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PRICE CONTROL.

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(Resume of remarks by Mr. R. S. Brookings,
former Chairman, Price Fixing Committee,
War Industries Board, on above subject.)

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PRICE CONTROL.

President Wilson summoned to Washington, the last of July, 1917, a group of men for the purpose of organizing the War Industries Board. On arrival in Washington, we reported to the White House where the President informed us that the industrial problems of the war had developed to a point where the supply departments of the Army and Navy were unable to cope with them, and that he had determined to organize a War Industries Board consisting of a chairman, a representative of the Army, a representative of the Navy, a representative of labor, and three commissioners through whom the Board would principally function; i.e., a commissioner of priority, Judge Lovett; a commissioner of raw materials, Mr. Baruch; and a commissioner of finished products, Mr. Brookings. The basic raw materials were the metals, steel, copper, lead, etc., and chemicals. The finished products were practically all of the ordnance, quartermaster and engineer supplies; arms, ammunition, clothing, etc. The Priority Commissioner was expected to determine the priority of needs as between the Army and the Navy and our Allies.

When we organized, the purchasing departments of the Army and Navy were negotiating their own prices and arranging as best they could for their supplies, and we functioned principally in advising with and assisting them in every way we could. It soon developed, however, that in order to avoid a run-away market and conflict of interest, both between the departments and the civilian population, we would have to consolidate both the purchasing and fixing of prices in the War Industries Board.

As the needs of the war developed, the problem of supplies and the fixing of prices grew to such magnitude that the President practically segregated the Board into two sections; one headed by Mr. Baruch - which had jurisdiction over supplies, including allocation and priorities; the other section, known as the Price Fixing Committee, had entire jurisdiction over all questions of prices. The two sections functioned entirely independent of each other, the Price Fixing Committee reporting almost daily directly to the President, from whom it received practically the only authority it had for fixing prices contrary to the anti-trust laws, as well as for commandeering and fixing prices for the civilian population without legal authority.

The Price Fixing Committee was composed primarily of the Chairmen of other war activities, including Mr. Baruch, chairman of the War Industries Board; Mr. Garfield, chairman of the Fuel Commission; Dr. Taussig, chairman of the Tariff Commission; and Mr. Colver, chairman of the Federal Trade Commission; a representative of the Army; a representative of the Navy; a representative of labor; and former Governor Stewart, of Virginia, representing agriculture. In fixing prices we were, of course,

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compelled to secure the fullest information regarding costs, so that we practically took over the entire organization of the Federal Trade Commission, consisting of nearly 600 expert accountants. We had to keep a group of men continuously on the most important basic commodities, such as steel. They had access to the accounts of all producers and undertook to furnish us with reliable cost sheets. It was our custom to fix prices for a period of 90 days only, and as a result we had meetings with the so-called industrial war committees nearly every day.

Mr. Baruch and Mr. Garfield were so occupied with their own committees that they never attended any price-fixing meetings. Mr. Garfield, however, sent a representative much of the time. As the Federal Trade Commission and the Tariff Commission, however, had practically ceased to function during the war, Mr. Colver and Dr. Taussig gave the Price Fixing Committee most of their time.

The usual procedure was for the chairman to assemble all the information regarding costs and conditions and, after studying the problem, call the committee together, fully explaining the situation, after which we would discuss the question of prices before meeting the industrial committee. At the meeting with the industry, after a discussion which generally occupied all the afternoon and frequently extended into the evening, we usually agreed upon the prices to be promulgated for the following 90 days. As by necessity these industrial committees were small, they sometimes represented a large number of producers, as, for example, in cotton goods I think there was something more than 1,000 mills. In order that there should be no misunderstanding, and to strengthen the hands of the industrial committee, we sometimes had the President issue a proclamation notifying the public that these primary prices had been agreed upon. We had the feeling that no matter how dissatisfied some producers might have been with the prices as fixed, the force of public opinion is such that they would hardly violate a price fixed by the President's proclamation. We were never disappointed in the result. I cannot recall a single case of the violation of the prices we fixed. This gives you roughly a sketch of the activities of the War Industries Board.

