War Collectivism in World War I

By Murray N. Rothbard[1]

More than any other single period, World War I was the critical watershed for the American business system. It was a "war collectivism," a totally planned economy run largely by big-business interests through the instrumentality of the central government, which served as the model, the precedent, and the inspiration for state corporate capitalism for the remainder of the twentieth century.

That inspiration and precedent emerged not only in the United States, but also in the war economies of the major combatants of World War I. War collectivism showed the big-business interests of the Western world that it was possible to shift radically from the previous, largely free-market, capitalism to a new order marked by strong government, and extensive and pervasive government intervention and planning, for the purpose of providing a network of subsidies and monopolistic privileges to business, and especially to large business, interests. In particular, the economy could be cartelized under the aegis of government, with prices raised and production fixed and restricted, in the classic pattern of

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[1] From *A New History of Leviathan*, Ronald Radosh and Murray N. Rothbard, eds., New York: E.P. Dutton & Co., 1972, pp. 66-110)

monopoly; and military and other government contracts could be channeled into the hands of favored corporate producers. Labor, which had been becoming increasingly rambunctious, could be tamed and bridled into the service of this new, state monopoly-capitalist order, through the device of promoting a suitably cooperative trade unionism, and by bringing the willing union leaders into the planning system as junior partners.

In many ways, the new order was a striking reversion to old-fashioned mercantilism, with its aggressive imperialism and nationalism, its pervasive militarism, and its giant network of subsidies and monopolistic privileges to large business interests. In its twentieth-century form, of course, the New Mercantilism was industrial rather than mercantile, since the industrial revolution had intervened to make manufacturing and industry the dominant economic form. But there was a more significant difference in the New Mercantilism. The original mercantilism had been brutally frank in its class rule, and in its scorn for the average worker and consumer.[2] Instead, the new dispensation cloaked the new form of rule in the guise of promotion of the overall national interest, of the welfare of the workers through the new representation for labor, and of the common good of all citizens. Hence the importance, for providing a much-needed popular legitimacy and support, of the new ideology of twentieth-century liberalism, which sanctioned and glorified the new order. In contrast to the older laissez-faire liberalism of the previous century, the new liberalism gained popular sanction for the new system by proclaiming that it differed radically from the old, exploitative mercantilism in its advancement of the welfare of the whole society. And in return for this ideological buttressing by the new "corporate" liberals, the new system furnished the liberals the prestige, the income, and the power that came with posts for the concrete, detailed planning of the system as well as for ideological propaganda on its behalf.

For their part, the liberal intellectuals acquired not only prestige and a modicum of power in the new order, they also achieved the satisfaction of believing that this new system of government intervention was able to transcend the weaknesses and the social conflicts that they saw in the two major alternatives: laissez-faire capitalism or proletarian, Marxian socialism. The intellectuals saw the new order as bringing harmony and cooperation to all classes on behalf of the general welfare, under the aegis of big government. In the liberal view, the new order provided a middle way, a "vital center" for the nation, as contrasted to the divisive "extremes" of left and right.

I.

We have no space here to dwell on the extensive role of big business and business interests in getting the United States into World War I. The extensive economic ties of the large business

[2] On the attitudes of the mercantilists toward labor, see Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism* (New York: Kelley & Millman, 1957). Thus, Furniss cites the English mercantilist William Petyt, who spoke of labor as a "capital material… raw and undigested... committed into the hands of supreme authority, in whose prudence and disposition it is to improve, manage, and fashion it to more or less advantage." Furniss adds that "it is characteristic of these writers that they should be so readily disposed to trust in the wisdom of the civil power to 'improve, manage and fashion' the economic raw material of the nation." P.41.

community with England and France, through export orders and through loans to the Allies, especially those underwritten by the politically powerful I. P. Morgan & Co. (which also served as agent to the British and French governments), allied to the boom brought about by domestic and Allied military orders, all played a leading role in bringing the United States into the war. Furthermore, virtually the entire Eastern business community supported the drive toward war.[3]

Apart from the role of big business in pushing America down the road to war, business was equally enthusiastic about the extensive planning and economic mobilization that the war would clearly entail. Thus, an early enthusiast for war mobilization was the United States Chamber of Commerce, which had been a leading champion of industrial cartelization under the aegis of the federal government since its formation in 1912. The Chamber's monthly, *The Nation's Business,* foresaw in mid-1916 that a mobilized economy would bring about a sharing of power and responsibility between government and business. And the chairman of the U.S. Chamber's Executive Committee on National Defense wrote to the du Ponts, at the end of 1916, of his expectation that "this munitions question would seem to be the greatest opportunity to foster the new spirit" of cooperation between government and industry.[4]

The first organization to move toward economic mobilization for war was the Committee on Industrial Preparedness, which in 1916 grew out of the Industrial Preparedness Committee of the Naval Consulting Board, a committee of industrial consultants to the Navy dedicated to considering the ramifications of an expanding American Navy. Characteristically, the new CIP was a closely blended public-private organization, officially an arm of the federal government but financed solely by private contributions. Moreover, the industrialist members of the committee, working patriotically without fee, were thereby able to retain their private positions and incomes. Chairman of the CIP, and a dedicated enthusiast for industrial mobilization, was Howard E. Coffin, vice-president of the important Hudson Motor Co. of Detroit. Under Coffin's direction, the CIP organized a national inventory of thousands of industrial facilities for munitions-making. To propagandize for this effort, christened "industrial preparedness," Coffin was able to mobilize the American Press Association, the Associated Advertising Clubs of the World, the august *New York Times,* and the great bulk of American industry.[5]

The CIP was succeeded, in late 1916, by the fully governmental Council of National Defense,

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[3] On the role of the House of Morgan, and other economic ties with the Allies in leading to the American entry into the war, see Charles Callan Tansill, *America Goes to War* (Boston:
Little, Brown & Co., 1938), pp. 32-134.

[4] Quoted in Paul A. C. Koistinen, "The 'Industrial-Military Complex' in Historical Perspective: World War I," *Business History Review* (Winter, 1967), p. 381.

[5] The leading historian of World War I mobilization of industry, himself a leading participant and director of the Council of National Defense, writes with scorn that the scattered exceptions to the chorus of business approval "revealed a considerable lack… of that unity of will to serve the Nation that was essential to the fusing of the fagots of individualism into the unbreakable bundle of national unity." Grosvenor B. Clarkson, *Industrial America in the World War* (Boston: Houghton Muffin Co., 1923), p. 13. Clarkson's book, incidentally, was subsidized by Bernard Baruch, the head of industrial war collectivism; the manuscript was checked carefully by one of Baruch's top aides. Clarkson, a public relations man and advertising executive, had begun his effort by directing publicity for Coffin's industrial preparedness campaign in 1916. See Robert D. Cuff, "Bernard Baruch: Symbol and Myth in Industrial Mobilization," *Business History Review* (Summer, 1969), p. 116.

whose Advisory Commission--largely consisting of private industrialists--was to become its actual operating agency. (The Council proper consisted of several members of the Cabinet.) President Wilson announced the purpose of the CND as organizing “the whole industrial mechanism… in the most effective way.” Wilson found the Council particularly valuable because it “opens up a new and direct channel of communication and cooperation between business and scientific men and all departments of the Government...”[6] He also hailed the personnel of the Council’s Advisory Commission as marking “the entrance of the nonpartisan engineer and professional man into American governmental affairs” on an unprecedented scale. These members, declared the President grandiloquently, were to serve without pay, “efficiency being their sole object and Americanism their only motive.”[7]

Exulting over the new CND, Howard Coffin wrote to the du Ponts in December, 1916, that “it is our hope that we may lay the foundation for that closely knit structure, industrial, civil and military, which every thinking American has come to realize is vital to the future life of this country, in peace and in commerce, no less than in possible war.”[8]

Particularly influential in establishing the CND was Secretary of the Treasury William Gibbs McAdoo, son-in-law of the President, and formerly promoter of the Hudson and Manhattan Railroad and associate of the Ryan interests in Wall Street.[9] Head of the Advisory Commission was Walter S. Gifford, who had been one of the leaders of the Coffin Committee and had come to government from his post as chief statistician of the American Telephone and Telegraph Co., a giant monopoly enterprise in the Morgan ambit. The other “nonpartisan” members were: Daniel Willard, president of the Baltimore and Ohio Railroad; Wall Street financier Bernard M. Baruch; Howard E. Coffin; Julius Rosenwald, president of Sears, Roebuck and Co.; Samuel Gompers, president of the AF of L; and one scientist and one leading surgeon.

