One can only speculate as to the specific methods employed in determining the optimal amounts to be cultivated. As discussed in the previous chapter, the controlling authority would not know with any degree of accuracy the demand and supply schedules pertinent to future production. Once again, Tugwell knew what ought to be done in the pursuit of economic balance but offered no precise plan of attack.

Interestingly, Tugwell added that this type of scheme was legitimate only within the context of a “controlling emergency” of the sort recognized by the Supreme Court. The Courts utilized the “controlling emergency” doctrine during World War I to temporarily override certain antitrust laws and to allow for increased industrial combination and coordination - measures that would ordinarily be considered as unconstitutional. Tugwell’s writings and public addresses of this time were replete with references to the “public interest” and “controlling emergency”. This suggests that Tugwell’s thoughts were already evolving toward the use of constitutional revision as a necessary tool in clearing the way for much needed structural reform (Tugwell, 1928d, p. 490). This also suggests that Tugwell’s critics were somewhat justified in their characterization of him as an extremist. This aspect of Tugwell’s controversial public image was addressed earlier in Chapters Two and Three, and more will be said on this issue in Chapter Seven.

Tugwell was concerned with both short- and long-run measures for farm relief, with the above measures representing solutions to the “problem of *immediate* farm relief”. Then, what long-run measures were needed? According to Tugwell: “The

long-run problem is this: to increase efficiency, lower costs, reduce prices, widen markets, and feed and clothe more people at less expense". But, "capital will not flow into an unprofitable industry"; therefore, production must be limited (Tugwell, 1928d, p. 489).

In Tugwell's view, the McNary-Haugenites again, as on the question of immediate relief, failed to identify the source of the difficulty: "they ignored the necessity for technical reorganization and the reduction of costs, assuming, apparently, that at no price would consumers use more farm products . . ." (Tugwell, 1928d, p. 482). The McNary-Haugenites were perhaps more correct in their analysis on this point than was Tugwell: Given that the income elasticity for food products was relatively inelastic, this was clearly an indication that at higher incomes people consumed different farm products but not necessarily significantly larger amounts of those typically consumed at lower incomes. Again, Tugwell was too vague on this point.

Shortly before the Democratic National Convention of 1928, Tugwell made public a recommendation to the Democrats on the matter of farm relief. In his "A Plank on Agriculture" (1928e), Tugwell proposed the establishment of a federal "Farm Authority" which would be "charged with the duty of determining . . . the amounts of various products which . . . ought to be produced". The critical consideration was the identification of the exact point where overproduction occurred. Unfortunately, Tugwell did not pursue the question - to any degree of specificity - of how this was to be accomplished, stating only that "the determination of the amount of produce to be allowed should be made . . . in view of the nation's needs and normal exports . . .", and that "we should use all possible scientific devices". Tugwell's recommendation - although too vague - was significant in that it represented his first attempt to actually operationalize some of his ideas within the political economy milieu of contemporary America; and, it also foreshadowed his

involvement with the major New Deal experiments in farm relief - the Agricultural Adjustment Act of 1933 and the Resettlement Administration (Tugwell, 1928e, p. 162).

But, Tugwell's lack of definitiveness is visible throughout his analysis of the farm problem. This draws attention to the question of whether his methodological approach was capable of grappling with the issues and formulating precise policy responses (The following chapter will explore Tugwell's methodology in more detail, particularly as it relates to the OIE tradition). Evidently, Tugwell was content on leaving the fine details of his proposals to planners and theoreticians. In his advocacy of economic controls, he attempted to avoid "blueprinting" by directing his "theory" toward identifying problems and suggesting *generalized* solutions (Tugwell, 1923b, pp. 107-09). Tugwell was too passive on matters that should have been dealt with more substantively. For example, he called for the voluntary limitation of production by the farmers themselves but was remiss in not clearly articulating the specific mechanisms necessary to achieve this. Only later did he begin to provide the details on how this could be accomplished, even though he had previously called for the establishment of a "Federal Farm Authority", an entity that would have presumably had the expertise and knowledge to institute the necessary - although yet unspecified - incentive mechanisms. Again, Tugwell was both contradictory and intellectually uninspired on this point.

The McNary-Haugen Plan, Tugwell continued, was deficient in actually depending too much on cooperation among the farmers for crop limitations. Since voluntary crop limitations were not likely given the atomistic and competitive nature of the industry, their attainment must necessarily be governmentally coerced "by using railroads and warehouses, already public utilities and subject to federal regulation, for the limitation of interstate shipments, to an amount calculated to meet the nation's needs, but not to ruin the farmers themselves" (Tugwell, 1928e, p. 162).

The reference to the “ruin” of the farmers seems rather paradoxical, as restrictions of crop outputs were ostensibly undertaken for the exact opposite purpose. One might conclude here that Tugwell was again unclear on the relevant time frame; perhaps he was alluding to the very short-run in this particular instance.

Tugwell augmented these ideas by calling for the establishment of “planned agricultural settlements” - obviously presaging his future activities with the Resettlement Administration:

We also look with favor upon the project of establishing, under federal guidance and with federal aid, . . . experimental, planned agricultural colonies in the Southern states, which would take land out of the unprofitable production of agricultural surpluses, and might lead the way to better and more profitable agriculture in the surrounding regions (Tugwell, 1928e, p. 163).

As mentioned above, Tugwell felt that the answer to the agricultural problem, in the long run, lay primarily in increased efficiency. His “Plank” made no direct mention of this belief, but it was clearly indicated in his call for tariff revisions, easing of farm credit, reductions in transportation rates, and revised tax structures.

According to Tugwell, efficiency gains had been curtailed because of government practices that had discriminated against the farm sector in deference to manufacturers for the purpose of creating a robust industrial economy, the latter being accomplished at the expense of the farmers’ welfare and overall agri-industrial balance. It was now time for the farm sector to receive its share of governmental assistance aimed ultimately at more efficient methods of production (Tugwell, 1927e, p. 665). This occurrence had long been delayed because of the ineffectiveness of the farm lobby relative to that of industry: “In industry, of course, there was more pulling and hauling of affected interests . . . “ (Tugwell, 1936b, p.163). “The strength and strategic situation of the Farm Bloc are such now that it seems unlikely that it can be fought off much longer” (Tugwell, 1927, p. 666). But,

Tugwell conveniently overlooked the fact that the farm sector had historically possessed a disproportionate influence on the political process relative to its size.

As in the case of industry, capital, noted Tugwell, would not be attracted to unprofitable farm operations, many of which were then succumbing to the disintegrative influences of the interwar years mentioned earlier. Consequently, capital markets were unwilling to supply the necessary funds for expansion and innovation; without this capital infusion, productivity advances would continue to lag behind those in industry.

High tariffs also militated against the profitability of many farm operations:

Some farmers benefit directly from the tariff on the goods they produce, but the vast majority of farmers cannot benefit from any tariff . . . because they produce goods which depend upon a worldwide sale, and which suffer from surpluses on a world market. The value of these crops . . . greatly exceeds the value of agricultural products which may enjoy protection. Meanwhile, all farmers suffer from the high prices of many protected goods that they have to buy (Tugwell, 1928e, p. 161).

Thus, the reduction of tariffs was a prerequisite for advances in the development of laborsaving devices in farming. A second prerequisite was the establishment of adequate credit for capital expansion. The Agricultural Credits Act of 1922 had not been sufficient, contended Tugwell. The Federal Reserve System has been managed “to throw disproportionate burdens on agriculture” (Tugwell, 1928e, p.162).

Tugwell continued to advance his case by observing that “freight rates for agricultural goods bear more than their share of the costs of transportation” and should be reduced; and “the disproportionate share of the nation’s tax burden borne by farmers is well known”. And, since much of this tax burden was local, the federal government was nearly impotent in altering this situation. However, the federal government could extend aid for roads and schools, “matters not of local but of general concern and properly chargeable to the federal treasury”. By this method,

improvement could be paid for by those with higher incomes through progressive taxation and other revenue sources of the federal government (Tugwell, 1928e, p. 162).

Tugwell believed that these reforms would, at a minimum, help to restore farm profits in the short-run. And, if the necessary steps were taken to infuse more capital and innovation into the farm sector, long-run gains would also be possible. Tugwell failed to note, however, that increased productivity would translate into more intensive cultivation of the land, and therefore, the percentage of acreage under production that was designated for retirement would necessarily be greater than the desired decrease in farm output. Similarly, he failed to note that to be truly effective in addressing the problem of excess capacity, the retirement of land must be made permanent. The imposition of quotas alone would have the unintended effect of enabling many farmers to remain on their marginal under-employed lands. Tugwell's earlier writings on the problem failed to grasp these dimensions of the problem.

Tugwell was not vague, however, on his proposal for the direct control and limitation of agricultural production by a central controlling authority. This raises an important socio-moralistic issue of global significance: for millions of people around the world, near starvation was an ugly fact of life. Then as now, the under-developed countries of the world depended greatly on the food exports of the United States. The McNary-Haugenites urged the dumping of surpluses on foreign markets at corresponding prices; this had the coincidental effect of alleviating food shortages. By comparison, Tugwell's production limitation scheme seemed inhumane and contradictory in light of his repeated emphasis on universal access to material abundance. Limiting agricultural supply to demand per the classical formula may have been an economically valid procedure when viewed from the perspective of the farmer, but from an overall societal or humanitarian perspective it was questionable.

At the same time, it placed Tugwell's analysis in a subservient methodological position by demonstrating that his concept of balance was evidently subordinate to classicism's concepts of equilibrium, the laws of supply and demand, and the profit motive.

As noted earlier, these ideas paved the way for Tugwell's involvement with America's institutional "makeover" of the 1930s. This chapter will now turn toward an examination of how these somewhat inchoate ideas of Tugwell were melded with those of others to formulate a coherent policy response to the Depression that roughly comported with Tugwell's all-important balance concept.

Balance Theorized: Tugwell's Advance Ratio Price Plan

As noted earlier, following Roosevelt's inauguration in March of 1933, Tugwell's functional status within the Rooseveltian coterie changed from Brains Trust advisor to New Deal administrator. Instead of merely offering proposals for dealing with the agricultural and industrial crises, he now became actively involved in formulating and administering policies adopted by the President for overcoming the Depression. This was particularly true in the case of the Agricultural Adjustment Administration and the National Recovery Administration. In both instances, Tugwell aided in drafting the legislation, worked to make the programs effective, and advised the President on alternatives after the Supreme Court declared them unconstitutional. Furthermore, as a highly visible functionary within the new administration, he was steadfast - and at times outspoken - in his public defense of the basic balance principle on which they were based. For Tugwell, the AAA and the NRA represented America's first steps toward a planned and balanced economy; consequently, he was keenly aware of their momentous and experimental nature, and he felt personally responsible for their survival in the American system.

In many respects, Tugwell was one of the men most responsible for the creation of the AAA in 1933. His writings on the farm problem that were discussed in the previous section were instrumental in establishing him as an expert in the field. As an advisor in the 1928 presidential campaign, he had unsuccessfully suggested his own Advance Ratio Plan, or ARP, in a lengthy memorandum to Governor Al Smith, then the Democratic candidate for the Presidency. A brief examination of the key points of this memorandum is in order because of its usefulness in drawing together and organizing the various strands of Tugwell's thoughts on the subject of farm relief and reform, and in demonstrating the striking resonance between Tugwell's thoughts on economic balance and the policy prescriptions that materialized in the forthcoming AAA.

In his memorandum to Smith, Tugwell first identified and defined the main source of the farm problem: "The surplus presents itself as the heart of the difficulty. The surplus is excess production . . . over what would be taken by consumers at a normal price, which is a price meeting costs of production and allowing a customary margin" (Tugwell, Tugwell Papers, FDR Library, Box 70. Note: Until indicated otherwise, all subsequent quotations are taken solely from this source). The harmful effects of the surplus determined the objective of his plan, which was "to maintain a ratio of some constancy between the index of agricultural prices and that of other prices . . . The annual output of agricultural commodities ought to exchange for the annual output of industrial commodities in a constant ratio". Tugwell noted that in times of falling prices, farm product prices generally fell below those of industry. When this happened, "the farm output is undervalued in terms of industrial output". Even if the total money relationship remains constant, it "still conceals an undervaluation of agricultural goods . . . because of a larger surplus problem" in agriculture than in industry. In the current "controlling emergency", there is only one way to attack the problem: "Controlling the planting of crops so as to meet the

normal demand eliminates the surplus and stabilizes prices without price-fixing". Hence, Tugwell clearly indicated his preference for direct production controls over surplus disposal.

To effectuate the necessary production controls, Tugwell proposed the following under the heading "Mechanisms of the Advance Ratio Price Plan": A governmental board, or an agency approved by the government, would serve as the marketing agent for farmers. The board would establish a ratio price, based on a statistical survey of costs, a year in advance. It would buy at the ratio price only the product of a certain acreage, estimated to meet normal (domestic plus export) needs. It would contract for this acreage, rationing it out on the basis of averages from the previous five years. The agency would establish a fund to bear losses; some profits would go into this fund, while excess profits would be distributed, on a pro-rated basis, to the participating producers. In Tugwell's view, efficiency would be enhanced greatly from the calculation of the advance-ratio price on the basis of production costs, since this would encourage larger operations on the part of the most efficient growers.

Although the fund for insuring against loss smacked of McNary-Haugenism, the heart of Tugwell's scheme more closely resembled that of the voluntary domestic allotment plan - the basic framework underlying the imminent AAA. Unlike McNary-Haugenism, Tugwell's plan attacked the surplus problem directly. Tugwell's plan included *all* agricultural products - "except those whose ratio-price history was higher than the general index" - while the McNary-Haugen plan "increases prices to domestic consumers for the benefit of only certain classes of farmers" - these "certain classes" being the large staple growers.

Reiterating many of the same points of his "A Plank for Agriculture" (1928), Tugwell - in his memorandum to Smith - again emphasized the need for sweeping reforms to address the farmers' historic disadvantages with respect to railroad rates, storage costs, and credit facilities. Likewise, on the issue of tariffs, Tugwell stressed

that these could be used with considerably more flexibility and effectiveness as a discretionary tool under his plan, depending on whether it was deemed desirable to sell surpluses abroad at less than domestic prices. By contrast, McNary-Haugenism was solely dependent upon “dumping”, a practice which, Tugwell maintained, “would seldom be advisable on account of the legitimate objections that would come from domestic consumers” and foreign producers. More fundamentally, however, he suggested that the farmers’ agency should prevent all importations except those consigned to it by contract, thereby effectively “leaving the tariff issue out”.

And, again, ubiquitously visible throughout Tugwell’s proposal were the recurrent Tugwellian themes of balance and centralization as the key solutions to the farm problem. A single agency, stressed Tugwell, acting in the interests of the farmers, would possess statistical data and expertise, which it could use to great advantage through its naturally formidable bargaining power.

Tugwell believed that under his scheme the surplus would be “cut down to manageable size”, but it would still be a problem. Even though the farm agency would consider previously production in allotting acreage for a new season, natural causes could result in crop shortfalls of up to 25 percent. Allowance for this factor, together with any variations upward, would make removal of the surplus virtually impossible. There would still be the need for surplus disposal through storage of exports.

Tugwell openly admitted that his scheme would be difficult to administer, but less so than the alternative proposals. Additionally, he anticipated possible constitutional conflicts with respect to the abridgment of the right to contract and the Fifth Amendment; but these would be the very same conflicts encountered by the various McNary-Haugen proposals as well. Tugwell queried rhetorically: If the Court rejected his scheme, would it receive enough support to work on a voluntary basis? Even if the Court accepted his proposal, ease of enforcement would still depend

critically on the level of popular support. Thus, his “own preferences would be for a more direct attack”, suggesting that Tugwell himself viewed his own proposal as somewhat of a compromise between comprehensive social controls and business-as-usual.

*Tugwell's Advance Ratio Price Plan vs. The Voluntary Domestic Allotment Plan:
Precursors to the AAA*

While McNary-Haugenism received the headlines in the 1920s, another school of thought on the farm problem was emerging that gradually captured Tugwell's interest and approval. The voluntary domestic allotment plan, or VDAP, called for a direct effort to hold supply and demand in equilibrium as closely as possible; it was this plan - as noted earlier - that would comprise the basic framework of the AAA. Although similar to the various McNary-Haugen proposals, the VDAP was more akin to Tugwell's ARP in that it stressed production controls and offered tangible inducements to farmers to curtail production. The plan included the following features: 1) calculate the total prospective sale of export crops in the domestic market (the domestic allotment) and, using historical data to establish a production baseline, allot a specific amount of production to each farmer; 2) provide for payments which, when added to the selling price, would give the farmer parity return on the domestically consumed portion of his product. On production in excess of the domestic allotment, farmers would receive only the prevailing world prices. The proponents of the VDAP argued that their scheme - in educating farmers that production above domestic demand would lower the average price - would effectively discourage excess production. Similar to Tugwell, they maintained that a viable, effective program had to begin at the *production* end of the farm problem.

Reinforcing the production control scheme of the VDAP was a land-use management approach focusing on the long-run sustainability of agriculture. The

central source of this doctrine was the University of Wisconsin and the variant of institutional economics established there by Richard T. Ely - an economist who did not disguise his sympathies for governmental intervention to uplift the farm economy (A definition of institutional economics and Tugwell's relative position within this school will be discussed in the following chapter). According to this approach, the farm problem should be attacked from a recognition that acreage under the plow was far in excess of that needed to satisfy normal demand for farm products, and much of the acreage in use was ill suited to cultivation and incapable of generating decent living standards for those who tilled it. Thus, the "Wisconsin School" vision for the uplift of the agricultural economy placed heavy emphasis on land-use planning. According to this perspective, the attention of government should focus on discouraging extensions in the cultivated acreage. The government should sponsor surveys to classify the nation's land resources and to identify their best uses; aggressive measures should then be taken to retire sub-marginal lands from cultivation and to convert them to pasture or forest. Additionally, the governmental should also invoke powers of eminent domain to buy misused lands and to withdraw them from tillage. Thus, the downdraft on farm prices would ultimately be checked and reversed.

Although Tugwell had heard of the VDAP in late 1931, he did not seriously acquaint himself with its principles until the spring of 1932. The pioneers in the formulation of the plan were Mordecai Ezekiel and W. J. Spillman of the USDA, John D. Black of Harvard, Beardsley Ruml of the Rockefeller Foundation, and M. L. Wilson of Montana State College; Wilson, in particular, Tugwell noted, was the individual who "really led the fight" because of his success at converting erstwhile McNary-Haugenites, such as Henry Wallace, to the domestic allotment idea. Moreover, Wilson - who had studied with Ely - was a staunch supporter of the Wisconsin approach to the farm problem. In fact, he preferred the latter approach to

the VDAP, but in 1932, he made a tactical adjustment by supporting the VDAP. In Wilson's view, the VDAP approach was far from ideal; nevertheless, he went along with the plan as a second-best emergency measure, hoping that its adoption would rekindle interest in a more enlightened land policy for the longer term. His hopes were not in vain, for he would exercise considerable influence over Tugwell in this respect, particularly in the formulation of Resettlement Administration policies.

Tugwell met with Ruml, Wilson, and Wallace in May of 1932, and then, at Roosevelt's request, in June he attended an agricultural conference where the VDAP was discussed in greater detail. From then on, Tugwell became the chief exponent of the plan among Roosevelt's advisors as well as the primary medium through which the sponsors of the idea could interact with Roosevelt. Tugwell's actions, in this respect, were not surprising, since the VDAP coincided with many of the suggestions he had been making throughout the 1920s.

At the heart of the farm problem during the 1920s and 1930s - and to which Tugwell's ARP and the VDAP proposals addressed themselves - was the issue of parity or balance. Parity - defined in its simplest terms - was the ratio between the price brought by an agricultural commodity and the price index of non-farm products that insured a fair price for the farmer's product. During the interwar years, parity was more than a theoretical concept; it was in effect the "battle cry" and the prescription for the farmers' woes in general. Since the agricultural depression began a full decade before the onset of the Great Depression, farm prices were significantly more depressed than non-farm prices when Depression Decade began. Consequently, many manufactured goods in the 1920s and the 1930s, particularly those used as inputs in the farm production process, cost the farmer nearly twice as much in terms of bushels of wheat as they had during the previous decade. Bumper crops and high prices resulting from the prosperous days of World War I encouraged the farmer to invest in mechanized equipment and to place more acreage into

production. When postwar demand failed to keep pace, increases in production created surpluses that flooded the markets and depressed prices. To cover the decrease in prices, farmers planted even more in hopes of recovering their investments. Increased production only created a greater surplus, which further depressed prices.

Not surprisingly, the concept of parity loomed large in Tugwell's thoughts on agricultural reform. The term, as used by Tugwell, was synonymous with his balance concept. According to Tugwell, the Rooseveltians believed that, by the principle of parity or balance, the general economic paralysis of the early 1930s was due to a systemic imbalance between the primary sectors of the economy. Commenting on the frightening depths of this imbalance during the early Depression years, Tugwell observed:

Six million farmers were bankrupt or nearly so; they could buy very little from manufacturers of other products. Workers, of course, were unemployed, and they could buy nothing. If the economy was to be got going again the old exchange (parity) had somehow to be restored (Tugwell, 1978, unpublished manuscript entitled "The Parity Principle", FDR Library, Tugwell Papers, Box 71).

In this respect, Tugwell's views were akin to Veblen's secular stagnation thesis in which the economic conditions in agriculture closely resembled those in the model of perfect competition, whereas those in industry were more representative of oligopolistic or monopolistic conditions. Under these circumstances, farmers - who were continuously pressed into higher levels of investment and capitalization - were forced to purchase their inputs in markets characterized by administered pricing and to sell their output in highly competitive markets; consequently, a purchasing-power disparity developed between these two important sectors of the economy and the entire system began to spiral downward. And, compounding this situation was the enormous debt burden of farmers resulting from their purchases of capital

equipment. With commodity prices falling, farmers were forced to service their relatively fixed or expanding debt-loads with diminishing incomes. Thus, many farmers experienced firsthand the crushing burden of “debt deflation”.

In Tugwell’s opinion, the VDAP was impressive because it was specific in its implementation procedures and politically feasible in its voluntarism. By making the farmer more socially conscious and cooperative, he felt it relieved the immediate burden of farm distress, aided in laying the foundation for a long-range land-use program, and facilitated the establishment of a regulated and balanced economy. Simultaneously, however, he believed it would encounter considerable opposition: As a novel approach to the farm problem, the VDAP bypassed the traditional remedies of tariffs and dumping, thereby incurring the wrath of the more conservative farm leaders - many of them being dyed-in-the-wool McNary-Haugenites. To counter this opposition, Tugwell began a vigorous campaign to sell the VDAP concept to the American people.

