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MOBILIZING CIVILIAN AMERICA

BY

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FOREWORD

By Frank R. McCoy
Major General, U.S.A. (retired)

THE Council on Foreign Relations has done an important national service in planning and publishing this book on industrial mobilization by Professors Tobin and Bidwell. In this time of emergency when national defense is of paramount concern, and when it is receiving for almost the first time an adequate amount of intelligent interest from the American public, the appearance of this unique work is of unusual importance. The project originated in a study group of the Council for which Dr. Tobin, Professor of Political Science at Dartmouth, was selected to act as rapporteur. A series of group meetings followed over which I had the privilege of presiding. At these meetings we profited by the presence and advice of such men as Vance McCormick and Eugene Meyer, both of whom were chairmen of war boards during the Great War; James G. Harbord, former Chief-of-Staff of the A.E.F. and Commander General of the Service of Supply during the last six months of the Great War, and many other members of the Council on Foreign Relations who had played a part in war work, either in connection with one or another of the various control boards or with the High Command in France.

Dr. Tobin later was granted a leave from Dartmouth to carry on this work, and he was able to secure access to the pertinent background material in Washington. He was given exceptional facilities by all the departments concerned, but especially by the Industrial College and the Procurement Division of the War Department. For two years much of his time and talent have been given to this constructive and interpretative work. The study has also had the advantage of the collaboration of Dr. Percy W. Bidwell, the Council's Director of Studies, who edited the manuscript and contributed the discussion of economic problems in Chapters VII, VIII, IX and X.

Since the President's special message to Congress in January 1939, the subject of national defense has been treated with a new and intelligent interest, not only in the press and reviews, but over the radio, and in colleges and universities throughout the country. There has been almost unanimity in the need for adequate defense, but considerable confusion over just what adequate defense is. Moreover, both in the press and in Congress, the discussion has been largely confined to political and strategic considerations, and to questions having to do with strictly military and naval operations, the provision of needed armament, and the modernization and mechanization of the fighting services. The larger question of the direction and control of war by a democracy has not been adequately considered—except to make invidious comparisons with the systems and supposed efficiency of the totalitarian states.

Even in the great universities, despite the many

fields of study sponsored, little time has been given to a consideration of the political and economic institutions that are best fitted for a democratic nation at war. The exploration of this field is one of the purposes of the study. It takes as a basic assumption that the more the nation as a whole knows in advance about industrial mobilization, the more easily the necessary régime can be established at the proper moment.

In looking back at our national experience throughout the Great War, followed by our experience up to the present time, in view of the present European conflict, we are able to conclude that probably 75 percent of our national effort in a new war would be civilian, and that only about 25 percent, or even less, might be embraced in the operations and activities of soldiers and sailors. But this is not the proportionate weight which has been given, and still is being given, to the civilian and military aspects of possible mobilization to meet future emergencies. The War and Navy Departments, it is true, have had their plans before the Congress ever since the passage of the National Defense Act of 1920. But these grave questions of national policy are still waiting for action in the committees of Congress, and the public does not understand what is at stake. This book, then, ought to be of particular value. It should be helpful to members of Congress and it should give a lead for proper consideration of the whole question by the public.

April, 1940

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THE authors wish to express their appreciation of the generous assistance given by the officers of the Planning Branch in the Office of the Assistant Secretary of War, the Army and Navy Munitions Board, the instructors and librarians of the Army Industrial College and the Public Relations Officers of the Intelligence Divisions of the defense departments. Other officers who gave valuable help include Brigadier General Earl Macfarland, Major F. Ernest Dupuy and Major A. R. Ginsburgh.

We are indebted for advice and criticism at various stages of the work to a number of members of the Council on Foreign Relations: Professors Philip C. Jessup, Lindsay Rogers, Leo Wolman, Edwin F. Gay, President Guy Stanton Ford, Messrs. Allen W. Dulles, George P. Auld, Charles Almy, and Edward P. Warner; and also to Professors Herman Feldman and Bruce W. Knight and the members of the Political Science faculty of Dartmouth College, to Professor Edward M. Earle, Dr. Charles O. Hardy, Mr. Edgar P. Dean and Mr. Wilbur Forrest.

For technical assistance we wish to thank Miss Ruth Savord, librarian of the Council, and Miss Elizabeth Hannan and Miss Hope MacBride of its research staff.

HAROLD J. TOBIN
PERCY W. BIDWELL

The Council House
April, 1940

CONTENTS

FOREWORD, by Frank R. McCoy	v
---------------------------------------	---

PART ONE

I. MOBILIZING A DEMOCRACY	3
-------------------------------------	---

II. IMPROVISATION, 1917-1918

America's problem. Pre-war measures of "preparedness." The Council of National Defense: the focus of wartime planning. The Council's offspring. Piecemeal planning. The War Industries Board, the coordinator of war effort. Structure and operation. Priorities and commandeering. Relation of emergency agencies to peacetime government. Criticism and evaluation. Sources of power. Conclusion.	9
---	---

III. PLANNING, 1919-1939

The Army begins to plan. The American Legion attacks war profits. The Shearer episode. The First Industrial Mobilization Plan. Price control and priorities. War Policies Commission approves Army's Plan. The Nye Investigation. The Committee criticizes the Plan. The Army revises its Plans. Threat of war in Europe stimulates industrial preparedness here. President appoints War Resources Board. Who shall control war economy?	33
--	----

IV. THE PLAN TODAY

The unwritten Plan. Army and Navy procurement planning. How the Army plans with industry. Coordination of planning. Civilians to control economic mobilization. The "Key Super-Agency." Other emergency Administrations. Wartime control of finance, foreign trade and labor. Limitations of the Plan. Summary.	55
---	----

PART TWO

V. PROPAGANDA AND CENSORSHIP

Mobilizing public opinion, 1917-18. Propaganda activities of the Committee on Public Information. Criticism of propaganda activities. Planning for propaganda in the next war. Probable organization and functions of a wartime Public Relations Administration. Standards of truthfulness. Censorship in 1917-18. The Espionage, Sedition, and Trading with the Enemy Acts. Criticisms of censorship as administered in 1917-18. Post-war reactions. Plans for censorship in the next war. Administration of censorship. Control of communication with foreign countries. Principles of censorship. 75

VI. MOBILIZATION OF THE ARMED FORCES

Conscription adopted, 1917. Post-war Plans for military mobilization. Will conscription be necessary? Volunteering vs. conscription. The reaction of public opinion. 103

VII. MOBILIZATION OF INDUSTRIAL LABOR

Peculiar features of the American problem. Rising wages and active labor turnover, 1916-17. The causes of labor unrest. Labor dislocation and labor shortage. The work of the United States Employment Service. The "work-or-fight" order as a measure of labor control. The trend toward compulsion. The emergence of a national labor policy. The work of the National War Labor Board. Summary of 1917-18 experience. Labor policy in the next war—the 1931 Plan. Shift of emphasis in 1933 Plan. Criticisms by the Nye Committee. Nye Committee's objections met, in part, in 1936 Plan. Selective service provisions disappear. The 1939 Plan gives scant attention to labor policy. New aspects of labor policy. Unemployment no bar to labor shortage. Expansion and disunion of organized labor. Are we equipped to deal with labor unrest? Must labor be drafted? The control of wages in wartime. Is the stabilization of wages possible? 115

VIII. MOBILIZATION OF BUSINESS: PRIORITIES AND COMMANDEERING	
Procedure in granting priorities. Priorities in Industrial Mobilization Plans. Commandeering.	153
IX. THE CONTROL OF PRICES AND PROFITS	
The extent of war profits. Causes of war profits. Price inflation, 1915-18. The development of price controls. Principles and methods of price-fixing. Results of price-fixing. Price control in the next war. Features of the 1933 Plan. Taxation of war profits. Attitude of planning officials toward control of profits.	163
X. THE ECONOMICS OF PROCUREMENT PLANNING	
Plans for financing essential industries in the next war. Control of fuel and power resources. Work of the Fuel Administration. Problems of electric power. Power and fuel in the 1939 Plan. Transportation problems, 1917-18. Will the Government operate the railroads in the next war? The control of raw ma- terials, 1917-18. The raw materials problem in post- war planning. Present policies with respect to raw materials.	192
XI. THE PLAN IN ACTION	
Are anticipatory measures necessary? What must Congress do to put industrial mobilization into effect? Extent of executive authority. Restoration of peacetime conditions.	223
APPENDIX, TEXT OF THE 1939 PLAN	237
BIBLIOGRAPHY	259
INDEX	269

PART ONE

CHAPTER ONE

MOBILIZING A DEMOCRACY

FOR a nation at war today, there is really no business except making war. The time has long passed when war consisted of detaching a small part of the able-bodied male citizenry to fight, while the bulk of the population carried on business as usual. The mechanization of warfare on land, on sea and in the air has created an insatiable demand on the part of the armed forces for munitions and supplies. The entire civilian population has become involved, so that the size of the armies placed in the field is determined not only by the numbers of able-bodied males in the population, but also by the numbers of civilians who can be mobilized in munitions plants, airplane factories and shipyards. Under these conditions, victory may depend not so much on the skill of generals or the fighting quality of their troops, as on the loyalty and stamina of the men and women on the home front, and on the effective wartime organization of the national economy.

Today in Europe all the belligerents, both totalitarian and democratic, have subjected their economies to comprehensive government control. The German economy for several years before September 1939 had been on a war basis. As international tension grew, in 1938 and early 1939, England and France

had taken preliminary measures of economic mobilization which, when hostilities actually began, were immediately expanded to cover practically all phases of economic life: import and export trade, prices, wages, the capital and security markets.

The emphasis in this new international struggle upon effective mobilization of economic resources has awakened interest in the United States in certain plans which our own War Department has been developing over a period of twenty years. In 1917-18 we improvised our wartime organization of economic resources and our mobilization of public opinion. But, by the expensive process of trial and error, we succeeded, before the Armistice came, in developing a workable system of price-fixing and of excess profits taxation; we devised means of increasing the labor supply and of diverting it to essential industries; we formulated and made effective a national labor policy; we built up the most efficient engine of war propaganda which the world had ever seen.

After the Armistice, the restraints on the conduct of business and on the expression of opinion, to which Americans had loyally submitted in wartime, were no longer tolerable, and the whole fabric of war emergency agencies rapidly disintegrated. But the idea of a planned industrial mobilization persisted. War had taught us that preparations for national defense comprised more than building battleships and equipping an air force, more than devising plans of military and naval operations. It taught us that none of these plans can be made effective unless the supplies of munitions and equipment can be effectively

produced and transported to the places where they will be used by the defense forces. It taught us that the effectiveness of the military effort depends upon the effectiveness of the industrial effort.

This is the basic idea behind the War Department's Industrial Mobilization Plan. The Plan first attracted public attention in 1931 when it was examined and published by the War Policies Commission. Three years later, a Special Committee of the United States Senate, set up to investigate the munitions industry with Senator Nye as Chairman, reviewed a second edition of the Army's Plan. The Committee expressed disapproval of certain features. It saw no necessity for raising an army by conscription, and expressed the fear that the draft machinery might be used unfairly to restrict the rights of labor. Also, it was shocked by the possibilities which the Plan afforded for the exercise of a broad censorship of the press.

Taking cognizance of these criticisms, the defense services revised their Plan; certain features to which objection had been taken, they suppressed; others they modified by the substitution of generalities for specific terms. For the military men responsible for planning for wartime control of our economic and social system have not regarded themselves as free to set up a scheme which might work perfectly in a vacuum. On the contrary, they have taken account of the conflict of wartime controls with long-established and deep-rooted institutions, with our system of free enterprise, and our civil liberties.

The 1939 edition of the Plan lacks the fullness and

the precision which characterized earlier editions. But this change should not be ascribed entirely to the unwillingness of the planners to meet objections head-on. They have become aware, as their studies progressed, of the danger which resides in too much planning, in putting too much detail into the blueprint of the war economy. They now realize that no one can foretell the exact constellation of economic factors at the beginning of America's participation in another war. War may find us at the height of a business boom, or sunk in the depths of a depression. Obviously a detailed plan of war finance which would fit the former situation would be worse than useless in the latter. Von Moltke is credited with having successfully fought the Franco-Prussian War on a detailed plan prepared years in advance. The tale is probably apocryphal, but the principle of ultra-preparedness which it illustrates cannot safely be put into practice in the field of industrial mobilization.

To the man in the street, the vital question about wartime controls is, "Who is going to operate them?" To this question the answer of the defense services is somewhat ambiguous. Four alternatives appear possible. The war economy may be managed:

(1) by the generals and admirals, i.e., the defense services themselves;

(2) by the existing executive agencies, i.e., Secretaries of War, Navy, Treasury, Interior, etc.;

(3) by dollar-a-year men, civilians drawn in to act as heads of emergency agencies for the duration of the war;

(4) by a combination of the elements in (1), (2) and (3).

Alternative (1) the military and naval men in charge of industrial mobilization plans emphatically reject. They deny any intention of setting up a military dictatorship, even for the period of the war. They also reject almost as emphatically the second alternative. The Plan states:

Since the functions to be accomplished are new and temporary, *entirely new and separate agencies*, directly responsible to the President, should be created for industrial mobilization in time of a major war. Reliance should not be placed on existing governmental departments and agencies unless the functions to be used are peacetime as well as wartime responsibilities. Usually the functions of existing departments and agencies are defined by law and custom and are designed to serve only a social structure based upon a peacetime economy.¹

Thus, by process of elimination, we come to alternatives (3) and (4). Indications are not lacking in the Plan that many dollar-a-year men are to be summoned to Washington on M-day; for example, the "key super-agency," the War Resources Administration, is to be staffed, we are told, by "the patriotic business leaders of the Nation." But the Plan further provides that the business leaders shall be assisted by an Advisory Council in which they are to be associated with representatives of the State, War and Navy Departments. Thus in this important case the set-up is that of alternative (4). In such a combination of varied elements, the predominance of any

¹ *Industrial Mobilization Plan . . . 1939*, 5. Authors' italics. (See Appendix, 242.)

group eventually depends on the superior physical vigor and mental capacity of human beings composing it, rather than on formal lines of authority. Since the opinions of business leaders differ sharply from those of the present Administration regarding the extent of control which government should exercise over industry, the outcome of an eventual struggle for power between these groups might have great significance, particularly in the post-war period, when the demobilization of wartime economy must be undertaken.

The authors have limited the scope of their book to the subjects which have been treated in some detail in the 1939 Plan, or in earlier editions. None of them contains either a scheme for war finance or for the control of foreign trade. Consequently, the authors have made only passing comment on these important features of a war economy.

The book falls into two parts. Part I gives an historical account of the development of plans for industrial mobilization, concluding with a description of the plans as they stand today. Part II is organized topically; it treats in detail the most important features of emergency government in wartime, the control of public opinion through propaganda and censorship, the methods of recruiting the armed forces, the mobilization of labor and of business, the control of prices and profits, the procurement of raw materials, capital, power and fuel and transportation services for essential industries. The concluding chapter explains the mechanism for putting into action various parts of the Plan.

CHAPTER TWO

IMPROVISATION, 1917-1918

BEFORE 1914, no nation, except perhaps Germany, appears to have realized the importance of organizing the entire national economy in wartime. The United States, an interested spectator during the first years of the war, seems not to have noted how inexorably each of the belligerents was driven to assume closer and closer control over the activities of its nationals. Our own Civil War experience, which had involved the assumption by the North of control over transportation and communication, and by the South over even larger segments of its economy, was neglected.

America's Problem

With the declaration of war in April 1917, huge new burdens were imposed on American government and American business. Soldiers and sailors had to be recruited, trained and transported to the war zone. Enormous quantities of supplies and munitions had to be furnished to the armed forces, when and where they were needed; and the orders had to be funneled through a government machine unused to business methods. Sums of money had to be raised far greater than had ever before been provided in America; a great army of industrial workers had to be directed

to essential jobs. The civilian's morale had to be aroused by convincing him that our war aims were just, that the war was being properly run, and that its burdens were equitably distributed.

European war orders had caused a huge expansion of production facilities, particularly for munitions, in the United States, but these facilities were not sufficient to cope with Allied orders plus those which our government poured in when we entered the war. There was no centralized control of purchasing; the Army placed orders in competition with the Navy, and the seven supply services of the Army competed against each other. The result was an almost hopeless congestion of manufacturing and transportation facilities in the northeastern industrial triangle bounded by Boston, New York and Baltimore. The huge supply program undertaken for the Allies before America joined them had placed an immense burden on the American railroad system. Shortage of ocean shipping added to the traffic congestion at northern Atlantic ports.

At our entry into the World War, two basic defects in our industrial preparedness were: (1) shortage of war matériel; and (2) lack of coördination of demand and supply. The first was the less serious; the United States with its vast resources could turn out the supplies if only the demand could be assessed far enough in advance, and the sources of supply discovered. Certain measures of economic preparedness had been taken before April 6, 1917, but the problem of mobilizing industry to supply our war machine and that of our Allies, and our civilians, was not

squarely faced until a year after we placed our men and resources at the side of the Allied Powers.¹

Pre-war Measures of "Preparedness"

Sixteen months after the invasion of Belgium, President Wilson called upon Congress for funds and emergency powers to prepare for national defense. In response to his request of December 7, 1915, Congress authorized the building of America's greatest war fleet, and provided also for the construction, purchase and operation of a huge merchant marine. It had already established the Bureau of War-Risk Insurance to provide American shipping operating in the war zone with the protection which private companies were unable to furnish. Yet these were isolated measures, and did not touch upon the *process* of coördinating wartime demand and supply.

The need for integrated planning had been recognized in the President's message, though not given the central place it deserved. Urging "the creation of the right instrumentalities by which to mobilize our economic resources in any time of national necessity," he asked that the informal meetings which were already taking place between military and industrial leaders be regularized and given government support. Congress, after months of delay, responded to these requests in the National Defense Act of June 3, 1916, and the Military Appropriations Act of Au-

¹ According to Mr. Baruch, Chairman of the War Industries Board, ". . . nearly 12 months elapsed after our declaration before we had evolved controls and organization capable of coördinating our own and our associates' procurement activities and of controlling price." Testimony before the War Policies Commission, March 6, 1931, War Policies Commission, *Report*,

gust 29, 1916. The former Act authorized the Secretary of War to take a census of all industrial plants which were equipped to make arms or ammunition, or which might be transformed for this purpose, and to place orders with them for war materials. They in turn were obliged to give priority to government orders under threat of commandeering. The President was further empowered to construct and operate plants for the production of nitrates and other munitions. The Army Appropriation Act of 1916 added to these extraordinary powers authorization to take over the national transportation system. Perhaps of even greater importance was the provision in the Act for the establishment of a Council of National Defense to advise on use of priorities and commandeering, and on industrial mobilization in general.

*The Council of National Defense: the Focus of
Wartime Planning*

The Council of National Defense needed congressional authorization only to give it reality, for the idea existed already in the minds of certain private individuals. It was typical of the pre-war period that the initiative for planning should come from outside the government. Engineers and scientists had been mobilized as early as 1915 by the Industrial Preparedness Committee, a lay organization sponsored by the Naval Consulting Board,² in an attempt to in-

²The Naval Consulting Board, a joint lay-official body, was created in August 1915 by the Secretary of the Navy. Mr. Howard E. Coffin, a member of the Board, later stated: "So soon as those of us who were appointed to this board, contacted with the affairs of the governmental departments, we began to realize the great weakness from the industrial side of the picture. We knew that we must have first-hand information as to the munitions-producing capacity of the country." War Policies Commission, *op. cit.*, 290.

ventory American manufacturing plants capable of producing munitions.³ The Committee's Chairman, Howard E. Coffin, later became one of the sponsors of industry-defense coördination and with Hollis Godfrey, President of the Drexel Institute, Elihu Root and General Leonard Wood conducted a "lobby" which led (October 11, 1916) to the establishment of the Council of National Defense.

The Council itself consisted of six Cabinet members (Secretaries of War, the Navy, the Interior, Agriculture, Commerce and Labor), to whom was joined a small Advisory Commission, an effective group of private citizens representing business, the professions and organized labor. Although its members were heads of executive departments, the Council had merely advisory powers under the Act. It could take no action on its own responsibility; it could only investigate, and recommend measures for the effective use of national resources in time of war. The lack of administrative autonomy was both a weakness and a source of strength. Freed from specific tasks, it ranged over the whole broad field of economic mobilization. Its major accomplishment in the early days was to bring into the service of the government businessmen of high caliber, experienced in managing large organizations, and known and respected by the industrial leaders of the country. By virtue of the high prestige of its members as much as by its own rather limited powers, it provided a means of focus-

³This survey, as well as that conducted under authorization of the National Defense Act, was incomplete; it inventoried only *products actually made*, not *processes* available.

sing the planning effort and also a school for the study of industrial mobilization.

The Council's Offspring

With the declaration of war in April 1917, industrial mobilization ceased to be an academic question; it became a very practical and urgent matter. Already in the preceding months the Council of National Defense had made progress in organization and had delegated its advisory powers to a number of boards, committees, divisions and sections. In February 1917, the members of the Advisory Commission had been assigned as heads of Committees as follows:

Transportation	Daniel Willard President, Baltimore & Ohio Railroad
Engineering and Education	Hollis Godfrey President, Drexel Institute
Munitions and Manufacturing	Howard E. Coffin Vice-President, Hudson Motor Company
Medicine and Surgery	Dr. Franklin H. Martin Secretary-General, American College of Surgeons
Raw Materials	Bernard M. Baruch Financier
Supplies	Julius Rosenwald President, Sears, Roebuck & Company
Labor	Samuel Gompers President, American Fed- eration of Labor

From these Committees were to emerge later the War Industries Board, the War Labor Administration, and the Railroad Administration. At the mo-

ment of organization, their purpose was only to provide contact between government and representatives of trades, business or the professions.⁴ As the need arose, other committees were organized, furnishing the bases for the Food and Fuel Administrations, the Aircraft Production Board, etc. Slowly the Council was feeling its way towards enforcement of the principle that "in modern war administrative control must replace the law of supply and demand."⁵

War organization in early 1917, however, had a long way to go before economic controls were centralized in one agency. There was no lack of power—priority and commandeering, and later, under the Food and Fuel Act of August 10, 1917, requisitioning, licensing and price-fixing powers. But these powers were decentralized; they were exercised by a number of agencies. Allocation of materials and facilities in a scientific manner thus waited upon the organization of power, not upon the power to organize. The Navy Department, with its effective procurement office, proved that organization was the key to ample supply; it "grabbed everything" in the period of anarchy which preceded the establishment of centralized purchasing.⁶

Mobilization of Manpower and of Opinion

Though coördination of defense services and industrial supply was slow, in keeping with the complexity of the problem, rapid progress was made in

⁴ Dr. Franklin H. Martin, *Digest of the Proceedings of the Council of National Defense during the World War*, 86.

⁵ Testimony of Bernard Baruch, War Policies Commission, *op. cit.*, 34.

⁶ Testimony of Senator Swanson, *ibid.*, 57.

the simpler task of recruiting soldiers and sailors. Even before the Selective Service Act of May 18, 1917, steps had been taken to mobilize manpower for the fighting services. (See Chapter VI.) The National Defense Act of 1916 empowered the President to draft for federal service, when war needs required, the National Guard and the National Guard Reserve which was set up by the Act, but only with the consent of Congress. The Selective Service Law and the Army Appropriations Act of July 9, 1918 made available a fighting force whose numbers were limited only by the numbers of able-bodied males and by the ability of the remaining civilian population to equip and supply them.

The willingness of Americans to bear the war's burdens was strengthened by the work of the Committee on Public Information, which stimulated the people to put forth efforts far in excess of what could have been exacted by legal compulsion. (See Chapter V.) The conscription of opinion, like the draft of soldiers, outran the organization of the industrial machine. Established in the week of America's declaration of war, the Committee mobilized all available means of publicity. It bombarded the public unceasingly with enthusiastic reports on the nation's colossal war effort, and with contrasts of our war aims, and those of our Allies, with the war aims of the Central Powers. Dissenting voices were stilled, either by agreement with the press or by the persuasive action of the agents of the Department of Justice. The formidable body of consent resulting from this effort was an effective aid in the mobilization of industry;

it buttressed the power of the government with the solid support of public opinion.

Piecemeal Planning

Apart from the general problem of shifting from a peace economy to a war economy, certain special problems needed quick action. During the summer of 1917, the government undertook to protect the supplies, and to stabilize the prices, of food and fuel. It set up Administrators, giving them broad licensing and price-fixing powers over these commodities, in an effort to control the economic system in piecemeal fashion, beginning with the essentials. Control of foreign trade was effected through the War Trade Board, set up in October 1917. Exports were controlled in order to retain essential supplies in the country; import control was designed to assure adequate supplies of essential raw materials, and to conserve shipping. But the Board also was charged with keeping essential supplies from the enemy and with capturing his foreign trade wherever possible for American merchants and shipping. Transport facilities, vitally important in mobilizing our national forces for war, were put under control of the Railroad Administration (December 28, 1917) and the Shipping Board (September 7, 1916.) The Shipping Board, through its subsidiary, the Emergency Fleet Corporation, also began the construction of an enormous merchant marine. To help solve the problem of getting labor and capital for war industries, the U. S. Employment Service and the War Finance Corpora-

tion and Capital Issues Committee were set up in early 1918.

*The War Industries Board, the Coördinator of
War Effort*

But all these measures, however far-reaching their effect in separate areas of national preparedness, needed an overall control, which could be supplied only by delegation of integrating powers to a central body. The Council of National Defense, recognizing the need for unity in planning, made a number of false starts in this direction. It set up successively during 1917 the Munitions Standards Board, the General Munitions Board and the War Industries Board, but each lacked the organization and centralization of authority necessary for its task.

The Council's Committee on Raw Materials, under Bernard M. Baruch, was in a strategic place to work out the techniques of control later used effectively by the War Industries Board. For a year, this Committee and its Chairman constituted first an advisory section of the Council, and then a division of the War Industries Board, lacking in both situations executive powers.⁷ But finally, on March 4, 1918, when the need for concentrating powers in a single organization came to be vital to prosecution of the war, American industry was given a single leader, Mr. Baruch, a competent administrator who was prepared to as-

⁷ Although the War Industries Board was established by the Presidential order of March 4, 1918, it was not until the Overman Act of May 20, 1918 was passed that the President could constitute it as a regular executive agency, by order of May 28, 1918.

sume great responsibility.⁸ President Wilson put into his hands the priority power, the necessary sanction for control of supply originating in industrial plants, and of the demand originating in the defense services.

The new Chairman of the War Industries Board was instructed⁹ "to let alone what is being successfully done and interfere as little as possible with the present normal processes of purchase and delivery in the several departments," but "to guide and assist wherever the need for guidance or assistance may be revealed. . . ." He was "to anticipate the prospective needs of the several supply departments of the Government and their feasible adjustment to the industry of the country as far in advance as possible, in order that as definite an outlook and opportunity for planning as possible may be afforded the business men of the country." In short, he was to bring order out of the chaos into which the government agencies had thrown industry, and each other, by their single-minded pursuit of their own interests. He was to "act as the general eye of all supply departments in the field of industry," to substitute unity of vision for the kaleidoscopic pattern of the first war year.

Structure and Operation

The War Industries Board was not primarily executive; it was an organizing unit which left the job

⁸ Mr. Baruch's experience as a "market operator" had given him acquaintance with conditions in a variety of enterprises, but without such close association with any particular industry as might disqualify him for a position requiring absolute impartiality.

⁹ President Woodrow Wilson to Mr. Bernard M. Baruch, March 4, 1918; cited in B. M. Baruch, *American Industry in the War; a Report of the War Industries Board*, 25-26.

of purchasing to the supply departments. "It remained a small and compact body, creative, advisory, and generally directive, rather than executive."¹⁰ It has been compared to the federal government in relation to the states, that is, to an agency which does not govern in the particular fields of subordinate bodies, but affects these bodies by its general policies.¹¹ Industry was thus in direct contact with the purchasing agencies and also with the Board, which determined whether the orders should be filled, and in what order.

The principles established by the Board on requirements, priority, price-fixing, facilities, etc., were put into application by functional divisions. The divisions in their turn were assisted to a general view of the problem by members drawn from the purchasing agencies. But effective application of the principles was dependent on the "raw material" of information, which could only be supplied by case studies in particular fields. This information was furnished by the Commodities Sections of the Board, the offspring of the old Advisory Committees on Raw Materials and Supplies.

Through them the various so-called functional divisions—Conservation, Priorities, Price-Fixing, Requirements, Labor, and Allied Purchasing—obtained their expert information, made contact with the industries and with the purchasing agencies alike, received suggestions, requests, and complaints, and directed the enforcement of regulations and control.¹²

¹⁰ Grosvenor B. Clarkson, *Industrial America in the World War*, 296.

¹¹ *Ibid.*, 295.

¹² Baruch, *op. cit.*, 103.

In making its determinations, and in applying the principles of priority and clearance, the Board depended not only upon its fifty-odd Commodities Sections¹³ but upon their opposite numbers in industry—the hundreds of war service committees under supervision of the United States Chamber of Commerce. The war service committees, usually staffed by industrial leaders, were the agents of the various industries of the country, the link between businessmen planners in government and business itself.

Priorities and Commandeering

The great leverage which the War Industries Board was able to exert on industry came from its power of determining priority ratings on goods and services. Wherever a shortage of material, men or money occurred, preferential ratings were set up to determine in what order the demand should be supplied. A product vital for military supplies received a high rating, which permitted the producer to secure promptly the needed materials and transportation. A low rating meant a long wait for supplies, though no plant was completely shut off in order to avoid as far as possible economic dislocation in the community where it was situated.

A second weapon was commandeering, which was used either to take over a product needed by the government, or to take over a plant which failed to produce efficiently or otherwise to conform to the government's program. Used indiscriminately by various agencies in the early months of the war, the

¹³ As of November 11, 1918.

power to commandeer private property for war purposes was coördinated in September 1918 in the War Industries Board. After that date, it served principally as a threat to nonconformists who could not be brought to reason by the priority power.

The control of prices was lodged in a Committee headed by Robert S. Brookings. Its members consisted of the Chairmen of the War Industries Board, the Federal Trade Commission and the Tariff Commission, and representatives of the defense services, labor and agriculture. The Committee recommended action to the President, who proclaimed its findings on his own responsibility. (See Chapter IX.)

The real basis for control of the economic system lay not in priorities nor the fear of commandeering but in the willingness of business men, influenced by the pervasive war spirit, to be controlled. In the first year of the war, the Council of National Defense and the War Industries Board, depending very largely on voluntary coöperation, developed a technique of persuasion in gearing together industry and the defense services. Even after the Board acquired new powers in March 1918, it continued to use persuasion to grease the administrative wheels. As Secretary of War Baker later said:

What Mr. Baruch did with his organization in the last war was to make it the leader of American business rather than the boss of American business. When he wanted, for instance, to fix prices in an industry or to divert the capacity of an industry from one occupation to another, the way he did it was to send for the leaders of that industry, seat them around the table with him, tell them the national need, lay out the economics of the situation to them

with experts in their own field at his elbow, and, at the end of the conference they were not only informed of what was to be done but they knew why it was to be done, and they were enthusiastic for doing it. So that they scattered then out to their own plants and gave their orders as intelligent and ardently converted men who knew the thing that was to be done. That particular business then responded to the impulse from the War Industries Board in a way which it seems to me would have been quite impossible if there had simply been a fiat from Washington that "X" industry is to observe this, that, and the other order, without any comprehension on the part of the leaders in the industry of the reasons therefor.¹⁴

In short, the war effort of 1917-18 got its motive power from coöperation of business men in government with their colleagues in industry. Men outside the government supplied the initial impulse for industrial planning for war, and the same men drove the plan to success.

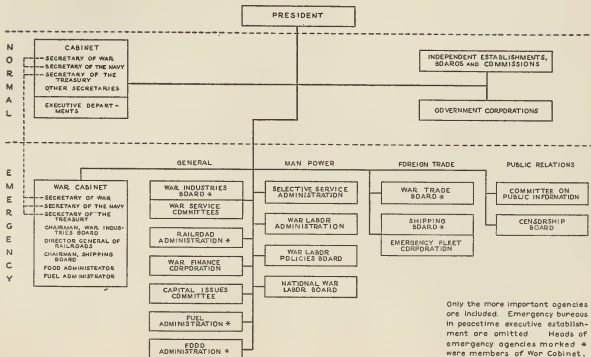
Relation of Emergency Agencies to Peacetime Government

The organization that integrated the wartime controls of business was set up informally, and it remained informal. Chart I shows the principal wartime agencies, indicating their relation to the peacetime structure of the federal government. At the top stood the President, wielding enormous new powers over industry, trade, publicity, and over the daily life of the average citizen. Alongside his formal, traditional Cabinet, an informal War Cabinet was set up in which the Secretaries of War and Navy were included as well as the heads of the chief emergency agencies.

¹⁴ War Policies Commission, *op. cit.*, 124-125.

CHART I

EXECUTIVE ESTABLISHMENT - NOVEMBER 1918



Beneath the War Cabinet lay the great organization for industrial mobilization, which, except for the Selective Service Administration and the Committee on Public Information, centered around the War Industries Board. The miscellaneous group of emergency administrations created for the particular branches of the industrial war effort—the Railroad Administration, the Food and Fuel Administrations, the Shipping Board, the War Trade Board, the Capital Issues Committee, the War Finance Corporation, the War Labor Board, etc.—usually coöperated with the major agency, the War Industries Board, though on occasion they took an independent line. Meanwhile, the permanent government departments continued to perform their usual tasks, working with the emergency agencies when called upon.

The emergency character of the wartime agencies and of their personnel served to prevent a great expansion of peacetime departments. Most of the wartime administrations, though liberally endowed by Congress, spent their endowments rapidly. The end of the war placed them at the mercy of Congress, which, by refusing appropriations, assured their speedy liquidation. Moreover, the business men who ran the wartime government promptly lost interest in war work with the Armistice and left Washington as fast as release was forthcoming, or even without waiting for official leave.

Criticism and Evaluation

Industrial mobilization in 1917-18 was pure improvisation. There was no prearranged plan, no care-

fully designed administrative machinery. The organization created piecemeal, whose creators could not see at the outset the whole scope of their task, met its obligations surprisingly well. A system wielding enormous power, created at a time of unparalleled stress, carried through a combined military and industrial effort whose magnitude had not been approached in America before, and was broken up without permanently altering the democratic form of government or the system of private enterprise for profit. But it was wasteful of time and money. The improvised wartime machinery was far from perfect, and when it disappeared it left a trail of disorder behind. Both its successes and its failures hold lessons for the nation if it again becomes involved in a major war.

Efficiency varied in different parts of the organization. The first task, finding out what the Army and Navy needed, was never adequately performed, but this was the fault principally of the defense forces themselves, and not of the civilian organization. The second task, finding out where to get what was needed, was effectively performed under government direction by industry itself. The third task, producing and delivering supplies, the improvised wartime organization performed remarkably well, so that the success of military operations was never seriously threatened by inefficiency of the industrial supply system.

But it was not done without recourse to abnormal processes of government. To procure the necessary supply of domestic raw materials, the government not only permitted, it practically compelled combina-

tions of all producers, so that it might negotiate for their entire output in one deal. The government took complete control of the imports of raw materials, using private organizations as distributing agents. It essayed to exercise a monopoly of unskilled labor, and to direct skilled labor into essential war industries. It exercised complete control over the supply of fuel to industry and even to private consumers. It directed the flow of capital for industrial investments, determining what industries could secure capital and for what purposes.

Unconventional means were used to make these controls effective. The priority power had no pre-war history. Licensing had been used by state governments chiefly as a means to maintain professional standards, or to safeguard the public health, or to control itinerant businesses; it now was applied by the federal government to control prices and to allocate raw materials. The power to commandeer was invoked in taking over transportation and communication systems; the threat of commandeering forced compliance of manufacturing firms with government regulations.

The government encroached extensively on fields formerly occupied only by private enterprise, controlling, or actually operating, many lines of business. It lent money directly to finance the production of war supplies. It operated the railroads, telegraphs and telephones, established shipping agencies and corporations, built houses, sold life and marine insurance, and controlled the distribution of wheat and sugar. For the first time in history, it floated its own

bond issues without the aid of banks or investment houses.

Prices and profits were fixed in food and fuel industries. The design and materials of clothing were regulated in the interest of economy and low prices. To maintain national enthusiasm for the war, the government also went into the publicity business. It advertised its own efforts and accomplishments on a colossal scale. By its control of communications, it censored domestic news concerning Army and Navy activities, as well as all foreign news. All this was done without arousing strong or sustained public opposition.

Sources of Power

Some agencies, such as the War Finance Corporation, were created specifically, by Act of Congress; others, such as the Fuel Administration, were set up by the President under a general Act empowering him to deal with a specific problem. In a few cases, such as the Food Administration, congressional authorization was forthcoming only after the new organization was functioning. The War Industries Board, without ever having been authorized by Congress, exercised its great powers by virtue of a delegation by the President of his constitutional executive power.

But the emergency organization derived its powers principally from public opinion, which, in its zeal for the war, backed the government's measures to the full, suppressing dissent impatiently, at times violently. Only such whole-hearted support made pos-

sible the gasolineless Sundays and heatless Mondays, which were decreed by executive authority without legislative authorization. The war spirit constrained book publishers and motion-picture producers to submit their prospective products to informal inspection by government agents before publication. It converted Samuel Gompers and other labor leaders from pacifism; it made available to the government at a dollar a year the services of the country's best business executives. The Director of the Council of National Defense described the personnel working for the War Industries Board as

a convention of able, if not the ablest, men of affairs of America—not so much the presidents and chairmen of boards, whose hard-working days are over, but the keen, dynamic, forceful, purposeful, transilient (sic) vice-presidents and managers and superintendents; not the men who are reputed to be doers, but the real doers of the colossal deeds of the titanic American industrial scene. . . .¹⁵

Conclusion

Inevitably an organization put together piecemeal as need arose was slow in getting under way. A whole year elapsed, for example, before the War Industries Board was in a position to deal effectively with the problems of priorities and price-fixing. Similarly, the establishment of agencies capable of dealing with war labor problems on a national scale was delayed until 1918. The lack of integration of the many emergency bodies, except through interlocking membership and through common subordination to the authority of the President, was responsible at times

¹⁵ Clarkson, *op. cit.*, 65.

for competing policies.¹⁶ Their personnel was handicapped by lack of familiarity with governmental procedures, a defect which was not completely offset by their experience in business affairs.

Contractors working on government orders complained of the maze of legal restrictions with which the government endeavored to protect its interests. But when they made informal agreements with government purchasing agents, such agreements were often repudiated and the contractors had to wait until Congress indemnified them by the Dent Act.

The public complained of profiteering. The presence of so many business men in the government, dealing often with firms in which they recently had been active, gave rise to charges of collusion.¹⁷ Large

¹⁶ For example, the Requirements Division of the War Industries Board contained representatives from the Emergency Fleet Corporation, the Railroad Administration, the Food Administration, the Army, the Navy and the Marine Corps, but in some cases the representatives were observers only, with no authority to commit their organizations to a decision. Coöperation between representatives of individual groups was sometimes lacking, and in such cases no coercion was possible except by change of personnel.

¹⁷ The Council of National Defense originally drew the personnel of its commodity committees from leading firms producing the commodities concerning which the committees advised. "This led to the anomalous situation in which these bodies had to deal with themselves in the sense that they had to recommend the placing of orders with firms in which they were interested and the prices and other purchase conditions which were to be observed." (W. F. Willoughby, *Government Organization in War Time and After*, 84.) Several measures were taken to correct this situation. The order of July 28, 1917, creating the War Industries Board, instructed the Board to reorganize the committees advising on particular industries or materials so that they should be "composed of direct representatives of the Government who should have no financial interest, direct or indirect, in the industries concerning which they advised." (Baruch, *op. cit.*, 22.) This order was reinforced by a provision of the Food and Fuel Act of August 10, 1917, barring all government representatives from influencing or taking any action in regard to placement of orders with firms in which they might be interested. Willful violations of the Act were punishable by a fine of not more than \$10,000 or imprisonment for not more than five years, or both.

profits undoubtedly were made, for the most part, not through dishonesty or fraud, but by fortunately situated producers who were in a position honestly to take advantage of the huge new demand at rising prices.

The friends of democracy, when they saw Congress delegating power wholesale to the President and to the new administrative agencies, granting them vast sums of money to be spent without the usual peacetime restrictions, feared a permanent dictatorship. But, as in previous national emergencies, the wartime enlargement of executive power proved only temporary; and while the war agencies lasted, they supplemented, but did not replace, the ordinary organs of government. Congress, although spendthrift, maintained its control of the nation's purse. The federal courts lost, at times, their judicial calm in dealing with alleged attacks on our form of government. Their interest waned in keeping Congress and the President strictly within the boundaries of their constitutional powers. But these lapses are traceable only to over-enthusiasm for the war and were not the result of dictatorial pressure on the part of the President.

Executive power obviously expanded during the war far beyond its peacetime limitations. But the process took place not against the wishes, but with the enthusiastic approval, of the mass of the people. The people, however, had no intention that the expansion should be permanent. When, in November 1918, President Wilson appealed to them to maintain a Democratic majority in Congress, they refused by

an overwhelming vote. In the United States, as in England and France, wartime leaders were repudiated not long after the Armistice, and the elaborate machinery of centralized wartime administration was largely abandoned.

CHAPTER THREE

PLANNING, 1919-1939

PROBLEMS of economic preparedness held little interest for the ordinary citizen after the Armistice; his whole attention was concentrated on getting back to "normalcy." But Congress, the War Department, the American Legion and civilians who had learned by experience the difficulties of managing the war economy showed a continuing interest in the subject.

Immediately after the war, a congressional investigation of expenditures in the Ordnance Department (by the so-called Graham Committee) brought to light much waste and extravagance, some stupidity and dishonesty, and a lamentable absence of intelligent planning.¹ The result was a completely new organization of supply for the War Department. At the same time, the American Legion began a campaign to "take the profits out of war," and to equalize

¹The following are typical examples: One company received a contract for 195,000 branding irons for the Army's 500,000 horses, based on payment of cost of production plus a percentage. The company bought copper of an inferior grade under the contract, charging the government the cost of the better grade specified. No irons were ready for delivery at the time of the Armistice. When the contract was cancelled the government sold the copper back to the company, without penalty, at the price of the inferior grade, or about one-third of the price it paid. In building the Nitro, West Virginia, powder plant, also on a cost-plus-percentage basis, agents were employed to recruit laborers and transport them to the plant, bidding against government agents recruiting for other plants. New materials were employed on a cost-plus-profit basis as fuel in burning dead horses; government trucks were buried to avoid moving them. *House Report No. 1400*, 66th Congress, 3d session.

its burdens. Bernard M. Baruch, who had headed the War Industries Board, organized a series of reunions of the old staff, to keep alive their spirit of coöperation and to transmit it to others in the event of another war.² For the next twenty years these movements continued simultaneously, but for the most part without close relationship or common program.

