

The Problem of Government Control

By BURWELL S. CUTLER

Director, Bureau of Foreign and Domestic Commerce

and

LOUIS DOMERATZKY

Tariff Expert, Bureau of Foreign and Domestic Commerce

AMONG the numerous problems comprised within the rather hackneyed term of "economic reconstruction," one of the most difficult is presented by the liquidation of Government control in business. The task is not confined merely to the abolition of certain war boards or the disposal of Government supplies acquired for war purposes, but involves a revaluation of the political theory of Government control in the light of war experience. While the political aspect of the problem has not as yet attained in the United States the importance attached to it in a country like Great Britain, for instance, there are strong indications that some of its phases may play a considerable part in the political developments of the next few years, and we may therefore regard a discussion of the problem as decidedly timely. The following two informal summaries by the director and the tariff expert of the Bureau of Foreign and Domestic Commerce, of the Department of Commerce, dealing with Government control in Great Britain and in the United States, may prove of some value in the discussion of the subject.

Government Control in the United States

By BURWELL S. CUTLER

The American Government control of commerce during the war has followed the British policy and procedure closely. In fact it is thought by many to have been a somewhat amateurish imitation wherein it followed the procedure alone, to somewhat unsophisticated extremes, without being founded on the keenly calculated aims of the British elders. For this there is, perhaps, excuse enough found in the prior establishment of a British block-

ade that allowed little or no variation in our freedom with foreign nations, since harmony with the British was to be effected above all else.

From stringent regulations on enemy trading we passed through one paralyzing prohibition after another in the field of international finance, commerce and transportation until, international possibilities being quite exhausted, we laid eager hands upon our domestic utilities with all the zest of a youngster over his first real steam engine.

Where the British laid down rules to serve the set purpose of withholding from the enemy all outside supplies of food, munitions and credit and at the same time permitted exceptions where their own supplies and trade were benefited without comfort to the enemy, the American embargo regulations were rigorously upheld on every occasion by their administrators like priests defending a temple; a policy of enlightened self-interest for ourselves and "war associates" had no standing beside a determination to defend the rule for its own beauty. So far as may be seen now, mere compliance with the British physical blockade against entrance of fats into Germany would have been sufficient to create the only economic strain which Germany admits as being decisive.

When the collapse came she had a fair abundance of everything she most needed except rubber and edible fats and lubricating oil—to which England had allowed her no access up to March, 1917, except when we forced Britain's hand in the way of trade.

Our most effective work was the elimination of pro-German or Austrian firms in South America, where there are left today few substantial merchants who prefer to handle American goods. The native and British houses there prefer merchandise from, and business relations with, other nationalities.

EMBARGO POWERS

The fundamental principles underlying the embargo power delegated by Congress to the President were twofold: conservation of natural resources so that they might be devoted wholly to military purposes, and prohibition on enemy trading. It is obvious that almost any set of regulations could be promulgated in compliance with those two principles since the extent to which

they could be administered was not limited by Congress or by the President who in turn had delegated the power to the War Trade Board.

The diversion of home industry into channels of army and navy supplies was splendidly done by the War Industries Board, taking into account the want of direct power which the Board suffered. It is true that it could supplicate the President any time to commandeer an intractable business concern, exactly as the army and navy did in effect rather often. But as a general thing the Board accomplished a unification of industrial and military purposes by the simple power of moral suasion. The business executives of the country responded fervidly without calling from Congress legislative compulsion such as the British Orders in Council. Those British Orders of 1914-1917 had given to the Prime Minister power to do whatever his Cabinet wished with every factory and utility in the United Kingdom.

Our board helped, as business advisers, to determine contracts, prices, shipping priorities, etc., wherever Government business was concerned. Its advice was followed wherever and whenever the army or the navy chose, the attitude of both Departments being good-natured even when most self-reliant.