In all of his speeches and writings as Assistant and Under Secretary of Agriculture, Tugwell consistently defended the AAA. Emphasizing its voluntary experimental nature, he continuously characterized it as a temporary program seeking to achieve a dual purpose. When testifying before a Senate committee, he emphasized the experimental character of the program when pressed on whether or not the provisions of the AAA bill should be regarded as permanent or temporary.

As Tugwell saw matters:

It was thought best to leave it indefinite in this way, with discretion to withdraw the entire act, the provisions of the entire act or the provisions of any part of it at any time, in the discretion of the Executive. I might also say that it was felt that some provisions of the act it might be desired to leave permanently, unless Congress desired to repeal them . . . (Rexford Tugwell, Testimony before the Committee on Agriculture and Forestry, US Senate, 73:1, March 17, 1933).

In the short-run, the AAA was attempting to assist the farmer by reducing the “spread between costs and retail prices”, and the “spread between the prices which farmers receive and those which consumers pay”. In the long-run, it was attempting to establish parity or balance by decreasing the spread between the cost of the farmers’ inputs and the prices they received for their produce; and, in conjunction with the application of various Wisconsin School precepts, it was laying the foundation for the permanent land-use planning necessary for the long-run viability of agriculture (Tugwell, 1935a, p. 231).

Balance Operationalized: The Agricultural Adjustment Act of 1933

On May 12, 1933, President Roosevelt signed the Agricultural Adjustment Act into law, making the VDAP the federal government’s major agricultural policy (See Sternsher, 1964, pp. 170-207, the basis of this section). The long-range goal of the law was to attain parity for farmers - specifically, an economic balance between the prices received for farm commodities and prices paid for manufactured goods equivalent to the mix existing between 1909 and 1914 (1919 to 1929 for cotton). The Secretary of Agriculture was to enter into “marketing agreements” with individual farmers to reduce their production. Wheat, cotton, corn, hogs, rice, tobacco, and milk were designated as “basic commodities”. By reducing the supply of those basic commodities, the administration hoped to raise commodity prices toward parity levels. The Agricultural Adjustment Administration, or AAA, was established to administer the program, and Secretary of Agriculture Henry Wallace - with Roosevelt’s approval - named George N. Peek - the veteran leader of the McNary-Haugen plan - as AAA administrator. Why was Peek chosen given his strong antipathy toward the VDAP concept? There can be little doubt that his appointment facilitated passage of the farm bill in the Senate that authorized the AAA. Peek was a disciple of the influential Bernard Baruch, possessed

administrative experience in both business and government, and he enjoyed considerable prestige among the rank-and-file farmers. It was better to entrust this novel legislation - the Senators thought - to the mature and well-connected Peek rather than to the upstart starry-eyed Brains Trusters (Sternsher, 1964, p. 191). Consequently, the AAA was ill-fated from the outset: With Wallace at the helm of the USDA, Tugwell second in command, and Peek the chief AAA administrator, Roosevelt's initial choices of key players on the operating team fell short of giving clear-cut focus to farm policy. This line-up had the political advantage of ticket balancing, but it was decidedly not one to assure organizational harmony.

The AAA was immediately embroiled in controversy, both from external criticism and internal struggles. The delay in passing the legislation left Wallace with a dilemma: sows had already farrowed and cotton had already been planted during the protracted congressional debates over the farm program. Huge surpluses already abounded in these commodities, and Wallace feared that another bumper year would completely undermine prices and saddle the AAA with an impossible burden. So he decided to order the destruction of 6 million piglets and 200,000 sows and the plow-up of 10 million acres of cotton. The decision was a realistic one given the AAA's commitment to production cutbacks and to the preservation of the market mechanism in agriculture, but it generated a storm of protest. Critics never let Wallace forget the decision. In Tugwell's view, the delay in the passage of a farm program was a deliberate tactic on the part of Congressional Republicans to force Wallace into this unpopular decision and thereby discredit the administration's efforts as a whole (Tugwell, 1977, p. 107; 1957, p. 276).

The AAA also encountered criticism from the left, particular from the National Farmers' Union and the National Farmers Holiday Association. Both accused the AAA of serving the interests of the large farmers - particularly the American Farm Bureau Federation - and of ignoring the suffering of millions of small farmers.

Eventually, the pressure applied by these groups forced the AAA to broaden its farm programs, which led to the passage of the Federal Farm Bankruptcy Act of 1934, the establishment of the Commodity Credit Corporation and the Federal Surplus Relief Corporation, and increased spending, in general, by the Farm Credit Administration. Furthermore, the displacement of large numbers of tenant farmers due to crop restrictions was partially responsible for the creation of the Resettlement Administration in 1935; one of the primary functions of this new agency was to give concrete assistance to these displaced individuals.

Internally, the AAA was also embroiled in a bitter clash over policy. George Peek - the inveterate McNary-Haugenite - immediately became critical of the crop reduction idea. For years he had campaigned for exporting farm surpluses to foreign markets, with the government making up the difference between the domestic and foreign prices received. Wallace tried to convince Peek of the futility of dumping and the rationality of production controls, but the latter was fundamentally averse to the principles of the VDAP. Consequently, he became an obstacle to the success of the AAA. After an intense battle over the ideological tenor of the AAA, Peek resigned as chief administrator of the AAA in December of 1933 to assume the post of Roosevelt's "Special Adviser on Foreign Trade".

By early 1934, more than 3 million farmers were participating in the AAA program. They had also been organized into more than 4,000 local associations on the county level to implement production controls. The elected committees were composed of more than 100,000 farmers, and their purpose was to determine allotments for their designated acreages. County agents from the land-grant colleges worked with the committees, which greatly enhanced the power of the American Farm Bureau Federation. The program evolved in 1933 and 1934 with farmers and government agents negotiating the differences between needs and resources. In the Midwest, where corn and hog production was the greatest concern, the government

asked farmers to reduce corn production by 20 percent from 1932-1933 levels and hog production by 25 percent. In return, the government would pay them 30 cents a bushel for corn they did not raise and \$5 a head for pigs not produced. Similar quotas were developed for tobacco, cotton, potatoes, milk, rice, and wheat. The major problem, however, was that farmers exaggerated the size of their 1932-1933 crop, hoping to maximize their production for 1933-1934 as well as receive government checks. Farmers protested when the AAA questioned their 1932-1933 estimates, and out of the negotiations the final quotas were considerably less than 25 percent for most crops. The drought of 1934 further complicated the picture by dramatically driving up feed prices and forcing the AAA to allow the production of forage crops on contracted acreage. Despite the controversy, however, corn and hog producers ratified the AAA program by a three to one margin in their elections in October 1934. Tens of thousands of farmers were saved from ruin by the government checks in 1934. The Jones-Connally Farm Relief Act of 1934 added barley, rye, peanuts, flax, cattle, and sorghum as basic commodities covered by the AAA, and the Jones-Costigan Act of 1934 did the same for sugar beets and sugar cane.

But, the AAA had not been nearly as successful in achieving parity because huge surpluses still dominated agricultural markets in the United States. Because the program was voluntary, the AAA experienced a great deal of trouble getting farmers to comply with their allotment contracts. Therefore, in 1934, the AAA moved to a more regulated program through the Bankhead Cotton Control Act of 1934. Under the new law, growers received tax-exempt certificates for their contracted crop. The total of all tax-exempt certificates would equal the predetermined adjusted crop quota. Additionally, a heavy tax was imposed on cotton at the ginning level. Subsequent legislation instituted the same program for the crops of other commodities as well.

As a historically interesting factoid and as a testament to their prescient manner of thinking, both Wallace and Tugwell were innovative in seeking out ways to enlarge the demand for farm products at home and thereby absorb the burgeoning surpluses. In April 1933, for example, they argued in favor of research funding to perfect the technology of gasohol. Success in such a venture, they observed, would not only create a new market for surplus corn, but would also serve the national interest by conserving exhaustible fossil fuels. With the repeal of prohibition, Tugwell also encouraged the consumption of wine produced from domestic grapes. This bit of salesmanship - presented in an address to a Democratic Women's Club entitled "Wine, Women, and The New Deal" - prompted letters of protest to the White House from a group of Ohio clergymen (Tugwell, 1935a, p. 178).

Many conservatives described the AAA as "socialist agriculture". These and other critics were merely grandstanding for political gain, or they were simply dimwitted hysterical reactionaries, since the ostensible purpose of the AAA was to elevate farm prices *and thereby resuscitate and preserve the market system in agriculture*. The achievement of the latter was an inviolable bedrock principle of the AAA as embodied within the parity or balance concept. The real threat, however, came from those who viewed the AAA as unconstitutional. In particular, the AAA had attempted to collect processing taxes from William H. Butler and his associates, receivers of the bankrupt Hoosac Mills Corporation. They rejected the claim and sued in the federal courts. On January 6, 1936, the United States Supreme Court declared the AAA unconstitutional, claiming that agricultural problems were local, not national, issues and therefore beyond federal control. Consequently, the AAA was in violation of the Tenth Amendment of the US Constitution. The Court also complained that the federal program did not operate on the basis of voluntary contracts but on coercion.

Distraught over the Court's unwillingness to let the federal government deal with the economic crisis, the USDA prepared new legislation which became law in February of 1936, as the Soil Conservation and Domestic Allotment Act. The new law, in essence, allowed the AAA to continue by offering benefit payments to those farmers who practiced soil conservation in cooperation with government guidelines. Farmers who joined the program leased to the government the land they had removed from the production of "soil-depleting" crops and received government checks in return. Not surprisingly, many of the crops targeted by the original AAA were classified as "soil-depleting" under the new law.

Despite the controversies over quotas, constitutionality, and the general support of the commercial farming community for the AAA, it had not made much headway toward its goal of achieving parity. Indeed, the AAA, by getting badly needed money into the hands of farmers, greatly relieved suffering, but it had not restructured the farm economy as Wallace and Tugwell had originally envisioned. Farm surpluses still abounded, and only the outbreak of World War II, with its tremendous demand for food and fiber, absorbed those surpluses and achieved the goal of parity.

Tugwell ascribed the lackluster performance of the AAA to a culture of bureaucratic morass and entrenchment and to the general opposition or indifference to the AAA's underlying balance concept. The situation was complicated still more by the aforementioned disagreements at the top echelon of management. George Peek, who was made administrator at first, was induced to take the job because he thought the domestic allotment plan of the "theorists" would prove to be a failure and that his own preference for giving responsibility to the processors and subsidizing exports would be returned to. Tugwell commented: "Before the first year was out the quarrels about policy had become acute and Peek, proved wrong, was forced to resign. It was some time before the organization could recover its

morale and go on to do its job” (Tugwell, 1957, p. 371). And, surprisingly, Tugwell confessed: “I, of course, wanted to get out all along and Henry (Wallace) kept asking me not to. I didn’t want to have any part of this - I didn’t have any interest in it” (Tugwell, 1950a, p. 46).

Commenting on the fate of the original AAA and its resurrection in the guise of the Soil Conservation and Domestic Allotment Act, Tugwell observed:

The new bill, the Soil and Conservation Act of 1936, passed after the Court’s action, was better than the original one in every sense. Its operations, using a now-experienced organization, were subjected to far less criticism. It passed into the category of accepted change. The parity principle - that there should be an equality between agricultural and industrial incomes - was one it would not again be revolutionary to support (Tugwell, 1957, p. 372).

Thus, Tugwell’s involvement with agricultural reform was instrumental in establishing the balance concept within American political discourse - a momentous achievement in and of itself. And, unquestionably, the farm policies established in the 1930s provided both the philosophical tenor and the bureaucratic machinery necessary for the nation’s vast farm policies of the postwar era - a process of policy evolution and experimentation in which Tugwell played a key role in attempting to operationalize his notion of balance.

Summary

The primary purpose of this chapter and the previous one was to validate the second point of the thesis of this work: the centrality, importance, and validity of balance to Tugwell’s system of thought. In reference to the farm problem, the centrality and importance of balance to the Tugwellian framework were clear: Agricultural, like industry, also suffered from the defects of the laissez faire market system. In industry, increased concentration had impeded economic progress by the creation of artificial scarcity and by the wasteful misallocation of capital; too little

competition and too much capital were the principal defects of the industrial sector. Agricultural, however, suffered from the exact opposite condition: too much competition, as evidenced by large surpluses and falling prices, and a critical shortage of capital. Both situations militated against a balanced economy for obvious reasons, and Tugwell helped to devise interlocking plans of attack for both phenomenons.

But once again, the validity of Tugwell's balance concept was called into question because of the difficulties involved in its implementation. The two main policy pillars of the first New Deal, the National Industrial Recovery Act and the Agricultural Adjustment Act of 1933, were attempts to operationalize the balance principle and to institute an ethos of cooperation and coordination within business and between business and government. Tugwell played a key role in the formulation and implementation of both of these programs. Unfortunately, both programs - although beneficial in terms of providing some immediate relief to those adversely impacted by the Great Depression - were abysmal failures at fundamentally re-orienting the economy toward the above goals. Did these programs fail because of certain administrative defects in policy, or were they failures because the key players involved refused to cooperate because key institutions had not been significantly modified away from capitalism toward cooperation and planning? This issue will be explored in Chapter Eight.

Also, Tugwell's ideas on agriculture were not fully developed and consistent with his repeated emphasis on the benefits of mass production and economies of scale - themes that permeated much of his analysis of industry. In this respect, his specific proposal for farm reform, the advance ratio price plan, and its subsequent transmutation into the domestic allotment framework, the heart of the AAA, should be viewed more properly as a stopgap measure rather than as a serious proposal for structural reform. Surprisingly, Tugwell never formulated a systematic *planning*

framework for agriculture - based upon mass production, economies of scale, his “concert of interests” concept, and the structural control mechanisms necessary to achieve these results - like he had done for industry. For political, social, and perhaps sentimental reasons, he was somewhat uneasy with the prospect of the small family farm being annihilated by the large corporate enterprise, even when a competent central authority staunchly committed to an all-encompassing vision of social uplift guided the latter.

Chapter Six

Tugwell the Institutional

The central purpose of this chapter is to validate the first point of the thesis of this work: specifically, that Tugwell's work can be organized into a framework that is compatible with OIE in terms of both methodology and policy. The previous two chapters partially fulfilled this objective by identifying and examining the key features of Tugwell's system of thought: Tugwell most definitely had a system of ideas that represented a unique framework in addressing the economic problems of his time; this chapter will complete the above task by demonstrating the congruence of his ideas with the OIE tradition. This chapter will also demonstrate the centrality and importance of balance to the OIE planning ethos, thus further solidifying the nexus between the key ideas of Tugwell and those of other OIE thinkers.

The chapter will begin with an overview of alternative definitions of OIE, pointing out their congruence with Tugwell's approach to economics. The subject of Tugwell's departure from the economics profession, per se, is related to this issue and will also be addressed here. The chapter will then turn toward a more in-depth examination of how Tugwell's work conformed to the scope and methodology of OIE. The focus will then shift toward an examination of the planning ethos within OIE; the significance of the OIE paradigm lies in its call for the social control of economic processes in the form of various structural adjustment mechanisms or planning proposals. With respect to the latter, the analysis that follows will highlight the compatibility between Tugwell's ideas and those of his fellow OIE planners. This examination of the OIE planning ethos will also encompass the all-important

balance theme. Again, the key purpose of this chapter is to firmly establish Tugwell as a faithful practitioner of and an important contributor to the OIE tradition.

Original or Old Institutional Economics Defined

What is original or old institutional economics, and how was Tugwell's approach to economics consistent with this school of thought? This study partially addressed this issue earlier in the contextual review of Tugwell's career; as noted earlier, Tugwell's evolution as an economist was interwoven with the early stages of OIE's development. Seminal OIE thinkers such as Veblen, Mitchell, Dewey, et al. were foundational to Tugwell's intellectual development. But, there is much more to be said on this issue to firmly ensconce Tugwell's place within the pantheon of prominent OIE thinkers, both as a practitioner of its methodology and as a faithful executor of its policy prescriptions.

As William Dugger observed, the OIE tradition is defined by several salient features, all of which were exemplified in Tugwell's approach to economics: 1) process - the notion that the world of ideas and institutions is in constant flux; 2) power - a pervasive part of the economic process that heavily influences the development of institutions and the mores that underlie them; 3) skepticism - a healthy questioning of conventional modes of thought and traditional institutions; 4) dichotomy - industrial versus pecuniary institutions, or the Veblenian concept that the productive apparatus of society may be hijacked by businessmen for personal gain; 5) evolution - the belief that humankind may better itself through ceaseless institutional adjustment and experimentation; 6) holism - the idea that economies are embedded in societies and cultures, thus the study of economics must be contextual and interdisciplinary; and 7) instrumentalism - the belief that economics is not a wertfrei discipline and that the value system most amenable to institutional adjustment and experimentation is Dewey's instrumentalism (Dugger, 1992, p. xx).

In a similar view, Ron Stanfield eloquently conveyed the essence of OIE in his 1999 presidential address before the Association for Evolutionary Economics. Stanfield spoke of the pressing need to establish “economics as a cultural system to which a critical attitude must be applied if we are to have any confidence in the generality of its outlook and conclusions” (Stanfield, 1999, p. 245). In contrast to conventional economics, OIE asserts that human wants and technology are endogenous to the human social and cultural system. Thus, the scope of OIE is grounded in the belief that “theoretical and empirical examination of the social process by which these changes occur is essential to the comprehension of the economic activities of any human group” (Stanfield, 1999, p. 234). Of particular concern to OIE is the process of institutional adjustment, with “institution” being defined as “a cluster of mores that configures power or authority over things and people that are relevant to the material and social continuity of human life” (Stanfield, 1996, p. 132). Stanfield asserted that institutional adjustment is *the* economic problem for OIE and that this adjustment process is a reflection of society’s evolutionary, holistic, and interdependent nature; therefore, economics methodology and policy must also reflect these salient features (Stanfield, 1999, p. 235).

The methodology of OIE is that of the comparative method or the critical historical method as described by Stanfield (1999). In short, this method employs pattern modeling or story telling in conjunction with instrumental reasoning. The emphasis is first upon a holistic and evolutionary purview followed by an instrumental validation or “praxis test” of theory and policy through participant observation. Accordingly, social science is then transformed into purposeful social reform through a trial-and-error adaptive process (Stanfield, 1999, p. 237). As Stanfield observed, both Tugwell and John Kenneth Galbraith were outstanding practitioners of this approach (Stanfield, in Louca and Perlman, ed., 2000, p. 91).

The significance of the OIE approach rests largely upon its evolutionary emphasis that “introduces social change and therefore power and culture into the analysis” (Stanfield, 1999, p. 238). This approach, in tandem with the emphasis on the endogeneity of human wants and technology in the human system, prompted several prominent OIE thinkers (Tugwell, 1927, 1933; Gruchy, 1947; Hamilton, Polanyi, 1957; Galbraith, 1967; Stanfield, 1996) to question the conventional market view and explore the role of the administered economy as both a determinant of socially structured inequality and as the impetus behind the countervailing undercurrent of reform (Stanfield, 1999, pp. 238-39; in Tool, ed., 1984, p. 30). As Stanfield maintained: “In the institutionalist view, the growth of the administered economy is part and parcel of the inherent logic of the combustible admixture of industrial technology and market capitalist institutions” (Stanfield, in Tool, ed., 1984, p. 29), and the corporate welfare state is the outcome of a spontaneous reform process directed at preserving the fabric of social process. And, Stanfield continued: “The thesis that the industrial social economy contains a logic of reform toward increasing collective and state action has always been a strong theme in institutional economics” (Stanfield, in Tool, ed., 1984, p. 30). To wit, OIE economists have typically supported the stock Keynesian measures aimed at aggregate demand stabilization, but more significantly, they have emphasized the absolute *necessity* of structural policies or direct adjustment mechanisms, affirming Keynes’ more ambiguous call for a “somewhat comprehensive socialization of investment” (Mitchell, 1950; Clark, 1932; Tugwell, 1933, 1935; Ezekiel, Gruchy, 1939; Galbraith, 1967; Tool, 1984; Dugger, 1992). But, of more relevance to Tugwell’s thought and to this study, OIE structural policy also revolves around the concept of economic planning. Therefore, Tugwell’s planning ideas and their relation to those of other OIE thinkers must be explored.

As will be demonstrated in this chapter, Tugwell's approach to economics certainly exemplified the essence of OIE as described by both Dugger and Stanfield. Indeed, Tugwell's approach *emphasized* instrumentalism and holism by recognizing the contributions of various broad modes of inquiry and critical analysis. Tugwell broadly divided the work of the economist into four distinct categories: There was the theorist who possessed the intuition to make deductions about the functioning of economic society and who sought new ways to improve economic organization. There was the researcher who verified the theorist's conclusions using the tools of inductive analysis and who critically examined competing theories. There was the teacher who initiated students to existing economic problems in an effort to activate their interest in institutional adjustment and social change. Finally, there was the historian who presented history as the record of humankind's efforts to grapple with major economic problems, emphasizing the need to view economic doctrines not as isolated theories but as proposals for economic change embedded within an institutional and historical context. These four perspectives, Tugwell observed, held a common belief in the experimental attitude. According to Tugwell, the overarching purpose of economics was social uplift - the necessity of reaching economic goals that had been sighted but not yet attained. These goals were largely discernible and definable, but institutional impediments blocked their attainment. Therefore, he firmly believed that it was well past the time for intellectual traditionalism to be supplanted by experimentation (Tugwell, 1924c, pp. 399-420; 1935a, pp. 200-01).

As demonstrated earlier, Tugwell's analysis of the political economy of America was much more than a superficial description of the inner workings of a complex system of institutions; rather, he believed that institutionalists had issued a clarion call for the structural reform of American corporate capitalism. He observed:

Any problem has ethical implications if it really is a problem . . . The ethics involved in finding answers to the problems of economic life is two sided, for not only do we judge conduct by its outcome but the very standards of conduct which *are* ethics are to be thought of as instrumental . . . What is wanted is the kind of conduct that leads to higher living levels and greater achievement (Tugwell, 1924c, pp. 414-15).

In other words, by linking economic experimentation with the ethics of instrumentalism, Tugwell believed that the appropriate answers to existing problems would be forthcoming. The above quote also suggests that Tugwell viewed economics and ethics as going hand-in-hand in determining important political economy relationships. The economist's primary role was to amass a store of technical knowledge so as to be able to search for the proper public goals. In Tugwell's view, these goals were not fixed or immutable, but rather they were subject to constant reexamination and revision (Tugwell, 1924c, p. 418).

As will be evident shortly, Tugwell's methodology and policies accorded well with OIE's recognition of both the "inherent logic" of the economic process and the "logic of reform" in policy formulation (Gruchy, 1947, p. 620). And like many of his fellow institutionalists, Tugwell was a strong advocate of the corporate welfare state and its progressive policies aimed at both reform and restructuring. And, clearly, Tugwell's political economy also exemplified Tool's celebrated social value principle: a policy should be pursued if it eventuates in that "which provides for the *continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge*" (Tool, 1979, p. 293).

