Woodrow Wilson, the Early Years:
Stooge of the Cartelizers

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Woodrow Wilson was a Progressive. Like others in this intellectual movement, he believed that America had entered “a new age” (Wilson 1913a, p. 7) for which old principles, old laws, and old institutions were inadequate. Progressivism grew out of an evangelical Protestantism that had drifted from its doctrinal moorings, a liberal optimism about the perfectibility of human beings, and a Darwinist paradigm of evolutionary progress. Those who labeled themselves Progressives in early twentieth-century America saw themselves in the role of scientist-evangelists. Their mission was to bring the new technical expertise developed during the nineteenth century to bear on contemporary social problems. Civilization had advanced so far that men could now direct evolution, both of the species *Homo sapiens* and of that species’ society. But not all humans were equally advanced, of course; Darwin’s theory of evolution by natural selection rested, after all, on diversity within species. Therefore, the more advanced humans, or “experts,” would be the ones to direct the course of human civilization. But to control the development of every aspect of civilization, from procreation to industrial production, would certainly be a daunting task. By means of what instrument would this endeavor be undertaken? Progressives recognized the State, with its monopoly on coercion, as the natural instrument by which to reform society (McCormick 1986, pp. 142-4).

The Progressive movement focused a great deal of its attention on economic reform. Several reasons can be suggested for this. First, economic considerations are fundamental to life. In what exchanges individuals participate, by what means individuals obtain food, clothing, shelter, and so forth, at what occupations and under what conditions individuals labor—these are profoundly important aspects of any human society. If an expert wishes to control society, economic control over its participants would seem to be essential. Second, in America, a tradition of State intervention in the economy—a limited tradition, it is true—already existed,
whereas a State-directed eugenics scheme, for example, would have been unprecedented. By 1900, Americans had already grown accustomed to government intervention in banking, government subsidies to infrastructure projects, and government regulation of certain industries, such as the railroads. The Interstate Commerce Commission had been in existence since 1887, and the Sherman Antitrust Act had been on the books since 1890.

Third, and most importantly in Wilson’s case, the Progressives could tap into a grassroots sentiment against “big business” in order to gain popular support for their elitist plans. The remains of the old Populist Party, a coalition of farmers, wage-laborers, and other inflationists, delighted to hear Progressives inveigh against the iniquities of private monopoly and demand that the State ally with the people against the powerful. Backed by the work of muckraking journalists and statisticians, the Progressive leaders encouraged these malcontents in their agitation for such reforms as nationalization of infrastructure, an eight-hour work day, cheaper credit, and taxes on the rich. Progressive elites, of course, did not personally labor in the factories or the fields, but they convinced a proportion of the masses who did that their interests were identical.

Progressives also both exploited and fostered a “producerist” mentality among the farmers, in particular. Rejecting the subjective theory of value (goods are worth whatever the consumers think they are worth), they expounded the labor theory of value (goods have value because of the labor expended on their production). Rejecting the idea that a laborer will tend to earn his marginal value product (that is, the amount of value he adds to whatever he is producing), they preferred instead to think of wages as a measure of an employer’s generosity: those who paid high wages were giving the laborer his due; those who paid low wages were miserly. And as for the factory owners and the absentee landlords, they deserved no wages.
After all, one can see from the language used to designate them that they did no “work.” They were parasites; they produced nothing. According to this fallacious theory, because they had never physically touched the product in any stage of production, clearly none of their labor had gone to producing it, and therefore they should receive no compensation (Greenburg 1999, p. 3). Of course, this theory denies the service that investors provide by their willingness to supply capital, thus reducing their current consumption. It ignores the service that entrepreneurs provide by anticipating the future and shouldering the risk of losses if their anticipation is incorrect. But just because a theory contradicts economic truth does not mean that a theory will be unpopular. A theory that glorifies the working man might very well be popular with the working man. A theory that denigrates the capitalist who receives large monetary rewards in the market by serving consumers’ preferences might very well be popular with envious intellectual elites whose services consumers do not prefer as highly.¹

The meteoric rise of intellectual elitist² Woodrow Wilson from humble Princeton graduate to President of the United States was fueled by his adept use of Progressive rhetorical tactics. His first public battle, which could have remained a private battle had he not decided to publicize it, came when he was president of Princeton. Having instituted at Princeton a preceptorial system modeled on that of Oxford, he decided in 1907 that the system could not succeed unless the residential system of Princeton were also changed to one more like Oxford’s.³

¹ Such a theory might also be popular with intellectual elites for aesthetic reasons. The imagery of debauched fat cats drinking and dancing the night away, while thrifty, industrious farmers and wage-earners toil in squalor and go home to a hungry family, can be very powerful.

