CONTENTS
------

Carnegie Endowment

Preliminary Economic Studies of the War


X.79162 N2 F0 132.


X.A.9753 N2 F1


X.A.573.73 N2 F0
EARLY EFFECTS OF THE WAR UPON
THE FINANCE, COMMERCE AND
INDUSTRY OF PERU

BY
L. S. ROWÉ, PH.D., LL.D.
Professor of Political Science
University of Pennsylvania

NEW YORK
OXFORD UNIVERSITY PRESS
AMERICAN BRANCH: 35 West 33rd Street
LONDON, TORONTO, MELBOURNE, AND BOMBAY
1920
EDITOR'S PREFACE

The purpose of this study is to present in succinct form the effect of the outbreak of the World War on the commerce, industry and finances of Peru. The material was collected by Dr. Rowe in the course of a visit to the country in 1915, and the manuscript was submitted soon after his return. The publication has been unavoidably delayed, but inasmuch as it presents a matter of enduring interest this delay is not of serious moment.

The facts presented show the far-reaching effect of the war in Europe on the life of a people far removed from the theater of the conflict and which at the time maintained a strictly neutral position, although subsequently diplomatic relations with the Central Powers were severed. Conditions in Peru, as set forth in this monograph, illustrate the close interdependence of national interests and the deep and vital concern of every nation in the maintenance of world peace.

DAVID KINLEY, Editor.
## CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>3</td>
</tr>
<tr>
<td>II</td>
<td>8</td>
</tr>
<tr>
<td>III</td>
<td>12</td>
</tr>
<tr>
<td>IV</td>
<td>24</td>
</tr>
<tr>
<td>V</td>
<td>38</td>
</tr>
<tr>
<td>VI</td>
<td>43</td>
</tr>
<tr>
<td>Appendices</td>
<td>51</td>
</tr>
</tbody>
</table>
INDEX

Adjutant General, expenditures of, 9, 35.

Adjustment. See Liquidation.

Advisory Commission (Council of National Defense): creation of, 6, 28; nature and division of, 33-34, 58.

Aero Club of America, 350.

Agency compensation system, criticism of, 231.

Agency contracts: nature and use of, 33, 36; employment of, by Emergency Fleet Corporation, 184; principle of payment in, 166, 268, 190, 193; fiduciary position of agency contractors, 337.

Aircraft production: vii, 28; commandeering of airplane production, 49-50; comparison of, in army and navy, 125; disappointing results of, 231; isolation of war authorities from aircraft industry, 223; extent of production to date of armistice, 225; failure of Doeder-Coffin program, 230; cost-plus contracts for Liberty engines, 237; analysis of Liberty engine builders' profits, 239; unfair prices of plane contractors on bower cost basis, 244; a fair basic price by arbitration, 245; treatment of aircraft industry contractors, 246; causes of aircraft failure, 250-252; appropriations and commitments for aviation, 252; conditions surrounding airplane spruce-fir contracts, 253; first and second stages in airplane spruce production, 256-257; contracting results in army and navy, 246.

Aircraft Production Board, 50, 235, 240-250, 254, 256-257.

Allocation of contracts: nature and use of, 33, 44, 251; allocation of contracts by Committee on Supplies, 55; application of allocating principle in war contracting, 26, 101, 150; transition to allocation of contracts in navy, 150; comparative extent of allocation and competition in army, 151-157.

American Federation of Labor, 80.

American International Shipbuilding Corporation: agency contracts with, 37, 182-184; control of labor market, 125; investment in, by government, 183; contractors' fees, 186-187, 212, 214-216, 218; tonnage delivered, 190; tonnage contracted for, 209-210, 210; subcontracting, 240-241, 242; cost accounting, 252, (295; answer to charge of mismanagement, 336-337.

Ammunition: expenditures for, 96; production of, 112, 127.

Amalgamated shebfords, 239.

Army Commodity Committees, 31, 25, 71.