I have not a single memorandum among my papers dealing with the thousand and one problems we had to solve in securing supplies, so I can only briefly reminisce over a few of the most acute things which come to mind, and indicate how our organization developed.

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I think almost the first problem that I had to solve as Commissioner of Finished Products was involved in a large number of communications addressed to the purchasing departments of the Government from manufacturers who declined to bid on our needs unless the Government could assure them a supply of much needed equipment such as electric motors, machine tools, locomotive cranes, etc. I immediately got in touch with the leading producers of such equipment, telegraphing the most important men in each industry to come to Washington for a consultation. When they arrived I called their attention to the fact that the probable volume of our needs for equipment indicated that we would have to make a survey of the Nation's capacity, with a view of stabilizing both production and price with such control as would enable us to take proper care, not only of ourselves and our Allies, but the civilian population as well. This was the beginning of what was afterward known as commodity sections in finished products. Not a man that we called to Washington, no matter how prominent his position, ever declined to drop everything, come to Washington and give his whole time and attention to developing a staff and organization that would give us the necessary control of the industry. Between the raw materials and the finished products, I think we had something like 500 or 600 expert manufacturers in the numerous commodity sections at the time the Armistice was signed.

Among some of our early trials I recall the problems involved in arms. While our own Springfield rifle seemed to have no superior, the Government's rifle production was so small as to be immaterial, and the only other source of supply was a large manufacturer at Chester, Philadelphia, who had been furnishing the English government with the Enfield rifle. The Ordnance Department reported, however, that this rifle was not suited for our purpose as it was inclined to cartridge-choke, and the parts were not inter-changeable, which, on the other side of the water so far from our base of supplies, was a great objection. The Ordnance people reported, however, that by a little delay these objections could be removed, and the Enfield rifle perfected for our purpose. We agreed with the Department that we could not afford to equip our men with anything but the best, and while it left us temporarily short of rifle equipment at the training camps, and we were criticised by the press for training our men with broomsticks, the results justified the good judgment of the Ordnance people, with whom we agreed, as I believe we had two perfected Enfield rifles for each man that crossed the water.

I recall quite a lot of squabbling over machine guns. The contention was between the Lewis and the light and heavy Browning, the Browning being in the process of development.

There were difficulties connected with the Lewis patent and I recall any number of meetings and negotiations that I personally had with these people in order, first, to get the machine guns, and then to secure them at a fair price. As I recall, the Lewis, on account of its synchronating quality, was allocated by the Ordnance Department to the Air Service.

I remember that when we adopted the 75 and 155 mm. French field guns, and received the first blueprints, the Ordnance Department seemed to have difficulty in finding anyone to undertake their production. I believe, however, it was in the recoil mechanism of the larger ordnance that we struck our greatest snag. It seems to have been so complicated that no one would undertake its production, so that, if I remember correctly, the Government itself was finally compelled to take over one of the automobile factories in Detroit for the purpose of producing this mechanism.

In the early spring of 1918, Mr. Vauclain of the Baldwin Locomotive Works, who was chief of one of my commodity sections, came to me and said that there were two 14-inch naval guns which could be had for use at the front in France if there was any way of making them sufficiently mobile, but no one seemed to think that a train could be produced which would mount them, although he personally felt that it could be done, and if it were possible to get them to the front in France, they would be the longest range ordnance of their size in the war, and would give the Boche a great surprise. I replied, "If you think it possible, why don't you go to it?" He said: "I will tomorrow, if you approve". You all know the result. It took the entire spring and early summer to equip these trains and when they were prepared to move to the front I believe the French engineers declared that their bridges were not sufficiently strong. Our own engineers, as I recall, felt differently and proved they were right. I think it was the last of August when the first of these monsters threw a shell into Metz behind the Boche line and I am told that it had something to do with the final break in the German line. In any event, I like to think that this is so, as I have two photographs in my office that were taken of the guns in action at the time mentioned.