² He was quoted as lamenting that “people are so damned stupid” (Hollis 1930, p. 216).

³ This parallels the way that one State intervention not only fails to solve the problem it purports to aim at solving but creates new problems which require additional interventions for their solution. Wilson reported to the Board of Trustees in 1907, “Before the establishment of the preceptorial system, . . . these things were not so near the heart of our plans and hopes for Princeton’s intellectual development and academic revitalization. But now they are the essence of everything we are striving for” (Wilson 1907a, p. 88-9). In other words, before the first innovation, the residence life of Princeton was not a problem. After the first innovation, it became an essential problem requiring urgent attention.
He deplored the “eating clubs” of Princeton as elitist social organizations which excluded the less wealthy students of the university. Because of the discontent of those who were excluded, and because of the aesthetic prejudice against the appearance of elitism, Wilson took the issue, dressed in the trappings of “democracy versus plutocracy,” to the public.

Why what would seem to be purely a private university matter should be of wide public concern is not immediately clear, but Wilson was operating with a different definition of “public” than the English-speaking world had conventionally applied. Princeton was technically a private university, funded not by the State but by its students, alumni, and other independent donors. But, as Wilson later announced, Princeton was “intended for the service of the country, and it is by the requirements of the country that it will be measured” (Wilson 1910a, p. 97). Thus, the small number of people who paid for the services that Princeton had to offer was less important than the larger number of people who might indirectly benefit from the exemplary leadership of Princeton men, for instance. Wilson was later to apply the same reasoning to the question of regulating big business. “The public” uses the services of large corporations, the Progressive argument went; therefore, the State, as the agent of the public, should regulate the corporations in the public’s interest. Because of the complaints of a few individuals envious that others benefited more than they did, no longer would the relationship between the corporation and the people who paid for its services be allowed to stand on its own as a simple voluntary and mutually beneficial exchange. Wilson sought to prohibit Princeton students from pursuing mutually beneficial associations with whomever they wanted because of the complaints of those whose association was for whatever reason not deemed beneficial.

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4 As Christopher Hollis points out, the enemy of an elitist system is often the one who tries but fails to get admission to it (1930, p. 219).
Wilson, on the verge of being fired from his post at Princeton in 1910, received a convenient invitation from the Democratic political machine of New Jersey to become the governor of the state. The bosses had the idea that Wilson was a traditionally conservative Democrat in the tradition of Grover Cleveland with the anti-plutocracy rhetoric of that great Democrat Andrew Jackson. They had ascertained his conservatism from some negative remarks he had made about William Jennings Bryan’s “dangerous” principles (quoted in Fried 1988, p. 23). At first, it seemed that he understood that he was being nominated by a machine; he described to his friend D.B. Jones a scene in which he supped with some newspapermen and “James Smith, the reputed Democratic boss of New Jersey” (Wilson 1910b, p.103). But in the summer before the 1910 gubernatorial election, Wilson suddenly converted to Progressivism. As Albert Fried commented, “[P]rogressivism provided a much more suitable outlet for his deep passion for social duty and moral right than conservatism ever had. He began to see transcendent ideals as concrete issues” (Fried 1988, p. 24).

A questionnaire from New Jersey Republican Progressive leader George Record provided the opportunity for Woodrow Wilson’s Progressivism to have its debutante ball. Wilson came out in favor of regulating utilities, establishing direct primary laws, compelling companies to pay workmen’s compensation to injured employees, and repealing a maximum tax law (Wilson 1910c, pp. 112-4). He also denounced the “boss system” which had, incidentally, secured his