The Army Begins to Plan

Congress in the National Defense Act of 1920 undertook to establish efficient coöperation among the supply services of the Army, and between them and industrial plants. Acting under this authority, the Assistant Secretary of War set up the Planning Branch, the Army and Navy Munitions Board and the Army Industrial College.

The Planning Branch began to get in touch with the men and organizations who might be useful in wartime. They brought members of Baruch's organization to the Industrial College as lecturers. They drew upon technical societies, such as the American Chemical Society, the American Society of Mining and Metallurgical Engineers and the American Standards Association for members of committees to investigate sources of raw materials. The Association of American Railroads sent officials to work in Washington and in Army Corps Area Headquarters on transportation problems, regional and national. The

²The idea of self-organization by industry with government's support to control production and prices, was revived in the National Recovery Administration. The whole idea of the N.R.A. in fact goes back to the War Industries Board, the basic conception being Baruch's. General Hugh Johnson, N.R.A.'s chief administrator, had been the War Department's representative on the War Industries Board.

American Iron and Steel Institute helped to draft a schedule for wartime production. Army officers were detailed to the Harvard School of Business Administration and the Babson Institute for special training. The Army Corps of Engineers undertook a survey of the nation's power resources to discover possible wartime shortages.

The supply system in 1917 had broken down first in the War Department. The Department, it developed, did not know what it needed, and when this information was at hand, it had no plan for getting its supplies without competing with the needs of the Navy and of civilians. To remedy these faults, standardization of army equipment was undertaken, and specifications of the different supply branches were unified. Where shortages threatened, industrial surveys were undertaken so that the output of plants could be allocated. Eventually 20,000 such allocations were made by surveys which covered most of the important industrial plants in the nation.

The American Legion Attacks War Profits

While the Planning Branch was thus attacking the supply problem, the Legion was pushing its campaign against war profits, demanding that conscription be applied to industry as well as to manpower. The impetus for this campaign came from the veterans' own wartime experiences. Their pay of \$30 a month (plus dependents' allowance of \$15) remained fixed during the war. Soldiers and sailors who did not go overseas often found themselves working at a dollar a day beside civilians making ten dollars or

more. Even taking account of the subsistence which the government provided in addition to military pay, the difference was striking. The disillusionment of job-hunting after the Armistice while witnessing the extravagant spending of "war millionaires" added bitterness to their war memories and gave additional impetus to their plans for reform.

The 1922 Convention of the Legion endorsed a bill providing for (1) a universal draft of physically eligible males regardless of occupation, (2) government control in wartime of industry, resources and services, and (3) stabilization of prices and wages. Representative McSwain, a Legion member, presented the bill in the House, but with no result. Similar procedure was repeated year after year, but in spite of the endorsement of Presidents Harding and Coolidge, and of both national political parties in their 1924 Conventions, the Legion could not induce Congress to take action.

In 1927, the Legion changed its tactics. Its demand for universal conscription, which at first appeared as a peace measure, had now become a means of military preparedness. In its 1924 National Convention, the Legion argued for the universal draft on the ground that it would "help insure our country against war. . . ." A few years later, it described the same proposal as a law "that will enable the country to quickly mobilize all its resources in case of war. . . ." ³ The Legion no longer demanded immediate *legislation*, but, in a resolution adopted at its Paris Con-

³ Seymour Waldman, *Death and Profits: A Study of the War Policies Commission*, 7.

tion of 1927, called for a congressional *investigation* of its plan for a universal draft of men, money and materials. Three years intervened, however, before favorable action was taken by the joint resolution which set up a mixed commission known as the War Policies Commission.

The Shearer Episode

In these intervening years, public interest in taking the profits out of war had been stimulated by the Shearer episode. In the summer of 1929, William B. Shearer brought suit for \$250,000 against the Bethlehem Shipbuilding Company, the Newport News Shipbuilding and Drydock Company, and the American Brown-Boveri Electric Corporation. Shearer claimed that the money was due him for services performed at the Geneva Disarmament Conference of 1927, whither he had been sent to look after the interests of his clients, and for subsequent propaganda activities in the United States in favor of a bigger navy and a bigger merchant marine. The affair aroused so much attention that a Senate investigation was instituted. Testifying before the Senate Committee,⁴ the defendants in the suit admitted that they had hired Shearer, paying him a considerable sum, but denied that their objective in sending him to Geneva had been to disrupt the Disarmament Conference. The episode, with its attendant publicity, gave new ammunition to the peace groups who were contending that the profits of munitions firms both in peace

⁴ *Hearings* pursuant to S. Res. 114 before a Subcommittee of the Senate Committee on Naval Affairs, 71st Congress, 1st session.

and war constituted an obstacle to their efforts to bring about a better world order.

Pressure for congressional action now came from two distinct sources: (1) from a group interested in eliminating war profits, and (2) from groups interested in industrial mobilization plans. The terms of reference of the Commission established by joint resolution of June 27, 1930, show the two guiding purposes. The Commission, which included Cabinet members as well as Senators and Representatives,⁵ was directed

to study and consider amending the Constitution of the United States to provide that private property may be taken by Congress for public use during war and methods of equalizing the burdens and to remove the profits of war, together with a study of policies to be pursued in event of war.⁶

A proviso added at the insistence of organized labor precluded consideration of plans for the conscription of labor.

The Commission having issued a general invitation for public participation, about sixty witnesses, giving expression to the widest disparity of ideas, were heard. Civilians who had been active in the 1917-18 agencies, including Bernard Baruch, Walter Gifford, Daniel Willard and others, gave their advice;

⁵ The membership of the Commission was as follows: Secretary of War Patrick J. Hurley, Secretary of the Navy Charles F. Adams, Secretary of Agriculture Arthur M. Hyde, Secretary of Commerce Robert P. Lamont, Secretary of Labor William N. Doak, Attorney General William D. Mitchell, Senator David A. Reed, Senator Arthur H. Vandenberg, Senator Joseph T. Robinson, Senator Claude A. Swanson, Congressman Lindley H. Hadley, Congressman William P. Holaday, Congressman Ross A. Collins, Congressman John J. McSwain.

⁶ War Policies Commission, *op. cit.*, vi.

Army and Navy officers working on the new Industrial Mobilization Plan stressed the need for effective production of munitions; veterans' organizations urged the equalization of war's burdens among labor, management and soldiers; peace organizations opposed any mobilization plans at all, on the ground that they tended to develop war psychology.

The First Industrial Mobilization Plan

For our purposes, the work of the War Policies Commission is important chiefly because of the part which it played in the development of industrial mobilization plans. Until May 1931, when General MacArthur presented the War Department's Plan to the Commission,⁷ there had been no publication of the document, either textually or in summarized form, and the American public was entirely uninformed on the subject. The 1931 Plan dealt with two problems: (1) procurement, a technical matter comprising arrangements for purchasing Army munitions in an emergency; and (2) a broad economic and social problem, the war organization of American industry.

Procurement, it was recognized, was the simpler of the two, and occupied relatively little space in the Plan.⁸ Certain general principles were laid down, all based on the desire to avoid repeating the mistakes of 1917-18: the necessity of preparing in advance exact specifications for equipment, the coördination of Army and Navy purchases, the distribution of

⁷ War Policies Commission, *op. cit.*, 395-478.

⁸ *Ibid.*, 408-410, 423-443.

purchases geographically, so as to avoid congestion in industrial centers, the elimination of competitive bidding by government purchasing agents. In place of competitive bidding, the Plan proposed that orders should be placed with firms "allocated" in advance to either the Army or the Navy.

The Plan recommended educational orders as one means of preparing American manufacturers to furnish in wartime articles not generally produced in peace.⁹ Certain firms would not only gain manufacturing experience thereby, but would have constantly on hand a complete set of the necessary dies, jigs and fixtures. Other features of procurement planning were studies of raw material needs and sources of supply, and the development of new types of government contracts designed to simplify purchasing and reduce the dangers of profiteering. The procurement plans were described by General MacArthur as follows:

The keynote of the system is economy, both in the amounts to be purchased and in the methods used in purchase. It will occasion the minimum shock to the industrial and economic life of the country upon the beginning of an emergency and will revert easily to peace-time methods upon the termination thereof. It assures us that Army purchases, in the event of a future war, will not be, as they have been in past wars, one of the principal causes for profiteering and for the useless and unnecessary piling up of burdensome war debts.¹⁰

⁹ "An educational order is a contract placed, without advertising, for a limited quantity of a desired technical article, with any selected facility." *Ibid.*, 364. The term "facility" in discussions of military procurement means a manufacturing establishment or industrial plant.

¹⁰ *Ibid.*, 367.

For the broad task of organizing the national industrial system for war, the Army planners proposed to set up emergency agencies supplementing, but not replacing the federal administrative departments. The new agencies would be integrated by a Director of War Industry, appointed by the President and serving as his confidential representative. The task of the Director was broadly divided into two branches: (1) the coördination of demand, or the requirements of the defense services; and (2) the coördination of supply, or the mobilization of industry. Military men were to have a hand in determination of demand, but the coördinator of supply was to be a civilian, assisted by "an industrial advisory board composed of a few prominent industrialists."¹¹

Price Control and Priorities

In its 1931 Plan, the War Department took the position that price control was inevitable in any major war, and should be established early. It did not approve of freezing the price structure, but planned to initiate a moderate control of prices of basic raw materials through negotiations between government and the representatives of the sellers, who were to be allowed "a reasonable profit based on costs." The utmost efforts were to be made to avoid antagonizing business men.

The industrial plan assures that the Government itself will not unnecessarily upset economic and industrial conditions. Price-control efforts, in consequence, will be directed gradually and in general recognition of their

¹¹ *Ibid.*, 370.

necessity and reasonableness. Good will and cordial acquiescence will assure their success. Injustice and harshness will be avoided because in the determination of prices industry will have voice. The spontaneous cooperation born of patriotism and enthusiasm will not degenerate into an enforced and begrudging compliance. Production will proceed quickly and efficiently and economically. Finally the citizens will feel that the restrictions to which they submit are restrictions they themselves have imposed in the interests of the common welfare.¹²

A system of priorities was planned which would have the same function as in 1917-18, viz., to secure the most effective use of scarce resources. To enforce price control and priorities it was hinted that commandeering might be necessary. A War Trade Board was to be established to use foreign trade to support the domestic war effort, also "to coerce neutrals and to injure our enemies."

War Policies Commission Approves Army's Plan

The War Policies Commission subjected the War Department's plans for economic control in wartime to closest scrutiny. In its majority report, concurred in by all members except one, the Commission indicated approval of the purposes of the 1931 Plan and of the means which were proposed to put them into effect. The Commission recognized the necessity for continuous planning by the federal government, particularly the War and Navy Departments, for industrial mobilization, and recommended that such plans should be periodically reviewed by a congressional committee.

¹² Testimony of General MacArthur, *ibid.*, 373.

Impressed by the necessity of stabilizing prices and preventing profiteering, the Commission recommended a constitutional amendment, clearly defining the power of Congress to impose these controls. Pending the adoption of this amendment, the Commission recommended legislation giving the President in time of war the following powers:

(1) To stabilize prices; to take private property needed in the prosecution of the war "without affording the owner thereof profit due to the war."

(2) To make such changes in administrative organization as would be necessary to assure adequate control of national resources.

(3) To compel acceptance of war orders and to commandeer property. Commandeering, as the Commission understood it, implied compensation to private owners. This point was made clear by the recommendation "that no constitutional amendment to permit the taking of private property in time of war without compensation be considered by the Congress."¹⁸

On the crucial matter of the taxation of war profits, the Commission recommended that "individuals and corporations should be taxed 95 percent of all income above the previous three-year average, with proper adjustments for capital expenditures for war purposes by existing or new industries."

In Congress, the Commission's report was criticized on the ground that it had not provided for a draft of capital and industry, and that, instead of eliminating profits in wartime, its proposals would

¹⁸ War Policies Commission, *Final Recommendation*, March 7, 1932.

assure to business men in time of war the continuance of peacetime profits. The American Legion's National Executive Committee, however, expressed its satisfaction with the "splendid work" of the War Policies Commission and urged Congress to enact the proposed legislation. But Congress failed to comply.

The Nye Investigation

The fight for the limitation of war profits after 1931 was stimulated by the growing interest of the American people in foreign affairs, and by their apprehension of the imminence of a second world war. In September 1931, the Japanese invasion of Manchuria in violation of the Kellogg Pact and the Nine Power Treaty gave a rude shock to such Americans as still held lingering hopes of the possibilities of preserving world peace through international coöperation. The rise of the Nazi Party in Germany under Hitler's leadership, the breakup of the Disarmament Conference, and Germany's withdrawal from the League of Nations all contributed to heighten their sense of insecurity in international relations.

Only against this background can the sudden and widespread interest of the American people in the affairs of munitions manufacturers be explained. After two years of campaigning, peace organizations succeeded, in February 1934, in having a resolution introduced in the Senate for an investigation of the munitions industries. Senator Nye's willingness to undertake the sponsorship of the investigation was based upon his estimation of its importance and of

public interest in the subject. In March 1934, an article appearing in *Fortune* entitled "Arms and the Men" so impressed Senator Borah that he used it as the basis for a vigorous attack from the floor of the Senate on munitions manufacturers. The *Fortune* article was followed by a book, entitled *Merchants of Death*, a further exposure of the association of business and patriotism in the manufacture of munitions.

Meanwhile, Senator Vandenberg, at the request of the American Legion, had proposed a senatorial investigation to review the findings of the War Policies Commission. In the Senate this resolution was joined to that of Senator Nye and referred to a Special Committee. The Committee's hearings, which extended over six months, aroused widespread public interest.

The spirit of the 1934 investigation differed sharply from that conducted three years earlier by the War Policies Commission. The earlier investigation had been chiefly interested in the effectiveness of the War Department's Plan as an instrument of industrial mobilization. But the Nye Committee concentrated its attention on the social and economic aspects of the proposed wartime controls. In its hearings, the Committee subjected the Plan to searching criticism, stressing particularly the inequality of the burdens it imposed on capital and labor, its lack of effective safeguards against profiteering and its inadequate protection of civil liberties.

The testimony showed that under emergency conditions it had proved impossible properly to protect

the government's financial interests. It disclosed how common was the practice in wartime of charging the government extravagant prices and how difficult it was to prevent contractors from padding their costs. The liquidation of the wartime organization and the settling of contracts was shown to have been inefficient and wasteful. Army officers, both regular and reserve, had proved too sympathetic to the claims of business men and not sufficiently jealous of the government's interests. No proper checks had ever been made to see that the government got what it paid for, nor that industry paid a fair price for the materials which the government left in its hands.

The Committee Criticizes the Plan

In the light of these findings the Committee examined with a critical eye the Industrial Mobilization Plan¹⁴ and the bills submitted by the War Department to implement it. The members made no objection to centralizing power in the Executive, but they did object to leaving power there. Under the Plan, they pointed out, the President could hold draftees in the Army for six months after he decreed the war emergency to be ended, and if he wanted to delay issuing the decree indefinitely, he would be in a position to establish a military dictatorship.

The methods proposed by the Plan for controlling labor were considered too drastic. Fears were expressed that employers would abuse its machinery for settling labor disputes, and that the government

¹⁴ The Committee had before it the 1933 edition of the Plan, which was substantially the same as the original Plan, issued in 1931. It differed principally in being elaborated in greater detail.

would use conscription to force striking or dissatisfied workers into the army.

The Committee attacked the failure of the Plan to protect the Treasury. Instead of specific measures to limit war profits, it contained merely the expression of a hope that profiteering would not again appear. The Committee condemned as ineffective the cost accounting procedures provided in the Plan and found its price control measures inadequate, and impossible of administration.¹⁵

To remedy these defects, the Committee offered a bill of its own,¹⁶ which, while granting the Executive as broad powers as had the War Department bills, deprived him of the power to extend the war emergency into peacetime. This bill contained war revenue provisions based on the principle that war costs should be paid by taxes rather than loans. It proposed to take by taxation not only war profits but a large slice of normal profits as well. In order to bring the cost of war home to every citizen, personal exemptions were to be reduced to \$500. The bill eliminated the draft of labor and soldiers, substituting a draft of management in essential war industries. But the new bill did not come to a vote. The Senate Finance Committee cut the high rates on the ground that they

¹⁵ *Hearings* pursuant to S. Res. 206 before the Special Committee of the Senate Investigating the Munitions Industry, 73d Congress, pts. 15-17; *Senate Report No. 944*, pt. 4, on War Department Bills, S. 1716-S. 1722, 74th Congress, 2d session.

¹⁶ H.R. 5529, 74th Congress, 1st session. "To prevent profiteering in time of war and to equalize the burdens of war and thus provide for the national defense and promote peace." This bill was a complete revision of the McSwain Bill (also titled H.R. 5529), which had been reported by the House Military Affairs Committee, February 12, 1935, passed by the House, and referred by the Senate to the Nye Committee.

would destroy industry's incentive to produce munitions, or else would induce tax evasions. The Seventy-fourth Congress adjourned without action on any of the bills regarding industrial mobilization.

The Army Revises Its Plans

Some of the objections raised in hearings before the Nye Committee were met in the 1936 edition of the Industrial Mobilization Plan. In this version the sections on "selective service" and on "public relations," both of which the Committee condemned, were omitted, with the statement that they were being revised. The Committee's suggestion for a draft of management was accepted, but without enthusiasm. Labor was given greater representation in the agencies dealing with industrial disputes. The Plan contained no measures for dealing with the problems of war finance; its authors contented themselves with expressing the hope that war taxes would not be so high as to destroy the profit motive. In 1939 a fourth edition, still further abridged, was issued, which will be discussed in the following chapter.

Since 1936, when the Nye Committee finished its work, Congress has frequently displayed interest in industrial preparedness. Not a session has passed without the presentation of bills proposing industrial control in wartime and the limitation of war profits, though none has come to a vote. It seems, however, that if war should come, the pressure for legislation of this sort would prove strong enough to produce rapid action.

Though unwilling in peacetime to sanction war

controls, Congress has responded generously to appeals for specific measures for industrial preparedness. In 1939, besides voting over \$1,500,000,000 for strictly military and naval expenses, it authorized the use of \$34,500,000 for educational orders in industrial plants on war items, and \$100,000,000, to be spent over a four-year period, for building up stocks of strategic materials.

Threat of War in Europe Stimulates Industrial Preparedness Here

The Munich crisis in September 1938 brought home vividly to Americans the imminence of a world war which would seriously affect us even if we remained neutral. Government departments hitherto indifferent or lukewarm began to show a keen interest in industrial preparedness. The Office of the Assistant Secretary of War was stirred into new activity, and its chief undertook an extensive speaking campaign to familiarize American industry with its war rôle. The Army and Navy Munitions Board began to reach out widely to enlist the coöperation of other government agencies, and of industrial and trade organizations.

Planning to meet the foreign crisis soon went beyond the range of the defense departments. The Secretary of the Treasury headed a committee to cope with the expected shock of war on American stock exchanges, banks and export business. An office for emergency problems was set up in the White House staff. The President showed his concern with the progress of industrial preparedness by launching an

investigation of the educational orders program. The Departments of Commerce and Agriculture began investigations on prices and food supplies; the Department of Justice made preparations to deal with sabotage, espionage and profiteering; the Federal Reserve Bank of New York enlisted the aid of the banks to meet the emergency finance problems.

President Appoints War Resources Board

The appointment of a War Resources Board by the President early in August 1939 seemed to indicate that specific action in accordance with the Plan was under way.¹⁷ The Board was to act in two capacities: (1) as a civilian advisory committee to the Army and Navy Munitions Board in perfecting industrial mobilization plans; and (2) if an emergency should arise, as "an executive agency of the government with broad powers similar to those of the old War Industries Board."¹⁸ The membership of the Board is given below.

Mr. Edward R. Stettinius, Jr., *Chairman of the Board*

Chairman of the Board, U. S. Steel Corporation

Mr. Karl T. Compton

President, Massachusetts Institute of Technology

Mr. Walter S. Gifford

President, American Telephone and Telegraph Company

¹⁷ The appointment of a committee of capable executives which should meet at least annually to consider changes in the Industrial Mobilization Plan had long been advocated by B. M. Baruch. At the request of a number of industrial leaders, a War Department Advisory Council was formed in 1926, met a few times, and then dissolved for lack of anything important to do. A similar council was organized in 1933 by the National Recovery Administration, but this also disappeared when the N.I.R.A. was declared unconstitutional.

¹⁸ Statement of Assistant Secretary of War Johnson and Assistant Secretary of the Navy Edison, reported in *New York Times*, August 10, 1939.

Mr. John M. Hancock

Partner, Lehman Brothers, Industrial Bankers

Mr. Harold G. Moulton

President, The Brookings Institution

Mr. John Lee Pratt

Director, General Motors Corporation

General Robert E. Wood

Chairman of the Board, Sears, Roebuck & Company

When this personnel was announced, a storm of criticism arose from the "liberal" faction in the Administration. Secretary Ickes attacked the Board as "a potential nucleus for an extra-legal autocracy," which would destroy democracy and the New Deal social reforms.¹⁹ A resolution of the American Federation of Labor Convention at Cincinnati noted "with regret the omission of trade union spokesmen from the recent War Resources Board."²⁰

Had the function of the Board been limited to technical advice, the predominance of Eastern banking and industrial leaders might have been defensible, although even then the absence of a specialist on labor problems would have needed explanation. But if the Board were ever called upon to act as an executive agency, with broad powers in the management of a war economy, the lack of wide representation of diverse regional and economic interests might legitimately be criticized.

None of the criticisms was answered by the President. But, late in September, he informed his press conference that the Board had completed its work

¹⁹ *Ibid.*, October 6, 1939.

²⁰ *Ibid.*, October 12, 1939.

and was soon to be disbanded.²¹ However, when the Board made its (unpublished) report to the President, it expressed a desire to aid the Army and Navy Munitions Board in an advisory capacity, and the President accepted the offer.²² Thus it remains, in suspended animation, a potential agency in industrial mobilization.

Who Shall Control War Economy?

The appointment of a Board composed exclusively of persons outside the government service brought into the open the opposition of certain elements in the Administration to the principle laid down in the 1939 Mobilization Plan, viz., that the control of the war economy should not be entrusted to government officials already in service, but to "patriotic business leaders of the Nation." (See p. 63.)

The defense departments have based their plans on the control of industrial mobilization *by business men*, upon whose efficient methods they rely to get necessary goods produced when required. Pointing to the success of the emergency organizations in the last war, they argue (1) that business men will show greater readiness to comply with government orders when transmitted by other business men; and (2) that measures for control will be more intelligently planned by business men than by government officials, whether political appointees or permanent civil servants.

This point of view is rejected by those who assert

²¹ *Ibid.*, September 27, 1939.

²² *Ibid.*, November 25, 1939.

that the use of emergency organizations staffed by business leaders proved too favorable to business interests in the last war. Emergency organizations, they believe, have been made unnecessary by the recent wide extension of the administrative work of the federal government.²³ In 1917, the Department of Labor had only recently been set up and its staff was inadequate to cope with the problem of the most effective use of labor resources in time of war. The Federal Reserve Board, established in 1914, still lacked prestige and experience. Its control over bank credit was far less extensive than that with which it is now equipped. New organizations have been established since 1918, including the Federal Communications Commission, the Securities and Exchange Commission, the Agricultural Adjustment Administration, all of which, it is claimed, may be relied upon to deal effectively with the problems of a war economy. To attempt to supplement these agencies by new emergency organizations would confuse the problems of administration. Opponents of emergency organizations also stress their "undemocratic" character. Appointed by the President without senatorial confirmation they wield, without direct authorization by Congress, unusual and extensive powers. The War Resources Board is cited as an example of an emergency organization whose members might be at odds with Cabinet members.

The experience of the 20 years following 1918 forms the background for understanding the fourth

²³ Government figures show that federal employees were as numerous at the end of 1939 as they were in November 1918.

and most recent edition of the Industrial Mobilization Plan, which was issued in 1939. Both in what it contains and what it omits, it is a product of the evaluation and criticism which were given in the post-war period to our experience with improvised planning in the World War years. The following chapter is devoted to the 1939 Plan.

ible. Only a Plan stated in general terms could be easily adapted to new conditions. Other matters were abandoned because they had become too controversial. The Nye Committee, for example, had disapproved the appendices in the 1933 Plan which provided for compulsory military service and the control of public relations (i.e., propaganda and censorship). These features, the Committee held, might be made the basis for dangerous interference with the freedom of labor and of the press. The fact that certain matters have been dropped out of the document published in 1939 does not necessarily indicate that they have been permanently suppressed; they may still be latent elements in the Plan. Another element in the "penumbra" of the Plan is the experience of military men and business leaders gained in 1917 and 1918 which is in many cases still available if we care to draw upon it.

Finally, no one can pretend to understand thoroughly what the 1939 Plan means who does not take into account the attitudes and opinions regarding war and wartime service which have been developed in the minds of the American people since the Armistice. When one reviews the course of congressional investigations of the causes and cure of war, and the great mass of books and periodical articles on the same subject, one cannot escape the impression that, ever since the last war ended, the American people have been greatly concerned with avoiding, if at all possible, entanglement in another European war. Their hopes and fears constitute the atmosphere in which the plans devised by the War Department and

CHAPTER FOUR

THE PLAN TODAY

THE fourth and most recent edition of the Industrial Mobilization Plan, published in 1939,¹ is a thin government document of 18 pages. (See Appendix.) Considering this document as the product of 20 years of discussion of industrial mobilization, an uninformed person might get the impression that nothing much had been accomplished, and that the United States had no detailed plans for the effective use of its economic resources in another war. If our layman took the trouble to compare the 1939 Plan with previous editions,² he might get a further impression that, as the discussion of economic mobilization has proceeded since 1931, our plans have become less comprehensive, less precise and less significant. All of these impressions would be erroneous.

The thin document issued in 1939 under the joint authority of the Secretaries of War and of the Navy, no more comprehends our entire plan for industrial mobilization than does the document drafted in Philadelphia in 1787 comprehend the entire scheme of federal government. To understand the true scope of the present Plan and its probable functioning, one

¹ *Industrial Mobilization Plan, Revision of 1939.*

² *Industrial Mobilization Plan, 1931, War Policies Commission, op. cit., 395-478; Industrial Mobilization Plan, Revised—1933; Industrial Mobilization Plan, Revised—1936.*

must take into account, besides the document itself, a considerable body of supplemental legislation now on the federal statute books. (See Chapter XI.) Some of these laws, such as the National Defense Act of 1916, the Espionage Act, and the Trading with the Enemy Act, deal specifically with wartime conditions. In addition, we have added to our statute books in the past ten years important laws aimed to strengthen the national government in dealing with, not an international emergency, but a domestic crisis, namely, the great depression. We have strengthened our banking system. We have provided for planning in the field of agriculture. We have extended our control over capital markets. We have provided for conservation of natural resources. We have attempted to strengthen the power of labor through collective bargaining. Some of this legislation may prove to have been badly conceived or badly formulated, but, taking it in general, it is probably true that it provides a better basis for the switch to a wartime economy than we had in 1917.

The Unwritten Plan

Earlier editions of the Plan contained much material which found no place in the 1939 document. They outlined in detail, for example, schemes for military conscription, for the organization of propaganda and censorship, for the control of the labor supply, and for price control. They included drafts of legislative bills to put the Plan into effect. Some of this material was dropped on the ground that the superabundance of detail made the Plan too inflex-

printed in its pamphlet must function; they too are part of the unwritten plan of industrial mobilization.

The 1939 Plan falls into two main divisions:

I. The utilization of national resources and the mobilization of industry in time of major war.

II. Army and Navy procurement planning in time of peace.

Army and Navy Procurement Planning

"Procurement" is regarded as a technical matter which is properly under the control of Army and Navy officers. The first step in procurement planning is to determine what the War and Navy Departments are going to need. For the Army, the General Staff will answer this question. Suppose that it should decide, under certain conditions, to maintain a wartime guard of 100,000 men on our southwestern frontier, including a cavalry force. Having calculated the probable rate of consumption and replacement of the necessary supplies and the time when needed, it would then turn the data over to the seven Army supply services. The most important of these are the Quartermaster Corps, for such items as food and clothing, and the Ordnance Service, for arms and ammunition.

Investigation of the sources of supply follows. Each of the services operates through its own procurement districts covering the entire country, with officers in charge responsible for a knowledge of the district's resources. If they find that ample manufacturing facilities exist, that business firms are equipped and willing to produce the precise products needed, the task of the supply services is ended.

This is the procedure on paper in its utmost simplicity. In practice, however, difficulties may arise. Many of the items needed for our hypothetical new army may not be readily available; a new type of gun-sight may never have been made in commercial quantity; the supply of charcoal required for gas masks may be deficient in this country; foreign sources must be sought; a plant equipped to make gas masks may be busy with civilian orders on which it has guaranteed delivery, or may be too small in any case to supply the quantity needed by the Army within the time allowed; some necessary item may differ slightly from that which a plant is accustomed to make, necessitating new tooling; for making items such as telescope lenses, there may be only a small number of competent workers and the time allowed for delivery may be too short to train apprentices.

How the Army Plans With Industry

To meet such situations, Congress has authorized the Assistant Secretary of War to plan with industry for the mobilization of its resources to meet the Army's needs. A Planning Branch of fifteen officers under the direction of the Assistant Secretary, studies war-time industrial problems. Standardization is one problem. An airplane engine may have developed great virtues, but its manufacturer may still want to incorporate improvements which take time to work out. The Standards Division of the Planning Branch attempts to steer a course between fixing its specifications too early, i.e., before an efficient product is developed, and continuing the search for perfection so

long that necessary production for war cannot be started on time.

Many items require materials not available in the United States in sufficient quantity or perhaps not at all. The Commodities Division must know where to procure strategic raw materials of primary importance (e.g., manganese, rubber) and critical items (e.g., vanadium) the procurement of which, while important, is a less serious problem, or the need for which is less vital. Certain industries, such as the manufacture of explosives, expand greatly in wartime in response to a tremendous increase in demand. Others, like the manufacture of optical glass, which in peacetime share the domestic market with foreign competitors, must be prepared to supply not only the military demand but perhaps the whole civilian demand as well.

The Construction Division watches for possible shortages of factories, warehouses, power plants and other buildings and equipment in war industries. The Allocation Division maintains a survey of existing industrial plants and secures the coöperation of enough competent producers to furnish the items the Army needs. The Legal Division is continuously working to reduce the number and complexity of the war contract forms. In the last war over four hundred different forms were used, but still the government was poorly protected against profiteering, and, on the other hand, contractors had difficulty in obtaining settlement of their claims.

The Navy has developed a roughly similar organization for determining its industrial needs. The Com-

mandants of the Naval Districts determine the needs of their districts according to plans for naval operations. The problem of equipping individual vessels to participate in these operations is worked out by the Fleet Maintenance Division with the supply bureaus, which correspond roughly with the supply services of the Army. All information concerning naval supplies is coördinated by the War Plans Section of the Navy's Bureau of Supplies and Accounts, which thus has always complete knowledge of what the needs of the fleet will be and how they may be supplied.

Coördination of Planning

For a long time there was little coördination in the war planning of the two defense departments. As early as 1927, strategic plans for military and naval operations were worked out in common through a joint board of Army and Navy officers, but each department continued to go its own way in finding its supplies. Both seemed to have forgotten, temporarily at least, that in 1917 the competition between the Army and Navy for supplies was a major cause of scarcities and profiteering. Trouble loomed in 1935. The Navy had built up a list of 18,000 possible bidders on the 40,000 items it expected to need, and felt itself safe. But when the Army proceeded to allocate the output of 12,000 important plants for its own supplies, conflicts developed. To adjust such conflicts is the task of the joint Army and Navy Munitions Board.

The Munitions Board resembles in its organization the Army's Planning Branch, but extends its

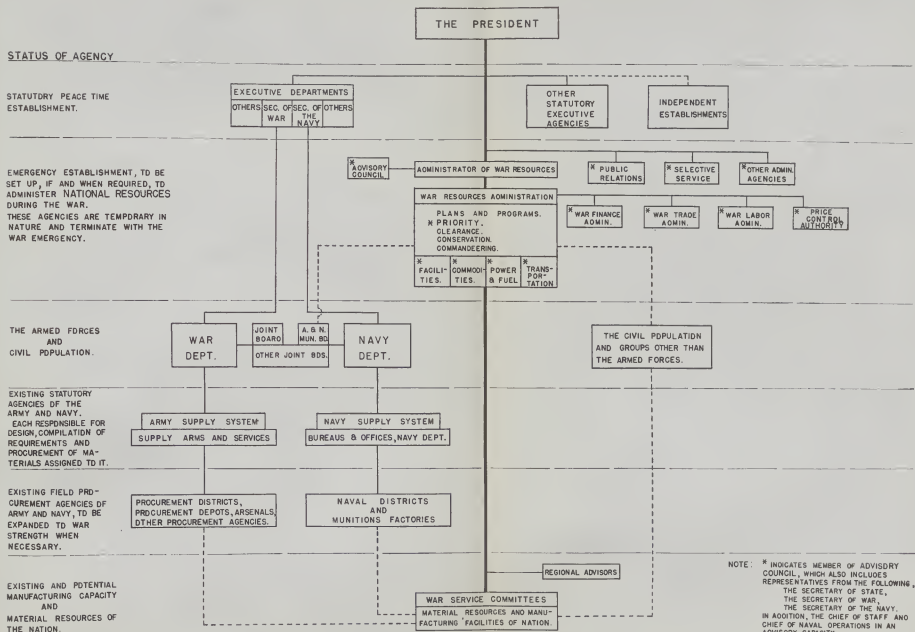
work to include both defense departments. Its chief task is to keep the Industrial Mobilization Plan up to date. Its personnel, 30 Army and Navy officers, who also have other duties, would find great difficulty even in peacetime in so enormous a task without the assistance of the Army Industrial College, founded in 1924 to train officers in the problems of industrial mobilization. The College gives a ten-months' course, including lectures by civilians—industrialists, publicity experts, and others. It requires from its students the preparation of reports on wartime industrial problems of current interest to the Army and Navy Munitions Board in its planning work. The six hundred officers who have taken the course may be recalled, if needed, to work on industrial mobilization in wartime.

Civilians to Control Economic Mobilization

In peacetime, economic preparedness, according to the Plan, is a matter for military men; but as soon as war appears imminent, civilians assume control of this function and the attention of the defense services is concentrated on the military aspects of national defense. Part II of the 1939 Plan deals, therefore, with the control by civilians of the economic system in wartime. Chart II shows diagrammatically the proposed set-up, which resembles both in structure and in function the World War system of economic controls as it stood in November 1918. The Chart, page opposite, shows that a basic principle of organization has been taken over from the experience of 1917-18; the demands of the war emergency are

CHART II

SUGGESTED ORGANIZATION FOR COORDINATION OF NATIONAL RESOURCES AND MOBILIZATION OF INDUSTRY IN TIME OF MAJOR WAR.



NOTE: * INDICATES MEMBER OF ADVISORY COUNCIL, WHICH ALSO INCLUDES REPRESENTATIVES FROM THE FOLLOWING, THE SECRETARY OF STATE, THE SECRETARY OF WAR, THE SECRETARY OF THE NAVY. IN ADDITION, THE CHIEF OF STAFF AND CHIEF OF NAVAL OPERATIONS IN AN ADVISORY CAPACITY.

not to be satisfied by expanding existing agencies of government, but rather by setting up new and separate agencies whose life is to be limited to the duration of the war emergency. The statutory peacetime establishments, the executive departments and the independent agencies (the Interstate Commerce Commission, the Federal Reserve Board, etc.), retain their ordinary position in the government and continue to perform their statutory duties. Parallel with them the Plan sets up an emergency establishment to deal with wartime problems, not only the control of the economic system, but also such matters as conscription of troops and propaganda and censorship.

The "Key Super-Agency"

The pivotal position in the emergency establishment is occupied by the War Resources Administration,³ which takes the place of the old War Industries Board. The new "key super-agency" is designed to coordinate all economic controls (prices, wages, foreign trade, finance and so forth), which are recognized to be interrelated and interdependent. (See Chart III on following page.)

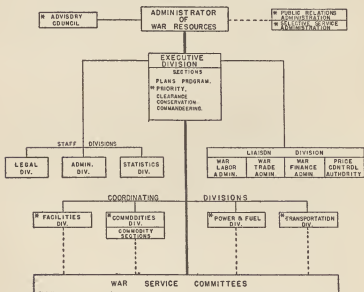
At the head of this important body stands a single executive, the Administrator, appointed by and responsible to the President. To assist the Administrator to formulate policies, an Advisory Council is provided, whose membership in part will be obtained . . . from the patriotic business leaders of the Nation. They must be men who command the respect of the

³ Not to be confused with the War Resources Board, whose organization was authorized in August 1939 to study plans for industrial preparedness. See page 50 above.

American people, as well as capable executives, thoroughly familiar with our resources. The effect of strong and intelligent leadership is more important and will do more to secure voluntary cooperation of industry and the civilian population than will any arbitrary regulations or organization charts that may be prepared, no matter how they may appear.⁴

CHART III

WAR RESOURCES ADMINISTRATION



NOTE: * indicates that Heads of these Sections, Divisions or Administrations are members of Advisory Council.

(Army and Navy Munitions Board. March 16, 1939. Dr'g No. 834)

The business element in the Council's membership will serve as heads of the Administration's Coördinating Divisions and some of them also may be chair-

⁴ *Industrial Mobilization Plan . . . 1939*, 7. (See Appendix, 245.)

men of such other "super-agencies" as may be created. The Council's membership will include also representatives of the State, War and Navy Departments.

Other Emergency Administrations

To enforce the policies fixed by the Administrator and his Advisory Council, the Plan provides a galaxy of executive and staff divisions and coördinating divisions, and also a number of auxiliary administrative bodies, "Other Emergency Administrations", which are to be set up as need arises. A Facilities Division will provide against shortages of facilities for producing munitions, by making possible the construction of new plants or by expansion or conversion of old ones. Where domestic supplies of raw materials are short, a Commodities Division will conserve existing supplies and develop substitutes, and, where no domestic supply exists at all, will find import sources. Commodity Committees, composed of civilian producers and experts and government officials, who are already investigating sources of supply for all strategic and critical commodities, will, if necessary, assume control of their distribution. Should supplies of electricity, coal, oil or waterpower prove inadequate, a Power and Fuel Division will try to remedy the deficiency. A Transportation Division will attempt to prevent rail and highway congestion. The Coördinating Divisions will deal with problems corresponding to those of peacetime procurement.

Somewhat broader in scope are the functions of a group of agencies grouped under the heading, "Other

Emergency Administrations." The Plan does not state explicitly that these emergency administrations will be set up, but the implication underlying the whole Plan is that they will be imperatively necessary. Their functions include propaganda and censorship, recruiting of armed forces through conscription, the control of credit and capital issues, the control of foreign trade, the determination and enforcement of labor policy and price-fixing. No lesson of the past war is clearer than that effective use of national resources is impossible without broad control of the entire economic system.

*Wartime Control of Finance, Foreign Trade
and Labor*

The proposed War Finance Administration is to include representatives of public financial agencies such as the Treasury Department, the Federal Loan Agency, the Federal Reserve Board, and of private financial organizations as well. Its duties will be to advise the President on all problems of war finance, particularly on tax policies, credit and inflation, and on the issue of securities and the direction of the flow of capital into public and private investment.

Export trade will be regulated by a War Trade Administration with the double purpose of furthering the economic interests of the United States and damaging those of the enemy. For these purposes it may use export and import licenses and trade negotiations with allied and neutral countries.

Munitions plants must be assured a constant sup-

ply of competent labor without depriving the Army of soldiers or crippling non-war industries. A War Labor Administration will aim to accomplish this purpose by inducing jobless labor to seek employment first in munitions plants, by preventing strikes and lockouts, and by the training of apprentices to fill shortages of skilled laborers in vital industries, such as machine tools and aircraft. It is expected that the War Labor Administration will maintain the closest coöperation with the Selective Service Administration and the War Resources Administration.

With respect to price control, the 1939 Plan is much less precise than its predecessor. A Price-Control Authority is provided among "Other Emergency Administrations," with membership made up of "representatives of industry, of the War Resources Administration, of labor, and of those permanent Government departments and agencies most concerned with price control."⁵ But the authors of the Plan evidently were not convinced that price control would be necessary, nor were they agreed as to what control should be used. Their Price-Control Authority, in any event, would have only the power of determining price policies. The administration of price-fixing is left to unspecified agencies.

A link between the various "Administrations" and the nation's industries is provided by war service committees, civilian groups to be chosen by each industry from among its own members. It will be their task to make sure that the government's measures are carried out, and that the government is informed con-

⁵ *Ibid.*, 12. (See Appendix, 251.)

cerning each industry's ability to meet the demands made upon it.

Limitations of the Plan

The Plan is not by any means a complete blueprint of all essential civilian activity in support of the government in wartime. It was originally intended only to provide the means for discovering what the industrial needs of the defense forces would be and how to supply them, but, even construing this mandate strictly, it has gaps. "No profiteering" is announced as a principle, but how excessive profits will be checked does not appear. How to finance a war without price inflation, and its disastrous consequences, has puzzled the world's best economists; the authors of the Plan are evidently equally puzzled. They provide an organization to advise how prices may be controlled, but give no indication of the principles to be applied, nor do they reveal who is to administer the controls. The recruiting of an adequate supply of labor, particularly of certain types of skilled workers such as die-cutters, is a critical matter in all plans for wartime production. In its present form, the Plan makes no concrete provision for getting sufficient workers into munitions plants nor for keeping them there.

Parts of the Plan seem to lie outside the strict limits of the mandate given to the Assistant Secretary of War. For example, the Plan treats of control of war propaganda and censorship, both of which are essential functions in wartime, but not predominantly matters of industrial mobilization. This observation ap-

plies in less degree to the conscription of manpower for military service.

Nothing is said concerning the maintenance of public health. Provision is made for financing war industries, but the Plan says nothing about coördinating their needs with those of industries producing for civilian consumption. It sheds no light on the vexed question of how far a war should be financed by loans and how far by taxes. The Plan, finally, contains no provision for restoring peacetime economic equilibrium; the last edition merely suggests the desirability of creating an agency to deal with post-war readjustments or of maintaining the War Resources Administration for that purpose.

