

The Rockefeller Foundation's Financing of the NBER Study of the Soviet Economy

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In 1953 the Rockefeller Foundation (RF) made a grant of \$275,000 to the National Bureau of Economic Research (NBER) for a four-year research project, "Study of Soviet Economic Growth" (RF 53125, p. 397). In 1957 an additional grant of \$60,000 was made to complete the study, which was not completed until 1962. In January 2003 I visited the Rockefeller Archive Center to research the Rockefeller Foundation funding of the NBER study. My objective was to determine the origin and history of these grants and how the RF and NBER staff interacted in this matter.

In order to examine the history of these grants it is necessary to understand the perspective of the individuals involved and the political environment of the time. An important actor in the decision to make the grant was Joseph H. Willits (1889-1979). He was responsible for the longstanding relationship between the RF and the NBER, where he had been president (1933-36) and later CEO (1936-39) before joining the foundation. Willits was director of the social science division at RF from 1939 to 1954, a period of major funding for the NBER. The RF's 1953 budget indicated that NBER general programs had received \$1,080,000 from 1939 to 1953, a \$2,000,000 capital grant in 1952, and appropriations of \$1,320,000 for 1952-57. Upon his retirement from the RF Willits returned to Philadelphia to direct the Educational Survey for the University of Pennsylvania (1954-59). He also continued his association with the NBER.

The decision to fund the NBER study was made in the early days of the Cold War and, as shown in RF president Dean Rusk's notes, it had "substantial official interest and concern in high Government circles to which we responded in assuming this responsibility" (Internal

Memorandum to Lewis C. Devinny, Kenneth W. Thompson, November 18, 1959). Dean Rusk (1909-94), a Rhodes scholar who served as president of the Rockefeller Foundation from 1952 to 1961 had held a number of senior political appointments at the U.S. State Department (1946-51). These included director of the Office of United Nations Affairs and assistant secretary for Far Eastern Affairs (1950-1951). Later he served as secretary of state under Kennedy and Johnson (1961-69). The Rusk collection at the Rockefeller Archive Center shows that as RF president he actively sought the views of division officers but then made final decisions himself. Unlike some of his predecessors, Rusk was the foundation's major policy maker and was directly involved with principals such as Arthur F. Burns (1904-87), president of NBER (1957-67). Another source of the political support for the NBER study of Soviet economic growth may have been John Foster Dulles (1888-1959), who had just resigned as chair of the RF board of trustees to serve as secretary of state (1952-59) in the Eisenhower administration.

Several factors may have affected the foundation's relationship with the NBER: the Cold War, Senator Joseph McCarthy's investigations, and the congressional investigation of allegations that philanthropic foundations funded projects that were "un-American," "subversive" and "left-wing." For the RF and other foundations this last point raised concerns that Congress would label their empirical studies as "un-American," "subversive" and "left-wing." Other factors, of a more technical nature, included concerns regarding the methodology and the degree of detail necessary to brief policy makers and the sort of expertise necessary for such a project. Another factor concerned the widely acknowledged "Russia experts," some of whom had been funded by RF in the past but had been passed over for this study. Yet another factor was the fact that the foundation had begun funding the Cowles Commission to do empirical work. All these factors

were closely intertwined but each will be dealt with separately.

The NBER study of the Soviet economy

During the early 1950s many academics stood in awe of the concept of central planning and what they believed to be the unparalleled economic growth that the Soviet Union had experienced. A majority of “Soviet experts” promoted the view that central planning had outperformed the free market and hailed Soviet planning as the model for future economic development.

The NBER summarized the importance of the debate:

Official measures of economic growth published by the USSR claim increases in total and per capita national income at virtually unprecedented rates. The possibility of the USSR sustaining rates of economic growth of the magnitude indicated is a matter of supreme scientific interest to economists and students of government generally. Military, political, and economic policy in the countries of the free world is deeply influenced by the existence of the Soviet system, and important judgments and decisions must be based on estimates of its economic power and potentiality.

The NBER further noted that:

despite the difficulty of working surefootedly with official Soviet statistics, a number of non-communist students of the Soviet economy have attempted more adequate measurement of the performance of Soviet-type economy and have reached what they believe to be reasonably accurate estimates. These estimates indicate a much less rapid rate of economic growth than official Soviet figures claim, but one much in excess of the rate of growth in the U.S. or Britain.

The objective of the NBER study was to address:

The scientific and practical issues involved are so important that it was deemed desirable to have the NBER apply its long experience in economic measurement of the problem of assessing the performance of the Soviet economy beginning with the first year of the first Five-Year Plan (1928), or if possible with 1913. The study will investigate four component parts of the Soviet economy: national income and outlay, agriculture, industry, and population and labor force.