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5 It might be argued that Wilson’s conversion was not sudden. In his years as an academic, his most famous work was *Congressional Government*, a book which Roland Young described as a collection of “sweeping and often acute generalizations (or moralizations)” in which “the thesis is drummed in by constant repetition” and whose most striking characteristic is a “somewhat cavalier neglect of research.” In it he argued that leadership in Congress was too decentralized into committees whose proceedings were secret and that the remedy would be to get rid of the Constitution’s pesky separation of powers. Instead, a system like the English, in which the Cabinet is drawn from the legislature, would provide responsible leadership because the people who originated certain policies would have to conduct public debate rather than back-room negotiations (Young 1956, pp. 202-203, 207). Wilson wrote that debate was “the best, the only effective, means of educating public opinion” (Wilson 1879, p. 75). That he refers to “education” of public opinion instead of responsiveness to public opinion, or even, what would be most encouraging, adherence to the Constitution, indicates his early sympathy with one strain of Progressivism which hoped to control the people by persuasion rather than having to resort to coercion.
nomination. He promised to “refuse to submit to it” and to “bend all [his] energies to break it up.” The method of destruction was to be “pitiless publicity” (Wilson 1910c, pp. 114-5). Wilson kept his word. When party boss Smith, who had made Wilson governor, requested election to the U.S. Senate by the New Jersey legislature, Wilson publicly smeared Smith as the representative of “the selfish interests” (Wilson 1910d, p. 118), thus dissociating himself from the machine which had fixed him in the heavens of political stardom. Furthermore, he took the opportunity to identify himself as “the warm friend of organized labor” and to declare unions “absolutely necessary” if labor was to “secure justice from organized capital.” In a single paragraph he managed to endorse nearly all of labor’s demands short of the outright expropriation of capitalists, including workmen’s compensation, legal restrictions on the number of hours that an individual could work, and the propping up of wages above the market-clearing rate (Wilson 1910e, p. 106). He also pushed through the legislature many favorite Progressive reforms: “a direct primary system, corrupt practices legislation, workmen’s compensation, and strict state control of railroads and public utilities” (Link 1954, p. 10).

But organized labor was not the only cartel to which Wilson pandered. In fact, some of the Progressives were businessmen looking to the State’s coercive power for assistance in consolidating control over their industries (Rothbard 1999, p. 3). Businessmen want to increase profits, but competition keeps prices down. As the great cartelizer J.P. Morgan said, “I like a little competition, but I like combination more” (quoted in Davidson 2002, p. 625). If all the firms in an industry come together in a cartel, forming an agreement to restrict the supply of the good by setting quotas, the price of the good will rise and each existing firm will make a larger profit. But organized labor was not the only cartel to which Wilson pandered. In fact, some of the Progressives were businessmen looking to the State’s coercive power for assistance in consolidating control over their industries (Rothbard 1999, p. 3). Businessmen want to increase profits, but competition keeps prices down. As the great cartelizer J.P. Morgan said, “I like a little competition, but I like combination more” (quoted in Davidson 2002, p. 625). If all the firms in an industry come together in a cartel, forming an agreement to restrict the supply of the good by setting quotas, the price of the good will rise and each existing firm will make a larger profit. But organized labor was not the only cartel to which Wilson pandered. In fact, some of the Progressives were businessmen looking to the State’s coercive power for assistance in consolidating control over their industries (Rothbard 1999, p. 3). Businessmen want to increase profits, but competition keeps prices down. As the great cartelizer J.P. Morgan said, “I like a little competition, but I like combination more” (quoted in Davidson 2002, p. 625). If all the firms in an industry come together in a cartel, forming an agreement to restrict the supply of the good by setting quotas, the price of the good will rise and each existing firm will make a larger profit.  

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6 This assumes that the cartel does not raise prices too high and cause demand to fall too much for the higher price to compensate.
member has an incentive to increase its production and reduce its prices, thereby capturing a larger share of the market than its competitors and earning an even higher profit than it would by adhering to the cartel agreement. Because the unhampered market provides no enforcement mechanism to keep the firms from cheating and no way to keep out new competition, the cartel will be short-lived. But if the cartel can use the State to enforce its agreement, it has a better chance at survival. The establishment of a successful cartel hurts the consumers because instead of having cheap and abundant supplies of the good available for purchase, they are faced with greater scarcity.\(^7\)

Government-created regulatory boards would provide the enforcement mechanisms to stabilize the cartels. The personnel appointed to regulatory boards would be the same people who staffed the “private” corporations. The Progressive ethos of expertise provided a story plausible to only the most doctrinaire among the class warriors. As the story went, once a former railroad executive had been appointed to the ICC, for example, he would cease to harbor his own private interests; as a government employee he would act in the public interest. Railroad lawyer Richard Olney’s observation on the ICC debunks the story: “It satisfies the public clamor for a government supervision of railroads, at the same time that the supervision is almost entirely nominal. Further, the older such a commission gets to be, the more inclined it will be found to take the business and railroad view of things” (quoted in Walton and Rockoff 2005, p. 320).