The inclusion of certain matters in the Plan and the exclusion of others may be explained partly by the mandate under which the Plan was developed, which limits it to assuring industrial supplies in war-time.⁶ The more obvious needs were provided for first, but, as time went on, the difficulties of partial regulation of the nation's industrial structure for the benefit of the defense forces became evident. If industry is to guarantee delivery of necessary supplies, it must be assured a constant supply of labor and materials. If labor efficiency is to be maintained, the workers' standard of living must not be greatly impaired. This is possible only on condition that retail

⁶ "In addition to such other duties as may be assigned him by the Secretary of War, the Assistant Secretary of War, under the direction of the Secretary of War, shall be charged with supervision of the procurement of all military supplies and other business of the War Department pertaining thereto and the assurance of adequate provision for the mobilization of matériel and industrial organizations essential to war-time needs." *United States Code, 1934, title 10, sec. 1193.*

prices do not rise faster than wages; but the movement of prices is determined in a large part by the financial policy of the government. Thus the planners logically should be led from a consideration of labor supply into the problem of war finance.

For such problems the Army and Navy Munitions Board has failed to provide solutions; it has limited its action to those spheres in which independent war agencies were established in 1917-18. The presentation of a complete plan for industrial mobilization would force the Board into wider and wider fields, for modern war involves all branches of civilian life. In short, it is totalitarian.

Summary

By way of summary, a few of the salient features of our present Plan for industrial mobilization may be emphasized:

(1) The mobilization of industry, according to the Plan, is a civilian task; the wartime organization is to be civilian-controlled throughout. The Army and Navy are to determine what they need, and combine their requirements; then the civilian organization is to see that the requirements are filled, protecting the economic life of the country from unnecessary dislocation.

(2) It is not anticipated that a great wartime administrative organization will be necessary, since government agencies now in existence are equipped to undertake parts of the work, under the direction of the war organization, or at least to furnish the personnel for doing so. But permanent agencies are easy to expand and hard to contract, and wartime controls might tend to perpetuate themselves. It seemed wiser, therefore, to set up small but powerful control administrations for directing the

war activities of the peacetime agencies, and to limit the life and powers of these administrations to the duration of the war emergency.

(3) The Plan, it is expected, will be set in motion gradually. All the new agencies need not be set up at once; for instance, a war involving only a small army but requiring full naval activity would probably not call for a Selective Service Administration at all. But no war against a major power can be fought without mobilizing industrial resources at once so that military operations shall not be delayed through lack of supplies; hence the necessary organization should be ready to function at full effectiveness as soon as America enters such a war.

(4) The Plan lacks specific legal sanction. Certain of its proposed controls might be set up by virtue of the President's constitutional war powers; others, on the basis of existing legislation. But to make the Plan effective in its entirety would require action by Congress. (See Chapter XI.)

(5) Only the skeleton of the Plan is contained in the 1939 version. Its full import and significance cannot be understood without reference to previous editions of the Plan, and particularly to the draft legislation appended to them.

This chapter concludes the chronological survey of the development of industrial mobilization plans. Part II which follows will deal in greater detail with the principal types of economic and social control which have been considered essential in wartime.

PART TWO

CHAPTER FIVE

PROPAGANDA AND CENSORSHIP

IN THE great task of molding public opinion in wartime, propaganda and censorship are complementary. The former acts positively; by directing a stream of selected information and suggestion into the public consciousness, it aims to create attitudes favorable to loyalty and sacrifice. Censorship acts negatively; its aim is twofold: (1) to keep out of the public press, the motion pictures, the radio and even oral communications, information and opinions which might weaken popular enthusiasm for war; and (2) to keep from the enemy information of value to him. In our 1917-18 experience, propaganda was primarily the concern of the Committee on Public Information; censorship was exercised by a number of other agencies as well as the CPI. In recent Industrial Mobilization Plans, the complementary character of all activities affecting public opinion regarding the war is recognized by the establishment of a Public Relations Administration, which will have both propaganda and censorship functions.

Mobilizing Public Opinion, 1917-18

It is axiomatic that a war in the industrial era needs the full support of the people if it is to be crowned by military success. In November 1916, the slogan

of Wilson's supporters, "He Kept Us Out Of War," played an important part in winning the election. At that time a large part of the country was apathetic; certain sections did not want the United States to participate; others did not want the Allies to win. Yet, within a very short period after America had joined the belligerents, the nation appeared to be enthusiastically and overwhelmingly convinced of the justice of the cause of the Allies, and unanimously determined to help them win. The revolutionary change is only partly explainable by a sudden explosion of latent anti-German sentiment detonated by the declaration of war. Far more significance is to be attributed to the work of the group of zealous amateur propagandists, organized under Mr. George Creel in the Committee on Public Information.¹ With his associates he planned and carried out what was perhaps the most effective job of large-scale war propaganda which the world had ever witnessed. By the most intensive intellectual and emotional bombardment, they aroused Americans to a pitch of enthusiasm where a dissident voice scarcely dared to make itself heard, and where blind support was forthcoming for everything which seemed to contribute to victory.

There was no escape from the bombardment. The typical American of that day found his morning paper filled with appeals for support of war activities, both in news columns and in advertisements paid for by patriotic citizens or organizations. The business man at lunch listened to volunteer speakers urging him to

¹ Established by executive order, April 13, 1917.

get behind the current government "drive." His wife at the motion-picture matinee heard an appeal to coöperate in a "save-food" campaign. At the same time his son was perhaps urging his schoolfellows to contribute their pennies to the Red Cross. Posters boosting the war effort stared from store windows and from signboards on top of buildings, and hung from the walls of factories and offices. Theaters mixed patriotic appeals with entertainment. Millions of homes displayed service flags in their windows.

Propaganda Activities of the Committee on Public Information

The Committee on Public Information worked on the assumption that only by constantly drumming America's war aims into people's ears and keeping America's war efforts before their eyes could it arouse national enthusiasm to the proper pitch to support the war. Like most of the war agencies, the Committee at first developed its rôle by improvisation; but eventually system replaced spontaneous effort. The American people were classified by race, age, occupation and education, so that appeals might be adapted to reach every section of the population. Every possible form of publicity was studied and applied by the high-pressure methods which, though new at the time, have since become commonplace in the popularization of ideas or products.

The Committee was the central agency which collected information from government agencies, including the War and Navy Departments, concerning what the government was doing to win the war, and

prepared it in suitable form for distribution through every known medium of publicity. From its press service came a continuous stream of up-to-the-minute releases. Its daily newspaper, the *Official Bulletin*, contained important items concerning government activities; its "mat" service went to small papers which could not afford commercial press services.

Patriotic motion pictures and war exhibits showing sham attacks and trench warfare were displayed throughout the country. The famous "Four-Minute Men," using material supplied by the Committee, which they frequently elaborated out of their own imaginations, addressed motion-picture audiences throughout the land. Soldiers on leave from the trenches and motion-picture heroines addressed mass meetings and street rallies. Caught up in the great tide of popular emotion which the Committee's activities had aroused, Christian ministers, many of whom later publicly repented their apostasy, proclaimed a gospel of hatred and fear instead of brotherly love.

The Committee undertook to develop the loyalty of indifferent or wavering sections of the population by an extensive program of education of foreign-born citizens, utilizing within each national group persons of its own nationality. It prepared and distributed foreign-language pamphlets discussing war issues. To combat dissatisfaction among workingmen, it helped to organize the American Alliance for Labor and Democracy, which adapted the Committee's techniques so as to make them most effective in labor groups.

Criticism of Propaganda Activities

In its positive function, i.e., producing publicity favorable to the war effort, the CPI was indisputably effective. It put out an enormous volume of news, maintaining in its official releases a high standard of accuracy.

Both Mr. Creel and Dr. Guy Stanton Ford have stated that of the 6,000 releases only three were ever called into question as to accuracy; and that the only error alleged with any foundation in fact . . . occurred through acceptance at face value of a statement by a war-making division.

Whether or not a post-war examination of all the CPI releases would leave this almost incredible record intact, only a casual glance at the Committee's work is needed to see that no newspaper office carried on its work with a greater sense of responsibility and sobriety in the handling of news.²

But sincere and effective as were the leaders in the organization in trying to avoid giving circulation to falsehoods, they did not succeed in enforcing this policy rigorously upon all their volunteer writers and speakers. Unavoidably, an organization conducting nation-wide operations with the aid of thousands of such workers could not effectively censor all their utterances. Hysterical and fanatical outbursts sometimes characterized the publicity drives which the Committee organized in support of Liberty Loan campaigns. For example, a prominent Brooklyn clergyman in the second Liberty Loan campaign told his hearers:

² James R. Mock and Cedric Larson, *Words That Won the War*, 92.

An aluminum token is worn by every German soldier bearing the following inscription: "I, the Kaiser of Germany, declare herewith on the authority committed to me by God Almighty, that the bearer of this token is permitted to commit any crime he may desire."³

But, in fairness to the CPI and its agents, it should be pointed out that similar extreme and credulous statements were made by distinguished private citizens who had no connection with the Committee. Theodore Roosevelt, in an editorial in the *Kansas City Star* (May 2, 1918) lent his authority to this statement:

The German Zeppelins and airplanes are continually bombarding undefended English and French cities and have killed women and children by the hundreds. The submarines have waged war with callous mercilessness. Their crews have continually practiced torture on the prisoners they have taken . . . I have just been talking with an American soldier absolutely trustworthy, who himself saw the body of a Canadian whom the Germans had just crucified . . . It is Germany, and only Germany, who is responsible for the hideous atrocities which have marked this war . . . Germany has as a matter of policy practiced the torture of men, the rape of women, and the killing of children.⁴

The doubting American in those days was not conditioned to resist the bombardment of propaganda. Hearing no counter-arguments, he was easily convinced, and joined in the general hysteria. The mass of people accepted as gospel truth all reports, from whatever source, which were unfavorable to the

³ Ray H. Abrams, *Preachers Present Arms*, 99.

⁴ Allan Nevins, *American Press Opinion*, 538-539.

Germans, and became intolerant of any criticism of the Allies. All but the most hard-headed citizens were obsessed by fear of enemy agents. Warnings against the "spies in our midst" appeared everywhere, and soon all manner of personal misfortunes were charged to the sinister activities of enemy agents. The public in general showed itself ready to believe the wildest atrocity stories. The destruction of everything German was urged by the unthinking as a boon to mankind. Under such conditions, it was no wonder that drastic legislation against critics and non-coöperators appeared in the statute books, and that enforcement of such laws was sometimes characterized more by zeal than by judgment. Thus the job of suppressing dissent, i.e., censorship, was as effectively managed as the building of war enthusiasm.

The post-war reaction against propaganda was so sharp that it is difficult even today to get sober discussion of the kind of control of information which should be set up, should we again go to war. The American people have not yet recovered from their resentment at their own gullibility. They now realize that their wartime hatred of all things German was partly based on carefully prepared falsehoods.⁵ But this knowledge was not available until after a treaty inspired by war fears and war hates had been signed. The failure of the treaty to realize the ideal war aims which the Committee had so effectively advertised

⁵ See Arthur Ponsonby, *Falsehood in Wartime*. The charge of consciously propagating falsehood cannot be laid against the Committee on Public Information. The Committee, nevertheless, was responsible for such fanciful motion pictures as "The Kaiser, the Beast of Berlin."

(freedom of the seas, "no annexations and no indemnities") was a further cause of disillusionment.

Planning for Propaganda in the Next War

During the post-war years, when propaganda was in such ill-repute, little if anything was heard of government activity in the field of public relations. But the War Department had not lost sight of this important item in the defense program, and in 1931, by publishing the Industrial Mobilization Plan, it brought the subject again to public attention. The Plan proposed to set up an Information Section under the Assistant Secretary of War for "preparation and dissemination to the public of educational and informative material in support of the policies and methods involved in procurement,"⁶ or, in simpler words, to make propaganda in favor of the Industrial Mobilization Plan. The Plan itself provided for a Director of Public Relations, and for a Publicity Bureau in the Labor Administration, but did not outline their activities.

The 1933 edition of the Plan dealt with publicity in much more detail. In an annex it was proposed that immediately on the outbreak of another war a Public Relations Administration should be established by legislative action, not, like the CPI, by executive order. Thus, it was hoped, the new propaganda organization would escape the criticism which Congress had bestowed on Mr. Creel's outfit. Control of all informational activities was to be centralized in the Administrator, who was to be assisted by

⁶ War Policies Commission, *op. cit.*, 433.

an Advisory Committee of representatives of executive departments and war agencies. Contact with newspapers and other media of publicity was to be provided through committees representing the American Newspaper Publishers' Association, the National Association of Broadcasters, and the Motion Picture Producers' and Distributors' Association. Publicity men regularly in government employment were to be excluded from the war organization, which was to be composed of civilian, non-governmental personnel, drawn from "capable journalists, advertising councilors, writers, motion-picture experts, and others whose practical experience and whose influence in their respective fields are extensive. . . ." ⁷

The 1936 Plan was noncommittal regarding wartime publicity. The Army's planners, made somewhat cautious by the bitter attacks of the Nye Committee on their 1933 Plan, three years later withdrew entirely their annex on the Public Relations Administration. In its place was the statement that "the organization, duties, and procedure for this Administration [i.e., Public Relations] are being revised by appropriate agencies, and, when completed, will be included in the next revision of the industrial mobilization plan. . . ." ⁸ But the promise was not fulfilled; the 1939 edition, much less detailed in all particulars than its predecessors, stated only that the mission of the Public Relations Administration "should be the coordination of the dissemination of information for

⁷ *Industrial Mobilization Plan . . . 1933*, 46.

⁸ *Industrial Mobilization Plan . . . 1936*, 45.

the public," to "insure adequate presentation to the people of the purposes, views, and progress of the Government in the prosecution of the war."⁹ No elaboration of this general statement has yet been issued by the planning agencies. Nevertheless, it seems important now, while we are still at peace, to decide what kind of an organization should be set up, what functions it should perform, and on what principles wartime propaganda activities should be conducted.

*Probable Organization and Functions of a
Wartime Public Relations Administration*

Collecting news from government agencies should be a much simpler task than in 1917-18, now that most federal agencies, including the defense services, have their own publicity officers.¹⁰ Also, specialized agencies recently developed might be utilized. Such agencies include the United States Film Service, which distributes government-made films, and the Division of Press Intelligence of the Office of Government Reports, which keeps accurate record of shifts of public opinion. In addition there has been recently established in the Federal Security Agency a Film and Radio service which acts as a liaison between all broadcasting companies and federal agencies and officials.

In the last war it required the services of 75,000 "Four-Minute Men" to bring the voice of the gov-

⁹ *Industrial Mobilization Plan . . . 1939*, 10. (See Appendix, 249.)

¹⁰ Checking the accuracy of official "handouts" might still be a necessary function of the Public Relations Administration. See p. 79.

ernment directly to the mass of the people, a task which now might be accomplished after a fashion by one man over a radio hook-up. The radio, also, will greatly facilitate the work of the Public Relations Administration in conducting publicity drives for the Red Cross, war loans, war-savings stamps, etc. The greatly increased use of syndicated material by local newspapers, and the centralized distribution of motion-picture films, should be of great assistance to the government in another war in all its publicity campaigns.

The defense departments are interested in getting desirable publicity as well as in suppressing news items which they consider dangerous. The Navy particularly has been successful in arousing popular interest in its activities up and down both coasts through its Public Relations Branch and its Intelligence Officers in Naval District Headquarters. It also operates its own broadcasting station. The Army has done less well, partly because its activities are less easily dramatized, and partly because its publicity work is decentralized. Both departments now have a much keener appreciation of the importance of publicity than they had in 1918, but they lack expert personnel in this field. It is planned to remedy this defect in wartime by utilizing the group of newspaper and publicity writers now organized in a specialist reserve officers' corps. The important task of relating the publicity and censorship activities of the defense departments to the work of the civilian Public Relations Administration might be accomplished by the Joint Committee on Public Relations,

formed in 1937 by the Army and Navy Departments.¹¹

Standards of Truthfulness

In the control of public relations in wartime, the first need is for a tremendous advertising campaign to unify the national will. This campaign depends for its success on reaching the people in a language they can understand. Regard for the truth can and should be maintained, but this is possible only if the government controls the utterances of all its representatives, insisting that they resist the popular clamor for news favorable to the United States and for atrocity stories.

A new Public Relations Administration should set high standards in this field and insist upon their observance. The Creel Committee established the principle that it would not itself disseminate untruths; its successor should go further and enforce truthfulness, not only upon its permanent agents but upon all those who write or speak in its name. It perhaps cannot insist that the organs of public opinion maintain standards higher than those of peacetime, but it need not permit them to fall below.

Really winning a war depends not only on the success of military operations; it depends also on the conclusion of an advantageous and enduring peace. Hence the end of the war must find the nation's power of judgment unimpaired. The Public Rela-

¹¹ Internal coördination within the defense departments first, then coördination between them and the Public Relations Administration, and competent liaison officers with full authority are the essentials of an effective tie-up.

tions Administration will have done the nation an injury rather than a service if in arousing the people against the enemy it has destroyed their willingness to accept a sensible and advantageous peace.

Censorship in 1917-18

In censorship three administrative agencies participated: (1) The Postmaster General, with the cooperation of the Army and Navy, censored all communications by mail, telegraph and telephone, cable and radio. (2) The Department of Justice, applying drastic wartime legislation, ran to earth disloyal agitators and haled them into the courts. (3) The Committee on Public Information also exercised censorship functions, which, although overshadowed by its publicity work, were nevertheless important.¹² Newspaper and motion-picture producers were asked to submit to a "voluntary censorship," which meant that they agreed not to publish anything on topics pro-

¹² "In the matter of censorship . . . Mr. Creel lived a sort of Jekyll-and-Hyde existence. As chairman of the CPI he could dictate his favorite paragraph, which is incorporated in many of his letters:

'The Committee on Public Information is without the slightest authority to decide what constitutes seditious utterances or disloyal attitudes, Congress having specifically vested these powers in other departments and in the courts of the land. At all times we have refused to assume this authority, or to be put in the position of usurping functions of the prosecutory and judicial branches of government. Only in cases of absolute misstatement of fact have we ever intervened, scrupulously avoiding all appearance of control over opinion.'

But as a member of the Censorship Board, backed by the might of the United States government and in many respects not even obliged to seek action from the courts, Mr. Creel had the power to crack down on any newspaper or periodical, suggesting that the Department of Justice prosecute its editor or that the publication itself be excluded from the mails. He could have brought petty reprisals against it all along the line, and he even had the ability, through liaison with the War Trade Board, to cut off the supply of newsprint." Mock and Larson, *op. cit.*, 84.

scribed by the War and Navy Departments. Proscribed items included all news concerning coast defense, troop and fleet movements, naval and air construction, and experimental work in munitions. In return for this coöperation, the Departments promised that they would conceal no news of reverses or disasters, nor other information of vital public interest. Army and Navy men, at first distrustful of the Committee's ability to control the press on a voluntary basis, coöperated fully as soon as high ranking officers were named to serve as consulting agents. The Committee itself did not censor military news, but acted as liaison agent between the defense departments and the press, bearing the brunt of the dissatisfaction of each with the other. The press often found military censorship arbitrary and capricious, and the defense departments on their part often found the press incautious or worse; but at no time was the voluntary character of the controls endangered.

Compulsory censorship, a matter outside the Committee's jurisdiction, was exercised by other government agencies over the foreign-language press, and over communications to or from any foreign country. All newspapers printed in foreign languages were under the control of the Postmaster General, aided by a censorship board to which, unless specific exemption had been granted, all material dealing with political questions had to be submitted. The Army and Navy instituted a censorship, soon after our entry into the war, over all foreign communications by telegraph, telephone, radio or cable; later, when these systems were taken over by the govern-

ment, control was exercised by the Postmaster General. He also censored the mail of enemy aliens, and barred from the mails printed matter which he considered "subversive."

*The Espionage, Sedition, and Trading with the
Enemy Acts*

Congress resolutely refused to enact a general censorship law. But, in response to strong public sentiment for eliminating subversive propaganda sponsored by enemy agents, it passed the Espionage Act (June 15, 1917), which was later extended in scope by the Trading with the Enemy Act (October 6, 1917), and stiffened by the Sedition Act (May 16, 1918). The list of offenses of speech and writing prohibited by the Acts is impressive. In general, they forbade saying or doing anything to favor the cause of the enemy, or to oppose that of the United States. Specifically forbidden was any disloyal language concerning our form of government, the Constitution, the Army, Navy, the flag or the uniform. It was forbidden, also, to advocate curtailment of production with intent to hinder prosecution of the war, or to give disloyal advice concerning the purchase of government bonds or other securities.

The provision that conspiracy to commit any of the above offenses was punishable was intended to prevent seditious public meetings. The Postmaster General was authorized to exclude from the mails all communications which violated the law. Search warrants might be issued for the seizure of property used to commit offenses against the law, such as print-

ing presses, motion-picture films or cameras. Taken together these Acts provided ample sanctions to be used against wartime abuse of the rights of free speech, freedom of the press and of assembly. For enforcement, supplementing the ordinary police agencies of the government, a War Emergency Division was set up in the Department of Justice charged with registering enemy aliens and prosecuting sabotage and sedition. For this purpose the Attorney General made use also of the American Protective League, a volunteer organization with 250,000 members, who, supplied with government badges, were authorized to ferret out subversive activities.

The government found little occasion to quarrel with the press; it invoked the Espionage and Trading with the Enemy Acts only against newspapers of unimportant circulation. Suppression of hostile and subversive criticism was eminently successful, owing to the willing—even zealous—coöperation of the censored media. The press constantly sought from the Committee its interpretations on the censorability of news items. The motion-picture producers uniformly submitted their products to the Committee before release, and accepted deletions without objection. Book publishers rejected manuscripts if even the subject of a proposed book was considered doubtful by the Committee's agents.¹⁸ One popular magazine

¹⁸ Replying to a letter from George H. Doran, who had offered to withdraw a book submitted for publication, Mr. Creel wrote: "I think it wise to withdraw it from sale. . . . All this may seem foolish, and it is foolish to me, but we are dealing with an excited frame of mind that regards everything as pro-German that is not violently anti-German." James R. Mock and Cedric Larson, "The Lost Files of the Creel Committee," *Public Opinion Quarterly*, III, 20 January, 1939.

even printed an article by a postal censor seeking to justify a stricter censorship all round.

*Criticisms of Censorship as Administered in
1917-18*

But the censorship did not escape criticism; some thought it too rigid; others too lax. Congress, always suspicious of administrative publicity agencies (it had refused, until 1917, to authorize any) was consistently hostile to the Committee on Public Information. There was much dissatisfaction with interpretations of censorship rules. The *New York Directory*, for example, which listed merchant ships in New York harbor, indicating where they were berthed, was suppressed, although any enemy agent could find out what ships were berthed and where, merely by taking a walk along the water front.

Sometimes criticism was suppressed by doubtful means, and in doubtful cases. The Department of Justice, the Post Office and the courts interpreted the prohibitions of the censorship so broadly that some of their decisions, when viewed in the calm of peacetime, are disturbing. A certain Harshfield was convicted of a "willful attempt to cause disloyalty, insubordination, mutiny, and refusal of duty in the military and naval forces of the United States" for "using scurrilous and presumably unpatriotic language" at table in a private home, before a small group of strangers, hired men and children.¹⁴ The Postmaster General deprived *The Masses* and the Socialist *Milwaukee Leader* of the second-class mail-

¹⁴ Zechariah Chafee, *Freedom of Speech*, 59.

ing privilege; he confiscated one issue of each publication, and then declared that, not being distributed regularly, they were no longer "periodicals." So many accusations of subversive activity poured into the Attorney General's office that he finally had to warn the district attorneys not to allow the Espionage Act to be used to suppress legitimate criticism, or to promote personal feuds.

The average citizen was oblivious of this "reign of terror," but had he been aware of it, he very likely would not have disapproved. His own support of the war was so unquestioning, and opposition to it so repugnant to him, that he gave unspoken consent to whatever was done in the name of coordinating the national will. Looking back from the vantage ground of twenty years later, and basing their judgments on the full records of the CPI which were unavailable to earlier critics, Mock and Larson conclude that Mr. Creel used his extensive censorship powers with a sober sense of responsibility. It is their opinion that "the more complete one's knowledge of wartime history the more certain does it become that there was appreciably more press freedom in the United States than in the warring nations of Europe, and that the largest share of credit for this belongs to Mr. Creel."¹⁵

Post-war Reactions

The Armistice brought a general reaction in public opinion against wartime restraints of all kinds. Responsive to this attitude, George Creel stopped all

¹⁵ *Op. cit.*, 46.

activities of his Committee in the United States, both in propaganda and censorship, within twenty-four hours; the voluntary censorship of the press and the control of cable and press dispatches was discontinued within a few days.¹⁶ Government operation of the telephone, telegraph and radio, in spite of the irritation it caused their patrons, continued somewhat longer, owing to the efforts of the Postmaster General and others to make government operation permanent. All controls of communications were removed before the end of 1919.

In early editions of the Industrial Mobilization Plan, censorship received only scanty attention. The 1931 Plan provided for a Director of Public Relations, but gave him no specific powers of censorship. Two years later, the 1933 Plan in Appendix IV definitely specified that censorship was to be one of the functions of the Administrator of Public Relations. Among his duties were "to establish rules and regulations for censorship," and "to enlist and supervise a voluntary censorship of the newspaper and periodical press." The growing importance of wireless communication was recognized by the provision that radio broadcasting stations should be subjected to "very close supervision and control."¹⁷

This annex served as a target for the Nye Committee. It pointed out that, in addition to the controls over the expression of public opinion which the annex contemplated, the priorities system might be extended to afford the basis for complete censorship.

¹⁶ Congress then vented its dislike of the CPI by depriving it of funds, thus ending its activities in the foreign field on June 30, 1919.

¹⁷ *Industrial Mobilization Plan . . . 1933*, 46-47.

By withholding priorities in transportation, power, fuel and raw materials, the government, under a broad interpretation of the National Defense Act of 1916, might deprive offending publishers of four essentials for the conduct of their business. The Committee might have remarked also that in the unrepealed Espionage Act the government still possessed a weapon by which the press could be muzzled, should Congress refuse to put the Industrial Mobilization Plan into effect. The defense departments, always fearful of congressional action on war plans, omitted the public relations annex in the 1936 edition of their Plan. The 1939 edition does not mention censorship.

Plans for Censorship in the Next War

The silence of the defense departments regarding the application of censorship in the next war should not be taken to indicate that no censorship is contemplated, but rather that plans on this subject have not yet reached the stage where their publication is deemed advisable. In this aspect of planning, as in others, the 1917-18 experience indicates desirable and undesirable methods of procedure. With respect to the *methods* of applying censorship two principles seem established: (1) censorship of military news, as in the last war, must be an affair of the defense departments; (2) a closer coördination should be worked out between the military censors and the civilian authorities in charge of mail censorship, the press, and communications by wire and radio.

The defense departments insist that they must be

free to determine what military news is to be made public, on the ground that items which to the zealous newspaper reporter might appear innocent in reality might be dangerous. A news story of an infantry company leaving Governors Island, a picture in a Poughkeepsie paper of a local boy leaving with a field artillery unit for a camp on Long Island, will boost the martial spirit of newspaper readers. But such bits of information, harmless perhaps in themselves, when pieced together with other similar items, and with data from the *Army List and Directory* and the *National Guard Directory*, may give important indication to the enemy's intelligence service concerning larger troop movements and their probable destination. It seems foolish, however, for the defense departments to attempt to suppress information of this type if it is readily available from other sources. During the World War groups of sailors, wearing hats bearing the name of the ship to which they were attached, left their ships daily up to the day of departure. Failure of a group to go ashore, with disappearance of the ship's hatbands from the vicinity of the pier, indicated that their ship would leave that night. Under such conditions the refusal of censors to supply news agencies with information concerning sailings succeeded only in antagonizing them.

British experience at the outbreak of the present war in Europe affords a further illustration of the problems of military censorship. Press dispatches on the sinking of the *Athenia* were held up twelve hours after the first radio broadcasts, the explanation of

the military censor being that he was swamped with work. News of the first British troops in France was released to the press, then ordered withdrawn, and finally released again after certain newspapers had made frantic attempts to recall early editions, and police officers had invaded newspaper premises in an effort to prevent circulation.

To the layman it appears that the military censorship must not be used as a cloak for military inefficiency. Creel wrote of the early days of April 1917: "Admirals and Generals had been reared in a school of iron silence . . . and looked on the war machinery as something that had to be hidden under lock and key. To the average military mind everything connected with the war was a 'secret,'—and the press itself had no rights which needed to be respected . . . there was an utter lack of 'news sense,' with the result that trivialities were brought forward and matters of real importance buried."¹⁸ During the last war it was the British press which, in opposition to the War Office, first opened the eyes of the nation to the need to substitute high explosive shells for shrapnel. In America the press, after much complaint of the lack of information concerning the progress of industrial mobilization and the delay in securing production of aircraft, finally succeeded in securing publicity on both these matters.

Administration of Censorship

Administration of censorship activities can be better organized in the next war. In 1917-18, authority

¹⁸ George Creel, *How We Advertised America*, 72.

was too scattered; such centralization as existed was personal. Mr. Creel was a member both of the Committee on Public Information and of the Censorship Board, which also included Postmaster General Burleson and Attorney General Gregory. These three formed a sort of interlocking directorate exercising both internal and external censorship, but without a set of common rules governing their work. In the next war such informal coördination will probably not be considered adequate. The new civilian Director of Public Relations might have an assistant in charge of censorship—a capable administrator with the greatest tolerance and breadth of view. His advisory council might include representatives of every agency concerned with censorship, to develop common policies and rules for their interpretation. The personnel could be composed of practical newspaper and publicity men, with technical advisers from the Army and Navy. It would seem advisable that close coöperation should be maintained with the Department of Justice and with the state governments, so as to coördinate the activities of state and local police, and to prevent them from interfering impulsively and tyrannically with the rights of free speech, the press and assembly.

The Espionage Act needs reëxamination. The authority of the Postmaster General to censor the mails and other means of communication should be more carefully defined, with the establishment by law of tests neither too narrow nor too broad for subversive matter. Such great powers over the expression of opinion as the censorship provides should not be en-

trusted to a single individual, however able, unless legal standards are set up for his guidance. His findings, moreover, should be subject to review by the courts, and the latter should not, as in the last war, be reluctant to exercise their powers. For the re-examination of the experience of the last war, particularly with the enforcement of the espionage acts, demonstrates that there is no justification for a loose grant of censorship power.

Today, censorship rests on a more extensive legal basis than in 1917-18, and the enforcing authorities should be better prepared to act. The Espionage Act, blessed by the Supreme Court in 1919, authorizes prosecution of a multitude of offenses which it does not clearly define. The Communications Act gives the President power in an emergency to issue priority regulations for messages by wire or wireless, and to close or to operate radio stations. The Transportation Act of 1920 gives priority power on the railroads which would permit withholding essential supplies from disaffected newspapers and other publicity media.

Control of Communication with Foreign Countries

Control of communication with foreign countries by telephone, telegraph, cable and mail should prove a simpler task than in the last war. There are but five transatlantic wireless telephone circuits; telephone trunk lines leading out of the country are not numerous, and transfer points leading into them are few enough to permit of easy control. Large numbers of employees of the American Telephone and Tele-

graph Company and the Radio Corporation of America are members of the Army and Navy communications reserves, having had some training already in censorship. The cable control problem is even less difficult; less than a score of lines cross the Atlantic, and even fewer the Pacific.

Censorship of American radio broadcasts audible outside the country is not difficult. Material broadcast from public stations may be censored under existing legislation with the beginning of an emergency. Private stations, which in the last war were dismantled, have since become too numerous and too important to the government to be again treated in this fashion. The Army and Navy have both organized amateur systems, comprising together over 4,000 persons, which would prove invaluable in another war in reporting the progress of air raids. Repeatedly, unorganized amateurs have rendered assistance in broadcasting local news during catastrophes such as floods and hurricanes.

"Wildcat" amateur stations transmitting messages to enemy ships offshore can ordinarily be quickly traced and suppressed. But the control of incoming radio messages has thus far proved a knotty problem. European nations, for whom the problem is of great urgency, have resorted to a number of ineffective expedients. "Jamming" of broadcasts from foreign stations is possible but renders inaudible all domestic stations of similar wave length. In Germany, the government through its control of the sale and licensing of receiving sets has attempted to prevent the use of any but sets of low power, capable of receiving

only local broadcasts. In the United States such a policy would prove effective except near the nation's borders and shores, where sets of low power could still receive foreign messages. It seems highly doubtful, however, whether Americans would readily accept such control. Great Britain early in the war decided not to try to interfere with reception of German broadcasts, but rather engaged in counter-propaganda to offset them. In America, where the problem of dealing with enemy broadcasts is much less serious, a policy similar to Great Britain's should prove adequate, particularly if the Public Relations Administration maintains the high reputation for truthfulness established by the CPI and is as effective in its counter-propaganda.¹⁹

Principles of Censorship

The basic problem of censorship in wartime, according to Professor Chafee, is "to find the basis of reconciliation between order and freedom." On the one side we find thoughtful men asking how scores of citizens can constitutionally be imprisoned for their open disapproval of war as irreligious, unwise and unjust. On the other, "the government regards it as

¹⁹ In 1918 the government felt it necessary to take over and operate the telegraph and telephone systems, and it is frequently suggested that another war might make such action again necessary. The Army and Navy, however, in conformity with their general policy of disturbing the existing economic structure as little as possible, are not planning at present to assume operation of the communications systems. The Communications Act gives the government authority in time of emergency to operate any radio station, but no such specific power applies to any other medium of communication. (In England the British Broadcasting Corporation is still independent, but is subject to regulation of the newly created Ministry of Information.)

inconceivable that the Constitution should cripple its efforts to maintain public safety."²⁰

Censorship in some degree will have to be applied to every means of communication. The principles of censorship and its limitations should be clearly formulated in federal legislation and enforcement should be entrusted to intelligent and responsible officials. Close coördination should be maintained between the censorship organization and counter-espionage agents, who also should be well trained and responsible. In wartime the eagerness of the public for information is increased many fold; the public must be kept informed, particularly about vital subjects, such as foreign relations and national defense. But even in peacetime, public information in these fields is subject to certain restrictions, which during war must be tightened. The problem is to find a balance between what the public must know in order to maintain its morale, and what must be suppressed in order to preserve this morale and to avoid aiding the enemy.

A problem of great difficulty is to guarantee freedom of speech to those bold spirits who, on the basis of accurate information, frankly and openly attack the conduct of the war, demanding constructive changes in broad policies. For when peacetime standards for the protection of individual liberties weaken, no well-established wartime standards replace them. Lacking such control the action of the police and courts is apt to be not only ruthless but, judged by peacetime standards, even tyrannical. Even if the courts do not prosecute, an outraged public may itself

²⁰ Zechariah Chafee, *Freedom of Speech*, 7.

interfere. The public in wartime is impatient of the slow operation of peacetime laws of libel and breach of the peace. Fearful of any danger which cannot be measured, such as the danger of espionage, it reacts impulsively and violently. On several occasions during the World War, mobs attacked persons objecting to war measures, and tarred and feathered them, or drove them out of their homes. Two such outbreaks ended in lynchings.²¹

If propaganda makes the next war as popular as it made the last, what we have to fear is not so much irresponsible attacks on the conduct of the war as the absence of effective criticism on the part of individuals and organizations whose loyalty is not open to question.

²¹ *Ibid.*, 45.

CHAPTER SIX

MOBILIZATION OF THE ARMED FORCES

FOR maximum effectiveness in military service only males between the ages of 18 and 45 can be used; these are also the most effective workers in industry and agriculture. Many of these men are employed in mines, on the railroads, in steel plants and other key industries. If withdrawn indiscriminately, the nation's economic potential is lowered. Nevertheless, for purposes of convenience, it seems desirable to consider separately the military and economic aspects of the mobilization of the national manpower. This chapter will deal only with the problems of recruiting men for the armed forces. Chapter VII which follows will be devoted to the mobilization of the industrial armies and the attendant problems of labor policy.

The principle that in wartime every able-bodied male citizen should be liable for military service in the field is relatively new in the United States. Until 1917 it had never been put effectively into practice. In the Revolutionary War, several of the states instituted a form of conscription for military service, but in the War of 1812 even the British destruction of the national capital was insufficient to move the government to attempt to compel enrollment of able-bodied males in a national army. During the Civil War the South

resorted to universal conscription for military service before the end of the original twelve-months' period of voluntary enlistment of its armies. The North waited until the middle of 1863 before taking similar action. During the World War, the "draft" was instituted at once, and within a year had practically replaced voluntary enlistments as a method of getting men into the army.

When the United States entered the World War, we expected our rôle would be to supply munitions rather than men, but soon the breakdown of Russia and mutinies in the French Army made it imperative to stiffen the Allied morale by sending over new and enthusiastic troops. How should these troops be recruited? The answer to this question was found first in volunteering, which provided during the first five months of the war 563,000 soldiers and sailors for our armed forces.¹ But British experience had shown the inadequacy of a volunteer system for large-scale military preparations, and in England conscription had been introduced in February 1916. Profiting by this lesson, our War Department favored introducing conscription at once by a selective service plan administered by the Department itself. But President Wilson, anticipating opposition to military control of this important feature of the mobilization program, submitted a bill to Congress a few days after the outbreak of war which made civilians chiefly responsible for conscription plans.

¹ Volunteering and conscription were carried on side by side until August 1918. Up to that time, a total of 1,300,000 volunteer soldiers and sailors had been recruited.

Conscription Adopted, 1917

In Congress opposition to the idea of conscription showed itself immediately and unmistakably. The committee in charge of the bill, however, was convinced of the importance of quick action and without waiting for Congress to act, prepared millions of registration forms. During the five weeks when Congress was debating the Selective Service bill, a nation-wide advertising campaign was perfected which had a double purpose: (1) to inform registrants when and where to register, and (2) to attempt to stir their enthusiasm for the draft.

The Act of 1917 classified all males between 18 and 45 in an unorganized national militia, a great reservoir of manpower from which the Executive could call for registrants as they were needed. The first registration on June 5, 1917, of all males between 21 and 30 years of age, showed how the task of handling a great body of men could be carried through with a minimum of friction. The publicity campaign, under the direction of the Council of National Defense and the Committee on Public Information, had done its work well. Utilizing a great variety of national bodies with local branches—churches, the Y.M.C.A., the Grange, Chambers of Commerce, etc., it had carried accurate information about the draft to 10,000,000 young men scattered throughout the country, even in remote mountain valleys and desert outposts.

In Washington the administrative machinery for conscription was set up under the control of the

Provost Marshal General of the Army, but with civilian personnel which was organized by states. The actual registration was carried on in 4,600 election districts by local boards of three members each. Each registrant was given a number, his liability to service depending on the order in which a duplicate number was drawn by lot in Washington. Registrants were classified according to their utility to the armed forces and to the branch of industry in which they were employed, and to their social responsibilities. Information regarding occupations was compiled in such great detail that, according to General Hugh Johnson, "we could now on twenty-four hours' notice literally honor a draft for one hundred one-eyed pigioneers with wooden legs."

Class I was composed of men without dependents, who were unconditionally liable. Class II included those men who might claim deferment on the ground that they were essential to industry. Men with dependents were in Class III, and aliens, the physically disabled and other ineligible in Class IV. Federal and State officers, ministers and divinity students and others vocationally ineligible were grouped in Class V. A registrant dissatisfied with his classification might appeal to a district board, of which there were over two hundred, and a further appeal could be had from these boards direct to the President.

When it became clear early in 1918 that more American troops would be required to meet effectively the German threat, a second registration was held of the 900,000 young men who had reached the age of 21 years since June 5, 1917. It was followed by

a third registration in September 1918, which brought in 13,200,000 additional men between the ages of 18 and 21 and from 31 to 45. These three drafts provided enough men in Class I alone to fill military demands, so that no resort was had to the deferred classifications.²

The selective service system proved a great success. It registered 24,000,000 men out of a total male population of 54,000,000, placing over 6,000,000 men in Class I, of whom 4,000,000 were available for immediate service. Among the 360,000 registrants who failed either to return the questionnaire which would determine their classification, or to report when called, were a large number of illiterates, transients and aliens. Conscientious objectors, outside of those objecting as members of religious organizations, numbered but 1,500. The success of conscription is to be credited very largely to the work of the local draft boards. Every registrant knew that his classification for liability to service was in the hands of his own neighbors. The appeal boards furnished an easy and convenient means for the redress of grievances. Public opinion supported these boards because of a general conviction that their decisions were made fairly, and without favoritism.

Post-war Plans for Military Mobilization

For several years after the war no important action was taken on plans for troop mobilization in wartime. The National Defense Act of 1920 left the prob-

² The Navy depended on volunteers until the summer of 1918, when volunteering was stopped and selective service recruits were made available for the Navy and Marine Corps.

lem to the General Staff, which in 1926 appointed the Army and Navy Selective Service Committee³ to prepare plans for supplying men to the Army, the Navy and the Marine Corps. Recalling the tremendous publicity campaign which was largely responsible for the success of the draft in 1917, they promptly organized a Selective Service Advisory Committee of civilian publicity experts. Together these groups worked out the Selective Service Annex, which was published with the 1933 edition of the Industrial Mobilization Plan.

The Annex followed closely the pattern of the 1917 Selective Service Act both in principles and in organization. It provided for general registration, selection of men by lot, temporary exemptions for those whose work was essential to industry or agriculture or who had dependents, and classification of the registrants by local boards. The organization was to have been headed by a presidential appointee, possibly a civilian; state organizations were to be supervised and coördinated by a federal inspector, a disbursing officer, and a medical assistant in each state. The work of the local boards in the election districts was to be reviewed by appeal boards on both medical and legal questions.