Months before American entry into the war, the Advisory Commission of the CND designed what was to become the entire system of purchasing war supplies, the system of food control, and censorship of the press. It was the Advisory Commission that met with the delighted representatives of the various branches of industry, and told the businessmen to form themselves into committees for sale of their products to the government, and for the fixing of the prices of these products. Daniel Willard was, unsurprisingly, put in charge of dealing with the railroads, Howard Coffin with munitions and manufacturing, Bernard Baruch with raw materials and minerals, Julius Rosenwald with supplies, and Samuel Gompers with labor. The idea of establishing committees of the various industries, “to get their resources together,” began with Bernard Baruch. CND commodity committees, in their turn, invariably consisted of the leading

[6] Clarkson, *op. cit*., p. 21
[7] *Ibid*., p. 22
[8] Koistinen, *op. cit*., p. 385
[9] Originating the idea of the CND was Dr. Hollis Godfrey, president of the Drexel Institute, an industnal training and management education organization. Also influential in establishing the CND was the joint military-civilian Kerner Board, headed by Colonel Francis J. Kerner, and including as its civilian members: Benedict Crowell, chairman of Crowell & Little Construction Co. of Cleveland and later Assistant Secretary of War; and R. Goodwyn Rhett, president of the People’s Bank of Charleston, and president as well of the Chamber of Commerce of the United States. *Ibid.,* pp. 382, 384.

industrialists in each field; these committees would then negotiate with the committees appointed by industry.[10]

At the recommendation of the Advisory Commission, Herbert Clark Hoover was named head of the new Food Administration. By the end of March, 1917, the CND appointed a Purchasing Board to coordinate government's purchases from industry. Chairman of this Board, the name of which was soon changed to the General Munitions Board, was Frank A. Scott, a well-known Cleveland manufacturer, and president of Warner & Swasey Co.

Yet centralized mobilization was proceeding but slowly through the tangle of bureaucracy, and the United States Chamber of Commerce urged Congress that the director of the CND "should be given power and authority in the economic field analogous to that of the chief of state in the military field."[11] Finally, in early July, the raw materials, munitions, and supplies departments were brought together under a new War Industries Board, with Scott as Chairman, the board that was to become the central agency for collectivism in World War I. The functions of the WIB soon became the coordinating of purchases, the allocation of commodities, and the fixing of prices and priorities in production.

Administrative problems beset the WIB, however, and a satisfactory "autocrat" was sought to rule the entire economy as chairman of the new organization. The willing autocrat was finally discovered in the person of Bernard Baruch in early March, 1918. With the selection of Baruch, urged strongly upon President Wilson by Secretary McAdoo, war collectivism had achieved its final form.[12] Baruch's credentials for the task were unimpeachable; an early supporter of the drive toward war, Baruch had presented a scheme for industrial war mobilization to President Wilson as early as 1915.

The WIB developed a vast apparatus that connected to the specific industries through commodity divisions largely staffed by the industries themselves. The historian of the WIB, himself one of its leaders, exulted that the WIB had established

> a system of concentration of commerce, industry, and all the powers of government that was without compare among all the other nations… It was so interwoven with the supply departments of the army and navy, of the Allies, and with other departments of the Government that, while it was an entity of its own… its decisions and its acts… were always based on a conspectus of the whole situation. At the same time, through the commodity divisions and sections in contact with responsible committees of the

[10] As one of many examples, the CND's "Cooperative Committee on Copper" consisted of: the president of Anaconda Copper, the president of Calumet and Hecla Mining, the vice-president of Phelps Dodge, the vice-president of Kennecott Mines, the president of Utah Copper, the president of United Verde Copper, and Murray M. Guggenheim of the powerful Guggenheim family interests. And the American Iron and Steel Institute furnished the representatives of that industry. Clarkson, *op. cit.*, pp. 496-497; Koistinen, *op. cit.*, p. 386.

[11] Clarkson, p. 28.

[12] Scott and Willard had successively been Chairman, which post was then offered to Homer Ferguson, president of the Newport News Shipbuilding Co. and later head of the United States Chamber of Commerce.

> commodities dealt with, the War Industries Board extended its antennae into the innermost recesses of industry. Never before was there such a focusing of knowledge of the vast field of American industry, commerce, and transportation. Never was there such an approach to omniscience in the business affairs of a continent.[13]

Big-business leaders permeated the WIB structure from the board itself down to the commodity sections. Thus, Vice-Chairman Alexander Legge came from International Harvester Co.; businessman Robert S. Brookings was the major force in insisting on price-fixing; George N. Peek, in charge of finished products, had been vice-president of Deere & Co., a leading farm equipment manufacturer. Robert S. Lovett, in charge of priorities, was chairman of the board of Union Pacific Railroad, and J. Leonard Replogle, Steel Administrator, had been president of the American Vanadium Co. Outside of the direct WIB structure, Daniel Willard of the Baltimore & Ohio was in charge of the nation's railroads, and big businessman Herbert C. Hoover was the "Food Czar."

In the granting of war contracts, there was no nonsense about competitive bidding. Competition in efficiency and cost was brushed aside, and the industry-dominated WIB handed out contracts as it saw fit.

Any maverick individualistic firm that disliked the mandates and orders of the WIB was soon crushed between the coercion wielded by government and the collaborating opprobrium of his organized business colleagues. Thus, Grosvenor Clarkson writes:

> Individualistic American industrialists were aghast when they realized that industry had been drafted, much as manpower had been… Business willed its own domination, forged its bonds, and policed its own subjection. There were bitter and stormy protests here and there, especially from those industries that were curtailed or suspended… [But] the rents in the garment of authority were amply filled by the docile and cooperative spirit of industry. The occasional obstructor fled from the mandates of the Board only to find himself ostracized by his fellows in industry.[14]

One of the most important instrumentalities of wartime collectivism was the Conservation Division of the WIB, an agency again consisting largely of leaders in manufacturing. The Conservation Division had begun as the Commercial Economy Board of the CND, the brainchild of its first chairman, Chicago businessman A. W. Shaw. The Board, or Division, would suggest industrial economies, and encourage the industry concerned to establish cooperative regulations. The Board's regulations were supposedly "voluntary," a voluntarism enforced by "the compulsion of trade opinion--which automatically policed the observance of the recommendations." For "a practice adopted by the overwhelming consent and even insistence of… [a man's] fellows, especially when it bears the label of patriotic service in a time of emergency, is not lightly to be disregarded."[15]

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[13] Clarkson, *op. cit.*, p. 63
[14] *Ibid.*, pp. 154, 159.
[15] *Ibid*., pp. 215.

In this way, in the name of wartime "conservation," the Conservation Division set out to rationalize, standardize, and cartelize industry in a way that would, hopefully, continue permanently after the end of the war. Arch W. Shaw summed up the Division's task as follows: to drastically reduce the number of styles, sizes, etc., of the products of industry; to eliminate various styles and varieties; to standardize sizes and measures. That this ruthless and thoroughgoing suppression of competition in industry was not thought of as a purely wartime measure is made clear in this passage by Grosvenor Clarkson:

> The World War was a wonderful school. . . . 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 The Conservation Division alone showed that merely to strip from trade and industry the lumber of futile custom and the encrustation of useless variety would return a good dividend on the world's capital… It is, perhaps, too much to hope that there will be any general gain in time of peace from the triumphant experiment of the Conservation Division. Yet now the world needs to economize as much as in war.[16]

Looking forward to future cartelization, Clarkson declared that such peacetime "economizing… implies such a close and sympathetic affiliation of competitive industries as is hardly possible under the decentralization of business that is compelled by our antitrust statutes."

Bernard Baruch's biographer summarized the lasting results of the compulsory "conservation" and standardization as follows:

> Wartime conservation had reduced styles, varieties, and colors of clothing. It had standardized sizes… It had outlawed 250 different types of plow models in the U.S., to say nothing of 755 types of drills… mass production and mass distribution had become the law of the land… This, then, would be the goal of the next quarter of the twentieth century: "To Standardize American Industry"; to make of wartime necessity a matter of peacetime advantage.[17]

Not only the Conservation Division, but the entire structure of wartime collectivism and cartelization constituted a vision to business and government of a future peacetime economy. As Clarkson frankly put it:

> It is little wonder that the men who dealt with the industries of a nation… meditated with a sort of intellectual contempt on the huge hit-and-miss confusion of peacetime industry, with its perpetual cycle of surfeit and dearth and its internal attempt at adjustment after the event. From their meditations arose dreams of an ordered economic world.
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> They conceived of America as "commodity sectioned" for the control of world trade. They beheld the whole trade of the world carefully computed and registered in

[16] *Ibid*., pp. 230.
[17] Margaret L. Coit, *Mr. Baruch* (Boston: Houghton Muffin Co., 1957), p. 219.