Unless the “railroad view” was the same as the “farmer view” or the “union labor view,” the

\(^7\) Of course, the cartel does not benefit the producers forever, either; without competitive pressures to cut costs, firms will become less efficient and less likely to innovate, and the quality of their goods will decline. Furthermore, consumers will tend to shift to alternative goods that can be used as means to the same ends. For example, the shift from railroad shipping and travel to the use of trucks and personal automobiles in the twentieth century might not have been so dramatic had the railroads not been cartelized with the assistance of the ICC and at times even nationalized.
Progressive intellectuals were serving the powerful interests they had made a career out of demonizing.

In the regulation of public utilities, Wilson successfully fulfilled the business-Progressive dream. In a public speech striking the same note as that private letter of railroad lawyer Olney, Wilson said of this reform, in his usual understated way, “It is understood by everybody who knows anything of the common interest that it [the Public Utilities Commission] must have complete regulative powers. . . . This can be done . . . not only without destroying the profits of such business, but also with the effect of putting it upon a more satisfactory footing for those who conduct it no less than for those who make use of it day by day” (Wilson 1911, p. 123). Wilson’s plan was to create an expert commission to study what would constitute “just and reasonable rates” and to “fix” the “percentage of profits” (Wilson 1910c, pp. 112-3). With the state of New Jersey guaranteeing its profits and keeping out its potential competitors, the directors of New Jersey’s utility cartel would indeed find their footing more satisfactory. Whether the customers of this cartel, momentarily convinced that the state had saved them from exploitation, would find their position equally satisfactory after a few years of regulated monopoly is less certain.

Even as he set about reforming the state of New Jersey, he kept in mind the plan, also expressed in his letter to Jones, of running for the presidency in 1912. The Populist interests had captured the national Democratic Party in 1896, and William Jennings Bryan had thrice run unsuccessfully for President on the Democratic ticket. The fall of the Democracy, the last citadel defending domestic laissez-faire and free international trade, to Populist forces represented a major turning point in American politics. No longer was there any major party, nor yet any

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8 Wilson also absented himself from New Jersey to make national speaking tours. In fact, he was out of the state so much in one month that the state comptroller paid the governor’s salary to President of the Senate Ackerman, acting Governor in Wilson’s absence (Hollis 1930, p. 232).
minor party, whose policies could be summarized by Thomas Jefferson’s famous dictum, “That government is best which governs least.” The Republicans had been founded on the Whig economic platform of high tariffs, centralized and inflationary banking, and State promotionalism via subsidies to “infrastructure” projects. The majority of leading Democrats now represented the same interests with a twist of class-warfare: instead of from high tariffs, the federal government would raise its revenue from an income tax; instead of pseudo-private central banking, they advocated outright State ownership; instead of merely subsidizing infrastructure, the State should nationalize it. In practice, of course, this platform amounted to the same thing the Republicans, allegedly more dominated by the “selfish interests” than the Democrats, were advocating, since the same personnel who controlled the big businesses when they were private would control them when they were State-owned or regulated. This congruence of the two parties’ plans seemed not to trouble anyone, however, as they all went about shouting that if the other party took power, the entire reform agenda would collapse.

A man such as Wilson, with such a sterling record of reform for the benefit of the businessmen and the people alike, such devotion to public opinion, and such flexible political principles would surely be the ideal candidate for the highest political office in the United States. The Democratic National Convention of 1912, however, went through forty-six ballots before selecting Wilson and almost gave the nomination to Speaker of the House Champ Clark. Bryan, however, clearly saw Wilson’s potential. Having forgiven Wilson for his former snubs, Bryan moved that any candidate “under obligation to J.P. Morgan, Thomas Fortune Ryan, August Belmont, or any other member of the privilege-hunting and favor-seeking class” be

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9 Since businessmen obviously don’t count as people.
10 Hollis described Clark as a man of “no particular political opinions” but “a good party man, having supported in turn Cleveland and Bryan, when they were the regular nominees” (1930, p. 236).
11 In 1908, Wilson had said that Bryan should be “knocked into a cocked hat” (Fried 1989, p. 128). Whatever that meant, it surely was not a compliment.
ineligible for nomination, and the convention passed the measure (Link 1954, p. 12). Because Tammany Hall, a known bastion of privilege-hunters and favor-seekers, supported Clark, this resolution showed that Bryan favored Wilson. The support of Bryan swung the nomination to Wilson, who, after securing the presidency because of the Republican split between William Howard Taft and Theodore Roosevelt, subsequently named Bryan his Secretary of State.