In 1935, when this part of the Industrial Mobilization Plan came under the critical eye of the Nye Committee, its members promptly raised two objections. They questioned the necessity of planning for military conscription on the ground that no war for

³This committee is now composed of representatives of the General Staff, the Adjutant General's Office, the Navy, the Specialist Reserve, the Marine Corps and several others.

the defense of American territory would be likely to require an army of over 1,000,000 men, a number which might be raised by voluntary enlistment. Yet voluntary enlistment was not provided for in the Plan. The Committee, fearing that the threat of compulsory service might be used against workers in labor disputes, made no provision for conscription in its own bill for wartime mobilization. Possibly because of the Committee's attitude, conscription was not discussed in the 1936 edition of the Industrial Mobilization Plan. It stated merely that "The organization, duties and procedure for this Administration [i.e., Selective Service] are being revised by appropriate agencies, and, when completed, will be included in the next revision of the Industrial Mobilization Plan as Appendix V."⁴ No appendices, however, were published with the 1939 edition, which indicated only that a selective service system was under consideration, to be used in case the character of a future war should warrant it.

Will Conscription Be Necessary?

It seems to be the opinion of military experts that a war with a minor power, if efficiently conducted, would not require more than the approximately 400,000 men now available in the regular Army and the National Guard.⁵ The Navy could probably manage

⁴ *Industrial Mobilization Plan . . . 1936*, 45.

⁵ The defense forces of the United States on active duty consisted in 1938 of an army of 178,000 officers and men, and a navy of 135,000. Supplementing these forces is the state militia (National Guard) numbering 200,000 and reserves of various types as follows: Army Reserve officers, 100,000; Navy and Marine reserves, 54,000; graduates of Civilian Mil-

with voluntary enlistments, and the needs of the Air Force could be taken care of by the present training program. Such an arrangement would not divert manpower from industry, and hence no need for selective service would arise.

But a major war may involve limitless demands for manpower. At present, the sending of another American expeditionary force across the ocean, or the invasion of continental United States by an overpowering force, or a successful invasion of other parts of the New World seem remote possibilities. But the defense departments consider it their duty to prepare for all contingencies. Recognizing that a volunteer army might meet any emergency which can now be foreseen, they nevertheless consider it essential to work out a scheme which would permit the expansion of our present small army to any size within the power of the nation, maintaining always a balance between the needs of industry and those of military defense. Thus they would avoid the economic waste suffered by the British in 1915 from the volunteering of men more useful to industry than to the army. By planning at once a system adequate to meet situations requiring maximum forces, but which can also be operated on a smaller scale, they would escape the necessity of shifting in the midst of war from a system of volunteering to conscription.

tary Training Camps, 307,000; Reserve Officers' Training Corps, 168,000. In some computations the 300,000 young men enrolled in the Civilian Conservation Camps and the 15,000 civilian army-trained air pilots are included, though military training has been rigorously excluded from their program. *New York Times*, December 11, 1938.

Volunteering vs. Conscription

Three means of meeting the demand for troops are available: (1) volunteering, (2) selective service, and (3) a combination of the first two.

Volunteering is obviously the quickest method of providing men for the Army. It has, however, only a limited usefulness in modern warfare. There are in the first place limitations on the number of men who can be secured by this method. Its effectiveness in the World War depended somewhat on the threat of conscription. The introduction of a conscription bill into Congress and the widespread public discussion of the subject influenced large numbers of young men to volunteer in order to escape the stigma of being drafted. This helps to explain the spurt in volunteering which preceded each of the three registrations under the Act of 1917.

No one, of course, can estimate in advance the maximum size of an American army which might be raised by volunteering.⁶ In another war emergency, much would depend of course upon the state of public opinion. A nation enthusiastic for war aims, and convinced that great moral issues are at stake, will of course supply more volunteers than an apathetic nation which takes the attitude that fighting another war is a disagreeable but inevitable task. Under either condition it would be important not to overestimate the number of men who might be raised by volunteering, for a slow or insufficient response to the nation's call to

⁶ England, in the last war, under a threat of more imminent danger recruited in 14 months two million men from a population about two-fifths as large as ours.

the colors, showing that the war was unpopular, would prove demoralizing to civilians in all branches of the war effort. A further weakness of the volunteer system is that, unless properly controlled, it may result in drawing into the army large numbers of young men whose services to the nation would be more effective if they remained in civilian employments. England's experience with volunteering in the last war proves how disastrous to the economic organization may be the withdrawal from industry of skilled laborers and key executives.

For a major war, the selective service system seems far better fitted than volunteering to provide the manpower needed. It of course takes longer to get under way than the recruiting of volunteers. In the first place, since conscription involves a vital question of public policy it cannot be applied in a democracy like the United States without opportunity for public discussion and for debate in the national legislature. Then, even with the most careful preliminary plan, several weeks must be allowed for setting up the machinery for conscription with its thousands of local and district draft boards. In 1917 the Selective Service Bill was introduced in Congress on April 5, and received the President's approval six weeks later. The first drafted men reached camp in September.

The maximum number of men who may be taken into military service by conscription, corresponding in general to the total number of able-bodied men in the community,⁷ exceeds very considerably the num-

⁷ This maximum practically will never be reached because of the necessity of retaining large numbers of able-bodied men for munitions work.

ber who would volunteer. But a far greater advantage of conscription is that it permits the fullest application of the idea of selective service. In all modern wars victory is dependent upon economic factors, and particularly upon the continued functioning of the productive organization within the country. On this account it has long been recognized that the draft of men into military service should cause a minimum disturbance in the effectiveness of the industrial and agricultural labor supply. Modern wars, we are told, are totalitarian. This means that not only the soldiers and generals are engaged in the conflict but also every civilian, including women and children, whose productive effort can contribute anything to the national economy. To fight such a war it is essential that the manpower resources should be so distributed that each unit can be utilized in that situation, whether on the front or in factory or farm, mine or lumberyard, where his services are most effective.

The Reaction of Public Opinion

We have already observed that the success of volunteering depends upon enthusiastic popular support of the war. Conscription is no less dependent for its success upon the state of public opinion. If the war is unpopular, conscription will make it even more so, until opposition to the draft takes the form of serious rioting such as occurred in New York and other northern cities in 1863. Yet, from the point of view of those in charge of war propaganda, there is an important difference between volunteering and conscription. To encourage volunteering, it is necessary

to whip up public excitement about the war to the highest possible pitch, stressing as far as possible its glamorous and melodramatic features. If, on the other hand, conscription were to be decided upon, different tactics would be pursued. War service probably would not be pictured as a particularly exciting or glorious adventure, but as an opportunity for the discharge of a solemn obligation, even at the cost of great personal sacrifice.

An ideal system for recruiting troops would combine the best features of both volunteering and conscription. In the first few weeks after declaration of war, a limited number of able-bodied volunteers in the lower age group might be accepted who would provide an addition to the armed forces while the selective service organization was getting under way. The United States Army, Navy and Marine Corps already operate recruiting offices in cities scattered widely over the country. Expansion of these facilities so as to care, in a few weeks, for the examination of several hundred thousand applicants would not be a serious administrative problem, particularly if plans were prepared in advance as a part of the general Industrial Mobilization Plan. The necessary limitations on voluntary enlistments have already been pointed out: (1) As soon as a shortage of skilled labor appears in any branch of industry, commerce or agriculture, the enlistment of men possessing the needed skills should be ended at once; (2) volunteering should be stopped as soon as it is apparent that the numbers of men who spontaneously offer themselves as soldiers are decreasing.

CHAPTER SEVEN

MOBILIZATION OF INDUSTRIAL LABOR

TO MAINTAIN one American soldier in the trenches, to feed him, clothe him, and to supply him with material of all kinds, required, in the World War, the services of from 6 to 10 workers on the home front.¹ This huge new demand for labor, added to the task of maintaining the civilian population, had to be met by a working force which the draft had depleted by the mobilization for military and naval service of over four million of the nation's best workers. The resulting strain on the labor market created a whole series of new problems. Wage rates rose violently and irregularly, upsetting differentials between trades and, particularly, between wages of unskilled and skilled labor. A million women left school-teaching and household tasks to enter munitions factories; armies of workingmen, lured by high wages, journeyed to distant cities. Bad housing conditions, long hours and the rumors of profiteering gave rise to a wave of strikes threatening essential production. Trade unions, strengthened by the influx of hundreds

¹ Estimate of Secretary Wilson, quoted by Gordon S. Watkins, *Labor Problems and Labor Administration in the United States during the World War*, 56. According to Hauser (*Battle against Time: a Survey of the Germany of 1939 from the Inside*, 369), in England during the World War, they figured on three workers to each soldier. It is clear that the ratio is lower if a country is largely dependent upon imports for its supply of munitions.

of thousands of new members, gained a new position in the community, representing labor in its dealings with government. Government was forced to intervene in the strife between capital and labor, and to set up national agencies to deal with labor disputes.

Germany, seeking to solve its wartime labor problems by industrial conscription, had required (December 5, 1916) all male civilians between the ages of 16 and 60 to render compulsory service. England, France and the United States attempted to deal with the labor problem within the framework of the system of free enterprise. They relied, to begin with, upon the appeal to patriotism² and the lure of high wages to bring out an additional supply of labor and to distribute it effectively between munitions industries and less essential branches of production. Eventually, in all three countries, as the weaknesses of the voluntary system became evident, it was gradually replaced or supplemented by an increasing degree of government control over wages, hours of labor, mobility of labor, working conditions and the settlement of industrial disputes. "At the end of the World War," writes Frieda Wunderlich, "no belligerent country was far from industrial conscription."³

² The policy of the Wilson Administration was early directed toward securing the coöperation of organized labor. Samuel Gompers, the President of the American Federation of Labor, a convert from pacifism, was made a member of the Advisory Commission of the Council of National Defense. Under his leadership, a conference of trade union leaders assembled in Washington, March 12, 1917, to pledge their support to the government in case of war.

³ "Labor in Wartime" in *War in Our Time* (H. Speier and A. Kähler, eds.), 252. Conscription of American labor was actively discussed in the spring of 1918 and was advocated by a number of U. S. Senators. Shortly before the Armistice the National War Labor Board considered the possibilities of industrial conscription. See Watkins, *op. cit.*, 41.

Peculiar Features of the American Problem

The problem of labor mobilization in the United States in some aspects was simpler than that of England and France, but in others more difficult. The armies we raised, although comparable to theirs in absolute size, were much smaller in relation to total population, and in relation to the supply of factory operatives and agricultural labor. We enrolled in our armed forces only 16 percent of our male workers as compared with 38 percent for the United Kingdom, 63 percent for France and 82 percent for Germany. It should be noted, however, that a double burden was imposed on the American civilians who remained at work in mines, farms and factories. In addition to equipping American armies, transporting them and their equipment across the Atlantic with a steady stream of supplies flowing to their foreign bases, we were engaged in supplying munitions and equipment to the Allies and food to their civilian populations. The amount of this assistance may be measured roughly by the increase in the quantity of exports to Europe in 1917 and 1918. In 1915 these exports were 39 percent greater in quantity than in 1914, in 1916, 75 percent and in 1917, 90 percent. During these years the proportion of our exports to Europe which were destined for England and France increased from 51 to 71 percent. It should be noted, however, that after the United States entered the war the quantity index of exports fell, so that the 1918 figure was only 27 percent in excess of 1914.

Rising Wages and Active Labor Turnover, 1916-17

American labor had already been partially mobilized for more than a year before Congress declared war. Enormous orders from the Allies with resulting high wages had drawn thousands of workers into munitions factories and shipbuilding yards. In 1916, the average earnings of all industrial labor in the United States was 12 percent above the 1914 level. In woolen manufacturing and in the iron and steel industries the gain was twice the average. But costs of living also rose rapidly, offsetting most of the early gains in wages. In addition, the concentration of war industries in a single region and in relatively few cities caused great congestion in housing and in transportation facilities.

The entrance of the United States into the war aggravated these conditions. Manufacturers with large war contracts bid up wages and engaged in extensive "stealing" of employees from their competitors. Average money earnings rose in 1917 to 30 percent above 1914, and in 1918 to 63 percent. Meanwhile, great disparities appeared between the earnings of various grades and types of labor. The money earnings of street railway employees gained 50 percent between 1914 and 1918, while the earnings of workers in iron and steel works shot up to 100 percent above the pre-war level.⁴ The margin between the wages of skilled and unskilled labor narrowed.

⁴ The United States Steel Corporation raised wages on seven consecutive occasions between January 1916 and August 1918, with an aggregate increase of 75 percent. Bethlehem Steel doubled wages between August 1915 and August 1918.

Workers shifted rapidly from one plant to another and from city to city, causing a labor turnover in some plants of 100 percent per week. Women left the care of households to earn high wages in munitions factories. Overtime added to their earnings and to those of their husbands and brothers. As a result family wages increased, not only in terms of dollars, but in many cases in terms of purchasing power. Yet, for families in which the wife and grown children were already employed before the war, their added exertion during wartime brought little in the way of increased comfort or greater luxury. For the rising cost of living followed closely the rising curve of wages. The result was that real earnings per worker, the purchasing power of his money wages, increased on the average only slightly. As Douglas puts it, "the American workers had to run hard in order to remain in the same place." The situation was worse in England, where, according to Robinson, wage earners suffered a material reduction in real earnings during the war.⁵

The Causes of Labor Unrest

The industrial unrest resulting from these conditions was increased by the suspicion, in many cases the certainty, that employers were making huge profits on their government contracts. At the same time the workers, aware of the extraordinary demand for their services and conscious of their new and growing power, were determined not only to main-

⁵ E. A. G. Robinson, "The Problems of Wage Policy in War-Time," *Economic Journal*, XLIX, 641, December, 1939.

TABLE I
THE TREND OF MONEY EARNINGS AND REAL
EARNINGS IN U. S., 1914-20

1914 = 100

	<i>Index of Money Earnings</i>	<i>Index of Living Costs</i>	<i>Index of Real Earnings</i>
1914	100	100	100
1915	101	98	103
1916	112	107	105
1917	130	129	101
1918	163	157	104
1919	187	178	105
1920	218	206	106

Source: Paul Douglas, *Real Wages in the United States, 1890-1926*, Tables 12 and 147. Money earnings are average annual earnings in all industries, excluding farm labor. The index of living costs is Douglas' revision of that compiled by the Bureau of Labor Statistics. The table does not take account of the addition to *family earnings* as a result of the increased employment of married women.

tain their standard of living but to better it. The refusal of many employers to bargain with their employees collectively and their persistence in discriminating against labor unions made impossible the peaceful adjustment of incipient disputes. The inevitable consequence was a great wave of strikes. In 1915, a total of 1,405 strikes and lockouts was recorded by the U. S. Bureau of Labor Statistics. This number increased to 3,786 in 1916 and 4,359 in 1917. The number of employees affected by these stoppages of work rose from 504,000 in 1915 to 1,213,000 in 1917. The disturbances threatened to disrupt production in key industries, such as copper mining in Arizona, oil production in California, lumbering in the Pacific mountains, meat packing in Chicago, and

transportation on the Great Lakes. In 1916 a tie-up of the whole railroad system of the country was averted only by action of Congress forcing the roads to grant the demands of their employees.

There was obviously need for a national labor policy administered as part of a coördinated plan of industrial mobilization. The prevailing expensive and ineffective decentralization failed to satisfy either employers or their employees. But a national policy was not evolved until after a full year of experimentation and piecemeal remedies. Broken down into its essentials, the problem consisted in: (1) bringing out an increased supply of labor and distributing it effectively to essential industries; (2) preventing excessive labor turnover—keeping the worker at the job; (3) maintaining labor efficiency; (4) improving the worker's morale by active propaganda,⁶ and by removing the causes of industrial unrest, such as bad housing, inadequate transportation, and lack of uniformity in wage scales; and (5) providing an effective means of adjusting disputes between workers and management.

It would be out of place here to attempt to recount the entire history of the development of wartime labor policy, which has been adequately dealt with elsewhere.⁷ Two phases, however, deserve particular attention: the attempts to deal with the so-called labor shortage, and the work of the National War

⁶ The slogan was "This Is Labor's War." See James R. Mock and Cedric Larson, *op. cit.*, 187-212.

⁷ See especially Alexander M. Bing, *War Time Strikes and Their Adjustment* and Watkins, *op. cit.* The account in this chapter is based principally on Professor Watkins' excellent monograph.

Labor Board in dealing with labor disputes and in formulating a national labor policy.

Labor Dislocation and Labor Shortage

When the United States declared war, industrial leaders complained of serious shortages of both skilled and unskilled labor. For this condition the decline in immigration was partly responsible. In the years just preceding 1914, the native supply of unskilled labor had been augmented by immigrants at the rate of about 750,000 persons a year, most of them in the wage-earning group. But in 1915 the number fell to 123,000, and in the period 1914-18 the net addition by immigration was at the rate of only 290,000 per year. After our entrance into the war the added demand for labor gave rise to an especially serious situation. Steel mills and shipbuilding plants began to complain of inability to hire skilled workers. The need for common labor was so pressing that the United States Employment Service arranged to bring 110,000 laborers from Puerto Rico and the Virgin Islands. In California the import of Chinese labor was proposed. In the spring of 1918, an official estimate placed the additional labor needs resulting from the war emergency at close to 4,000,000 persons.

As far as common labor was concerned, the real difficulty was bad distribution of labor rather than actual lack of workers; the appropriate remedy was the development of a system of federal employment exchanges. The chief means of recruiting labor for industrial enterprises at the beginning of the war had been the private employment agencies. Govern-

ment activity in this field was confined to a few state labor exchanges and a small employment service maintained by the federal Department of Labor for the benefit of immigrants. But both public and private agencies showed themselves entirely inadequate to deal with the new wartime conditions. With government departments as well as private firms bidding up the price of labor and engaging in a mad scramble for the available labor supply, the private agencies reaped large gains. They disrupted factory operations by recruiting large groups of workers already employed and at times they even encouraged strikes in order to hire the strikers for other jobs.

The Work of the United States Employment Service

To introduce a measure of order into this situation, the United States Employment Service⁸ set up hundreds of branch offices over the entire country and assumed control over municipal and state employment exchanges. Postmasters, newspapers, the motion-picture industry, and unofficial organizations such as the National Grange were enlisted in its work. Dealing principally with unskilled workers, its aim was to control the supply of labor in that field. Employers, however, did not depend seriously upon its services until pressure was brought to bear on them by President Wilson. In a proclamation issued June 17, 1918, he urged all employers *engaged in war work* to refrain after August 1, 1918, from recruiting unskilled labor except through the federal employ-

⁸The Service was detached from the Bureau of Immigration and set up as an independent unit in the Department of Labor, January 3, 1918.

ment service. Workers were urged as a matter of patriotism to respond to calls for service in essential war industries. Reënforcing these exhortations, the Employment Service promulgated regulations governing the recruiting of labor by employers engaged on war work. The regulations forbade the transportation of unskilled labor from one state to another, and, within a state, from one employment district to another, except under authorization of the director of federal, or state, employment service. Employers on war work whose maximum force exceeded 100 were forbidden to recruit unskilled labor through private employment agencies or by advertising.

The Service was energetically and effectively administered. In the eleven months, January to November 1918, it received from employers applications for 7,896,000 workers; it registered 3,676,000 applicants for work, and placed 2,699,000 in jobs.

The "Work-or-Fight" Order as a Measure of Labor Control

The work of the United States Employment Service supplemented the partial control of the labor supply which the government exercised through the system of deferred classifications in military conscription. We have already explained (see p. 106 above) that when men engaged in occupations such as ship-building registered for the draft, they were listed as temporarily exempt. By this method, workers engaged in industries of direct and immediate importance to the economy of war were kept at their jobs. Later, the so-called "work-or-fight" order of May

17, 1918⁹ added a new measure of labor control. It required that all men of draft ages engaged in certain classes of occupations regarded as "non-essential" (for example, waiters, elevator operators, doormen, theater ushers, sales clerks) should either find other jobs, or be inducted immediately into military service. The conditions giving rise to this order were described by the Provost Marshal General as follows:

The spectacle had been not infrequent of a contingent of selectives, taken by the incidence of the draft order-numbers from farms and factories, and marched for entrainment down the streets of their home town, past crowds of sturdy idlers and loafers standing at the street corners and contemplating placidly their own immunity. The spectacle was not a pleasing one to any right-minded citizen. It demanded direct measures. What gave those idlers that immunity? They were in Class I; but they chanced to receive high order numbers in the drawing, and thus became immune in their idleness, until their order numbers might be reached. The remedy for this was simple, viz., to let no man who was idle be deferred in the draft merely because his order number had not yet been reached; to require him to go promptly to work, or be inducted immediately into military service, his high order number being canceled.¹⁰

In pursuance of the order, nearly 120,000 persons were called before draft boards, of whom about one-half promptly changed their occupations.

The purpose of the "work-or-fight" order was to eliminate entirely employment of men of draft ages

⁹ The order was promulgated as an amendment to Section 121 of the Selective Service Regulations.

¹⁰ Provost Marshal General, *Second Report . . . on the Operations of the Selective Service System to December 20, 1918*, 75.

in "harmful and non-productive" employments and to induce them under threat of military service to take jobs in enterprises such as shipbuilding and the manufacture of munitions, where they would directly and immediately aid the war program. A further step, which was under consideration when the war ended, would have brought about a compulsory transfer of workers within the general category of "necessary" industries. It was proposed to use the selective service principle for this purpose.

There was abundant legal authority for calling into military service, through the selective service organization, any or all of a particular group of skilled industrials, regardless of their classification. It was quite feasible, therefore, to call for service all or any part of a group of skilled labor and to offer to the men thus called the options of remaining in the Army for military duty or accepting an indefinite furlough dependent, as to duration, upon the continuance of employment in a certain definite work.¹¹

Had this system been used extensively, the results would have been equivalent to industrial conscription.¹²

The Trend Toward Compulsion

Toward the end of the war, when it became evident that voluntary measures and measures of semi-compulsion were proving ineffective in providing

¹¹ *Ibid.*, 16.

¹² Mr. Baruch said in his testimony before the War Policies Commission: "The draft of men for industrial employment is not only impossible. It is wholly unnecessary. The work or fight method is a better way. It is compatible with our institutions and far more effective than any chain-gang or impressment that could be invented." War Policies Commission, *op. cit.*, 45.

key industries with an ample supply of labor, government control was extended through the application of the priority principle to labor. In September 1918, the Labor Priorities Section of the War Industries Board issued its first order, listing 70 industries and plants which were to be entitled to first call on the available labor supply. These ratings represented an attempt to regulate the flow of labor to industry on the same principles as materials, transportation and fuel were allocated to them. The Armistice intervened before the new system had a chance to demonstrate its usefulness. Obviously its success would have to depend on the extent to which government, through its system of employment exchanges, actually could enforce a monopoly of the labor market.

The Emergence of a National Labor Policy

The federal government was badly equipped to deal with a great wave of industrial disturbances. The Division of Conciliation in the Department of Labor was not adequately staffed, and was subject to the suspicion of being too friendly toward organized labor. A Bureau of Mediation and Conciliation had been established under the Newlands Act of 1913, but it had jurisdiction only over disputes involving common carriers in interstate commerce. Under these circumstances, the new situation was attacked in piecemeal fashion. Special bodies were set up to deal with labor disputes which threatened the continuity of production in various sectors of the war industrial program. Thus the Emergency Construction Wage

Commission adjusted wage disputes in the building of cantonments, aviation fields and navy shore construction. Other special agencies dealt with labor problems in the shipbuilding and shipping industries. The War Department set up boards to adjust wage disputes in the manufacture of army clothing, harness and saddlery, etc. Railroad Wage Adjustment Boards were created by the Railroad Administration. The Fuel Administration dealt with labor problems in the coal fields.

A number of attempts were made to deal with labor problems on a national scale. The most successful was the President's Mediation Commission, appointed during the summer of 1917 on the suggestion of Samuel Gompers, President of the American Federation of Labor. In visits to industrial centers, the Commission succeeded in settling a large number of serious labor disputes. It was this Commission which originally formulated the labor policies later adopted by the National War Labor Board.

The need of coördinating the work of the various agencies and of unifying their policies led to the establishment on April 9, 1918, a full year after the declaration of war, of the National War Labor Board. Headed by ex-President Taft and Frank P. Walsh,¹³ and backed by the war powers of the President, it soon became a "Supreme Court for the determination of war labor disputes."¹⁴ The new Board did not replace the special agencies de-

¹³ Editor and publisher of the *Kansas City Post*, 1915-16; Chairman of the U. S. Commission on Industrial Relations, 1913-15.

¹⁴ Bing, *op. cit.*, 119.

scribed above, but supplemented them, and heard appeals from their decisions. Without legal power to compel workers or employers to submit disputes, or even to enforce its decisions, it nevertheless wielded great influence because of the support which public opinion gave to its findings. In two cases when employers refused to recognize the Board's jurisdiction, the President commandeered their plants. It could invoke no such drastic powers in dealing with employees, but could only threaten them with withdrawal of draft exemptions and refusal of the benefits of the United States Employment Service.

The Work of the National War Labor Board

The principles and policies laid down by the Board to govern relations between workers and employers in war industries, and accepted by all agencies dealing with labor disputes, constituted a sort of "Magna Carta for American labor." Of prime importance to the workers was the unequivocal assertion of the right of collective bargaining and the denial of the right of employers to discharge workers on account of trade union activities. But the unions, on the other hand, were not to coerce workers to join their organization, nor were they to use the war emergency as a means of extending the principle of the closed shop. For the period of the war, open shops were to remain open and closed shops, closed.

As regards wages, the Board approved "equal pay" for women doing men's work, and asserted the right of all workers to a living wage. In fixing wages, the Board held that minimum rates of pay should be es-

tablished which would "insure the subsistence of the worker and his family in health and reasonable comfort." This formula, however, was inconsistent with another, which required that "in fixing wages, hours, and conditions of labor, regard should always be had to the labor standards, wage scales, and other conditions prevailing in the localities affected."

The work of the War Labor Board, supplemented by the War Labor Policies Board,¹⁵ proved to be successful in a very large measure. In 16 months it had disposed of over 1,200 cases, of which about one-quarter were referred to subsidiary agents having original jurisdiction; almost one-third were either dismissed or settled by agreement. The remaining cases (almost 500) were the subject of awards by the Board. In all but three instances, these awards were accepted and made effective by the opposing parties. The Western Union Telegraph Company and Smith & Wesson Manufacturing Company refused to abide by the Board's decision, and, in consequence, were taken over by the government for the duration of the war. A group of munitions workers in Bridgeport, Connecticut, who had rejected the Board's decision, returned to work when threatened by President Wilson with withdrawal of their draft exemptions. The President's message read:

I desire that you return to work and abide by the

¹⁵The Policies Board, of which Felix Frankfurter was Chairman, was an administrative agency charged with the duty of unifying the policies of the numerous government boards and agencies, with respect to wages, hours, and working conditions. It endeavored to put into effect the policies laid down by the War Labor Board. It projected, but never put into effect, the standardization of wages on a national scale.

award. If you refuse, each of you will be barred from employment in any war industry in the community in which the strike occurs for a period of one year. During that time the United States Employment Service will decline to obtain employment for you in any war industry elsewhere in the United States, as well as under the War and Navy Departments, the Shipping Board, the Railroad Administration, and all other Government agencies, and the draft boards will be instructed to reject any claim of exemption based on your alleged usefulness on war production.¹⁶

Summary of 1917-18 Experience

Compared with other aspects of economic policy in wartime, the handling of labor problems deserves to be called successful. Faced by a situation of great industrial unrest, government agencies first dealt with their problems independently, in piecemeal fashion. But gradually there emerged a national labor policy based on broad humanitarian ideals, and administered on a national scale, in harmony with other phases of the national war effort. Labor disputes were not eliminated, and strikes were not outlawed. But disputes were adjusted and the strikes brought to an end before they seriously endangered the production program.¹⁷

The depletion of the labor force by the recruiting of nearly five million able-bodied men was made good by the enrollment in the industrial army of a million women and large numbers of young people and old people who normally would not have been

¹⁶ U. S. Bureau of Labor Statistics, *National War Labor Board*, 36.

¹⁷ The upswing of the business cycle, which reduced the burden of wage increases and other concessions, in relation to other costs and to selling prices, facilitated the work of the Board.

gainfully occupied, and by overtime and more intensive work. Labor standards were relaxed, yet not to the extent of seriously lessening productivity or inflicting permanent injury on the workers.¹⁸ The output of industry and agriculture was vastly increased, so that the Army and Navy were equipped without depriving the civilian population of any necessary commodities, or of many luxuries. Finally, the task was accomplished with only occasional resort to direct compulsion, and without alienating the sympathy and support of the working class for the war's objectives. In fact, the loyalty of American labor, generally speaking, throughout the war is the best evidence of the success of the labor policy.

Labor Policy in the Next War—The 1931 Plan

Labor policy for another war found its first formulation in the 1931 Industrial Mobilization Plan. The military men who wrote its labor sections recognized conspicuous weaknesses in our World War experience—excessive labor turnover, “unethical” competition for labor by war industries, interruption of production by labor disputes. The fundamental objective of labor policy, as they saw it then, was “the assurance to industry of an adequate labor supply, both in numbers and by occupational qualifications. . . .” The means suggested was “the organization of a war

¹⁸ In the early months of American participation, certain states moved in the direction of relaxing legislative safeguards on women's work. But the War Department opposed this tendency. In General Orders No. 13 (November 15, 1917) the Chief of Ordnance insisted that efficiency in production could be maintained only by preserving working conditions which conformed to standards endorsed by leaders in progressive labor legislation.

labor administration with an administrator appointed by and directly responsible to the President at its head." At this primary stage in planning, military men emphasized the participation of the "natural leaders" of the workers in all important agencies dealing with industrial matters.¹⁹ There were to be labor committees in the offices of the Assistant Secretary of War and of the director of war industry. The Administrator of Labor was to be "labor's advocate and representative in the highest executive circles," though this description was qualified by the requirement that, as agent of the federal government, he must guide labor's employment in the common cause.²⁰

Other duties imposed upon him were to supervise relationships between labor and its employers, to act as a mediator in disputes, to collect and analyze statistics, and to "develop policies designed to get men through their voluntary coöperation into the proper places in industry and keep them there."

Recognition of the necessity for centralizing labor administration was a meritorious feature of both the 1931 and 1933 Plans. The latter provided for a Requirements and Statistics Bureau to estimate the demand for labor, and a nation-wide employment service to recruit the supply, i.e., to bring the worker and the job together. To keep them together, a Conciliation and Adjustment Service was projected, which, working on the principles set up by the Advisory Council of the War Labor Administration, would

¹⁹ War Policies Commission, *op. cit.*, 413.

²⁰ *Ibid.*, 420.

attempt both to prevent and to remove labor's grievances. The need to explain and popularize the government's labor policy found recognition in the provision for a Public Relations Division in the War Labor Administration.

Shift of Emphasis in 1933 Plan

The emphasis on labor representation, which had characterized the 1931 Plan, was less marked in the 1933 edition. It, also, provided for an Administrator of Labor, but described him as an "outstanding industrial leader"²¹ rather than as "labor's advocate." Representation of labor was confined to the Administrator's Advisory Council, in which five labor members were to be balanced by five representing industry.

The principal questions to be considered by the Council were:

1. Measures to prevent grievances of employers or employees, whether actual or imaginary, from interfering with war production.
2. The right of employers or employees to organize into associations and trade unions and to bargain collectively through representatives of their own selection.
3. Standards of wages, hours of labor and working conditions.
4. Equality of pay for identical work.
5. Recognition of the statutory work day and the adjustment of hours not in conformity therewith with due

²¹ "The Administrator should be an outstanding industrial leader who is thoroughly familiar with the problems entering into the relationship of employer and employee and who is capable of dispassionate judgment in their solution. He should have the complete confidence of both management and labor in industry." *Industrial Mobilization Plan . . . 1933*, 35-36.

regard for the necessities of the United States and the welfare of the workers.

6. Maintenance of maximum production in all war work, and the suspension for the period of the actual emergency and a reasonable adjustment thereafter of all restrictive regulations not having the force of law which unreasonably limit production.²²

The list resembles the program of the War Labor Policies Board of 1918, but with this difference, that the Council in the 1933 Plan was to have no administrative power. That was to reside in the Administrator alone. Also, it should be remarked that, in general, the Plan defined no policy with respect to labor problems. It did not, for example, reaffirm the right of collective bargaining, which had been a cardinal principle in labor policy during the World War.

Criticism by the Nye Committee

The Nye Committee sharply attacked the 1933 Plan, on the ground that it did not adequately safeguard the interests of the working classes. The Committee charged that the appointment of an outstanding industrial leader as head of the War Labor Administration prejudiced labor's position from the start. The Administration, it claimed, would be completely dominated by the employing interests, and might prove to be "very antagonistic" to the aims of labor. The scheme for equal representation on the Advisory Council would result in deadlock, throwing decisions back on the Administrator.

Reading between the lines, and drawing upon the

²² *Ibid.*, 36.

testimony of army officers and others at its hearings, and at those of the War Policies Commission, the Committee found reason to suspect that the Plan might be used to stabilize wages and to break down labor standards. Particular concern was expressed about the possibility that the selective service features of the Plan might be employed to "control" labor. It pointed out that the system of "deferments" made it possible to enforce a "work-or-fight" order. "The Committee believes," its *Report* stated,

that if the work-or-fight principle is authorized by law, along with a draft act such as the War Department contemplates, then this country will have for all practical purposes a draft of labor. The military and industrial authorities are interested in two things in connection with labor—an adequate supply of workers in the jobs where they are needed and continuity of employment with no stoppage of work. Under the above set-up they can achieve these aims. They cannot perhaps order every individual to work at a particular job picked out for him specifically but they can order him not to work in certain industries and they can specify certain industries in which available men must be employed if they want to stay out of the Army. If they refuse to allow men to remain idle at all, as they would have a right to do, then workers would have to accept the particular jobs indicated to them by the Government, since even in war, it requires some time for a man who has just lost one job to find another without assistance. Furthermore, the Government authorities could break any strike simply by cancelling the deferments of the strike leaders and as many of their men as necessary and drafting them into the Army.²³

The Committee recommended that the War De-

²³ *Senate Report No. 944*, pt. 4, *op. cit.*, 49.

partment's bill providing for a draft of manpower should not be enacted, but substituted a bill of its own,²⁴ permitting the government to draft only the managers of essential industries, but not their employees.

*Nye Committee's Objection's Met, in Part, in
1936 Plan*

The 1936 edition of the Plan preserved the scheme of a War Labor Administration, independent of the Department of Labor and other peacetime agencies, which should unify wartime labor policy and administration under a single Administrator. The effect of the Nye Committee's strictures may be seen in a new definition (the third) of the qualifications of the Administrator. Having been first (1931), "labor's advocate," and then (1933), "an outstanding industrial leader," he became in 1936, by a partial backswing of the pendulum, "an outstanding citizen."²⁵ To meet the criticism that an Advisory Council which consisted of equal representation of workers and employers would be deadlocked, a third group was added representing "the general public." Labor representation was provided on the Advisory Board of the Conciliation and Adjustment Service, on the Federal Labor Arbitration Commission, as in the 1933 Plan, and on the new State War Labor Administrations.

²⁴ H.R. 5529, 74th Congress, 1st session, title II.

²⁵ "The Administrator should be an outstanding citizen who is thoroughly familiar with the problems entering into the relationship between employer and employee and who is capable of dispassionate judgment in their solution. He should have the complete confidence of both management and labor in industry." *Industrial Mobilization Plan . . . 1936*, 36.

The idea of conscription of management proposed by the Nye Committee was accepted by the defense services in their 1936 Plan, and was incorporated in a draft of proposed legislation. Title II of a draft bill authorized the President to compel the registration of all persons in the management or control of industry. Registered persons in any industrial plant might be brought into the service of the government for the duration of the war and subjected to the jurisdiction of the War Department. The legislation was intended to apply to executives who were unwilling to cooperate in the industrial war effort.

Selective Service Provisions Disappear

Dispute over the possible use of the draft for purposes of labor conscription²⁶ was avoided by omitting from the 1936 Plan all provisions regarding selective service. In their place was the bare announcement that they would reappear in the next edition of the Plan. This promise was not fulfilled, however. The 1939 Plan merely mentions a Selective Service Administration among "other administrations," which "may be organized as required by the circumstances." The defense services, however, still retain conscription as an essential element in their plans for the next war. A pamphlet entitled *American Selective Service*, prepared October 1939, by the Joint Army and Navy Selective Service Committee, gives

²⁶ The War Department stated that it had never favored the conscription of labor. It felt that such a measure was not necessary and if it were adopted would confuse rather than clarify the situation. Testimony of Colonel Charles T. Harris, Jr., before the Senate Committee on Military Affairs, March 12, 1937. *Hearings on S. 25, 75th Congress, 1st session*, pt. 2, 142.

current plans in Section V. Following very closely the World War legislation in its final form, these plans provide for deferred classifications. Hence it seems that the "work-or-fight" principle which the Nye Committee viewed with such suspicion might still, in another war, prove an effective instrument of labor control.

*The 1939 Plan Gives Scant Attention to
Labor Policy*

The brevity and condensation which characterize the 1939 Plan in general have been applied vigorously to the sections dealing with labor. A War Labor Administration is retained whose mission is described in broad terms, viz., "to provide the machinery for the equitable and voluntary distribution of labor to industry and agriculture during war by maintaining close cooperative relations between labor, industry, and the Government." A classification of industries is proposed "according to the essentiality of the materials and services which they provide," so that adequate supplies of labor may be furnished first to the more important industries.²⁷ But the 1939 Plan omits all discussion of the qualifications of the War Labor Administrator. It does not mention labor representation on advisory or executive bodies; it outlines no policies regarding either collective bargaining or labor standards.

New Aspects of Labor Policy

In planning for the next war in the field of labor

²⁷ *Industrial Mobilization Plan . . . 1939*, 11. (See Appendix, 251.)

policy and labor administration, the temptation to fight the last war over again must be resisted. It will not be sufficient, in fact it will be dangerous, to frame a new labor policy whose objectives are merely to remedy the mistakes and repair the weaknesses of 1917 and 1918. The basic problem, it is true, remains the same: to mobilize for the production of war essentials an adequate supply of labor, well distributed as to skills; to accomplish this transfer of labor without cutting down production of essential goods and services for the civilian population; and to avoid the industrial unrest that accompanies great disturbances in wages and prices and vast transfers of workers from place to place and from one occupation to another. The continuity of production must not be broken by strikes and lockouts. The output of the workers must be stepped up by longer hours and greater intensity of effort, and by utilizing to a greater extent the services of women, children and old people. At the same time care must be taken that the fatigue resulting from longer hours and more intense effort does not result in less rather than greater output.

These basic problems will be the same in the next war as in 1917 and 1918, but they will appear in a different setting, technical, economic, social and political. On the technical side, we may expect that the great progress which has been made since 1918 in the mechanization of warfare will increase the strain which the military effort imposes on the civilian population. The number of civilian workers necessary to support a given number of soldiers or sailors on active

duty will probably increase.²⁸ In fact this circumstance, if operating alone, in another war might well impose a maximum limit on the number of men who can safely²⁹ be mobilized for the defense services without a breakdown in the services of supply. This tendency, however, will be offset to some extent by the increased effectiveness which the technical progress of the past 20 years has given to industrial workers.³⁰ The extent to which civilian labor is required will depend, also, upon the character of the next war, whether or not it is carried on with lavish expenditures of munitions of all types.

Unemployment No Bar to Labor Shortage

With eight to nine millions unemployed, labor does not appear to be a scarce commodity in the United States. But this apparent surplus of labor consists very largely of unskilled labor and labor not immediately useful for the purposes of wartime production. As far as skilled labor is concerned, there may even be a shortage. During the long period of unemployment after 1930, many workers lost their

²⁸ In high German military circles shortly before the outbreak of the new war, the view was expressed that Germany would have to keep 18 men in productive effort for every soldier at the front. Hauser (*Battle Against Time*, 369) estimates the ratio in the first World War at two workers for every soldier. Sternberg's estimate is four to one. See Fritz Sternberg, *From Nazi Sources*, 160.

²⁹ I.e., without a too drastic cut in the standard of living of the civilian population.

³⁰ The National Resources Committee reported in 1937 that "the man-hour requirements per unit of output in manufacturing industries as a whole were cut nearly in half between 1920 and 1934." *Technological Trends and National Policy*, 77. Among "external" causes of increased effectiveness of our industrial process may be listed epoch-making changes in transportation and communication, such as the airplane and the radio, better business methods, improved statistical services, etc.

skills, and opportunities were lacking for young workers to become trained. As a result, the number of skilled workers in the United States at the end of 1939 was at least 13 percent, and perhaps even as much as 20 percent, below the 1930 level.³¹ Shortage of skilled labor constitutes one of the familiar bottlenecks which may seriously obstruct rapid expansion of manufacturing output at the outbreak of another war.

The supply of labor is not merely a function of the numbers of persons of various skills who are or may be gainfully employed. It depends also on how long and how intensively they are willing, or are allowed, to work. In 1920, the full-time week of factory employees averaged 50 hours; the average in 1937 was 41 hours. In view of this change, Professor Wolman believes that "the chances of a general shortage of labor would seem to be greater now than they were in 1917."³² But it should be remembered that the short working day is not compulsory; overtime will readily lengthen it. Also, unemployment now is at a much higher level, as Professor Wolman recognizes, than in 1917.

Since 1918, also, there has occurred a great increase in state legislation restricting the hours of labor of women and children, and limiting the occupations in which they may be employed. Certain states have limited the working hours of men in

³¹ Estimate of Professor Sumner H. Slichter, "The Present Nature of the Recovery Problem," *Academy of Political Science, Proceedings*, XVIII, 3, January, 1940.

³² See "American Labor in Another War," *Foreign Affairs*, XVIII, 84, October, 1939.

dangerous or unhealthful occupations, such as mining. In addition, the federal Fair Labor Standards Act of 1938 set a decreasing maximum limit to hours of labor of employees in a wide range of manufacturing industries, which will reach 40 hours per week in October 1940. Such legal restrictions, and those which have been imposed by trade unions, may eventually be removed under the stress of wartime emergency, but always at the risk of cooling the enthusiasm of the workers for the war effort.

Expansion and Disunion of Organized Labor

The recent expansion in American trade unionism is another new factor in the situation. Even after their spectacular growth during the World War, American trade unions numbered in 1918 only 3,500,000 members, or one for every ten American non-agricultural wage earners. Twenty years later, union membership is perhaps as high as 8,000,000,³³ which would give a ratio of one trade unionist to every five non-agricultural employees.

The trade union movement, moreover, now includes in its scope many groups of workers who, 20 years ago, were wholly unorganized. Finally, the union movement has been strengthened by official recognition in the Wagner Act of the right of the workers to bargain collectively with their employers and by the establishment of the National Labor Relations Board.

³³ No thoroughly reliable data exist for trade-union membership either in 1918 or today. The above figures, which were supplied by the unions themselves, have been cited by the Department of Labor (*Annual Report . . . 1939*, 12) with, however, no guarantee of their accuracy.