OIE and Social Control

This section is not intended to be an exhaustive examination of the issue of social control in OIE thought since this issue goes well beyond the scope of the present study; certainly, however, it must be discussed in more detail, particularly when this

chapter turns toward an examination of the OIE planning ethos shortly. Rather, the purpose of this section is to suggest a possible explanation as to why Tugwell abandoned the economics profession following his New Deal experience. This particular issue is addressed here because it is interwoven with the foundational concepts, methodologies, and definitions of OIE. The mini thesis proposed in this section is that Tugwell's shift to political economy, far from representing an abandonment of OIE ideas, demonstrated his continued adherence to a central tenet of OIE thought - that of social control.

There is a remarkable consistency between the relatively current and representative descriptions of OIE offered by Dugger and Stanfield in the previous section and those of Tugwell's generation of thinkers. This underscores the important point that OIE truly possesses a time-honored "identifying badge" of characteristics. For example, J. R. Commons, eschewing the rigid and axiomatic nature of orthodoxy, took a much more holistic view of economic "theory":

As we proceed with our investigation, we have a changing hypothesis, taking in new factors or retiring older ones, always seeking to make less utopias which our minds construct. Thus theory becomes, not only a mental process for investigation of facts, but becomes also an interpretation, correlation, and expectation of facts (Commons, 1934a, p. 734).

In other words, rather than erecting a newly refined body of what is traditionally accepted as economic theory, OIE thinkers - both past and present - have turned their attention to solving what has seemed to them to be the more important problems in the functioning of the economy: They conceive economics as being a functional tool for the direction, control, and improvement of the economy, rather than a logical derivation of the implications of a given set of assumptions. Similarly, C. E. Ayres held that "the function of economic theory . . . is to take cognizance of the social needs of the day" (Ayres, 1918, p. 85). Reaffirming this view, Tugwell observed:

Theory is a product of the thought process; and, if we may assume that thought is not merely random mental activity but is always that attempt to resolve some difficulty, we may then go on to a definition of theory as sustained thought about some difficulty of practice. Theory arises because of the inadequacies of the customary way of managing affairs (Tugwell, 1923b, p. 107).

And, in much the same spirit, J. M. Clark offered the following:

Economic theory should be actively relevant to the issues of its time and it should be based on a foundation of terms, conceptions, standards of measurement, and assumptions which is sufficiently realistic, comprehensive, and unbiased to furnish a common meeting ground for argument between advocates of all shades of conviction on practical issues . . . The center of theoretical interest at present is in price economics. If theory is to take its proper place, the center of interest must be shifted and price economics must become a subordinate part of social economics (Clark, 1918, pp. 280-82).

Hence, these OIE thinkers concurred that economic theory should be actively relevant to the current problems and social needs of the day, i.e., that it should “contribute scientifically (sic) to economic reform”, and that it is needed because of the excessive formalism of orthodoxy (Clark, 1936, p. 53).

OIE thinkers, both past and present, were justified in their insistence upon a thorough overhauling of the basic assumptions, scope, and methodology of economic inquiry in light of the many pressing political economy problems of the day. Pursuant to this, Walton Hamilton provided a detailed account of what, in his view, constituted proper economic “theory” and why OIE alone met the necessary criteria. He contended that any body of economic doctrine that aspired to the name of economic theory must meet five critical tests: 1) economic theory should unify economic science, in other words it must be holistic; 2) economic theory should be relevant to the modern problem of control; 3) the proper subject matter of economic theory is institutions; 4) economic theory is concerned with matters of process, in other words, economic processes should be conceptualized as being part of a “unified whole” or a dynamic institutional matrix; and 5) economic theory must be

based upon an acceptable theory of human behavior, or in other words, homo economicus is entirely unsatisfactory in capturing the complexities and nuances of human nature (Hamilton, 1919, pp. 309-18).

These points clearly parallel the contemporary definitions of OIE cited above, and all of these points are consistent with Tugwell's approach to economics as described in this and earlier chapters of this study. But, point two is of particular interest here. Hamilton's requirement that "economic theory should be relevant to the modern problem of control" opens the door to a discussion of the OIE planning concept (Hamilton, 1919, p. 312). Not surprisingly, this point has frequently generated sharp disagreement among the economics profession, writ large, but generally not within the OIE fold per se, for it is a major unifying theme of OIE thought - the attempt to convert economics into a discretionary tool for the direction and control of the economic system. This issue also explains, to a significant degree, why there is considerable dissent among history of economic thought historians as to the proper place of OIE within the economics discipline. In the view of many mainstream economists, economics is not and should not be concerned with the problem of control or planning. These thinkers, as Lionel Robbins observed, view their discipline as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins, 1949, p. 16). George Stigler similarly defined orthodoxy as "the study of the principles governing the allocation of scarce means among competing ends when the objective of the allocation is to maximize the attainment of ends" (Stigler, 1947, p. 12). And, even the eclectically minded Kenneth Boulding defined economic theory somewhat narrowly as "a body of general principles and a discipline of logic which may be applied to the interpretation of all economic problems, past or present" (Boulding, 1941, p. 8).

Viewed from these mainstream perspectives, the OIE school of thought is indeed a radical and controversial departure - particularly in its emphasis upon social reform and control. This ongoing methodenstreit between OIE and orthodoxy is clearly visible in literature that encompasses a century-old struggle over the “soul of economics”, with the conflict reaching its apogee during the interwar years - Tugwell’s heyday in terms of both his positive influence and his undeserved notoriety. The aforementioned article by Hamilton (1919) serves as a prime example; its significance was twofold: First, it was clearly articulating a new mode of economic analysis that was markedly different than orthodoxy, and second, its publication in the *American Economic Review* demonstrated the centrality and expanding influence of OIE ideas. In fact, this article was largely responsible for establishing the term “institutional economics” within the profession. J. R. Commons repeated this pattern in articles in which he attempted to refine the meaning of “institution” by examining the nature of human transactions (Commons, 1931, 1936). He noted: “Since institutional economics is behavioristic, and the behavior in question is none other than the behavior of individuals while participating in transactions, institutional economics must make an analysis of the economic behavior of individuals” (Commons, 1931, p. 654). Ayres reaffirmed this perspective by challenging the conventional assumptions concerning human nature and motivation. By rejecting Bentham’s “felicific calculus”, he was attempting to broaden the scope of economic inquiry and lay the epistemological foundation of OIE. Thus, he too was laying the necessary groundwork for the reconstruction of economics and the activation of meaningful social policies (Ayres, 1936; Mitchell, 1919).

As further evidence of OIE’s successful inroads against orthodoxy, Paul Homan penned a vitriolic straw man attack against institutionalism in which he observed the following: “The supposed existence of a distinguishable body of economic

knowledge or theory properly to be called institutional is an intellectual fiction” (Homan, 1932, p. 10). Homan failed to support this statement with any substantive arguments, which seems to suggest that he was simply grasping at straws and hurling bombs in futility and desperation at OIE’s growing appeal and influence. Evelyn Burns, one of Tugwell’s Columbia colleagues, launched a similar smear attack. She noted: “Institutionalism needs a coordinating body of theory. There is no inherent reason why orthodox economics should not supply this framework, but its emphasis has probably tended to discourage peculiarly institutional work” (Burns, 1931, p. 80). At best, this statement may have foreshadowed the emergence of Williamson’s and North’s new institutional economics in the years to come. At worst, it is a blatant distortion of both OIE and orthodoxy in that it grossly overstated the absence of a “coordinated body of theory” in OIE and understated orthodoxy’s methodological formalism and rigidity. Likewise, in an effort to discredit OIE for its apparent lack of a unifying methodology, Abram Harris actually *made the case for* the methodological collectivism of OIE. According to Harris, there were three types of institutionalists: 1) the “quantitative-statistical”, i.e., W. C. Mitchell; 2) the “critical-genetic”, i.e., Veblen and Sombart; and 3) the “class-struggle” theorists, i.e., Marx. Harris observed: “These three types of institutionalists possess the common trait of departing from traditional economic theory . . . But there the thread breaks off. From the standpoint of the philosophical apprehension and interpretation of economic experience, the difference between these three types of institutionalists are so wide that their common departure from classical theory is almost overshadowed” (Harris, 1932, pp. 723-24). What exactly was his point? He really had none. Like Homan and Burns, Harris demonstrated little in his argument except for his firm grasp of the obvious (Harris, 1948, pp. 78-80). If nothing else, these attempts to discredit OIE convincingly illustrated one thing: OIE’s elevated status during the interwar years was clearly making the orthodox camp nervous, and as evidenced by

the above statements, their rejection of OIE was for the most part groundless. Furthermore, as advocates of a body of thought that espoused the virtue of competition and its supposed benefits, mainstream critics of heterodoxy conveniently refrained from applying this very same virtue to their own discipline.

Methodological dispute has not been limited to the polarized struggle between the OIE and orthodox camps; there has always been a healthy internecine conflict within OIE itself. William Barber characterized Tugwell's type of institutionalism as "Position 1 Institutionalism". According to Barber, it was a direct outgrowth of the ideas of Veblen: "Veblen's thinking lent weight to those disposed to call for a regime of centralized planning in which public authorities controlled the allocation of resources. The public interest, as seen through their lenses, would be well served only when the state was involved directly in decisions on pricing, production, and capital investment" (Barber, 1994, p. 570). As discussed in detail in Chapter Four of this study, these were precisely the areas of the economy for which Tugwell attempted to establish structural control mechanisms.

A second strand of institutionalism, dubbed "Position 2 Institutionalism", also vied for the ear of the policy-maker and the politician. Richard Ely, J. R. Commons, S. N. Patten, and others had articulated doubts about the formalism of orthodoxy and about the social morality of laissez faire and corporate capitalism since the mid-1880s. The central source of this alternative approach was the University of Wisconsin, where the teachings of Ely and Commons held sway. Barber observed: "State intervention also figured centrally in this call for constructive action. But the functions prescribed for government stopped short of comprehensive control over pricing and production throughout the economy" (Barber, 1994, p. 570). Both strands recognized the fundamental importance of economic balance, but the proponents of "Position 2" placed more emphasis on social legislation and public regulation in lieu of planning, since they recognized the practical limits to the latter

in light of the debacle of Tugwellian policies during the first New Deal (Barber, 1994, p. 584). "Position 2" policies would dominate much of postwar OIE thought.

Clearly, the debate over the degree of social control was - and continues to be - a divisive issue both within and between the various paradigms in economic thought. This is clearly visible in the fate of "Position 1 Institutionalism" following its nearly complete fall from grace by 1936. For example, at mid-century, a slightly more subdued *methodenstreit* between OIE and orthodoxy is apparent in the literature, perhaps because of institutionalism's less emphatic insistence upon social control during this period, due to its partial displacement by the ascendancy of Keynesianism and the neoclassical synthesis. In terms of methodology, John Gams wrote of the need for institutionalists to recognize certain generalizations of traditional price theory, namely, the law of diminishing returns and a watered-down form of equilibrium. Furthermore, he credited orthodoxy with having made positive contributions in the fields of imperfect competition and employment theory (Gams, 1946, p. 5). Similarly, Morris Copeland implicitly acknowledged the quantitative contributions of orthodoxy. For example, he identified two broad points of agreement that should be observed by all economists to help span the chasm between institutionalism and the "system theory" approach of orthodoxy: 1) "Hypotheses should be put in a form that will fit existing data"; and 2) "Equations that do not lend themselves to empirical exploration are commonly lacking in objectivity and definitiveness of meaning; it is unwise to depend extensively on such subjective equations in economic analysis" (Copeland, 1951, p. 62). This statement is a clear indication that there was, in Copeland's mind, a common methodological nexus between OIE and orthodoxy. Along these same lines, Joseph Dorfman observed: "The current period is one of consolidation of gains . . . However, an era of inflexibility of theory may occur again, and then once more there will be vigorous protest, doubtless under a different name than that of institutionalism" (Dorfman,

1951, p. 81). And, these themes are echoed in the contemporary literature as well. Bob Coats observed a melding of the methodologies - and by implication, the policy goals as well - between formerly rival camps (Coats, 2000, pp. 147-48). Similarly, Sheila Dow noted: "The virtues of logical consistency, the importance of empirical testing, and the capacity of the internal logic of economics to settle arguments have all been impressed upon heterodox economists by orthodox economists as attributes of a progressive discipline" (Dow, 2000, p. 169). Daniel Fusfeld went so far as to express this development as a definite trend or "proposition" in the evolution of heterodox economics. He observed: "Heterodoxy often becomes orthodoxy, and orthodoxy often becomes heterodoxy, as the economy changes, as the social context of economic thought changes, and as ideas develop and change" (Fusfeld, 2000, p. 171). By way of example, Fusfeld pointed to the changing attitude toward government intervention by liberal reformers. During Tugwell's heyday, government intervention was intended to be an aggressive frontal assault aimed at the very roots of the structural instability of the capitalist order. Presently, this intervention is confined to the margins of the economic system, where the policy-makers are resigned to "cleaning up" after the market system by addressing the stock textbook categories of market failure: externalities, public goods, common pool resources, etc. Fusfeld observed: "Yet underlying these issues is another commitment to methodological individualism: decisions about these matters are to be made through democratic political procedures based ultimately on the voting preferences of individuals. The market economy, while not perfect, relies on political democracy to solve its problems" (Fusfeld, 2000, p. 173). The common thread between all of the above statements, whether implied or stated explicitly, is that the problem of institutional reform and social control was either displaced by other concerns, principally those of a more conventional microeconomic or macroeconomic nature, or was pushed further into the fringe of radical political

economy during the postwar period. Given this trend, Tugwell no longer felt at home in the economics discipline, and he turned his back on the profession shortly after his arduous New Deal experience. As will be demonstrated by this study, despite this transition, he would remain staunchly committed to the OIE value foundations that underpinned his newly emerging political science framework.

The Scope and Method of OIE: A Comparative Look

The purpose of this section is to examine more closely the scope and method of OIE to demonstrate its compatibility with Tugwell's evolving political economy. To this end, this section will demonstrate the commonality between the key ideas of Tugwell and those of his OIE contemporaries, namely, Ayres, Clark, Commons, Hamilton, and Mitchell. The section after the next will then use the same approach in discussing the significance of OIE as manifested in the planning ideas of Clark and Mitchell vis-à-vis Tugwell.

As noted earlier, an important dimension of OIE thought is its conception of the economy as being an integral part of the institutional matrix of society; the purpose of the "embedded economy" is to serve the needs of society as a whole. This instrumentalist perspective dictates that the OIE economist views his discipline broadly as "the attempt of thinkers . . . to come to grips with the problems of their times" (Tugwell, 1924c, p. 412). Augmenting this pragmatic approach with an evolutionary perspective, the OIE economist also views the economy as being in a state of constant flux, with new problems ceaselessly arising that require substantive policy attention. The resolution of these problems requires an adaptive trial-and-error process in both policy and conceptual approach.

Accordingly, OIE economists take a rather broad and encompassing view of the productive or social provisioning process. In their view, this process is not merely the grinding out of goods and services by an automatic machine that is guided by the

invisible hand. Rather, it is an integral facet of the total social milieu and an exceedingly complex technological and institutional process. Nevertheless, it is subject to direction and control.

One of the key problems concerning the social provisioning process is the manifestation in various forms of the Veblenian dichotomy. The malfunctioning of the economic system is due primarily to the conflict, or the lack of congruity, between technological and institutional processes and characteristics. This prompted W. C. Mitchell to perceive the business cycle as being dependent upon a “particular scheme of institutions”; therefore, the understanding of these complex institutional arrangements is/was of fundamental importance to OIE (Mitchell, 1927, p. 61). C. E. Ayres perceived this problem in a similar light:

If the productive potency of our society constantly threatens to overflow its distributive arrangements, the complete explanation of that situation must eventually take account of the dynamic character of technology itself; and if the distributive arrangements of our society fail to adjust themselves to prodigious gains in productive efficiency, the complete explanation of that aspect of the case must take account of the static character which our institutions share with all of their kind (Ayres, 1948, p. 227).

In Tugwell’s view, it was the repeated insistence upon moribund and past-binding institutions such as “competition, on voluntarism, and on the sacredness of the right of each to do as he sees fit with the property to which he holds title” that stood in the way of an effective coordination of industry (Tugwell, 1933, p. 137). Furthermore, if society was to achieve some coordinative scheme for industry, Tugwell insisted, “we need, as a point of departure, a description of going industry rather than a traditional attitude. Only when we substitute a real picture for the ideal one do we reach a workable basis either for understanding or for reorganizing effort” (Tugwell, 1933, p. 143). This substitution of a more realistic understanding of the modern industrial economy for the “traditional attitude” is a timeless hallmark of OIE.

The social provisioning process was, in the view of Walton Hamilton, “dynamic, erratic imperative”. Therefore: “Public policy can employ no single method of attack. Industries are moving at various tempos in different directions . . . The national economy is an intricate affair; the attack upon its disorders must go forward case by case” (Hamilton, 1940, pp. 81-82, 96). Accordingly, Hamilton observed: “The task of keeping industry the *instrument* of the commonwealth is as arduous as it is everlasting” (Hamilton, 1940, p. 99; italics added).

OIE economists have argued for years that the economic system under the regime of modern corporate capitalism has not produced the quantity of goods of which it is capable; nor has this particular institutional arrangement distributed the artificially restricted output in a sustainable, balanced, and equitable manner. This prompted Hamilton to remark that we:

can hardly escape the conclusion that the economic order yields far less of the wherewithal of the living, leisure, and opportunity than even as a minimum we have the right to expect from it. It has served us none too well, is only partially under our control, and still presents a turbulence that awaits the domesticating touch of the future (Hamilton, 1938, p. 2).

Similarly, Mitchell pointed to the malfunctioning of an economic system that adhered to the following description:

For, in nations where a few have income sufficient to gratify trifling whims and where many cannot buy things required to maintain their own efficiency or to give proper training to their children, it can hardly be argued that the goods which pay best are the goods most needed (Mitchell, 1927, p. 172).

Tugwell also lamented the domination of the market mechanism and the market mentality and their persistent failure to rationally determine the provisioning needs of society and to satisfy them in the most efficient manner. With this in mind, a useful and workable theory of economics, observed Tugwell, should clearly define the *goals* of the industrial system. Arising from this evolving realization was:

a notion of industry as one social mode of functioning to be devoted henceforth to new ideals. Industry ought perhaps to supply the world with goods, but equally important, it ought to supply its workers with a good life . . . It ceased to be a matter of urgency whether some individual enterprises were protected in their rights; what was more important was the efficiency with which the organization fulfilled its social functions (Tugwell, 1922a, p. 332; 1930, pp. 454-55).

Mitchell similarly viewed production as not merely the “process of making goods, but also as a set of human activities in which the workers are being cramped or being developed”. And, in light of this realization, “economics will lay less stress upon wealth and more stress upon welfare. Welfare will mean not merely an abundant supply of serviceable goods, but also a satisfactory life filled with interesting activities” (Mitchell, 1950, p. 381). And, Ayres further reinforced this OIE conception of the economic process: “The whole idea of an economic system is contingent on the assumption that production and distribution coincide and are different aspects of one and the same thing” (Ayres, 1939, p. 467).

Standing in sharp contrast, then, to their orthodox counterparts, OIE economists perceive the social provisioning process in a manner that is both critical and holistic. In their view, the economy is much more than a vast impersonal mechanism governed by the forces of supply and demand under the transcendent purview of scarcity. Instead, it is a social and cultural phenomenon intertwined with the unfolding of historical events - but one that is amenable to purposeful social control. OIE thinkers are convinced that the modern industrial system has not made full use of its productive potential; indeed, they go even further by suggesting that there is a persistent trend away from the optimum use of resources under modern corporate capitalism. Thus, OIE thinkers are concerned primarily with the efficiency of the whole system, gauged not by businessmen but rather by the overall welfare of society, and scarcity - as defined by orthodoxy - is certainly not a bedrock principle of OIE.

Even though Tugwell acknowledged that humans lived in a finite world - a world in which there was certainly diminishing returns with a given technology - he nevertheless rejected the classical notion of scarcity. He observed:

Those nineteenth century economists who formulated the so-called dismal laws of economics, neglected the one obvious fact that “gives away the whole show”. Man need not press upon his food supply if he wills not to and so can genuinely raise the levels of living; diminishing returns will never set in so long as man continues to exercise his intelligence. These economic generalizations turn out not to be natural laws at all but merely a statement of the conditions of life in an undeveloped society (Tugwell, 1924b, p. 391).

Orthodox theory, ever since the days of David Ricardo, has been fixated on the principles of scarcity and diminishing returns. And, in Hamilton’s view: “It is common among too many of us to hypothecate a world of scarcity in which humanity is the prisoner. Man is Alice in a kind of Blunderland who has to run as hard as he can to remain in the same place” (Hamilton, 1941, p. 170). Both Tugwell and Hamilton objected to the orthodox obsession with principle for the sake of expository elegance since this tended to obfuscate deeper truths, such as that concerning resources: Diminishing returns simply did not possess the degree of universality and gravitas as depicted by conventional economic thinking. Hamilton argued that resources were not “given” in the classical sense. In fact, they were “not primary, but derivative. They are natural resources in view of the knowledge and techniques which currently we bring to them” (Hamilton, 1941, p. 171). The institution of private property - buttressed by the concept of scarcity - was another classical shibboleth intended to preserve existing configurations of power and privilege. Hamilton observed, “if the common good is to be served, an economics of scarcity must give way to one of abundance . . . liberty and property stop short at the line marked out by the general welfare” (Hamilton, 1941, p. 175).

J. M. Clark also took a rather pessimistic view of the effectiveness of orthodoxy to deal with the problem of welfare and social reform. He observed the following:

When Marshall wrote his *Principles of Economics* the age seemed an age of self-reliant foresight beyond other ages, and this is the force around which nineteenth-century economics centers. The twentieth century is an age which, beyond other ages, is aware how much man is molded by his environment, and is deliberately undertaking to control this molding process. This fact must be a dominant note in the constructive contributions to theory in the immediate future (Clark, 1936, p. 98).

And, it is for this reason that Clark criticized his orthodox counterparts who “have been content to let the market decide the uses to which economic goods should be put. I am suggesting that they make a declaration of partial independence from the market, which is a biased instrument for recording values . . . “ (Clark, 1947, p. 129). Clark believed that the individual was not the best judge of what was in his own best interests in terms of social welfare; and any system of thought that purported to be concerned with public policy that ignored this fact was incomplete and inadequate. Moreover, economic progress will only occur by employing a trial-and-error instrumentalist approach as its primary tool of analysis. Clark also noted, “it cannot be accomplished through the static conception of independent demand schedules or the static ‘ideal’ of marginal utility” (Clark, 1936, p. 127).