Wilson now threw himself into full-time campaigning. His campaign theme, “the New Freedom,” vied with Roosevelt’s “New Nationalism” for the votes both of those who believed themselves to be downtrodden and of those who fancied themselves the helpers of the downtrodden. Roosevelt, according to Arthur Link, recognized “the inevitability of concentration in industry,” planned to “bring the great corporations under complete federal control,” and hoped to create a “modern welfare state” (Link 1954, p. 19). In other words, Roosevelt boldly espoused the most “advanced Progressivism” of the day, with its federal guarantees of industrial cartels and support of the demands of organized labor for State interference in private contracts. Roosevelt went on to associate Wilson with the outmoded Jeffersonian doctrines of laissez-faire (Link 1954, p. 20).

Certainly, Roosevelt’s attempt to construe Wilson as a Jeffersonian was disingenuous. Yet Wilson’s rhetoric suggested that he did not wish entirely to escape the charge. He embraced one traditional Democratic Party position (the lowering of tariff rates), and used Jeffersonian language with abandon. In fact, his skill at redefinition, demonstrated in the Princeton controversy with the word “public,” came in handy in the 1912 campaign, as he systematically perverted the English language.

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12 This moment might have been a little awkward for Ryan and Belmont, who were delegates to the convention.
13 He also appointed noted Morgan friend William McAdoo Secretary of the Treasury.
The first casualties of Wilson’s eloquence were the terms “freedom” and “liberty.” Wilson raised the question, “What is liberty?” and proceeded to answer it in an unprecedented way. Using the analogy of a locomotive that “runs free” because its parts are in “perfect adjustment” to a human society, he contended that “[h]uman freedom consists in perfect adjustments of human interests and human activities and human energies. And how is this adjustment to be effected in a new age in which “the adjustments necessary between individuals, between individuals and the complex institutions amidst which they live, and between those institutions and the government” are “intricate” and “complex”? Why, the State will take care of the adjustment, of course. “Without the watchful interference, the resolute interference, of the government, there can be no fair play between individuals and such powerful institutions as the trusts.” In conclusion, he decided, “The program of a government of freedom must in these days be positive, not negative merely” (Wilson 1913a, pp. 282-4).14 Well could Wilson call his program “the New Freedom,” for it resembled no freedom ever before found on earth.15

Compounding his blasphemy against the concept of liberty, Wilson invoked Jefferson’s legacy in support of his innovations. He conceded that “there is still a sense in which” Jefferson’s admonition that the best government did the least governing was “true.” But sometimes the government must “interfere with our individual activities . . . in order to free them.” He went on to say, “I feel confident that if Jefferson were living in our day he would see what we see . . . that, therefore, law in our day must come to the assistance of the individual” (Wilson 1913a, pp. 283-4). And so Wilson posed as the heir to Thomas Jefferson’s legacy and

14 The phrase “a government of freedom,” too, is a nonsensical concept. Whether a limited government may protect the freedom of those who create it is perhaps debatable, but no government ever gave its subjects freedom. Rather, government, by its very nature as a monopolist of coercive power, curtails and eventually destroys freedom.

15 Twenty years later, however, it would bear a striking resemblance to Franklin Roosevelt’s “Four Freedoms,” which included “freedom from want” and “freedom from fear,” two freedoms the government had not previously professed to guarantee, as well as two freedoms governments are in the habit of contravening through activities such as taxation, conscription, and so forth.
bravely weathered the charges of Roosevelt that he was a devotee of “worn-out Jeffersonian philosophy” (Link 1954, p. 20).

Another amazing sophistry perpetrated by Wilson involved the redefinition of “democracy.” Democracy, in conventional English, meant “rule by the people” and, in the American context, that the voting public had the final say over government policy. Presumably, in a democracy, the laws reflect the desires of the people’s hearts. In the Wilsonian lexicon, on the other hand, it was not the Greek polis or the New England town hall that provided the example of democracy but the famously hierarchical Roman Catholic Church, in which an infallible Pope held “the keys of the kingdom of heaven” and which over its centuries of existence had not exactly shown itself tolerant of, let alone responsive to, the desires of the people’s hearts.\footnote{Cf. the Inquisition. This is not to say that any religion should be tolerant of what it deems heresy but only that such an institution cannot be called a democracy without rendering the word utterly meaningless.} Yet Wilson persisted: “The Roman Catholic Church was then [in the Middle Ages], as it is now, a great democracy. There was no peasant so humble that he might not become a priest, and no priest so obscure that he might not become Pope of Christendom” (Wilson 1913a, pp. 85-6).