Were the labor movement united, its expansion so as to include a larger proportion of the workers might have facilitated the task of government agencies in the administration of labor policy, particularly in the adjustment of disputes between workers and employers. But today the trade union movement in the United States is split wide open by the bitter opposition of the two great rival organizations, the American Federation of Labor and the Congress of Industrial Organizations.

The inter-union disputes affect the country's most basic industries, such as coal and metal mining, electrical appliance, automobile and machinery manufacturing, and the lumber, petroleum, shipbuilding, and electric light and power industries. All efforts to bring the two organizations together have failed, and they now seem farther apart than ever.³⁴

It seems clear that the labor problems with which government will have to deal, should we become involved in a major war during the next few years, will be more urgent and more complex than those we faced in 1917. The transfer of labor may have to be on a large scale, labor shortages may appear sooner, the division within the ranks of organized labor will make difficult the selection of responsible labor leaders with whom the government can negotiate.

Are We Equipped to Deal with Labor Unrest?

But, offsetting the added difficulties, progress has been made in the intervening 20 years in improving the administrative machinery for dealing with war-

³⁴ Wolman, *op. cit.*, 86.

time labor problems. To begin with, the War and Navy Departments in their procurement planning have been attempting to estimate the additional demands for labor which will result from the initial orders which they will place with industrial concerns. We know much more, also, about the dimensions and the composition of our labor supply. The United States Employment Service and the state employment services have in their files records of the qualifications of many millions of workers. A great mass of information of the same nature is to be found in the records of the Social Security Board and the Works Progress Administration. The 1940 U. S. Census of Population will provide a complete record of workers' usual occupations. The Bureau of Labor Statistics is now engaged in making a survey of skilled workers, employed and unemployed. This information will be supplemented in the 1941 Census of Manufactures by the enumeration and classification of all employed workers.

For the all-important business of adjusting disputes between workers and employers so as to avoid strikes and lockouts, the national government seems not so well prepared. The National War Labor Board has disappeared, and nothing has taken over its powers and duties. The present situation has been described by Professor Wolman as follows:

Since 1933 we have had an unprecedented expansion in the number and size of agencies empowered to handle labor relations; nevertheless, their various functions have been so strictly defined, either by the law or by the agencies themselves, that many serious disturbances in recent

years apparently fell outside the jurisdiction of any of them. Thus the National Labor Relations Board, the most powerful of the federal labor boards, restricts itself to hearing certain types of complaints against employers and to enforcing the law with respect to them. . . . No provision has been made for the creation of an agency with equal prestige and with the function of winning the confidence of all parties concerned—employers, employees, unions, and the public—and of exerting its influence to prevent strikes or at least to settle them promptly.⁸⁵

Must Labor Be Drafted?

No administrative machinery, no matter how cleverly designed or effectively administered, can itself solve wartime labor problems. Labor, as has often been said, is not a commodity. It is a mass of human beings whose productive efforts vary according to their emotional responses to certain stimuli. Workers, like all other persons in a democracy, do not like the idea of compulsory service, even in wartime. Their emotional response is unfavorable; it may express itself in sabotage, even in violence. But, on the other hand, voluntary methods do not seem adequate for the great task of labor mobilization. Experience of the past war, in this country as well as in Europe, showed that the stimulus of high wages, on which we rely in peacetime to distribute the labor supply to industries where it is needed most, does not function effectively in wartime. Neither do patriotic appeals produce satisfactory results, and so the alternative is some degree of compulsion, either direct or indirect. The shifting of labor may be accomplished

⁸⁵ *Ibid.*, 87.

by imposing high taxes on non-essential products or on the industries producing them, and by cutting off new capital and raw materials from non-essential industries. Both of these schemes avoid drafting labor for civilian employment, but they accomplish the desired results less immediately, i.e., by decreasing the national consumption of the products of non-essential industries. With their market thus blighted, such industries tend to decrease their labor force. Whether or not direct measures such as a "labor draft" will be considered necessary will depend on the surrounding circumstances, on whether or not the war is popular, whether the mass of workers understand and approve of its objectives, and on how dire is the need of effective organization of civilian labor. An English point of view on industrial conscription is presented by an anonymous contributor to *The Spectator*:

The immense problem involved in such a complete re-organisation of the whole economic life of the country is manifestly not to be met by instituting conscription by a stroke of the pen. Indeed the very introduction of that word into the discussion is both inappropriate as well as confusing—inappropriate, because by inevitably evoking the notion of military service and discipline it tends to alienate numerous elements otherwise willing to take their reasonable share in the defence of their home and country: confusing because what is actually required is something fundamentally different and infinitely more complicated than what conscription has hitherto stood for. What is wanted is not the mobilisation of masses as masses, wrenched from their peacetime occupations and welded into homogeneous bodies by military discipline and training, but on the contrary, the most careful and detailed

planning and distribution of the whole man-power available, so as to assure through the optimum use of every individual the maximum output of military supplies and armament together with the indispensable minimum output of the other requirements.³⁶

Perhaps the only safe generalization is that, in the next war, control over labor, as well as over other phases of civilian life, will be applied sooner, will be more comprehensive, and will be attended by a greater degree of compulsion than in any previous great struggle in which the United States has yet been engaged.

The Control of Wages in Wartime

The effect of war on wages may be illustrated by the following quotation from *The* (London) *Economist* for December 30, 1939:

SOARING WAGES.—All dangers of haphazard and uncontrolled increases in wages now exist. Last month increases worth £20 millions a year were granted. Now a million and a half engineers and railwaymen are asking for increases worth £40 millions a year; 750,000 coalminers, who were given an extra 8d. a shift in November, are pressing for a cost-of-living supplement to their wages as well; 100,000 shipyard workers are negotiating for an extra 10s. a week; 60,000 passenger transport employees have been given higher wages. The movement is gathering speed. Soon the whole sorry business seen in the last war, when wage increases pushed up prices and defeated their own object, will be bound to recur.³⁷

Sudden increases in the wage rates of those types of labor which are in exceptional demand were

³⁶ "Man-Power in War," *The Spectator*, September 2, 1938, 360.

³⁷ *The Economist*, CXXXVII, 505.

familiar features of our 1914-18 war experience. Wages in war industries are temporarily thrown out of line with those paid for comparable work by other industries in the same locality. They, in turn, have to raise wages in order to hold their employees, and thus the upward movement spreads,³⁸ but not automatically, nor uniformly throughout the country. Wages rise most quickly in big industrial centers, while in isolated areas stagnant pools of labor may long remain untouched by the wartime disturbance.

Along with rising wages, prices of commodities rise, owing partly to increased labor costs and partly to the direct effect of the increased demand for finished goods and raw materials. Dealers buy to protect their inventories, thus extending and magnifying the price rise. Banks, by extending credit liberally to business men, provide the basis for a rise in the general level of prices. Retail prices respond more slowly than wholesale prices to these influences, but eventually they too are affected, bringing about a rising cost of living. The result is to deprive the workers, in large part, of the benefits of the rise in their money wages. The worker gets more dollars in his pay envelope, but each dollar will buy less. His real wages may even fall, while money wages are rising.³⁹ This situation, as soon as the workers realize

³⁸ Allowance must be made for the prior absorption of a certain number of unemployed into industry, but, owing to the specialized character of the demand, wage inflation may begin long before unemployment has entirely disappeared.

³⁹ As soon as all resources are fully employed, it is impossible for wage earners to receive any increase in real incomes, no matter how high their money wages may rise, *unless* there is some relaxation of the war effort. For only on this supposition could there be any increase in the total supply of consumable commodities. See E. A. G. Robinson, *op. cit.*, 640.

what is happening, naturally gives rise to demands for further increases in money wages. In war industries such demands are usually granted, since they can readily be passed on to the government in higher prices for munitions. But in industries producing exclusively, or in large part, for civilian consumption the shifting of increased labor costs is not easy. The resulting disputes between workers and employers are a frequent cause of wartime strikes.

For the problem of rising wages two remedies have been proposed: (1) the stabilization of wages and (2) tying wages to prices, i.e., relating wage increases to changes in the cost of living.

Is the Stabilization of Wages Possible?

The stabilization of wages during wartime would meet with the same sort of difficulty which was experienced in attempting to stabilize prices. Neither proposal is consistent with the smooth functioning of a system of free enterprise, in which rising prices are the means whereby supply is increased to meet the increase of demand. The essentials of the new economic situation produced by the war are, in simple terms: (1) a huge additional demand for goods and services; (2) a decreased supply of labor. The deficiency in the labor supply caused by recruiting for the armed forces can be made good in various ways, principally by taking more women into factory and farm work. But unless the increased military consumption can be offset by an equivalent decrease in civilian consumption, the inevitable result in a free economy is higher wages.

Tying wages to prices expresses in popular terms the idea that wages in wartime should rise only in proportion to the rise in the cost of living. The principle has been applied abroad both by governments and private employers during periods of currency depreciation. Practically, the principle is difficult to apply satisfactorily because of the uncertainties and delays in computing the changes in the cost of living. But more serious is the objection of principle, viz., that fixing wages according to changes in prices may produce instead of stability a "completely unstable" economy. Let us suppose, for example, that when the war is well under way and all the national resources are fully employed, there is a sudden enlargement of the demand for munitions. Then, unless this is counterbalanced by an equivalent decrease in the demand for civilian goods, prices must rise. We then get a proportionate increase in wages which, by adding to costs, causes a further increase in prices. Thus an ascending spiral of prices and wages is generated, which can find its logical conclusion only in the collapse of the national currency.⁴⁰

The conclusion is that the successful conduct of modern warfare involves a reduction in civilian consumption which, if the morale and efficiency of the workers are to be preserved, must be shared equitably by all classes in the community. The reduction can be brought about by taxation, by forced savings, or

⁴⁰ Robinson, *op. cit.*, 640-641. A further objection on the ground of principle is that when wages are linked to prices workers may not obtain the gains which would otherwise accrue to them as the result of increases in the productivity of labor. This objection, however, would have more force in peacetime since it seems doubtful whether labor's productivity gains under wartime conditions.

by price and wage control. All these methods may have to be employed, but none of them can claim success in stabilizing wages or any other income unless they succeed in cutting down the volume of consumable goods.

CHAPTER EIGHT

MOBILIZATION OF BUSINESS: PRIORITIES AND COMMANDEERING

THE possibilities of controlling industry in wartime through "priorities" seem to have been discovered by the English. Learning from them, we developed the scheme into one of the most effective instruments of industrial mobilization. The basic idea is simple. In wartime, the demand for many types of essential goods and services far exceeds the available supply. There is not enough iron and steel, copper, wool, hides, tin, rubber, etc., to go around, that is, to satisfy both government and civilian needs. The same condition prevails in transportation: there are not enough freight cars, nor adequate terminal facilities, to handle the traffic. Labor, particularly skilled labor, becomes scarce. Supply cannot be increased at once, hence the quantities available must be assigned to industries or plants according to their importance to the war effort. This is accomplished through a system of priority ratings, giving preferential treatment in transportation services, in the purchase of fuel and materials and in the hiring of labor.

From small beginnings the priority system developed, as its possibilities were gradually understood, into a scheme of economic planning. "Through application of the principle of priorities," wrote Mr.

Baruch, "the processes of manufacture and trade were made to move in response to a national purpose rather than in response to the wills of those who had money to buy."¹ By determining the *sequence* in which the various conflicting demands for scarce commodities and scarce factors of production could be satisfied, the government determined the *direction* of national productive effort. Priorities and price control were intimately related; the priorities system reënforced price-fixing by introducing a species of rationing. Also, the power to grant or withhold priority preferences proved a valuable weapon in the hands of the War Industries Board to force unwilling business men to accept "negotiated" prices.

Like price control and other features of wartime policy, the priorities system developed tentatively. The initiative came, not from government, but from manufacturers and contractors engaged on government work, who, in the early days of our participation in the war, demanded that the General Munitions Board should tell them what orders they should fill first. The Board's replies at that time necessarily were in the nature of advice, without binding force.

A foundation for priority orders was laid in Section 120 of the National Defense Act of 1916, but the power to make such orders effective was first granted to the executive in the Priority Shipment Act of August 10, 1917, which applied directly to priority in transportation.

Legally, priority orders outside the sphere of transportation were, possibly, no more than requests; in fact,

¹ *Op. cit.*, 29.

they usually were stated in the form of requests and their issuance was ordinarily in conformance with understandings reached through negotiations with the trade involved; but actually they had all the force and vigor of orders, since every concern affected knew that if it did not comply its supply of fuel might be cut off, its materials and supplies might not be received for transportation, or its establishment might be seized by the Government.²

With the organization of the War Industries Board, the effective use of priorities was undertaken by its Priorities Committee, which, on September 21, 1917, issued orders placing the iron and steel industries under priority control. After that date, the system was gradually extended as its possibilities in the realm of economic planning were more fully appreciated. Finally, on July 1, 1918, an order of the Board "requested" all producers of raw materials and manufactured goods (except foods, feeds and fuels) to observe regulations regarding priorities.

Procedure in Granting Priorities

At first the Board issued certificates of priority on application from business men. A firm wishing to place an order for a controlled commodity applied to the Priority Committee for a certificate, which, when granted, assigned his order a rating under one of five general classes,³ according to its importance in the war effort. Later a scheme of automatic classi-

² *Ibid.*, 50-51.

³ Class AA—emergency war work; Class A—all other war work; Class B—work essential to the national welfare, though not to the war effort; Class C—work not covered by priority certificates, but subsidiary to the war effort; Class D—work not covered by the above four classifications. *Ibid.*, 53.

fications was set up, making unnecessary specific application for certificates on each order.

A final development of the priorities system came in the listing of industries whose operations were considered of especial importance during the war. Seventy-three such industries, included in a list issued in September 1918, were to be given preference in supplies of fuel, electric energy, transportation and labor. The list also rated 7,000 individual plants according to their importance in the war effort.

Whenever a plant not on the list took a war order, it was promptly placed thereon if its needs required this action. This situation obviously gave a renewed incentive to owners to convert their plants to war work. The general scheme of automatically directing the flow of certain fundamental industrial necessities into channels designed to forward the work of those producing for the war, to the detriment, if need be, of those engaged in efforts not materially necessary to the emergency, was of extraordinary importance in supplementing and completing the control obtained by priority certificates and automatic priority ratings for individual orders.⁴

In the summer of 1918, when the wartime demands were making great inroads on the supply of labor and industrial facilities, President Wilson asked the War Industries Board to consider the expediency of suppressing for the duration of the War all non-essential industries. An investigation disclosed 25 industries producing "nonwar commodities," which employed 284,000 persons and consumed annually 1,700,000 tons of fuel.⁵ Yet the Board decided against shutting

⁴ *Ibid.*, 57.

⁵ *Ibid.*, 59.

them down because of the economic disturbances which such action would occasion and the fear of weakening the morale of persons dependent upon them for support.

Priorities in Industrial Mobilization Plans

The importance of priority ratings, both as an independent means of industrial control and as a weapon for enforcing other controls, such as price-fixing and labor policies, has been recognized in all the four successive editions of the Plan. In the 1933 and 1936 Plans, the uses of priority control were stated to be:

(1) To direct the flow of materials and services into the channels of supply of the war-making agencies.

(2) To divert the use of resources from nonessential needs into channels of essential production.

(3) To assure the equitable distribution of materials and services to the civilian population.⁶

The earlier Plans also provided, in drafts of proposed legislation, legal authority for the application of priority ratings. The draft of a War Resources Control Act appended to the 1936 Plan empowered the President, when the national interest required such action,

To fix and establish the order or preference to be observed by any manufacturer, producer, dealer, distributor, carrier, public utility, or other person whatsoever, in manufacturing, producing, filling existing or future contracts for, complying with orders or requisition for, trans-

⁶ *Industrial Mobilization Plan . . . 1936*, 10. See also 1939 Plan, *op. cit.*, 3-4. (See Appendix, 240.)

porting, distributing, or delivering of any product, foodstuff, material, commodity, real estate, or right.⁷

How extensively the priority ratings would be employed in another war and by what agencies, these Plans indicated only in general terms. It seems implied, however, that the determination of policy regarding priorities would be centralized in the War Resources Administration and that its use would be determined by the circumstances of the moment rather than by a predetermined formula.

Commandeering

"Commandeering," as used in the various editions of the Industrial Mobilization Plan, is not equivalent to conscription of wealth. It implies compensation; in fact, the unwillingness of private owners to accept the proposed compensation was often in the last war the reason for the threat to "take them over." The power to commandeer, i.e., to take out of private ownership stocks of commodities and transportation and production facilities needed for government use, according to Mr. Baruch, provides the true basis of wartime control of industry. In the early days of the war, the Army, the Navy, the Shipping Board, and other government agencies used the commandeering power in loose, uncoördinated fashion.⁸ They took stocks of necessary commodities indiscriminately, sometimes in competition with each other. Not until September 3, 1918, did the President centralize com-

⁷ *Ibid.*, 66.

⁸ The process did not always work smoothly. The Navy on July 24, 1917, set in motion an attempt to commandeer a lot of machine tools; it got possession of the tools on October 9. *House Document No. 271, op. cit.*, 24.

mandeering power in the Chairman of the War Industries Board. As far as plant and equipment were concerned, the power to take private property for public use was not frequently used. The transportation system was taken over on December 28, 1917, after the railroads under private operation had become involved in a hopeless traffic congestion. The Postmaster General took over the Western Union Telegraph Company, and the War Department commandeered the Smith & Wesson Manufacturing Company, when these firms refused to accept awards of the National War Labor Board.

But the threat of commandeering, like the threat of an unfavorable priority rating, helped somewhat to enforce the program of the War Industries Board. Mr. Baruch claimed that "it remained in the background as the effective persuasive force which vitalized the whole program of regulation."⁹ The Nye Committee, in its review of the findings of the War Policies Commission, questioned whether the threat of commandeering was really effective.¹⁰ It cited a number of instances of strikes by war industries, cases in which months of delay occurred before the government was able to persuade a recalcitrant industry to accept its terms. During a critical period of the War, the building of a powder factory was delayed three months before the Du Pont Company would accept the contract offered. Steel companies blocked government procurement plans in the summer of 1917 by their unwillingness to accept prices fixed by

⁹ War Policies Commission, *op. cit.*, 41.

¹⁰ *Senate Report No. 944, op. cit.*, pt. 4, 38-39.

the Price Fixing Committee of the War Industries Board.¹¹

The weakness of the government's position did not lie so much in the uncertain legal basis of commandeering as in the difficulties which it would experience in operating complex industrial enterprises after they had been taken over. Business men were fully aware of these difficulties; they seem also to have been confident that the compensation which the courts would award in commandeering cases would exceed what they could secure by bargaining. Sometimes they pushed their case almost to the point of calling the government's hand. Mr. Baruch, testifying before the War Policies Commission, said:

During the World War, Government had power to commandeer factories and to operate them under bureaucratic direction. I do not recall a single important industrial enterprise that was thus taken over. This does not mean that the use of the power was never advocated. On the contrary, it was seriously urged in respect of a great industrial plant which was thought by some not to be giving full cooperation to its Government. The proposal split on the rock of this argument: Who will run it? Do you know another manufacturer fit to take over its administration? Would you replace a proved expert manager by a problematical mediocrity? After you had taken it over and installed your Government employee as manager, what greater control would you have then than now? Now you can choke it to death, deprive it of transportation, fuel, and power, divert its business, strengthen its rivals. Could any disciplinary means be more effective? If you take it over, you can only give orders to an employee backed by threat of dismissal, and with far less

¹¹ *Hearings* pursuant to S. Res. 206, *op. cit.*, pt. 22, 6358-60.

effect than you can give them now. Let the management run the plant and you run the management.¹²

Later, when questioned on this testimony by the Nye Committee, Mr. Baruch was asked whether he did not think that the threat of commandeering on any large scale was an idle threat. He replied, "It would have been a very difficult thing to do, but if we had been forced by necessity, in order to bring these fellows to terms, we were going to do it," and proceeded to illustrate his point as follows:

We were having very great difficulty with one of the strongest men in the whole industrial field, and he did not see what the law was, and he intimated, in a very diplomatic and politic way, that they were not going along, and that would be that. So that I took out a letter which I had on me, signed by Mr. Woodrow Wilson, who was then President of the United States, authorizing me to say that he would take over the plants, and particularly this one, in case we were unable to come to some agreement.

After reading over this, he said, "Who is going to operate it?" I said, "You are not [sic] going to operate it." He said, "Well, I could just sit home." I said, "Well, you cannot just sit home because you are going to have a hell of a time explaining to the people at home why you are not running it." He said, "Perhaps we can fix it up," and we proceeded to adjust it, but there was a real threat.¹³

In the post-war discussions of Industrial Mobilization, there has been general agreement that, in case of another war, the three weapons of economic con-

¹² War Policies Commission, *op. cit.*, 53.

¹³ Hearings pursuant to S. Res. 206, *op. cit.*, pt. 22, 6358.

trol which proved effective in 1917-18 would again be employed, viz., price-fixing, priorities and commandeering. The first two of these were specifically incorporated in the most recent (1939) edition of the Plan, but commandeering was not mentioned. Earlier editions of the Plan had briefly discussed the necessity of requisitioning, upon payment, private property in the form of plant, materials or services but had warned that "while commandeering is important as an enforcement measure, its use tends to place the Government in business; it should, therefore, be employed only as a last resort."¹⁴ Ample legal authority for commandeering may be found in the constitutional war powers of the President, and in Section 120 of the National Defense Act of 1916, which provides expressly for placing compulsory orders for supplies needed by the government and for requisitioning of plants which refuse to accept such orders. In view of these facts, it seems reasonable to suppose that in a future war the pivotal organization, the War Resources Administration, would not hesitate to commandeer any commodities and facilities which it could not advantageously obtain otherwise.

¹⁴ *Industrial Mobilization Plan . . . 1936*, 11-12.

CHAPTER NINE

THE CONTROL OF PRICES AND PROFITS

DISILLUSIONMENT inevitably followed the end of the great national effort of 1917-18. The American people found that the Armistice did not bring in the millennium, and, reacting from the tension of the war years, they began to question whether the great effort had been worth while. They questioned the objectives of the war and criticized its conduct. This attitude of disillusionment was exaggerated by the depression of 1920-22. Workers who had lost their jobs in the post-war deflation, unemployed soldiers, and farmers suffering from the collapse of prices of staple products, contrasted their misfortunes with the ease and luxury of the new crop of millionaires which the war had produced.¹ No feature of American participation in the World War left a worse taste in the mouths of the common people than the conviction that profiteering had been common and flagrant, and no feature in plans for industrial mobilization in a future war has been more emphasized than the necessity of taking the profits out of war.

Immediately after the war, the American Legion

¹ The increase in the number of persons with a fortune of one million dollars or more may be roughly measured by the number of persons reporting incomes of over \$50,000. In 1915, 10,671 persons reported incomes for the purpose of federal taxes of over \$50,000. In 1917, the number was 19,103; in 1918, 14,495. *Hearings* on H.R. 3 and H.R. 5293 before the House Committee on Military Affairs, 74th Congress, 1st session, 619.

initiated a campaign against profiteering, which it continued for almost twenty years. First, the veterans used their anti-profits drive as a lever to force the payment of the two billion dollar soldiers' bonus. When this had been accomplished, the Legion sponsored a succession of bills to "equalize the burdens of war."

The Legion's drive against profiteering was supported by peace organizations and by disillusioned intellectuals, who found in the anticipation of war profits an important, if not a major, cause of war itself. (See Chapter III.) Substantial citizens who had played a large part in economic mobilization in 1917-18 also showed themselves fully appreciative of the evils of war profiteering and anxious to prevent its recurrence in another war. Bernard M. Baruch told the Nye Committee that "only by the elimination of profits, with its vast increase of the wealth of the few and the enormous dislocation following hostilities, can it be said of war that it has been won—if a war is won."² Military men wanted to eliminate war profits as a means of preserving civilian morale. It is probably not an exaggeration to state that the elimination of *excessive* war profits is one of the main objectives of post-war planning for industrial mobilization.

The Extent of War Profits

The findings of numerous official investigating bodies since 1918 seem to confirm the popular impression that, in spite of price-fixing and excess

² *Hearings* pursuant to S. Res. 206, *op. cit.*, 6267.

profits taxation, wartime profits in some industries had, in fact, been enormous. For a full discussion of the subject the inquiring reader is referred to official documents.³ In this place only a few of the more striking facts can be catalogued. The enormous rise in the net income of the United States Steel Corporation is shown in Table 2, below:

TABLE 2
NET INCOME OF U. S. STEEL CORPORATION⁴
(Before Payment of Taxes)¹

	<i>As Calculated by the Federal Trade Commission</i>	<i>As Reported by the Corporation</i>
	(millions of dollars)	
1912-14	\$ 76	\$106
1915	98	130
1916	294	334
1917	478	529
1918	—	473

After payment of federal income and excess profits taxes, this corporation's net earnings in 1917 were \$244,739,000. The highest pre-war dividends on the Corporation's common stock had been 5 percent; in 1917, it paid 18 percent, and in 1918, 14 percent. The situation of this company was not unusual. An examination of the accounts of 10 steel mills showed

³ See report of the Federal Trade Commission on profiteering, *Senate Document No. 248*, 65th Congress, 2d session; also report of the Graham Committee on expenditures in the Ordnance Department, *House Report No. 1400*, 66th Congress, 3d session; and *Hearings* pursuant to S. Res. 206 before the Special Committee (Nye Committee) on Investigation of the Munitions Industry.

⁴ Federal Trade Commission figures are from the *Report* cited in note 3; the Corporation's figures are from the *Commercial and Financial Chronicle* for January 29, 1916, CII, 443 and February 1, 1919, CVIII, 473.

profits for 1918 ranging from 30 to 319 percent on their investment.⁵ Large earnings resulted in the payment of huge bonuses to corporation executives; four officers of the Bethlehem companies divided a total of \$2,300,000 in 1917, and \$2,100,000 in 1918.⁶

Twenty-one copper companies, which in 1913 had earned 12 percent (net after payment of taxes), in 1917 earned 24 percent on their investment. The profits, net after taxes, of 48 lumber companies averaged in 1917, 17 percent. Data secured by the Federal Trade Commission for 106 refining companies for the first quarter of 1918, supplemented in some cases by returns for the second six months of 1917, indicate that the average profit in the oil industry was about 21 percent on investment. Four leading meat packers, whose average pre-war profit (1912-14) was 19 million dollars, earned in 1915, 17 millions excess profits over the pre-war period; in 1916, 36 millions, and in 1917, 68 millions. Large war profits were earned by many other industrial enterprises, such as leather tanneries and flour mills.⁷

Causes of War Profits

In the public mind profiteering had an evil connotation, partly because of the suspicion that fraud had been a large factor in boosting war incomes. Pressure for time, the lack of standardized cost-accounting methods and of competent accountants were responsible for looseness in relations between government agencies and business firms, which often

⁵ *Senate Report No. 889*, 74th Congress, 1st session, 18.

⁶ *Ibid.*, 27.

⁷ *Ibid.*, 19ff.

proved costly to the government. But, contrary to popular impression, war profits did not often result from dishonesty. They accrued to corporations and individuals who were in a position, or who put themselves in a position, to take advantage of the extraordinary demand for commodities of all kinds.⁸ In a word, for the fortunately situated producers, prices rose faster than costs. The margin of profit increased, and it was calculated in many instances on a greatly increased volume of sales or of production.

Price Inflation, 1915-18

The increase in prices was the most spectacular feature of the business boom of 1916 and early 1917, preceding our entrance into the war. The American price level, after the outbreak of war in Europe, showed no tendency to rise until midsummer of 1915. But in the 25 months, June 1915 to July 1917, the increase amounted to 85 percent. Never before had such a rapid rise occurred in any gold standard country.⁹ In the second half of 1917 and during 1918,

⁸ Litigation against the Bethlehem Steel Company illustrates this point. In a suit initiated in March 1925, Bethlehem filed claims for \$8,800,000 as additional profits in connection with the building of 13 ships for the Emergency Fleet Corporation. The government replied with a counterclaim for \$19,655,000, charging that the Bethlehem companies had committed fraud by inflating the figures of prospective costs when negotiating cost-plus contracts. In denying the government's claim, the Special Master for the Federal District Court held that the Fleet Corporation had made the contracts with open eyes and accepted the company terms because it realized that the shipbuilding program could not be completed without Bethlehem's assistance. The Master recommended that \$5,661,154 be paid to the Bethlehem companies as additional profits, "although resenting the commercial attitude of Bethlehem and condemning Bethlehem for demanding its 'pound of flesh.'" *New York Times*, February 8, 1936.

⁹ See W. C. Mitchell, "Prices and Reconstruction," *American Economic Review, Supplement*, X, 137, March 1920.

after price-control measures had been introduced, the rise continued, but at a slower rate. When the Armistice came, American wholesale prices were on the average twice those of 1914. What the price increase meant in terms of a few basic commodities is shown in Table 3.

There was nothing mysterious about these changes. The moving force came from the Allied governments' purchases of foodstuffs and munitions which greatly increased our net exports. The resulting boom in American production was responsible for huge

TABLE 3

WHOLESALE PRICES OF TEN BASIC COMMODITIES ^a

		July 1915	July 1916	July 1917	July 1918
Wheat	bu.	\$ 1.39	\$ 1.17	\$ 2.58	\$ 2.25
Cattle	100 lbs.	9.21	9.99	12.56	17.63
Hogs	100 lbs.	7.28	9.83	15.46	17.72
Lard	lb.	.08	.13	.20	.26
Cotton	lb.	.09	.13	.26	.31
Wool	lb.	.56	.69	1.20	1.44
Hides	lb.	.26	.27	.33	.33
Coke	2,000 lbs.	1.75	2.75	15.00	6.00
Copper	lb.	.20	.27	.32	.25
Pig iron	2,240 lbs.	14.95	21.95	57.45	36.60

Source: *Monthly Labor Review*, September 1918, 102-103.

(a) The grades quoted are: Wheat, No. 1 northern; Cattle, good to choice steers; Hogs, heavy; Lard, prime, contract; Cotton, upland, middling; Wool, $\frac{3}{4}$ and $\frac{3}{8}$ grades, scoured; Hides, packers', heavy native steers; Coke, furnace, prompt; Copper, electrolytic; Pig iron, Bessemer.

additional demands for domestic and imported materials—hides, wool, rubber, tin, etc., which boosted their prices. Wages as usual lagged behind prices. (See Chapter VII.) Profit margins widened, stimu-

lating business expansion. For this expansion, the newly organized Federal Reserve System furnished abundant credit. After 1917, the great wave of government borrowing, financed in large part by the Federal Reserve Banks, gave a strong impulse to price inflation.

The control of prices, an obvious preventive measure against profiteering, had, in addition, a number of other objectives. It aimed to cut the cost of the war (i.e., government expenditures),¹⁰ to prevent war burdens from falling too heavily on low-income groups, and to stabilize business. To these three purposes, which were obvious at the beginning of our participation in the war, there was finally added a fourth. Price control in a few cases was used as a means of diverting labor and capital from the production of non-essentials to use in essential industries.

The Development of Price Controls

Like other features of the economic control, price-fixing was not carried out under a comprehensive plan prepared in advance of war. Congress never authorized a general freezing of the price level; on the contrary, price control developed in irregular, almost haphazard fashion, in response to what seemed to be the most pressing needs of the moment. The government's interest in price stability was given attention in the National Defense Act of 1916, which authorized the President to fix prices for commodities purchased for official use, particularly for

¹⁰ Only the money costs, of course, are increased by inflation, not the real costs in terms of human effort and sacrifice.

the War Department. Navy purchases were similarly protected by a law of March 4, 1917. In June 1917, after the outbreak of war, Congress authorized the President to place orders for merchant ships at prices which he regarded as reasonable. Congress itself fixed a minimum price of wheat in the Lever Food Control Act of August 10, 1917, and in the same legislation authorized the President to fix the price of fuel. It gave him powers to control the distribution of food, which were used by the Food Administration to control prices as well. Beginning with the summer of 1917, the scope of price-control measures was rapidly extended by the Food and Fuel Administrations and the War Industries Board.

Even before the War Industries Board emerged from the Council of National Defense, the latter had become concerned with price control through the activities of its committees on raw materials and on supplies. The entrance of the United States into the war had caused violent disturbances in the American markets for basic commodities. (See Table 3.) The government had suddenly become the chief buyer for such commodities as copper, lumber, iron and steel, nickel, aluminum, zinc, sulphuric acid and other heavy chemicals. Furthermore, this new demand was inelastic; it was not checked, as is ordinary commercial demand, by the rise in prices:

In ordinary times a rising price carries with it its own defeat. Purchasers will buy so long as they can make a profit or reap a satisfaction by doing so. This at least is true of everything except the most extraordinary luxuries. They will stop buying when the price reaches a

point outside the range where the commodity can be turned over at a profit. The inflated price drops as a result. But war is economically the greatest and most scandalous of spendthrifts. No economic profit comes from the expenditure of an instrument of war and no economic profit is considered in connection with its purchase. The demand is absolute; the price is no deterrent.¹¹

Anxious to protect the government interest and to avert the menace to ordinary business of wild gyrations in prices, Mr. Bernard M. Baruch, the Chairman of the Committee on Raw Materials, and other members of the Advisory Commission of the Council persuaded military purchasing agents to take steps toward price control. Manufacturers and other suppliers were brought to Washington for conferences in which prices were settled by negotiation. Thus was initiated a process of price control by agreement, which was greatly extended in later stages of the war by the Price-Fixing Committee of the War Industries Board. After August 1917, the Board assumed responsibility for negotiating price schedules for all commodities, except those which were under the control of the Food and Fuel Administrations.

Acting on the recommendations of the Board, President Wilson fixed prices for copper, iron and steel in September 1917, and in the following fourteen months, similar proclamations extended price control over hundreds of commodities essential to the successful conduct of the war. The President, in outlining the principles on which government should

¹¹ Baruch, *op. cit.*, 71.

control prices, said that the fixed prices should be sufficient to "sustain the industries concerned in a high state of efficiency, provide a living for those who conduct them, enable them to pay good wages and make possible expansions of their enterprises. . . ."¹² In this statement profits were included only by implication, but the Committee in its pronouncements made it clear that its official prices would permit business men to make a profit. It recognized the profit motive as a necessary supplement to patriotism.

Principles and Methods of Price-Fixing

Prices, the Committee had decided, should be high enough to cover costs of production, but the crucial question was: "Whose costs?" The data assembled by the Federal Trade Commission revealed wide differences in the costs of various producers. Obviously when the entire output of a commodity is needed, no price fixed on the basis of average costs would turn the trick. The Committee usually solved the puzzle by taking the costs of the marginal producer, and fixing the price for each product at a point which would cover the costs of the bulk (approximately 80 percent) of the supply.¹³ This method had the advantage of setting the controlled price as nearly as possible at the point where it would have been fixed by market forces under normal competitive condi-

¹²Ray Stannard Baker and William E. Dodd, *The Public Papers of Woodrow Wilson; War and Peace*, I, 74. Address of July 12, 1917 to the mine operators and manufacturers.

¹³To this rule there were numerous exceptions. Sometimes costs were not available; for products produced at joint costs, such as wool and mutton, no separate costs could be computed.

tions. It had the merit of bringing out the necessary supply with a minimum of government intervention.

But fixing prices on marginal or bulk-line costs was bound to disappoint those who hoped that price control would prevent the accumulation of large war profits. If, for example, the costs of various producers varied from 10 cents to 20 cents a unit, a price fixed at 18 cents would provide large profits for those firms which were able to turn out the product at 10, 12, 14 and 16 cents. The Committee might have abandoned the idea of a single price, paying each producer a price based on his costs, but this solution raised administrative difficulties and, like the cost-plus contracts, would have encouraged cost padding and inefficiency. Government supplies, nevertheless, might have been secured more cheaply in certain cases by this method.¹⁴

The prices thus "fixed"—in many cases after weeks of cost investigation, followed by several months of negotiations with the producers—were usually in the form of maximum prices.¹⁵ Sellers were free to charge any lower price, and buyers might agree to purchase at a lower price. In practice, however, the official prices tended to become standard; as a rule the fixed prices were made to apply to all purchases, whether by the United States Government, the Allies or domestic firms and individuals. This principle was em-

¹⁴ Individual prices were fixed on the basis of individual costs for government purchases when the amount taken constituted only a small proportion of the total output of the industry. See Lewis H. Haney, "Price Fixing in the United States during the War," *Political Science Quarterly*, XXXIV, 288, June 1919.

¹⁵ The price of wheat was a minimum price fixed at \$2.00, later \$2.20 a bushel so as to encourage production.

phasized by President Wilson, who said, "We must make the prices to the public the same as the prices to the Government."¹⁶

The Food and Fuel Administrations, having in view principally the protection of consumers, extended their price-fixing activities over the whole distributive process. Both made use of the marginal-cost principle, the Fuel Administration somewhat the more systematically. The Food Administration determined very few basic prices; its concern was almost exclusively with price margins.

Results of Price-Fixing

Our experience with the control of prices in the World War is instructive, even if the objectives of control were not fully attained. Government action seems to have introduced a certain measure of stability into the price structure. Our entrance into the war had been the signal for a sudden burst of price increases. Between February 1917, when we severed diplomatic relations with Germany, and July of that year, the index of prices¹⁷ had risen by 25 per cent. But after price control got under way in the summer of 1917, there was a noticeable check in the upward movement. In fact, a slight decline in the general price level took place in the second half of the year, and when the advance was resumed in January 1918, it moved at a much slower rate. The total rise in

¹⁶ In address to mine operators and manufacturers, July 12, 1917, Baker and Dodd, *op. cit.*, 78.

¹⁷ Index of 1366 commodities published by War Trade Board. See Paul W. Garrett, *Government Control over Prices*, 427. All the price data cited here are from this source.

prices in the sixteen months, July 1917 to November 1918, was only 6 percent.

The comparison of the movement of controlled commodities (573 items) with the uncontrolled (793 items) indicates that average prices of both groups stood at the end of the war at twice the 1914 level. But, during the course of the war, wide variations had occurred. The controlled group included predominantly basic raw materials which were extraordinarily sensitive to war disturbances. Consequently, their prices before control was applied rose much faster than other prices. The accomplishment of the official controls is evident in the stability of prices in this group between July 1917 and November 1918, a period when uncontrolled prices rose steadily.

In spite of the head-shaking of academic economists, who shuddered at any tampering with the sacred laws of supply and demand, price control, even imperfectly managed, proved feasible. The work of the Price-Fixing Committee saved the government enormous sums of money, both directly in its purchases of controlled commodities and indirectly through the effect of price-fixing in holding down the general price level. Consumers were protected in their purchases of food from extortionate demands of middlemen, and, in the case of fuel, from profiteering by producers as well. These beneficial results, moreover, were accomplished without cutting down the amounts of the controlled commodities put on the market.¹⁸

¹⁸ Except perhaps in the case of bituminous coal, where the margin allowed to distributors may have been too narrowly limited.

In general, business men showed understanding of the necessity for price control and willingness to play ball with the government. The legal basis for price-fixing, except for such portions of the supplies as were needed for government use, was shadowy and ill-defined. Congress specifically authorized price-fixing only for wheat and fuels. The Food Administration had to rely for its authority to control prices on its power to license dealers and the threat that it could influence the priorities committee to take action against recalcitrants. The legal powers of the Price-Fixing Committee of the War Industries Board extended at best only to articles purchased for government use. In the background, it is true, the Committee had two weapons, priorities and the power to commandeer stocks of goods and productive facilities. But instead of exercising compulsion, it preferred to enlist the coöperation of business men. Prices were not "decreed," but were "negotiated" after lengthy consideration of cost data. The inclusion of liberal allowances for interest on investment, depreciation, amortization¹⁹ and for profit tended to sweeten price-fixing. In addition, the intangible force of patriotism and fear of censure of public opinion helped to induce a compliant attitude on the part of business men.

As a measure for eliminating excessive war profits, price-fixing can hardly be said to have succeeded. The determination of prices on the basis of marginal

¹⁹ The anticipation of generous allowances at the end of the war for amortization, in the form of liquidated damages, caused rapid construction of new industrial facilities. After the Armistice, of course, they represented excess capacity.

cost necessarily threw large gains into the laps of low-cost producers, while those producing nearer the margin profited by the increased volume of business. These factors inevitably produced large business gains. To bring into the Treasury these gains and those derived from speculative activities in uncontrolled areas of the economy was the task of the excess profits tax. (See below, pp. 182 ff.)

Price Control in the Next War

At the hearings before the War Policies Commission in 1931, two methods of price stabilization were recommended. "Freezing the price structure at the pre-war level" was advocated by Mr. Baruch. This he would accomplish by a proclamation decreeing that "every price in the whole national pattern as of that determined date shall be the maximum that may thenceforth be charged for anything—rents, wages, interest rates, commissions, fees—in short, the price for every item and service in commerce." As a necessary supplement to this policy he recognized that government control of supply and rationing would be inevitable.

Now, in peace-time shortage, the highest bidder takes all. That is the law of supply and demand. In war—at least in major modern war—we cannot permit this. The Government must assume control of the whole supply and ration and apportion it—not to the longest purse but to the most necessitous use. Furthermore, the distinguishing characteristic of peace-time economic operation is competition, and basic prices are largely determined thereby. Also it is literally the object of one great competitor to secure as great a proportion of all business as possible.

Under war conditions the entire process is reversed. There is more business than all the facilities of the country can handle. Competitors must become cooperators in order to meet the very minimum demand for shortage items. Control of this cooperation rests in government.²⁰

General Hugh Johnson described this plan as follows:

The so-called Baruch plan suggested that no price should be artificially "fixed" but that, on a day certain, immediately upon the advent of war, a ceiling should be clamped down over the whole pattern of price relationship and exchange values, as it existed on that day, and that no higher price for anything thereafter be permitted except by authority of the President.²¹

Other witnesses, notably Newton D. Baker, former Secretary of War, advocated a piecemeal stabilization of prices, a process of fixing separately the price of each of a list of basic commodities, following the methods of 1917-18.²²

The War Department, in presenting its 1931 Industrial Mobilization Plan, recognized that "some measures for price control are inevitable and must be taken early in any major war," but rejected Mr. Baruch's proposal as a doubtful expedient, on the grounds that it would lead to evasion. Major General MacArthur said: "In the end the Government's effort would probably be largely gesture. Attempts at en-

²⁰ War Policies Commission, *op. cit.*, 34-35.

²¹ *House Document No. 271*, 72d Congress, 1st session, 45.