Likewise, Ayres proposed to find the meaning of the modern economy in an analysis of it as a social and cultural phenomenon. He noted that OIE intended generally to find the answers to important problems and questions in “the interplay of institutions and technology” which are the “basic analytical principles” of OIE (Ayres, 1951, p. 52). In Ayres’ opinion, it was the distinction between these two Veblenian aspects of economic life that he believed held the “kernel of a general theory of social and economic development” (Ayres, 1948, p. 225). The purpose of economics, Ayres insisted, “Is an attempt to achieve fuller understanding of the

present social order. Such an attempt, if successful, should lead to a fuller appreciation of the merits, advantages, and possibilities of our society” (Ayres, 1952, p. 3). According to Ayres, economic analysis provided no universal or final answers; it simply revealed the nature of industrial instability, and it is toward this instability that a “pragmatic planning” effort must be directed (Ayres, 1952, p. 204). Similarly, Tugwell insisted that the rules of conduct must necessarily change as industrial conditions change:

The good in medieval life is an insufficient good for our life; the good of the eighteen-nineties is an insufficient good for our life; and it may be that the good of the twenties will be an insufficient good for the thirties - certainly it will be if the great shifts of control and productiveness which now seem imminent materialize at all (Tugwell, 1924b, pp. 416-17).

Not surprisingly, Ayres - like Tugwell - was also a staunch critic of orthodoxy, and there was strong agreement between their views. Ayres argued that the traditional point of view, based upon methodological individualism, grossly misconceived the social dimensions of the economic problem. He firmly believed that the social economy was quite capable of becoming one of abundance and that industrial production could be “prolific beyond the wildest dreams of only a generation or two ago”. The popular impression that abundance was an unattainable ideal was based on a misconception of social versus personal needs: “The proper test of abundance is not individual wantonness but social availability” (Ayres, 1952, p. 404). As Ayres maintained: “Abundance can be had only through the medium of social justice, and social justice can only be had through the medium of abundance. Abundance and justice define each other. It is only because this is so that the industrial economy makes sense” (Ayres, 1952, pp. 406-07).

Commenting upon this concept of material welfare and its relationship to economics, Tugwell insisted that the concept of social welfare must include “the

ideas of progress, prosperity, and intelligent direction” (Tugwell, 1922a, p. 341).

Intelligent direction or social control was necessary because:

if the complex system remains unguided or guided only by the intermittent acquisitivism of its individuals, happy adjustments will only come by seldom and by the merest chance, and in all likelihood the future of such a regime would hold little but intolerable intensification of the present pressures of civilization . . . economists are imperatively required to be social scientists in reality; and this means that they are to say what it is the industrial system does to men and to define what it is men have a right to expect from industry (Tugwell, 1922a, pp. 341-43).

To this end, Tugwell insisted that the primary goal of economics was “through gradual and experimental change” to resist the “social drift” of corporate capitalism (Tugwell, 1940a, p. 97); it is also “to mold our social and economic environment so as to reap the largest possible rewards” (Tugwell, 1934c, p. 541). Furthermore, economic theory and analysis must not abandon their “responsibility for policy. Economics is still social economics. The test of its significance lies in the field of social action” (Tugwell, 1930, p. 477). In Tugwell’s view, orthodoxy was simply not relevant to modern industrial society and was inapplicable to the contemporary problem of control. Orthodoxy, he observed, “has got a bad metaphysical odor that only a renaissance or rebuilding from the ground up can dissipate” (Tugwell, 1924b, p. 384).

The OIE Planning Ethos

The purpose of this section is to examine more closely the significance of OIE, particularly as it relates to the subject of economic planning and social control. This study has already made apparent the foundational importance of social control to Tugwell’s system of thought. It is now time to demonstrate how this dimension of Tugwell’s thought comported with that of OIE. This section will define the OIE planning ethos; the following section will then briefly outline the planning proposals

of two of his OIE contemporaries, namely Clark and Mitchell, and assess the role of balance within their proposals. (Tugwell's planning proposal as it related to the themes of balance and social control was discussed in Chapters Four and Five. A more detailed look at the *political* dimension of his planning ethos will be reserved for Chapter Seven.)

Instrumentalism - the ethical foundation of OIE - stresses that the function of knowledge is to provide humans with the means to control the various forces to which they are subject; consequently, the pragmatists have made *action* - not sterile contemplative theorizing - the key to the meaning of knowledge. This, as noted earlier, is another timeless hallmark of OIE thought. John Dewey, the father of instrumentalism, expressed this idea in the following manner:

Change becomes significant of new possibilities and ends to be attained; it becomes prophetic of a better future . . . Since changes are going on anyway, the great thing is to learn enough about them so that we may be able to lay hold of them and turn them in the direction of our desires . . . In a profound sense knowing ceases to be contemplative and becomes practical (Dewey, 1950, pp. 102-03).

In other words, Dewey was pointing out that the significance of instrumentalism was a change from knowing for the sake of aesthetic enjoyment or intellectual enrichment to knowing as a means of social control. In the realm of economic control, W. C. Mitchell observed that this constructive criticism, this "close scrutiny" of our economy, "is indispensable to convert society's blind fumbling for happiness into an intelligent process of experimentation" (Mitchell, 1950, pp. 30-31). And, Tugwell noted with approval that there had been a gradual shift within academia, primarily as a result of Dewey's influence, to "an intensive study of institutions, and the operating forces of industrialism" (Tugwell, 1924b, p. 398). Moreover, the underlying and unifying theme of such research was the idea "that industry shall fit better the large needs of mankind and serve civilization with smoother-running

machinery, and with better adjusted human arrangements” (Tugwell, 1924b, p. 398). Dewey further argued that it was only through planning, controlling, and the active use of human social intelligence that an active social science emerged. Dewey observed that “if we want something to which the name ‘social science’ may be given, there is only one way to go about it; namely by entering upon the path of social planning and control” (Dewey, 1939, p. 954). Knowledge and understanding of the economic system grow out of investigation that is directed at control; and this, according to Dewey, is the *only* function that knowledge can have for the social sciences - *as an instrument of control* (Dewey, 1939, p. 951).

OIE thinkers, both past and present, have celebrated this aspect of Dewey’s thought, and herein lay the significance of OIE with respect to policy formulation and planning. Unfortunately, orthodoxy has sidetracked the economics profession with their elegant calculus of the irrelevant and has thus diminished this critical avenue of social investigation and action. Tugwell lamented this sad state of affairs by noting that economics had largely missed its primary responsibility - that of *policy*. The test of the profession’s significance, stated Tugwell, “lies in the field of social action” (Tugwell, 1930, p. 477). Furthermore, humans should not seek “knowledge for its own sake”; rather, they should seek to understand “in order to be better fitted to improve our lot, to raise our levels of living” (Tugwell, 1934c, p. 496). Humankind can control its own economic destiny if it so chooses; in optimistic affirmation of this point he added: “The laissez-faire of the nineteenth century was based upon a metaphysics of providential guidance. The planning of the twentieth century rests its case on a philosophical faith in the power of man to promote orderly economic and social change” (Tugwell, 1932c, p. 89). And, he continued: “And if the social good is to be obtained, and not just here and there the good of an individual or a group, if we are to have in this sense, progress, it can only come from a constant reexamination of ideals and constant redirection of social

forces toward their attainment” (Tugwell, 1924b, pp. 420-21). Thus, Tugwell was clearly affirming his commitment to an expertly guided planning ethos.

Planning to the OIE economist is a rather broad and encompassing concept. But, reduced to its pure essence, the issue is one of automatism versus human direction or social control. As pointed out in several places in this study, Tugwell, as well as other OIE thinkers, repudiated the viability of such classical concepts as the invisible hand, Say’s Law, scarcity, diminishing returns, market automaticity, etc. Pointing to the ethnographic record, these thinkers reinforced this point by noting that intervention by a public authority into the workings of the laissez faire economy has traditionally been the public policy rule rather than the exception. It will be recalled that Tugwell incorporated this recurrent theme into his work early on, beginning with his examination of the economic basis of the public interest (Tugwell, 1922b). Similarly, Mitchell observed that even laissez faire and its historical antecedents were “planned” to the extent that their origin and development were neither “natural” nor inevitable and that the necessary institutions were politically installed to achieve results that were otherwise unattainable. He noted: “The aim of mercantilist planning was to mobilize economic forces for nation aggrandizement . . . This type of national planning grew up as centralized states emerged from the confusion of feudalism and prevailed with numberless variations of detail over Central and Western Europe for two or three centuries” (Mitchell, 1950, pp. 83-84). Following the publication of *The Wealth of Nations* (1776), the British and American governments “planned to have no plan”, but with the growing complexity and interdependency of the modern economy, this arrangement was short-lived (Mitchell, 1950, p. 86). Market automaticity had failed, or as Commons explained, the consequences of non-intervention with “natural” market forces were worse than the consequences of intervention (Commons, 1952, p. 136). Thus, from the outset of the capitalist experiment, social control has been present in varying degrees and forms.

In the view of the OIE thinkers, orthodoxy has persistently balked and scoffed at the issue of social control due to its fundamentalist market automaticity orientation. In terms of policy formulation, the result has been a series of narrowly conceived ad hoc responses that have been either ineffective or - worse - have had untoward consequences (e.g., traditional antitrust policies). According to Tugwell: "This is one reason why piecemeal regulation tends to widen and why some effort at really national planning becomes a practical issue immediately upon consideration of any planning at all" (Tugwell, 1933, p. 201). Or, as Mitchell noted: "The piecemeal method overlooks the interdependence that is so important a characteristic of social processes. Change one feature of social organization and you are certain to change many other features. Some of the changes you did not plan you will not like" (Mitchell, 1950, p. 99). The central problem, Mitchell contended, is not in finding "The Solution" to any given problem but in developing processes by which problems are addressed on an ongoing experimental and instrumental basis (Mitchell, 1950, p. 127). Tugwell affirmed that ". . . if the social good is to be obtained . . . it can only come from a constant re-examination . . . and redirection of social forces toward their attainment" (Tugwell, 1924b, pp. 421-22). This process will free humankind, and "experimental economics" is the only guarantor of this freedom.

But, what was the "social good" to which Tugwell and others referred, and more specifically, toward what goals would he and his fellow OIE planners have directed society, and were these goals consistent with the American liberal democratic tradition?

Some suspension of the traditional notions of consumer and producer sovereignty would be inevitable and necessary in the OIE planning process because, as Clark observed, "we are developing at least in the direction of objective standards for deciding such questions . . . to amend the 'standard' of the market" (Clark, 1939, p. 199). And Ayres maintained: "We do not hesitate to tamper with people's wants

when they run athwart the productive interests of the community” (Ayres, 1939, p. 467). Commenting on the latter, Mitchell observed that, indeed, social welfare “is capable of being made objective and definite in reference to such matters as food, clothing, shelter, sanitation, education, fatigue, leisure” (Mitchell, 1950, p. 381). The application of “directive intelligence” to the industrial system would represent an instrumentalist refinement of social needs rather than a reflection of the dictatorial whims of an individual or of any particular group of individuals; and, with the inevitable accretion of knowledge and understanding as a result of this process, the directive intelligence would become increasingly expert in its methodologies and determinations and more intensively socially-minded in scope.

Despite this false hint of regimentation that has been ferociously seized upon by OIE’s critics, another enduring hallmark of OIE is its celebration of the democratic tradition. As William Dugger observed, the OIE planning ethos is properly characterized as “democratic planning”:

Democratic planning is the planning recommended by institutionalists. As in communist and corporate planning, planning is intended to replace the market. *But the similarities end there.* Democratic planning is a process; it is not a blueprint. It is a means, not an end. Democratic planning is inclusive and iterative. Its essence is open discussion and disagreement. Its motto is “try again” . . . Democratic planning is a means of enlarging, of reforming, of regrouping, of reevaluating. It is messy and noisy because it is participatory and accountable. It is a threat to anyone who thinks they have found the truth. It is a frustration to all who wish to impose their will on others. Democratic planning is to the polity what free inquiry is to the mind (Dugger, 1987b, p. 1661, italics added).

Dugger further defined the OIE democratic planning ethos by identifying its five basic value foundations: 1) the Veblenian dichotomy - “the fact that those who do not work but have status try to get the good things in life from those who do work but lack status . . . the fact that scarcity in the modern economy is created by human action and inaction, not by the niggardliness of nature”; 2) the Fosterian dichotomy -

the idea that all structures and functions within an institutional matrix - including any planning structures - are subject to constant revision; 3) Dewey's democratic principle - those affected by a decision must have a say in making the decision and in evaluating results; 4) the instrumental value criterion - "a direction is forward if it promotes the 'the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge'"; and 5) egalitarianism (Dugger, 1987b, p. 1662). And, according to Dugger, the application of these principles to socio-economic issues is mandated by "social necessity" or the call to social action inherent to the above principles. All of these elements accord well with the scope and method of OIE as described earlier in this chapter; consequently, Tugwell's system of thought also embodies these defining features of the OIE planning ethos.

Dugger also identified seven pressing political economy problems to which the democratic planning process must now turn: The "contemporary need" for 1) a peacetime economy; 2) environmental planning; 3) agricultural planning; 4) small business planning; 5) policies to end discrimination; 6) policies to attain real full employment; and 7) balanced sectoral growth (Dugger, 1987b, pp. 1664-67). Several of these issues are recurrent OIE concerns, but the last one in particular was predominant in Tugwell's thought and represents the touchstone of several prominent OIE thinkers of his time.

Balance Theorized: Balance as the Key Objective of the OIE Planning Ethos

While there is some disparity among OIE thinkers as to specific policy goals, there is unanimous agreement on the desirability of a stable and balanced economy. At first blush this may appear to be a grossly simplistic truism. After all, who would be supportive of the opposite condition? A definition of "balance" consistent with Tugwell's analytical framework was presented and discussed in Chapter Four of this

study. This definition and the analysis that followed suggested that the attainment of balance was the sine qua non of Tugwell's notion of economic progress since this condition implied a consummate harmonizing of economic and social interests, a veritable Tugwellian "concert of interests", circumscribing both the material and the social aspects of the economic problem, i.e., a balancing of supply and demand at prices that reflected maximum technical efficiency; full employment of resources with sufficient remuneration to all factors of production to ensure market-clearance and to provide high standards of living for all; and the expert control of any discretionary structural or regulatory mechanisms necessary to maintain this balance. Suspending for the time being a consideration of the feasibility of this vision, the important point here is that "balance", defined in this Tugwellian sense, is all-pervasive because it is implied or embedded in nearly all political economy issues. For example, an examination of Dugger's "contemporary needs" list above reveals that it would be pointless to have a peacetime economy if a variety of systemic imbalances threatened its viability. Likewise, it would be pointless to have environmental planning if various sectoral imbalances created resource misallocations that in turn generated negative externalities. And, again, it would be pointless to have small business planning if power and wealth disparities threatened the viability and proliferation of small-scale economic units, etc.

The treatment of balance in the Tugwellian-era OIE literature tended to focus on the material dimension of the economic problem, but it is the thesis of this chapter to suggest that the broader Tugwellian conception of balance - whether implied or explicitly identified - was foundational to the works of other representative OIE contributors as well. To wit, Clark and Ayres saw the main task of OIE as providing the understanding necessary to ensure a balanced - but not static - economy. Clark observed the following:

The true objective of planning is . . . *regularized* growth. It is the full utilization of our powers of production, which are continually growing, in order that our consumption may grow correspondingly . . . Increased production and a raised standard of living must go hand in hand; neither end can be gained without the other (Clark, 1936, p. 245, italics added).

Likewise, Ayres noted:

We are even beginning to wonder more seriously than ever before if it is to the economic interest of industrial society for two-thirds of the population to be ill-fed, ill-clothed, and ill-housed . . . In order to produce we must consume. Economic *stability* and the full utilization of our productive skill are contingent on the distribution of consumer purchasing power . . . The whole idea of an economic system is contingent on the assumption that production and distribution *coincide* and are different aspects of one and the same thing (Ayres, 1939, p. 467, italics added).

Economic planning, Ayres concurred with Clark, was “planning for a stable economy” (Ayres, 1948, p. 228). And, the context in which “regularized”, “stability”, and “coincide” appear certainly suggests that “balanced” or “balance” would have been perfectly suitable substitutes for these terms.

Thus, the central concern of these OIE thinkers was to ensure the stability and balance of the economic system, per se, and by extension, society at large. This understanding was not to be conceived solely in terms of price equilibrium as in orthodoxy but rather in terms of production and employment; the latter clearly implied an encompassing conception of balance that included both the material and the social dimensions of the economic problem. The OIE thinkers implicitly recognized the balancing identity of production and consumption - that each was necessary to the other and that the two must relate in a balanced fashion. Furthermore, the OIE thinkers asserted that the balanced economy could be monitored and controlled to operate both more efficiently and abundantly. This was what Tugwell had in mind when he identified the economist’s task as an effort “to mold our social and economic environment so as to reap the largest possible

rewards” (Tugwell, 1934c, p. 541). Alternatively, Clark wished to develop the “social control” that “must be capable of progressively raising the level of mankind” (Clark, 1939, p. 16). And, one of the more “irrelevant and intolerable” aspects of economic life, Clark added, was the systemic imbalance between production and consumption that accompanied the business cycle. It was obviously desirable to have consumption balanced to production in a sustainable and controllable manner, but, the market system was inherently incapable of delivering this; with the characteristic cyclical decline in business activity that marked a downward turn, production would also typically “fall to levels that mean privation when these tasks subside, though consumers continue to have just as many needs and producers continue to have just as much power (or more) to produce goods to gratify them. *These irrational and destructive instabilities are the things to be eliminated*” (Clark, 1939, p. 455, italics added). Collective action, continued Clark, has *one dominant purpose: “to eliminate undesirable fluctuations of industrial activity and to make reasonably full use of our powers of production to support an adequate standard of living, on a sound and enduring basis”* (Clark, 1939, p. 455, italics added). Hamilton made a similar point when he observed that the economic system still awaited “the domesticating touch of the future” (Hamilton, 1939, p. 24). Although vague on how this “domesticating touch” was to manifest itself, this statement leaves little doubt as to the importance of stability and balance to the “material and social continuity of human life” (Stanfield, 1996, p. 132). Likewise, Tugwell insisted on the exigent nature of social control in view of the fallacy of market automaticity:

It is perhaps true that a large supply and a small demand will lower prices and that a small supply and a large demand will raise them; but it does not follow that the public interest is best served by allowing the supply of and the demand for commodities to remain completely and solely determinative (Tugwell, 1933, p. 179).

As noted earlier, Tugwell's concept of balanced encompassed more than the physical dimension of the consumption-production relationship. Viewed solely from a materialistic perspective, the purpose of collective action was simply to ensure that the material deficiencies in the market would be corrected by whatever institutional adjustment was necessary. But, Tugwell's notion of balance went beyond this because of its holistic and instrumentalist grounding. Tugwell and other OIE thinkers were not committed to any specific "blueprint plan" or to any particular institutional arrangement, e.g., "the free market system", "the command system", etc., because they perceived institutions as being temporary instruments to be abandoned or strengthened depending upon their efficacy in meeting social needs as dictated by the underlying configuration of social values. Thus, Tugwell's concept of balance was interwoven with the valuation problem in economic thought.

In contrast to their orthodox counterparts, OIE thinkers have rejected the price system - the "Rosetta Stone" of orthodoxy - as a legitimate register of social value. They instead have focused on value through the prism of their methodological collectivism, in which society is conceived of as a "social organism" or as a "going concern". The central problem of social-value economics, observed Clark, "is the organization of the economic forces of society to get and to do the things that are wanted" (Clark, 1919, p. 286). But Clark emphasized that this theory of social value did not stop at a mere utilitarian summation of individual values; the more important question was the "value to society as a whole, *independent* of market valuations" (Clark, 1936, p. 49, italics added). Commons argued that economic theory should provide both the foundation for social prosperity and the policies necessary to achieve this prosperity. He emphasized that "the theory of value that fits such a theory of prosperity is a theory of a *process* and not an *attribute*" (Commons, 1923, p. 110), and that a theory of value that is "sufficient for the needs of modern action must be relevant to *collective* action" (Commons, 1952, p. 124, italics added).

Consequently, OIE thinkers perceive value as relational and derivative to the total social organization. From this vantage point, Ayres contended that the true test of value for any given idea, concept, institution, policy, etc., lay in its “continuity” in contributing to the “technological life-process” of the community (Tilman, 1974, pp. 691-97). “If economic value means anything at all”, Ayres observed, that meaning can only be “the continuous realization of a more effective organization of the technological life-process” of the community at large (Ayres, 1944, p. 228). And, “Ours must be a continually expanding economy”, he continued, because “population is continually increasing, and technology is continually progressing” (Ayres, 1952, p. 199). Thus, Ayres was suggesting that humankind must make the best possible use of its resources and knowledge, broadly conceived, in a *balanced and stable* manner to provide for the continued growth of the economic and social welfare of the total community, or, to repeat Tugwell’s sweeping statement of determination: “to mold our social and economic environment so as to reap the largest possible rewards . . . We must act and we cannot act without planning” (Tugwell, 1934c, p. 541).

Tugwell’s concept of balance was certainly embedded in Ayres’ technological life-process thesis because of the following: A central objective of OIE planning was to fulfill the Ayresian social value objective: A direction is forward if it promotes the continuous development of the technological life-process of the community. But, Ayres queried: “What is the ‘end’ for which industry is to be made to work . . . what is it we are planning ‘for’” (Ayres, 1943, p. 478)? Ayres suggested that such questions were actually “nonsense” because they fundamentally misconceived the true essence of the problem. In Ayres view, this basic misconception stemmed from the orthodox assumption that consumption was *the* “end” of all economic activity. Ayres maintained that:

if consumption stands above production in some metaphysical hierarchy in which it is the transcendent “end” to which production is but the “means” - then the classical economists are right and economic planning is the outrageous proposal of callow reformers to put their schemes above the conscience of the race (Ayres, 1943, p. 477).