Attorney General, The, 29, 252, 304.

Australian War Council, 40.

Automatic rates, expenditures for, 96.

Aviation. See Aircraft production.

Baldwin Locomotive Works, 46.

Baldour, Arthur James, 205.

Balloon Mission, 175.

Bethlehem Shipbuilding Corporation, 264.

Board of Contract Adjustment, 309, 314-315.


Borough of Richmond.

Bowen, Admiral F. T., 287, 277.

Brill Company, J. G., 46.

Bristol airplanes, 247-248.

British shipyard, See Merchant Shipbuilding Corporation.

Bureau claims board, 314-315.

Bureau of Industrial Housing and Transportation (Department of Labor), 370, 283-285.

Bureau system of contracting: failure of, 27; in Engineer Corps, 334.

Campe and campanions: costs, 75, 86; awarded under cost-plus contracts, 72, 82, 91; government supervision over construction, 70; reasons for adoption of cost-plus percentage fee contract, 81-82; possible appeal in emergency building contracts, 82; determination of contractor's fee, 85; schedule of cost-plus fees, 85; elections of contractors, 72-97; official estimate of contractural results, 92; theory of the graduated percentage fee contract, 95.

Cancellation. See Liquidation.

Capital Issues Committee, 338.

Canoe, Admiral W. L., 185, 244-245.

Caproni airplanes, 246, 248.

Chartering Committee (U. S. Shipping Board), 202.

Chemical Warfare Service, expenditures of, 9.

Chester Shipbuilding Corporation, 218.

Claim Staff Branch, 316, 374.

Clark, P. Huntington, 227.

Classification of contracts, 32-33.


Commandeering (requisitioning), 7, 32; disadvantages of, 40; stigma attached to, 42; problem of fair and just compensation, 42; legality of commandeering authority, 42; form of navy's mandatory contract or order, 44; bargaining value of authority to commandeer, 45-47; conditions which apparently justify, 48; of west coast spruce production, 49; of the wool supply, 10, 252; paid for commandeering sheep tonnage, 150; powers of U. S. Shipping Board, 181, 184; ships requisitioned, 178; contractual arrangements for requisitioned ships, 201; reassignment of incoming ships, 202; as an emergency shipyard policy, 206.

Commerce, Department of, 38.

Commissioner of Internal Revenue, 341.

Committee on Supplies (Council of National Defense), negotiation of contracts by, 46; purchasing of clothing and equipment taken over by, 39; contracting record of, 54; allocation of contracts by, 55; testimony of chairman on, 58; and wool and cotton allotment, 65; weakness and overthrow of policy, 58, 61.

Compensation Board (Navy Department), 230.

Competitive awards (contracts): prewar use of, by army, 217; nomination of, 23-24, 40; wisdom of, 45.

Competitive bidding; 3; competitive procedure obligatory in ordinary times, 33; basic idea of, 21; interdepartmental, 30; application of, by Committee on Supplies in purchase of shoes and leather, 35; in co-op construction, 79; disappearance of, in Ordnance Office, 101, 150, 154, 158; application of, by Housing Corporation, 271, 337.

Compromiser of the Treasury, 30, 91, 121, 230-310.


Construction Division, See Emergency Construction Division.

Cost accounting, 30, 117.

Cost control, 110, 130, 150; navy's cardinal principle of, 146, 279, 284.
INDEX

Cost Engineering Section (U. S. Housing Corporation), 278, 287.

Cost-Plus contracts, 21; legislation and features of, 35, 36; most extensive application of, 37; elements necessitating adoption of, 38; competitive, cost-plus and commandeering contracts, 40; excessive use of, by Ordinance Department, 45-46, 55, 107; rejection of, as a result of reorganization of supply system, 70-73; profits under, 75, 84; reasons for adoption in emergency construction work, 81-82; determination of fees, 84; schedule of cost-plus fees for emergency building contracts, 83; criticism of, 88; adoption of, for emergency construction work, 93; theory of, that, graduated percentage fee contract, 95; four essential factors in, 118; in rifle production, 123, 125; pay use of, by navy, 137; in war time expedient, 140; in shipbuilding, 141, 148-150, 163, 183-184, 193-194; adoption of, for, by, administration, 194-195; cost and compensation provisions, 196-197; for Liberty engines, 237; aircraft production, 243, 246-258, 268, 270; settlement of, 306.

