

Carnegie Endowment for International Peace

DIVISION OF ECONOMICS AND HISTORY

JOHN BATES CLARK, DIRECTOR

PRELIMINARY ECONOMIC STUDIES OF THE WAR

EDITED BY

DAVID KINLEY

Professor of Political Economy, University of Illinois
Member of Committee of Research of the Endowment

No. 25

GOVERNMENT WAR CONTRACTS

BY

J. FRANKLIN CROWELL, PH.D., LL.D.

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EDITOR'S PREFACE

Three points stand out prominently in the procedure described under the name of war contracts. The first is that the established system of doing business in the War and Navy Departments broke down early in the war. The second is that the civilians, expert and inexpert, who attempted to carry on business which properly belonged to the departments, where they succeeded at all in doing better than the departments themselves, did so usually by violation of the law—the very law which, in large measure, prevented the departments from doing as well as the civilians did. The third is that it was found necessary to replace a bureaucratic order with the more elastic and freer methods of private business.

The history of war contracts shows clearly that there were many men in the War and Navy Departments who were entirely competent to foresee the needs of the country in the crisis and to prepare plans adequate to meet them. They were prevented, however, from doing this by the laws or administrative regulations defining the scope of their authority. Therefore, as is usual at a time of heated public opinion, they were accused of incompetence because they did not get results which they were unable to get only because this very public had insisted on tying them hand and foot. This is a commonplace of governmental administration to which public attention needs to be called again and again.

To put the matter in another way, the public of this country is so afraid that its servants may be occasionally dishonest that it prescribes in great detail the methods by which they may do public business. We have sacrificed and will always sacrifice efficiency and dispatch for what we think is safety. Even when we happen to get a competent public servant for the niggardly pay which the people of the country are willing to give for any public office, we tie his hands in this way and make him bury his talent. There were numerous cases of this kind in both the War and Navy Departments, and men

suffered in reputation, not because of their inability to measure and provide for enlarged responsibilities in the crisis, but because the public was impatient of their inability to do so under the conditions that the public had laid down. Criticism of departmental officers in the War and Navy needs to be temperate in the light of this fact.

Efficiency in the conduct of business implies not only that high personal responsibility but great liberty of action is assigned to those who are charged with doing the work. This liberty of action we are constantly refusing to our public officers on the ground that they will either be corrupt or autocratic. Perhaps it is a relic of the old idea that anyone in a democracy can do any government job.

Some students of this history may very likely fall in with the view of those people who would lay the blame of our failure to be prepared and to push our participation in the war in a more businesslike way on the shoulders of the administration and of Congress. Making allowance for all that may be charged to both for short-sightedness and unsound principles of action, it still remains true that this kind of criticism is too cheap. Many of those who make it are the very people who would have found fault if money had been expended in preparation for war which did not eventuate, and now find fault because money was not spent for war that did eventuate. In other words, they are the people who ask that their representatives shall have unerring foresight and wisdom. To be sure, we may fairly expect men who are elevated to the high office of representing the people to be men of larger caliber, greater wisdom and farther foresight than the rest of us. We get some such in our halls of legislation and of administration. But it is too much to expect that all of them will be so, especially when we remember the niggardly treatment which this great democratic country gives all its public servants. We expect first class men to take first class jobs at third rate pay, and then abuse them if they do their work in what is really a first class way. The public is more largely to blame for the failure of the government through recent

years to do its work adequately in the way of "preparedness" than is the government itself. Nevertheless, it is true that men in public office must be ready at times to take the responsibility of doing their duty in ways that are for the public interest, even when those ways are criticised by public opinion. One who does this is truly a great public servant. But he must be strong enough to withstand criticism until the event justifies his wisdom.

Looked at in a large way, the greatest lesson of our "war contract" experiences, in the mind of the editor, is not the fact that we devised excellent business methods for the discharge of the duties of the government officers, even in the time of war, valuable and important as those were. It is rather the fact that in a large way we can not expect permanently to find business efficiency, in the sense in which the best organized, most honest and most capable business men use the term, developed to a high degree in a democratic government. For such efficiency implies a degree of autocratic authority in management which the public will not long tolerate. There is a feeling that the cry for business efficiency in public administration, while easy to understand because of waste and mismanagement in public business, can not be pressed too far because of the feeling, almost instinctive, on the part of the people that this good can be purchased only at the sacrifice of some degree of freedom. In this the public is right. To put the matter in another way, we might say that the most democratic method of doing business is the old town meeting plan of New England. Everybody takes part in the decisions. But no one would claim that you can do business efficiently in this way. We can not have the utmost of democracy and the utmost of efficiency at the same time in the conduct of a business operation, even if it is a public one. This lesson needs to be taken to heart in these days, particularly when there is on the one hand a demand for what are called business methods in public administration and on the other a demand for a wider participation in these transactions on the part of the public.

