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ARMY INDUSTRIAL COLLEGE  
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ADDRESS OF ROBERT S. BROOKINGS

To

GRADUATING CLASS OF ARMY INDUSTRIAL COLLEGE.

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Graduation Exercises,  
Fifth Class.

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ADDRESS OF ROBERT S. BROOKINGS.

Over a long life and wide field of activities the one word which has left the deepest scar in my memory is Unpreparedness. The Assistant Secretary of War evidently sensed this when he requested me to address you today, and probably had in mind that I would discuss some of the problems which we of the War Industries Board had to solve as a result of our Unpreparedness when we entered the World War. I am told that a talk which I gave you some two years ago was mimeographed and distributed, so that I am afraid if I enter very much into the details of my war experience it would simply be a repetition of things which I have already said.

In order that I might have a more comprehensive understanding of the situation which you students of the Army Industrial College are dealing with today, I requested Colonel Ferguson to furnish me a copy of any Congressional Acts or Army orders which have any bearing upon procurement problems. He informs me that while Congress has considered a number of bills having very direct bearing upon procurement problems, none of them have been reported out of committee except the the National Defense Act with its amendments, a copy of which he sent me.

I wish to discuss first what are the elements of National Defense Preparation which enable us to differentiate between that rational preparation for an emergency which might threaten the life or well-being of the Nation and that excessive preparation which might easily become a temptation for offensive as well as defensive use. I think we have in the late World War a demonstration which has a direct bearing on this problem.

We have, for example, the German situation in 1914 with an Army so large and so well prepared that it was a constant source of temptation to use it and this temptation was emphasized by the fact that within a comparatively recent period Germany had developed, by a series of short, successful wars, into the strongest military power in the world.

The Navies of all the important naval nations, including our own, were in the same position as the German army, because the navy must by necessity function in peace much the same as it does in war. It is ready to fight at a moment's notice. The need of additional personnel and supplies is so limited that all the Navy has to do is to open the valves a little and allow itself to expand. We demonstrated this in our recent war with Spain.

By contrast with all this, note the condition of our Army when we entered the World War - a small home guard which it was proposed to develop overnight into an army of millions, with little or no knowledge of the arms, ammunition and other supplies we should need and with absolutely no dependable sources of supply. We had to design and develop sources of supply for both our rifles and machine guns, and to adopt new designs of light and heavy artillery and special ammunition resulting from the constantly changing experience of our Allies at the Front.

Such Unpreparedness cost us many hundreds of millions of dollars through experiments and mistakes. In the light of this experience it would be little less than criminal if we failed to make at least some rational provision for the future. Hence, we have the "National Defense Act", which places upon the shoulders of one man - The Assistant Secretary of War - the vital responsibility of seeing that provision is made for supplying the Army promptly with its every industrial need in the event of our becoming engaged in war. This, of course, means that he must keep in such close touch with the dynamic development of war possibilities as to know in advance what these needs would probably be.

In glancing through the copy of the National Defense Act and General Orders No. 51 and No. 7, it is evident that the Assistant Secretary of War has fully measured up to the great responsibility placed upon him. I note from these General Orders that the Army Industrial College has been organized to train the officers in that knowledge of the industries or sources of supply which will enable them to intelligently coordinate such sources with their war procurement needs.

Introducing what is known as the "Case" system, that is to develop every kind of known and imaginary war need and solve it on paper, the College is recognized as having proved a great success. I note in General Orders No. 51 the creation of the Army and Navy Munitions Board, consisting of the Assistant Secretary of War and the Assistant Secretary of the Navy, with the power to associate with themselves such officers of the Army and Navy and such civilians as might be needed to work out their procurement policies.