FINANCE AND TRANSPORTATION

Perhaps the Treasury had the more difficult task of all, in so far as it tried first to maintain the abnormal gold reserve of the country and simultaneously to force a parity of exchange with other countries. That department was called upon to actuate through the War Trade Board an embargo on monetary metals and credits to the single end of conservation; it had no part in the policy of enemy trade exclusion, although its advice was frequently required. It is not hard to perceive that the Treasury Department was frequently beset by the urgency of releasing gold from this country in exchange for much needed imports, because certain nations to the south of us demanded gold, and gold only, as a return for raw materials which could not be secured from any other part of the world. Altogether, the Treasury was subject to more conflicting obligations than any other department.

The Railroad Administration did not take over control before it was amply demonstrated that habits of competition between

the different systems precluded any chance of unified action. Moreover, they sorely needed an increase of traffic rates beyond what the public would tolerate if decreed by private management. As soon, however, as the Government assumed responsibility the railroad employees pounded the Administration so hard for wage increases and privileges theretofore denied that there was no escape from them, unless a general strike was welcome. We now have Government control of privately owned property, with all the confusion inherent in such a contrariety.

As for our merchant marine, that is owned outright by the Government and consequently its costs and benefits are borne by the entire people through the process of federal taxation. Its delinquencies, if any develop, are visited upon every taxpayer and not exclusively on the investors who put their money into enterprises which they thought would provide them with regular income free from the risk of political exigency.

We have already indicated the forces which resulted in putting rail and ocean transportation into the hands of the Government, and these are, namely, the necessity for higher traffic rates (passenger and freight) and the necessity for an increased wage scale. Neither of these sweeping changes could have been brought about with the consent of the public so long as private management could be held responsible. In other words, the Government was palpably above any criticism on the grounds of selfish profit. The temporary seizure of the cable and telegraph lines is also based on similar considerations, but these would not have been effective in normal times, and the properties were taken over with the express intention of turning them back to private administration as soon as national affairs became sensibly normal.

THE FUTURE

We shall not judge the advisability of a permanent Government control solely on the ground of experience in this country up to date, but we can all see clearly enough the advantages and disadvantages of Government ownership of public utilities as a permanent thing. That in a general way a government would run them for the benefit of the greatest number of people and never for the purpose of unreasonable profit or stock jobbing is conceded by us all. We will even admit that an excess of competition by parallel

lines and activities resulting in a too great overhead cost of operation, can be eliminated by the authority of the Government. It is likewise possible to believe that strikes and all riotous disturbances would be difficult of accomplishment so long as the Government is in charge and therefore obliged to oppose its armed authority for the protection of the properties involved. And yet, on the other hand, we are more than likely to lose under Government administration the exercise of ingenuity and incentive which individuals brought to bear upon our vast railroad systems in the days of their creation. The most effective public utilities are invariably those which enjoy constant improvement under the spur of ambitious individuals seeking to improve property committed to their personal care. If our lines of communication by wire or by rail or by boat become out-and-out Government-controlled properties, it is inevitable that the executives in charge and the operative force will take on a political character. As soon as that condition is well established we might see as the result of sporadic political upheavals in one part or another of the country a constant change of railroad people in office and the selection of them dictated primarily by political preference. In this process a certain section of railroad or telegraph lines might be taken over bodily by a mob organization, such as the I. W. W. or some other radical group in temporary power, and the entire system would be terribly handicapped, if not paralyzed.

When one puts into parallel columns the advantages and disadvantages of permanent public administration over privately owned properties in these United States and thus creates an account with credit and debit, the balance on the debit side is so unmistakably plain that an impartial man, with his feet firmly planted on the solid ground of historical fact cannot support the idea;—or at least he will say “let us defer the highly altruistic plan until we know what kind of a Government or polity the masses are determined to give us.” For no Government can successfully escape from the logical consequences of its own policy if they turn out to be evil, nor can it combat them in the day of repentance,

Government Control in Great Britain

By LOUIS DOMERATZKY

While we may leave to the future historian the dangerous task of determining the extent to which economic factors were responsible for the world war, we do not have to wait for the verdict of history to appraise the importance of such factors in carrying on the war. Likewise we are safe in assuming that the war will bring about revolutionary changes in the economic life of most of the countries, neutral as well as belligerent. Not only has the war affected deeply the business life of the separate countries, but it has also served to bring about a degree of international control and pooling of resources that would have been regarded as inconceivable for probably half a century under normal development.