The student will find many new illustrations of important matters in this study of Dr. Crowell's. He will find illustrations of new methods of organization for business purposes and methods of expediting business. But our business experience in the war has not added any new fundamental principle either to the science of economics or to the science of accounting. None the less, its lessons are highly valuable.

DAVID KINLEY,
Editor.

University of Illinois,
October 19, 1920.

FOREWORD

The subject of contractual relations between government and private concerns in time of war has as yet received comparatively little attention. There are a few books on the legal aspects of war contracting. But neither the economists, with a few exceptions, nor the public officials have given the matter the consideration which it seems to deserve. One fares better in the search for discussions of these matters by going to the files of engineering journals—an ever increasing source of applied economics. Consequently, this inquiry in both its methods and results has something of a pioneering character about it. The field has impressed the author, for many years a teacher of economics, as having much that might be utilized with advantage in the research work of graduate instruction, if not even in the more advanced courses of undergraduate instruction in quasi-public economics. Besides being closely related to engineering, the subject is neighbor to that of accounting. In these three subjects—of government contracting, contract engineering and contractual accounting—we have a group of economic literature representing achievements of which the representatives of scientific economics are bound to take early account if the latter subject is destined to keep abreast of the progress of economic research in closely allied domains of enterprise.

It has been the purpose to keep clear the distinction between the war time and the peace time contracting, because the problems and the conditions affecting their solution are different under the two régimes. It is not always easy to detect where the departures began. But the role of the United States of America, as associated with the Entente Powers in the World War against the Central Empires of Europe, is always the essential viewpoint from which this exposition proceeds. The events cover the better part of three years, 1917-1919. The materials are to be found in the Congress-

sional proceedings of the period, in military and naval records and reports of the several departments and bureaus concerned with the war, in the hearings and appendices of the several special investigations and reports, in the enactments, resolutions and executive orders and in the current discussions of engineering, aeronautical, maritime and economic organizations among others. Reports and Minutes of the Council of National Defense are valuable. Nor should the contents of the weekly and the daily newspaper press be overlooked. The more reliable issues are helpful in getting a good grasp of conditions and of events which helped to shape contractual terms, systems and policies.

This task has proved to be full of difficulties and not a few discouragements, owing mainly to the intricate and bewildering complexity of the mass of materials. The lack of ready access to ultimate sources, among other things, added to the burden of maintaining scientific fidelity in a milieu sometimes surcharged with personal or partisan bias. Under these conditions, however, there has been whipped into shape a tentative statement of the working principles in the light of which public policies were formulated and the hydra-headed problems of war worked out as they arose. The major part of this study has consequently had to be descriptive in character; a minor portion could be given to rigid analysis, and a still smaller part to the tempting formulation of the theoretical aspects of government war contracting. The idea has been kept in view that descriptive analysis should always lead to some helpful criticisms, if not to definite conclusions, in order that sounder methods of administration might result from the exposition of the mistakes and the masteries of the past. For, in the wide survey of the entire panorama of this eventful era in history and economics the masteries of governmental problems far outweigh the mistakes; the patriotic fruitage of national fidelity in contracting enterprise far outshines the profiteering exploitation of a war stricken citizenship, and moral worth triumphs in spite of unparalleled material wastefulness.

For courtesies I am indebted to the various bureaus of the War and Navy Departments, to the committees of Congress which had most to do with the war, to the District War Claims Boards and to many contractors communicated with by letter or interview. Commercial organizations have been helpful in getting the business viewpoint, as have also the officials of the district offices of the Federal Reserve Bank. To the staff of the Free Public Library, East Orange, N. J., I am indebted for more than the usual facilities and courtesies. Use was made of the Endowment's office rooms and library at Washington while collecting public documents. For painstaking care in the preparation of the manuscript, for verification of references and for helpful suggestions I am sure that this monograph owes most to my wife.

