

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES
Washington, D. C.

Industrial Mobilization Course

Demobilization of Economic Controls

Lecture I: Demobilization of Economic Controls

After World War I

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Instructor: Captain Thomas B. Worsley

I INTRODUCTION

General Armstrong, Ladies and Gentlemen:

During the last few days, this speaker has been offered various bribes, inducements, privileges, and emoluments and has suffered threats of violent bodily harm from certain characters who harbored the hope that no lecture would be given today and that this might be a holiday. This hope was shared by the speaker. Since, however, it is considered "unmilitary" to pass the buck upward and there is no one around for this speaker to pass it downward to, he must accept the full responsibility for the materialization of this lecture and meekly take his place in the doghouse.

As you ladies and gentlemen know, the subject at this time is "Demobilization of Economic Controls After World War I". We are, therefore, adding to your post-holiday headaches and our present-day postwar headaches by consideration of headaches coming after the first World War. On Monday a Mr. Lovenstein, a war veteran, who was recently promoted to civilian after a period of bitter frustration, will hold forth on "Demobilization of Economic Controls After World War II", a problem of vital current history and interest. In so far as possible, I shall

endeavor to stay out of the field of his subject despite the temptation to discuss such matters of current interest, but will make occasional comparisons to bring out parallels between the two postwar periods. Such parallels may prove both instructive and interesting. You will note that some of the lessons from the period after World War I were learned and have been applied since V-J Day of World War II. Other lessons either were not learned, were forgotten, or were inadequately learned and inadequately sold to the general public before, during, and since World War II.

In the fall of 1918 the present speaker was in the first grade and struggling with his ABC's. His chief recollection of 11 November 1918 is that it was a holiday from school, just as yesterday was for you, - that the cotton mill whistles blew, and that there was a big parade and big newspaper headlines which he couldn't read. It is, therefore, obvious that the economic literacy and political awareness of the speaker as of 11 November 1918, and the several years following, were not great. Most of what will be brought out here today, therefore, has been feverishly ferreted out through some very recent research. In view of the high rate of human forgetting, however, some things covered may even serve to refresh the memories of any old-timers who may be present. It is, consequently, hoped that a talk on post-World War I economic demobilization by a junior officer will not be considered presumptuous.

II THE NEED FOR CONTROLS

First, let us ask anew the question: "Why do we need Government wartime economic controls"? At the very beginning of this course, in

January, three introductory lectures brought out the need for Government economic controls during wartime as substitutes for peacetime competition and the free workings of the "market place" or "price system". This need holds true in any war of considerable size or duration, as we have seen, and it is made necessary mainly by wartime scarcities of the material and human means of production and distribution. In World War I as well as World War II, therefore, a number of emergency war agencies were created for controlling the war economy in the interest of both maximum timely military and essential civilian production and economic stabilization. The number of war emergency agencies added to the permanent agencies was far less during the first war than during World War II. This was because the first war was of only nineteen (19) months duration, absorbed at its peak less than twenty-five (25) percent of our gross national product and ended before substantial in-roads had been made on supplies of miscellaneous durable goods available to consumers. The most recent war lasted nearly four (4) years after a two year period of "defense" preparation, brought about a far greater increase in plant investment and output, and absorbed roughly twice as large a percentage of our expanded national product. In its particular industrial field - that of metal durables - it brought about much more than twice as much new construction, conversion, and diversion of productive facilities from ordinary peacetime production, and the job of reconversion is, therefore, correspondingly larger today than after World War I

III ECONOMIC AGENCIES AND CONTROLS - WORLD WAR I

Before discussing the demobilization of economic agencies and

controls after World War I it seems a good idea to recall briefly the agencies and controls in existence on 11 November 1918, corresponding to "V-J Day" of World War II. In other words, we need to know what agencies and controls there were to demobilize. The main emergency war agencies are indicated by this first chart (indicating) on the "Executive Establishment as of November 1918". As in World War II, these agencies of World War I were improvised to meet needs of the moment rather than planned in advance. A Counsel of National Defense, having advisory powers only, was created by the National Defense Act of 1916. As in 1940, this Counsel of six (6) cabinet members was joined with a small Advisory Commission. Members of this Advisory Commission headed committees which later developed into the War Industries Board, the War Labor Administration, the Railroad Administration and others. There was no central control before 4 March 1918, when Mr. Bernard Baruch was made Chairman of the War Industries Board, which became the coordinator of the war effort. This Board concerned itself largely with requirements, conservation, priorities and allocations in the fields of materials, facilities and manpower. In addition, the Price Fixing Committee of the War Industries Board, headed by Mr. Robert Brookings (later founder of the Brookings Institution), controlled many prices. Unlike the OPA of World War II this Price Fixing Committee did not control rationing or rents. What rationing there was was carried out by the Food and Fuel Administrations and rent control, where existent, was carried out locally by municipal governments.