²² Actually the difference between this plan and Mr. Baruch's was not so great as it seemed. Mr. Baruch admitted that provision would have to be made for lifting certain prices through the "ceiling"; others might have to be lowered. Such action would be the task of a price-fixing commission.

forcement would likely create antagonism, and the Government would lose the essential elements of good will. Without complete and unstinting popular support no nation can hope to fight to victory."²³

The Army planners in 1931 favored moderate and gradual control with initial attention to basic raw materials. But they foresaw that eventually they might be compelled to extend the control to cover the whole range of domestic and foreign trade. By determining requirements in time of peace and placing them with industry in the form of accepted schedules of production, they hoped to eliminate competitive buying by government agencies, a major cause of price disturbances. With respect to government purchases, an advisory committee was to assist the Assistant Secretary of War in formulation of price policies, but it was not to be armed with price-fixing powers. Prices were to be "fair" and "reasonable," but no indication was given of the basis for determining fairness.

Features of the 1933 Plan

The 1933 Plan contained (in Appendix VI) a comprehensive and detailed schedule for price-fixing, backed by appropriate draft legislation. Its authors drew liberally upon the wartime experience, taking account also of the post-war criticisms. The Price Control Committee which they recommended was to be only a policy-forming body. Its rulings,

²³ War Policies Commission, *op. cit.*, 371-2. There is an obvious conflict here between the desire to maintain the morale of business men and the desire to maintain the morale of the working classes which would be weakened if inflation were not checked.

promulgated by presidential proclamation, were to be enforced by a large number of coöperating agencies, such as the Federal Trade Commission, the Department of Commerce, etc., who also were to furnish necessary data. The Committee was to be the sole body determining the scope and nature of price control and the timing of the controls. It was to have power to prescribe maximum, minimum, or absolute prices, to fix price margins to producers and dealers, and otherwise to control the process of market distribution. The Plan specified that the Committee should use bulk-line costs as the basis for fixing prices for basic commodities and raw materials, but for certain classes of manufactured goods, such as foodstuffs, margins of profit might be prescribed. A licensing system, similar to that which was so successfully operated by Mr. Hoover's Food Administration, was suggested for producers and dealers in foodstuffs and manufactured necessities. The Committee was to be authorized to extend its control over rentals and real estate prices. For enforcement of its rulings when not voluntarily accepted by the public and by producers, the Committee could rely on the use of the priority function, revocation of licenses, rationing, the prosecution of violators and commanding.

One of the outstanding features of the 1933 Plan was its recognition of the importance of integrating price control with other features of economic planning: with the control of profits in government contracts, with excess profits taxation, with foreign trade policy, with conservation programs, with the control

of investment. Most important of all, it recognized the interdependence of control of individual prices with the control of the general price level. "The Treasury Department assisted by the Federal Reserve System should employ those methods of public finance which will keep currency and credit inflation to a minimum. This is essential to the success of any efforts looking to the control of prices."²⁴

The sections in the 1939 Plan which deal with the control of prices are vague and general. In fact, its authors, the Army and Navy Munitions Board, seem uncertain whether price control in a future war will be necessary or even desirable. They suggest merely that the "control of prices in war *may be required* to prevent or minimize disruption of the national economic structure resulting from the impact of the rapid increase of demand upon existing facilities and resources."²⁵

In conformity with this attitude of uncertainty, a Price-Control Authority is listed only among "other emergency administrations" which "*may be organized* as required by circumstances."²⁶

The desirability of the creation of this proposed emergency agency will be dependent upon the nature and magnitude of current or anticipated price fluctuations which might tend to throw our economic structure out of equilibrium. Control of prices should be limited largely to reliance upon the voluntary cooperative pressure which an enlightened public opinion will bring to bear upon interests which fail to cooperate.²⁷

²⁴ *Industrial Mobilization Plan . . . 1933*, 68.

²⁵ *Industrial Mobilization Plan . . . 1939*, 4. Authors' italics.

²⁶ *Ibid.*, *loc. cit.* Authors' italics. (See Appendix, 249, 251.)

²⁷ *Ibid.*, 11-12.

The failure of the 1939 Plan to discuss enforcement devices such as priorities or commandeering or the application of a licensing system probably should not be taken to indicate that its authors intend to rely upon public opinion as the sole agency to enforce price-fixing orders. Popular denunciation of profiteers might be effective in causing retail dealers in food and fuel to stick to official price margins, for in these fields the public knows what is happening. An increase of a cent on a loaf of bread or on a quart of milk is a fighting matter to city workers. But the public could know nothing of the complex process of fixing prices on copper and steel and would have no basis for determining whether or not the official figures were "fair," nor whether they were observed. More important, the man in the street would not consider himself concerned by a price difference of a few cents a pound on copper, or a few dollars a ton on steel.

The Board, doubtless, has in mind the need of putting into force some such scheme of price control as was incorporated in the 1933 and 1936 Plans; otherwise, it would seem that their plans for the management of the American economy in wartime were seriously defective. For it seems certain that no major war can now be fought without an extensive system of economic controls promptly and rigorously applied; among these controls, price-fixing stands in the front rank.

Taxation of War Profits

Taxes, besides providing sinews of war, play an

important rôle in economic mobilization. No major war has ever been financed by taxes alone, partly because of the dread of making the war unpopular and partly because in an emergency large sums can be raised more quickly by borrowing. Another factor favoring loans has been the fallacious idea that somehow, by borrowing, the payment for a part of the cost of the war could be deferred.²⁸ Taxes, however, have regularly supplemented war loans; they make borrowing easier and cheaper.

In the economics of modern warfare, taxes have two additional functions: (1) to force the civilian population to cut down expenditure so as to free the nation's resources for the war effort, and (2) to prevent war conditions from upsetting too drastically the pre-war pattern of distribution of wealth and income. (This function often has been loosely described as "equalizing the burdens of war.")

Except for a few luxury taxes of minor importance, there is little indication in the financial history of 1917-18 that the power of taxation was consciously used to control consumption or investment. But even before we declared war on Germany, taxes specially designed to capture war profits were introduced. The revenues of the United States government for the year 1915 had suffered as the result of the decline in customs receipts and, in 1916, preparedness expendi-

²⁸ By loans, it is true, the money payments for taxes made by the generation that fights the war are reduced. It pays the cost of the war, however, in the higher prices that result from large-scale borrowing. Both taxes and loans therefore either restrict consumption or enforce greater exertion to maintain the accustomed consumption. As far as real costs are concerned, the war cannot be paid for in the future.

tures had increased the outgo. To meet this situation, Congress, in the Revenue Act of September 8, 1916, increased the income tax and added a federal inheritance tax and a tax on the manufacturers of munitions. The debate on the bill indicated that certain Congressmen looked upon the new taxes as a means of putting the burden of war expenditures on the Wall Street financiers, whom they regarded as responsible for promoting war.²⁹ The need for additional revenue for purposes of national defense produced two revenue acts in 1917, both of which provided for *general* excess profits taxes, levied on individual as well as corporate incomes, which were designed to take a part of the unusual wartime gains not only of munitions makers, but of all types of business enterprises.

A basic problem in taxing war profits was to find a normal profit level which could be taken as a base from which to measure excessive gains. In England the problem had been solved by using pre-war profits of each enterprise as its norm. In the United States laws of 1917, only minor attention was given to pre-war gains, but instead a standard or norm was set up which applied to all enterprises.³⁰ Corporations

²⁹ See remarks of Representative Bailey of Pennsylvania, quoted in E. L. Bogart, *War Costs and Their Financing*, 270-271. The special tax on profits of munitions makers, at first 12½ percent but reduced by the Act of October 3, 1917 to 10 percent, failed to produce important additional revenue because of liberal allowances for depreciation on wartime investment.

³⁰ "The deduction from net income was carefully defined, and was differentiated for the three cases of (1) a domestic resident taxpayer in business during the whole pre-war period; (2) one in business during a part only of the pre-war period; and (3) a foreign or non-resident taxpayer. In the first case the deduction consisted of between seven and nine per cent. of the invested capital plus \$3,000 in the case of a domestic cor-

which did not earn over 15 percent on their capital, after deducting normal profits, paid 20 percent on the excess; the rates rose to 60 percent on profits over 33 percent.

In the Revenue Act of 1918 (actually enacted in February 1919) rates on war profits were raised retroactively and a distinction was made between taxes on "war profits" and on "excess profits." Investors in war industries were treated somewhat more generously than those who had their capital in other enterprises. They were allowed 10 percent as a normal profit, and might, if they chose, substitute for it average pre-war income as a basis for measuring taxable profit.

Although crudely drawn, the wartime excess profits taxes on corporations were so skillfully administered that they proved strikingly successful, from the point of view of the Treasury. They were collected without great difficulty and without provoking serious complaint, and the yield exceeded the budgetary estimates. During the three years 1917, 1918, and 1919 they brought in about five and a half billion dollars, providing more than one-sixth of the ordinary expenditures of the government for that period.

But from the economic and social points of view,

poration and \$6,000 in the case of a domestic partnership or individual. In the second case the percentage was fixed at eight per cent. and the lump-sum exemption remained the same. In the third case the exemption was the same as for the domestic corporation or individual but without the lump-sum exemption. In the case of a trade or business having no invested capital, or not more than a nominal capital, there was a flat tax of eight per cent. of the net income in excess of \$3,000 in the case of a domestic corporation and \$6,000 in the case of a domestic partnership or resident of the United States. Net income and invested capital were further defined." *Ibid.*, 280-281.

it cannot be said that they were equally successful. They did not "equalize the burdens of the war"; they did not, by any means, capture all of the excess gains which accrued to individuals and corporations as the result of doing business under wartime conditions. The 1918 investigations of war profits by the Federal Trade Commission (see p. 164) showed that, after payment of taxes, the net incomes of certain large corporations were far in excess of pre-war gains, and constituted far more than a "normal" return on invested capital. These figures were supported by federal income tax returns. (See Table 4.)

TABLE 4
CORPORATION INCOME AND TAXES, 1913-22
(millions of dollars)

	<i>Net Income</i>	<i>Income, War and Excess Profits Taxes^a</i>	<i>Net Income after Payment of Taxes</i>
1913	\$ 4,714	\$ 43 ^b	\$4,671
1914	3,940	39	3,901
1915	5,310	57	5,253
1916	8,766	172	8,594
1917	10,730	2,142	8,588
1918	8,362	3,159	5,203
1919	9,411	2,175	7,236
1920	7,903	1,625	6,278
1921	4,336	702	3,634
1922	6,964	784	6,180

(a) War and excess profits taxes were collected in 1917-22.

(b) Including excise taxes of \$10,071,000.

Source: *Statistical Abstract of the United States, 1931*, Table 186.

Total net income, after rising from approximately 4 billion dollars in 1914 to 10.7 billion in 1917, fell in 1918 to 8.4 billion. Federal corporation taxes in

1914 were 39 million dollars or 1 percent of corporate net income; in 1918 taxes were 3,159 million dollars or 38 percent. Still the rise in taxes did not keep pace with the rise in income, so that the income retained by 217,070 corporations in the two war years exceeded by 5.2 billion dollars the income retained by 181,535 corporations in the two pre-war years, 1913 and 1914.

For the failure of excess profits taxation more nearly to equalize war burdens, technical difficulties were partly responsible. Had it been possible to enact the special taxes earlier, they might have taken a larger slice of 1917 profits. But more fundamental is the fact that Congress did not intend to take all war profits. Legislators realized that, even in wartime, high taxes are avoided, or evaded, and that if taxes rise to a level which the majority of business men regard as confiscatory, production will be discouraged. So, in fixing the rates of excess profits taxes, Congress consciously provided that business might retain a substantial portion of its wartime gains.

Post-war critics demanded more drastic tax policies. The American Legion sponsored a succession of bills designed to tax all wartime incomes at rates which would take practically everything above a very modest minimum. In 1935 Congressman McSwain introduced a bill, sponsored by the Legion, which would have taken all "war profits"³¹ by a 100 percent tax. The Nye Committee, in a bill of 450-odd pages devoted largely to plugging the loopholes in the 1918

³¹ Defined as "all profits shown to be due to war-time business conditions," *House Report No. 119*, 74th Congress, 1st session, 2.

excess profits tax, went nearer to the root of wartime profits and inflation. It detected a fallacy in measuring war profits from the level of the years immediately preceding the declaration of war by the United States, because during the period of neutrality a business boom might have raised the profits far above "normal." Its high tax rates³² had a further purpose—to provide means to finance the next war by taxation rather than by loans.

The committee believes that taking the profits out of war is an incident to a much more comprehensive and important purpose, namely, to provide means of paying for the war out of current revenues rather than through borrowing, thus avoiding the inflation due to war borrowing with all of its evil consequences, including great war profits.³³

The more conservative Senate Finance Committee feared that the income and corporation taxes proposed by the Nye Committee in the higher brackets would check wartime production and stressed the need to keep the profit motive working.

The extent to which other motives such as patriotism or an appeal to a sense of social justice, equality of contribution and sacrifice may induce business endeavors to remain industrially active is highly problematical. Whether under a stress of war men might be motivated by a high moral purpose to support their government and concede to a levy approximately all of the profits above a certain low minimum, is a conjecture which should not be tested

³² The Committee proposed a 99 percent excess profits tax on all corporation incomes above 6 percent. *Senate Report No. 577* on H.R. 5529, 74th Congress, 1st session, 4.

³³ *Ibid.*, 2.

at a time of war in view of the dire consequences of failure.⁸⁴

But the sentiment in the Senate itself against war profiteering was apparently greater than that felt by the Finance Committee. The War Profits Bill, introduced in 1939 by Senator Bone, received the support of no less than 49 other Senators for rates which would have practically removed by taxation all personal incomes in excess of \$10,000. Even more drastic were the provisions of the Josh Lee bill, which would have compelled every citizen to invest a certain proportion of his funds (from 5 to 75 percent) in war bonds.

Attitude of Planning Officials Toward Control of Profits

The attitude of Army and Navy men in charge of plans for industrial mobilization with respect to the control of war profits, whether through taxation or through control of prices, has been marked by much caution. They do not approve of tax and price control measures whose purpose seems not so much to equalize war's burdens as to make war terrible to the American business man.⁸⁵ The defense departments

⁸⁴ *Senate Report No. 2337* on H.R. 5529, 74th Congress, 2d session, 5.

⁸⁵ The reaction of the business community at present (April 1940) is described by a competent observer as follows:

I find no enthusiasm among business men to seize the present opportunity of large war orders from abroad, to increase their plant facilities and personnel. Nevertheless, some are doing it, with a certain amount of reluctance, and under conditions which will tend to protect them against financial loss as soon as the emergency need is over. This reluctance flows from a number of reasons. There is the natural conservatism of business men against over-expansion in the light of the experience of ten years ago. Further, those whose enterprises might be deemed to be war industries

have repeatedly warned the public that too drastic taxation of war profits might weaken the coöperation of business men in the war effort. Testifying before a Senate Committee in 1937, Colonel C. T. Harris, Director of the Planning Branch of the War Department, said:

. . . the War Department believes in a fair profit. This is a profit system in this country, and we believe a fair profit should be available, and, more than any other one thing, the War Department feels no measure should be adopted which would in any way hamper or destroy what we consider the more important function of producing the munitions required. In other words, we are opposed to anything which may interfere with the incentive to produce.

The Colonel added:

On the other hand, we would prevent profiteering and hardship to the civilian population. The morale of the people is just as important as the morale of the soldiers and sailors, and when it is destroyed, the support of the Nation collapses.³⁶

The dilemma in which the Colonel found himself, how to allow some profit, but not too much, has not been solved in any of the successive editions of the

feel that they are particularly vulnerable to public attack and censure, as war profiteers, "merchants of death," etc. They have been pilloried by the Nye Committee and by the press, and to some extent by Congress. There is also a natural apprehension that confiscatory taxes will be imposed on so-called war profits and they feel apprehensive that as soon as the war emergency is over, they will suffer for every penny that is spent which expands plant facilities beyond the normal peace-time need, after taking into account any possible growth of the industry and the orders which our government might place in peace-time to maintain any program of national defense.

³⁶ *Hearings on S. 25, op. cit.*, pt. 2, 142.

Industrial Plan. The difficulty, in fact, is inherent in the attempt to maintain the system of free enterprise substantially intact during wartime. In peacetime, we rely upon consumers' free choice to guide production, through the effect which shifts in demand, prices and profits exert upon business men's decisions. In wartime, government needs so dominate the market as to render ineffective the forces of demand and supply which ordinarily preserve market equilibrium. Yet responsible officials in a democracy like the United States hesitate even in wartime to supplant the free economy with a planned economy. They are aware of the difficulties of administering the complex decentralized economic system. They hesitate to substitute government control for private control because they are unsure just how much an effective war spirit depends on self-interest and how much on patriotism. Finally, the more conservative among today's political leaders do not want to see the exigencies of war used as a means of bringing about long-run social changes.

CHAPTER TEN

THE ECONOMICS OF PROCUREMENT PLANNING

IN EARLIER chapters economic policy in wartime has been discussed in its general application to all types of business operations, including both essential and non-essential industries. In this chapter attention will be devoted to the economic problems of essential industries, particularly the production of munitions. We are concerned here with what the defense services call "procurement planning." By this phrase they mean "the study of methods which will insure the timely and orderly supply of munitions required by the Army and Navy during a national emergency." Examination of the studies which have thus far been made shows that five topics have received principal attention, viz., (1) financing of war industries, (2) supplies of power and fuel, (3) transportation, (4) raw material supplies, and (5) labor. The approach to these topics is from the point of view of public policy: Are the industries upon which we must rely to supply these essential goods and services adequately equipped and effectively organized to withstand the strain of wartime demand? Do they need government assistance? Must government controls be imposed?

In the United States there are no great private

firms such as Vickers in England, Schneider-Creusot in France and Krupp in Germany, whose principal activity, even in peacetime, is the manufacture of cannon, shells, small arms and other war matériel. When the United States becomes involved in war, the American munitions industry has to be suddenly expanded from a very small base. New plants must be constructed, the capacity of existing munitions factories must be enlarged, and factories engaged in the production of commodities for civilian use (automobiles, sewing machines, typewriters) must convert their equipment to the production of munitions. In all of this, many important engineering problems arise, calling for the services of technical experts. With technical problems we are not concerned, but only with the economic and governmental aspects of the expansion of production for military use, in particular with the supply of labor,¹ of capital and of raw materials, the provision of fuel and power and transportation service.

The intervention of the national government in the capital market in 1917-18 took two forms: (1) negatively, it attempted through the Capital Issues Committee² to prevent the investment of private capital in non-essential industries; (2) affirmatively, through the War Finance Corporation and other agencies it furnished public funds to enterprises essential to the war effort which were not able to secure funds advantageously, or perhaps at all, from private sources.

¹ Problems of labor supply have been considered in Chapter VII.

² Originally a committee of the Federal Reserve Board, reconstituted and given congressional recognition and official status by the Act of April 5, 1918, which set up the War Finance Corporation.

To cut down private investment in non-essential industries was the task of the Capital Issues Committee. All banks and other institutions engaged in the issue or underwriting of securities were *requested* to submit proposed issues of over \$100,000 to the Committee for its approval. The Committee's duty was to investigate and pass upon their desirability from the standpoint of the prosecution of the war and the general interests of the community. It had no power to compel bankers to submit issues for its scrutiny nor to enforce its decisions; their effectiveness depended upon the patriotic coöperation of bankers and upon the responsiveness of the latter to public opinion. Yet, without legal authority, the Committee succeeded in its important task. It examined and approved almost 2,300 applications involving \$2,564,000,000. Some firms "remained deaf to every appeal of patriotism," but, in general, investment houses hesitated to sponsor issues which lacked official approval.

Government funds were supplied to war enterprises by a variety of agencies. The War Credits Board made advances, from appropriations, to War Department contractors. Before the Board was established, the government had instituted a policy of assuming a substantial part of the risk on war contracts. It permitted builders of cantonments operating on a cost-plus basis to draw on the Treasury as their bills fell due. Manufacturers working on fixed-price contracts were paid in part or in full on partial delivery at the discretion of the contracting officer. When the railroads were taken over by the national govern-

ment, Congress supplied a revolving fund of \$500 million for working capital and subsequently made advances to meet maturing obligations. The Emergency Fleet Corporation provided capital to finance private construction companies.

The agency designed to coördinate lending policy was the War Finance Corporation, established by an Act of April 5, 1918. Its purpose was to furnish, either through the banks or directly, essential credits for industries which were necessary or contributory to the prosecution of the war. The government's borrowings in the Liberty Loan campaigns tended to preëempt the credit facilities of the banks with the result that public utilities, railroads and industrial plants could not get the credits which ordinarily would have been available. To offset this effect the Corporation used its \$500 million capital principally to make loans to banks on the basis of 75 percent of the loans made by them to individuals and corporations engaged on war work. Direct loans to business firms were made only when the latter were unable to secure funds from the banks, or the public, at reasonable terms. The Corporation, however, made only meager use of these powers. Between April and November 1918 it received applications for advances of \$323 million and made advances of \$68 million, to the railroads, public utilities and, in small amounts, to canners and cattle raisers. Had the war continued longer the activities of the Corporation, whose charter permitted loans up to 3 billions, might have been considerably expanded.

Plans for Financing Essential Industries in the Next War

The Army and Navy Munitions Board, in making a blueprint for financing industry in the next war, found ready at hand a number of government agencies which had been established, or enlarged, to deal with business depression. The Reconstruction Finance Corporation, set up in 1932, is authorized to finance agricultural as well as commercial and financial operations. The Federal Reserve Banks have been given greatly enlarged powers under legislation of 1934 and subsequent years. The Maritime Commission, under the Merchant Marine Act of 1936, provides subsidies for the building and operation of ships, and the Securities and Exchange Commission (1934) has wide powers of control over the capital market.

The importance of these new developments was recognized in the 1939 revision of the Industrial Mobilization Plan. In earlier editions of the Plan, the former Capital Issues Committee and the War Finance Corporation had been continued as war emergency organizations independent of the peacetime executive establishments. In 1939, their functions were assigned respectively to the Securities and Exchange Commission and the Reconstruction Finance Corporation. In thus recognizing the usefulness for wartime control of these "New Deal" agencies, the planners made an important new departure. In earlier editions of the Plan, and in other sections of the 1939 Plan, the general rule had been to con-

fide the control of economic activities in wartime not to government agencies already established, but to new *ad hoc* bodies.

The planners in 1939 also recognized for the first time the necessity for considering financial policy in general. Previously, they had expressed the view that measures for financing the total cost of the war lay outside their terms of reference—a “hands-off” policy, which left a large gap in plans for mobilizing national economic resources. But in 1939 they bridged the gap by providing a War Finance Administration, headed by the Secretary of the Treasury and staffed by representatives of government financial agencies and the banks. To this Administration was assigned the duty of advising the President on the effect of government financial measures (loans, taxes, etc.) on the conduct of the war, as well as the formation of policies for wartime control of *industrial* finance, to be executed by the Securities and Exchange Commission and the Reconstruction Finance Corporation. Here again the military men displayed a willingness to utilize existing agencies for the purposes of war financing, which is not characteristic of the 1939 Plan as a whole. Their shift of ground may be explained partly by their recognition that certain peacetime agencies are competent to handle problems of wartime finance. Another explanation is found in the admitted unfamiliarity of most military men with economic problems.

Control of Fuel and Power Resources

The Industrial Mobilization Plan recognizes the

strategic position of coal as a source of fuel and steam power by combining the control of all power and fuel resources under a single administration.³ During the World War, the Fuel Administration was given complete power over production and distribution of coal, oil and natural gas, but the power industry was left to work out its own problems, except those which arose in the most congested industrial areas. Toward the end of the war, the unregulated power industry reached a crisis, which might have led to further government regulation, had not the Armistice intervened. Like other types of industrial regulation, power and fuel controls were not applied according to a master plan framed in advance, but only in response to immediate needs.

In 1916 the war boom brought a sudden and tremendous demand for fuel. Hydroelectric power available to the eastern munitions plants was soon fully utilized; the eastern railroads and transatlantic ships were burning coal as never before. More coal was mined, but a growing shortage of coal cars, which had been pressed into use to ship munitions, the general shortage of locomotives, and traffic tie-ups at Atlantic terminals complicated the problem of supply. The threat to our war effort arising from disorganization of fuel supply led in the summer of 1917 to government intervention. In the Food and Fuel Control Act, the President obtained control over the pro-

³ With equal reason, fuel and transport might have been combined, since the fuel supply depends on railroad ton-miles available, and the railroads, with few exceptions, burn coal. But the vital importance of transportation to so many other activities has induced the defense planners to treat it separately.

duction and distribution of fuel and the operation of coal mines. Using this authority, he set up the Fuel Administration to increase production, to economize transportation facilities, to give fuel priorities to munitions producers, and to prevent wastage of fuel.

Work of the Fuel Administration

The Fuel Administration first undertook to stimulate production by fixing prices high enough to bring even high-cost mines into operation. To raise the miners' morale, it sent returned soldiers to remind them that workers behind the front were also defenders of their country. To prevent stoppage in production, the Fuel Administration penalized unauthorized strikes and forbade workers to agitate for the closed shop. On the other hand, prompt attention was given to workers' grievances, and mine owners were forbidden to discharge them for membership in a union.

The Fuel Administration made every effort to enforce economies in coal transportation and in distribution. To eliminate cross-freights, it divided the country into zones and districts, assigning to each producing area an area of consumption. For example, Chicago users had to adapt their plants to southern Illinois coal instead of importing higher-grade coal from the Pocahontas field of West Virginia. The Tidewater Coal Exchange handled all coal for Atlantic shipping, organizing distribution to prevent delay in return of coal cars to the mines. As supervisors of coal distribution, county committees con-

trolled every transaction within county boundaries, including small retail sales. Priorities were universally established to keep the supply to munitions producers constant, and to redirect shipments to areas threatened with shortages.

Despite measures to increase production and to rationalize transport and distribution, supplies sank dangerously low in February 1918. Then, as blizzards and ice slowed up transportation, drastic conservation measures were applied. The Fuel Administrator called for a week's complete factory shutdown east of the Mississippi to give the railroads a chance to clear up the traffic jam, and in a dramatic, if not vital, measure ordered a succession of heatless Mondays during which fires were to be banked from Saturday until Tuesday. In addition, all electric signs were to be shut off daily between 7:45 and 11:00 P.M. As the transport tangle straightened out, the restrictions were lifted; but conservation continued by private action after the major crisis was overcome. Many manufacturing plants themselves arranged to speed production, to shorten their work-week and otherwise to conserve fuel.

Restrictions on the use of coal caused a shift to the use of fuel oil. Hence the Fuel Administration, early in 1918, extended its control to include oil, requiring all producers and dealers to operate under license; about two months before the Armistice, it brought natural gas also into the license system. By such measures American industry was carried through the war without a breakdown of fuel supply, though by a narrow margin.

The fuel problem was fundamentally a problem of transport, i.e., of geographical distribution, rather than of production. Since coal and oil were essential to railroads and shipping, the solution of the fuel problem began and ended with transport schedules.

Problems of Electric Power

The need for a greatly increased electric power supply to meet the extraordinary demands of World War production was brought to a focus late in the summer of 1917 by an urgent call for more power from hydroelectric plants in the Niagara Falls-Buffalo area at a time when the Canadian government was threatening to prohibit the export of power. To relieve this regional shortage, the President arranged to trade American coal for Canadian power and requisitioned the entire output of the Hydraulic and Niagara Falls Power companies, furnishing them a restricted schedule of approved consumers. The increased use of steam power in the area also helped to reduce the strain, but coal shortages periodically made this a precarious resource. In the Pittsburgh area the war load taxed some of the power plants to the point of breakdown, requiring curtailment of non-essential consumption; less serious shortages occurred at the same time in the Philadelphia and industrial New Jersey areas.

To meet these difficulties, a Power Section was organized in the War Industries Board to survey the nation's resources and war needs, and to make recommendations. It found existing or incipient shortages throughout the nation's chief industrial areas, but the

problem of expanding power generating facilities proved difficult of solution. To enlarge plants where power was generated by steam would have aggravated the periodically serious coal shortage, and hydroelectric stations could not be constructed in less than two or three years. Furthermore, the power companies were generally unable to secure private financing on what they considered terms favorable enough to warrant building either the new plants or the interconnections necessary to remedy power shortages. The War Finance Corporation refused to loan funds for new generating plant construction on the terms asked, that is, that the government relieve the borrowers of all risk.

The Power Section dealt with the existing shortages by notifying the various government agencies where the shortages existed, so that they might avoid placing orders or establishing new manufacturing facilities in those areas. Incipient regional shortages were taken care of by means of priorities stipulated by the power companies themselves with the informal backing of the Power Section. In the eastern industrial region, where the power shortage was most acute, the War and Navy Departments and the Emergency Fleet Corporation aided in financing the necessary new power stations and transmission lines.

But these measures proved insufficient. Although over 2,500,000 kilowatts of additional capacity was installed, an increase of nearly 28 percent, it became necessary in October 1918 to begin the rigid imposition of priorities in localities where shortages existed. Meantime a bill was introduced in Congress author-

izing the President to construct necessary power plants throughout the country, but the Armistice intervened before it became law.⁴

In the interval since the war, important changes in power and fuel consumption have altered the nature of the wartime problem. The relative importance of coal as a source of both power and fuel has greatly diminished, though absolute coal consumption is now approximately the same as in 1914. The consumption of oil has at the same time increased enormously; consumption of natural gas has also risen, though remaining much less important than oil. The private steam-power plant has given place in large part to hydroelectric plants with auxiliary steam power and high power transmission systems supplying industrial enterprises over a wide area.

In the twenty years which have elapsed since the Armistice, there has occurred a great extension of government control over power and fuel resources. The Federal Power Commission controls the interstate transmission of electric energy by private companies. A rapidly growing output of electric energy is produced by government plants in the Columbia, Colorado, and the Tennessee River Valleys, which, however, are so remote from the centers of industrial demand that it is still considered impracticable to

⁴ H.R. 12776, Sixty-fifth Congress, 2d session, August 19, 1918. A bill to provide further for the national security and defense and for the more effective prosecution of the war by furnishing means for the better utilization of the existing sources of electrical and mechanical power and for the development of new sources of such power, and for other purposes.

For further information on the wartime power situation, see *The Power Situation During the War*, by Col. Charles Keller, Corps of Engineers, published by the authority of the Secretary of War. Washington, 1921.

transmit to them the available surplus power. The Department of the Interior exerts control through the price-fixing power over the bituminous coal industry. The Petroleum Conservation Division assists states to control production of oil by blocking interstate shipments in excess of state production quotas. Congress has set aside emergency oil reserve areas and provided storage facilities for the Navy's fuel requirements.

Power and Fuel in the 1939 Plan

Utilizing these post-war developments, the Industrial Mobilization Plan of 1939 placed the management of power and fuel under the War Resources Administration. Coal production, it is expected, can be greatly increased by reopening idle mines and by intensifying production in others. To avoid difficulties in coal distribution a regional system of fuel distribution is contemplated, which will be made effective by the use of priority ratings. The petroleum industry will probably come under close government control to assure our Navy a continuing supply of fuel oil.

To distribute the war munitions load efficiently among existing manufacturing facilities and to prepare plans for the construction of new facilities in wartime, a thorough knowledge of the electric power situation in the several industrial areas of the nation is necessary. This is the purpose of the electric power studies now being conducted by the defense services. They are based on the annual power surveys conducted by the Army Engineers since 1925, upon re-

ports of the Federal Power Commission and other governmental agencies, and upon information published by various organizations representing the electric power industry.

The defense departments are convinced that their studies show a considerable margin of safety between the peak wartime demand for electric power and the total assured generating capacity of the country, and they believe that the rate at which the power companies are increasing their installed capacity is fast enough to maintain the margin. But they admit that the concentration of wartime demand in a few industrial areas, may make necessary the adoption of local priorities and the curtailment of "non-essential" electric power demands.

Recent warnings from private sources indicate, however, that the present rate of increase in generating capacity may prove insufficient for a war emergency because of the prospective doubling of peacetime electric power consumption in the next ten years. In fact the improvement of business conditions might bring about an even more rapid rate of increase. The addition of a wartime industrial load of unknown dimensions in industrial areas would be certain to tax present capacity to a point where normal consumption would be subject to severe curtailment. Steam generation is still the most important source of electric power, and a great increase of consumption of electricity would be promptly followed by a corresponding burden on the railroads carrying coal to the industrial areas. Switching power from surplus areas depends on the existence of adequate transmis-

sion facilities, which do not now exist in several important areas.⁵

The problem of meeting regional shortages of power can be met partly through the President's emergency authority to order interconnection of power lines, to compel the increase of generating or delivery capacity, and if necessary to construct additional plants. The Reconstruction Finance Corporation would be in a position to furnish necessary funds to permit private power companies to expand facilities, thus avoiding the difficulty which arose in 1917. President Roosevelt has in fact recently revived the offer of R.F.C. loans to privately owned power companies for the construction of interconnecting transmission lines, in case such lines cannot be privately financed.

Transportation Problems, 1917-18

The transport system is one of the most vulnerable spots in a wartime economy. A major war imposes the strain of getting materials to munitions factories, shipping finished products to the armed forces, and mobilizing men, in addition to furnishing the transportation services upon which the very existence of the civilian population depends. If the railroads, highways and waterways are unequal to their task, the process of raising and equipping the armed forces is quickly brought to a standstill.

⁵Report of Committee on Generation and Distribution of Electric Power, National Association of Railroad and Utilities Commissioners, *Proceedings of Fiftieth Annual Convention*. (The Committee's findings were repeated at the Fifty-first Convention.)

The truth of these observations was demonstrated in the United States in 1917. Even before our entry into the war, the shortage of shipping facilities to carry munitions to the Allies caused congestion at the New York railroad terminals. Coastwise vessels formerly used to ship freight to the Atlantic ports were pressed into service in the transatlantic service, thus relieving somewhat the shortage of ocean shipping, but throwing a greater burden upon the railroads.

Railroad officials made a valiant attempt to carry the burden. Within a week of the declaration of war, their representatives met in Washington and set up the Railroad War Board, which worked with the Council of National Defense in planning the most efficient use of transport facilities. To relieve the congestion in the heavy-industries area of Pittsburgh, the Board ordered the Pennsylvania Railroad to give up its crack Broadway Limited and to reroute freight through Buffalo. It diverted through freight from the Pittsburgh gateway to lines north or south, and embargoed export shipments of all raw steel products, except those for government use.

But the War Board set up by the carriers lacked power to take measures drastic enough to meet the problem. While it might secure coöperation from railroad managements, even though it was destroying their business, it had no power to bring about a thorough rationalization of the railway system. The Attorney General viewed proposed consolidations of competing roads with suspicion; they might violate anti-trust laws. Under the influence of rising wholesale prices, operating costs were rising rapidly, and

labor unions, encouraged by the Adamson Eight-Hour Day Act, pressed their demands for higher wages. But the Interstate Commerce Commission did not consent readily to rate increases offsetting the increased costs. Shortage of funds hindered railroad purchases of new equipment, yet with old equipment showing a high percentage of breakdowns, the Treasury objected to a proposed equipment loan of \$500 million on the ground that the capital market must be kept clear for government loans. The railroad managements were thus hampered in consolidating their facilities, in making income equal outgo, and in financing replacements.

Furthermore, the War and Navy Departments made the traffic congestion worse than it need have been by the indiscriminate use of priority certificates covering munitions shipments; at times 85 percent of the cars in the freightyards were plastered with priority tags. Moreover, they could force railroads to accept all shipments, whether or not the goods could be unloaded at the destination point. The results were seen at the Hog Island shipyard, where at one time there were eleven miles of cars containing piling, all bearing priority tags, which could neither be unloaded nor moved.

It seemed that only government action could solve the transportation problem. When, in December 1917, President Wilson, acting under the Military Appropriations Act, took over the entire railroad system, the benefits of government operation appeared at once. The Administrator of the Railroads, Secretary McAdoo, promptly secured government credits for

purchase of essential equipment. Government compensation for lost earnings made up for losses of revenue-producing traffic, and the Interstate Commerce Commission ceased to quibble over rate rises needed to meet labor's demands for increased pay.

The Railroad Administration, moreover, overrode the defense services, disregarding all priority certificates until the congestion at the terminals was cleared up, and stationing its agents in each government department to check unrestricted use of priorities thereafter. It embargoed all shipments when unloading facilities or overseas cargo space was lacking, and zoned coal shipments to confine coal transport to the areas of production. The Administration also instituted "sailing days" for less-than-carload shipments to prevent forwarding of partly filled cars, and placed new locomotives on roads where they were needed, regardless of what roads had ordered them.

As the result of these measures, many of which had been advocated by the Railroad War Board, the Railroad Administration solved the transportation problem. The railways carried in 1917 and 1918 the heaviest volume of traffic in their history; and yet when the Armistice came, transport congestion had disappeared.

After the Armistice, however, government control was less successful. The coöperation of the carriers, a vital factor during the war, gave way to impatience for return to private control. But this action was delayed for over a year while Congress debated the terms under which the roads were to operate, and meanwhile the properties deteriorated. Settlement

of compensation after the roads were handed back to private management took even longer. Meanwhile, dissatisfaction with government control took the place of loyal coöperation on the part of the railroads.

Will the Government Operate the Railroads in the Next War?

Shortly after the war, Secretary Baker called outstanding railway men to a conference which drafted a plan calling for close collaboration in time of war between the War Department and railroad managements. The latter founded the Association of American Railroads, whose regional advisory boards maintain close liaison with Army Corps Headquarters. The Association also has coöperated closely with the War Department in preparing and revising the transportation features of the industrial mobilization plans.

The 1939 Plan provides for a Transportation Division in the War Resources Administration whose function is vaguely described as the "coördination of the general operation and use of all modes of transportation in the zone of the interior, in accordance with basic priority policies."⁶ Since there is no mention of government operation, it may be assumed that the railroads will remain under private management, at least as long as they show themselves able to meet the emergency effectively. In the event, however, of a threatened breakdown of transportation services, it is hinted that the federal government might again play the same rôle as in 1918. The Plan states: "As the

⁶ *Industrial Mobilization Plan . . . 1939*, 10. (See Appendix, 248.)

growing industrial war load imposes heavier burdens on the Nation's transportation facilities, new policies and regulations may be required to govern their operation."

The railroads themselves have claimed that they will be able to handle, if not subject to too much government interference, any anticipated increase in traffic which might result from war. They estimate,^{6a} on the basis of 1917-18 experience, that the maximum war load (freight) would not exceed 12 percent of the normal commercial load. The congestion of freight traffic in 1917 resulted, not from the inadequacy of their facilities, but from the lack of systematic control of shipments. In the past twenty years, the railway net has been supplemented with motor-truck transportation. Also the railroads themselves are more efficient, as is indicated by increase in speed of freight trains, in gross ton-miles carried per freight-train hour, etc. These factors, they calculate, would more than offset the decrease which has occurred in units of equipment. Finally, emphasis is laid on better organization to deal with an emergency, such as the 13 Shippers Advisory Boards, which provide the railroads with advance estimates of probable car requirements.

"Increased demands for transportation involve no great problem to the railroads," says the Association of American Railroads' report, "provided equipment is used for transportation alone and not for storage purposes."^{6b} An important factor, it is believed, in

^{6a} M. J. Gormley (Executive Assistant, Association of American Railroads), *Railway Capacity and Traffic Control*.

^{6b} *Ibid.*, 6.

preventing the accumulation of loaded cars beyond ability to unload promptly will be the embargo and permit system, which has been in effect for a number of years.

Impartial observers might be less positive regarding the railroads' ability effectively to take care of the wartime transportation problem, without additional measures of government control. Much will depend here, as in other sectors of the war economy, on the condition of American business when we actually begin fighting. A preceding boom period, comparable to 1915-17, might have already badly strained transportation facilities. The business boom in the closing months of 1939 was taken care of, but not by a large margin.

The Control of Raw Materials, 1917-18

Of all the nations of the world, none begins to be in so independent a position for its raw materials as the United States, which both in peace and in war produces within its own borders most of the commodities it consumes. For materials of domestic origin, the wartime problem is one of properly organizing production and distribution within the country. During the last war this task was undertaken by committees of the War Industries Board dealing with the producers' war service committees.

But raw materials wholly or in part of foreign origin, such as tin, crude rubber, wool and hides, present a problem which can only be solved by the control of import and export trade. Such controls were administered in the last war by the War Trade

Board, established by executive order of President Wilson on October 12, 1917, under powers granted to him by the Trading with the Enemy and Espionage Acts. To this Board was eventually entrusted complete control over both import and export trade. Acting on the Board's recommendations, the President, in a proclamation of November 28, 1917, enumerated a list of commodities the import of which was prohibited except under license. Important commodities on this list were tin, rubber, wool, ferromanganese, leather, flax and jute.⁷ In a later proclamation, the President extended the scope of import control to cover all commodities imported into the United States or into any of its possessions.

The purpose of putting import trade in these raw materials under control was not to restrict but to enlarge the supply available to American industries. Supplies were being restricted by export embargoes imposed by foreign countries. Against such embargoes the protests of individual importers were ineffective, but the War Trade Board, exercising control of all American foreign trade, was in a far stronger position. It was able to persuade Allied governments to relax export restrictions on important raw materials by guaranteeing that no supplies imported into the United States would subsequently fall into the hands of the Central Powers. Beyond its function of assuring adequate imports of raw materials, the Board was able to employ its licensing powers to ensure their most effective use in the war

⁷ The full list may be found in the *Report of the War Trade Board*, 371.

effort. The needs of manufacturers producing for the government were met first, and whatever surplus remained was allocated to those producing for civilian needs. Incidentally, import licensing was used to check hoarding and speculation in raw materials and to enforce a certain amount of price control.

A further objective of control of imports of raw materials was to create as much havoc as possible with German trade and financial interests in foreign countries. Import licenses were refused to enemy interests situated in the United States; also imports were not permitted when shipped by German firms established in exporting countries. Thus, for example, German firms in the Argentine wool trade and the Brazilian coffee trade were practically forced out of business when American shipping was denied them.