Council of National Defense, creation of, 4, 5, 8; assumption of virtual role of war contracting, 26, 29-31, 37-38, 42; duty and character of, 52; contracting methods of advisory committees of, 53-54; in principle and practice, 59-60; criticism of, 61, 65, 70, 78, 86-87; 92, 102, 123, 237, 257, 263, 264.

Court of Claims, 3, 35, 311.

Crowell, Benedict, 131, 310.

Crozier, General William, 35, 67, 102, 128, 130.

Crosley, General William, 255, 256, 130.

Curtiss Aeroplane and Motor Corporation, 246.

Dayton-Wright Airplane Company, 293, 297, 244-246.

Deeds, Colonel E. E., 239, 256.

Definition of costs, 217.

De Haviland airplanes, 245-246.

Denman, Colonel E. H., 205, 214, 233, 238.

Dent Act (Law), validation of informal orders or contracts by, 31, 280-290, 311, 314, 342.

Department of Commerce, 38.

Department of Interior, appropriations for, 10-11, 12.

Department of Justice, 206.

Department of Labor, 10. 278.

Department of State, 175.

Destroyer building, cost-plus contracts in, 141.

Disque, Colonel, 223, 260.


District Court Claims Boards, 315; features of hearings of, 316, 320.

Division of Purchasing, Storage and Traffic (Quartermaster Corps), 10; consolidation of war purchasing agencies under, 27, 38, 63; supply circulars issued by, 65-67, 70-71, 102, 280, 288, organization of sales division under, 300-301, 397, 310.

Douglas corporation, 254-255.

Du Fay, Captain William, 310.

"Eagles" (patrol boats), 153.

Eddytome, 80; record of, 132, 134, 310.

Eldred, Otto M., 263-264, 269, 283.

Eisenman, Charles, 55-57.

Emergency building contracts, schedule of cost-plus fees for, 83.


Emergency Construction Division (Quartermaster Corps), 70, 87, 81; three fundamental lines followed by, 78, 92, 94, 143, 173; percentage of profits allowed by, 277, 280.

Emergency Deficiency Act, 264.

Emergency Fleet Corporation, vii, 37, 78, 166-169, 171; scope of contracting of, 172-173.

Emergency problems of, 174; character of contracting problem of, 175; tonnage contracted for, 176-177; construction activities and deliveries of, 178; authorizations, commitments and expenditures of, 178-179; major lines of contract of, 181; varying character of contractual arrangements of, 181; four types of awards by, 183-185, 187; lump sum contracts in 60 per cent of awards, 188, 190; date of first contract of, 190-193; policy of, toward contract shipyards, 193-195; ships requisitioned by, 198; number and tonnage of incomplete ships requisitioned by, 203-205, 208, 210, 213-217; expenditures of, for plant construction, 218-219; policy of, regarding wooden ships, 239-240, 254, 264; extent and results of shipyard housing under, 205; commitments of, for housing shipyard workers, 266-267, 316.

Emergency Shipping Act, 172.

Enfield rifles, 132-134, 150, 130.

Engineer Corps: expenditures of, 92; prewar use of procurement orders by, 31, 33, 63, 115, 133; general method of procurement in, 63; consolidation of purchases of, 70; high contracting standards of, 72; increase in personnel of, 73, 81, 92, 125; recruiting efforts of, 245; defects of bureau contracting system least apparent in, 326.

Engineering News-Record, 279.

Eustis, F. A., 297.