> Washington, requirements noted, American resources on call, the faucets opened or closed according to the circumstances. In a word, a national mind and will confronting international trade and keeping its own house in business order.[18]

Heart and soul of the mechanism of control of industry by the WIB were its sixty-odd commodity sections, committees supervising the various groups of commodities, which were staffed almost exclusively by businessmen from the respective industries. Furthermore, these committees dealt with over three hundred "war service committees" of industry appointed by the respective industrial groupings under the aegis of the Chamber of Commerce of the United States. It is no wonder that in this cozy atmosphere, there was a great deal of harmony between business and government. As Clarkson admiringly described it:

> Businessmen wholly consecrated to government service, but full of understanding of the problems of industry, now faced businessmen wholly representative of industry… but sympathetic with the purpose of government.[19]

And:

> The commodity sections were business operating Government business for the common good… The war committees of industry knew, understood, and believed in the commodity chiefs. They were of the same piece.[20]

All in all, Clarkson exulted that the commodity sections were "industry mobilized and drilled, responsive, keen, and fully staffed. They were militant and in serried ranks."[21]

The Chamber of Commerce was particularly enthusiastic over the war service committee system, a system that was to spur the trade association movement in peacetime as well. Chamber President Harry A. Wheeler, vice-president of the Union Trust Co. of Chicago, declared that:

> Creation of the War Service Committees promises to furnish the basis for a truly national organization of industry whose preparations and opportunities are unlimited. . . . The integration of business, the expressed aim of the National Chamber, is in sight. War is the stern teacher that is driving home the lesson of cooperative effort.[22]

The result of all this new-found harmony within each industry, and between industry and government, was to "substitute cooperation for competition." Competition for government orders was virtually nonexistent, and "competition in price was practically done away with by Government action. Industry was for the time in… a golden age of harmony," and freed from the

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18 Clarkson, *op. cit.*, p. 312
19 *Ibid.*, p. 303.
20 *Ibid.*, pp. 300-301.
21 *Ibid.*, p. 309. On the War Industries Board, the commodity sections, and on big-business sentiment paving the path for the coordinated industry-government system, see James Weinstein,
The Corporate Ideal in the Liberal State, 1900—1918 (Boston: Beacon Press, 1969), p. 223 and passim.
22 In *The Nation's Business* (August, 1918), pp. 9-10. Quoted in Koistinen, *op cit.*, pp. 392-393.

menace of business losses.[23]

One of the crucial functions of wartime planning was price-fixing, set in the field of industrial commodities by the Price-Fixing Committee of the War Industries Board. Beginning with such critical areas as steel and copper early in the war and then inexorably expanding to many other fields, the price-fixing was sold to the public as the fixing of maximum prices in order to protect the public against wartime inflation. In fact, however, the government set the price in each industry at such a rate as to guarantee a "fair profit" to the high-cost producers, thereby conferring a large degree of privilege and high profits upon the lower-cost firms.[24] Clarkson admitted that this system was a tremendous invigoration of big business and hard on small business. The large and efficient producers made larger profits than normally and many of the smaller concerns fell below their customary returns.[25]

But the higher-cost firms were largely content with their "fair profit" guarantee.

The attitude of the Price-Fixing Committee was reflected in the statement of its Chairman, Robert S. Brookings, a retired lumber magnate, addressed to the nickel industry: "We are not in an attitude of envying you your profits; we are more in the attitude of justifying them if we can. That is the way we approach these things."[26]

Typical of the price-fixing operation, was the situation in the cotton textile industry. Chairman Brookings reported in April, 1918, that the cotton goods committee had decided to "get together in a friendly way" to try to "stabilize the market." Brookings appended the feeling of the larger cotton manufacturers that it was better to fix a high long-run minimum price than to take full short-run advantage of the very high prices then in existence.[27]

The general enthusiasm of the business world, and especially big business, for the system of war collectivism can now he explained. The enthusiasm was a product of the resulting stabilization of prices, the ironing out of market fluctuations, and the fact that prices were almost always set by mutual consent of government and the representatives of each industry. It is no wonder that Harry A. Wheeler, president of the United States Chamber of Commerce, wrote in the summer of 1917 that war "is giving business the foundation for the kind of cooperative effort that alone can make the U.S. economically efficient." Or that the head of American Telephone and Telegraph hailed the perfecting of a "coordination to ensure complete cooperation not only between the Government and the companies, but between the companies themselves." The wartime cooperative planning was working so well, in fact, opined the chairman of the board of Republic

[23] Clarkson, *op. cit.*, p. 313.
[24] See George P. Adams, Jr., *Wartime Price Control* (Washington, D.C.: American Council on Public Affairs, 1942), pp. 57, 63-64. As an example, the government fixed the price of copper f.o.b. New York at 23 ½ cents per pound. The Utah Copper Co., which produced over 8 percent of the total copper output, had estimated costs of 11.8 cents per pound. In this way, Utah Copper was guaranteed nearly 100 percent profit on costs. *Ibid.*, p. 64n.
[25] Clarkson, *op. cit*
[26] Adams, *op. cit.*, pp. 57-58.
[27] Weinstein, *op. cit.*, pp. 224-225.

Iron and Steel in early 1918, that it should be continued in peacetime as well.[28]

The vitally important steel industry is an excellent example of the workings of war collectivism. The hallmark of the closely knit control of the steel industry was the close "cooperation" between government and industry, a cooperation in which Washington decided on broad policy, and then left it up to Judge Elbert Gary, head of the leading steel producer, United States Steel, to implement the policy within the industry. Gary selected a committee representing the largest steel producers to help him run the industry. A willing ally was present in J. Leonard Replogle, head of American Vanadium Co. and chief of the Steel Division of the WIB. Replogle shared the long-standing desire of Gary and the steel industry for industrial cartelization and market stability under the aegis of a friendly federal government. Unsurprisingly, Gary was delighted with his new powers in directing the steel industry, and urged that he be given total power "to thoroughly mobilize and if necessary to commandeer." And *Iron Age*, the magazine of the iron and steel industry, exulted that

> it has apparently taken the most gigantic war in all history to give the idea of cooperation any such place in the general economic program as the country's steel manufacturers sought to give it in their own industry nearly ten years ago

with the short-lived *entente cordiale* between Judge Garyand President Roosevelt.[29]

It is true that wartime relations between government and steel companies were sometimes strained, but the strain and the tough threat of government commandeering of resources was generally directed at smaller firms, such as Crucible Steel, which had stubbornly refused to accept government contracts.[30]

In the steel industry, in fact, it was the big steelmakers--U.S. Steel, Bethlehem, Republic, etc.--who, early in the war, had first urged government price-fixing, and they had to prod a sometimes confused government to adopt what eventually became the government's program. The main reason was that the big steel producers, happy at the enormous increase of steel prices in the market as a result of wartime demand, were anxious to stabilize the market at a high price and thus insure a long-run profit position for the duration of the war. The government--steel industry price-fixing agreement of September, 1917, was therefore hailed by John A. Topping, president of Republic Steel, as follows:

> The steel settlement will have a wholesome effect on the steel business because the

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[28] Melvin I. Urofsky, *Big Steel and the Wilson Administration* (Columbus, Ohio: Ohio State University Press, 1969), pp. 152-153

[29] Urofsky, *op. cit.*, pp. 153-157. In his important study of business-government relations in the War Industries Board, Professor Robert Cuff has concluded that federal regulation of industry was shaped by big-business leaders, and that relations between government and big business were smoothest in those industries, such as steel, whose industrial leaders had already committed themselves to seeking government-sponsored cartelization. Robert D. Cuff, "Business, Government, and the War Industries Board" (Doctoral dissertation in history, Princeton University, 1966).

[30] Urofsky, *op. cit.*, p. 154.

> principle of cooperative-regulation has been established with Government approval. Of course, present abnormal profits will be substantially reduced but a runaway market condition has been prevented and prosperity extended… Furthermore, stability in future values should be conserved.[31]

Furthermore, the large steel firms were happy to use the fixed prices as a rationale for imposing controls and stability upon wages, which were also beginning to rise. The smaller steel manufacturers, on the other hand, often with higher costs, and who had not been as prosperous before the war, opposed price-fixing because they wished to take full advantage of the short-run profit bonanza brought about by the war.[32]

Under this regime, the steel industry achieved the highest level of profits in its history, averaging twenty-five percent per year for the two years of war. Some of the smaller steel companies, benefiting from their lower total capitalization, did almost twice as well.[33]

The most thoroughgoing system of price controls during the war was enforced not by the WIB but by the separate Food Administration, over which Herbert Clark Hoover presided as "Food Czar." The official historian of wartime price control justly wrote that the food control program "was the most important measure for controlling prices which the United States… had ever taken."[34]

Herbert Hoover accepted his post shortly after American entry into the war, but only on the condition that he alone have full authority over food, unhampered by boards or commissions. The Food Administration was established without legal authorization, and then a bill backed by Hoover was put through Congress to give the system the full force of law. Hoover was also given the power to requisition "necessaries," to seize plants for government operation, and to regulate or prohibit exchanges.