Wilson thus redefined a democracy as a system in which any person, rich or poor, might aspire to a position of power. In this sort of “democracy,” the range of opinion represented might be broad as 100% or as narrow as 1% of the population, but as long as an individual’s views were in accordance with the ruling interests, he could be as poor as a church mouse and still rise to the top of the system. If a canny peasant-become-priest played Vatican politics particularly well, perhaps he could become the Pope, but that still would not make the Roman Catholic Church receptive to Martin Luther’s views on justification or prevent it from burning heretics at the stake. Similarly, in Wilson’s “democratic” medieval Christendom, “every court in
Europe was ruled by these learned, trained, and accomplished men—the priesthood of that great and dominant body” (Wilson 1913a, p. 86). Just so, the government of the American democracy was to be ruled by learned, trained, and accomplished men—the priesthood of that great and dominant body, the Progressive movement.

The Democratic platform in 1912 did include one traditional Democratic policy: reduction of the tariff. Yet Jefferson might not have wholly approved the new reasoning for why tariffs should be lowered. In 1828 southern Jeffersonians had argued cogently against the Tariff of Abominations. They opposed it because its protectionist duties violated the constitutional principle of uniformity, both in its impact on different states and different industries (southern farmers were hurt, while northern manufacturing interests benefited) and in the disbursal of the revenues, which went mainly to northern infrastructure projects. In addition, they recognized the detrimental effects of taxation on trade; if foreigners could sell fewer goods in the United States because high tariffs made foreign goods more expensive, then those foreigners would be less able to buy American goods, leaving American exporters less well-off than they otherwise would have been. With higher prices for domestically produced goods sheltered from foreign competition, the standard of living for all Americans was lowered. Clearly, a Jeffersonian view of the tariff showed that protectionism not only violated America’s founding principles but also diminished prosperity for everyone except a few industrialists.

Wilson’s interpretation of the Tariff of Abominations was somewhat at variance with this traditional view. He first compared the 1828 tariff favorably with the tariff of his day, not because the rates were lower or more uniform but because “at least everybody had an open door through which to scramble for his advantage” (Wilson 1913a, p. 137). In other words, the tariff used to be a democratic measure. Anyone who wanted tariff protection had a fair chance of
getting it, just as in the Roman Catholic Church, according to Wilson, anyone who wanted to be
Pope had a fair chance of getting it. As long as one believed in the orthodoxy of protectionism,
one could make one’s industry rise higher in the schedules. In contrast, Wilson deplored the
“expert lobbyists” who exercised control over the tariff schedules in the twentieth century.
Summing up his complaint against these scoundrels, he said, “With the tariff specialist the
average business man has no possibility of competition” (Wilson 1913a, p. 139). To Wilson, the
presence of competition meant the market was working and that democracy was flourishing. No
matter that the competition was not between companies for the business of consumers but
between industries for government favors. Above all, however, Wilson derided the 1828 tariff
because it was not sufficiently centrally planned. He said that it “was called the ‘Tariff of
Abominations’ because it had no beginning nor end nor plan. It had no traceable pattern in it. . .
. It was an abominable thing to the thoughtful men of that day, because no man guided it, shaped
it, or tried to make an equitable system out of it” (Wilson 1913a, p. 137). Like other
Progressives, Wilson did not believe in the possibility of spontaneous social order.17 Order must
be imposed from above; it must come out of the mind of a single individual, or the report of
some commission, or perhaps the work of some experts (as long as they were not experts in
lobbying). What could be less Jeffersonian?