Therefore, in Ayres view, any consideration of the objectives of economic planning must necessarily begin with a reassessment of orthodoxy’s antiquated primacy of consumption thesis. To this end, Ayres began by pointing to the progressive instrumentalist nature of modern knowledge. Modern concepts of science and philosophy were generally not dominated by a teleological bias toward a “transcendent end”, Ayres observed. Rather, they were governed by a means-ends continuum consistent with instrumental reasoning and an open-ended experimentalist methodology. Social development should also be conceptualized along these lines, where it is seen as a “continuous process, and it is in terms of this continuity that value and welfare can be objectively defined and understood” (Ayres, 1943, p. 477). As an important corollary to this point, both consumption and production must be conceived of in terms of a continuous means-ends-means succession “in which production, consumption, further production, and further consumption are similarly conceived as a continuum. In short, both consumption and production are aspects of the total effort of carrying on the industrial process and making it continue to work” (Ayres, 1943, p. 479). This was a key touchstone of the OIE planners of Tugwell’s era. And, it is also an integral part of the “Ayresian legacy” and the creation of the “creative state” as described by Ron and Jacqueline Stanfield (Stanfield and Stanfield, in Phillips, ed., 1995, pp. 7-30; Louca and Perlman, ed., 2000, pp. 90-93). According to the OIE view, consumption was but a part of the social continuum; it was, in Commons’s view, concurrently both “the beginning and ending of the social process” (Commons, 1934a, p. 613). Neither production nor consumption could be maintained without the other because neither was the teleological end of all

economic activity; each was simultaneously a means and an end unto the other. This realization prompted Tugwell to insist that “planning for production means planning for consumption too” (Tugwell, 1932, p. 89). In this manner, Tugwellian balance was central to the OIE planning ethos because of its foundational relevance to the technological life-process of society.

Balance Operationalized: The Planning Proposals of Mitchell and Clark

A thorough examination of the planning proposals of representative OIE thinkers goes well beyond the scope of this study; instead, the goal of this section is merely to further demonstrate the nexus between Tugwell’s notion of balance and the alternative OIE planning proposals of some of his peers. Specifically, further evidence of the centrality of Tugwellian balance to the OIE planning ethos can be found in a cursory examination of the planning ideas of both Mitchell and Clark. The ideas of these particular thinkers are examined here because they are both strongly representative of the OIE tradition and they constitute a systematic view of the OIE planning ethos that is highly compatible with Tugwell’s framework. The analysis thus far has tended to focus on the underlying theoretical justification for economic planning from an OIE perspective. The focus will now shift to how this underpinning philosophy manifested itself in specific planning ideas. The details of Tugwell’s system of planning were examined in Chapter Four of this study; however, more will be said on the political dimension of his planning framework in the next chapter.

With the exception of perhaps Veblen (1921), OIE planners of Tugwell’s era believed that it was possible to overhaul the institutions of modern capitalism “in such a fashion as to eliminate all important clashes of economic interests, and to bring economic security and sufficiency to the masses” (Gruchy, 1939, p. 124). This general goal of the OIE planning ethos as described by Gruchy was clearly infused

with the concept of Tugwellian balance. This group of modern liberal planners - those who believed in the possibility of remediating the institutions of capitalism - consisted of J. M. Clark, G. C. Means, W. C. Mitchell, M. Ezekiel, J. R. Commons, R. G. Tugwell, and others (Clark, 1991). Commons drew the distinction between this class of planners and those radicals who called for the complete abolition of capitalism: "It is not revolutions and strikes that we want, but collective bargaining on something like an organized equilibrium of equality" (Commons, 1934b, p. 73). Commons use of the term "organized equilibrium of equality" is significant because it again demonstrates the pervasiveness of the balance concept. Tugwell also stressed this point by observing that a planning ethos based on experimentation, cooperation, and coordination - one that was oriented toward a balanced economy or an all-encompassing "concert of interests" - would be successful only within the context of the American liberal democratic tradition (Tugwell, 1935a, pp. 193-205).

Gruchy observed that there were three fundamental assumptions common to the ideas of the early modern liberal OIE planners, i.e., Mitchell, Clark, Ezekiel, Tugwell, et al.: 1) a rejection of the invisible hand - the OIE economists fundamentally believed in the cooperative abilities of humankind; 2) the obsolescence of scarcity - that consumption and production problems were most definitely soluble through the application of human intelligence and industrial technology; and 3) the need for balance - particularly as it related to the technological life-process - "they feel that the major difficulty which confronts economic planning is that of distribution, for here is met the conflict of various competing economic interests. They are firmly convinced, however, that this distribution problem can be resolved in a manner which will not weaken our democratic institutions" (Gruchy, 1939, p. 126).

Despite the dominant view of the human agent as a self-interested maximizer/competitor, the first fundamental assumption above actually has much

deeper roots in the history of Western thought than do the concepts of the invisible hand and homo economicus. The possibility of a cooperative and reasonable ordering of humankind's social and economic relations stems from Aristotle's conception of man as a "social animal", Plato's *Republic*, Hobbes' *Leviathan*, and Hegel's *Absolute State*, as well as many other utopian schemes that have been proposed by social philosophers down through the long course of Western civilization. As Gruchy observed: "Veblen's 'soviet of technicians', Tugwell's 'balanced economy', and Ezekiel's 'industrial expansion program' are but recent, although more scientific, examples of this faith in the possibility of reconstructing society which has for centuries leavened the economic and social aspirations of mankind" (Gruchy, 1939, p. 126).

OIE's model of human nature is based upon the "socio-cultural person" rather than homo economicus: "This individual is a complicated creature whose behavior and acts are determined largely by a socio-cultural environment that is evolving continuously under the impact of dynamic technological forces" (Jensen, 1987, pp. 1968-69). This belief suggests that humans - contingent upon their particular institutional surroundings - *are quite capable* of being cooperative rather than competitive. This point was certainly embodied in Tugwell's concept of balance: If humans were indeed predominantly cooperative, then the possibilities for sustained institutional adjustment and the reconfiguration of social and economic relations were myriad. This conviction was so strong among OIE thinkers, particularly Tugwell, that he optimistically affirmed its relevance and centrality in the following manner: "Of that, today, most of us are convinced and, as a consequence, the cooperative impulse is asserting itself openly and forcibly, no longer content to achieve its ends obliquely and by stealth. We are openly and notoriously on the way to mutual endeavors" (Tugwell, 1935a, p. 14).

The second basic assumption listed above again brings to mind the centrality of Ayres' technological life-process to the OIE tradition. As the previous section made clear, the economic problem has both material and social dimensions with technology playing a critical role in their interlocking relationship. Tugwell, Mitchell, Clark, Commons, Ayres, Galbraith, and others embraced Veblen's technological interpretation of history, according to which the single most significant determinant of historical events has been technology, and by extension, industrial science, particularly since the advent of the industrial revolution (Veblen, 1904).

According to Gruchy, early utopian thinkers failed to grasp the significance of technology and industrialization and its revolutionary impact on the human experience when they were devising their various schemes for the reordering of society. By contrast, this profound impact has always played a central role in OIE thought. As noted earlier, OIE thinkers have clearly recognized that the productive and distributional aspects of the economic problem are inextricably linked to the larger institutional matrix of society. Thus, they have also recognized that the planning and reordering of social life requires, in addition to the contributions of economists, the expertise of sociologists, political scientists, jurists, and others. But, since OIE thinkers fundamentally believe that a well-ordered society must be based upon a stable and balanced economic substructure, they feel that the economist will play an especially strategic role in any general planning program. As Tugwell observed:

Industry is a social instrument which, if freely experimented with, and if directed to the uses of men, holds definite promise for the future. Industry can lay the basis for any higher life; and no higher life can be built without an industrial basis. In this sense the new industry will make the future. It can free mankind for whatever life seems to men good (Tugwell, 1924b, p. 422).

And this brings up the third assumption common to the planning ideas of the OIE thinkers: the importance of balance and stability. According to these thinkers, the harnessing of industrial technique was not enough. It must be put into the service of the general welfare and not just a privileged segment of society. The question then arises: How does society distribute the potentially prodigious output of the economy in a manner that benefits all individuals while at the same time sustaining the liberal democratic tradition? This question casts the issue in the appropriate light - that of political economy. Unlike the proponents of orthodoxy, the OIE thinkers do not sweep this issue under the rug of formalism; instead the issue is confronted head on. In the works of Mitchell, Tugwell, Clark, and Commons, for example, the state was not perceived as possessing any metaphysical sovereignty above and beyond the common people. As Gruchy observed:

Rather, it is merely one form of collective behavior designed to make the life of the masses more adequate . . . If national planning is to solve our distributional problems, it can do so only in response to the dictates of the public will as expressed through governmental decisions. This type of planning would therefore be a form of voluntary cooperation in the sense that the various parties participating in the planning program would act collectively without external compulsion to achieve their objectives (Gruchy, 1939, p. 129).

That there will be a collective understanding of communal needs and that these needs will be met primarily through voluntary cooperation rather than coercion - *provided* the appropriate institutional framework promotive of cooperation is in place - constitutes the essence of Tugwellian balance, and *Gruchy was thus implying that this Tugwellian perspective was common to all of the modern liberal OIE planners.* As will be discussed in the next chapter, the voluntary aspect of Tugwell's framework is *the* determining factor in the feasibility of his system of thought. Consequently, the institutional framework envisioned by Tugwell as being necessary to promote voluntary cooperation will also be examined in the next chapter.

The above quote also brings to mind Dugger's conception of the "democratic planning" process mentioned earlier. It will be recalled that the primary goal of this democratic planning ethos was the amelioration of several "contemporary needs", and that the non-invidious engagement of these issues clearly implied the centrality and validity of the Tugwellian notion of balance.

Tugwell's notion of balance was certainly embedded in the planning ideas of W. C. Mitchell. Akin to Tugwell, his planning proposal departed from the same fundamental rejection of market automaticity, Say's Law, and the invisible hand as viable control mechanisms of the modern industrial economy. In Mitchell's view, this fact was most evident in the increasing volatility of the business cycle (Mitchell, 1927). The predominantly self-regulating business community was finding it increasingly difficult to extricate itself from protracted periods of recession, especially in view of the administered pricing and surplus allocation problems that Tugwell identified as being the primal causes of economic imbalance. And, this condition evolved in spite of the efforts of private "business planning" to stabilize particular industries or sectors of the economy (Mitchell, 1950, pp. 88-91). Thus, self-regulation through private "business planning" was ill-suited for Tugwell's era of "economic maintenance", which involved an all-encompassing conception of stability and economic balance.

Like Tugwell, Mitchell found the explanation for this inherent instability in the ideas of Veblen. Mitchell attributed this imbalance to a cultural lag that largely emanated from the failure of improvements in social organization to keep pace with changes in technology and the industrial sciences (Mitchell, 1950, p. 96). Again, similar to Tugwell, Mitchell pointed to the post-industrial-revolution transformation of the economic system from one of relative dearth (the era of economic development) to one of potential abundance (the era of economic maintenance). The key problem was the elimination of the various wastes and inefficiencies that were

endemic to the private enterprise system, e.g., administered pricing, constriction of output, over-expansion due to misallocations of capital, negative externalities, etc., all of which were deleterious to social and economic balance. To Mitchell, the most plausible strategy leading to the nullification of these adverse elements was the application of the discoveries of economic science to the social processes. He noted: “The two great improvements needed in American planning are recognition of the interrelationships among social processes and preparedness to deal seriously with social problems *before* they have produced national emergencies” (Mitchell, 1950, p. 100, italics added). What was clearly being implied here is the idea that economic and social balance should *define the condition of normality* and that permanent measures should be instituted to preserve this Tugwellian balance, even though at times there may arise difficulties that require contingency plans.

Thus, Mitchell was clearly calling for a comprehensive form of economic planning, and this was clear when he emphasized the critical difference between “piecemeal efforts”, “emergency planning”, and a well-developed framework of “systematic long-range planning”. In his view, both piecemeal and emergency planning were ineffectual in addressing the underlying structural defects of modern corporate capitalism. In fact, they were worse than impotent: Citing specific examples of both, Mitchell contended that these approaches tended to further destabilize ongoing social and economic processes (Mitchell, 1950, pp. 100-01). To effect his long-range planning proposal, Mitchell called for the creation of a “National Planning Board”. Although sparse on the operational details, Mitchell’s skeletal scheme called for a Board remarkably similar - in both purpose and spirit - to Tugwell’s “United States Integration Board” because it:

would conceive itself not as depending upon its own wisdom, but as an agency for focusing the intelligence of the nation upon certain issues . . . A large part of its task would be to draw the line between cases in which government should seek to exercise control and cases

in which private initiative should prevail . . . it is only by preventing one group of citizens from exploiting other sets and by supplying those services which private enterprise cannot render that individual liberty can be secured (Mitchell, 1950, p. 101).

This passage clearly encapsulates the key Tugwellian themes of holism, experimentalism, instrumentalism, and most importantly - economic and social balance - all with an eye toward the continued preservation of the liberal democratic tradition.

The problem of economic planning was also a major concern of J. M. Clark. The unifying and operational principle underlying Clark's planning ideas was his concept of "social efficiency", which was the efficiency not of a single business enterprise or industrial unit but the *balanced* efficiency of the entire economic system. Early in his career, Clark developed his concept of social efficiency in an analysis of business overhead costs and the impact they had on the overall functioning of the industrial system. Paralleling Tugwell's over-expansion thesis, Clark discovered a large amount of excess capacity in the industrial system. This excess capacity reflected large social costs and represented a glaring social paradox when juxtaposed against the low standard of living of many workers (Clark, 1923, 1939). Thus, Clark, like Tugwell, envisioned the economy as functioning - ideally - as a balanced, unified, and efficient whole - hence the meaning of the term "balanced efficiency" used above.

To Clark, the role of physical capital was of primary importance to the problem of social control and balance. He observed: "The tendency to intensify fluctuations of derived demand, including the demand for the work and materials involved in producing durable consumers' goods, as well as producers' goods, is of basic importance, in the judgment of the writer" (Clark, 1934, p. 191). In other words, Clark maintained that a balancing or "regularization" between the supply of and the demand for goods was critical to the eradication of the business cycle and to the

maintenance of social balance, and that the primary control mechanism to achieve this would be through various capital allocation controls. Obviously, this recommendation comported well with Tugwell's proposed "Industrial Reserve Fund" discussed earlier in Chapter Four.

Like Tugwell and Mitchell, Clark greatly anticipated a reorganization of economic life within the existing institutional framework of the American liberal democratic tradition. A most pressing problem, as Clark saw it was to:

see what can be done to introduce collective planning into our existing system. This must be done experimentally, with the expectation that measures will change and develop with experience. It does not appear to us important either to safeguard private enterprise for its own sake, or to seek a collective economy for its own sake. What is important is to organize for the purpose of making the best possible use of our resources, and to take whatever measures such organization requires (Clark, 1936, p. 230).

And Clark also insisted: "Those experiments may be planned or may be improvised; they may be designed in the integral interest of the whole or worked out by pulling and hauling of special interest groups. And planning is better than pressure-group politics" (Clark, 1939, p. 471). Consequently, the OIE thinkers envisioned a new departure in national economic planning that was neither private "business planning" nor state command planning. Clark observed: "None of those models is completely suited to our needs, and we cannot solve our problem by following an analogy borrowed from them . . . National planning in a system of private enterprise faces the more difficult task of changing the conditions that govern industrial production-schedules by attacking the causes which produce instability under the present system" (Clark, 1939, p. 82). In Clark's view, the principal "cause" of economic imbalance and the most obvious defect of private planning was its inability to cope with the inefficiencies mentioned above. Private planning also resulted in repeated disruptions in the balance between production and consumption due to supply-side-

induced business cycle gyrations brought on by over-expansion and administered pricing practices. These features of private control would invariably lead to restrictions in output - a result clearly at variance with the OIE planning objectives of balance and universal abundance.

The ultimate goal of Clark's planning proposal was to strike a balance of economic interests within and between what he perceived to be the four broad divisions of the planned economy: The first division consisted of the more competitive industries such as the extractive industries, wholesaling and retailing, and the numerous branches of small-scale manufacturing. Trade associations representing all essential interests would be organized to establish those policies that would coordinate and balance the division's activities with those of the remaining sectors. Due to the competitive nature of the businesses within this class, there would be little need for public control of prices and production provided there was such a regularization or balancing of capital expenditures as to permit the necessary replacement and growth of the capital stock without the generation of excess capacity.

The second division of Clark's planned economy encompassed a broad class of industries that he perceived to be so "affected with a public interest" that a much closer degree of social control was required. Large monopolistic and oligopolistic firms fell into this category, particularly those that produced the bulk of the economy's capital equipment. In exchange for exemption from the application of antitrust laws, these enterprises would accept public regulation of their price and production policies. Wherever limitations of output were permitted, there would be close scrutiny of the efficiency of operations and the profits accrued to ensure that such output restrictions were balanced and attuned to the needs of dependent firms, consumers, and the public interest in general. Given the critical nature of the capital allocation issue to economic stability and balance, these enterprises were of

particular concern to Clark's planning proposal in view of their strategic importance to the proper maintenance and balance of the economy's capital stock.

The third division of Clark's planned economy included those industries that are presently considered as public utilities, while the fourth division included entities involved in the direct governmental production of goods and services, a classification analogous to Tugwell's "Third Economy" concept. This latter group would be comprised of various public corporations, such as the Tennessee Valley Authority, the Rural Electrification Administration, etc., that would serve the needs of the public while bypassing the traditional market mechanism. Clark believed that there existed enormous possibilities in this particular division for the provisioning of goods and services in a manner that circumvented some of the customary waste and recalcitrance associated with private business-planning efforts. This fourth division would also include those "sick" industries of critical importance to the economy that experienced chronic structural adjustment difficulties due to over-expansion, high overhead costs, etc., for which the market mechanism offered little or no remedy. Contemporary examples of such industries might include energy, telecommunications, and air travel.

Clark proposed the creation of a central planning board to oversee the various agencies involved in the planning activities of the four divisions. Similar to both Mitchell's and Tugwell's central planning boards, Clark's board would be concerned primarily "with functions of investigation, suggestion, and correlation rather than with administrative duties and authority" (Clark, 1936, p. 248). This is significant because it again emphasizes the flexible instrumental character of OIE planning. And, again, similar to Tugwell's framework, the detailed planning would rest with the industrial planning agencies mentioned above, while the central board's essential function would be to harmonize the various divisions' plans. The work of the central board would thus consist of both fact-finding and a broad delineation of the goals of

the national planning effort so as to balance the economic interests of all parties. In so doing, it would provide for the unity and balance so badly needed by the modern industrial system. However, to avoid the dreaded trend toward regimentation and oligarchic control, the central board would effect its plans and policies only through recommendations to Congress (Clark, 1936, p. 249). This democratization of the planning process is, as noted earlier, a defining feature of the OIE planning ethos, and it was a conviction that was firmly embedded in the ideas of the early OIE planners.

This brief survey of the planning proposals of Mitchell, Clark, and Tugwell (in Chapters Four and Five of this study) has revealed several points of commonality: For example, they all agreed that the major economic problems that confronted society emanated largely from a concentration of economic power in the administered sector of the economy. If large oligopolistic and monopolistic firms were encouraged to operate in a regularized and efficient manner, with no administrative manipulations of prices and output, the remainder of the economy would soon follow suit (An exception to this would be Tugwell's insistence upon the necessity of various control mechanisms for the agricultural sector as well). In other words, economic balance was the key objective. These thinkers also agreed that planning should focus on as few industries as necessary to achieve key objectives and that it should function on the basis of cooperation rather than coercion; this dimension of the OIE planning ethos would ensure the continued viability of planning by striking a balance between traditional private incentives and emerging social needs. Furthermore, these thinkers recommended that the proper planning agencies should be established and that an adequate foundation of facts should be accumulated before any proposed planning scheme is actually implemented. And finally, national economic planning must be carried on only in the democratic tradition.

Summary

The central purpose of this chapter was to validate the first point of the thesis of this work: specifically, that Tugwell's work can be organized into a framework that is compatible with OIE in terms of both methodology and policy. The first part of this task was accomplished in Chapters Four and Five in which Tugwell's analysis of major political economy problems was analyzed along with his proposed solutions. His general policy approach took the form of a planning ethos designed to instill cooperative relations between businesses and between business and government with the overall aim of establishing economic and social balance by expunging those features of the modern economy, i.e., the "issues" examined in Chapters Four and Five, that tended to destabilize the social provisioning process.

This chapter demonstrated that Tugwell's analysis of these "issues" and his proposed solutions were highly compatible with the OIE tradition. Demonstrating the congruence between Tugwell's approach to economics and that of OIE in general achieved this task. Of central importance to the OIE tradition was its affirmation of social control and, by extension, the Tugwellian notion of balance, and the national economic planning proposals of various OIE thinkers were attempts to institute this Tugwellian balance in some form or fashion.

The OIE planning ethos developed by Mitchell, Clark, Tugwell, et al, was essentially a vision of a cooperative economy in which the various economic interests sought to subdue the unbalancing forces that generated dislocations within the economic and social systems. Thus, these thinkers wanted to forge a homogeneous industrial system - one that would provide for the social control of the economy's productive resources - out of the inherently unstable corporate business order. Through the use of scientific management, full utilization of the economy's resources, and a planned expansion of industry, they hoped to establish a balanced economy capable of providing a satisfactory standard of living for all classes.

Chapter Seven

The Tugwellian System

The main purpose of this chapter is to provide a definitive explanation of the term “Tugwellian system” and to demonstrate the permanent influence of OIE on Tugwell’s thought. The term “Tugwellian System” is offered to suggest a consummate stage of development in Tugwell’s thought - a weaving together of his ideas and policy proposals into a comprehensive and conclusive statement of his views on the economic problem. To this end, this chapter will examine the political dimension of Tugwell’s thought leading up to his rewriting of the US Constitution - the crowning intellectual achievement of his long and remarkable life. As will be demonstrated, Tugwell’s controversial reformulation of this sacrosanct document would represent the distillation and ultimate articulation of his complete system of thought - everything he had been thinking and writing about for years. And despite Tugwell’s evolution toward an apparent political science solution to the economic problem, this chapter will demonstrate that Tugwell’s OIE orientation was overwhelmingly the dominant influence during this culminating project. In short, the purpose of this chapter is to further validate the twin theses of this study: to reinforce Tugwell’s importance as an OIE thinker and to once again stress the importance of balance to his system of thought.

This chapter will first examine Tugwell’s thoughts on the political implications of social control; the purpose of this section is to demonstrate how Tugwell’s political thoughts on planning and social management were inspired by his solid OIE grounding. The chapter will then turn toward an examination of Tugwell’s “fourth

power” concept - a planning entity proposed by Tugwell to transcend the myopia and gridlock of the traditional checks-and-balances approach to government. This section will demonstrate the congruence between Tugwell’s justification for his fourth power and the OIE justification for social control in general. The following section will then briefly examine how Tugwell integrated his fourth power concept into a comprehensive vision of planning and social management as embodied in his *Constitution for the Newstates of America*. The Newstates Constitution was Tugwell’s proposed solution to the OIE problem of the “dichotomized state” (Stanfield, 1991). This section will also demonstrate the compatibility between the planning ideas contained within the Newstates Constitution and the defining features of the OIE democratic planning ethos.