Perhaps the most striking development has been the overwhelming control exercised by the individual State over the principal phases of economic life. In order to increase production so as to keep the tremendous war machine going the State had to step in and to counteract all the subversive instincts that were interfering with the desired end. In assuming control over production the State was compelled in many instances to guarantee to labor remunerative wages sufficient to cover, or to exceed, the swollen cost of living and even to provide housing and transportation facilities where they were inadequate for high-speed production. There seemed no escape from the duty to limit profits, to fix maximum prices, to allocate materials, to appropriate products, to interfere in every ingenious way with the basic laws of supply and demand, when they appeared inadequate to a concentrated effort in a given direction. And the further the State went into the field of production and distribution the more functions it was forced to take over or control, since a radical change in the management of one plant of industry was found to affect correlated plants or industries. Thus State control, or interference as it is sometimes called by its opponents, was expanding at a rapid rate when the war came to a sudden end, leaving behind it the enormous task commonly referred to as economic reconstruction.

MEANING OF "ECONOMIC RECONSTRUCTION"

The significance attached to the term "economic reconstruction" differs very widely according to the political, economic and social views of the persons by whom it is used. To some it may mean a revolutionary change in the relations between the State and the individual, the upbuilding of an entirely new social structure in which the State shall assume paternal authority over the numerous business and social activities which have not been performed adequately under an ultra-free régime. To others it means simply that the State shall relinquish its new functions assumed during the war as quickly as possible and with the least disturbance to the economic life as conducted on a pre-war basis. Between these two extremes there are naturally numerous gradations. The crux of the problem is to decide just what functions the State should discard or what should be retained and developed to their logical conclusions.

The extreme opponents of Government control who assume that the progress made in that direction during the war will be entirely obliterated and will have no bearing on the after-the-war politics are probably just as far removed from a realization of the real trend as their visionary opponents who construe the war experience as a great step towards the realization of the Coöperative Commonwealth. It is hardly necessary to point out that the final outcome will be determined by political factors at least as much as by economic. In any event it is quite clear from the legislative measures already adopted by some of the belligerent governments that they will retain authority over the distribution of raw materials until monopolies in materials and credits are no longer possible.

NATURE AND EXTENT OF BRITISH CONTROL

Before entering upon a discussion of the merits of Government control in general it may be well to review briefly the principal measures adopted by Great Britain and thus get an idea of the extent and character of control achieved during the war, for this alone will measure the distance we must retrace our way to the pre-war "free economy."

Great Britain fixes our attention first, not merely on account of her dominant financial position among the belligerent coun-

tries of Europe, but also because, strange to say, she has gone further in the direction of State control than the others, always excepting chaotic Russia and Batavia; also she has done this in the face of her traditional commitment to commercial freedom and the proverbial individualism of her economic life. The experience of Great Britain is also of particular importance to us because it is apt to influence our own policy to a far greater extent than the example of the Teutonic countries, since their tendency towards extension of State control had been growing apace for some time prior to the outbreak of the war, and it may be regarded as a natural development of intense centralization in politics. Not so with Britain. Whether her policy may be attributed to a better appreciation of the underlying economic factors of the war and the magnitude of her financial liability to the Allies, or whether it was wholly a result of a socialistic trend unduly accelerated by the national defense, we do not feel ready to decide. There is no doubt, however, about the permanent penetration of State control into the economic fabric of that country.

Adverse opinions regarding the desirability or success of Government control under normal conditions should not blind us to the fact that certain production problems, especially those relating to labor, could not have been adjusted without the assumption by the State of the economic and social sequences of such settlements.

It is assumed by many that this attitude of the State will also have to be maintained during the reconstruction period in order to avoid serious labor and fiscal disturbances. The concessions of labor made by the State in certain industries and services, as in railway transportation, for instance, will probably make a prompt return to private ownership of those utilities very difficult, if not impossible; and we may conclude from the recently introduced bill for the creation of a Ministry of Ways and Communications that the nationalization of the railways has practically been decided upon. In other cases, like the exploitation of the Persian oil fields and the dye industry, the participation of the State has been so conspicuous that it is doubted whether from a political standpoint the Government could step entirely out of those purely industrial enterprises without thorough preparation for the event.