The key to the Food Administration's system of control was a vast network of *licensing.* Instead of direct control over food, the FA was given the absolute power to issue licenses for any and all divisions of the food industry, and to set the conditions for keeping the license. Every dealer, every manufacturer, distributor, and warehouser of food commodities was required by Hoover to maintain its federal license.

A notable feature introduced by Hoover in his reign as Food Czar was the mobilization of a vast network of citizen volunteers as a mass of eager participants in enforcing his decrees. Thus, Herbert Hoover was perhaps the first American politician to realize the potential--in gaining mass acceptance and in enforcing government decrees--in the mobilizing of masses through a

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[31] In *Iron Age* (September 27, 1917). Quoted in Urofsky, pp. 216-217
[32] Urofsky, pp. 203-206. Also see Robert D. Cuff and Melvin I. Urofsky, "The Steel Industry and Price-Fixing During World War I," *Business History Review* (Autumn, 1970), pp. 291-306.
[33] Urofsky, *op. cit.*, pp. 228-233.
[34] Paul Willard Garrett, *Government Control Over Prices* (Washington, D.C.: Government Printing Office, 1920), p.42.

torrent of propaganda to serve as volunteer aides to the government bureaucracy. Mobilization proceeded to the point of inducing the public to brand as a virtual moral leper anyone dissenting from Mr. Hoover's edicts. Thus:

> The basis of all… control exercised by the Food Administration was the educational work which preceded and accompanied its measures of conservation and regulation. Mr. Hoover was committed thoroughly to the idea that the most effective method to control foods was to set every man, woman, and child in the country at the business of saving food… The country was literally strewn with millions of pamphlets and leaflets designed to educate the people to the food situation. No war board at Washington was advertised as widely as the U.S. Food Administration. There were Food Administration insignia for the coat lapel, store window, the restaurant, the train, and the home. A real stigma was placed upon the person who was not loyal to Food Administration edicts through pressure by the schools, churches, women's clubs, public libraries, merchants' associations, fraternal organizations, and other social groups.[35]

The method by which the Food Administration imposed price control was its requirement that its licensees should receive "a reasonable margin of profit." This "reasonable margin" was interpreted as a margin over and above each producer's costs, and this cost-plus "reasonable profit" for each dealer became the rule of price control. The program was touted to the public as a means of keeping profits and food prices *down.* Although the Administration certainly wished to stabilize prices, the goal was also and more importantly to *cartelize.* Industry and government worked together to make sure that individual maverick competitors did not get out of line; prices in general were to be set at a level to guarantee a "reasonable" profit to everyone. The goal was not *lower* prices, but uniform, stabilized, non-competitive prices for all. The goal was far more to keep prices *up* than to keep them down. Indeed, any overly greedy competitor who tried to increase his profits above prewar levels by *cutting* his prices, was dealt with most severely by the Food Administration.

Let us consider two of the most important food-control programs during World War I: wheat and sugar. Wheat price control, the most important program, came in the wake of wartime demand, which had pushed wheat prices up very rapidly to their highest level in the history of the United States. Thus, wheat increased by one dollar a bushel in the course of two months at the start of the war, reaching the unheard of price of three dollars a bushel. Control came in the wake of agitation that government must step in to thwart "speculators" by fixing maximum prices on wheat. Yet, under pressure by the agriculturists, the government program fixed *by statute*, not maximum prices for wheat but *minima*; the Food Control Act of 1917 fixed a minimum price of two dollars a bushel for the next year's wheat crop. Not content with this special subsidy, the President proceeded to raise the minimum to two dollars and twenty-six cents a bushel in mid-1918, a figure that was then the precise market price for wheat. This increased minimum effectively fixed the price of wheat for the duration of the war. Thus, the government made sure that the consumers could not possibly benefit from any fall in wheat prices.

[35] Garrett, *op. cit.*, p. 56

To enforce the artificially high price of wheat, Herbert Hoover established the Grain Corporation, “headed by practical grain men,” which purchased the bulk of the wheat crop in the United States at the “fair price,” and then resold the crop to the nation’s flour mills at the same price. To keep the millers happy, the Grain Corporation guaranteed them against any possible losses from unsold stocks of wheat or flour. Moreover, each mill was guaranteed that its relative position in the flour industry would be maintained throughout the war. In this way, the flour industry was successfully cartelized through the instrument of government. Those few mills who balked at the cartel arrangement were dealt with handily by the Food Administration; as Garrett put it: “their operations… were reasonably well controlled… by the license requirements.”[36]

The excessively high prices of wheat and flour also meant artificially high costs to the bakers. *They*, in turn, were taken under the cozy cartel umbrella by being required, in the name of “conservation,” to mix inferior products with wheat flour at a fixed ratio. Each baker was of course delighted to comply with a requirement that he make inferior products, which he knew was also being enforced upon his competitors. Competition was also curtailed by the Food Administration’s compulsory standardization of the sizes of bread loaves, and by prohibiting price-cutting through discounts or rebates to particular customers--the classic path toward the internal breakup of any cartel.[37]

In the particular case of sugar, there was a much more sincere effort to keep down prices--due to the fact that the United States was largely an importer rather than a producer of sugar. Herbert Hoover and the Allied governments duly formed an International Sugar Committee, which undertook to buy all of their countries’ sugar, largely from Cuba, at an artificially low price, and then to allocate the raw sugar to the various refiners. Thus, the Allied governments functioned as a giant buying cartel to lower the price of their refiners’ raw material.

Herbert Hoover instigated the plan for the International Sugar Committee, and the United States government appointed the majority of the five-man committee. As Chairman of the committee, Hoover selected Earl Babst, president of the powerful American Sugar Refining Co., and the other American members also represented refiner interests. The ISC promptly fixed a sharp reduction of the price of sugar: lowering the New York price of Cuban raw sugar from its high market price of six and three-quarter cents per pound in the summer of 1917 to six cents per pound. When the Cubans understandably balked at this artificially forced price reduction of their cash crop, the United States State Department and the Food Administration collaborated to coerce the Cuban government into agreement. Somehow, the Cubans were unable to obtain import licenses for needed wheat and coal from the United States Food Administration, and the result was a severe shortage of bread, flour, and coal in Cuba. Finally, the Cubans capitulated in mid-January, 1918, and the import licenses from the United States were rapidly forthcoming.[38] Cuba also induced to prohibit all sugar exports except to the International Sugar Committee.

Apparently, Mr. Babst insured an extra bonus to his American Sugar Refining Company; for,

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[36] *Ibid.*, p. 66.
[37] *Ibid.*, p. 73.
[38] See Robert F. Smith, *The United States and Cuba* (New York: Bookman Associates, 1960), pp. 20-21.

shortly, officials of competing American refineries were to testify before Congress that this company had particularly profited from the activities of the International Sugar Committee and from the price that it fixed on Cuban sugar.[39]

Although the American government pursued with great diligence the goal of pushing down raw material prices for United States refiners, it also realized that it could not force down the price of raw sugar *too* low, since the government had to consider the marginal United States cane and beet-sugar producers, who had to receive their duly appointed "fair return." Jointly to harmonize and subsidize both the sugar refiners *and* the sugar growers in the United States, Mr. Hoover established a Sugar Equalization Board that would simultaneously keep the price of sugar *low* to Cuba while keeping it high enough for the American producers. The Board accomplished this feat by buying the Cuban sugar at the fixed low price and then reselling the crop to the refiners at a higher price to cover the American producers.[40]

The result of the artificially low prices for sugar was, inevitably, to create a severe sugar shortage, by reducing supplies and by stimulating an excessive public consumption. The result was that sugar consumption was then severely restricted by federal rationing of sugar.

It is not surprising that the food industries were delighted with the wartime control program. Expressing the spirit of the entire war-collectivist regime, Herbert Hoover, in the words of Paul Garrett:

> maintained, as a cardinal policy from the beginning, a very close and intimate contact with the trade. The men, whom he chose to head his various commodity sections and responsible positions, were in a large measure tradesmen… The determination of the policies of control within each branch of the food industry was made in conference with the tradesmen of that branch… It might be said… that the framework of food control, as of raw material control, was built upon agreements with the trade. The enforcement of the agreements once made, moreover, was intrusted in part to the cooperation of constituted trade organizations. The industry itself was made to feel responsible for the enforcement of all rules and regulations.[41]

Also separate from the War Industries Board were the nation's railroads, which received the greatest single ministration of government dictation as compared to any other industry. The railroads, in fact, were seized and operated directly by the federal government.