The project as a whole and each subsection will be directed by expert economic statisticians, aided, in collection and interpretation of data, by professional students of the USSR. Frequent consultations are also planned with an advisory committee composed of linguists, historians, geographers, economists, and others specializing in Soviet studies.
(RF, 1.2, 200, 538,4601)

The RF's annual report for 1953 described the study under two program headings: "The Functioning of Free Societies" and "International Relations." For over thirty years the Rockefeller Foundation and Laura Spellman Rockefeller Memorial had funded research in politics and economics to increase understanding of free institutions. In 1953 most of these grants focused on the postwar economies of the U.S. and Western Europe.

The report emphasized that "The Functioning of Free Societies" had deepened the understanding of free institutions by enabling comparisons of societies which seem to act on different underlying assumptions. They specifically mentioned the grants in 1953 to the NBER and to the Institute for Political Science in Berlin for studies in the rise of National Socialism.

Under "International Relations" the report explained:

thoughtful analysis of emerging issues and situations can bring the tools of scholarship to bear before the stage of political crisis is reached and can provide background information for a more responsible and timely discussion of developing trends; illustrative here are the grants made in 1953 to the NBER for a study of Soviet economic growth. . .
(Annual Report 1953, p.53)

With the NBER in mind, the RF noted the major contributions of:

improved statistical services, more detailed facts about the operation of the economy, and more precise techniques of analysis which make it possible for both private enterprise and government to take timely action to level off the peaks and valleys of the business cycle and to effect a greater stability than hitherto known.
(Annual Report 1953, p. 52)

Technically, it was recognized that unraveling the received doctrine would be difficult. G. Warren Nutter, one of the four principal researchers in the NBER study, said:

Economists are always measuring the unmeasurable, and indeed they must if they are to do what is expected of them. It is hard to think of anything more unmeasurable than Soviet industrial growth – or of anything more expected of economists than to measure it.

(Nutter, Dec. 29, 1957, p. 1)

Prior to the RF's announcement of the NBER study, Willits and staff member Roger F. Evans met with British scholars Michael Polanyi and Colin Clark. Polanyi had written *U.S.S.R. Economics: Fundamental Data, System and Spirit* (1936) and Clark, who had recently become Director of the Agricultural Institute at Oxford, had written *A Critique of Russian Statistics* (1939).

While noting their support for a study on the Soviet economy, Clark and Polanyi raised concerns about the grant: “[T]his is not work for mere specialists in production statistics. It calls more for broad grasp and competence than for refined analysis in depth . . .”

Concerns about the requisite skills for the Soviet study were reflected in a letter which Fabricant, NBER research director, wrote to Willits.

Have you seen the following in *The Economist* of April 10, 1954 in connection with a review of W. N. Rostow's book on *The Dynamics of the Soviet Society*? I think it will interest you.

One of the most persistent of contemporary myths is that there is a special breed of persons – ‘Russian experts’ – who possess a fund of esoteric knowledge of all things Russian, from which those who have not been initiated into the appropriate mysteries are excluded. It is forgotten that, for the understanding of Russian economics or politics, a knowledge of economics and politics tout court is at least as necessary as a knowledge of the Russian tongue. If one may paraphrase the well-known saying of Clemenceau about wars and generals, the Soviet Union is too serious a matter to be left to ‘Russian experts’. On the [other] side of the Atlantic this is better understood than on this. First class work on Soviet social and political problems has been done by such writers as Fainsod, Moore and Inkeles. But throughout the Western world it remains disappointingly true that most of the best social scientists, economists and historians have shied away from the Russian field.

(Fabricant to Willits, April 1954)

The Rockefeller Foundation expected the NBER study to contribute to the development of technical economics and to provide guidance to policy makers. According to notes taken at a meeting, Rusk and other RF staff met with Burns and Fabricant in March 1960:

Burns says it is common knowledge that the Bureau will not take a stand on a short-term policy issue but that they will present the statistical history that underlies most economic problems, list possible courses of action, and their probable consequences.

(March 1, 1960, RF 1.2, 200, box 537, Folder 4595)

Apparently, they recognized the difficulties the study would likely encounter, but did not foresee the importance of political undercurrents that were beginning to emerge.

Congressional investigation of tax-exempt educational and philanthropic organizations

The 1950s were dominated by the Cold War. The early 1950s were the time of Senator Joseph R. McCarthy, possibly the greatest demagogue in the history of America, and his hearings on un-American activities. As previously mentioned, there was also increasing concern that certain tax-exempt organizations were using their resources for “un-American,” “subversive” and “left-wing” activities. These terms came to refer to policies, actions and groups which were alleged to have as their objective the overthrow of the American Constitution and system of government. Although I did not find reference to such concerns in the Rockefeller Foundation archives, it is likely that RF staff were ever mindful that they might be tarred by the same forces which fed off the McCarthy investigations, that their loyalty might be questioned, and their grants considered “un-American,” “subversive” and “left-wing.”