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The organization that coordinated the wartime controls was set up informally and remained informal. This chart 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 economic and other powers. Alongside the traditional cabinet an informal War Cabinet was set up in which the Secretaries of War and Navy were included, as well as heads of the chief emergency agencies. 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 war service committees shown next on the chart were groups of businessmen and industrialists who cooperated with the War Industries Board in technical advisory capacities just as the Industry Advisory Committees did with the War Production Board in World War II. The miscellaneous group of emergency administrations included:

A. In the field of domestic transportation, a Railroad Administration which actually took over and operated the railroads.

B. In the field of ocean transportation by merchant marine, there was the Shipping Board, which built ships through the Emergency Fleet Corporation, shown next on the chart.

C. In the control of exports and imports and denial of foreign resources to the enemy there was a War Trade Board.

D. In addition to the expansion of the financial activities of the Treasury Department, the financing of war contractors was made possible through the activities of a War Finance Corporation and a Capital Issues Committee.

E. The production, distribution and pricing of fuel and food were under the control of the Fuel Administration and the Food Administration, respectively, shown next on the chart.

F. In the manpower field the Selective Service Administration discharged functions similar to those of the organization by the same name in World War II; the War Labor Administration, under Secretary of Labor William B. Wilson, as War Labor Administrator, coordinated fifteen (15) bureaus within the Labor Department handling war labor problems; a War Labor Policies Board under Felix Frankfurter, now a Supreme Court Justice, formulated and coordinated all war labor policies; and finally, a National War Labor Board acted as a "Supreme Court" in the field of labor relations and wages, as did the board of the same name during World War II.

G. Public relations and censorship were taken care of by the Committee on Public Information and the Censorship Board, respectively. Both were under Mr. George Creel.

The various emergency administrations usually cooperated with the major agency, the War Industries Board, though on occasion they took an independent line.

Some of the permanent establishments expanded their functions and controls a great deal during World War I as well as World War II. The United States Employment Service of the Labor Department had an important role, as did other bureaus of that Department. The Departments of Commerce, Agriculture, Interior, Justice, Treasury and State had many wartime control functions, just as in World War II. The Alien Property Custodian, then in the Department of Justice, prevented the use of alien

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property by the enemy and placed it at the disposal of the United States, just as it did as an independent agency during World War II. Last but not least, came the War and Navy Department procurement agencies, whose influence on the national economy exceeded that of any other agencies, emergency or permanent.

IV PLANNING FOR DEMOBILIZATION DURING WORLD WAR I

The idea prevails that there was little recognition of the need for a positive planning and preparation for postwar economic demobilization, readjustment and reconversion after the first World War. This is not true!

Discussion of demobilization problems during the war was denounced and even considered pro-German. However, there were competent men in industry, in the newspaper and magazine fields, and in the legislative and executive branches of the Government who strongly urged a positive reconstruction program rather than negative and indiscriminate de-control. The authors of one book on demobilization after World War I were able to devote half of the book or 125 pages to such planning during World War I for demobilization but emphasized the fact that such planning was literally "an end in itself" and did not lead to positive action. If time permitted, a number of quotations might be given to show that there was some realization of the special problems involved in economic demobilization. President Wilson, however, gave such plans little support because of preoccupation with world peace plans and other problems. Three weeks after the Armistice he sailed for Europe. Secretary of War Newton D. Baker prevailed upon President Wilson to prevail upon Mr. Baruch "to forestall any discussion of reconstruction" during the war, even as late

as the Fall of 1918. The upshot of these attitudes was that the Congressional bills and resolutions died in various committees and the War Congress passed no legislation assuring the American people of assistance in the difficult transition from a war to a peacetime economy. (The War Congress of World War II did somewhat better.) Furthermore, there was no real effort on the part of the country's leaders to inform the general public of the special economic problems accompanying a return to peace or the methods proposed for meeting them. As a result, the Armistice of November 1918 came with a great shock and found the country unprepared for economic demobilization and reconstruction and the new adjustments demanded. On the contrary, the emphasis in Congress and the country was on "retrenchment" and "economy", on doing away with war controls, and on "return to normalcy" and laissez-faire.