The Raw Materials Problem in Post-war Planning

In post-war planning, the raw materials problem has been under constant consideration. In his report to the President (December 24, 1919), Mr. Baruch, the Chairman of the War Industries Board, advocated complete independence of foreign sources for wartime essentials which could be produced here. He wrote:

Through a system of stimulation by a protective tariff, a bonus, an exemption from taxation for a limited period, licensing, or any other effective means, every possible effort should be made to develop production of manganese, chrome, tungsten, dyestuff, by-products of coal, and all such raw materials usually imported but which can be

produced in quantity in this country. Above all, immediate and persistent effort must be made to develop production of nitrogen and its substitutes, not alone for war but for agricultural purposes.⁸

As a part of plans for industrial mobilization, the Army and Navy Munitions Board, after surveying national resources, has classified the more important materials for American industry, including both basic raw materials and a few semi-finished products, into three groups: (1) essential materials, (2) critical commodities, and (3) strategic commodities. Essential materials are loosely defined as those commodities the supply of which must be kept under surveillance. Ordinarily available from domestic sources in sufficient quantities for peacetime production, their supply might in wartime be so depleted as to put them in the category of strategic or critical materials.

Critical raw materials are defined as

those essential to the national defense, the procurement problem of which in war would be less difficult than strategic materials either because they have a lesser degree of essentiality or are obtainable in more adequate quantities from domestic sources, and for which some degree of conservation and distribution control will be necessary.⁹

In a list approved by the Army and Navy Munitions Board in February 1940, the following materials are listed as critical:

⁸ Baruch, *op. cit.*, 9.

⁹ Army and Navy Munitions Board Commodities Division, *Definitions and Lists of Strategic and Critical Materials*.

Aluminum	Iodine	Platinum
Asbestos	Kapok	Tanning materials
Cork	Opium	Toluol
Graphite	Optical glass	Vanadium
Hides	Phenol	Wool

Strategic materials are those

essential to the national defense for the supply of which in war dependence must be placed in whole, or in substantial part, on sources outside the continental limits of the United States, and for which strict conservation and distribution control measures will be necessary.¹⁰

This group includes 14 commodities:

Antimony	Mercury	Rubber
Chromium	Mica	Silk
Coconut shell char	Nickel	Tin
Manganese, ferrograde	Quartz crystal	Tungsten
Manila fiber	Quinine	

The selection of critical and strategic commodities is the result of the deliberations of Commodity Committees, in which representatives of civilian research organizations and producing interests have coöperated with War and Navy Department members. The lists are subject to continuous revision. The discovery of new or undeveloped sources of supply has resulted in the transfer of certain items from the strategic to the critical list; some have been eliminated altogether. On the other hand, new technical developments as, for example, in airplane construction and in radio transmission, have been responsible for the

¹⁰ *Ibid.*

temporary appearance on recent lists of new strategic items. The net result of these opposing tendencies has been to reduce substantially the number of materials which are considered to be the subject of concern from the point of view of national defense. Originally 70 materials were in this category; now this number has been cut to less than half.

Present Policies with Respect to Raw Materials

The federal government is now using four methods of approach in dealing with raw materials. It has undertaken (1) to find alternative and less vulnerable sources of supply; (2) to develop domestic production; (3) to discover substitute materials; and (4) to build up and conserve "stock piles," i.e., reserve supplies.

The vulnerability of the supply route is a factor in the supply of a substantial number of strategic materials. Normally over half the mercury used in this country comes from Italy and Spain. Chrome ore comes from Africa. From the Far East come many strategic materials—most of our antimony, rubber, tin, tungsten and manila fiber, and practically all of our silk and quinine. In general, the Western Hemisphere is considered a safer source of supply for strategic materials than the Far East, Europe or Africa. Bolivia's low-grade tin and Brazil's rubber might be substituted, to some small extent, for the higher quality products of Malaysia; Brazil's and Cuba's ferromanganese ores can replace at least part of the supply now obtained from Russia and India; and Cuba's chrome ore is a surer source than that of

British Africa. Nickel, a material of vital importance, comes from Canada to the extent of 90 percent of our consumption; here army planners have no problem except in the unlikely event that Canada refuses to sell to American consumers.

Domestic production of artificial rubber in commercial quantities might provide an emergency supply, but the supply would be available only after long delay and at a cost much higher than the natural product. The War Department's planners, with the aid of the Bureau of Mines, have explored and investigated local mines of ferromanganese ore, but the domestic supply is low-grade and appears to be scanty.

Congressional policy with regard to raw materials has been complicated by attempts to combine with plans for conserving critical and strategic commodities extraneous motives, viz., (1) the desire to promote domestic production of certain products, notably manganese, and (2) the desire to keep strategic materials from countries of whose policies we disapprove. In the summer of 1939, when European war became imminent, action was taken to encourage imports of deficient materials. An Act approved June 7, 1939, authorized appropriation of 100 million dollars over a four-year period to build up stock piles of strategic and critical materials for purposes of national defense. The money was to be spent by the Secretaries of War and Navy, but Congress did not leave them entire discretion. At this point the defense services ran head on against protectionism. In response to the demand of domestic producers of

manganese,¹¹ the legislators provided that the money must be spent in accordance with the 1933 Buy-American Act.¹² This Act requires that materials purchased for government use shall be of American origin. Foreign goods may be bought only under the following conditions:

(1) when the purchase of domestic goods is inconsistent with the public interest;

(2) when the "articles, materials, or supplies," or their component materials, are not produced in the United States "in sufficient and reasonably available commercial quantities and of a satisfactory quality;"

(3) when the cost of the domestic goods is unreasonable; or

(4) when the articles, etc., are to be used outside the United States (as, for example, supplies for naval vessels visiting foreign ports).

Obviously purchases of rubber, tin and various other strategic and critical materials of foreign origin would be permissible under the second condition. But there are a few cases, such as manganese, in which a limited quantity of material of inferior quality may be obtained from domestic sources. For the benefit of producers of such materials, the Act specifies that "a reasonable time (not to exceed one year) shall be

¹¹ The success of the manganese interests in forcing the defense departments to accept an unwelcome compromise illustrates the power of a well-organized pressure group. No considerable deposits of first-grade manganese ore have been discovered in the United States despite extensive research on the part both of the U. S. Geological Survey and private organizations. After years of substantial tariff protection, in 1938 only 6.1 percent of the country's consumption was obtained from domestic sources, according to the Bureau of Mines.

¹² *United States Code, 1934*, title 41, secs. 10a.-10c.

allowed for production and delivery from domestic sources and in the case of any such material available in the United States but which has not been developed commercially, the Secretary of War and the Secretary of the Navy may, if they find that the production of such material is economically feasible, direct the purchase of such material without requiring the vendor to give bond."¹³

Congress made only 10 million dollars available for stock piles for the year 1939-40, and thus far purchases amounting to more than 8.5 million dollars¹⁴ have been made. The Treasury, on October 31, 1939, announced the award of contracts for 30,000 tons of manganese, of which 25,000 tons were bought from Cuba at 61.2 cents per unit and 5,000 tons from a West Virginia producer at 75 cents.¹⁵ Later, in November, 1,120,000 pounds of pig tin mined in the Dutch East Indies and the Straits Settlements were purchased.¹⁶ The acquisition of emergency stocks of 85,000 tons of rubber by exchange for 600,000 bales of American cotton was the subject of a barter deal, announced June 23, 1939, between the governments of the United States and the United Kingdom. No announcement has been made of the amounts of rubber received under this arrangement.¹⁷

Raw materials policy took a new turn with the

¹³ Public, No. 117, 76th Congress, 1st session, sec. 5.

¹⁴ *Journal of Commerce*, March 25, 1940.

¹⁵ *New York Herald Tribune*, November 1, 1939.

¹⁶ *Journal of Commerce*, November 9, 1939.

¹⁷ The British government, according to an article in the *Christian Science Monitor*, March 9, 1940, has been "very slow in making delivery of the promised 85,000 tons of barter rubber. To date, nearly a year after the deal went through, less than 5,000 tons has been supplied."

application in the closing months of 1939 of "moral embargoes" on re-export of certain commodities. On September 26, 1939, President Roosevelt issued a warning to American nationals against disposing of domestically owned stocks of essential or critical war materials to foreign purchasers. He indicated that it would be considered an unpatriotic act, and contrary to the government policy of acquiring stock piles, to deplete supplies in the United States by re-exports of such commodities as rubber, manganese, tin and chrome ore.¹⁸ The continuance of rubber exports in spite of the President's warning led to a statement by the Army and Navy Munitions Board, in which shipments of rubber and tin to Russia and Germany were held to weaken the national defense position of the United States.¹⁹ Later, at the request of the State Department, the Board of Governors of the New York Commodity Exchange took the matter in hand. In a letter to members, the President of the Exchange pointed out the desirability of limiting re-exports of rubber, tin and silk, and said that if results could not be attained by voluntary coöperation, "it will be necessary to use other means to deal with the situation."²⁰

A comparison of the re-exports of rubber in the closing months of 1939 with corresponding figures for 1938 discloses a considerable increase in the volume of shipments out of the country, but when compared with imports of rubber, the figures appear relatively insignificant. (See Table 5.) Stocks in the

¹⁸ *Journal of Commerce*, September 27, 1939.

¹⁹ *New York Times*, January 20, 1940.

²⁰ *Journal of Commerce*, February 3, 1940.

United States were undoubtedly low but the moral embargo which the State Department attempted to impose seems to have had other grounds than the protection of stock piles. More important probably was the desire to coöperate with England in preventing supplies of rubber of British origin from reaching Russia or Germany.²¹

TABLE 5
IMPORTS AND RE-EXPORTS OF RUBBER
(long tons)

	1938		1939	
	<i>Imports</i>	<i>Re-Exports</i>	<i>Imports</i>	<i>Re-Exports</i>
January	46,732	377	38,255	492
February	42,419	368	32,003	464
March	43,605	694	47,029	443
April	33,676	266	32,890	445
May	29,470	563	47,313	533
June	28,218	414	35,588	415
July	23,666	450	38,864	445
August	32,649	444	39,921	271
September	36,310	814	38,540	1,530
October	35,638	635	46,664	5,903
November	34,047	422	43,636	1,240
December	38,661	427	72,955	1,169
September-December	144,656	2,298	201,795	9,842
January-December	425,091	5,874	513,659	13,352

Source: *Monthly Summary of Foreign Commerce of the United States*.

²¹ See *Christian Science Monitor*, March 9, 1940; *Journal of Commerce*, February 16, 1940; *New York Times*, April 1, 1940.

CHAPTER ELEVEN

THE PLAN IN ACTION

THE initial impact of even a major conflict upon the American economy probably would not, in the opinion of the Army and Navy Munitions Board, be severe enough to warrant putting the entire Plan into force at once. The organization of the War Resources Administration, to coördinate economic controls, and the Public Relations Administration, to publicize war aims, would, according to the present time-table, take place immediately upon the declaration of war. The establishment of the Selective Service Administration would have to wait until Congress had decided for or against conscription. Setting up other emergency agencies, such as the War Labor Administration and the War Trade Administration, would constitute the second phase in the application of the Plan. These administrations would go into operation only when, with the increasing intensity of the war effort, the economic system began to show signs of strain.

Technically, no part of the Industrial Mobilization Plan goes into effect until Congress votes for war. Actually, however, in the preceding period of tension certain precautionary measures could be taken. These might include:

- (1) guarding industrial plants, electric power sta-

tions, transmission lines and railroad and steamship terminals against sabotage;

(2) surveillance of aliens and of groups suspected of subversive tendencies;

(3) survey and inventory of natural resources, and of the supply of skilled labor;

(4) survey of prospective munitions plants and of transportation systems;

(5) accumulation of stock piles of strategic and critical raw materials; possibly export embargoes might be imposed on such commodities.

Are Anticipatory Measures Necessary?

Enthusiasts for preparedness advocate, in addition, the introduction in the pre-war period of price-fixing, and perhaps excess profits taxation, in order to moderate a possible business boom. Having in mind the 1914-18 experience, they believe that the control of the national economy after we enter war could be facilitated by these preliminary measures.¹ The assumption here is that history repeats itself and that a period of profitable neutrality will precede our involvement in another war.

Certain peace societies have opposed anticipatory measures of industrial mobilization. Such measures, they hold, tend to develop a war psychology; when people begin to consider war inevitable, it becomes inevitable. Also, business men, already fed up with peacetime "regimentation," have no stomach for anticipating the additional doses of government in-

¹ Isolationists also advocate action to control a pre-war boom, on the theory that the profits of war industries might constitute an incentive to participation in a European war.

tervention which the next war may bring. Among economists, some will favor an early application of effective controls of business and industry as hastening *Der Tag* of full economic planning. Others, older and more conservative members of the guild, question whether introducing new rigidities into an economic system already suffering from inflexibility will strengthen it to endure the shock of war disturbances. For them, the best policy of preparedness is one which will most rapidly stimulate investment and bring about full employment.

Some precautionary measures are obviously reasonable, but how far should they be carried? Considering the question in general, without reference to the present situation (April 1940), the answer would seem to depend on the phase of the business cycle in which we found ourselves. If Congress should declare war at a time when American labor and capital were largely unemployed, pre-war control measures would not appear imperative. If, however, we go to war with American business in high gear as the result of huge war orders from the European belligerents, the case for pre-war controls is much stronger.

What Must Congress Do to Put Industrial Mobilization into Effect?

Effective operation of industrial mobilization depends upon concentration of authority; the logical place for its concentration is in the hands of the Executive. Such centralization, however, raises two problems: Does the Executive require broader pow-

ers than it already has? If so, what additional powers should be granted, for how long a period, and subject to what checks?

During the World War the problem was never systematically approached. Congress granted, or the President assumed, powers as they were needed. The broadest single congressional grant,² that giving the President authority to compel any factory to give precedence to Army orders, and to commandeer the factory if necessary, was made ten months before America entered the war. The Draft Act was passed a few weeks after war began. Thereafter, until the Armistice the accretion of executive powers was continuous. Centralization, however, was a gradual and haphazard process; government officials and the American people only slowly became aware of the need of conscious effort to organize and control systematically all phases of the war effort.

The defense departments, however, profiting from the experience of 1917-18, have never lost sight of the need for concentrated authority for industrial mobilization. Such authority they wish Congress to confer upon the President immediately upon the outbreak of war. In their original 1931 Plan, they pointed out the necessity of supplementing the implied powers of the President by specific legislation. Legislative pegs were needed on which the executive branch might hang its emergency powers; these the 1931 and 1933 Plans provided in bills which gave the President power to draft an army, to control the dissemination of information, and to assume complete

² National Defense Act, June 3, 1916.

control of the economic life of the country. To make sure of their ground, the authors even recommended consideration of a constitutional amendment to permit price-fixing by statute. All legislation proposed since 1933 which deals with mobilization of civilian resources gives the President sweeping and complete control.³

Extent of Executive Authority

Whether or not Congress would write the President a blank check at the beginning of another war cannot be predicted. Failing such action the executive branch would have to deal with the dislocations arising at the beginning of another conflict, utilizing the powers it already possesses. These powers flow from two general sources: (1) legislation enacted during 1916-18 still remaining on the statute books, which by its own terms is made applicable either in wartime or during an emergency when war is imminent; (2) legislation enacted since 1918, containing emergency provisions, which, while generally applicable, are of particular value in time of crisis.

Under existing legislation, when Congress declares a state of emergency, the President may draft the National Guard into the National Army, and may expand the activities of Reserve Officers' Training Camps,⁴ but without congressional action the President has no power to augment the army either by volunteering or conscription.

³ It is significant that the congressional committees which objected to various features of the 1931 and 1933 Plans did not question these extensive grants of power.

⁴ *United States Code, 1934*, title 10, sec. 441; title 32, sec. 81.

On the other hand, the President, by virtue of laws already on the statute books, has complete control in an emergency over the dissemination of information by radio; he may close or operate any or all radio stations,⁵ and he may require as a condition of continued operation that they restrict all war news to government-controlled broadcasts. Without congressional action he may forward the Army's munitions procurement program by commandeering industrial plants,⁶ and, if necessary, by constructing and operating others. To speed factory work, he may lift the restrictions on government contract procedure. If plants are short of strategic materials, he may tap the government's stock piles.⁷ He may commandeer any system of transportation,⁸ suspend and modify train schedules, and give priority to munitions shipments. If plants need additional power for their operations, the Federal Power Commission may order interconnection of the necessary power lines, permit the local power companies to draw upon other available sources, or compel the increase of generating or delivery capacity.⁹

⁵ *Ibid.*, title 47, sec. 606(c).

⁶ This power is derived from the National Defense Act of 1916 (*ibid.*, title 50, sec. 80). Corresponding authority to speed the Navy's program (granted by the Naval Emergency Fund Act of 1916) was limited to use in an emergency arising prior to March 1, 1918, or in time of war. When, on January 3, 1940, Secretary of the Navy Edison asked for authorization similar to that which the Army has continuously enjoyed under the 1916 Act, Senator Borah protested on the ground that extension of executive powers which would be justified in time of war should not be granted by Congress for use in "an emergency."

⁷ Strategic Materials Act, 1939, Public, No. 117, 76th Congress, 1st session.

⁸ *United States Code, 1934*, title 10, sec. 1361.

⁹ *Ibid.*, Supplement, title 16, sec. 824a.(c).

The President needs no congressional action to permit him to take control over the banks and stock exchanges. He still possesses the vital power obtained and exercised during the dark days of the banking crisis of March 1933, of licensing or prohibiting any and all banking transactions, and all dealings in foreign exchange.¹⁰ Should the approach of war, or any other emergency, produce a stock exchange crisis, the Securities and Exchange Commission may, with the President's approval, suspend all trading for ninety days.¹¹

In addition to the "emergency powers" described above, the executive branch has and is now exercising powers designated to apply to normal situations which are capable of extension so as to apply to war emergencies. The power¹² to fix prices of bituminous coal may be utilized either to check or to stimulate the output of that type of fuel. In collaboration with state governments, the federal government controls oil production.¹³ In the field of foreign trade, recent legislation has authorized executive embargoes on exports of tin scrap and helium.¹⁴ The National Munitions Control Board subjects to license an expansible list of arms, ammunition and implements of

¹⁰ *Ibid.*, title 12, secs. 95-95a.

¹¹ *Ibid.*, title 15, sec. 78s.(4).

¹² *Ibid.*, *Supplement*, title 15, sec. 833(c).

¹³ *Ibid.*, title 15, secs. 715b.-715c.

¹⁴ *Ibid.*, title 50, secs. 87, 165. It is conceivable that the tariff bargaining powers granted in the Trade Agreements Act of 1934 might be used as a weapon of wartime policy, to aid allies and to bring neutrals into line. But more effective would be the direct controls over imports and exports, such as were granted in the Espionage and Trading with the Enemy Acts of 1917.

war.¹⁵ If shipping is lacking for essential imports, the Maritime Commission may, on the President's direction, requisition all vessels under American registry.¹⁶

No comprehensive system of price-fixing can be imposed even in wartime without congressional action, but certain specific prices are already subject to executive control. Federal commissions control interstate transportation rates, interstate power rates, and radio and wire communication rates. A division of the Department of the Interior fixes minimum prices for bituminous coal. The President, if he suspected profiteering, might use his control of stock piles of strategic materials to bring down market prices. The Department of Agriculture by various policies can influence prices of farm products.

Thus the Executive has a broad range of powers ready at hand which might be used to avert threats to the national equilibrium, both before and after a declaration of war. A bold President might, after declaring a state of emergency, even initiate a sort of preliminary mobilization of national resources. Such action, indicating that war was considered inevitable, would not be taken lightly.

The advantages of a broad grant of power by Congress when war appears imminent, following the precedent set by the English and French Parliaments in 1939, is that the actions of the Executive are regularized and Congress thereby puts a term to his exercise of extraordinary powers.

¹⁵ *Ibid.*, title 22, sec. 245a.

¹⁶ *Ibid.*, title 46, sec. 1242.

Restoration of Peacetime Conditions

War does not end with the cessation of military operations; even these may continue sporadically for some time. In 1918 several weeks elapsed between the Allied Armistice with Turkey and that with Germany; the blockade of Germany continued for some months after the Armistice; the peace treaty with Germany did not go into effect until fourteen months after the Armistice.

Psychologically, however, the American people were through with the war on November 11, 1918. The spirit of coöperation, the principal sanction behind the war controls, evaporated rapidly, and there were wholesale desertions from the civilian war organization. Wartime compulsions had lost their value; the "work-or-fight" order no longer constituted a threat, and, with the economy of scarcity gone, priority was without significance. Controls over all aspects of life had to be lifted before public impatience brought their wholesale disregard.

Once the war was over, the subservience of the legislature to the Executive was no longer tolerable. The reassertion of legislative authority, however, meant a breakdown of the vast administrative machinery of war controls, leaving no authority which could provide guidance during the reconstruction period.

In the industrial field it was impossible to do more than slow down the war machine gradually and start production for peaceful uses. The government had on order over six billion dollars' worth of products,

to be supplied by most of the important industrial plants of the nation. To protect the economic structure from too severe liquidation, the government accepted delivery of the goods, holding them off the market so that prices would not be depressed during the period of reconstruction. It continued to build unwanted ships for both commerce and war, and eventually became so deeply involved financially in ship construction and operation that after twenty-five years it has not yet extricated itself. Policies such as these made federal expenditures for the year following the Armistice 46 percent higher than for the year preceding (1918—\$12,696,702,000; 1919—\$18,514,880,000).

Demobilization of the Army was not difficult, for until discharged the soldiers were still subject to military discipline. They were fed back into civilian life slowly; the last of the troops in France did not return for several years. Over four million men were thus shifted back from military to civilian occupations, creating an employment problem of huge proportions. The government, however, assumed no responsibility for finding jobs for ex-soldiers; they were left to shift for themselves.

Demobilization of the war mind lagged behind material demobilization. Official propaganda and censorship ceased with the Armistice, but the after effects of the war were perceptible in the intolerant attitudes of administrators and of the federal courts toward critics of the existing order.

American business for nearly two years after the Armistice enjoyed a boom, brought about partly by

the continuance of huge government expenditures, and partly by the release of pent-up demand for civilian goods. Prices, released from official controls, shot up to new highs. Then, late in 1920, the whole giddy structure came tumbling down, to the accompaniment of commercial failures, falling prices and wages, and unemployment.

Until recently no provision was made for the post-war liquidation of war controls, since the War Department interpreted the Assistant Secretary's mandate to extend only to wartime conditions. But as the area of planning was expanded, involving the cooperation of other government departments, demobilization problems were taken into account. The 1939 version of the Plan points out the need to deal with demobilization either by continuing the War Resources Administration into the postwar period, or by creating for the purpose a new agency. The latter method would be in accord with the policy of terminating the existence of all wartime emergency agencies when the war is over. Beyond this point no plans have been developed to deal with the problems of post-war readjustments. It would seem highly advisable that immediately upon the outbreak of another war an advisory body should be set up to study the subject along the lines of the agency created in England in 1917 for a similar purpose.

It is clear, however, that business men and the public at large will have to accept the idea that war is not over until something approaching peacetime equilibrium has been reestablished. Irksome as wartime controls may prove, their maintenance in part

and for varying periods will have to continue for some time after actual hostilities have ceased.

How and when shall these controls be liquidated? How much of the war economy shall be retained? And how much shall be scrapped? The answers which are given to these questions will largely determine the structure of American society in the post-war generation. Today, tendencies toward centralized control both in our economic and political organizations are evident. Such tendencies would be strengthened as a result of wartime "regimentation," but whether temporarily or permanently we cannot predict. The group which holds that another war would inevitably bring some sort of fascist dictatorship to the United States includes among its numbers some sane and careful observers of contemporary events. Others, equally sane and observing, minimize this danger, feeling confident that the roots of free institutions have penetrated so deeply into the foundations of American life that the tree of liberty would not be overthrown, even by the storm of a great war. Even if political liberties remain, a third group insists, wartime controls of industry will permanently convert our system of free enterprise into a planned economy.

All three groups would probably agree that whatever change in institutions a war might bring should accord with the free choice of the American people. To guarantee that their choice shall be free, it is essential that the return to pre-war conditions shall be immediate and complete in two important respects: (1) the legislative branch of the government should

at the end of the war reassert its traditional independence of the executive; and (2) all restrictions on civil liberties should be removed immediately and completely.

In the course of a long war, the ordinary citizen tends to relapse into the mental comfort of abstention from political thinking, accepting authoritarian bureaucratic control as the most effective machinery for getting the government's work done. There is danger that this attitude, becoming permanent, will support the natural tendency of bureaucratic machinery to perpetuate itself. Justification for retaining some of the wartime control can be found in the necessity for control of post-war readjustments; indeed, a broad extension of government control of the nation's economic life on a permanent basis may appear essential. But if such control is retained, action should be taken only after the people, having regained the power of independent political judgment, have clearly expressed their will.

But the exercise of political rights, the necessary condition for the expression of popular will, requires the removal of restrictions on freedom of expression through the press, radio, cinema and from the public platform. Moreover, to make the expression of the national will effective, Congress must resume its independence of the Executive. Any grant of power to the President, enabling him to limit civil liberties and to assume the legislative functions of Congress should therefore be clearly restricted to the period of hostilities. The danger to democracy from war lies

not so much in its replacement by authoritarian government during the crisis, as in the loss thereafter either of the popular will to restore democratic controls or of the means of expressing that will.

APPENDIX

INDUSTRIAL MOBILIZATION PLAN REVISION OF 1939

INTRODUCTION

The highest and best form of efficiency is the spontaneous cooperation of a free people.

—Woodrow Wilson.

Historical.—The tremendous influence of industrial and economic factors upon modern warfare was not appreciated fully prior to 1914. Since the World War, however, many students have devoted to these subjects a great amount of study and research. Exhaustive accounts of almost every kind of industrial and economic activity in that war are now available. These serve as a basis for the deduction of principles applicable to the economic and industrial phases of modern warfare.

The necessity for industrial preparedness is clear. Military weapons and machines are used up rapidly in war. Armies and navies must not only be well supplied initially but must be maintained adequately and continuously. Thus, the success of a modern fighting force is dependent upon the Nation's readiness to satisfy promptly its requirements in munitions.¹ In addition, throughout the duration of a war, the Nation must continue to provide all the material items upon which the health and well-being of its civilian population depend. War is no longer simply a battle between armed forces in the field—it is a struggle in which each side strives to bring to bear against the enemy the coordinated power of every individual and every material resource at its com-

¹To avoid repetition, the terms "armed forces" and "military," when used, include both the Army and the Navy. By "munitions" is meant all supplies of every kind used by the armed forces. Thus the meaning is not confined to armament, i.e., guns, ammunition, aircraft, etc., but includes every type of supplies used by the armed forces in peace and war.

mand. The conflict extends from the soldier in the front line to the citizen in the remotest hamlet in the rear.

The experiences of most of the great belligerent nations during the World War were, in many important particulars, strikingly similar. Expenditures of munitions far exceeded pre-war estimates. Reserves of materials were quickly exhausted. Inadequate plans for military procurement and for industrial mobilization resulted in uncoordinated purchasing by the many government agencies, inequitable distribution of the industrial load, inefficient utilization of the transportation system, and ineffective coordination of the entire industrial effort during early stages of the war. The above resulted in delay in the procurement of munitions for the support of the armed forces, violent disturbances of prevailing price levels, unequal distribution of the economic burdens of war, and waste of national resources.

The aforementioned conditions soon made apparent the necessity for the exercise of varying degrees of governmental control over essential raw materials, labor, power, capital, industry, and transportation in order that their use could be directed to those purposes which would best meet the immediate needs of the Nation as a whole.

The methods by which governmental control was exercised had to be improvised in the heat of conflict to meet specific situations as they arose. The effectiveness of the methods employed depended in large measure upon the voluntary cooperation of the entire Nation. Separate temporary agencies were created to direct the utilization of national resources by effective and expedient methods which would achieve and maintain the required degree of national morale and support the military effort.

As a result of these World War experiences, people have seen the needless waste, confusion, and danger incident to involvement in a major conflict without adequate plans for the prompt mobilization of industrial resources. Since the World War, many nations have devised systems under which they plan, in the event of another war, to avoid the repetition of the industrial mistakes of 1914-18, to rally material resources to national support with a minimum of delay and a maximum of effectiveness, and to facilitate post-war rehabilitation.

The current problem.—In the United States, the War and Navy Departments, under the authority of the Congress, have the

responsibility of building up a defensive structure which will make hostile attack improbable. Under legislative mandate, the armed services must prepare plans for industrial mobilization supporting the military effort and looking toward early and complete victory. Such plans should attempt to avert those preventable evils which have made their appearance in past wars.

The task is not simple. To make arrangements for the effective use of material resources in war, the plans evolved must consider the problems of the Army, the Navy, the civilian population, and industry. These plans must receive the approval of the President and of the Congress. Frequent revisions, based upon constant study and research, are essential in order to adapt such plans to changing economic and political conditions.

Fundamentally, the first step in the preparation of a sound plan for industrial mobilization is the determination of the material requirements of the Army and Navy. Requirements must be estimated independently by the two armed services, guided by the general policies laid down by the Army and Navy Joint Board.

Actual requirements of munitions for any given situation must be compared with the Nation's stocks on hand and available capacity for production. In the determination of the national ability to meet the war load, due allowance must be made for the essential needs of governmental agencies, other than the War and Navy Departments, and the civilian population. Plans can then be developed under which our resources may be utilized to fulfill national requirements, and specific plans may be prepared for the procurement of those items considered essential.

Upon completion of the steps outlined above, the preparation of plans may be undertaken to assist industry in absorbing the war load and for appropriate administrative bodies to carry out these measures.

Since the actual execution of any industrial mobilization plan must be undertaken by civilian leaders, under conditions which cannot be predicted exactly, the plan must be flexible in its provisions. The essential parts of the general plan, however, must be outlined clearly, in order that the relationships visualized among the various agencies proposed may be clearly understood.

All the aforementioned factors have been considered in the preparation of the various provisions of the plan suggested in the following pages in the hope that in time of a major emergency the

procedure outlined will facilitate the organization of the agencies necessary to bridge the period of transition from peace to war and lead to early victory.

PART I. THE UTILIZATION OF NATIONAL RESOURCES AND THE MOBILIZATION OF INDUSTRY IN TIME OF MAJOR WAR

A. COORDINATING MEASURES WHICH MAY BE APPLIED

In any future major war the application of some form of guidance will undoubtedly be necessary to effect a rapid and orderly transition from the peacetime economy to one wherein normal conditions have been altered by the sudden imposition of an expanding war burden. Varying degrees of coordination will be required in order that the Nation may mobilize and efficiently utilize materials, facilities, capital, labor, power, fuel, transportation, and communications. The sole purpose in supervising the utilization of our national resources in war is to assure effective support for our armed forces, while protecting industry and the civilian population from unnecessary inconvenience and privation. The surrender of all individual rights in war time is undesirable, if it can be avoided, but the assumption of additional individual responsibilities will be essential to the efficient coordination of a national industrial effort.

Specifically, the following are the more important measures which can be utilized to attain industrial coordination necessary in war:

I. PRIORITY

A priority may be defined as the means whereby precedence is established in the procurement program after considering all urgent and essential needs of the Nation. The right of government to institute drastic priority action has long been recognized, but it underwent rapid development during the World War. Priority soon became the most direct, powerful, and therefore the most important means of directing the flow of resources into desired channels of production. It assured equitable distribution of materials and services according to national requirements.

Priority can be applied in a number of forms, no one of which may be considered as a panacea for all the problems which may arise in war. All the various methods of applying priority may be

required to meet varying conditions; they must be coordinated to assure a united, effective program.

Methods of applying priority may take any of the following forms:

(a) *Classification ratings.*—Priority classification of orders, items, facilities, or industries may be established to determine the order in which resources are to be used. Such ratings were found most useful during the World War in promulgating broad priority policies, capable of ready interpretation by all concerned, and avoided a tremendous load on the commodity divisions of the War Industries Board that would have been incurred in the assignment of individual priorities. There is every reason to believe that such an automatic priority classification would prove equally advantageous in any future national emergency.

(b) *Allocations.*—Allocations assign the productive capacity of individual plants, or parts thereof, to specific agencies in cases where serious procurement difficulties are anticipated or develop. This measure establishes priority for sources of supply among requiring agencies.

(c) *Licenses, embargoes, permits, and warrants.*—These are mechanisms of priority which may be set up to establish precedence in the utilization of resources in war. By such means, resources, especially materials in foreign and domestic trade, may be made to flow in such a manner as to insure their most advantageous use.

2. CONTROL OF PRICES

Control of prices in war may be required to prevent or minimize disruption of the national economic structure resulting from the impact of the rapid increase of demand upon existing facilities and resources.

3. CONTROL OF FOREIGN TRADE

This control includes the licensing of importers and exporters, negotiations of trade agreements with neutrals, and the furtherance of the economic isolation of the enemy. Such measures, involving questions of military strategy and of diplomatic and commercial relations, are of the utmost importance.

4. ORGANIZATION OF GOVERNMENT CORPORATIONS

Where appropriate agencies of Government do not already exist, it may become necessary, in some cases, to organize corporations

controlled or owned by the Government. These corporations would render services or take business risks which it would be unreasonable to expect from privately owned bodies.

B. ORGANIZATIONAL PLANS

To carry out effectively the coordinating measures suggested in section A, it is proposed that, when war becomes imminent, and without waiting for serious economic problems to develop, the coordination and direction of the utilization of our national resources should be initiated immediately. While it has long been recognized that such direction in time of war is a function of the President, acting under the authority accorded him by the Constitution and by the Congress, it is obvious that the magnitude and emergency nature of the task require the services of an adequate organizational set-up to which this responsibility may be delegated. It is contemplated that such a set-up will be manned by qualified civilians chosen by the President. Appropriate representatives of the military services will advise and assist in the accomplishment of the task involved.

Since the functions to be accomplished are new and temporary, entirely new and separate agencies, directly responsible to the President, should be created for industrial mobilization in time of a major war. Reliance should not be placed on existing governmental departments and agencies unless the functions to be used are peacetime as well as wartime responsibilities. Usually the functions of existing departments and agencies are defined by law and custom and are designed to serve only a social structure based upon a peacetime economy.

The . . . chart¹ shows the agencies through which it is anticipated the President will exercise those functions peculiar to his office in war, and which are considered essential to the successful prosecution of the war effort. It will be noted that new and independent agencies are proposed to carry out those measures which pertain strictly to the mobilization of resources for the prosecution of war. Existing governmental agencies will continue to perform normal functions, and will administer any assigned war missions for which they are naturally adapted. Thus, the Interstate Commerce Commission, the Maritime Commission, and various other

¹ See Chart II, inserted facing p. 62.

departments and agencies normally perform duties which will be important to the wartime coordination of our industrial effort.

Detailed studies covering the anticipated organization and functions of the emergency agencies are prepared by the Army and Navy Munitions Board in the form of annexes, which are kept currently revised to meet changing industrial conditions. These studies present a more complete treatment of the problems incident to industrial mobilization than is practicable in this document. Such annexes must necessarily be kept flexible, since operations under them will be carried out under conditions which cannot now be accurately predicted.

The earlier emergency agencies must function initially under delegated wartime powers of the President and such existing legislative authority as, for example, that contained in the National Defense Act of 1920 and the Naval Appropriation Act of March 4, 1917. The application of many of the control measures suggested in this plan would require additional legislation. Even more important, however, to the execution of these functions, is the support of public opinion, which is often stronger and more effective than any legal authority.

C. THE WAR RESOURCES ADMINISTRATION

I. GENERAL

All economic functions which must be exercised in time of war are interrelated and interdependent. It is therefore highly important that one major emergency agency be created to coordinate the performance of these functions and that other agencies be set up only as the necessity arises to supplement the work of the key agency.

It is considered highly desirable that the key superagency for wartime industrial coordination should be the War Resources Administration. In order that, wherever possible, planned measures may anticipate the problems which will inevitably arise to disrupt our national war economy, the War Resources Administration in skeleton form should be set up as early as practicable when an emergency is envisioned. The War Resources Administration should serve not only to facilitate the transition from a peace to a war economy but, pending the establishment of other suggested super-agencies, it would, insofar as possible, perform those functions discussed later in detail under the caption of Other Emergency Administrations.

If the creation of the War Resources Administration is delayed, the Army and Navy Munitions Board should assume the responsibility for guidance during the transition period. Upon creation of the War Resources Administration, personnel and records of the Army and Navy Munitions Board should be used to assist in forming the nucleus of the new body.

The proposed War Resources Administration should coordinate the munitions requirements submitted by the armed services with the essential needs of other Government agencies and those of the civilian population. Where the requirements of the armed services exceed the supply available for their use, allocation as between the Army and the Navy will be determined by the Army and Navy Munitions Board. The extent and nature of the measures necessary to accomplish this task, as well as the elements which may require coordination, must be determined by this agency according to the nature of the particular war.

In general, peacetime procedure and methods should be modified only in case the results obtained therefrom fail to meet the requirements of the war. Any changes in normal business procedure which may become necessary should be designed to distribute the war load as equitably as possible and to minimize the difficulties incident to post-war readjustment. A distribution of burden and profits, both socially and geographically, is desirable for a continued war effort.

Reduction of the activities of nonessential industries or partial conversion to more useful purposes may be considered necessary in order to divert their effort into the most essential channels. The civilian population may be depended upon to voluntarily reduce their requirements for items not absolutely needed, when the necessity becomes known, as part of their contribution to the war effort.

In accomplishing its mission, the War Resources Administration is visualized as the pivot around which wartime industrial mobilization will turn. It must be charged with the responsibility and clothed with adequate authority to make and enforce decisions. It should be emphasized, however, that actual administration should be the function of the agencies best fitted for the purpose.

The general outline proposed for the organization of the War Resources Administration and its principal divisions is shown on the chart opposite this page.² The divisions shown on the chart pro-

² See Chart III, p. 64.

vide points of contact between the coordinating agency and the various economic elements for which control may be necessary. Inclusion of these divisions in the organization chart does not necessarily mean that all the controls indicated will be required. Indeed, mere provision of points of contact with the general economic structure may prove adequate, in many cases, without further action of any nature. In any case, these divisions are advantageous for planning, in order that definite action may be taken, if required, without unnecessary delay.

The personnel to fill positions of responsibility in the War Resources Administration should be obtained from the patriotic business leaders of the Nation. They must be men who command the respect of the American people, as well as capable executives, thoroughly familiar with our resources. The effect of strong and intelligent leadership is more important and will do more to secure voluntary cooperation of industry and the civilian population than will any arbitrary regulations or organization charts that may be prepared, no matter how they may appear.

The powers and responsibilities of the War Resources Administration will be vested in an *Administrator*, appointed by and to be responsible to the President. Assisted by an Advisory Council, the Administrator should formulate the basic policies for the mobilization and utilization of our resources to meet the requirements of a major war. It is anticipated that basic priorities will take the form of classification ratings, in order that essential needs may be met first. These ratings would thus guide not only the coordinating divisions of the War Resources Administration but also those other agencies, both governmental and private, which may direct or exert an important influence on those phases of our industrial structure which require coordination. The institution of these automatic classifications would, in the majority of cases, obviate the necessity for decisions on individual requests for priority.

The Advisory Council should be composed of the heads of the coordinating divisions of the War Resources Administration, representatives of any other superagencies which may be created, and representatives of the State, War, and Navy Departments. Such representation is essential to insure the maximum coordination within the War Resources Administration itself, with other superagencies, and with the actual procurement agencies of the two Government departments most vitally concerned with the war effort. Only through the exercise of sound judgment of those called

upon to deal with all the various phases of the critical problems which may arise in war can policies be evolved which will permit efficient coordination and at the same time avoid the adoption of a temporary dictatorial structure during both the period of national emergency and the post-war period of readjustment.

2. EXECUTIVE AND STAFF DIVISIONS

The Executive Division should be considered as the office for the study and coordination of general economic plans and programs, including those relating to priority, price control, clearance, conservation and post-war readjustment, and for the promulgation of broad policies to the appropriate administrative divisions and agencies.

The Executive Division should be assisted by the Staff Divisions, including *the Administrative, Legal, and Statistics Divisions*. The Administrative Division would perform the normal routine administrative duties concerning personnel, records, etc. The Legal Division should be concerned not only with legal advice but with the study of legal phases of war contracts and of legislative action which may become desirable. The Statistics Division is visualized as being responsible for the completion of statistical studies, and for the selection, compilation, evaluation, and presentation of data to serve as important aids to the administration in the guidance of our war economy. Duplication of effort within and without the War Resources Administration should be avoided, and advantage should be taken of pertinent information compiled by other agencies.

The Liaison Division should facilitate contact and cooperation between the War Resources Administration and any other control agencies which may be created. This division should include representatives from each of such agencies. It would provide a ready means for obtaining advice and assistance when required and for the dissemination of basic policies and information.

3. COORDINATING DIVISIONS

The Coordinating Divisions should be concerned with the specific yet harmonious application of the broad policies of the administration. They should in general be concerned primarily with the administration of approved policies and priorities within the respective divisions and with the conduct of research for definite

means whereby requirements may be supplied. At the same time they must recognize the responsibility of established procuring agencies and allow the latter the greatest possible freedom of action in the discharge of procurement responsibilities. The staff of each of these coordinating divisions should include competent trained officer personnel from both the War and Navy Departments. Other governmental agencies interested in specific commodities or services should likewise be represented when conditions warrant. The various coordinating divisions must, in any event, maintain liaison with interested governmental agencies, such as the Procurement Division of the Treasury Department, trade associations, and engineering, professional, and scientific societies. This liaison permits the reception and dissemination of information in the interests of cooperation and efficiency.

Facilities Division.—The primary mission of the Facilities Division should be assistance in meeting national requirements in those cases where existing productive capacity is inadequate to meet anticipated demands, through the application of priorities and through the direction of the extension, conversion, and construction of facilities. Existing facilities and available power, labor, and transportation should be used wherever practicable to fill war orders, and thus to promote early, rapid, and efficient production. Where increases in productive capacity are essential, consideration must be given to proper geographic and strategic distribution of the load on industry.

The primary means of application of basic priorities within this division should be the allocations of facilities to procurement agencies rather than the assignment of war orders to facilities. The Facilities Division will make necessary allocations upon the request of a procuring agency for specific facilities or upon a request for facilities adequate for the production of specific requirements.

Copies of all data on facilities assembled by the War and Navy Departments and by the Army and Navy Munitions Board will be available as a nucleus of information for the Facilities Division. Close liaison with other coordinating divisions, other major Government procuring agencies, and with industry represented by the various War Service committees will further assist the Facilities Division.

Commodities Division.—It is contemplated that the Commodities Division, through the Commodity Sections into which it should be subdivided, will be concerned with assurance of the availability of

materials indispensable for the production essential to meet the requirements of the armed forces and the civilian population.