In a broad way, then, Government control in Great Britain extended to all phases of economic life, but was particularly concentrated on public utilities, production of ammunition and other war supplies, including essential commodities for civilian use, especially foodstuffs. Now let us examine briefly the methods of procedure adopted by the British Government in its various forms of control.

RAILWAYS, MUNITIONS AND COAL

On account of their pivotal character in war operations the railways were taken over by the Government on the day following the declaration of war, under the Regulation of Forces Act (1871). The operation of the lines was placed in charge of the Railway Executives Committee of General Managers, under the general control of the Board of Trade, and the general basis of compensation was a guarantee by the Government of the profits obtained during the period immediately preceding the outbreak of the war. Early in 1915 the Government was confronted with the task of dealing with the demand of the railway unions for increased wages to cover the increased cost of living. The Government granted a substantial part of the increase asked for and assumed three-fourths of the cost involved. The concession was regarded as a great victory by the unions and was undoubtedly construed as an indication of the policy to be adopted in the future in dealing with the railway unions. Further increases in the war bonuses to the railway employees was made in September, 1915, September, 1916 and April, 1917, and a far-reaching concession in regard to the continuation of the war wages to the end of 1919 has just been granted by the Government. In accordance with the promises made during the last parliamentary campaign the Government has just introduced a bill for the creation of a Ministry of Ways and Communications, with vast powers for the control of all forms of transportation and communication.

The control or ownership of munition plants by the governments of the belligerent countries was so general that it could hardly be regarded as a conscious political reform in any of the countries. Owing to the shortage of labor and equipment and to industrial unrest the Government took a decisive hand in the distribution of labor, also assuming authority in prevention or

settlement of strikes, adjustment of wages, etc. The Defense of the Realm Act and the Munitions of War Act enabled the Government to take over the control of the private plants engaged in the production of munitions and to limit their profits, thereby removing one of the principal causes of labor agitation, namely demand for a greater share of the apparent profits. There was also a provision for the protection of trade union rules after the war and for a system of "leaving certificates" intended to prevent the migration of labor from munition industries. While these measures were so closely connected with the actual conduct of the war that they could hardly be regarded as examples of deliberate paternalism, nevertheless, some of the principles involved, notably the limitation on profits, might be retained as serviceable for the period of reconstruction; the final disposal of the Government-owned munition plants may give rise to a demand for their conversion to peace uses under the Government auspices.

A decrease in the output of coal made it necessary for the Government at first to restrict the exportation and the domestic consumption, and, later on, largely as a result of the labor disturbances in South Wales, to impose labor adjustments and price fixing. A further threat of labor troubles in 1916 compelled the Government to take possession of the South Wales mines, following which Orders-in-Council of February 22, 1917, authorized Government control over the entire coal-mining industry, which was placed in charge of a new department in the Board of Trade, under the Controller of Coal Mines.

SHIPPING, LEATHER AND TEXTILES

While the requisition of shipping was primarily a measure for carrying on the war, it also had the very important economic function of preventing an undue rise in import freight rates and consequently in the cost of living, Great Britain being almost wholly dependent on imported foodstuffs. Thus a very considerable part of British tonnage was commandeered by Royal Proclamation of August 3, 1914, and a board was set up to adjust the claims of the ship-owners. The Board of Arbitration soon assumed also the function of drawing up approximate monthly rates, which gradually developed into the so-called "blue-book" rates for requisitioned vessels and were considerably below the

market rates. The Government also adopted a system of risk insurance for the vessels not requisitioned. In view of the conspicuous part played by the high cost of living in labor disturbances the Government moved in this way to keep at a reasonable level the cost of imported foodstuffs, since an unrestricted rise in freight rates and no reservation of space for the transportation of foodstuffs had been working to the opposite effect.

The importance of leather and textile fibers for war equipment and the violent rise in prices occasioned by the war demands as well as by the high freight costs induced the British Government to take on the purchase of raw materials in the British Dominions and South America, and also to determine priorities in case of merely civilian demands. Even the production hours of factories using these materials were curtailed in the interest of conservation. It may be said that during the greater part of the war period the middleman was altogether eliminated from the textile and leather industries, in so far as the free distribution of raw material was concerned.