As soon as the United States entered the war, the Administration urged the railroads to unite as one in behalf of the war effort. The railroads were delighted to comply, and quickly formed what became known as the Railroads' War Board, promising faithfully to pursue a goal that they had long sought in peacetime: to cease competitive activities and to coordinate railroad operations.[42]

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[39] Smith, *op. cit.*, p. 191.
[40] Garrett, *op. cit.*, pp. 78-85.
[41] *Ibid.* pp. 55-56.
[42] See K. Austin Kerr, *American Railroad Politics, 1914-1920* (Pittsburgh: University of Pittsburgh Press, 1968), pp.

Daniel Willard, president of the Baltimore & Ohio Railroad and Bernard Baruch's predecessor as head of the WIB, happily reported that the railroads had agreed to vest their War Board with complete authority to override individual railroad interests. Under its Chairman, Fairfax Harrison of the Southern Railroad, the War Board established a Committee on Car Service to coordinate national car supplies. Aiding the coordination effort was the Interstate Commerce Commission, the longtime federal regulatory body for the railroads. Once again, the government-promoted monopoly was an inspiration to many who were looking ahead to the peacetime economy. For several years the railroads had been agitating for "scientific management" as a means of achieving higher rates from the ICC and a governmentally imposed cartelization; but they had been thwarted by the pressure of the organized shippers, the industrial users of the railroads.

But now even the shippers were impressed. Max Thelen, chairman of the California Railroad Commission, president of the National Association of Railway and Utilities Commissions, and the leading spokesman for the organized shippers, agreed that the critical railroad problem was "duplication," and the "irrational" lack of complete inter-railroad coordination. And Senator Francis G. Newlands (D., Nev.), the most powerful congressman on railroad affairs as the chairman of a joint committee on transportation regulation, opined that the wartime experience was "somewhat shattering on old views regarding antitrust laws."[43]

Soon, however, it became clear that the system of voluntary private coordination was not really working well. Traffic departments of individual roads persisted in competitive practices; the railroad brotherhood unions were persistently demanding substantial wage increases; and the railroads and organized shippers locked horns over railroad demands for an across-the-board rate increase. All groups felt that regional coordination and overall efficiency would best be achieved by outright federal operation of the railroads. The shippers first proposed the scheme as a method of achieving coordination and to forestall higher freight rates; the unions seconded the plan in order to obtain wage increases from the government; and the railroads cheerfully agreed when President Wilson assured them that each road would be guaranteed its 1916/17 profits--two years of unusually high profits for the railroad industry. With the federal government offering to take on the headaches of wartime dislocation and management, while granting the roads a very high guaranteed profit for doing nothing, why shouldn't the railroads leap to agreement?

The most enthusiastic Administration proponent of federal operation of the railroads was Secretary of the Treasury McAdoo, a former New York railroad executive and close associate of the Morgan interests, who in turn were the leading underwriters and owners of railroad bonds. McAdoo was rewarded by being named head of the United States Railroad Administration after Wilson seized the railroads on December 28, 1917.

Federal rule by the Morgan-oriented McAdoo proved to be a bonanza for the nation's railroads. Not only were the railroads now fully monopolized by direct government operation, but also the particular railroad executives now found themselves armed with the coercive power of the federal government. For McAdoo chose as his immediate assistants a group of top railroad

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44 ff.
[43] Kerr, *op. cit.*, p.48.

executives, and all rate-setting powers of the ICC were shifted to the railroad-dominated Railroad Administration for the duration.[44] The significance of the shift is that the railroads, although largely responsible for the inception and growth of the ICC as a cartelizing agency for the railroad industry, had seen control of the ICC slip into the hands of the organized shippers in the decade before the war. This had meant that the railroads had found it very difficult to win freight rate increases from the ICC. But now the wartime federal control of the railroads was shunting the shippers aside.[45] McAdoo's brazen appointment of railroad men to virtually all the leading positions in the Railroad Administration, to the virtual exclusion of shippers and academic economists, greatly angered the shippers, who had launched an intense barrage of criticism of the system by midsummer of 1918. 'This barrage came to a head when McAdoo increasingly turned the direction of the RA, including the appointment of regional directors, over to his principal assistant, railroad executive Walker D. Hines. Shippers and ICC commissioners complained that

> railroad lawyers from the entire country descended on Washington, told their troubles to other railroad lawyers serving on McAdoo's staff, and were "told to go into an adjoining room and dictate what orders they want."[46]

As in the case of the War Industries Board, the railroad executives used their coercive governmental powers to deal a crippling blow to diversity and competition, on behalf of monopoly, in the name of "efficiency" and standardization. Again, over the opposition of shippers, the RA ordered the compulsory standardization of locomotive and equipment design, eliminated "duplicate" (i.e., competitive) passenger service and coal transportation, shut down off-line traffic offices, and ordered the cessation of competitive solicitation of freight by the railroads.

All of these edicts reduced railroad services to the hapless shippers. There were still other coerced reductions of service. One ended the shippers' privileges of specifying freight routes--and thereby of specifying the *cheapest* routes for shipping their goods. Another upset the peacetime practice of making the railroads liable for losses and damages to shipments; instead, the entire burden of proof was placed upon the shippers. Another RA ruling--the "sailing day plan"--ordered freight cars to remain in their terminals until filled, thus sharply curtailing service to small-town shippers.

The granting of absolute power to the railroad-dominated RA was cemented by the Federal

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[44] McAdoo's "cabinet," which assisted him in running the railroads, included Walker D. Hines and Edward Chambers, respectively chairman of the board and vice-president of the Santa Fe R.R.; Henry Walters, chairman of the board of the Atlantic Coast R.R.; Hale Holden, of the Burlington R.R.; A.H. Smith, president of the New York Central R.R.; John Barton Payne, formerly chief counsel of the Chicago Great Western R.R.; and Comptroller of the Currency John Skelton Williams, formerly chairman of the board of the Seaboard R.R. Hines was to be McAdoo's principal assistant; Payne became head of traffic. The Division of Operation was headed by Carl R. Gray, president of the Western Maryland R.R. One Unionist, W.S. Carter, head of the Brotherhood of Firemen and Engineers, was brought in to head the Division of Labor.
[45] Kerr, *op. cit.*, pp. 14-22.
[46] *Ibid.*, p. 80.

Control Act of March, 1918, which *ex post facto* legalized the illegal federal takeover. Working closely with railroad lobbyists, the RA, backed by the full support of President Wilson, was able to drive through Congress the transfer of rate-making powers to itself from the ICC. Furthermore, all power was taken away from the invariably shipper-dominated state railroad commissions.

The RA hastened to exercise its rate-setting powers, announcing freight rate increases of twenty-five percent across the board in the spring of 1918--an act that permanently cemented shipper hostility to the system of federal operation. To add insult to injury, the new higher rates were set without any public hearings or consultation with other agencies or interests involved.

II

Historians have generally treated the economic planning of World War I as an isolated episode dictated by the requirements of the day and having little further significance. But, on the contrary, the war collectivism served as an inspiration and as a model for a mighty army of forces destined to forge the history of twentieth-century America. For big business, the wartime economy was a model of what could be achieved in national coordination and cartelization, in stabilizing production, prices, and profits, in replacing old-fashioned competitive laissez-faire by a system that they could broadly control and that would harmonize the claims of various powerful economic groups. It was a system that had already abolished much competitive diversity in the name of standardization. The wartime economy especially galvanized such business leaders as Bernard Baruch and Herbert Hoover, who would promote the cooperative “association” of business trade groups as Secretary of Commerce during the 1920s, an associationism that paved the way for the cooperative statism of Franklin Roosevelt’s AAA and NRA.

The wartime collectivism also held forth a model to the nation’s liberal intellectuals; for here was seemingly a system that replaced laissez-faire not by the rigors and class hatreds of proletarian Marxism, but by a new strong State, planning and organizing the economy in harmony with all leading economic groups. It was, not coincidentally, to be a neomercantilism, a “mixed economy,” heavily staffed by these selfsame liberal intellectuals. And finally, both big business and the liberals saw in the wartime model a way to organize and integrate the often unruly labor force as a junior partner in the corporatist system--a force to be disciplined by their own “responsible” leadership of the labor unions.