I see the provision made for this in the procurement committees of each branch of the service, and the mobilization of 20,000 industries of the country into fourteen districts or zones. I am told that the mobilization has attached, in an advisory capacity to the Munitions Board, a large number of manufacturers, thus providing in effect a civilian service which

will function in connection with the military service much the same as the War Industries Board did in the late World War, except that being coordinated in advance, you will avoid the mis-understanding and friction which was, at first, inevitable between the military authorities and what they understood to be their legal responsibilities and the War Industries Board and what it understood was expected of it by the President.

We hear every now and then a warning, which was touched upon recently in an address by the President, to the effect that we must be careful lest our military instruction in the schools produce a military spirit which might easily develop into the German system of offensive rather than defensive preparation. It is a far cry from the limited amount of military instruction we are encouraging in order to secure a minimum number of reserve officers to the German military machine. It is an equally far cry from an intelligent understanding of our industrial sources of Defense through the study of war problems to the large investment in war supplies carried by the Germans, such as a vast quantity of copper which, in the event of war, they could not have imported.

I assume that you are, of course, familiar with the operations of the War Industries Board, functioning primarily through its three departments - The Commodity or Procurement Section; the Priority Section, involving allocation in placing orders and a preference in the distribution of supplies to the Army, Navy and our Allies; and third, the Price Fixing Committee which, while acting within the War Industries Board, functioned independently, reporting directly to the President and receiving its authority directly from him.

You are doubtless familiar with the control by the Government of the railroads, and the measures taken to direct the coal output. Both of these activities were closely associated with the War Industries Board, as priority in coal supply and transportation was essential to our control of the industries. If the "National Defense Act", where it says "our war needs", had been worded "our war and civilian needs", it would seem to me that we would be well prepared for any emergency.

I have been requested by several Congressional committees who had under consideration National Defense measures, to give my experience during the late war. These measures specifically gave to the President the power which President Wilson assumed, i.e., the power to control all production and transportation essential to securing our war needs and cause the minimum of sacrifice to the civilian population. For some reason or other, I am told, none of these bills have ever been reported out of committee. I presume that both you and the Congress are depending upon the theory that if we are suddenly involved in war,

the President will do as President Wilson did, which was to ignore the anti-trust laws or any other law which interfered with the winning of the war and the equitable distribution of its cost among all the people.

We assumed during the late war that the legal right existed either in the constitution or some other place which permitted the President, who is Commander-in-Chief of the Army and Navy in time of war, to exercise any authority which he considered essential to the winning of the war. When President Wilson requested me to assume the Chairmanship of the Price Fixing Committee he dwelt upon the great responsibility involved, to which I replied "I do not care how great the responsibility if I have the necessary authority".

He assured me that I would have all the authority that he, as Commander-in-Chief of the Army and Navy, possessed and I assumed from his remarks that such authority was practically unlimited in time of war.

Proceeding upon this basis, we paid no attention to the anti-trust laws, as it was utterly impossible for us to secure our war needs and protect the civilian population from a runaway market or inflated prices except by assuming absolute authority over production and primary prices of nearly all the principal commodities.

It is hardly necessary for me to explain to you the laws of supply and demand and how, if as provided in the "Defense Act" we attempted simply to supply our war needs and leave the civilian population at the mercy of a runaway market, the result could easily vitiate the entire purpose of the defense act. What we need is something similar to the Capper Bill, sometimes called the "American Legion Bill", which should commence with a preamble setting forth clearly the purpose of the bill which is to avoid speculation and inflation by would-be profiteers. It should provide a penalty for infraction and should give the President the power to control production, transportation and prices, always providing, however, that equal justice and fair treatment be meted out alike to all classes of citizens.

Any Act that authorizes the fixing of prices necessarily involves the right to fix wages, as they are inseparable. No matter what authority, however, the President may assume without or with Congressional action, prices should be arrived at, as a rule, by agreement with the industries and, where necessary, wages should be settled with the Labor Unions by negotiations. There is no difficulty agreeing on prices with the industries if we exact a large excess profits tax, which

is essential to any successful plan for stabilizing prices. When a manufacturer knows that high prices and excessive profits simply intensify his labor problem, and that the Government then takes most of the profits through an excess profits tax, his interest in a high price ceases. As it is necessary to pay all producers the same price regardless of their costs and as maximum production is our goal, the least efficient as well as the most efficient factories must be kept producing by the adoption of a relatively high price. As this gives the lowest cost producer an excessive profit a large excessive profits tax will not only avoid profiteering but will be most helpful as a pressure on the producer to willingly accept a fair price.