In contrast to Roosevelt’s program of “regulated monopoly,” Wilson announced that he
supported “regulated competition” (Link 1954, p. 20). He founded this plan on a distinction
between good competition and bad competition.18 Bad competition had produced monopoly, but

17 Ironically, however, Progressives did, for the most part (though not Bryan, e.g.), believe that spontaneous order
could occur in nature, as many were devout evolutionists.
18 In a free market, the number of firms in an industry is determined by profitability and may be small or large.
Wilson’s distinction is thus unsatisfactory because it distinguishes different kinds of competition by their results
rather than their methods. A firm that controls 90% of the market because of competitive efficiency is completely
different from a firm that controls 90% of the market because of government favors. It is legitimate to contrast
different types of competition. For example, war is bad competition, and so is competition among firms to see
the government could stamp out bad competition by “remedial legislation.” State action would thus inaugurate a golden age of good competition, and “the right use of competition will destroy monopoly. In other words, ours is a program of liberty and theirs is a program of regulation” (Wilson 1912, p. 150). Wilson neglected to inform his enraptured audience that by “liberty,” he meant “regulation”; what else could “remedial legislation” mean but regulation? Elaborating on what legislation would secure this ideal state of competition, Wilson tossed off these suggestions: “Lend them a little money. They can’t get any now. See to it that when they have a local market they can’t be squeezed out of it. Give them a chance to capture that market, and then see them capture another one and another one . . .” (Wilson 1913a, p. 170). Besides the obvious impossibility of squaring guaranteed markets with full private property and voluntary exchange rights, as well as freedom of association, this proposal offered new possibilities for government favoritism. Which firms would be classified as young upstarts and which as “waterlogged giants”? Wilson’s passion for objective laws and wrath against special interests apparently did not apply in circumstances which could be described in heart-stirring David-versus-Goliath terms.

Once he became President, Wilson also advocated giving compensation to failed competitors of industrialists found guilty of antitrust violations (Wilson 1914, p. 192). This proposal illuminated that one group channeling its influence into the reservoir of antitrust sentiment was composed of disgruntled businessmen who had failed to match their bigger rivals in competition and had subsequently had to liquidate. Surely Wilson’s membership in the envious intellectual class gave him sympathy with the failed businessman. But when it came to his attention that the successful businessman wanted to grovel before him in order to gain State which one can buy the most legislative favors. Making a firm more efficient so that it can lower its prices below its competitors’ could be considered good competition, at least from the consumers’ point of view.
favors, he gladly extended the olive branch to these former apostates. He announced to Congress, “The antagonism between business and Government is over.\textsuperscript{19} . . . The best-informed men of the business world condemn the methods and processes and consequences of monopoly as we condemn them . . . We shall now be their spokesmen” (Wilson 1914, p. 188).\textsuperscript{20} Arthur Link, like many other historians, considered 1914 the year in which Wilson abandoned the New Freedom and settled for the New Nationalism. Wilson proposed, and Congress passed, a bill establishing the Federal Trade Commission to regulate monopolies (Link 1954, p. 74). The FTC was duly staffed with the usual representatives of business interests.

In reality, of course, no real antagonism had ever existed between government and big business. In fact, these remarks promoting the FTC came just months after the Federal Reserve Act, the cherished project of the biggest businessmen of all, had established a central bank in the United States. The Morgan, Rockefeller, and Kuhn, Loeb forces had long sought a more inflationary banking system, coordinated, naturally, from Wall Street. The Populists also wanted inflation, but their militant anti-banker mentality and their naïveté vis-à-vis the State led them to propose a “nakedly inflationist” system of greenback or silver inflation controlled directly by the government. The big bankers preferred a more subtle inflation based on a gold standard. The central bank would keep gold reserves, while the rest of the banks in the system would have an expandable reserve: notes of the central bank. When the central bank inflated its note issue, the client banks could pyramid their own inflations on their increased note reserves (Rothbard 1999, p. 7).

\textsuperscript{19} This statement, made at the beginning of the era of big government, eerily resembles Bill Clinton’s proclamation, “The era of big government is over.”

\textsuperscript{20} Many Congressmen, having been bought by businessmen, were surely surprised to learn that they had been antagonists of business.
The cartelization of the banking system would not be greeted with enthusiasm from bankers outside of Wall Street, of course, and Populists like Bryan would have opposed any hint of privilege for bankers. Therefore, following the election of McKinley and with him the enactment of the gold standard that was the prerequisite for their scheme, the big bankers launched a major propaganda campaign to point out the deficiencies in the current banking system. Their main gripe was that the money supply was not “elastic” enough. “Elasticity,” of course, was code for “inflation.” As Murray Rothbard summarized the argument, “In short, the national banking system did not provide sufficient room for inflationary expansions of credit by the nation’s banks” (1999, p. 6). Woodrow Wilson helpfully echoed this line in the 1912 campaign, and it was one of the first reform promises on which he delivered.