V DEMOBILIZATION OF CONTROL AGENCIES AFTER 11 NOVEMBER 1918

From what has been said, it is not surprising that a historian of the first World War period could state, "Demobilization was more completely without foreknowledge than mobilization had been 19 months before". Mr. Baruch sent in his formal resignation as Chairman of the War Industries Board on 27 November, and recommended the discontinuance of the Board on 1 January 1919 with the statement that its work was over because material shortages were no longer serious and the American people would resent continuance of its powers. On 12 November it was decided that priorities were no longer necessary and on 22 November practically all priority ratings were cancelled. Each price fixing agreement also was allowed to lapse on the date originally set for its expiration. The

Price Fixing Committee of the War Industries Board therefore closed its activities in February 1919, it being felt that "most industries desired the end of price controls"! In many instances manufacturers expected price declines which made maximum prices seem useless.

The Food Administration also demobilized rapidly, with only a skeleton staff after 1 January 1919. Others, like the War Trade Board with its control over imports and exports, and the Shipping Board with a building program underway in the Emergency Fleet Corporation, demobilized more slowly. The Fuel and Railroad Administrations continued somewhat longer than the War Industries Board, but not a great deal. The economy-minded Congress would not continue the appropriations for the U. S. Employment Service and its activities had to be cut 80 percent. The U. S. Employment Service, therefore, virtually ceased to exist after March 1919, but much of its work was carried on by local community committees and local and state governments. Economy also forced the dissolution of the War Labor Board, although not until mid-summer of 1919. This experience affords an interesting parallel to the experience after World War II, when Congress made strong efforts to return the Employment Service to state control despite presidential opposition and when the War Labor Board ceased to function soon after V-J Day. After World War I the other permanent and emergency agencies were forced to curtail activities and released thousands of employees just as they are being forced to do today. The greatest contractions of personnel occurred in the War and Navy Departments.

VI ECONOMIC EFFECTS OF PRECIPITATE DE-CONTROL, ON 1918-21

Despite inadequate advance preparations, immediately after the Armistice, the military procurement agencies cancelled contracts. In the week of the Armistice the War Department asked for cancellation of 24,000 contracts aggregating \$5,650,000,000. Of these, some \$3,800,000,000 were actually cancelled. Some contracts of the Navy, the War Shipping Board and other agencies were continued, but many were immediately cancelled. Delay in settlement of these contracts and the threat of surplus property overhanging some markets created industrial uncertainty and delayed reconversion to peacetime production. Similar uncertainty resulted from the excess capacity in mining, manufacturing and agriculture developed during the war.

Another major problem was the prospect of falling prices. Contrary to the experience of World War II, prices had been allowed to rise considerably and as early as 1917 wholesale prices stood 60 percent above the 1913 level. Not until March 1918 was the Price Fixing Committee set up to control extraordinary price increases in the name of the President. It had come too late to restrain the most extreme advances and prices and profits had reached high levels by Armistice time. After the war sellers hated to reduce high prices but buyers resisted them and expected price reductions. As a result, they hesitated to buy until such price declines had actually occurred.

Four million service men were to be demobilized as promptly as possible and 9,000,000 war workers faced abrupt end of their employment. Therefore, unemployment became a serious prospect by the end of 1919.

In summary, then, we may say that the immediate post-Armistice period brought contract termination and surplus disposal problems and a resultant business hesitation, uncertainty about prices, prospects of unemployment, reduced wages, and a slowing down of sales because of expectation of price declines. As already indicated, each industry attempted to meet these immediate post-Armistice problems in its own way without the aid of any coordinated Government program, public education or leadership.

By February 1919, at their post-Armistice low, wholesale prices in general had declined not quite five percent, although some individual prices such as textile, chemical, and metal prices, had fallen more sharply. In general, immediate post-Armistice prices remained relatively stable.