To accomplish this mission, it must ascertain the aggregate requirements for each commodity and ascertain potential sources of supply. Necessary action may then be taken to alleviate actual or anticipated shortages by measures designed to stimulate production, encourage conservation and the use of substitutes, especially by less essential industries and control the distribution of available supplies. This division should also be responsible for the application of authorized price-control measures pertaining to commodities.

While price control, necessary publicity, and other aids may be invoked to stimulate both production and the use of substitutes, priorities in accordance with basic policies established for finished products will be mandatory for the control of the distribution of commodities. These priorities may take any of the various types described in part I, section A. On the basis of established priorities, distribution may be made or controlled by the War Service committees themselves, or by other designated agencies.

Power and Fuel Division.—The mission of the Power and Fuel Division should be to assure an adequate supply of power and fuel to facilities essential to war production while giving due consideration to essential civilian requirements.

To accomplish this mission, it may initiate necessary measures governing use, encouraging conservation, and promoting the development of additional sources of supply. It should cooperate with existing regulatory bodies in securing the removal of peace time restrictions impeding war production. The measures set up by this division may be executed by established regulatory bodies or by the division itself, as circumstances may render advisable. The activities of the Power and Fuel Division must be coordinated closely with those of the other coordinating divisions, particularly with the Facilities and Transportation Divisions.

Transportation Division.—It is anticipated that the Transportation Division will be concerned with coordination of the general operation and use of all modes of transportation in the zone of the interior, in accordance with basic priority policies. As the growing industrial war load imposes heavier burdens on the Nation's transportation facilities, new policies and regulations may be required to govern their operation. Shippers and consignees must cooperate with all concerned in order that most urgent needs may be satisfied first.

Necessary coordinating measures should be administered by established Federal regulatory bodies, with the advice and assistance of the appropriate War Service committees.

D. OTHER EMERGENCY ADMINISTRATIONS

Other administrations for the coordination of various phases of our national economy may be organized as required by the circumstances.

1. PUBLIC RELATIONS ADMINISTRATION

The mission of this administration should be the coordination of the dissemination of information for the public. This information should insure adequate presentation to the people of the purposes, views, and progress of the Government in the prosecution of the war.

The administration must maintain close liaison with all other emergency administrations and other agencies. The maintenance of a high national morale is a continuing function of this administration.

2. SELECTIVE SERVICE ADMINISTRATION

The creation of this administration should follow the enactment of selective-service legislation. While its powers and responsibilities will be prescribed largely by the terms of such legislation, the general mission should be the selection of personnel for, and their induction into, the armed services. Due weight must be given to the assurance of the supply of necessary labor to industry for the support of these armed forces.

3. WAR FINANCE ADMINISTRATION

It is anticipated that this administration will be staffed by representatives of existing public and private financial agencies, such as the Treasury Department, Federal Reserve Board, and the Federal Loan Agency, with the Secretary of the Treasury as *ex-officio* Chairman. It should advise the President on the financial policies appropriate to governmental and private needs and coordinate the administration of those policies.

In time of war, functions which must be carried out under policies approved by the proposed War Finance Administration would be identical in nature to those now performed by such existing agencies as the Treasury Department, the Federal Reserve

Board, the Reconstruction Finance Corporation, the Securities and Exchange Commission, and the Export-Import Bank. These functions, of course, would be greatly expanded during a period of national emergency. Since they are identical in nature, however, it is considered that their actual administration should be left in the hands of existing agencies.

The wartime financial needs of the Government should be coordinated with those of private enterprise to insure the provision of working capital for productive facilities. The financial factors which will come within the jurisdiction of this administration include tax policies, credit and inflation, the effects of the issue of securities, both Government and private, and the direction of the flow of capital.

4. WAR TRADE ADMINISTRATION

It is anticipated that the primary mission of this administration will be the regulation of imports and exports in such fashion as best to further the economic interests of the United States and to damage those of the enemy. The closest liaison must be maintained between the United States Maritime Commission, the Departments of State, Commerce, and Agriculture, and the Commodities Division of the War Resources Administration. The results obtained by this administration may affect materially the success of the military effort.

Where the imposition of controls proves to be necessary, those measures might best include the issuance of export and import licenses, the formulation of policies for economic pressure on the enemy, reciprocity, and trade negotiations with allied and neutral countries, and the administration of applicable established control measures.

5. WAR LABOR ADMINISTRATION

It should be the mission of this administration to provide the machinery for the equitable and voluntary distribution of labor to industry and agriculture during war by maintaining close cooperative relations between labor, industry, and the Government. The closest cooperation between the Selective Service, War Labor, and War Resources Administrations will be essential if the necessary augmentation of the armed services is to be accomplished without undue adverse effect upon productive industry, which must simul-

taneously support the armed forces and provide for essential civilian needs.

Industries should be classified as war industries and nonwar industries according to the essentiality of the materials and services which they provide. Labor requirements should then be determined for each of these classes, with primary attention directed toward furnishing adequate supplies of labor for the more important industries, thus keeping the job and the worker together as far as circumstances permit.

6. PRICE-CONTROL AUTHORITY

The desirability of the creation of this proposed emergency agency will be dependent upon the nature and magnitude of current or anticipated price fluctuations which might tend to throw our economic structure out of equilibrium. Control of prices should be limited largely to reliance upon the voluntary cooperative pressure which an enlightened public opinion will bring to bear upon interests which fail to cooperate.

Although some provision may well be made to prevent profiteering, the primary attention of such an authority should be given to the study of the causes, rather than the effects, of price fluctuations. The adoption of appropriate preventive measures to be applied at the source appears to be a sounder approach to the problem of preserving economic stability than reliance upon remedies after the disorders have appeared.

The authority should be composed of representatives of industry, of the War Resources Administration, of labor, and of those permanent Government departments and agencies most concerned with price control. In general, this body should determine price policies, leaving their administration to the temporary and permanent agencies best fitted for such work.

E. WAR SERVICE COMMITTEES

War service committees are proposed as valuable points of contact between emergency coordinating agencies and industry. They would afford the best possible means of presenting to industry national needs and requirements and of informing the emergency administrations of industry's prospective ability to meet those requirements.

The committees should be composed of trusted representatives of

their respective industries working with, but not designated officially as a part of, any emergency agency. When each committee is formed, care should be exercised to see that it represents all interests in the particular industry, both large and small, and that members are selected from among the ablest and best informed men in that field. Only such care will insure the respect and confidence of the industry as a whole.

F. POST-WAR READJUSTMENT

This plan contemplates that the proposed coordinating agencies will be temporary in nature and that they will be demobilized upon the termination of the emergency.

This plan takes cognizance of the fact, however, that although winning the war is of primary importance, post-war rehabilitation is a very important secondary wartime consideration. During the course of a national emergency, therefore, the War Resources Administration will undoubtedly give proper weight to rehabilitation factors in formulation of its wartime policies. In fact, the War Resources Administrator, as the termination of the emergency is approached, might well study the desirability of proposing the creation of a new and entirely separate agency to deal with the rehabilitation problem. In the event of the creation of such an agency during the national emergency, contact with the War Resources Administration might be provided through the Liaison Division of the latter agency.

On the other hand, it may be considered advisable, upon the termination of the emergency, to continue the War Resources Administration as a post-war readjustment agency. Decision as to the organization and composition of such an agency will depend upon personalities, the degree of rehabilitation required, and political and economic factors which would then obtain. Decision must therefore be deferred until controlling conditions are known or can fairly accurately be forecast. The important consideration for the purposes of this plan is that due consideration must be given the problem of post-war readjustment.

PART II. ARMY AND NAVY PROCUREMENT PLANNING IN TIME OF PEACE

In the preceding pages there has been discussed the types of supervision and control that may be required for the utilization of

our national resources in the event of a war emergency of major proportions. The organization proposed for obtaining this coordination has also been outlined. It has been pointed out that, while Army and Navy officers, with the cooperation of qualified civilians, are responsible for the preparation of plans for the establishment of these coordinating agencies, their operation will be undertaken by civilian administrators appointed by the President.

Army and Navy officers will, of course, assist wherever possible in establishing the coordinating agencies, but it is recognized that the proper sphere of activity of such officers in war is in the field of actual procurement of the munitions needed by the services. Part II of this pamphlet is therefore added to indicate only roughly the policies and organization now established to plan for the essential procurement activities in order that the relationship of procurement to industrial mobilization may be seen.

A. POLICIES

Procurement planning must be based on policies proceeding from sound principles and involves the study and determination, in time of peace, of methods which will insure the timely and orderly supply of munitions required by the Army and Navy during a national emergency.

Some of the more important principles and policies are outlined below:

It is fundamental that the determination of military requirements must be the concern of the armed services. The accuracy with which these requirements are determined will, in large measure, determine the value and effectiveness of any coordinating measures found necessary in war.

While procurement plans of the two departments must make due allowances for differences in organization and administration of procurement functions, the following steps should be considered in the preparation of the procurement plans of both armed services:

(1) Proper estimates of the quantities and types of munitions required.

(2) Comparison of requirements with the Nation's ability to satisfy these needs.

(3) The methods and organization necessary for the execution of the procurement program, including specific plans for the procurement of the required items, the control or acquisition of essential commodities, the development of suitable contract forms, and

the augmentation of personnel necessary for the expansion of peacetime procurement organizations.

(4) Frequent revision of procurement plans based upon constant study is essential if such plans are to remain in conformity with changing strategic plans and current industrial conditions.

(5) Intelligent distribution of the war load will reduce to a minimum disruption of the normal economic life of the country.

(6) Army and Navy procurement planning must be coordinated, and due consideration must be given to the essential needs of the civil population.

(7) The procurement plans which are prepared should endeavor to reduce competitive procurement efforts between Government purchasing agencies for commodities or the output of facilities to a minimum. To avoid such competition and to assure sources of supply, procurement plans should provide for the allocation of industrial facilities to the Army and Navy in cases where the ratio between productive capacity or availability and the combined estimates of requirements of the armed services indicate the need therefor. The necessity for, and the extent of, such allocations should be determined by the authorized coordinating agency.

B. ORGANIZATION FOR PEACETIME PLANNING

(a) *Coordination of peacetime planning.*—While the scope of the problems involved in the preparation of plans for the industrial support of the armed forces in war extends far beyond the normal provinces of the War and Navy Departments, and while this matter is of vital importance to the entire Nation, these departments alone are charged by legislative mandate with (and are now actively engaged in) the preparation of such plans. The Army and Navy Munitions Board has been established by joint action of the Secretary of War and the Secretary of the Navy as the official agency for coordinating war-procurement problems involving Army and Navy interests.

(b) *Functions of the coordinating agency.*—The Army and Navy Munitions Board is authorized and directed to—

(1) Formulate and keep up-to-date such pertinent plans and policies as in the opinion of the two departments should be adopted by the Federal Government for coordinating and controlling national industrial effort in an emergency.

(2) Assure the necessary coordination in the procurement war plans of the Army and Navy, and in all plans, studies, and ap-

pendixes thereto intended to facilitate the Government's efforts to promote orderly mobilization of industry in an emergency.

(3) Coordinate, when a war emergency is imminent and until the War Resources Administration is functioning, all Army and Navy procurement programs. It is considered fundamental that the War Resources Administration should be created promptly when war is imminent. It is essential, however, that should there be any delay in the creation of the War Resources Administration the Army and Navy Munitions Board must assume the responsibility for such limited guidance of industrial effort as it may be qualified to assume. Its operations during this period should be such as to facilitate the assumption of responsibility for industrial coordination by the War Resources Administration.

(4) Transfer to the War Resources Administration, upon creation of that agency, such personnel and records of the Army and Navy Munitions Board as may be found useful in organizing the new body.

(c) *Adjudication of disputes.*—Approval of action taken by the Army and Navy Munitions Board is not required, except that any plans prepared by it that affect joint war plans and joint Army and Navy policy relative to the national defense are required to be referred to the Joint Board for consideration. Problems upon which the Munitions Board cannot reach agreement are forwarded to the President, as per military order dated, "The White House, July 5, 1939," and effective July 1, 1939.

C. ARMY AND NAVY MUNITIONS BOARD

ORGANIZATION OF ARMY AND NAVY MUNITIONS BOARD

The Army and Navy Munitions Board consists of the Assistant Secretary of War and the Assistant Secretary of the Navy, assisted by an executive committee and by various divisions and committees, . . . One representative from each Department serves on each division and committee.

1. Executive Committee

(a) *Organization.*—The executive committee consists of three officers of the Army and three officers of the Navy, on duty in the War and Navy Departments, as selected by the Secretary of War and the Secretary of the Navy, respectively.

(b) *Functions.*—The executive committee is responsible for the

coordination of the work of the divisions of the Board; the submission annually, on May 1, of a schedule of proposed subjects for future consideration and study; the preparation and submission on May 1 and November 1 of each year of a progress report of joint procurement planning; the initiation of a joint study to be made annually of the several parts of the Industrial Mobilization Plan, and the submission, as of May 1 of each year, of a report on the status of this plan, together with any recommended changes; and the adjustment of conflicting provisions arising in plans for war procurement. Any deficiencies which may develop in a war procurement plan supporting a joint plan of operations which may affect the execution of the joint plan are referred to the Joint Board for a military priority decision. Recommendations relating to the personnel to be assigned from the Army and Navy to the office of the Administrator of War Resources are provided for in part I of this plan.

(c) *Secretary*.—One officer from the Army and one officer from the Navy, selected by the respective departments, will be assigned to duty in the Army and Navy Munitions Board, the senior officer to be executive secretary of the Board.

2. Staff Divisions

(a) *Legal Division*.—The functions of this division are to study and develop drafts of proposed legislation necessary for carrying into effect the provisions of the Industrial Mobilization Plan; to promote uniform wartime contractual procedure; and to advise the Army and Navy Munitions Board on legal matters.

(b) *Administrative Division*.—This division administers required functions of supply, finance, personnel, and mail and record.

(c) *Statistics Division*.—This division is responsible for the selection, compilation, and use of such statistics as will insure that all processes in the industrial mobilization program are submitted to adequate scrutiny. Contact and liaison with permanent and emergency governmental agencies, for the purpose of avoiding duplication in statistics, will be a continuing responsibility of this division.

3. Liaison Division

This division maintains liaison with the peacetime agencies dealing with labor, trade, public relations, price control, and finance; keeps the Army and Navy Munitions Board informed on all con-

ditions pertinent to these subjects; and assists in the development of plans pertaining thereto.

4. *Coordinating Divisions*

In addition to the responsibility for a detailed knowledge of all procurement plans and requirements, these divisions determine the general progress of procurement plans; study procurement problems to include the determination of desirable standards and probable choke points and unbalanced production; and maintain liaison with other procurement agencies of the Government.

(a) *Facilities Division*.—The function of this division is to coordinate the plans of the War and Navy Departments for the utilization of facilities which will be required for the production of munitions, either directly or indirectly.

This coordination is accomplished by the allocation of existing facilities, recommending the location of new facilities necessary to increase production in essential industries and coordinating plans for the extension or conversion of existing facilities to meet the joint industrial war load of the Army and the Navy.

(b) *Commodities Division*.—The Commodities Division is organized into such number of commodity committees as may be found necessary to investigate the availability of strategic and critical raw materials required to support joint plans of operations; to recommend the distribution of available supplies in accordance with the military priorities, when necessary; and to promote the development and use of substitutes to relieve probable acute shortages. Each committee representative will be one whose normal duties require detailed knowledge of the uses in his department of the commodity under study in the committee to which he is appointed.

The work of the several commodity committees is coordinated by two commodity division representatives, one designated by the Office of the Assistant Secretary of War and one designated by the Office of the Chief of Naval Operations.

(c) *Plans Division*.—The Plans Division, in addition to the responsibility for a detailed knowledge of all procurement plans and requirements, determines the general progress of procurement; studies procurement to include the determination of standards, choke points, and unbalanced production; operates a contract and purchase information service; and maintains liaison with other procurement agencies of the Government.

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INDEX

- Adamson Eight-Hour Day Act, effect of, 208
- Administrator of Labor, in 1931 Plan, 133; in 1933 Plan, 134-35
- Aircraft Production Board, origin, 15
- Allocation Division, in 1939 Plan, 60
- Amateur radio stations, and censorship, 99
- American Alliance for Labor and Democracy, function, 78
- American Brown-Boveri Electric Corporation, and Shearer episode, 37
- American Chemical Society, and industrial mobilization, 34
- American Federation of Labor, criticism of War Resources Board, 51; rivalry with C.I.O., 144
- American Iron and Steel Institute, and industrial mobilization, 35
- American Legion, interest in industrial mobilization, 33; and war profits, 35-37, 163-64, 187
- American Newspaper Publishers' Association, as propaganda medium, 83
- American Society of Mining and Metallurgical Engineers, and industrial mobilization, 34
- American Standards Association, and industrial mobilization, 34
- American Telephone and Telegraph Company, and censorship training, 98-99
- Army, industrial organization plans, 33-54; procurement for, 1939 Plan, 58; coordination with industry, 59-61; Planning Branch in 1939 Plan, 59-60; coordination with Navy, 61-62; cooperation with censorship, 97, 100 π ; mobilization of, 103-14; conscription, 1917, 105-107; post-war plans for mobilization, 107-109; necessity for conscription, 109-111; volunteering *vs.* conscription, 111-14; 1938 statistics on size of, 109 π -110 π ; percent of male population in, World War, 117; use of commandeering, 158; demobilization after Armistice, 232. *See also* War Department
- Army and Navy Munitions Board established, 34; activity after Munich, 49, 50, 52; function, 61-62; finance planning, 196-97; survey of raw materials, 215-16; and 1939 Plan, 223
- Army and Navy Selective Service Committee, organized, 108
- Army Appropriations Act, 1916: *see* Military Appropriations Act, 1916
- Army Appropriations Act, 1918, provisions, 16
- Army Engineers, power surveys of, 204
- Army Industrial College, established, 34; function, 62
- Association of American Railroads, and industrial mobilization, 34, 210, 211
- Baker, Newton D., on voluntary cooperation of industry, 22-23; on price control, 178; and transportation problems, 210
- Baruch, Bernard M., on lack of coordination in 1917, 11 π ; Committee on Raw Materials, 14, 18; Chairman, War Industries Board, 18-19, 19 π ; promotion of voluntary cooperation in industry, 22-23; efforts in post-war planning, 34, 34 π ; War Policies Commission, 38; on selective service for labor, 126 π ; on priorities, 153-54; on commandeering, 158-159, 160-61; on war profits, 164; and price control, 171, 177-78; 178 π ; on raw materials, 214-15
- Bethlehem Shipbuilding Company, and Shearer episode, 37
- Bethlehem Steel Corporation, war profits in, 166, 167 π
- Bone, Homer T., War Profits Bill, 189
- Borah, William E., and munitions industry, 45; protest against Executive powers, 228 π
- Brookings, Robert S., and control of prices, 22
- Bureau of Labor Statistics, survey of labor supply, 145

- Burleson, Albert S., on Committee on Public Information, 97
- Business, attitude of, to price control, 176; toward war profits, 189*n*; toward regimentation, 224
- Business men, to control industrial mobilization, 52
- Buy-American Act, 1933, provisions, 219-20
- Capital Issues Committee, established, 18; work of, 193, 194, 196
- Censorship, in 1939 Plan, 68; discussed, 87-102; in 1917-18, 87-89; Espionage, Sedition, and Trading with the Enemy Acts, 89-91; criticisms of, 91-92; post-war reactions to, 92-94; in next war, 94-96; of military news, 95; administration of, 96-98; communication with foreign countries, 98-100; principles of, 100-102; after Armistice, 232
- Civil War, conscription in, 103-104
- Chafee, Zechariah, on censorship, 100-101
- Coal: *see* Fuel
- Coffin, Howard E., and industrial coordination in World War, 12*n*, 13; Committee on Munitions, 14
- Commandeering, under National Defense Act, 1916, 12; under War Industries Board, 21-22; use in World War, 27; in 1931 Plan, 42, 43; uses of, 158-62; weapon in price control, 176; Executive powers and, 228
- Commodities Division, in 1939 Plan, 60, 65
- Committee on Public Information, function and activities, 75-78; and censorship, 87; hostility to Congress, 91; and selective service, 105
- Committee on War Materials, 18
- Communications, control in World War, 27, 28; censorship and, 87; post-war removal of control, 93; under 1933 Plan, 93; Act, 98; control of, with foreign countries, 98-100; Executive powers over, 228, 230
- Compton, Karl T., on War Resources Board, 50
- Conciliation and Adjustment Service, in 1931 Plan, 133
- Congress, powers in 1931 Plan, 43; hostility to Committee on Public Information, 91; opposition to selective service, 105; appropriations for stock piles, 220; and Executive powers, 227, 227*n*
- Congress of Industrial Organizations, rivalry with A.F. of L., 144
- Conscientious objectors, in World War, 107
- Conscription: *see* Selective service
- Conservation, under War Industries Board, 20
- Construction Division, in 1939 Plan, 60
- Coördination, lack of in 1917, 10; efforts at, in World War, 12-14; *Chart I*, 24; industrial, in 1931 Plan, 41; between Army and Navy, 61-62; in 1939 Plan, 65; in Public Relations Administration, 86*n*; in censorship, 94; between censorship and counter-espionage agents, 101; of national resources and industry, *Chart II*, facing 62; between railroads and War Department, 210
- Cost, as price control factor, 172-73, 172*n*
- Cost of living, rise in World War, 118, *Table 1*, 120; rising wages and, 149-50, 151
- Council of National Defense, established, 12-14; organization and activities divisions under, 14-17, 18; personnel, 30*n*; and selective service, 105; and Railroad War Board, 207
- Creel, George, organization of propaganda, 76, 79, 82, 86; and censorship, 87*n*, 90*n*, 92, 96; cessation of propaganda activities, 92-93
- Dent Act, 1919, 30
- Demobilization, after Armistice, 232
- Department of Commerce, and price control, 180
- Department of the Interior, control of coal price, 230
- Department of Justice, and propaganda, 16; censorship functions, 87; War Emergency Division, 90; coöperation with censorship, 97
- Department of Labor, as wartime agency, 53; Division of Conciliation, 127
- Dictatorship, army opposed to military, 7; fear of permanent, 31, 46, 234

- Director of Public Relations, in 1931 Plan, 82
- Division of Press Intelligence, and public opinion, 84
- "Dollar-a-year" men, to manage war economy, 6, 7
- Douglas, Paul, on cost of living, 1890-1926, 120*n*
- Draft: *see* Selective service
- Draft Act, and Executive powers, 226
- Du Pont Company, refusal of government contract, 159
- Edison, Charles, request for Executive authority, 228*n*
- Educational orders, in 1931 Plan, 40, 40*n*; funds provided for, 49
- Embargoes, and control over foreign trade, 213; "moral", 221; as pre-war precaution, 224
- Emergency Construction Wage Commission, and labor disputes, 127-28
- Emergency Fleet Corporation, activities, 17; litigation with Bethlehem Steel, 167*n*; finance work of, 195; Act, 1918, 195; aid to power plants, 202
- England: *see* Great Britain
- Espionage Act, 1917, provisions, 89; as permanent power for censorship, 94; suggested revision, 97-98; and War Trade Board, 213
- Executive, powers of, wartime control and, 6, 7; 1915-16, 11, 12; to draft, 1916, 16; World War price control, 22; in World War, 23, *Chart I*, 24; under 1933 Plan, 46; in labor policy, 1931 Plan, 133; in priorities, 154, 157-58; under Lever Food Control Act, 170; and plant construction, 203; and industrial mobilization, 225-27; extent of, 227-30; after war, 231
- Facility, defined, 40*n*
- Facilities Division, in 1939 Plan, 65
- Fair Labor Standards Act, 1938, hour provisions, 143
- Federal Communications Commission, as wartime agency, 53
- Federal Power Commission, control of power output, 203, 228; reports of, 205
- Federal Reserve System, as wartime agency, 53, 195; and price inflation, 169
- Federal Trade Commission, data on war profits, 165*n*, 166, 186; and price control, 180
- Film and Radio Service of the Federal Security Agency, 84
- Finance, organization of, 1918, 17-18; findings of Nye Committee, 46; control of, 1939 Plan, 66; price control and, 181; and essential industries, 193-97; Executive powers and, 229
- Fleet Maintenance Division, in 1939 Plan, 61
- Food Administration, origin, 15; and price control, 170, 174, 176; licensing system, 180
- Food and Fuel Act, 1917, provisions, 15, 30*n*
- Food and Fuel Control Act, Executive powers, 198-99
- Foreign trade, control in World War, 17; in 1931 Plan, 42; in 1939 Plan, 66; and price control, 179; raw materials and, 212; embargoes and, 213; re-exports, 221, 222
- Ford, Guy Stanton, on propaganda activities, 79
- "Four-Minute Men," function, 78
- France, supply of war labor in, 116; armed forces in World War, 117
- Frankfurter, Felix, War Labor Policies Board, 130*n*
- Fuel, procurement and, 197-99; 198*n*; in 1939 Plan, 204-206; Executive control of prices of, 229, 230
- Fuel Administration, origin, 15; labor disputes, 128; and price control, 170, 174; work of, 198, 199-201. *See also* Food and Fuel Act
- General Munitions Board, 18; and priorities, 154
- Germany, influence of Nazi policies in U.S., 44; selective service of labor, in 1916, 116; armed forces in World War, 117; ratio of labor to army, 141*n*; control of trade with, 214, 222
- Gifford, Walter S., and War Policies Commission, 34; on War Resources Board, 50
- Godfrey, Hollis, and industry-defense coordination, 13; Committee on Engineering, 14
- Gompers, Samuel, Committee on Labor, 14; on Council of National Defense, 116*n*; suggestion for Mediation Commission, 128

- Graham Committee, investigation, 33
- Great Britain, censorship in, 95-96, 100, 100*n*; volunteering and selective service, 104; supply of war labor, 116; armed forces in World War, 117; cost of living in World War, 119; effect of war wages in, 148; war profits taxation, 184; post-war adjustments, 233
- Gregory, W. D., on Committee on Public Information, 97
- Hancock, John M., on War Resources Board, 51
- Haney, Lewis H., on price control, 173*n*
- Harris, Charles T., on conscription of labor, 138*n*; on war profits, 190
- Harshfield case, described, 91
- "Heatless Mondays," established, 200
- Hoover, Herhert, as Food Administrator, 180
- Ickes, Harold L., criticism of War Resources Board, 51
- Immigration, and labor demand, 122, 123
- Industrial Mobilization Plan, 1931, beginnings, 5, 34-39; propaganda in, 82; labor policy in, 132-33; price control in, 178-79; Executive *vs.* legislative powers in, 226
- Industrial Mobilization Plan, 1933, criticized by Nye Committee, 46-48, 46*n*; propaganda in, 82-83; censorship in, 93; Selective Service Annex, 108; priority control in, 157; price control in, 179-81; Executive powers in, 226-27
- Industrial Mobilization Plan, 1936, provisions, 48-49; propaganda in, 83; selective service omitted, 109; labor policy in 137-38; priority control in, 157; commandeering in, 162
- Industrial Mobilization Plan, 1939, control of war economy under, 52; organization and provisions, 55-71; procurement, 58-59; industry and, 59-61; coordination, 61-62; civilian control, 62-63; "key super-agency," 63-65; emergency administrations, 65-66; finance, foreign trade, labor, 66-68; limitations of, 68-70; propaganda under, 83; selective service omitted, 109; labor policy, 138-41; suggested organization, *Chart II, facing* 62; price-control in, 181-82; finance in, 196-97; power and fuel, 204-206; transportation, 210-12; in action, 223-34; preparedness necessary, 224-25; necessary legislation, 225-27; extent of Executive authority, 227-30; restoration of peacetime conditions, 231-34
- Industrial Preparedness Committee, 1915, activities, 12-13
- Inflation, price, 1915-18, 167-69, *Table 3*, 168
- "Jamming," as censorship, 99
- Japan, influence of Manchurian invasion in U.S., 44
- Johnson, Hugh, and N.R.A., 34*n*;
- on accuracy of draft registration, 106; on price control, 178
- Josh Lee Bill, provisions, 189
- "Key Super-Agency," in 1939 Plan, 63-65
- Labor, control of supply, 17-18; under War Industries Board, 20; and selective service, 38; under 1933 Plan, 46-47; under 1936 Plan, 48; under 1939 Plan, 66-67, 68; propaganda and, 78; mobilization of, 115-52; problem in U.S., 117; wages and turnover, 1916-17, 118-19; causes of unrest, 119-22; dislocation and shortage, 122-23; U.S. Employment Service, 123-24; "work-or-fight," 124-26; trend toward compulsion, 126-29; emergence of national policy, 127-29; National War Labor Board, 129-31; in next war, 132-33; 1931 Plan, 132-33; 1933 Plan, 134-35; Nye Committee and policy, 135-38; 1936 Plan, 137-38; disappearance of selective service provisions, 138-39; 1939 Plan, 139; new aspects of policy, 139-41; unemployment and shortage, 141-43; expansion and disunion of organized, 143-44; dealing with unrest, 144-46; selective service a necessity? 146-48; wage control in war, 148-52; priorities and, 153; and Fuel Administration, 199; precautionary survey of, 224
- Labor Administration Publicity Bureau, 1931 Plan, 82

- Larson, Cedric, on censorship, 92
 Legal Division, in 1939 Plan, 60
 Lever Food Control Act, 1917, and price control, 170
 Liberty Loans, and propaganda, 79; effect of, 195
 Loans, war, *vs.* taxation, 183, 183*n*, 188; of government to industry, 195
- MacArthur, General, and 1931 Plan, 39-40; on price control, 178-79
 Management, industrial, selective service of, 137, 138
 Manganese, pressure of interests, 219, 219*n*. *See also* Raw materials
 Maritime Commission, as agency for wartime finance, 196; control of shipping, 230
 McAdoo, William G., and railroad control, 208
 McCormick, Vance C., v
 McCoy, Major General Frank R., foreword, v-vii
 McSwain, John J., bill on war profits, 36, 187; and War Policies Commission, 38*n*
 Mediation Commission, in World War labor disputes, 128
 Merchant marine, increase, 1915, 11
 Merchant Marine Act, 1936, Maritime Commission, 196
 Military Appropriations Act, 1916, provisions, 11-12; and railroads, 208
 Mock, James R., on censorship, 92
 Motion pictures, as propaganda medium, 85
 Motion Picture Producers' and Distributors' Association, as propaganda medium, 83
 Moulton, Harold G., on War Resources Board, 51
 Munich crisis, influence on industrial planning, 49
 Munitions Standards Board, 18
 Munitions, provision for under National Defense Act, 1916, 12; Nye investigation, 44-46; labor and, 66-67; procurement for, 192-93; precautionary survey, 224. *See also* Profits, war
- National Association of Broadcasters, as propaganda medium, 83
 National Defense Act, 1916, provisions, 11-12; priorities under, 154; commandeering under, 162; and price control, 169-70; Executive powers under, 228*n*
 National Defense Act, 1920, vii; provisions, 34; and selective service, 107-108
 National Guard, and selective service, 1916, 16
 National Munitions Control Board, control of munitions output, 229
 National Labor Relations Board, and unions, 143
 National resources, control of, under 1931 Plan, 43; coordination in 1939 Plan, *Chart II, facing* 62. *See also* Raw materials
 National Resources Committee, report on technological trends, 141*n*
 National War Labor Board, function and work, 128-31
 Naval Consulting Board, 1915, activities, 12, 12*n*
 Naval Emergency Fund Act, 1916, Executive power under, 228*n*
 Navy, increase, 1915, 11; procurement for, 15, 35; procurement for, 1939 Plan, 58; Planning Branch, 60-62; coordination with Army, 61-62; propaganda for, 85; Public Relations Branch, 85; and cooperation with censorship, 97, 100*n*; mobilization of Army and, 103-14; 1938 statistics on size of, 109*n*; commandeering by, 158; price control of commodities for, 170; attitude toward taxation and price control, 189-91; financial aid to power plants, 202; oil reserve, 204; priorities and transportation, 208. *See also* Army and Navy Munitions Board, Army and Navy Selective Service Committee
 New York Commodity Exchange, action on re-exports, 221
 Newlands Act, 1913, establishment, 127
 Newport News Shipbuilding and Drydock Company, and Shearer episode, 37
 Newspapers, as propaganda medium, 85
 Nye Committee, and 1933 Plan, 5, 57; munitions investigation, 44-46; criticisms of Plan, 46-48; influence on propaganda plans, 83; attacks on censorship, 93-94; objections to selective service, 108-109; criticisms of labor policy in 1933 Plan, 135-37; on comman-

- deering, 159-61; and war profits, 164; taxation of profits, 187-89, 190*n*
- Ordnance Department, investigation of, 33
- Ordnance Service, in 1939 Plan, 58
- Overman Act, 1918, 18*n*
- Peace organizations, opposed to mobilization plans, 39, 224; investigation of munitions industry, 44; and war profits, 164
- Planning Branch, in 1939 Plan, 59
- Planning Branch of National Defense, activities, 34-35
- Postmaster General, function of censorship, 87, 88-89, 91-92; suggested revision of censorship powers, 97-98; commandeering of Western Union, 159
- Power, electric and steam, problems of, 201-204; in 1939 Plan, 204-206; wartime control of, 228
- Power and Fuel Division, in 1939 Plan, 65
- Pratt, John L., on War Resources Board, 51
- President, war powers of: *see* Executive powers
- Price control, under War Industries Board, 20, 22; American Legion recommendations, 36; in 1931 Plan, 41-42, 43; in 1939 Plan, 67, 68; relation to priorities, 154; discussed, 163-91; inflation and, 1915-18, 167-69; development of, 169-72; principles and methods of, 172-74; results of, 174-77; in next war, 177-79; in 1933 Plan, 179-82; as pre-war precaution, 224; and Executive powers, 229, 230
- Price Control Committee, 1931 Plan, 179
- Price Control Authority, in 1939 Plan, 181
- Priority, under National Defense Act, 1916, 12; under War Industries Board, 20, 21; use in World War, 27; in 1931 Plan, 42; power in censorship, 93-94, 98; in labor supply, 127; as control over industry, 153-55; procedure in granting, 155-57; in Plans, 157-58; weapon in price control, 176; and fuel, 200; conflict with transportation, 208; after Armistice, 231
- Priorities Shipment Act, 1917, provisions, 154
- Procurement, problem, 1917, 35; in 1931 Plan, 39-40; in 1939 Plan, 58-59; and labor supply, 141-43, 145; economics of planning in 1939 Plan, 192-222; in essential industries, 196-99; of fuel, 199-204; electric power, 201-204, 205-206; transportation, 206-11; raw materials, 211-23; Executive powers and, 228
- Profits, war, public opinion and, 30-31; Grabam Committee investigation, 33; American Legion attacks, 35-37; Shearer episode, 37-38; taxation under 1931 Plan, 43; under 1933 Plan, 47; lack of control of, 1939 Plan, 68; and labor unrest, 119; discussed, 163-91; extent of, World War, 163*n*, 164-66; causes of, 166-67; price control and, 176-77; in 1933 Plan, 180; in 1939 Plan, 181-82; taxation of, 182-89, *Table 4*, 186; attitude of Army and Navy toward, 189-91, 189*n*; taxation, as pre-war precaution, 224
- Propaganda, organization in World War, 16; in 1939 Plan, 68; mobilizing public opinion, 1917-18, 75-77; Committee on Public Information, 77-78; criticisms, 79-81; in the next war, 82-84; wartime Public Relations Administration, 84-86; truthfulness, 86-87; after Armistice, 232
- Protectionism, and planning for raw material procurement, 218-219
- Provost Marshal General of the Army, administration of draft, 106; report on selective service and labor, 125
- Public Information, Committee on, work of, 16
- Public opinion, mobilization, World War, 15, 16-17; influence of, World War, 28-29; and war involvement, 44, 57-58; record of shifts of, 84; post-war, to censorship, 91-92; and selective service, 107, 111, 113-14; and National Labor Board, 129; and profiteering, 163-64; and price control, 176, 181, 182. *See also* Propaganda
- Public Relations Administration, 1933 Plan, 82; immediate action in time of war, 223
- Publicity: *see* Propaganda

- Quartermaster Corps, in 1939 Plan, 58
- Radio: *see* Communications
- Railroad Administration, origin, 14, 17; Adjustment Board, 128; actions of, 208-209
- Railroads: *see* Transportation
- Railway War Board, work of, 207
- Raw materials, procurement in World War, 26-27; procurement, 1939 Plan, 60; priorities and, 153, 155; price control and, 170-71, 175, 179, 180; control of, 1917-18, 212-14; classification of, 215-17; post-war problems, 214-17; present policies, 217-22; foreign sources of, 217-18; precautionary accumulation of, 224
- Rationing: *see* Priorities
- Reconstruction Finance Corporation, as agency in wartime, 196, 197, 206
- Registration, for World War selective service, 105-107
- Requirements and Statistics Bureau, in 1931 Plan, 133
- Revenue Act, 1916, provisions, 184, 184*n*
- Revenue Acts, 1917, profit taxes, 184, 184*n*
- Revenue Act, 1918, taxation of war profits, 185
- Revolutionary War, conscription in, 103
- Robinson, Joseph T., and War Policies Commission, 38*n*
- Roosevelt, Franklin D., message on national defense, vi; interest in industrial mobilization, 49-51; R.F.C. loans and power, 206; and "moral embargoes," 221
- Roosevelt, Theodore, and atrocity stories, 80
- Root, Elihu, and industry-defense coordination, 13
- Rosenwald, Julius, Committee on Supplies, 14
- Rubber, import and re-export, *Table 5*, 222. *See also* Raw materials
- Sabotage, guarding against, 223-24
- Securities and Exchange Commission, as wartime agency, 53, 196, 197; and Executive powers, 229
- Sedition Act, 1918, provisions, 89
- Selective service, steps for, in World War, 15-16, 104-107; American Legion recommendations, 35-37; in 1936 Plan, 48; history of, 103-104; World War classes, 106; Nye Committee and, 108-109; necessity for, 109-10; *vs.* voluntary enlistment, 111-13; public opinion and, 113-14; of labor in Germany, 116; "work-or-fight" order, 125-26, 125*n*, 136; of management, 137, 138; of labor, 1936 and 1939 Plans, 138-39; of labor, discussed, 146-48
- Selective Service Act, 1917, passed, 16
- Selective Service Advisory Committee, organized, 108
- Selective Service Administration, and labor, 67; action of Congress to initiate, 223
- Selective Service Annex, 1933, published, 108
- Selective Service Bill, 1917, passed, 112
- Shearer, William B., suit brought by, 37-38
- Shippers' Advisory Boards, and transportation problems, 211
- Shipping Board, established, 17; use of commandeering, 158
- Smith & Wesson Manufacturing Company, and National War Labor Board, 130; commandeering of, 159
- Social Security Board, and information on labor supply, 145
- Spies, propaganda and, 81
- Standards Division, of 1939 Plan, 59
- Stettinius, Edward R., on War Resources Board, 50
- "Stock piles," established, 217, 220
- Strikes, in World War, 120-21
- Supply: *see* Procurement
- Taxation, of war profits, 43, 69, 182-89, *Table 4*, 186
- Trade unions, gains in wartime, 115-16; and National War Labor Board, 129; expansion of, 143-44; 143*n*; and transportation, 208
- Trading with the Enemy Act, 1917, provisions, 89; War Trade Board, 213
- Transportation, under Military Appropriations Act, 1916, 12; control of, 1917, 17, 159; strikes in, 121; priorities and, 153, 154-55; and fuel, 198*n*, 199; procurement problems, 1917-18, 206-10; in 1939

- Plan, 210-12; precautionary survey of, 223; Executive powers over, 228
- Transportation Act, 1920, powers over censorship, 98
- Transportation Division, in 1939 Plan, 65
- Unemployment, and labor shortage, 141-43
- United States Census, 1940, and information on labor supply, 145
- United States Chamber of Commerce, war service committees, 21
- United States Employment Service, established, 17; importation of labor, 122; work of, 123-24
- United States Film Service, as medium of propaganda, 84
- United States Steel Corporation, rise in net income in wartime, 165, *Table 2*, 165
- Wages, rise in World War, 118-19, *Table 1*, 120; National War Labor Board and, 129-30; control of, 148-52
- Wagner Act, and unions, 143
- War Credits Board, work of, 194
- War Department, interest in industrial planning, 4-8; supply problems, 1917, 35; on conscription of labor, 138*n*; price control of commodities for, 170; attitude toward taxation and price control, 189-91; financial aid to power plants, 202; priorities and transportation, 208. *See also* Army, Industrial Mobilization Plans
- War Finance Administration, in 1939 Plan, 197
- War Finance Corporation, established, 17, 28; work of, 193, 195, 196; and power plant construction, 202
- War Industries Board, origin, 14; activities, 28; Commodities Sections, 20-21; personnel, 29, 30*n*; priorities and, 127, 154, 155; commandeering under, 159-60; and price control, 170, 171-72; actions of Price-Fixing Committee of, 171-74, 175, 176; Power Section, 201-202
- War Labor Administration, origin, 15; in 1939 Plan, 67, 223
- War Labor Board: *see* National War Labor Board
- War Labor Policies Board, work of, 130
- War Profits Bill, 1939, provisions, 189
- Works Progress Administration, and information on labor supply, 145
- War Policies Commission, 1931 Plan, 5, 42-44; origin and activities, 37-39; findings on commandeering, 159-60; and price control, 177-79, 179*n*
- War Risk Insurance, Bureau of, established, 1915, 11
- War Resources Administration, staff, 7; in 1939 Plan, 63-65, 63*n*, *Chart III*, 64; and labor, 67; immediate functions in time of war, 223; use in post-war period, 233
- War Resources Board, appointment and activities, 50-51
- War Resources Control Act, provisions, 157-59
- War Trade Administration, time of operation, 223
- War Trade Board, activities, 17; control over raw materials, 213
- Western Union Telegraph Company, and National War Labor Board, 130; commandeering of, 159
- Willard, Daniel, Committee on Transportation, 14; and War Policies Commission, 38
- Wilson, Woodrow, demand for emergency powers, 1915, 11; instructions to Baruch, 19; appeal for majority, 31-32; action on selective service, 104; pressure on employers over labor recruiting, 123-24; action on non-essential industries, 156-57; and commandeering, 161; and price control, 171-72, 174; action on power, 201; control over railroads, 208; control of raw materials, 213
- Wolman, Leo, on labor supply, 142; on labor relations, 145-46
- Wood, Robert E., on War Resources Board, 51
- Wood, Leonard, and industry-defense coordination, 13
- "Work-or-fight" order, as labor control, 124-26, 136; after Armistice, 231

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