Federal Reserve Bank, vii.

Federal Reserve Board, 330.


Fees: how determined under cost-plus contracts, 84; under commandeering contracts, 47; in shipbuilding plants, 218.

Fee system. See Cost-plus contracts.

Ferris type of wooden ships, 238.

Finance, Director of, 2, 288.

Fisher Body Corporation, 277.

Food and Fuel Administration, 49, 69, 158.

Food and Fuel Control Act, 15.

Food Purchasing Board, 128.


Forms of contract: evolution of, 31; factors affecting, 36.

Fort Benjamin Harrison, 81.

Fort Myer, 81.

Foster, Major Clair, 338.

Fuel and Food Control Act, 15.

Fuller Company, G. A., 250.

Fusston, General Frederick, 233.

General Motors Company, 238, 241.

General Munitions Board, 123, 224, 267, 87, 101, 128, 273.


Government contracting: general features of peace time contracting, 41; basic factors in war time contracting, 0; volume of, 8; dynamic import and scope of war contracts, 10; statutory principles of procedure, 13; the role of government war contracting, 18; administrative principles of procedure, 19; failure of isolated bureau system, 27; evolution of contract forms as used by army and navy, 34; classification of war time contracts, 35-33; factors affecting forms of contracts, 30; interdepartmental efforts to standardize contracts, 37; competitive, cost-plus and commandeering contracts, 40; schedule of cost-plus fees for emergency building con-
INDEX

Ordnance Department; expenditures of, 9; increase in personnel of, 34; methods of getting supplies; 43; relative importance of, 96; situation at outbreak of war, 96; contract procedure in, 100; strategic importance of America's ordnance problem, 105; reorganization of, 12; effect of contracts, 124; methods of controlling materials and deliveries, 129; payments, priorities and inspection, 129; procedure, 131.

Quistconk. 4.

Quartermaster Corps: expenditures for, 341; Revenue Act (October 3, 1917). 341.

Returns. 356.

Rifles: expenditures for, 341; analysis of, 12; effect of contracts, 12; method of controlling materials and delivery, 129; payments, priorities and inspection, 129; procedure, 131.

Roosevelt, Colonel Theodore, 233.

Schnack, Charles H., 130.

Sharp, General H. G., 258.

Shipping Board. See United States Shipping Board.

Shipbuilding and repairing, 114; cost-plus contracts, 114; four divisions of operation, 181; general policy of ship contract procedures, 185; principle of payment in agency contracts, 189; lump sum contracts, 189; payments, 189; plant financing extensions and real estate, 194; subcontracting and control in construction, 195; contractual arrangements for requisitioned ships, 201; effects of ocean freight control on shipyard conditions, 201; requisitioning of incomplete ships, 203; contracts' fees in fabricated shipbuilding, 209; criticism of agency compensation system, 211; comparative fees at three fabricating yards, 217; subcontracting on plant construction, 220; public distrust of big business methods, 223; policy and practices in wooden-ship contracts, 227, 228; elements of reaction and delay on contracts, 228; economic results of shipbuilding program, 247.

Shipping Act (1916), 160, 172-177.

Shipping Control Committee (United States Shipping Board), 201.

Shipyard housing, extent and results of, 265.

Siemens-Carey-Kerkbaart Corporation, 259, 262.

Signal Corps, 7; expenditures of, 9, 28, 49-50, 60, 234, 247-249.

Sligh, Major Charles R., 256-257, 260.

Smith, Mr. Charles, 238, 239-240.

Spad airplanes, 247.

Springfield Arsenal, 122, 123.

Spruce production: commanding of, 49, 129; condition of spruce-fir contracts, 122; first and second stages in, 235-237.

Spruce Production Division, 236, 258, 260.

Squier, General George O., 50.

Standard-J airplanes, 247.

Standardization, efforts at, 37.

Starrett, Major W. A., 92.

State, Department of, 174.

Stanton, Colonel Norris, 209.