I think one of our greatest problems was in connection with ammunition. As late as August, 1917, practically nothing had been accomplished in the way of securing large ammunition or a proper supply of explosives of any kind. The Ordnance Department was doing the very best it could. I remember that I used to make night visits sometimes as late as 10 or 11:00 o'clock to a great garage where an army of men were working, night and day, on the problem of shell contracts which finally resulted in their placing upon my desk for approval a mass of contracts for two sizes

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of field gun shells, 75 and 155 mm. While I have no memorandum and cannot recall the exact figures, it seems to me there were about 10,000,000 - 75 mm. at something like \$12.00 each, and an equal quantity of 155's at about \$22.00 each, aggregating the small amount of over \$300,000,000.

As I was supposed to advise both as to the form of contract and the price, I was perfectly clear as to the form of contract, but I was utterly at sea as to price. I skirmished around, however, and made up my mind that the price was too high, probably a couple of dollars per shell, but there was no doubt that the form of contract was utterly bad as the Government undertook to furnish shell bars at a certain price, delivered all over the country to plants with whom they contracted to do the forgings. They then agreed to transport these to other places where they made contracts for machining, and finally transported them to the filling stations, east. Having had some experience with congested transportation and dealings with an aggregated lot of contracts of this kind, I felt that it was almost hopeless to secure efficiency, but the Ordnance Department reported that it was the only thing they could do as there were practically no producers of shells with whom they could deal directly. They said, which was true, that it was an emergency thing and they simply had to do the best they could. I called up Secretary of War, Baker, and told him that I thought that an emergency problem as important as this should be passed upon by him, in which he acquiesced, and relieved me of the responsibility.

This is in no way a criticism of the Ordnance Department, as General Crozier always seemed to me to be the ideal soldier. It was his business to get supplies and no matter what the difficulties, there seemed to be only one method of procedure. We know, however, the result. As I recall, the war was nearly over before these shells came through in any quantity.

It seems to me I recall an additional complication when we changed from the thick or English shell to the thin French shell which, I believe, required an entirely different tempering process. I don't recall our having any difficulty with small ammunition, as our sporting goods producers were fully equipped with abundant facilities. As an example, however, of utter lack of cooperation between the Army and Navy, I remember that in checking over the powder supply and cost of production I visited the naval plant at Indian Head and secured cost sheets from both it and the Army. I was surprised to find that it cost the Army, as nearly as I can recall, very much more to produce its powder than the small but very efficient plant at Indian Head, and upon inquiry I was told that there had never been any comparison or investigation that

would have developed this lack of the army plant efficiency. You are all familiar with the history of our difficulty in securing sufficient powder. As our allies were dependent upon the Du Ponts for a large part of their supply, we were compelled to undertake the erection of two large powder plants which were just approaching completion and production when the war ceased.

I recall that we had some considerable difficulty in the early days of the war to secure a supply of those explosive chemicals which were by-products of gas and coking plants. One of our most acute cases, however, was optical glass. I was told that the Germans had always had a monopoly of optical glass and it was one of the most vital needs of the war; large ordnance was of no use without range finders and we could not get along without field glasses. I called a meeting at my office of the largest optical concern in this country (I think it was Bausch and Lomb, of Rochester) with the director of the Bureau of Standards and the director of the Geophysical laboratory of the Carnegie Institution. They all agreed that the difficulties of the problem required that they should concentrate on the necessary research which would enable them to produce acceptable optical glass. The Pittsburgh Plate Glass Company built at their works a small experimental plant for us and everybody went to work. I simply have a hazy recollection of a certain quality of sand, some peculiarity of crucibles and other details, and after a seemingly long delay they finally managed to produce high class optical glass and, like most other things, it began to come through in quantity as our needs became less pressing.

