Case 11


Carnegie Corporation of New York, 1921

Steven Schindler

Background. For most of the 1910s, a debate ensued about philanthropic funding in the field of economics, particularly among Rockefeller Foundation officials and observers. One side, led by Theodore Vail of AT&T and joined by John D. Rockefeller, Jr. and Rockefeller Foundation advisor Frederick Gates, argued that the public lacked a basic understanding of economics and that the promulgation of economic knowledge, coordinated by what Vail called a “publicity bureau,” would best resolve the class dispute many capitalists and philanthropists sought to address. “Countering this sentiment, many, including economists Edwin F. Gay of Harvard and Wesley C. Mitchell of Columbia, as well as Jerome Greene of the Rockefeller Institute for Medical Research, felt that this approach sidestepped the most significant national need: more and better basic economic research.”

Mitchell believed that economics research held the same promise for social policy that scientific research held for medicine. Gates, wholly committed to devoting the maximum possible proportion of Rockefeller philanthropy to the development of medicine, rejected this analogy. “The Rockefeller Foundation’s interest in pursuing economics funding at all, however, was thwarted when the implication of the Foundation in managing the public perception of the “Ludlow massacre” turned the Foundation against social science research for more than a decade.”

Strategy. The Carnegie Corporation of New York first became interested in supporting economics research in 1916, when Henry Pritchett, president of the Carnegie Foundation for the Advancement of Teaching and trustee of the Carnegie Corporation, supported the idea. Pritchett’s proposal, funding an effort to spread basic understanding of economics, was more in tune with Vail and Gates than with the economists. The spark behind Pritchett’s proposal was what he perceived as the promulgation of inaccurate information by newspapers and labor organizers for commercial and political gain. In particular, Pritchett criticized the reports of the Committee on Industrial Relations, which to some degree shared the same interest in publishing its views regarding labor-related problems facing the nation’s economy. Accordingly, the brunt of his proposal entailed the purchase and endowment of a newspaper with the mandate to print truthful information.” After it became clear that the costs of purchasing a newspaper would be too great for the Corporation, the discussion about economics funding was altogether dropped.”

Parallel to Pritchett’s initiative, the economists initially involved in the Rockefeller discussions were independently pursuing their vision of an economics research institute devoted to basic research. Gay and Mitchell, together with acquaintance Malcolm Rorty through work on the nation’s Committee on Industrial Relations, believed that much disagreement about national economic policy was rooted less in differing economic interests than in disagreement about basic economic facts.”

Gay’s role as director of the Central Bureau of Planning and Statistics during World War I instilled in him a commitment to pursue a federal program of gathering economic statistics. Woodrow Wilson disagreed, however, with Gay’s assessment of the value of peacetime statistics coordination, and so the Central Bureau was closed after the war.” In January 1920, Gay and Mitchell joined Rorty to charter the National Bureau of Economics Research (NBER). “In an effort to provide credibility and faithfulness to the mission of pursuing pure economic research, the NBER organizers placed control in the hands of a board of directors of a politically diverse group of economists, businessmen, and individuals linked to labor and economic associations.”

The Commonwealth Fund was one of the earliest supporters of NBER, granting $20,000 to the
Bureau for its first year’s operations, but, in accordance with the Fund’s decision to limit its focus to medicine, it ceased its support of NBER with a second grant of $15,000. The general director of the Fund at the time, a Yale historian named Max Farrand, wrote to new Carnegie Corporation president James Angell in November 1920 to seek Corporation support of NBER. The secretary of NBER then wrote to the Corporation in December requesting $45,000 in grant support, which the Corporation granted a month later after attaching a matching requirement of $20,000.

Pritchett’s disagreement with the objectives of NBER, as they conflicted with his preference for widespread economics educational efforts over basic research, was likely overwhelmed by his desire to support Angell in his efforts to centralize decision-making power and to wrest control away from the Corporation’s secretary and treasurer, James Bertram. When Angell left the Corporation after only one year as president, NBER appealed to Pritchett in 1921 for further support. By this time, Secretary of Commerce Herbert Hoover was seeking a credible private research entity to conduct studies on unemployment and to propose actions to combat unemployment. In support of NBER funding, Hoover contacted the Russell Sage Foundation, the Commonwealth Fund, and the Carnegie Corporation, writing to Pritchett on November 18, 1921. Although the first two declined to support NBER to the degree Hoover sought, the Corporation responded to Hoover’s request in February 1922 with a $50,000 grant, which the Corporation allowed NBER to use to satisfy the Corporation’s own matching grant requirement that it had attached to the first grant.

The Carnegie Corporation also supported a number of other economics research entities in the early 1920s, and, as with the NBER, it adopted a policy of disclaiming any adherence to the findings or positions of the economic research it funded.

Impact. Little of NBER’s substantive work can be attributed directly to Carnegie Corporation support, but the Corporation grants played a significant role in launching NBER. Carnegie can therefore be credited, to some degree, with NBER’s prominence. Among NBER’s earliest publications include studies determining national income and unemployment levels. Today, the Bureau continues its work as a “private, nonprofit, nonpartisan research organization dedicated to promoting a greater understanding of how the economy works.” The NBER is the premier research organizational framework in which some 600 economists of high quality, who focus on public policy, work together on a variety of projects while remaining based at their home academic institutions. While the only official action taken in the name of the NBER itself is the declaration of the beginning and ending of national recessions, the NBER is the nation’s leading nonprofit economic research organization. Of the thirty-one American winners of the Nobel Prize in Economics, twelve of them have been researchers for the Bureau.

Notes

162. Ibid.
163. Ibid., 54.
164. Ibid., 55.
165. Ibid., 56.
166. Ibid., 57.
167. Ibid., 58–59.
168. Ibid., 59.
169. Ibid.
170. Ibid., 60.
171. Ibid., 61.
172. Ibid., 62.
173. Ibid.
174. Ibid., 63–64.
175. Ibid., 65.
176. Ibid., 69.