For example, Wilson declared “the currency question” to be “most pressing and significant” (Wilson 1912, p. 162). Had not the bankers been agitating for reform, or had the United States dedicated itself to a genuine gold standard instead of partaking liberally of the intoxicating contents of the jug of inflation, currency would not have been a “question” at all, let alone a “pressing” one. Next he condemned the currency system of the United States as “stubborn, stiff, antiquated” and intoned, “You have got to make it elastic” (Wilson 1912, p. 163). Again, in his address to Congress on behalf of the Federal Reserve bill, he said, “We must have a currency, not rigid as now, but readily, elastically responsive . . .” (Wilson 1913b, p. 183). Wilson, in the judgment of historian Lester V. Chandler21 “probably did not understand” the banking system in any great detail (1956, p. 125). But he possessed the authority of the presidential office, and this official authority gave weight to what was merely a parroting of the banker propaganda line.

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21 Chandler held Wilson’s general intellectual capabilities in high esteem. He also felt that Wilson’s “religious zeal to broaden economic freedoms” made up for his defects in understanding (1956, p. 125).
Wilson insisted on monetary reform for two reasons: “to prevent crises and panics” and “to break the private monopoly of credit” (Chandler 1956, p. 125). The first reason provides another example of one government intervention spawning more. The intervention that legalized fractional reserve banking made possible the monetary inflation and credit expansion that caused the crises in the first place. A second intervention, creating a central bank, would not only fail to solve the problem but would make it worse by eliminating the competition among banks that had stopped the expansions before too much malinvestment had occurred. The second reason was a more real problem, for the big bankers did tend to extend more credit to the big businesses in which they held shares or with which they were aligned. But the solution was probably not to denounce the big bankers as the “money trust” (Wilson 1913a, p. 185) and then to hand over to them a more centralized banking system under a façade of federal control.

The banking interests had drafted a bill for a central bank in 1910, which Republican Senator Nelson Aldrich had proposed in Congress in 1912. Because of Aldrich’s known status as Morgan’s man in the Senate, the Democrats, who had won control of Congress in 1910, had scuttled the bill (Rothbard 1999, pp. 47-9). Wilson’s main contribution to the Federal Reserve bill was to have Carter Glass, a Democrat from Virginia, redraft it. Wilson told Congress that “the control of the system of banking and of issue which our new laws are to set up must be public, not private, must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative” (Wilson 1913b, p. 184). His insistence on “public” control mollified Bryan and his followers, who wanted the government to assume direct responsibility for the American banking system. The Glass bill provided for regional reserve banks and a Federal Reserve Board in Washington, appointed by the President to oversee the system (Chandler 1956, pp. 128-30). These changes,

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22 Often, they were aligned by both financial and family connections.
intended apparently to decrease the power of Wall Street, were in reality largely superficial. In keeping with his habits, Wilson appointed bankers to the Federal Reserve Board, and control really lodged with the Federal Reserve Bank of New York, led by Benjamin Strong, the head of Bankers Trust, a Morgan company (Rothbard 1999, p. 49).

Wilson, in conclusion, used the rhetoric of Populist Progressives to solidify a business-government nexus throughout his early career. He vigorously denounced political machines while benefiting from their favors. He vigorously denounced monopolists while offering them the coercive power of the State to enforce their cartels in industries such as utilities and banking. He appropriated terms such as “public,” “liberty,” and “democracy,” as well as the legacy of Thomas Jefferson, in order to further elitist schemes of consolidation and special privilege, thereby perverting both the English language and American history. Whether this vaunted idealist with his famous conscience realized that he was hypocritically serving the interests of those his speeches condemned is another matter. Speaking as a Progressive leader, he cajoled the “stand-patter” to follow him:

And we are good fellows, we are good company; why doesn’t he come along? We are not going to do him any harm. We are going to show him a good time. We are going to climb the slow road until it reaches some upland where the air is fresher, where the whole talk of mere politicians is stilled . . . whence, looking back over the road, we shall see at last that we have fulfilled our promise to mankind. (Wilson 1913a, p. 54)

Perhaps Wilson was merely echoing a call he had heard and answered long ago, the siren song of the trusts to the Progressives, beseeching him to “come along” with their plans for cartelization by the power of the State, to “come along” to a place where the talk of politicians is silenced by subtle bribery, to “come along” to the promised land of guaranteed profits for both the military-industrial complex and its Progressive apologists.

References