OIE and Social Control Revisited: Tugwell on the political dimension

As noted earlier, Tugwell’s planning ideas depart largely from the fundamental OIE view that the economic order is embedded within the larger institutional matrix of society. Thus, by extension, the economic insecurity and instability inherent in the American economy are also integral to the political and economic organizations that dominate the industrial machine (Tugwell, 1954, pp. 25-26). OIE thinkers firmly believe that the system of unregulated business enterprise is inherently prone to failure, and this is particularly evident during episodes of extreme business cycle volatility such as the Great Depression; consequently, some form of social control is clearly needed (Gruchy, 1987). Commenting on the necessity of these new control mechanisms, Tugwell observed:

And these consist, very largely, in controlling rather than by not controlling. Social scrutiny of institutions, arrangements, methods; repression, encouragement; elaborate establishment of facts through investigation, experimental trying of new programs for reform - all these are, in general, the new way of securing that each person, each

business, each region, shall do the thing it can do best, and shall not attempt that which nature does not favor (Tugwell, 1933, p. 50).

Like Mitchell, Tugwell believed that national planning was merely the logical extension and development of the kind of private business planning that was already being exercised by modern big business. Planning “. . . is aligned to coordination, to rationality to publicly defined, and expertly approached aims” (Tugwell, 1932, p. 76). “It will return to the American people the dignity which has been lost to the maliciousness of political and business institutions, that had, through the medium of machine power . . . completely transgressed the canons of the good life” (Tugwell, 1935b, p. 411).

Since Tugwell’s cooperative scheme of planning is to be actuated primarily through the coordinating guidance of the federal government, he gave considerable thought to how government might be modified to implant the OIE planning ethos within the nation’s existing legal framework. Consistent with his OIE grounding, he repeatedly emphasized the instrumentalist aspect of this reconstructive process (Tugwell, 1934a, 1935a, 1936b, 1939b, 1940a, 1954, 1978a, 1978b). Accordingly, he suggested that as the circumstances of institutions change, it is necessary that governmental functions change as well (Tugwell, 1922b, 1933, 1954, 1970, 1974, 1976). He pointed to how the governmental pattern that had been established by the original Constitutional Convention was proper for the atomistic agrarian economy at the time of the Constitution’s origination. But due to the sweeping changes fundamentally affecting the composition of the modern industrial economy, a corresponding foundational change in the function of government was also necessary. The age of large-scale industry has brought new responsibilities to government, but governmental policy has lagged behind the technology life-process and its impact upon the evolution of economic affairs (Ayres, 1939, p. 461; Tilman, 1990, pp. 963-79). According to Tugwell, the federal government - rather than

resigning itself to the traditional roles as a “confiner” and a “negator” of economic forces - should instead become positive and stimulating. Thus, Tugwell’s ideas embodied the OIE belief in the pliability of institutions by calling for the modification of the traditional tripartite system of the federal government.

In Tugwell’s view, such institutional modifications were absolutely necessary: The economic course of the modern economy has carried industrial civilization from an era of “economic development” to an era of “economic maintenance”, where there is no technological excuse for scarcity, but there is an obvious need for market coordination and control. Tugwell observed: “The inextricable interdependence of the factors of exchange, distribution, transportation and such demand a control which is designed to conserve their ability to function, a control to conserve and maintain our economic existence” (Tugwell, 1935a, p. 8). Moreover - in this new era of economic maintenance - the public interest must be vigorously protected from various business and market forces that undermine it. Consequently, Tugwell stated the problem “. . . is that of our national economic maintenance for the public welfare by governmental intervention - any theory of government, law, or economics to the contrary notwithstanding” (Tugwell, 1935a, p. 9). Here again Tugwell’s ideas clearly reflect the OIE principle of the obsolescence of scarcity.

Tugwell asserted that now more than ever additional control is absolutely necessary - because it is both desirable and *required*. According to Tugwell, conservatives have traditionally shunned governmental intervention by advancing the predictable argument that government is oppressive, intrusive, and inefficient, etc. He rejoined this provincial attitude by pointing to the conservative businessman’s reluctance to fully harness the technological imperative and to genuinely advance the public welfare. Moreover, Tugwell asserted that competitive capitalism is not the economic system most compatible with democracy; indeed, it poses a direct threat to both the democratic tradition and a balanced economy:

A formidable attempt has been made to furnish new content for it (democracy) - to identify it, indeed, with competitive capitalism - by those who have thought this an easy way to secure their capitalistic privileges. This could be successful in a nation where nearly everyone owned property; or, perhaps, even in one where workers were secure in their jobs; it has no chance in one where neither property nor jobs can be held with any certainty of permanence. But there would be no one to foster such a campaign in the first instance; only in the second. It is bound, therefore, to fail. And revolt in various guises is certain to arise from latency to actuality wherever there is oppression (Tugwell, 1939b, p. 6).

According to Tugwell, OIE democratic planning is truly capable of rescuing American democracy from the threat posed by competitive capitalism, but it must be recognized that much of the current discourse over planning vs. free enterprise is lacking both sincerity and substance (Tugwell, 1935a, pp. 17-20). The ceremonial symbols, shibboleths, and enabling myths that provide legitimacy and a democratic facade to competitive capitalism have successfully perpetrated the vicious falsehood of the incompatibility between democracy and planning (Wooten, 1945; Clark, 1948). Tugwell observed, “unless there develops some willingness to sacrifice the symbols for the substance, penalty must follow”. He continued, “planning can preserve a useful kind of democracy; but it cannot save all the symbols we like to confuse it with” (Tugwell, 1939b, p. 7). In other words, the establishment of the planning ethos within the governmental apparatus may smack of regimentation to some, but it is the only way to truly advance and safeguard American democracy.

Tugwell's OIE “Fourth Power” Concept

To bring forth the necessary expedients for a successful governmental response to the unregulated free enterprise economy, Tugwell insisted that the checks-and-balances theory of government must be at least partially replaced by a strongly coordinative governmental function (Tugwell, 1939b, 1940a, 1963, 1964). To this end, he recommended the establishment of a fourth branch of government, namely,

the “directive power” or the “fourth power” (Tugwell, 1939b). Tugwell observed that ever since the adoption of the Constitution of 1787, the traditional three branches of government have continuously vied with one another for a position of dominance over the control of public policy, with each eventually succumbing to the implorations of various minority interests at the expense of the public interest. Interpreting this development from an OIE perspective, Tugwell suggested that the root cause of this phenomenon is the implacable advance of technology, which engenders the appearance of “social emergents” (Tugwell, 1941, pp. 1-12). This term is suggestive of those developments in human evolution that fundamentally alter the social and economic fabric of civilization and “were part of a developing social complex which became more and more closely knit and interdependent”, i.e., the development of a modern monetary system; the biological management of agriculture; the application of power to industrial processes, interchangeable parts, and series operations; the development of synthetic materials; the necessity of scientific management, etc. (Tugwell, 1941, p. 26). Furthermore, these social emergents serve to extend the area within which humans can move about exchanging goods and services and knowledge in general; but, simultaneously, they impose new conditions. Tugwell noted, “Only in the right environment would they function. About the provision of that environment a controversy has gone on for generations . . . Men ‘live in a shrinking sphere’, *but the shrinking is not recognized in governmental change*” (Tugwell, 1941, p. 27, italics added).

The “emergents” in government, Tugwell observed, are certainly far fewer and of less significance than those in the socio-economic-technological realm. He continued: “The last considerable one had been, perhaps, the separation of powers; and the last preceding that, majority representation” (Tugwell, 1941, p. 30). The separation of powers was devised for a purpose that few now approve; but at the same time, Tugwell noted, there is a stubborn reluctance to seriously challenge its

relevance to modernity. Above all, there is a fallacious identification of the separation of powers with the maintenance of civil liberties: “a confusion which is not easy to understand even for one who is sophisticated about propaganda” (Tugwell, 1941, p. 33). In Tugwell’s view, the separation of governmental powers, as originally conceived, had very little to do with the protection of civil liberties. The original document had actually been developed “in fear of the rabble”, with an overriding concern for property rights rather than civil rights. Therefore, “when the separation of powers is spoken of as a precious principle, it must be meant to be precious for some other reason than that the liberties of common folk are protected by it” (Tugwell, 1941, p. 13). The result of this confusion is that “. . . what is the sphere of governmental and what the sphere of private activity has been determined more illogically with every passing decade”. Tugwell continued:

The rough tendency seems to have been the retention as private of all those enterprises which were profitable and the assumption by government of all those which though still necessary had become unprofitable. The present situation is the result of many almost unacknowledged emergencies. That is to say, they have been unacknowledged for any but profit-making purposes. Their general function of unification and webmaking, or joining every thread in society to every other thread, has gradually transformed controls to those who sit at the centers of these complexes. The presidents of several insurance companies are more powerful persons today than most officials, even the most important in the nation. And the governmental executives’ importance is so grudging in normal times as to be almost fatally limited in all crucial matters (Tugwell, 1941, p. 34).

In other words, according to Tugwell’s OIE perspective, the separation of powers is an institutional embodiment of a cultural lag whose main function is to preserve the status and perquisites of entrenched business interests. The provision of public goods and the public welfare in general are consequently considered secondary and are left in the hands of a penurious public sector (Galbraith, 1958, p. 253).

During the first New Deal, the executive branch attempted to arrest this trend by assuming a more dominant role over the nation's economic affairs. The goal was to institute a scheme of controls that broadly comported with the Tugwellian vision of a balanced economy (Barber, 1994, p. 570). This provisional "directive" function of the executive branch was to encounter various forms of entrenched opposition, especially within the judiciary. In attempting to promote the Tugwellian vision by making an end run around the other branches of government, the executive relied heavily upon the development of administrative law and the concomitant development of various administrative agencies. Unfortunately, these agencies either suffered from various stultifying effects of bureaucratic dysfunction, or they were "captured" by the very business interests they were designed to control. Tugwell observed that the executive had largely failed in its quest to advance and safeguard the public interest; therefore, it was constitutionally incapable of serving as an ad hoc "directive" or coordinative authority. Hence, "a power is needed which is longer-run, wider-minded, differently allied, than a reformed executive would be" (Gruchy, 1947, p. 438).

In reality, Tugwell was staunchly opposed to the extension of the Presidency as a de facto "directive" branch or "fourth power". Understandably, he was supportive of the ad hoc arrangement of the New Deal given the exigencies at hand, but such an approach, he noted, would in the long run be deficient in maintaining the appropriate degree of vigilance against advancing technology and the necessary governmental response required to forcefully address the resulting "social emergents". It is for this reason, Tugwell observed, that the executive branch has repeatedly experienced difficulty in finding a "comfortable" constitutional place (Tugwell, 1950b, 1950c, 1963).

According to Tugwell, this phenomenon originated during the Enlightenment revolt against the divine right of monarchs, whose power was supplanted primarily

by “government by legislative committee” (Tugwell, 1939b. p. 22). This latter approach typified the operation of the first Continental Congress, and in Tugwell’s view, it is a method of governing inherently prone to institutional drift and ossification that is ill suited for modern times. According to Tugwell, the modern equivalent of the “ineffectual committee administration” of the Continental Congress currently forms the basis of the present tripartite system of American government, and it is due primarily to this inherent structural flaw that the necessity of a fourth power arises (Tugwell, 1939b, p. 23). He noted: “Americans have had too much history. They are sick of dangers and insecurities - perhaps a little tired, too, of that showy third power (the executive branch) with which our forefathers supplemented their everlasting ineffective committees” (Tugwell, 1939b, p. 24).

As noted earlier, Tugwell’s directive approach would not arbitrarily require government ownership and operation of production facilities. However, it would call for the voluntary subordination of large-scale business to a national planning program. In this respect, Tugwell noted,

there is no clear line of theoretical distinction between what is governmental and what is private. How these things are done are matters of expediency which ought to engage a minimum of emotion. What is important beyond all else is the achieving of publicly oriented direction whether of publicly or privately owned or operated agencies (Tugwell, 1941, p. 34).

Consistent with the OIE planning ethos, Tugwell insisted upon the adoption of a flexible planning vision that would call forth the necessary institutions of control:

The function of the future changes. The establishment of any sort of control - without which there can be no liberty, no equality and no security - depends on its institutionalization in some such way as is represented in the master plan and the capital program . . . When the future is laid out in clear and objective - even if tentative - terms, the result is equally unacceptable to politician and business man. Both live by uncertainty. Neither can survive exactitude. Yet it is in this clear understanding that the public interest has its best chance to prevail (Tugwell, 1940a, p. 113).

Thus, Tugwell was once again rejecting the concept of market automaticity by calling for the institutionalization of the “superpolitical”, i.e., “the forcing of mechanism and of nature, into the mold and pattern of man’s considered wish” (Tugwell, 1940a, p. 114).

What would Tugwell’s directive branch or fourth power actually look like? His overview of the directive’s functions sheds some light on this issue:

It may thus establish a genuinely social policy, as contrasted with private policies, dictated by contemporary resources, techniques and circumstances rather than by political expediency; tuned to the universe, the continent, the region, and the times, rather than to an imaginary environment in some past Utopia for speculators in private advantage. It will not be pursued because it suits a whim, a prejudice, an economic interest or a political gain. It will be distilled with modern devices from the then controlling conditions for the success of society. It will take account of all there is to work with and allow itself to be guided only by the interests of all there are to work for. It appears to be the best way, in a modern society, of carrying out the brave commitment made in the preamble to the American Constitution (Tugwell, 1939b, p. 31).

As envisioned by Tugwell, a full-fledged directive branch would be independent of both the legislative and executive branches. Congress would choose its members on the basis of highly selective qualifications, and the terms of appointments would be longer than those of the executive. Akin to the Federal Reserve in this respect, its expert advisors - ostensibly insulated from partisan politics, special interests, and the political cycle - could then effectively cope with a variety of issues without fear of electoral retribution and thereby circumvent the stultifying political barriers of the filibuster, log rolling, pork barrel largesse, etc.

Tugwell acknowledged that the directive branch would most likely emerge and evolve on the basis of sheer necessity during a time of national emergency; it is only during these times, he noted, that the public’s will to uproot entrenched interests is predominate (Tugwell, 1978a, p. 67). However, its permanent integration into the

institutional fabric of America is only a matter of time since the technological life-process will eventually make planning necessary, feasible, and attractive to the American people (Tugwell, 1939b, p. 23).

Once firmly established, the directive branch would enjoy distinct advantages over the traditional branches of government: Unlike the executive, the fourth power would not be encumbered by many of the existing day-to-day functions of government since its purpose would be mainly advisory and coordinative. Similarly, with respect to the legislative branch, the directive would be immune from the frustrations, compromises, and gridlock associated with “broker state” politics - an impasse that Tugwell unsuccessfully attempted to resolve in the implementation of his Puerto Rican fourth power. And, in direct contrast to the present judiciary, the directive’s activities would be guided primarily by the expert accumulation and analysis of empirical evidence and by OIE instrumental reasoning, rather than from inherited precedents and erroneous ceremonial precepts. Consequently, the directive would be free to concentrate solely on the future progress of the economy - a function quite different from the other branches - and would ensure that private interests were necessarily subordinate to the larger public welfare. The directive would make its work known to the American people, so that the public’s confidence would inspire both widespread support of and interest in planning. In this respect, Tugwell was quite confident in the American people, provided, of course, they have been disabused of the various ingrained habits of thought concerning the purported beneficence of free enterprise and the invisible hand (Tugwell, 1939b, p. 31; Ranson, 1986, pp. 1053-65; 1988, pp. 747-62).

All things considered, Tugwell was not completely enthralled with the idea of grafting his fourth power onto the existing governmental framework. Heavily steeped in the antiquated precepts of economic atomism and conflict, the hand-me-down system of the original constitutional framers was a myopic anachronism

incapable of fully interfacing with industrial modernity. To Tugwell, the OIE democratic planning ethos with its encompassing vision of abundance and balance was clearly the way forward. Simply put, he believed that America could do much better (Tugwell, 1970, pp. 1-40).

The Visible Hand of Planning: The Constitution of the Newstates of America

A thorough examination of Tugwell's Newstates Constitution goes well beyond the scope of this study. The purpose of this section is merely to provide a contextual overview of Tugwell's alternative constitution to underscore the degree to which his mature system of thought was predominantly influenced by the OIE perspective, especially the OIE concept of democratic planning.

Tugwell (1974) argued that within only two generations after its adoption, the Constitution of 1787 was virtually obsolete. He observed:

It can hardly be an exaggeration to say that - despite much expressed reverence - it is, taken literally, no longer the containing instrument for *existing* government and no longer a sufficient definition of citizens' rights and duties. Some considerable number of its clauses are so obsolete that they no longer are heeded and could be eliminated without their absence being noticed. Others have taken on entirely unexpected meanings by Court interpretation (Tugwell, 1974, p. xvi).

A constitution written for a "stable rural civilization", Tugwell argued, simply could not govern modern industrialized society. In fact, Tugwell insisted that the original Constitution of 1787 actually no longer governed the nation. Instead, it has been replaced by an unworkable "living" constitution that has experienced considerable difficulty in adapting to the technological life-process through its ad hoc non-constitutional method of compromise and its extra-constitutional proliferation of independent agencies (Tugwell, 1974, p. xvii). Consistent with his OIE grounding, Tugwell perceived the change in the technological life-process as being both continuous and universal, and therefore no constitution - no matter how cleverly

conceived - could endure indefinitely (Tugwell, 1974, pp. 48-49). Hence, Tugwell attempted to embed institutional flexibility into his revision of the US Constitution.

Integral to Tugwell's constitution is both a Bill of Rights and a Bill of Responsibilities intended to safeguard certain rights while at the same time instilling responsibility among individuals and key interest groups. Tugwell insisted that any modern constitution must include a statement of "rights given and duties expected of citizens" (Tugwell, 1974, p. 545). The absence of such an explication of duties is, he observed, "one of the anomalies of the Constitution" of 1787, perhaps only understandable in light of the fact that it was "drafted in the aftermath of rebellion against arbitrary authority exercised from abroad and in a time when wide spaces and sparse populations made it less necessary to find ways for accommodation to one another" (Tugwell, 1974, p. 593). This fundamental statement of rights and responsibilities would certainly have played an instrumental role in securing the Tugwellian vision of a balanced economy; but Tugwell had set his sights considerably higher in his effort to modernize the existing Constitution: He intended to augment the traditional tripartite form of government with three additional branches to, in effect, achieve the Ayresian goals of OIE democratic planning: freedom, security, abundance, excellence, and equality (Ayres, 1961, pp. 171-247). As will be demonstrated, Tugwell embedded these values in his Newstates constitution.

Tugwell and his fellow scholars at the Center for the Study of Democratic Institutions painstakingly drafted various papers and constitutional models that they debated, evaluated, and revised in an effort to refine a model of government compatible with the OIE vision of democratic planning. The final product of this multi-year process was *The Constitution of the Newstates of America* - undoubtedly the crowning intellectual achievement of his impressive career.

As mentioned above, the key justification for the Newstates Constitution was Tugwell's OIE-grounded belief in the obsolescence of the existing US Constitution due to technological change and industrialization. His alternative constitution called for a government that was fully prepared and capable of grappling with the "social emergents" of the modern industrial age. Consequently, Tugwell's scheme called for a new governmental framework comprised of six branches - the executive, legislative, judicial, planning, electoral, and regulatory branches - instead of the traditional three (see Tugwell's *The Emerging Constitution*, Chapter Fourteen, the basis of the following summary).

Not surprisingly, Tugwell's conception of the executive branch was heavily influenced by his New Deal experience and his active participation in "Roosevelt's Revolution" (Tugwell, 1977). Tugwell was impressed by Franklin Roosevelt's political courage and his willingness to engage in institutional experimentation by implementing various OIE planning ideas. Affirming this view, the head of the executive branch in Tugwell's Newstates Constitution would be a powerful figure. Declared the head of the government, shaper of its commitments, chief advocate of its policies, and supreme commander of its protective forces, he or she would serve a single nine-year term (subject only to recall by sixty percent of the voters after three years). *Two* Vice Presidents would assist the President: one for internal affairs and the other for general affairs. The former would oversee domestic matters, while the latter would oversee financial, legal, and military matters. This division of labor for Tugwell's dual Vice Presidents undoubtedly stemmed from his intense OIE conviction, alluded to in Chapter Three of this study, that the technological imperative had been horrifically derailed by the advent of nuclear weapons and the subsequent failure of the postwar policy of containment (Tugwell, 1971).

Tugwell retained a bicameral legislature with a House of Representatives similar to the existing one in both structure and function. The Senate, however, would be

considerably transformed: Reflecting Tugwell's advocacy of an expertly-guided OIE planning state, the Senate, ideally, would be an eclectic assembly of experts from various backgrounds in both business and government; it might include former presidents and vice presidents, select justices, heads of the electoral, planning, and regulatory branches, governors, unsuccessful candidates for the presidency, and a number of executive officeholders. The Senate would possess considerable responsibility: It could approve or disapprove of any measures passed by the House, with the exception of the budget. It would also serve in an official advisory capacity to the President. Further duties would include the ability to declare emergencies and to appoint a "watchkeeper" who would oversee and evaluate the performance of government agencies.

Tugwell also overhauled the judiciary with an eye toward broadening its social vision by making it more accountable to the interests of the public rather than to those of the business community. A Principal Justice would appoint all national court justices, preside over the system and be its chief administrator. A Judicial Council would monitor and study the operation of the courts, draw up codes of ethics, suggest constitutional amendments, and, as needed, would revise the civil and criminal codes. The Judicial Assembly, made up of judges of the Circuit Courts and the High Court, would recommend changes in the civil and criminal codes, meet periodically to consider the state of the judiciary, and nominate to the Senate, when necessary, three candidates for the principal judgeship. The original and appellate jurisdictions of the existing courts would be only slightly modified.

Of course, Tugwell also incorporated his fourth power into the Newstates Constitution through the integration of a planning branch within the federal government. As noted in the previous section, its general purpose would be to formulate and administer plans and to prepare budgets in accordance with policy. A planning board of considerable power and expertise would head the branch; the

board's structure, function, and duties would be similar to Tugwell's "United States Integration Board" discussed in Chapter Four. The activities of the Board would be governed by the four fundamental guidelines touched upon in Chapter Three: 1) planning and democracy can coexist, but it must not be wholly entrusted in the President or Congress; 2) planning must involve all vital areas of public welfare in its design; 3) planning must be separated from other activities associated with it, such as research; and 4) there must be a development plan encompassing the nation's aspirations, always with an eye toward the overarching goal of economic and social balance (Tugwell, 1978b, pp. 59-67).