For the rest of his life, Bernard Mannes Baruch sought to restore the lineaments of the wartime model. Thus, in summing up the experience of the WIB, Baruch extolled the fact that:

> many businessmen have experienced during the war, for the first time in their careers, the tremendous advantages, both to themselves and to the general public, of combination, of cooperation and common action…

Baruch called for the continuance of such corporate associations, in “inaugurating rules” to eliminate "waste" (i.e., competition), to exchange trade information, to agree on the channeling of supply and demand among themselves, to avoid "extravagant" forms of competition and to allocate the location of production. Completing the outlines of a corporate state, Baruch urged that such associations be governed by a federal agency, either the Department of Commerce or the Federal Trade Commission

> an agency whose duty it should be to encourage, under strict Government supervision, such cooperation and coordination…[47]

Baruch also envisioned a federal board for the retraining and channeling of labor after the war. At the very least, he urged standby legislation for price control and for industrial coordination and mobilization in the event of another war.[48]

During the 1920s and 1930s, Bernard Baruch served as a major inspiration of the drive toward a corporate state; moreover, many of the leaders of this drive were men who had served under him during the heady days of the WIB and who continued to function frankly as "Baruch's men" in national affairs. Thus, aided by Baruch, George N. Peek, of the Moline Plow Company, launched in the early 1920S the drive for farm price supports through federally organized farm cartels that was to culminate in President Hoover's Federal Farm Board in 1929 and then in Roosevelt's AAA. Peek's farm equipment business, of course, stood to benefit greatly from farm subsidies. Hoover appointed as first Chairman of the FFB none other than Baruch's old top aide from World War I, Alexander Legge of International Harvester, the leading farm machinery manufacturer. When Franklin Roosevelt created the AAA, he first offered the job of director to Baruch, and then gave the post to Baruch's man, George Peek.

Neither was Baruch laggard in promoting a corporatist system for industry as a whole. In the spring of 1930, Baruch proposed a peacetime reincarnation of the WIB as a "Supreme Court of Industry." In September of the following year, Gerard Swope, head of General Electric and brother of Baruch's closest confidant Herbert Bayard Swope, presented an elaborated plan for a corporate state that essentially revived the system of wartime planning. At the same time, one of Baruch's oldest friends, former Secretary William Gibbs McAdoo, was proposing a similar plan for a "Peace Industries Board." After Hoover dismayed his old associates by rejecting the plan, Franklin Roosevelt embodied it in the NRA, selecting Gerard Swope to help write the final draft, and picking another Baruch disciple and World War aide General Hugh S. Johnson--also of the Moline Plow Company--to direct this major instrument of state corporatism. When Johnson was fired, Baruch himself was offered the post.[49]

Other leading NRA officials were veterans of war mobilization. Johnson's chief of staff was another old friend of Baruch's, John Hancock, who had been Paymaster General of the Navy during the war and had headed the naval industrial program for the War Industries Board; other high officials of the NRA were Dr. Leo Wolman, who had been head of the production-statistics

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[47] Bernard M. Baruch, *American Industry in the War* (New York: Prentice-Hall, 1941), pp. 105-106.
[48] Coit, *op. cit.*, pp. 202-203, 218.
[49] *Ibid.*, pp. 440-443.

division of the WIB; Charles F. Homer, leader of the wartime Liberty Loan drive; and General Clarence C. Williams, who had been Chief of Ordnance in charge of Army war purchasing. Other WIB veterans highly placed in the New Deal were Isador Lubin, United States Commissioner of Labor Statistics in the New Deal; Captain Leon Henderson of the Ordnance Division of the WIB; and Senator Joseph Guffey (D., Pa.), who had worked in the WIB on conservation of oil, and who helped pattern the oil and coal controls of the New Deal on the wartime Fuel Administration.[50]

Another leading promoter of the new cooperation subsequent to his experience as wartime planner was Herbert Clark Hoover. As soon as the war was over, Hoover set out to "reconstruct America" along the lines of peacetime cooperation. He urged national planning through "voluntary" cooperation among businessmen and other economic groups under the "central direction" of the government. The Federal Reserve System was to allocate capital to essential industries and thereby to eliminate the competitive "wastes" of the free market. And in his term as Secretary of Commerce during the 1920s, Hoover assiduously encouraged the cartelization of industry through trade associations. In addition to inaugurating the modern program of farm price supports in the Federal Farm Board, Hoover urged the coffee buyers to form a cartel to lower buying prices; established a buying cartel in the rubber industry; led the oil industry in working toward restrictions on oil production in the name of "conservation"; tried repeatedly to raise prices, restrict production, and encourage marketing co-ops in the coal industry; and tried to force the cotton textile industry into a nationwide cartel to restrict production. Specifically in furtherance of the wartime abolition of thousands of diverse, and competitive products, Hoover continued to impose standardization and "simplification" of materials and products during the 1920s. In this way, Hoover managed to abolish or "simplify" about a thousand industrial products. The "simplification" was worked out by the Department of Commerce in collaboration with committees from each industry.[51]

Grosvenor Clarkson hailed the fact that:

> it is probable that there will never again be such a multiplicity of styles and models in machinery and other heavy and costly articles as there was before the restrictions necessitated by the war… The ideas conceived and applied by the War Industries Board in war are being applied in peace by the Department of Commerce...[52]

Not the least of the influential groups dazzled and marked by the experience of war collectivism were the liberal intellectuals. Never before had so many intellectuals and academicians swarmed

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[50] See William E. Leuchtenburg, "The New Deal and the Analogue of War," in John Braeman *et al.*, eds., *Change and Continuity in Twentieth-Century America* (New York: Harper & Row, 1967), pp. 122-123.

[51] See Herbert Hoover, *Memoirs* (New York: Macmillan, 1952), Vol. II, pp. 27, 66-70; on Hoover and the export industries, Joseph Brandes, *Herbert Hoover and Economic Diplomacy* (Pittsburgh: University of Pittsburgh Press, 1962); on the oil industry, Gerald D. Nash, *United States Oil Policy, 1890-1964* (Pittsburgh: University of Pittsburgh Press, 1968); on coal, Ellis W. Hawley, "Secretary Hoover and the Bituminous Coal Problem, 1921-1928," *Business History Review*(Autumn, 1968), pp. 247-270; on cotton textiles, Louis Galambos, *Competition and Cooperation* (Baltimore: Johns Hopkins Press, 1966).

[52] Clarkson, *op. cit.,* pp. 484-485.

into government to help plan, regulate, and mobilize the economic system. The intellectuals served as advisers, technicians, framers of legislation, and administrators of bureaus. Furthermore, apart from the rewards of newly acquired prestige and power, the war economy held out to such intellectuals the promise of transforming the society into a "third way" completely different from the laissez-faire past that they scorned or the looming proletarian Marxism that they reviled and feared. Here was a planned corporate economy that seemed to harmonize all groups and classes under a strong and guiding nation-state with the liberals themselves at or near the helm. In a notable article, Professor Leuchtenburg saw the war collectivism as "a logical outgrowth of the Progressive movement."[53] He demonstrated the enthusiasm of the Progressive intellectuals for the social transformation effected by the war. Thus, the *New Republic* hailed the "revolutionizing" of society by means of the war; John Dewey hailed the replacement of production for profit and "the absoluteness of private property" by production for use. Economists were particularly enchanted by the "notable demonstration of the power of war to force concert of effort and collective planning," and looked for "the same sort of centralized directing now employed to kill their enemies abroad for the new purpose of reconstructing their own life at home."[54]

Rexford Guy Tugwell, ever alert to the advance of social engineering, was soon to look back wistfully upon "America's wartime socialism"; lamenting the end of the war, he declared that "only the Armistice prevented a great experiment in control of production, control of price, and control of consumption." For, during the war, the old system of industrial competition had "melted away in the fierce new heat of nationalistic vision."[55]

Not merely the NRA and AAA, but virtually the entire New Deal apparatus--including the bringing to Washington of a host of liberal intellectuals and planners--owed its inspiration to the war collectivism of World War I. The Reconstruction Finance Corporation, founded by Hoover in 1932 and expanded by Roosevelt's New Deal, was a revival and expansion of the old War Finance Corporation, which had loaned government funds to munitions firms. Furthermore, Hoover, after offering the post to Bernard Baruch, named as first Chairman of the RFC, Eugene Meyer, Jr., an old protégé of Baruch's, who had been managing director of the WFC. Much of the old WFC staff and method of operations were taken over bodily by the new agency. The Tennessee Valley Authority grew out of a wartime government nitrate and electric-power project at Muscle Shoals, and in fact included the old nitrate plant as one of its first assets. Moreover, many of the public power advocates in the New Deal had been trained in such wartime agencies as the Power Section of the Emergency Fleet Corporation. And even the innovative government corporate form of the TVA was based on wartime precedent.[56]

Wartime experience also provided the inspiration for the public housing movement of the New

[53] Leuchtenburg, *op. cit.*, p. 84n.
[54] *Ibid.*, p. 89.
[55] *Ibid.*, pp. 90-92. It was very similar considerations that also brought many liberal intellectuals, especially including those of the *New Republic*, into at least a temporary admiration for Italian Fascism. Thus, see John P. Diggins, "Flirtation with Fascism: American Pragmatic Liberals and Mussolini's Italy," *American Historical Review* (January, 1966), pp. 487-506.
[56] Leuchtenburg, *op. cit.*, pp. 109-110.