Congressional investigations relating to the war contributed the larger volume of information and opinions. From these the following may be mentioned as the more important sources of research material:

Investigation of the War Department: Hearings before the Committee on Military Affairs, United States Senate, 65th Congress, second session, inquiring into progress made in providing for ordnance, small arms, munitions, etc. Begun December 12, 1917, and extending into 1918.

United States Shipping Board Emergency Fleet Corporation: Hearings before the Committee on Commerce, Senate, 65th Congress, second session, on Senate Resolution 170, to investigate matters relating to the building of merchant vessels and report findings. Begun December 21, 1919. Two main volumes indexed. Volume 8, illustrated.

Aircraft Production: Hearings before the Subcommittee of Senate Committee on Military Affairs, 65th Congress, second session. Begun May 29, 1918. Two volumes.

Report of Senator Charles S. Thomas, from the subcommittee of the Senate Committee on Military Affairs, August 22, 1918, under Senate Resolution of April 30, 1918, 19 pages, pursuant to Sen. Res. 48, on "Aircraft Production in the United States." Senate Report No. 555, 65th Congress, second session.

Ex-Justice Hughes's Report and Recommendations on Aircraft Production Investigation, transmitted to Attorney General Gregory October 25, 1918. Reprinted as Appendix A to *The Congressional Record*, December 30, 1918, pp. 883-914. Gives history of government's aircraft administration, analyzes contracts and summarizes causes of delay in production. The best single summary available.

Operations of the U. S. Housing Corporation: Hearings before the Subcommittee of the Senate Committee on Public Buildings and Grounds, 65th Congress, second session, pursuant to Sen. Res. 371, to report on costs, construction, operation,

maintenance and future disposition of public buildings, etc. Parts I ff. Begun December 6, 1918.

Hearings on Public Buildings and Grounds: House Committee hearings on Sen. Res. 194, directing U. S. Housing Corporation to suspend work on buildings where construction is not over 75 per cent completed and to cancel contracts, etc. Begun January 8, 1919.

Relative to Contracts: Hearings before the House Committee on Military Affairs, 65th Congress, third session, on House Bill No. 13,274, to provide relief where formal contracts have not been made in the manner required by law. Begun December 9, 1918. Pp. 34. Testimony of Crowell, Goethals, etc.

Hearings on Hitchcock Bill, Sen. 5,261, before Senate Committee on Military Affairs, January 7, 1919, on acquiring lands for establishment of mobilization and training fields for artillery and small arms, including testimony of Secretary of War. Pp. 59.

War Expenditures: Hearings before the Select Committee on Expenditures in the War Department, including five subcommittees on Aviation, Camps, Foreign Expenditures, Quartermaster's Corps, and Ordnance. Sixty-sixth Congress, first session. Begun June 23, 1919, and continued during 1919. Published in pamphlet form for distribution, and numbered as Serials and Parts, as "Aviation, Serial 1, Part I."

For a large part of the information here presented these several documents have served the author's purpose. The testimony is usually of a first-hand character, by the official in authority on that particular division of service. Easily the most voluminous source is the hearings last mentioned, on war expenditures. In fact, this testimony on the several matters of military interest covers practically every one of the major fields of inquiry relating to the war. It has been practicable to do no more than refer to some of the most informing testimony, owing to the limitations of this monograph. These documents are literally mines of information on war conditions as they affect contract relations, conditions of production, methods of settlement, etc.

From all of these and other documentary sources one thing stands out in bold relief, namely, that Congress exercised its influence on the conduct of the war not on the military side but preeminently on the side of its economics. And in this respect its influence was felt in three main directions:

1. In historic enactments providing for raising revenues and the appropriation of funds on a scale never before undertaken by any government.

2. In promoting the work of equipping the army by prompt investigation of abuses, delays and official inefficiency in business operations, as criticism of these and other conditions were reflected into the legislative branches of government; and in applying correctives where practicable.

3. By investigating conditions at the end of the war, as to the transition to peace and the liquidation of war assets, so as to formulate sound policies and enforce prompt adjustment, along lines of economic sanity and political safety.

JOHN FRANKLIN CROWELL.

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