Subcontracting: provision for, 84, 115; in shipbuilding contracts, 180, 319, 321; in lump sum contracts, 195; on plant construction, 280; in airplane spruce production, 262; in housing contracts, 273; classification in liquidation, 328.

Submarine Boat Corporation (Newark), 183, 185, 216-217, 217-240.

Submarine boats, 141, 148, 158.

Submarine chasers, 141, 217.

Superior Board of Contract Review, 71.

Supply system, peace time and war time cost of, 12; organic principle of governmental, 12; relative importance of, 63; disposal of surplus of, 89.

Quistconk, 347.

Ray, Justice, 44.

Raymond Arms Company, 125.

Results, economic, 247.

Requisitioned orders, 33.

Requisitioning. See Commandering.

Responsibility, Office of (Department of the Interior), 19, 20.

Revenue Act (October 3, 1917), 341.

Rifles: expenditures for, 66, 121; factors affecting cost-plus contracts, 127; why the modified economic theory was adopted, 133; insistence of rifle contractors on cost-plus contracts, 128; rifle production record of the government, 130; comparative output of rifles under cost-plus contracts, 131; record of Eddy's rifle plant, 132, 207, 310.

Rock Island Arsenal, 15, 122, 130, 283.

Rolls-Royce Motors, 233.

Roosevelt, Colonel Theodore, 233.

Schlack, Charles H., 130.

Sharpe, General H. G., 258.

Stevenson, Captain Thomas A., 258.

Talbot Commission, 88.

Tanks, 231.

Taxes: on war contracts, 340; Munitions Manufacturers' Tax, 189, 340.
INDEX

Thoma, Senator Charles F., vii.


Trigg, Ernest T., 104.

United States Chamber of Commerce, 59.

United States Circuit Court, 18.

United States Housing Corporation, vii. 8; expenditures of, on account of contracts, 10, 11; building program, 78; creation and organization of, 263; contractors' fees in projects of, 208-209; methods employed in selection of contractors, 270-271, 273; geographical scope and varied character of work of, 275; work of the Cost Engineering Section, 278-280; effect of armistice on contractual arrangements and policy of, 284-286.

United States Shipping Board, vii., 8; expenditures of, 10, 11, 17, 40, 78; building program, 78; appropriations for and wide extent of contracting powers, 100; elaboration of program, 173-174; effect of outbreak of war on building operations, 174-177; authorizations, commitments and expenditures, 178; policy under war time conditions, 179-181; commandeering powers, 181, 184; contractual policy, 184, 190; ships requisitioned by, 208-210; contractual arrangements for requisitioned ships, 209; creation of Charting Committee, 202; requisitioning of incomplete ships by, 203, 207-208, 208, 217; position of, in controversy regarding Hog Island contract fee, 215, 221, 224; policy and practice of, as regards wooden shipbuilding, 221, 222, 225, 228, 230, 248.

Volume of contract operations, 8.

Wages: camp construction, 89; housing contracts, 273-274.

War contract profits, federal taxes on, 340.

War Credits Board, 237, 251, 330.

War Department, expenditures of, 9-10.

War Department Claims Board, 316.

War expenditures, Select Committee of the House on, 55, 56, 102, 125, 203, 208, 247.

War Finance Corporation, 329.

War Industries Board, 21, 25; War Department representation on, 26; contractual functions of, 29-30; advisory control of contracts in, 56-59; severance from Council of National Defense, 51, 69-70, 101; procedure in relations of, to Ordnance Department, 102, 104, 110, 119, 132, 157, 213, 223, 273, 335, 336, 350.

War Munitions Board, 59.

War Purchasing Board (Council of National Defense), 58.

War time contracting, basic factors in, 6.

West, Ex-governor, 250.


Woodhouse, Henry, 250.

Wooden ships. See Shipbuilding and repairing.

Wright-Martin Aircraft Corporation, 223, 245, 240.