Production in most of the war industries was, of course, immediately suspended after the Armistice. Production of most non-farm products decreased until about May 1919, largely because of price uncertainties and manufacturers' lack of orders. For some industries, like the automobile industry, the reconversion period was very short. Readjustment to peacetime production was complicated, however, in a number of industries by strikes. Strikes during this immediate post-Armistice period affected clothing, textile and shipyard workers. It was during this period that the economy-minded Congress forced dissolution of the War Labor Board and most activities of the U. S. Employment Service!! Furthermore, the low point of factory employment in general was reached in March, the very month that the Employment Service was forced to curtail operations.

During this period the distributive or retail trades were undergoing a prosperity based upon abundant consumer purchasing power resulting from the full employment, high wages, and large savings of the war period. Eventually, activity at the retail level began to affect wholesalers and manufacturers favorably.

Gradually, in 1919 confidence grew and economic activity stepped up. Prices had fallen less than expected, the unemployed were absorbed gradually, and the national income, wage rates, the number of wage earners, the high wartime savings of the population, the easy bank credit situation and deficit financing by the Treasury gave rise to a very high purchasing power.

Between 1914 and 1918 the total national income had increased from 36 to 58 billion dollars. Non-farm income rose from 32 billion to 48 billion, while farm income increased from 4.5 to over 9.5 billion. Except for 1919, the 1918 farm income had never been exceeded until the war year 1942. Another important factor sustaining the domestic economy and making possible the rapid recovery in 1919 was foreign demand for such American goods as food and cotton. The United States Government advanced credits to allied governments to assist in their reconstruction as it is now doing and billions of dollars were lent abroad by private financiers.

By mid-1919 recovery was well under way. Just as in 1946, however, a wave of strikes began at the very time when the need for greater output of consumer goods was strongest. The chart here shows the trend in time lost from strikes. 1919 had no competitors in strike losses till 1946, both being first years after World Wars. These strikes were inspired in

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large part by the extraordinary rise in the cost of living, as indicated by this next chart. Just as in 1946, newspaper comments of 1919 indicate that public sympathy for labor was alienated and a tendency appeared to hold labor responsible partly for high prices and interrupted production. Strikes immobilized such leading industries as steel and soft coal and disrupted the railroads, just as they have done in 1946. Then, as now, no effective legislative action was taken to prevent the occurrence of strikes in industries affecting the entire economy or to end them after they were begun. Just as Secretary of the Interior Krug had to be called in to handle John L. Lewis' 1946 soft coal strike, in 1919 the Fuel Administration was revived. It had suspended operations in June 1919 and was reestablished in the fall of that year, at the time of the strike. Although the Fuel Administrator remained in office from October to December 1919, he accomplished little because the time for effective action had passed.

During the earlier months of 1919 when prices declined a little, there had been few complaints about high prices, but as soon as the fear of business collapse vanished there was great clamor against the "high cost of living". During the earlier months of stagnation, it had not been possible to build up war-depleted inventories. With stocks low, demand great, and prices mounting, there was a rush for merchandise and wide-spread commodity speculation. There were complaints by business and professional men, who wore overalls as a protest against paying "\$60 prices for \$30 suits". Shades of 1946! Eggs sold for \$1 a dozen and sugar rose to 30¢ a pound. Prices in both commodity and security

exchanges, at wholesale and at retail, rose rapidly. Inventory accumulations by merchants exceeded 4 billion in 1919 and over 7 billion in 1920.

"Profiteering" became a household word as agitation was renewed for certain wartime price controls.

It is not surprising that eventually prices and production moved up beyond any possibility of support. Eventually, the European market for American farm products contracted and the war-expanded capacity of American agriculture could not be justified. Rural income fell more than 50 percent during the first year of the depression beginning in mid-1920 and affected the entire economy. Wholesale prices went down after May 1920 and the general cost of living after June 1920, but because of the housing shortage rents continued upward until June 1921. The wholesale prices fell almost 50 percent and retail food prices more than one-third. In 16 months production fell practically 40 percent and in 10 months factory employment slumped 30 percent. National income dropped over 20 percent in 1921. It was one of the sharpest depressions in American history. For agriculture, soft coal, and cotton textiles it continued throughout much of the 1920's. Thus did the economy "return to normalcy"!