As a rule, while our highly developed textile manufacturing interests, that is, woolen and cotton fabrics and shoe industries, were in the best position to supply us with our important quartermaster's needs, we were not without difficulty in securing such raw material as wool, and experienced some trouble in securing a supply of cotton duck. As our needs for woolen blankets and cloth grew, there was such a scarcity of wool that we were compelled to develop a large supply of shoddy. At one stage of this problem I called the wool dealers, who were thoroughly organized, to Washington, requesting that they bring a statement of all the wool they had on hand. I think this was in the winter of 1917-18 when the crop was out of the hands of producers and owned by the dealers who had purchased it at a comparatively low price and, at the market rate, were reaping an enormous profit. I explained to them the situation and told them the Government would either have to commandeer all the wool in the country and depend upon the court to fix a fair price, or they would have to agree with me upon a price - much lower than the market - at which they would voluntarily turn over all the wool they had. Suffice it that we finally agreed upon a fair price

and the Government took over all the wool and the dealers agreed that they would handle the coming year's clip on a small commission basis which we fixed. I then called together the wool growing organizations of the country who had been bitterly complaining that, having sold their last year's crop very low, they derived none of the advantages of the advanced prices. I explained to them the basis at which we had taken over all the wool and we proposed to pay them the same price for the coming year's clip, and also told them that the wool commission houses would handle it as usual, only receiving a small commission which would about cover the expenses.

Here again the power to commandeer and the unknown quantity as to what the courts would consider a fair price under war conditions enabled us to do what we could not otherwise have accomplished.

When we first called together the cotton textile manufacturers, they said that owing to the large variety which they produced, it was practically impossible to agree upon prices for cotton goods. We soon convinced them that this was not the case; that by fixing the price on staple products most essential to our war needs, such as gauze, duck, and denim, and a basic price on such other products as sheeting, prints, etc., we could by a system of differentials, based upon pre-war values, practically cover the prices of all their products and we finally concluded an agreement along these lines.

One of our first little difficulties was with a group of New England factories which undertook to charge us what we thought an excessive price for the enormous quantity of gauze we needed. This was made on print looms which necessitated a lessening of print production and it was only after we finally threatened to commandeer their plants that they met our views as to prices.

As an example of the vast amount of duck which was required, after we had contracted for every yard made by the 15 or 17 duck mills of the country, we were compelled to pay an extra price to carpet factories to induce them to change their looms over to duck production in order to secure our needs.

In reviewing the prices on hides, leather, shoes, harness, saddles, etc., it will amuse you I think to hear of a little conflict of interest between the Food Commissioner and myself.

At a meeting with the packers who practically controlled the hides, I insisted upon a lower price on hides than they seemed to think was fair to the Food Commission. As the packers were guaranteed by the Government a certain profit, it made no difference to them whether this profit came out of the beef or the hide. If they charged a lower price for hides, they would have to charge a little more for beef and so they practically threw the responsibility on the two departments of the government to determine the matter. I think, as the hide was so very much the smaller part of the animal, and the prices we were paying for shoes seemed to loom large, that they finally agreed to fix the lower price on hides.

I might reminisce without end along these lines, but will simply conclude by giving you an example of a complicated price-fixing job. As late as January, 1919, after the War Industries Board had been dissolved, although the price-fixing committee was still in commission for the purpose of closing a lot of price-fixing problems that had not expired, I was notified by the Railroad Commission of a purchase they had made nearly a year before of steel freight cars, involving a sum so large that I am afraid to trust to my memory for the figures. The contract for these cars provided that the steel car people should assemble all the material that goes into a car and charge the government, I think it was 5%, for putting it all together so that the basic cost of the car was a tentative price fixed on every single item that went into it, which you probably know involves a large number of castings of every kind. The contract provided that the sub-contractors who furnished these castings would finally submit their costs to the price-fixing committee and both parties to the contract agreed to accept in the final settlement the price which the Price Fixing Committee might determine was a fair and just one. It was evident that this contract was made in this way because the Government was being criticised by the railroads for loading them down with fixed capital investment at a time when everything was supposed to be abnormally high and in this manner the railroad commission avoided the responsibility of fixing a price.