FOODSTUFFS

Since, however, for the army and for the civilian population an adequate supply of foodstuffs had become the most serious problem, the British Government concentrated its attention on a double domestic policy as follows: (1) the assurance of adequate supplies by boat from foreign sources, and (2) encouragement of domestic production by means of guaranteed prices, distribution of tractors, seeds, fertilizer, etc., and by encouragement of small farm holdings.

The first task was to prevent an undue rise in the prices of staple foodstuffs, the importation of which was greatly affected by the curtailment of tonnage. Thus we find that maximum prices for sugar, butter, cheese and bacon were fixed by the Board of Trade early in the war. With the sugar supply from the Central Powers cut off there was a sharp rise in the price and a Royal Commission was appointed in September, 1914, to investigate the situation, to purchase and distribute sugar, and maintain the supply. The Government became the sole importer of sugar and soon took control of the refineries. By fixing the refiners' profit it controlled the price of the refined product. On several occasions the

Royal Commission on Sugar Supply raised the maximum prices for the purpose of reducing consumption, but with comparatively little effect.

In its endeavor to assure a sufficient supply of meat the British Government started by encouraging the increase in the domestic supply. Later on it took over the control of imported meat, at first from Australia through price control by the Dominion Government, and then from the River Plata through requisition of refrigerating space in British steamers trading with Argentina and Uruguay. In this way the Government managed to buy on comparatively advantageous terms for the British as well as the Allied armies. Later on it was found necessary to fix maximum prices for domestic meat. The British Government maintained in the United States an agency for the purchase of bacon, ham, and lard and fixed the middlemen's profits on those commodities.

The methods adopted by the British Government for the control of wheat which was found necessary on account of inflated prices and evidences of profiteering in the milling industry, were more or less similar to those adopted in the case of importers of sugar. The Grain Supplies Committee was appointed for the purpose of procuring large supplies in the United States and Argentina. The Indian wheat crop was controlled through importers appointed as Government agents.

While the State control of the food supply was perhaps more thorough than in any other direction, it is the one form of control least likely to endure as a permanent policy. The Government undoubtedly succeeded in many cases in preventing an excessive rise in prices and profiteering, but it may be doubted whether anything short of a national emergency could induce the people to submit further to a multitude of annoying prohibitions. This, however, does not apply to the measures adopted by the Government for the encouragement of British agriculture, some of which, like the guaranteed price of wheat, will remain in effect for several years after the conclusion of peace and will undoubtedly figure prominently in future political discussions.

With the increase in the difficulties of ocean transportation, the question of increasing the domestic production of foodstuffs and restoring British agriculture came to the fore. Some of the

recommendations of the special committee appointed in 1915 to investigate the state of British agriculture were carried into effect by the Ministry of Agriculture, beginning with an agricultural census and following it up with measures for increasing production from small holdings, providing fertilizer and agricultural machinery and especially tractors, which were acquired in large quantities by the Agricultural Machinery Branch of the Ministry of Agriculture and loaned outright to farmers who were not in a position to buy them. On February 23, 1917, Prime Minister Lloyd George announced the adoption of the most direct measure of encouragement to domestic agriculture, i.e., a system of guaranteed prices for grain, intended to encourage the cultivation of pasture land and to increase the grain acreage. A schedule of guaranteed prices for six years, beginning with 1917 and subject to revision after the expiration of a four-year period was finally embodied in the Corn Production Act, which also contains the revolutionary provision for a minimum weekly wage of twenty-five shillings for agricultural laborers.

SUMMARY

In summing up the British experience with Government control during the war, it may be said that it has entered practically every fundamental part of economic life, that in spite of some of its failures it has been an exceedingly effective factor in the successful conduct of the war, although very severely criticized, especially by the abolished middlemen, and that there is undoubtedly going to be a strong demand, especially on the part of the labor and the socialist element, for the retention of some forms of Government control over certain industries and transportation. The extent to which the British Government will retain control or ownership will probably depend largely on the political strength of the various parties concerned in the issue.