VII LESSONS APPLICABLE TO ANOTHER POSTWAR READJUSTMENT PERIOD

Economists do not agree as to whether the difficulties after World War I were due to failure to continue wartime economic controls and maintain a positive transition policy. This is not surprising. What would be "news" would be for the economists to agree! Some economists think that a depression phase of the business cycle or even a dip in the long run trend of business was due at about the time of the demobilization

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after World War I. Most specialists in the theory and history of economic demobilization, however, feel that positive controls would have helped considerably in smoothing the transition after World War I. It is an important fact, which probably outweighs the theories of economists, that as months went by after World War I, actual events forced upon key public officials the realization that the economic effects of the war had not ended with the Armistice. After controls were removed industry failed to function with the expected smoothness. As a result we find that:

a. Between February and April 1919 the Department of Commerce attempted to revive War Industries Board methods and stabilize industrial prices and stimulate production. The effort came too late.

b. After March 1919 private and local bodies found it necessary to continue the work of the U. S. Employment Service in placing unemployed labor in jobs.

c. The President found it necessary to continue and strengthen the food control powers in order to prevent further price rises and feed needy foreigners, as in 1946.

d. The President made efforts to set up an Industrial Conference to do for labor relations what the War Labor Board did before it ceased operations, just as President Truman did 27 years later.

e. When the coal strike threatened in November 1919, the Fuel Administration was revived.

f. Financial aid to European reconstruction had to be revived after being terminated.

g. Finally, as agricultur^{al} depression deepened, Congress was urged to authorize the War Finance agency to aid farmers by promoting foreign trade.

VIII CONCLUSION

In conclusion and summary, we have seen that after World War I the American economy was not treated as a sick patient requiring a period of convalescence under medical control. Instead, the assumption by both the patient and the doctor was that as soon as the temperature had dropped the weakened patient could leap out of bed and rush back to the office and "business as usual". There is some disagreement as to the wisdom of this attitude and the resulting negative de-control policy but the best thought seems to be that positive controls should have been continued as long as, and in the areas where, scarcities, surpluses and instabilities remained. And there is almost unanimous opinion among economists to the effect that after any total war as great as World War II, many controls should be continued where scarcities or surpluses exist. It is not within my province to discuss at length the experience since V-J Day of World War II. Mr. Lovenstein will undoubtedly show that we learned and applied many of the earlier lessons after World War II. He will also probably show which lessons and principles were not adequately learned or applied.

Mr. Grosvenor Clarkson, Director of the Council of National Defense during World War I, wrote in 1923 that "the World War was a wonderful school, but it gave too many lessons at once. It showed us how so many things may be bettered that we are at a loss where to begin with permanent utilization of what we know".

Of one lesson, however, we may be fairly sure. This is that the experience after the first World War affords a very good model of things

to avoid in the reconversion that is following the recent war or will follow any other total war! The manner in which America turned from war to peace in 1918 should reveal the necessity of preparing for peace while we are in war and even before a war begins. It seems obvious that all future industrial mobilization planning should emphasize and preach the necessity for treating postwar economic demobilization as a component part (repeat "component part") of a total mobilization. The Industrial Mobilization Plan of 1939 provided for a single readjustment agency but did not go into detail as to principles, policies or procedures needed for economic demobilization. No effort was made to show all the economic controls needed during the demobilization period or to coordinate them.

It is now pretty obvious that it is as necessary for the general public to have an understanding of the principles underlying economic de-control as for them to understand the need for controls during a war. Future plans covering industrial demobilization (included in mobilization plans) should, therefore, not only be more complete than in past plans but should be "sold" to the general public and to organized economic groups, which should participate in planning far better than they have in the past. One of the most important ideas to sell in connection with economic demobilization is, undoubtedly, the need for development of a sense of responsibility on the part of these organized economic groups, which otherwise are inclined to grab selfish benefits at the expense of orderly and fast reconversion for the nation as a whole. The order to "cease firing" should not be interpreted as an invitation to either business or politics as usual.

And now, in closing this discussion, which is my swan song during this course, please permit me to borrow a line from the radio trade and say, "Thanks for listening".