Tugwell also called for the establishment of an electoral branch of the federal government. The rationale for such a branch was to remedy a critical omission of the Constitution of 1787: Tugwell believed that the key justification for the original Constitution was to establish a "republic committed to majority rule." But, he observed: "Yet no scheme for the selection of representatives (executive and legislative), or the development of policies for the guidance of officials, was included in the Constitution" (Tugwell, 1974, p. 243). And given the domination of the political process by various special interests, particularly those of big business, the system that developed over time to address this oversight has been marginal at best. Therefore, according to Tugwell, there is a pressing need for a system of "genuine majority rule"; one that would encourage the people not only to select representatives in an informed and intelligent manner, but also to play a major role in the determination of national policies (Tugwell, 1974, p. 262). To reinforce this heightened sense of civic responsibility, Tugwell also incorporated within his Bill of Responsibilities a section requiring that "each citizen shall participate in the processes of democracy, assisting in the selection of officials and in the monitoring of their conduct in office" (Tugwell, 1974, pp. 254-55). This is necessary, Tugwell contended, to ensure democratic, representative rule.

To assist the planning branch in its critical task of balancing and rationalizing the social provisioning process, Tugwell also proposed a regulatory branch of government. This branch would consist of a National Regulatory Board headed by a National Regulator. The Board would fashion and administer codes for the conduct of private business in a manner improved upon but reminiscent of the New Deal's NIRA. As a check to the Board's authority, the codes would be subject to ratification by the planning board before their implementation.

Tugwell proposed to offer his constitution to the public via national referendum. He strongly recommended that after a twenty-five year period the people should vote again to retain, replace, or modify the Newstates Constitution. This revalidation procedure was clearly intended to ensure the continued relevance of the political process to the technological life-process and to demonstrate the subordination of the Constitution to the will of the people. He fully recognized the deep attachment of the American people to the Constitution of 1787; therefore, he was a sober realist concerning the feasibility of adoption of his Newstates Constitution. As a bare minimum, he hoped that his alternative would at least trigger a national dialogue on the existing Constitution and stimulate some much-needed change in that document. Nevertheless, he boldly offered a new constitutional model that clearly embodied the key elements of the OIE democratic planning ethos - one that he believed would invigorate government and unite the underlying democratic intent of the original Constitution with the realities of the technological life-process.

The Newstates Constitution clearly embodies all of the key elements of the OIE planning ethos as outlined in the preceding chapter: 1) the Veblenian dichotomy; 2) the Fosterian dichotomy; 3) Dewey's democratic principle; 4) Tool's social value principle; and 5) egalitarianism.

As noted earlier, Veblen's dichotomy was the departure point for Tugwell's insistence upon the necessity of constitutional revision: institutional change was

necessary due to advancing technology and the appearance of various “social emergents” - the corporation being one of the more enduring and enigmatic of these.

As Dugger noted:

The expansion of corporate planning at the expense of market haggling brings the Veblenian dichotomy of industrial-serviceable versus pecuniary-predatory values into much sharper focus. Two results have followed from the successful and continual evolution of the corporation: On the one hand, the instability and uncertainty of the market have been replaced with corporate administration and planning, allowing for smoother industrial operation. But on the other hand, corporate power has expanded, allowing a wider scope for greed and irresponsibility. Both industrial and pecuniary potentials have been enhanced (Dugger, 1987b, p. 1651).

In Tugwell’s view, there was clearly a chasm between what modern technology and industry could do for humankind and what the captains of industry would allow them to do (Tugwell, 1941, p. 26). By modifying the legal framework upon which corporate capitalism functioned, these “industrial potentials” could be cultivated and focused upon the needs of a genuine public interest.

The Fosterian dichotomy - the idea that all structures and functions within an institutional matrix are subject to constant revision, is strikingly evident in the Newstates Constitution in several ways. First, in keeping with the OIE emphasis on flexibility and experimentation, Tugwell was deliberately vague in supplying the intricate details of planning because he wanted to keep the process flexible and avoid the strictures of blueprinting. His clear intent was to institute Dewey’s purposeful and problem-directed nature of social inquiry and to develop an open-ended adaptive instrumental planning process to this task. Second, he wisely circumvented the pitfalls of the political cycle by lengthening the terms of the President and other key functionaries; the sequestering effect that followed would then allow decision-makers to preserve or amend policies as needed without fear of electoral retribution. Third, Tugwell’s recommendation that citizens reevaluate the Newstates Constitution

after twenty-five years is further evidence of his instrumentalist attitude toward discretionary institutional change. And, finally, the advisory and coordinative character of his planning institutions is again indicative of his forceful rejection of blueprinting and regimentation (Bush, 1983, pp. 35-39).

Dewey's democratic principle is also foundational to the Newstates Constitution since Tugwell's framework preserves and expands upon the democratic process of the Constitution of 1787 (Tugwell, 1970, p. 29; 1976, pp. 1-11). This is evident in Tugwell's justification for an electoral branch and in his articulation of a Bill of Responsibilities as mentioned above. Also, the aforementioned revalidation procedure provides further substantiation of Tugwell's commitment to representative democracy and to an instrumentalist approach to structural change (Tilman, 1984, pp. 754-56). And, in the preamble to the Newstates Constitution, Dewey's foundational influence on Tugwell's thought is obvious:

So that we may join in common endeavors, welcome the future in good order, and create an adequate and self-repairing government - - we, the people, do establish the Newstates of America, herein provided to be ours, and do ordain this Constitution whose supreme law it shall be until the time prescribed for it shall have run (Tugwell, 1974, p. 595).

As noted in Chapter Two, the term "self-repairing" is a direct reference to Dewey's double dictum: society should 1) be self-repairing and 2) be a function of education. Both Dewey and Tugwell believed that pluralistic political and social institutions possessed a fluidity and openness that facilitated the use of the method of intelligence in resolving problematic situations (Tilman, 1987, p. 1388). Dewey's "method of intelligence" centered on making tentative and intermediate situations into determinate ones; hence, his version of the method of science focused on social control through democratic institutions (Dewey, 1938, pp. 104-05). Consequently, the OIE belief in an ongoing adaptive and instrumental process of institutional

adjustment is firmly ensconced within the Newstates Constitution. This is a feature Tugwell deliberately embedded within the document to ensure its continuing relevance to the technological life-process.

To OIE instrumentalists like Tugwell, value is to be understood as continuous with the whole experience. Value “is the consummatory phase of a situation which is initially problematic” (Gouinlock, 1972, p. 125). It is the interaction of human intellect with experiential problems that produces value judgments. “Value” is thus understood to be the criterion of an ongoing, cultural, trial-and-error process of “valuing”. As Hickerson observed:

Over time, as we critically examine the structure and performance of institutions and the values supporting them, we come to realize that some of our traditional beliefs have not been “instrumental” in the Veblen-Ayres-Dewey sense. Rather, they prove to have been false, that is, invidious or ceremonial. They have not permitted or contributed to the resolution of problems requiring intellectual adaptation. When and where the resistance of vested interest to proposed adjustments is not too great, such false values and the institutions erected upon them can be discarded and replaced by new ones more consistent with contemporary warranted knowledge. This is the essence of culture, cultural change, and the cultural origins of value. This is . . . a fair description of what Tool has in mind when he speaks of the “noninvidious re-creation of community” (Hickerson, 1987, p. 1132).

Hickerson’s description is precisely the spirit in which Tugwell formulated his Newstates Constitution. From this OIE perspective, problems are resolved to the extent that invidiously and ceremonially warranted prescriptive, or proscriptive, facets of institutions are abandoned (the traditional notion of the separation of powers), and instrumentally warranted structural changes are introduced (a highly coordinative six-branch system of government). Tugwell observed:

But all constitutions, however reverently regarded, have been recognized as having relevance to intentions and circumstances. Both of these may change; and since any constitution loses its usefulness if it commits a people to intentions that no longer exist, all constitutions

have amending procedures. This was true of the American Constitution. Amendment, however, was made very difficult, and it became even more difficult as the number of states grew. The result has been that no substantial changes have ever been considered, although there were then, and have continued to be, unresolved differences about even the most vital provisions (Tugwell, 1978a, p. 65).

Egalitarianism is another value foundation of OIE democratic planning that is operationalized in the Newstates Constitution. As Ayres observed:

One of the most important discoveries of modern times is the discovery that mass production requires a mass market, and that the adequacy of the market depends on the ability of the masses to buy the products of mass production . . . In short, our affluence rests not on poverty but on participation by the whole community in the benefits of industrial production. The conventional wisdom still persists in official pronouncements and academic lucubrations. But the axiom on which we actually operate is that of general participation (Ayres, 1961, p. 293).

Or, as Tugwell noted, “planning for production means planning for consumption too”, and planning must encompass the economic, political, and social aspirations of all of society (Tugwell, 1932, p. 89). In other words, equalitarian access to goods and services is predicated upon a foundation of economic and political empowerment (Klein, 1987, pp. 1369-71). Furthermore, Stanfield observed that the direct interventionist approach of OIE must be integral to a “comprehensive social democratic program”, or “radical democracy” that would include, among other measures, the following: 1) full-employment aggregate demand policies; 2) “solidaristic incomes and collective bargaining policies, including a direct assault upon inequality of wealth and income distribution through progressive taxation, affirmative action, and industrial democracy;” 3) “active labor market policies to facilitate retraining and relocation;” and 4) “policies to create a culture free of commodity-fetishistic corporate hegemony . . . that would mandate participation and self-development in an atmosphere of co-equal human solidarity” (Stanfield, 1991, pp. 776-77). As Stanfield pointed out, these proposals are much more than merely

protective or alleviative; they are the *essential* egalitarian steps necessary to resolve the “liberal impasse” and to expunge the repressive character of late capitalism as manifested in the “dichotomized state” (Stanfield, 1991, p. 777).

These measures are completely compatible with Tugwell’s broad vision of social management. Stanfield described the dichotomized state in the following manner: “The state’s role of securing the reproduction of capitalist social relations exists in fundamental tension with its effort to facilitate collective action to improve the adjustment of instituted power and status to the fuller unfolding means and purposes of generic humanity” (Stanfield, 1991, p. 778). This concept is integral to Tugwell’s analytical framework as evidenced by his life-long involvement with the numerous policies and programs of the “liberal state form”. And, as a government functionary and policy-maker, he experienced firsthand the struggles and frustrations of the “liberal impasse” in all phases of his public service career (See Chapters Two through Five). Only later in life did Tugwell’s profuse ideas begin to coalesce into a cohesive and comprehensive statement of social reform, i.e., the Newstates Constitution, that was broadly directed toward the negation of the dichotomized state in one fell swoop.

To OIE thinkers, egalitarianism is a direct outgrowth of instrumentalism and the instrumental value criterion: A direction is forward if it promotes “the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge” (Tool, 1978, p. 293). Social progress must involve continuity of life and culture, and as Dugger noted,

Social systems move forward when the previously excluded are included, when the lower strata gain in power, income, status, skills, and knowledge. For when the push from below, from the lower strata, results in a broadening of participation in the life process, the life process is enriched by the new people, new ideas, new tools, new skills, and new drives pushing their way in. Egalitarianism is instrumental (Dugger, 1987b, p. 1664).

The Newstates Constitution clearly embodies the key OIE features of egalitarianism and instrumentalism and is thus oriented toward those salubrious outcomes identified by Dugger above. And in its call for the continuous instrumental improvement of the human condition, the Newstates Constitution clearly emphasizes and exemplifies OIE's celebrated instrumental value criterion.

Summary

This and the previous chapter demonstrated that Tugwell's work is thoroughly compatible with the OIE tradition. The "issues" developed in Chapters Four and Five represented Tugwell's evolving "economics" framework or system of thought. Tugwell's institutionalism was apparent in this framework in two important ways: First, the analysis of the "issues" in Chapters Four through Six demonstrated Tugwell's adherence to an OIE methodological approach in terms of their occurrence, interpretation, and significance. Secondly, Tugwell's analytical framework conformed to the OIE tradition in terms of policy as well. This point was demonstrated, in part, by an examination of the OIE planning ethos in Chapter Six and, more specifically, of the role played by Tugwellian balance in the planning ideas of other OIE thinkers. Whereas the intent of the previous chapters was to firmly *establish* the OIE nature of Tugwell's economic thought, the purpose of the present chapter was to *extend* this assertion into the political realm. As noted in the opening pages of this study, part of Tugwell's relative obscurity stemmed from his transition into political science during the postwar period. The purpose of this chapter was to further demonstrate that Tugwell's analytical framework, despite this methodological shift, was still very much in keeping with the scope, method, and significance of the OIE tradition.

Chapter Eight

The American Faith

The previous two chapters attempted to place Tugwell in intellectual history by demonstrating his foundational connection with the OIE tradition. The present chapter will expand upon this theme by 1) briefly examining his relative neglect within OIE and the history of economic thought, in general, with an eye toward further solidifying his OIE identity; and 2) demonstrating his continuing relevance, particularly his OIE emphasis on a functional progressive democracy within the context of social management and balance. Thus, the contention of this chapter is that Tugwell is/was an important OIE thinker whose considerable body of work merits closer attention and a higher regard than it is presently accorded in the annals of economic thought. The chapter will open with a brief examination of the *Tugwellian paradox*: Tugwell's relative neglect and obscurity in light of his considerable achievements in both public service and academia, particularly in view of his substantial contribution to OIE. The focus will then shift to a brief examination of the *Tugwellian challenge*: an assessment of the continuing relevance of his ideas to political economy. The discussion of these two aspects of Tugwell's thought will simultaneously provide an opportunity for some concluding observations on his political economy framework. This study will then close with some suggestions for further research to further substantiate his continuing relevance and to explore some problematic aspects of his thought.

The Tugwellian Paradox

Upon his receipt of the Veblen-Commons Award in 1977, Tugwell spoke of the need for a “well-ordered economy”, cautiously applauded the “balanced growth” philosophy of the proposed Humphrey-Hawkins bill, and noted that “since a successful alternative has not been found in direct attempts to control inflation and reduce unemployment, it may be that the well-ordered economy suggested here may at last be accepted” (Tugwell, 1978c, pp. 248-49). Nearly fifty years after Tugwell had first presented his “concert of interests” scheme to Roosevelt, he was still emphatic on the need for “all units of industry to act in concert” and suggested that the stagflation malaise then gripping the economy not be viewed through the antagonistic relationship posited by the Philips curve. Tugwell instead contended that the tradeoff between unemployment and inflation was suspect on both theoretical and policy grounds, and he insisted, “the solution for both is in the better ordering of the productive process. This is only to be achieved by directing the available technology and resources to their best uses” (Tugwell, 1978c, p. 248). Unfortunately, business was still not ready for a “program of guided enlargement” because “they continue to identify ‘planning’ with ‘planned’ and so with communism. They still maintain the virtues of individualism and free enterprise and refuse to admit that these are no longer realistic guides for policy” (Tugwell, 1978c, p. 249). And, despite the renewal of political interest in the balanced economy approach, Tugwell noted that progressive structural change would be slow and difficult: “The revision of an institution embedded in tradition, even if the supporting conditions have been undermined, is indeed very difficult. But time has passed, and supports *have* been undermined (Tugwell, 1978c, p. 248).

On the one hand, the long overdue bestowal of the Veblen-Commons Award upon Tugwell was clear confirmation of Tugwell’s remarkable contribution to OIE, especially the public service aspect of his career (Klein, 1978, pp. 239-41). And

based upon the above remarks, his OIE weltanschauung had certainly not waned over a lengthy span of years. On the other hand, a pall of intellectual indifference had descended over Tugwell's work during the postwar era following his shift away from economics toward political science. What factors explain this phenomenon? And, given his eminent career in public service and his prolific publication stream, why was he not accorded a more prominent position within the pantheon of notable OIE thinkers?

Some insight on this issue might be gained by identifying Tugwell's intellectual contribution to OIE, as distinct from his public service efforts to institute policies of a general institutionalist tenor. From the foregoing it is no doubt evident to the reader that the major cornerstones of the Tugwellian system are 1) economic and social balance; 2) the preservation of democracy; and 3) the application of instrumental reasoning and experimentation to the process of institutional change in the pursuit of 1) and 2) above. The last two items are clearly articulated value foundations that are diffused throughout the OIE paradigm. However, as discussed in preceding chapters, balance is a more nebulous and subtly embedded phenomenon within OIE thought. The balance concept itself is somewhat of a paradox in the sense that its centrality to the OIE planning ethos is not in question, as was demonstrated in Chapter Six, but the difficulty of its implementation was also underscored at several points in this study.

Allan Gruchy maintained that Tugwell's main contribution to OIE was the methodology of his "experimental economics" (Gruchy, 1947, pp. 405-70). It is a key contention of this study that the elevation of the balance concept in Tugwell's work and his various proposals for its attainment are, in addition to his experimental economics, his principal contributions to OIE thought. And, this points to the key explanation for his relative neglect and obscurity: From his New Deal days to his twilight years at the Center for the Study of Democratic Institutions, his proposals

were overlooked by both the orthodox and heterodox camps. They were too experimental, too reliant upon coordination and cooperation, and lacking in the intricate planning details necessary for their implementation. Although Tugwell was not suggesting that the market system be thoroughly displaced by a system of planning, he definitely wanted the market mechanism to play a subordinate role in the social provisioning process. The emergence of both the neoclassical synthesis and the new institutional economics following the collapse of New Deal corporatism suggest that this was largely a quixotic endeavor (Yonay, 1998; 2000, pp. 341-56). Also, Tugwell's methodological shift estranged him even further from both the mainstream and OIE. Tugwell was essentially on the fringe of the political economy fringe, but he was certainly no "radical" in the sense of wanting to demolish the existing system with the revolutionary fervor of a Bolshevik; he was simply well ahead of his time in recognizing the untenable nature of the invisible hand and market automaticity as the key organizing principles of the social provisioning process, and he was absolutely convinced of the necessity of articulating an alternative vision of progress, based generally upon his concert of interests concept, that could be grafted to the existing political and economic systems (Tugwell, 1947b, 1953a). He boldly, and perhaps naively, offered what he considered to be viable alternatives that augured an alluring vision of universal abundance and stability. Tugwell's Newstates Constitution was the ultimate articulation of his comprehensive vision of social uplift within the context of both the technological life-process and the democratic tradition. Although he never explicitly stated that equalitarian abundance and social balance lay at the heart of his alternative constitution, these quintessential Tugwellian features were definitely encapsulated within and foundational to this culminating project.

It will be recalled from Chapter Three that a variety of influences inspired Tugwell to write his alternative constitution. Above all, it was his frenetic

disposition toward the atomic age that provided the main impetus for this undertaking. In this respect, his views were markedly at variance with both the public and the polity (Tugwell, 1948, 1949a, 1949b, 1950d). Given this fact, it is an empirical truism to assert that the probability of its implementation was nil at the time of its origination, and this is certainly still the case given the current political economy landscape of America, particularly in view of the ongoing retrenchment of the corporate welfare state and the restoration of global capitalism. But when the party of corporate-driven commodity fetishism is over, and the ecological and cultural crises of global capitalism unfold with increasing severity and irrevocability, including the specter of nuclear terrorism, perhaps Tugwell's ideas will take on the gravity and relevance that he originally imparted to them.

The Tugwellian Challenge

In 1933 in *The Industrial Discipline*, Tugwell made the following ideological distinction:

The essential contrast between the liberal and the radical view of the tasks which lie before us is that liberalism requires this experimenting and that radicalism rejects it for immediate entry on the revolutionary tactic. Liberals would like to rebuild the station while the trains are running; radicals prefer to blow up the station and forego service until the new structure is built (Tugwell, 1933, p. 229).

A critic at the time observed that Tugwell, in making this distinction, conveniently failed to place himself in either camp (Mitchell, 1934, p. 849). As noted earlier, the initial ambivalence toward America's first peacetime foray into planning would eventually sour into a chorus of renunciation directed at its principal architect, "Rex the Red", and, unfortunately, this wildly erroneous characterization of Tugwell would shadow him for many years to come. This study has demonstrated that the appellation of "radical" is a gross oversimplification and distortion of the political

economy of Rexford Tugwell. As mentioned above, the foundation stones of the Tugwellian system are the very same as those of the OIE tradition, especially the emphasis on Dewey's conception of the democratic tradition and the instrumental value theory. Again, Tugwell's principal OIE contribution was his infusion and elevation of economic and social balance into the ongoing OIE discussion. (His influence in this respect is perhaps most apparent in the works of John Kenneth Galbraith - an issue that will be addressed shortly.) These are hardly radical concepts. To the contrary, orthodoxy's ascendant reliance upon market forces to providentially guide the course of human endeavors is an insanely radical article of faith of the so-called "mainstream" tradition.

Tugwell's adoption and elevation of instrumental reasoning prompted him to adopt a fundamental rule from Simon Nelson Patten, who said to him during World War I: "Force, my boy, never settles anything" (Tugwell, 1939c, p. 328). Taking this to heart, Tugwell observed: "I have never found myself greatly in sympathy with the revolutionary tactic. 'Force never settles anything' has always seemed to me a sufficient axiom. It is my reading of history that reconstruction is about as difficult after a revolutionary debacle as it would have been in a process of gradual substitution" (Tugwell, 1933, p. 228). By way of example, Tugwell observed that the Civil War:

should have taught us . . . that force is, of itself, incapable of altering the basic habits and institutions of mankind and that unless they are assessed realistically no corrective policy can be formed. Changes of this sort come slowly in spite of heat or strife. They never yield to unreason or violent action. The use of force would have no better results today if it is really reconstruction we want rather than a bloody overturn and the replacement of one government by another (Tugwell, 1935c, p. 2).

Further confirmation of Tugwell's elevation of reason over conflict can be found on the title page of *The Industrial Discipline* (1933) in the following quote from Francis

Walker's *Political Economy* (1888): "Happy is that people, and proud may they be, who can enlarge their franchises and perfect their political forms without bloodshed or threat of violence, the long debate of reason resulting in the glad consent of all" (Tugwell, 1933, title page). And, the last sentence of *The Industrial Discipline* reads: "There is a kind of duty among civilized beings now not to desert reason but to press its claims insistently" (Tugwell, 1933, p. 229). These passages clearly presaged and epitomized Tugwell's life-long commitment to an instrumentalist conception of democracy and social progress.

According to Tugwell, the use of instrumental reasoning to advance the democratic process required investigation and education. Social action would necessarily be positive and evolutionary if it were to proceed from Dewey's progressive education platform, and *progressive* education would necessarily be precisely that - rather than indoctrination - if it were both to reflect and foster democracy in which agreement on the means-ends-means continuum rested upon voluntarism and consent. As a high-profile New Dealer, Tugwell stressed the importance of consent in several of his articles and speeches. We could have nothing new in government, he observed, that did not "correspond to a new need on the part of our people and of their economic institutions" (Tugwell, 1935a, p. 266). Similarly, he told a Consumers' League meeting: "Government can do no more than is wanted of it" (Tugwell, 1935a, p. 237). And commenting on the provisional nature of the NRA codes, he observed that no one could foresee the final structure of industry that might result from the "essentially voluntary and democratic process now going on" (Tugwell, 1935a, p. 261). In an address at Clemson College on the farm problem, Tugwell would not "do more than state the problem at this time - the solution must, of necessity, come from you" (Tugwell, 1934d, p. 9). And, in 1953, Tugwell referred to "one of society's most serious problems: the securing of change within a desired pattern without serious departure from voluntarism" (Tugwell,

1949b, p. 486). As will be discussed shortly, the absence of such voluntarism represents the Achilles heel of Tugwell's system of social management.