In April 1952, halfway through the McCarthy era, the U.S. Congress established the Select Committee to Investigate Foundations and Other Organizations with Representative E. E. Cox (Georgia) as chair. The committee investigated rumors that foundations had been infiltrated by communists and examined whether tax-exempt groups used their money for stated purposes and were not "endangering our existing capitalistic structure." The files of the Cox Committee also

contain correspondence from the House Un-American Activities Committee concerning the loyalty of certain individuals and organizations.

The Cox Committee report submitted in January 1953 endorsed the work of the foundations but recommended greater disclosure of accounting information. The most striking finding of the committee report was that only seven foundations had funded studies in economics and government with the objective of increasing the scholarly literature in economics. The committee report noted that the Rockefeller Foundation was motivated by the desire to make the study of economics genuinely scientific and not an exercise based merely on theoretical deduction or personal preferences. The committee lamented that it had had insufficient time to accomplish its investigations. When Cox died the investigation was continued under the chairmanship of Representative B. Carroll Reece of Tennessee.

The Reece Committee expanded the scope of the investigation to determine whether tax-exempt organizations used their resources for political purposes, propaganda, or attempts to influence legislation. The committee's mission reflected the view that foundations promoted leftist views on economics, the welfare state, and foreign policy. The RF's 1953 annual report noted their understanding that the committee would hear a "bill of particulars" from its staff, testimony adverse to the foundations from a number of witnesses, and then rebuttal testimony from the foundations themselves. However, the foundations were not invited to testify and nearly all witnesses during the sixteen days of hearings were hostile to foundations. On July 2, 1954 after hearing rebuttal testimony from only one witness, Pendleton Herring of the Social Science Research Council, the committee terminated public hearings by a 3-2 vote. The committee decided to continue its work behind closed doors and invited the foundations to submit written testimony. The RF's 1953 annual report noted that it and other foundations had cooperated and

John D. Rockefeller 3rd and Rusk had testified that their work was not "subversive." Although the final committee report found that foundation-supported education efforts were "subversive," the minority report attacked the conclusions and called them "misleading" and "an ugly stain" on the record of the House of Representatives.

The Reece Committee viewed foundation funding of empirical work as an effort to support preconceived policy recommendations and to engineer social change. It is difficult to believe that Rusk would have mentioned the allegation that foundations had a left-wing influence by supporting empirical work unless he feared the NBER's study of Soviet economic growth would raise the RF's visibility in ways they preferred to avoid. Perhaps, sensitive to the prospect of further investigations by the Reece Committee or possibly by McCarthy himself, Rusk may also have feared the conclusions the NBER might reach. If Soviet propaganda had been true and the Soviet economic growth rate had far exceeded the American, the RF-funded NBER study might have been used to support central planning in Third World countries. Certainly, the NBER research director Fabricant was sensitive to such problems as shown in his prompt apology to Rusk for a newspaper article linking the foundation to one of the NBER studies. If, on the other hand, the Soviet propaganda had been debunked, the NBER would have been criticized by those with a vested interest in the superiority of the Soviets, the "Russia experts" and advocates of central planning. Given the political climate, either conclusion reached by the NBER study might have caused problems for the RF and Rusk.

In December 1954, Rusk briefed the staff on the status of the Reece Committee investigation. He brought out an interesting point relevant to the NBER study.

Rusk took note of principal objections to the work of the philanthropic community, including the Rockefeller Foundation: that philanthropy supported something of a left-wing influence in American society, and that the Foundation's support of empirical research constituted a potential or actual subversion of established American values.

(Rockefeller Archive Center description of the Rusk Collection
<http://archive.rockefeller.edu/collections/individuals/rf>)

The completion of the study

The NBER study was not completed on schedule. In 1957 they asked for another \$60,000, noting that part was reimbursement for expenditures already made rather than to finance new work to complete the project. In a letter of May 1956, Fabricant explained to Norman S.

Buchanan, the RF project officer:

I need not stress the importance of the study to our understanding of the growth of Russian output and significance this understanding has for national policy and economic science. If the study is to accomplish its high purpose, it is essential that the work done to date [be] thoroughly checked, various questions that have arisen in the course of the investigation be pursued as far as possible, and the published reports be carefully prepared and adequately documented. In an area of research as controversial as the one involved, the reports should come as close as possible to being models of analysis and presentation.

(RF 1.2, 200, 538, 4601)

The RF approved the request in 1957 but the files contain no further information until 1960. Ultimately, three volumes were published: one on industry and mining by Warren Nutter, one on agriculture by George Kuznets, and one on transportation by Ernest Williams, Jr. Additional papers focused on housing, consumption, and population and labor force. These studies debunked the notion of Soviet economic supremacy. Time has shown that these estimates of Soviet economic growth were considerably more accurate than other postwar studies.