In dealing with industry do not adopt the popular fallacy that all industry is very profitable. In an address made by me last October, before the New York Academy of Political Science, I submitted a statement compiled from the Treasury Department's Report of Corporation Income Returns for the five years from 1919 to 1923, inclusive, showing that out of 1,804,096 reports 1,030,070 showed a profit of \$32,441,517,500, while 774,026 showed a loss of \$11,110,520,462.00. In 1921, a very bad year, the losses reported were greater than the profits.

It is estimated that the actual net return on the aggregate capital invested in these returns would show less than 6 per cent. Remember that to function efficiently in war as well as in peace business must function profitably. Under normal conditions capital and labor receive no more of the National production than is essential to a healthy economic condition, and the more nearly we can come to perpetuating this condition in war, avoiding inflation in values, the more successful we will be in procuring our war needs and in avoiding the penalty of post-war deflation. The demand for war needs include very few of those articles or commodities of which the Nation carries a reserve stock. Not only arms and ammunition, but even shoes, clothing, blankets and other articles are all specifically designed for war purposes. As a large number of those engaged in production are conscripted for military service, it leaves a reduced source of supply which must be intensified to furnish war needs while at the same time the civilian population must reduce their consumption to a minimum. All of this can be done without material change in values if the President assumes control in time.

We should keep in mind that the main purpose of an excess profits tax is to prevent profiteering and stabilize values, and that while it serves to assist in financing the war, it covers a relatively small part of the war cost. The financing of war, whether by large current taxation or primarily through the issue of short or long-time bonds is distinctly another problem which has been elaborately discussed by a number of well known writers.

Wallace

If we were at war today and I were fixing an excess profits tax, I think I would make it 90 percent instead of the 80 percent, which was provided during the late World War. I would also probably reduce the normal return on investment below the 10 percent formerly allowed. The Revenue Act providing this tax should penalize any effort to pad costs and reduce apparent profits by closely held corporations paying themselves exorbitant salaries and the charging of excessive advertising and other possible capital expenditures to expense.

At a recent conference at Briarcliff, New York, called for the purpose of discussing the best methods of promoting international conciliation and World Peace, one of the four days was given to the problem of disarmament. Able papers were read in which the problem was discussed from many points of view. All of these, after much round table discussion, seemed to crystallize into the fact that while disarmament would undoubtedly save the Nations a large sum of money, it would not necessarily act as much of a war preventive because the tendency of future wars seems to be in the direction of the air and chemistry. Both of these are making rapid industrial strides and lend themselves most readily to a conversion from peace to war needs.

Now, as you gentlemen of the Army Industrial College have been studying the economics of war, I should like to impress upon you something of the over-whelming importance of economics as an influence in war prevention. In a recent article, a copy of which I instructed my secretary to send to each of you, (copy on file in Army Industrial College), I called attention to the over-development of Nationalism among the European states as being responsible, probably, for the late war and as being a constant menace of wars to come.

I undertake to show in this article that an economic entente, or freedom of trade between two or more groups of the European nations, was the only influence strong enough to counteract this over-developed nationalism. The article calls attention to the fact that while each of our States is intensely jealous of its political entity, it would be utterly impossible to develop any political antagonism between the states because of our freedom of trade, our economic interests being overwhelmingly more important than our purely political interests.

I wish, therefore, to impress upon you that in supplementing as the economic training of the Army Industrial College does, the military training of West Point, you are developing a knowledge of and a contact with not only the essential sources of war supplies but the greatest single source of war prevention.