I shall not go into the details involved in summoning all these producers to Washington with sworn statements as to their cost and the difficulties we had in trying to satisfy both parties. Suffice it that we insisted upon the government's representative sitting in through all the testimony and it was a satisfaction for me to know that when we fixed the price, although neither party was satisfied, they both agreed that on the evidence it was the only thing we could do. Here again one of the helpful influences was the fact that had the producers secured the higher price for which they were contending, the Government would have taken most of it through the 80% excess profit tax.

And so you will see that throughout the whole history of price fixing, as I have formerly stated to the War Department in writing, in the event of war, if we lack authority by law for doing the things that we did, both in price fixing and commandeering, it is to be hoped that we will have a President with the vision and courage of President Wilson who did not hesitate as Commander in Chief of the Army and Navy to assume that dictatorship absolutely essential for the protection of the civilian population and the winning of the war.

Shortly after the Armistice, in discussing with General Lord our war problems, he, one day at luncheon, asked me what sort of an organization I thought we should have in preparing for the possibilities of another war, and I believe I replied that the problem seems to segregate itself into three parts: (1) The campaign as developed by the General Staff; (2) The Engineers, Quartermaster and Ordnance Departments needs for the carrying out of said campaign; and (3) the necessary mobilization of the industries of the country to supply these needs.

The latter is necessarily an industrial or civilian problem such as required the vast organization of the War Industries Board. When asked, as I was, whether or not I thought the Government should maintain certain sources of vital production, such as arms and ammunition, I was frankly at a loss to answer; as the Duponts were about to scrap their big plant near Richmond. It seemed to me that one or the other of our two large powder plants might have remained in the possession of the Government and that some process of utilizing them under lease, probably for some industry most quickly converted into powder production, would have been a wise provision.

The future needs of war, however, seem to be in such a state of flux that no one could form a judgment as to the degree in which the Air Service with certain gases and other explosives, including the vicious suggestion of disease germs, would be used largely to the exclusion of other methods for the destruction of mass population.

Q. The law requires the procurement branches of the War Department to procure supplies in time of peace by advertising for proposals, and making awards on bids submitted. What, in your opinion, would be the effect on prices if this method were followed in time of War? Would you recommend this method, or

- (1) Should the procurement branches depend upon negotiating prices with allocated facilities; or
- (2) Depend upon having prices fixed by some agency such as a Price Fixing Committee?

A. It is inevitable, in time of war, that production is lessened and unsettled by the war conscription of men, and the demands of the Army and Navy for supplies so large as to make an open market impossible. Therefore, any process of advertising for proposals, which indicates an open market, would be impossible. Unless entire control is taken of production, allocating supplies and fixing of prices, speculation would so inflate values as to make it practically impossible to maintain the stability necessary for financing a war and the protection of the civilian population. I, therefore, give it as my unqualified opinion, that immediately upon the country becoming engaged in war, you should be prepared to do exactly what the War Industries Board did through its commodity sections - allocating orders and determining priorities - and through its Price Fixing Committee in fixing prices.

Q. We occasionally hear references made to the possibility of drafting labor in time of war. Do you think it is feasible to do this?

A. I have given the matter very little thought, but my first reaction is that there is no occasion for drafting labor. Men would much rather work than go to the front, and while you can draft a man and make him go to the front and can draft labor, but you cannot make labor work efficiently except by making it to labor's financial interest. It is the old story of taking a horse to water, but you can't make him drink. In a general way, I would handle labor by agreement with the unions, just as I would handle prices by agreement with the manufacturers; rather than by any process of coercion.