In 1960 Rusk denied further general support for the NBER. An internal memorandum explains:

Dean Rusk reports a frank discussion with Arthur F. Burns in which he, DR, told Burns that RF will not renew general support for the Bureau. DR feels that he finally succeeded in getting somewhat reluctant admission from Burns of the relevance of the marginal activity analysis to which the Bureau has been so resistant.

DR told Burns that RF would be prepared to look at special proposals of outstanding importance and of interest under our program. He made it clear, however, that such proposals should not be generated by merely transferring one or another of the Bureau's

central activities to a nominally “special” category. DR is satisfied that we will not have to worry about this point.

Burns’ first “special” project submitted for our consideration is the need for some money to finish up the study of Soviet productivity. DR passed along Burns’ letter on this subject with the comment that this is one we need to consider very carefully in view of a) our large share of responsibility for the project; b) the substantial official interest and concern in high Government circles to which we responded in assuming this responsibility; and c) the continuing, or even enhanced, importance of frightening reports about fantastic Soviet productivity which, however false, can have exceedingly damaging impact on world affairs in the absence of more accurate and responsible information.

(November 18, 1959. RF, 1.2, 200, 537, 4596)

The next grant that the RF made to the NBER was outside of the Soviet study. In 1960 the foundation funded the NBER to hire a person to focus on international trade and balance of payments issues, which the RF thought “can yield relatively higher returns than if the same resources were invested for some other purpose” (May 20, 1960). The foundation’s efforts to redirect the work of the NBER may have been influenced by several factors.

It is worth noting that Rusk had inherited the NBER study of the Soviet economy from Willits and may not have shared Willits’ enthusiasm for the NBER or its work. During this period there was a debate at the RF (and elsewhere, including the Ford Foundation) on funding general programs versus specific grants. Funding specific programs enabled foundations to exert greater control over personnel and outcome. They could fund programs and simply disavow a conclusion funded by another foundation. General program funding, on the other hand, left the foundation open to criticism for a grantee’s conclusion regardless of the size of the foundation’s investment in the researcher.

Rusk may have had specific concerns about the findings of the study. G. Warren Nutter’s first paper on the study was presented at the annual meetings of the AEA in December 1956. In his review of Nutter’s 1962 book, Jerzy Karcz noted:

There is much that is commendable or unique here . . . also much in the book that is

controversial, or, to put it differently, that has remained controversial ever since Nutter published the preliminary results of his findings in papers read before the annual meetings of the American Economic Association in 1956 and 1957.

(Journal of the American Statistical Association, June 1963)

The paper attracted attention but did not appear to be particularly controversial. Nutter's paper discussed their efforts to verify Soviet production data. This is an important part of empirical research, but it is not innately controversial. Rusk and Norman S. Buchanan, successor to Willits at the RF, met with Solomon Fabricant. Notes of this conversation explain that: "Their general approach is to emphasize changes in individual commodities. In other words, they are not, it would appear, attempting to cover any over-all change in productivity" (Leland C. DeVinny, June 25, 1956).

Other concerns may have motivated Rusk and he may not have been convinced that the NBER's inability to meet the 1957 deadline was due to the difficulty of data gathering. Rusk may have seen the NBER's slowness as due to their management structure and their unwillingness to compromise on the thoroughness of their analysis. Moreover Rusk may have viewed the NBER's detailed statistical analysis as unnecessary and not useful to U.S. policy makers. The typical NBER study used survey data to model an industry and generated results that could be used to influence government policy. Rusk may have thought that both the subject of inquiry and the degree of precision sought was beyond the demands of policy makers. He mentioned the resistance of the NBER to moving away from work in areas that the RF considered peripheral. At the same time the Cowles Commission had scored points with the foundation by moving away from theoretical work toward empirical application. That said, it is ironic that the RF contemporaneously encouraged the NBER to be less thorough in its empiricism. Cowles was not a competitor to the NBER but their greater reliance on theory and the development of new empirical

methodology may have appealed to Rusk.

Conclusion

The relationship between the RF and the NBER reflects both the politics of the Cold War and the foundation's decision to move away from general funding to the support of specific programs. These two factors applied not only to the work of the Rockefeller Foundation but also to the activities of other foundations. When the reputation of an organization receiving funds might adversely affect the reputation of the donor foundation, one can understand why foundations moved away from general funding to awarding grants for carefully defined projects. This is true regardless of the amount of money involved. Moreover, project officers themselves have much to lose and little to gain from associating themselves with organizations and studies that prove controversial. Fortunately, the Rockefeller Foundation was willing to fund the NBER study of Soviet economic growth through to completion.

References

Nutter, G. Warren. "Industrial Growth in the Soviet Union." Paper presented at the annual meetings of the American Economic Association, Dec. 29, 1957, p. 1.