Underlying Tugwell's insistence upon consent was his belief in equality among individuals - a bedrock principle of American democracy. He observed: "Democracy is a word which is capable of touching off . . . emotions of various sorts, but all of them mixed with a genuine reverence. Our peculiar history makes equality more real to us than to people in some other lands" (Tugwell, 1952, p. 280). Even though Tugwell was troubled by the disjuncture between equality of opportunity and equality of outcome, his attitude on the issue of equality was more in line with classical rather than modern liberalism. He noted: "There has been a rags-to-riches myth in America, a kind of leveler tradition, part, probably, of the whole equality misconception" (Tugwell, 1958, p. 139). According to Tugwell, this misconception stemmed from the dubious belief that all humans were interchangeable - that a blind eye should be turned toward differentials in intelligence, human capital, innate abilities, etc. Tugwell categorically rejected this position and thus perceived equality in more of a classical liberal sense as the opportunity to develop to the limits of one's capacity and to participate according to one's ability to contribute. Equality to Tugwell also meant equality before the law and equal consideration of all citizens' rights and concerns when measures for the promotion of the general welfare and social balance were being formulated (Tugwell, 1928f, p. 96).

But citizen empowerment and equality introduced another challenge for American democracy: In contemplating the functions of his fourth power, Tugwell was troubled by the problem of social decisions in a democracy. This was essentially the dilemma between public opinion versus expert opinion and which should predominate in the formulation of public policy. He noted that there was an imperative:

need for definition of the fields within which expertness may be trusted and of those within which a more democratic procedure is necessary. We have developed rather carelessly, in our generation, a policy of autocratic decision about matters with momentous social effects; and perhaps we have kept democratic some decisions in which a degree of expertness would be desirable (Tugwell, 1934e, p. 12).

In the past, he continued, “our autocratic theory in one field and our democratic theory in the other” had prevented adjustments to sweeping technological and industrial changes, which thus had “effects for which society was totally unprepared” (Tugwell, 1934e, p. 13). The New Deal, Tugwell observed, had been forced to balance these concerns, but it tipped the scales in favor of public opinion in accordance with a more conventional populist view of democracy. As will be discussed shortly, this is an aspect of Tugwell’s thought that is problematic and thus in need of further development.

Tugwell greatly appreciated the American tradition of democratic institutional evolution, based on an “American faith” that uplifted the nation by “slow, but certain stages” (Tugwell, 1935b, p. 409). Tugwell asserted that America’s New Deal experiments in planning were consistent with this “American faith”: “The policies which are spoken of as new have an entirely honorable lineage in American history; they are an expression of the American faith. ‘The American faith,’ it seems to me, is preferable to the usual expression, ‘the American dream.’ A dream implies the unreal and the unrealizable” (Tugwell, 1935b, pp. 409-10). He queried: “What is the American faith? What is the attitude which again and again has thrown into disarray the neat calculations of our business and political manipulators? It is not easy to describe, and has never been satisfactorily defined” (Tugwell, 1935b, p. 410). Perhaps it may be more aptly described as the American experimentalist spirit - a fusion of democratic ideals with a belief in “the good life” and the development of the institutional mechanisms to achieve the good life for all (Tugwell, 1935b, p.

418). The general tenor of Tugwell's observations suggest that it is essentially a "deeper thrusting purpose" of the American experience that places a premium on values diametrically opposed to those of economic determinism, the dialectical materialism of Marxism or the dogmatic tenets of laissez faire serving as prime examples of the latter. According to Tugwell, the American experience has convincingly demonstrated that intolerable violations of that faith have resulted in the people's ineluctable demands for rectification - ineluctable because they live in a functional progressive democracy. The very difficulty Tugwell encountered in defining that faith demonstrates that, in his view, the essence of democracy was the instrumental process itself - a method of meeting problems flexibly and of reconciling differences peacefully through compromise. This is why Tugwell perceived the New Deal as truly representing "a battle for democracy" (Tugwell, 1935b, p. 415). The *Tugwellian challenge* is essentially Tugwell's call for America to fulfill its grand destiny in accordance with this faith and his encompassing vision of social management and uplift. And this, in short, is the political economy basis of his continuing relevance and importance.

Since instrumental democratic processes should be an integral part of the institutional fabric of America, Tugwell was understandably frustrated with America's faltering piecemeal attitude toward reform. Tugwell noted that the difficulty with reform in spurts or in crises was that the people and their leaders, through lack of education, were unprepared to adopt new social devices adequate to the new age which had come into being since the last spasm of reform. Tugwell referred to the difficulty of this process by noting the difference between conservative and truly progressive notions of reform:

But my generation had redefined the issues and used other terms. They were, for all that, perhaps the same. We had more of an agreed positive program in contrast to their negative one; but we were not such good fighters and we probably had less public support because

our concepts were, necessarily, more difficult. Denouncing the “interests” and “busting trusts” had been more conducive to adrenaline flow than advocating more effective administrative arrangements for specific social functions (Tugwell, 1947b, p. 348).

In retrospect, Tugwell observed that the people were reluctant to go beyond piecemeal reform even though they were fully aware that a bridge was “something which cannot be built with elementary arithmetic; yet it is expected that the more complicated social processes may be provided for without the use of devices for measurement, of institutions for co-ordination, or reference to the relevant body of social science” (Tugwell, 1953b, p. 2). Experience had shown that the frenetic desire for reform would dissipate quickly, and soon thereafter “every reform had to be fought for inch by inch, and the fight grew harder as the recovery proceeded” (Tugwell, 1953c, p. 329). The “national house was in ruins, but we were not yet ready for a new one” (Tugwell, 1953b, p. 22). Therefore, in Tugwell’s view, the New Deal was only the beginning; its policies represented the first tentative steps toward the vital task of changing ingrained ceremonial attitudes and bringing policy within the influence of modern thought (Tugwell, 1939d, p. 325).

As noted earlier, Tugwell was also disappointed with the postwar resurgence of economic atomism and the emergence of the broker state; this retrenchment “made it impossible, when victory had come, to plan or act in the public interest except as it might accidentally emerge from the conflicts among extremely complex interests” (Tugwell, 1949c, p. 39). Despite this institutional devolution, his demeanor in general during the postwar period was a clear reflection of the persistence of his evolutionary OIE mindset. He called for continuous concern - in prosperity and peace as well as in recession and war - with the development of new social devices to meet emerging needs (Tugwell, 1951b, pp. 357-58).

Suggestions for Further Research

This study closes with some suggestions for further research on the political economy of Rexford G. Tugwell. The continuing relevance of Tugwell's thought is accentuated by the ongoing *methodenstreit* within political economy in general, but, more specifically, his system of thought comes to the fore when viewed as a refreshing alternative to the failed market incantations of the conventional liberal traditions. The post-1975 decline of the Keynesian neoclassical synthesis opened a void in economic thinking and policy that has largely been filled by a resurgence in classical thought. But classicism's resurrection in the guise of the monetarist expectationist counter-revolution has led the profession into policy conclusions that some find problematic - even dangerous (Tabb, 1999, p. 207). The recent surge of protest against international organizations that enforce the "Washington consensus" may be the harbinger of a new turn in economic thought (Gray, 1998, p. 22; Tabb, 1999, p. 219). There is also the risk that the globalization led by capital markets is creating excess capacity and financial fragility (Clarke, 1988, p. 357; Palley, 1998, p. 46). If a new economic direction is to be undertaken, it must be based on a methodologically sound understanding of the modern economy that is reminiscent of Tugwell's OIE mode of analysis. The reasons for the collapse of the Keynesian neoclassical synthesis should be reexamined in this light and alternatives to the monetarist expectationist framework should be explored. Hence, a research agenda geared toward shedding more light on Tugwell's political economy framework may prove quite useful in this regard.

Such an agenda might flow along two broad channels of inquiry: First, an ongoing effort should be made to demonstrate Tugwell's continuing relevance to modern political economy issues, particularly as they relate to the OIE concept of democracy, the Tugwellian notion of balance, and democratic economic planning. Secondly, as this study has made apparent, there are several problematic aspects of

Tugwell's thought - especially those identified in Chapters Four and Five - that need further investigation and clarification if his system of thought is to provide a workable alternative to the mainstream. Two brief lists of possible research topics are provided below that roughly correspond to these two broad approaches. The first list identifies items relating to Tugwell's *continuing relevance*. This is then followed by a list identifying some *problem areas* in Tugwell's thought. Of course, these lists are by no means comprehensive or exhaustive - they are simply suggestions on subjective points of interest and befuddlement.

Continuing Relevance

1. Further investigation into the continuing relevance of Tugwell's work should dovetail with the ongoing research agenda of OIE. In articulating the latter, Ron Stanfield spoke of the need for the continued "cultural criticism" of the economics discipline as "part of the wider effort to enhance instrumental reasoning by expanding participation" in the democratic process. Thus, "OIE needs to strengthen its notion of the quality or character of democracy and to assert without reticence the radical implications that follow [Brown 1988]" (Stanfield, 1999, p. 245). With this in mind, Tugwell's political ideas should be examined to further establish their compatibility with the OIE tradition and Brown's notion of "radical democracy". Furthermore, the compatibility of Tugwell's ideas with Tilman's "neoinstrumental theory of democracy" should be explored. The latter emphasizes 1) Dewey's "method-of-intelligence . . . that . . . adjusts means-to-ends through a system of self-correcting valuation; and 2) the efficient enhancement of "desirable kinds of human growth and development" (Tilman, 1987, pp. 1394-95). Additionally, Tugwell's model of the state should be carefully articulated to elucidate its role in resolving the dilemma of the "dichotomized state" (Stanfield, 1991).

2. Tugwell's work should be examined further to clarify his intellectual debt to Thorstein Veblen, particularly the latter's crisis theory. Tugwell clearly adopted Veblen's under-consumption/over-production or secular stagnation thesis as the cornerstone of his own crisis theory. He also grafted Veblen's criticism of financial consolidation as a panacea to overproduction to his own thoughts on the problem of corporate surpluses. Tugwell's aloofness from the Veblenian influence is puzzling. Superficially, the most plausible explanation of this is that Veblen's pessimism with regard to state intervention was antithetical to the unbounded optimism that Tugwell inherited from Patten. Further investigation will hopefully yield more substantive explanations than this.

3. The pathology of capitalism is rooted in the Veblenian concepts above, and it is in reference to these that Stanfield spoke of the "cultural crisis of late capitalism" and pointed to the need to identify "the psychocultural pathology of late capitalism by exposing the cultural hegemony by which corporate and other large vested interests dominate the mentality of social life . . . The struggle against corporate hegemony and invidious encapsulation of technological possibilities requires a strategy of *demystification*, which must incorporate a sociology of knowledge, culture, and personality" (Stanfield, 1989, p. 731). Tugwell's work should be further explored to demonstrate his contribution to this demystification process. His work clearly exhibited a "higher standard of efficiency or rationality within the context of the psychocultural experience" (Stanfield, 1989, p. 731) that called for a reordering of society. Through "self-authentic choosing, governance, and cooperation", Tugwell sought to overcome "the paralytic ideological fixation of the market mentality . . . so that the task of *imagining* alternative futures can be begun" (Stanfield, 1989, p. 731).

4. According to Stanfield, the domination of political economy by the “market mentality” has thwarted a comprehensive institutional analysis of the modern economy. Thus, the macroeconomic policy conclusions of OIE are in need of more solid analytical foundations, and it may be that a fuller integration with Tugwell’s thought would be very helpful in this regard. Stanfield observed:

Working from Veblen’s analysis of financial consolidation, Tugwell and other New Deal institutionalists emphasized the need to rebalance aggregate sectoral income flows within a comprehensive industrial policy or indicative economic planning format. Mean’s administered price analysis and its implications of a dualized economic structure were an important part of the OIE logic [Barber 1994]. The widespread appeal of the OIE message in the inter-war era needs to be remembered [Rutherford 1997; Yonay 1998]. Galbraith most prominently carried this structuralist message forward into the postwar era [Stanfield 1996, chap. 7] (Stanfield, 1999, p. 249).

5. A comparative study of the ideas of Tugwell and Galbraith may prove very fruitful in solidifying the notion of balance within OIE thought and demonstrating its continuing relevance to contemporary political economy problems. In the same vein, comparative studies between Tugwell and Robert Averitt and Tugwell and John Munkirs may also be illuminating in this respect (Averitt, 1968; Munkirs, 1985). Gruchy partially fulfilled this objective in pointing to the relevancy of OIE ideas, in general, to the “new two-tier economy” (Gruchy, 1972, Ch. 7; 1987, Ch. 5; 1990).

Galbraith’s work clearly reflects the Tugwellian notion of balance, as he devoted much of his analysis to a consideration of “social imbalance” and the measures necessary for the amelioration of this adverse condition (Galbraith, 1958, p. 253; 1973, pp. 179-97; Stanfield, 1996, pp. 48-52). Like Tugwell and other OIE thinkers, Galbraith gave expression to a holistic and technological interpretation of economic evolution that opened the door to the realities of economic power in the large-scale or oligopolistic sector of the economy. The equilibrium framework of the

neoclassical paradigm permitted the orthodox economists to dismiss economic power as a fleeting phenomenon in the face of competition, but Galbraith's holistic approach lead him to postulate economic power as a permanently embedded feature of the "modern organized economy" (Galbraith, 1973, p. 4).

Like Tugwell, Galbraith combined the historical techniques of investigation with specific analyses of various features of the oligopoly-dominated economy. His historical approach focused on the critical changes in the nation's economy during the tumultuous first six decades of the twentieth century, and this contextual approach enabled him to penetrate the extent to which the nation's dualistic economy had altered the social provisioning process (Stanfield, 1996, pp. 62-63). Paralleling Tugwell's framework, Galbraith divided the modern industrialized economy into two distinct categories: 1) the planning system, composed of a relatively limited number of large oligopolistic corporations; and 2) the market system, composed of a myriad of small firms and traditional proprietors. In Galbraith's view, the difference between these two sectors was not one of degree, but rather one of organization and behavior (Stanfield, 1996, p. 20). Again echoing a Tugwellian theme, Galbraith contended that the state had become largely emasculated by this development; hence, power resides predominantly in the modern corporation. The extent to which Galbraith either originated these ideas or borrowed them from Tugwell should be a subject of keen interest to the OIE researcher.

A secondary point of intellectual interest that warrants further investigation is why Galbraith was enormously successful in his elevation of the balance theme while Tugwell's work was largely overlooked. This is an aspect of the "Galbraithian Paradox" spoken of by Ron Stanfield (1996). This conundrum is punctuated by the fact that Galbraith, with a less impressive public service career, a lighter publication stream, and Tugwell's junior by nearly twenty years, received the Veblen-Commons Award a year prior to Tugwell. Superficially, an explanation of this may have

something to do with their respective literary skills: Galbraith's legendary prose and mordant wit captivate the reader and have rendered a great service in popularizing that author's ideas. Tugwell's monotonous rambling prose assures the reader plenty of snooze time.

6. In outlining a research agenda for OIE, William Dugger indicated a pressing need to 1) examine the various center-versus-periphery problems; 2) modernize the Veblenian dichotomy; and 3) activate the OIE social value theory (Dugger, 1988, p. 1000; 1986, pp. 330-32). All of these elements are inextricably linked to the continuing relevance of Tugwell's thought since they are the basic building blocks of his framework.

Dugger pointed out that: "If corporate hegemony is to be curbed, it will take the most powerful noncorporate institution to do it - the government. If the center firms are to be tamed and the periphery firms stabilized, again, it will take the most powerful noncorporate institution to do it - the government. But can government in the United States do the job" (Dugger, 1988, p. 989)? Dugger noted that campaign finance reform and the elevation of the status of government employees would certainly be helpful, but a "major problem" still remains that requires ongoing research: "What should be the government's approach to specific, wayward firms that need social control? Three approaches are possible: antitrust, regulation, and ownership" (Dugger, 1988, p. 989). Clearly, any discussion along these lines must address Tugwell's contribution to the debate, particularly his revision of the US Constitution since it represents the zenith of his life's work. Also, an effort should be made to fuse Tugwell's framework with the "contemporary needs" approach identified by Dugger in Chapter Six of this study. Moreover, the reader may again recall from Chapter Six that Dugger identified the motto of OIE planning as "try again" (Dugger, 1987b, p. 1661). This relates to Tugwell's concerns over expert

opinion versus public opinion. There is good reason to believe that the public might not place a great deal of stock in this motto, and indeed, they might equate it with the more dubious political imploration of “trust us”. Obviously, these are issues of great importance that need further development and clarification. In general, OIE needs to go into much greater detail on the issue of democratic economic planning (The following is a representative sample of the OIE planning literature gleaned from the *Journal of Economic Issues*. See Dorfman, 1970; Mueller, 1975; Edwards, 1975; Samuels, 1975; Gruchy, 1982; Sisk, 1982; Troub, 1982; Wijer, 1982; Munkirs, 1983; Sturgeon, 1983; Ciscel, 1984; Solo, 1984; Hayden, 1985; Shute, 1985; Klein, 1985; Gruchy, 1985; Brown, 1985; Adams and Brock, 1985; Brinkman, 1986; Hayden, 1987; Munkirs and Knoedler, 1987; Dugger, 1987a, 1987b).

7. OIE would certainly gain considerable insight into economic planning by an exhaustive review of the extant literature on this ponderous subject, especially a careful examination of the difficulties encountered by the formerly planned economies. The role of information technology and the implications for economic and political freedom should also be investigated. These issues are relevant to Tugwell’s thought because much of the institutional resistance to planning has traditionally, and understandably, been based on precisely these concerns (Hayek, 1935, 1944; Mises, 1949; Graham, 1975; Kornai, 1992). Furthermore, the corporatist debate in interwar England that prompted the publication of Hayek’s belatedly influential *Road to Serfdom* (1944) should also be explored. Also, an illuminating research project might be a comparative study of the different types of planning, i.e., plutocratic command planning, corporate planning, centralized private sector planning, indicative planning, corporatist planning, and of course, Tugwellian cooperative planning.

8. And finally, the issue of global imbalance should also be addressed and an effort made to incorporate Tugwell's ideas into this discussion, especially in light of the resurgence in global capitalism after nearly a century-long hiatus. Tugwell (1971) voiced strong opposition to the postwar strategy of containment pointing to its numerous failures and fallacies. Most significantly, he viewed it as a horrendously squandered opportunity immediately following World War II, when the creation of the United Nations and the drafting of a World Constitution fueled his optimism concerning the possibility of a worldwide New Deal (Straight, 1943; Tugwell, 1948, 1949a). His hopes were soon dashed when President Truman and his advisors, followed by subsequent administrations, entered upon the bellicose, shortsighted, futile, and costly course of containment - an erstwhile Cold War policy that continues to spawn negative repercussions around the globe.

Problem Areas

1. To a large degree, any exposition here of the trouble spots in Tugwell's framework will be a repetition of the issues raised in Chapters Four and Five. The reader will recall the difficult microeconomic issues that Tugwell confronted when he attempted to postulate the economic basis of his planning scheme. Reduced to its pure essence, the issue was how Tugwell proposed to achieve the efficiency outcomes of perfect competition within the context of a centrally controlled economic order that envisaged large-scale production oriented toward economies of scale. Under Tugwell's scheme of central control or coordination, how would the planners determine the optimal levels of supply and demand? How would they determine the price that would bring forth the necessary or optimal level of output? How would the planner determine the most efficient level of output, and what if the price consistent with this level of output was sub optimal with respect to the market-clearing price? How would the planner determine the optimal plant size? If the

government's function were merely coordinative rather than directive, how would the planner be assured that business was acting in the best interests of workers, consumers, and the public? Furthermore, Tugwell's views on the prospects for worker liberation due to the continuous process and the complete serialization of industry seem almost hallucinatory. His thoughts on this issue are greatly in need of further explication and refinement. And there are many more questions of this sort, ad infinitum. Tugwell's framework must address these satisfactorily to convince skeptics and an indoctrinated public, steeped in the rituals of market automaticity, on the crucial matters of its desirability and feasibility.

Such questions are reminiscent of the concerns raised by Robert Moses during Tugwell's tenure as the Chairman of the NYCPC. The "Moses Critique", although motivated principally by power-thirst and ideological righteousness, did raise legitimate concerns over Tugwell's planning ideas. Moses was primarily concerned with the no-nonsense practical implications of Tugwell's ideas: What would be the disincentive effects of Tugwell's various proposals? What would be the implications for government finance? What would happen to the American right to migrate, truck, barter, and exchange at will? Again, these are questions that must be addressed to the satisfaction of critics and naysayers alike.

2. As mentioned earlier, voluntarism and consent play an instrumental role in Tugwell's social management scheme. This raises the important and complex issue of human nature. Was Tugwell's model of human nature realistic? Or, was he, like J. R. Commons, fantastically deluded in positing the human agent as an intelligent and cooperative creature? One could advance a convincing argument that Tugwell's entire professional life is a testament to the selfishness, intransigence, and boorishness of the human agent. After all, an observer of Tugwell's career would be hard pressed to identify just one single example of a successfully implemented and

enduring Tugwellian planning proposal. True, as mentioned in Chapter Five, he was satisfied with his role in the elevation of the parity concept from a position of controversy to one of relative acceptance. And, the governmental structure of Puerto Rico is, to this day, imbued with his influence. Moreover, he played a strong supporting role in the creation of the American corporate-welfare state.

Nevertheless, the requisite cooperation and voluntarism necessary to fully activate Tugwell's planning ethos has yet to materialize, and there is no indication that it ever will. Such concerns suggest that further investigation into the model of human nature employed by Tugwell, or by OIE and the economics profession in general, is certainly warranted and welcome. Anthropological studies, in particular, may prove quite useful in this regard.

3. What about the feasibility of planning with respect to its compatibility with the American liberal tradition? Although Tugwell was no doubt satisfied with the end product of his arduous revision of the US Constitution, neither hard-nosed skeptics nor an apathetic public were convinced that Tugwell had successfully resolved the expert opinion versus public opinion dilemma and a host of related issues. On the one hand, how could Tugwell implement his notions of economic and social balance without constitutional revision given the evolution of events described in this study? On the other hand, how was the acceptance of his Newstates Constitution possible in the face of categorical rejection and indifference? Such a dilemma suggests the need for a comparative study of alternative constitutions to assess the merits and deficiencies of Tugwell's formulation with an eye toward identifying possible alterations to the Newstates Constitution so as to attenuate it to the shifting political economy landscape of America.

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