Deal. During the war, the Emergency Fleet Corp. and the United States Housing Corp. were established to provide housing for war workers. The war established the precedent of federal housing, and also trained architects like Robert Kohn, who functioned as chief of production for the housing division of the United States Shipping Board. After the war, Kohn exulted that "the war has put housing 'on the map' in this country"; and in 1933, Kohn was duly named by President Roosevelt to be the director of the New Deal's first venture into public housing. Furthermore, the Emergency Fleet Corp. and the United States Housing Corp. established large-scale public housing communities on planned "garden city" principles (Yorkship Village, N.J.; Union Park Gardens, Del.; Black Rock and Crane Tracts, Conn.), principles finally remembered and put into effect in the New Deal and afterward.[57]

The oil and coal controls established in the New Deal also rested on the precedent of the wartime Fuel Administration. Indeed, Senator Joseph Guffey (D., Pa.), leader in the coal and oil controls, had been head of the petroleum section of the War Industries Board.

Deeply impressed with the "national unity" and mobilization achieved during the war, the New Deal established the Civilian Conservation Corps to instill the martial spirit in America's youth. The idea was to take the "wandering boys" off the road and "mobilize" them into a new form of American Expeditionary Force. The Army, in fact, ran the CCC camps; CCC recruits were gathered at Army recruiting stations, equipped with World War I clothing, and assembled in army tents. The CCC, the New Dealers exulted, had given a new sense of meaning to the nation's youth, in this new "forestry army." Speaker Henry T. Rainey (D., Ill.) of the House of Representatives put it this way:

> They [the CCC recruits] are also under military training and as they come out of it… improved in health and developed mentally and physically and are more useful citizens… they would furnish a very valuable nucleus for an army.[58]

III

Particularly good evidence of the deep imprint of war collectivism was the reluctance of many of its leaders to abandon it when the war was finally over. Business leaders pressed for two postwar goals: continuance of government price-fixing to protect them against an expected postwar deflation; and a longer-range attempt to promote industrial cartelization in peacetime. In particular, businessmen wanted the price *maxima* (which had often served as *minima* instead) to be converted simply into outright minima for the postwar period. Wartime quotas to restrict production, furthermore, needed only to remain in being to function as a frank cartelizing for raising prices in time of peace.

Accordingly, many of the industrial War Service Committees, and their WIB Section

[57] *Ibid.*, pp. 111-112.
[58] *Ibid.*, p. 117. Roosevelt names union leader Robert Fechner, formerly engaged in war labor work, as director of the CCC to provide a civilian camouflage for the program. p. 115n.

counterparts, urged the continuance of the WIB and its price-fixing system. In particular, section chiefs invariably urged continued price control in those industries that feared postwar deflation, while advocating a return to a free market wherever the specific industry expected a continuing boom. Thus, Professor Himmelberg concluded:

> Section chiefs in their recommendations to the Board consistently followed the wishes of their industries in urging protection if the industry expected price declines and release of all controls when the industry expected a favorable postwar market.[59]

Robert S. Brookings, Chairman of the Price-Fixing Committee of the WIB, declared that the WIB would be "as helpful… during the reconstruction period as we have during the war period in stabilizing values."[60]

From the big-business world, meanwhile, Harry A. Wheeler, president of the United States Chamber of Commerce, presented to Woodrow Wilson in early October, 1918, an ambitious scheme for a "Reconstruction Commission," to be composed of all the economic interests of the nation.

The WIB itself concurred, and urged the President to allow it to continue after the war. Baruch himself urged upon Wilson the continuation of at least the minimum price-fixing policies of the WIB. However, Baruch was gulling the public when he foresaw a postwar WIB as guarding against both inflation and deflation; there was no inclination to impose maximum prices against inflation.

The great problem with these ambitious plans of both industry and government was President Wilson himself. Perhaps a lingering attachment to the ideals, or at least to the rhetoric, of free competition prevented the President from giving any favorable attention to these postwar schemes.[61] The attachment was particularly nourished by Secretary of War Newton D. Baker, of all Wilson's advisers the closest to a believer in laissez-faire. Throughout October, 1918, Wilson rejected all of these proposals. The response of Baruch and the WIB was to put further pressure on Wilson during early November, by publicly predicting and urging that the WIB would definitely be needed during demobilization. Thus *The New York Times* reported, the day after the Armistice, that

> War Industries Board officials declared there would be much work for that organization to do. They foresee no serious industrial dislocation with the Government's grip on all war industries and material held tight.[62]

The President remained adamant, however, and on November 23 he ordered the complete

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[59] Robert F. Himmelburg, "The War Industries Board and the Antitrust Question in November 1918," *Journal of American History* (June, 1965), p. 65.
[60] *Ibid.*
[61] *Ibid.*, pp. 63-64; Urofsky, *op. cit.*, pp. 298-299.
[62] Quoted in Himmelburg, p. 64.

disbanding of the WIB by the end of the year. The disappointed WIB officials accepted the decision without protest; partly because of expected congressional opposition to any attempt to continue, partly from the hostility to continued controls by those industries anticipating a boom. Thus, the shoe industry particularly chafed at any continuing controls.[63] The industries favoring controls, however, urged the WIB at least to ratify their own price *minima* and agreements for restricting production for the coming winter, and to do so just before the disbandment of the agency. The Board was sorely tempted to engage in this final exploit, and indeed was informed by its legal staff that it could successfully continue such controls beyond the life of the agency even against the will of the President. The WIB, however, reluctantly turned down requests to this effect by the acid, zinc, and steel manufacturers on December 11.[64] It only rejected the price-fixing plans, however, because it feared being overturned by the courts should the Attorney General challenge such a decision.

One of the most ardent advocates of continued WIB price control was the great steel industry. Two days after the Armistice, Judge Gary of U.S. Steel urged the WIB to continue its regulations, and declared that "The members of the steel industry desire to cooperate with each other in every proper way…" Gary urged a three-month extension of price-fixing, with further gradual reductions that would prevent a return to "destructive" competition. Baruch replied that he was personally "willing to go to the very limit," but he was blocked by Wilson's attitude.[65]

If the WIB itself could not continue, perhaps the wartime cartelization could persist in other forms. During November, Arch W. Shaw, Chicago industrialist and head of the Conservation Division of the WIB (whose wartime work in fostering standardization was being transferred to the Department of Commerce) and Secretary of Commerce William Redfield agreed on a bill to allow manufacturers to collaborate in "the adoption of plans for the elimination of needless waste in the public interest," under the supervision of the Federal Trade Commission. When this proposal fizzled, Edwin B. Parker, Priorities Commissioner of the WIB, proposed in late November a frankly cartelizing bill that would allow the majority of the firms in any given industry to set production quotas that would have to be obeyed by all the firms in that industry. The Parker plan won the approval of Baruch, Peek, and numerous other government officials and businessmen, but WIB's legal counsel warned that Congress would never give its consent.[66] Another proposal that interested Baruch was advanced by Mark Requa, Assistant Food Administrator, who proposed a United States Board of Trade to encourage and regulate industrial agreements that "promoted the national welfare."[67]

Whatever the reason, Bernard Baruch failed to press hard for these proposals, and so they died on the vine. If Baruch failed to press matters, however, his associate George Peek, head of the Finished Products Division of the WIB, was not so reticent. By mid-December, 1918, Peek wrote

[63] Favoring continuing price controls were such industries as the chemical, iron and steel, lumber, and finished products generally. Opposing industries included abrasives, automotive products, and newspapers. *Ibid.*, pp. 62, 65, 67.
[64] Urofsky, *op. cit.*, pp. 306-307.
[65] *Ibid.*, pp. 294-302.
[66] Himmelberg, *op. cit.*, pp. 70-71.
[67] *Ibid.*, p. 72; Weinstein, *op. cit.*, pp. 231-232.

Baruch that the postwar era must retain the “benefits of proper cooperation.” In particular,

> proper legislation should be enacted to permit cooperation in industry, in order that the lessons we have learned during the war may be capitalized… in peacetime… Conservation;… standardization of products and processes, price fixing under certain conditions, etc., should continue with Government cooperation.[68]

By late December, Peek was proposing legislation for:

> some kind of an Emergency Peace Bureau… in order that businessmen may, in conjunction with such a Bureau, have an opportunity to meet and cooperate with Governmental cooperation…[69]

The leading business groups endorsed similar plans. In early December, the Chamber of Commerce of the United States called a meeting of the various industrial War Service Committees to convene as a “Reconstruction Congress of American Industry.” The Reconstruction Congress called for revision of the Sherman Act to permit “reasonable” trade agreements under a supervisory body. Furthermore, a nationwide Chamber referendum, in early 1919, approved such a proposal by an overwhelming majority; and president Harry Wheeler urged the “cordial acceptance by organized business” of regulation that would ratify business agreements. The National Association of Manufacturers, before the war devoted to competition, warmly endorsed the same goals.

The last gasp of wartime cartelization came in February, 1919, with the establishment by the Department of Commerce of the Industrial Board.[70] Secretary of Commerce William C. Redfield, formerly president of the American Manufacturers Export Association, had long championed the view that government should promote and coordinate industrial cooperation. Redfield saw an entering wedge with the transfer of the WIB’s Conservation Division to his department shortly after the Armistice. Redfield continued the wartime stimulation of trade associations, and to that end established an advisory board of former WIB officials. One of these advisers was George Peek; another was Peek’s assistant on the WIB, Ohio lumber executive William M. Ritter. It was Ritter, in fact, who originated the idea of the Industrial Board.

The Industrial Board, conceived by Ritter in January, 1919, and enthusiastically adopted and pushed by Secretary Redfield, was a cunning scheme. On its face, and as promoted to President Wilson and to others in the Administration and Congress, the Board was merely a device to secure large price *reductions*, and thereby to lower the inflated level of general prices and to stimulate consumer demand. It was therefore seemingly unrelated to the previous cartelizing

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[68] Himmelberg, *op. cit.*, p. 72.
[69] Robert D. Cuff, “A ‘Dollar-a-Year Man’ in Government: George N. Peek and the War Industries Board,” *Business History Review* (Winter, 1967), p. 417.
[70] On the Industrial Board, see Robert F. Himmelberg, “Business, Antitrust Policy, and the Industrial Board of the Department of Commerce, 1919,” *Business History Review* (Spring, 1968), pp. 1-23.

drive and hence won the approval of the President, who established the new Board in mid-February. At Ritter's urging, George Peek was named chairman of the IB; other members included Ritter himself; George R. James, head of a major Memphis dry-goods concern and former chief of the Cotton and Cotton Linters section of the WIB; Lewis B. Reed, vice-president of the U.S. Silica Co. and another former assistant to Peek; steel castings manufacturer Samuel P. Bush, former head of the WIB's Facilities Division; Atlanta steel-fabricating manufacturer Thomas Glenn, also a veteran of the WIB; and two "outsiders," one representing the Labor Department and the other the Railroad Administration.

No sooner did the IB get under way than it pursued its real, but previously camouflaged, purpose: not to reduce, but rather to stabilize prices at existing high levels. Moreover, the method of stabilization would be the longed-for but previously rejected path of ratifying industrial price agreements arrived at in collaboration with the Board. Deciding on this cartelizing policy in early March, the IB moved toward the first application in a conference with, unsurprisingly, the steel industry on March 19-20, 1919. Opening the conference, Chairman George Peek grandly declared that the event might prove "epoch-making," especially in establishing "real genuine cooperation between Government, industry, and labor, so that we may eliminate the possibility of the destructive forces…"[71] The steel men were of course delighted, hailing the "great Chance… to come into close contact with the Government itself…"[72] The IB told the steel industry that any agreement to sustain prices agreed upon by the conference would be immune from the antitrust laws. Not only was the price list offered by the IB to the steel men still very high even if moderately lower than existing prices; but Peek agreed to announce to the public that steel prices would not be lowered further for the remainder of the year. Peek advised the steel men that his statement would be their biggest asset; for "I don't know what I wouldn't have given in times past if in my own business I could say that the government of the United States says this is as low a price as you could get."[73]

The IB-steel agreement lowered steel prices by a modest ten to fourteen percent. The small, high-cost steel producers were disgruntled, but the big steel firms welcomed the agreement as a coordinated, orderly reduction of inflated prices, and especially welcomed the Board's guarantee of the fixed price for the remainder of the year.

The elated IB proceeded with similar conferences for the coal and building materials industries, but two dark clouds promptly appeared: the refusal of the government's own Railroad Administration to pay the fixed, agreed-upon, price for steel rails and for coal; and the concern of the Justice Department for the evident violation of the antitrust laws. The railroad men running the RA particularly balked at the reduced but still high price that they were going to be forced to pay for steel rails--at a rate that they declared was at least two dollars per ton above the free-market price. Walker D. Hines, head of the RA, denounced the TB as a price-fixing agency,

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[71] Himmelburg, "Industrial Board," p. 13.
[72] Professor Urofsky surmised from the orderly and very moderate price reductions in steel during the first months of 1919 that Robert S. Brookings had quietly given the steel industry the green light to proceed with its own price-fixing. Urofsky, *op. cit.*, pp. 307-308.
[73] Himmelburg, "Industrial Board," p. 14n.

dominated by steel and other industries, and he called for the abolition of the Industrial Board. This call was seconded by the powerful Secretary of the Treasury Carter Glass. The Attorney General concurred that the IB's policy was illegal price-fixing, and in violation of the antitrust laws. Finally, President Wilson dissolved the Industrial Board in early May, 1919; wartime industrial planning had at last been dissolved, its formal cartelization to reappear a decade and a half later.

Yet remnants of wartime collectivism still remained. The high wartime minimum wheat price of two dollars and twenty-six cents a bushel was carried over to the 1919 crop, continuing until June, 1920. But the most important carry-over of war collectivism was the Railroad Administration: the government's operation of the nation's railroads. When William Gibbs McAdoo resigned as head of the RA at the end of the war, he was succeeded by the previous *de facto* operating head, railroad executive Walker D. Hines. There was no call for immediate return to private operation, because the railroad industry generally agreed upon drastic regulation to curb or eliminate "wasteful" railroad competition and coordinate the industry, to fix prices to insure a "fair profit," and to outlaw strikes through compulsory arbitration. This was the overall thrust of railroad sentiment. Furthermore, being in effective control of the RA, the roads were in no hurry to return to private operation and jurisdiction by the less reliable ICC. Although McAdoo's plan to postpone by five years the given 1920 date for return to private operation gained little support, Congress proceeded to use its time during 1919 to tighten the monopolization of the railroads.

In the name of "scientific management," Senator Albert Cummins (R., Iowa) proceeded to grant the railroads' fondest dreams. Cummins' bill, warmly approved by Hines and railroad executive Daniel Willard, ordered the consolidation of numerous railroads, and would set the railroad rates according to a "fair," fixed return on capital investment. Strikes would be outlawed, and all labor disputes settled by compulsory arbitration. For their part, the Association of Railroad Executives submitted a legislative plan similar to the Cummins Bill. Also similar to the Cummins Bill was the proposal of the National Association of Owners of Railroad Securities, a group composed largely of savings banks and insurance companies. In contrast to these plans, the Citizens National Railroad League, consisting of individual railroad investors, proposed coerced consolidation into one national railroad corporation, and the guaranteeing of minimum earnings to this new road.

All of these plans were designed to tip the prewar balance sharply in favor of the railroads and against the shippers, and, as a result, the Cummins Bill, in passing the Senate, ran into trouble in the House. The trouble was fomented by the shippers, who demanded a return to the status quo ante when the shipper-dominated ICC was in charge. Furthermore, for their part the wartime experience had embittered the shippers, who, along with the ICC itself, demanded a return to the higher quality service provided by railroad competition rather than the increased monopolization provided by the various railroad bills. Unsurprisingly, however, one of the leading nonrailroad business groups favoring the Cummins Bill was the Railway Business Association, a group of manufacturers and distributors of railroad supplies and equipment. The House of Representatives, in its turn, passed the Esch Bill, which essentially reestablished the prewar rule of the ICC.

President Wilson had put pressure on Congress to make a decision by threatening the return of the railroads to private operation by the given date of January 1, 1920, but, under pressure of the railroads who were anxious to push the Cummins Bill, Wilson extended the deadline to March 1. Finally, the joint conference committee of Congress reported out the Transportation Act of 1920, a compromise that was essentially the Esch Bill returning the railroads to the prewar ICC, but adding the Cummins provisions for a two-year guarantee to the railroads to set rates providing a "fair return" of five and a half percent on investment. Furthermore, on the agreement of both shippers and the roads, the power to set *minimum* railroad rates was now granted to the ICC. This agreement was the product of railroads eager to set a floor under freight rates, and shippers anxious to protect budding canal transportation against railroad competition. Furthermore, although railway union objections blocked the provision for the outlawing of strikes, a Railroad Labor Board was established to try to settle labor disputes.[74]

With the return of the railroads to private operation in March, 1920, war collectivism finally and at long last seemed to pass from the American scene. But pass it never really did; for the inspiration and the model that it furnished for a corporate state in America continued to guide Herbert Hoover and other leaders in the 1920S, and was to return full-blown in the New Deal, and in the World War II economy. In fact, it supplied the broad outlines for the Corporate Monopoly State that the New Deal was to establish, seemingly permanently, in the United States of America.

[74] On the maneuvering leading to the Transportation Act of 1920, see Kerr, *op. cit.*, pp. 128-227.

