Business Attitudes towards Wage and Price Controls in World War II

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THIS paper explores the attitudes of the business community toward wage and price controls in the World War II. While it is obvious that business would support restrictions on wages, the paradox is that during the war the business community overwhelmingly supported price controls as well.[1] Indeed, business supported controls before they were imposed, during the war itself, and to some extent in the immediate postwar period, when the question was how long the controls should be continued. If anyone supports capitalism, one might argue, it would be the capitalists. And since economic theory teaches us that the price system is essential to the efficient operation of capitalism, we would expect business to strongly oppose a complete system of wage, price, and production controls. Given this conventional wisdom, the fact that business not only gave vocal support to controls, but also provided a large part of the manpower to implement and enforce them, demands documentation and explanation.

Support for controls was not, of course, unqualified or universal. Business was critical of the structure of controls before and during the first years of the war. It became more comfortable with controls during the period from April 1943 through roughly May 1945, when enthusiasm again began to wane. There were also important differences in the attitudes of executives in large corporations when compared with those in smaller, more competitive firms; and the concerns of bankers sometimes diverged from those of production managers, as the concerns of the latter did from those of retailers, and so on. The best simple description of the attitude of business towards controls, however, is "overwhelming support."

This examination, incidentally, helps to fill part of one of the few gaps in the classic reference, Herman Krooss's *Executive Opinion* [13]. This book covers the period from World War I to the 1960s in magisterial detail. For all its strengths, however, there is a gap at World War II; Krooss's narrative takes us through 1939 and then begins again in 1945 with reconversion. He tells us that business was, in general, hostile to the New Deal, after an early infatuation, and came to view it as a threat to the American system of free enterprise. Business did not appreciate Roosevelt's tinkering with the economy or his unbalanced budgets, and it came especially to fear inflation. Krooss's next chapter discusses reconversion and the years of the Korean War. But the war years remain something of a mystery.

The first section of this paper traces the evolution of business opinion on controls from the late 1930s through the mid–1940s. Here we draw on a wide variety of qualitative evidence (congressional testimony, biographies and autobiographies, press releases of professional associations, and so forth) that support and define our basic generalization. The second section summarizes and evaluates the quantitative evidence — a variety of opinion polls of varying degrees of reliability. The polls, we show, reinforce our qualitative portrait. The third section examines the forces that combined to produce business support for controls. The final section summarizes our main conclusions.

THE EVALUATION OF BUSINESS OPINION ON PRICE CONTROLS IN THE 1930s AND 1940s

Business, on the whole, was still wary of controls in 1938 and 1939. This was partly the residue of seven years of New Deal regulations and programs [13, pp. 120, 210-20]. Not until the Temporary National Economic Committee (TNEC) hearings in 1938 and 1939 did the first signs of business support for controls become evident.[2] During the hearings on "War and Prices" in December 1939, TNEC's Executive Secretary, Leon Henderson, questioned leading business people on the relationship between war, inflation, and price controls. Those questioned generally held to the view that in past wars price increases had not induced greater output and, indeed, had been harmful. Price stability, they argued, was more apt to foster high production [23, pp. 11326–31]. But they differed considerably on how to achieve price stability. What they did agree on was that they were ready to help the government in the event the US should become involved in the war.

Perhaps the most notable among the early advocates of controls was Donald Nelson, a Vice President of Sears, who would later head the War Production Board. Nelson believed that far-reaching controls would be necessary to avoid economic chaos [18]. In his testimony at the TNEC hearings, he argued that

> The present generation of industrialists have learned through bitter experience some very interesting lessons on the necessity for keeping a

balance in the economy and have learned that stability in price structure is more important to their welfare than is a rapidly rising price structure [23, p. 11240].

As Roosevelt began to plan for the war, he took a number of business people into his confidence. In 1939, he organized a group of military men and industrialists into the War Resources Board (WRB) and asked them to think about industrial war mobilization. Although the WRB lasted only a short time, its successor, the National Defense Advisory Council, had many of the same business people as members. As the war in Europe grew and American involvement became more probable, business began to consider seriously a war economy directed from Washington and the role of business in such a scheme. The participation of leading business people in the war agencies mitigated fears that controls would be anti-business and set a precedent for business support. Ultimately, it was people drawn from business not New Deal liberals who staffed the war agencies. Left-wingers such as Sidney Hillman, Leon Henderson, and Henry Wallace were all out of the Administration by late 1942, or as in Wallace's case, in positions with little real influence.

The War Production Board was first chaired, as we have noted, by Donald Nelson. He was succeeded by Charles Wilson of General Electric. The Office of Price Administration (OPA) was first headed by Henderson, a veteran new dealer. But after his resignation, it was run by Chester Bowles, and while Bowles later developed a reputation as an economic and political liberal, we should not forget that he was recruited from his Madison Avenue advertising agency. The National Defense Advisory Council, the organization from which the other agencies grew, was staffed with the likes of William Knudson, President of General Motors; Edward Stettinius, President of US Steel; and Ralph Budd, President of the Chicago, Burlington and Quincy Railroad. These executives, and others like them, were eager to leave their corporate positions and assist the war effort by managing the agencies which controlled the economy. In June 1943, moreover, the OPA established over 200 Industry Advisory Committees whose function was to aid the price control effort by active consultation with industry [25, pp. 11–13]. For the most part, the record demonstrated willing and active participation in this process.

By 1941 the leaders of the National Association of Manufacturers (NAM) and the Chamber of Commerce of the United States, the most visible official voices of American business, had adapted to controls.[3] An early report of the Prices Subcommittee of the National Defense Committee of the NAM actually contained an endorsement of controls: "It is recognized that during the present defense period some constructive governmental price control may be necessary" [17, p. 1]. This statement, however, was later deleted from the official statement of the NAM's position on controls. Instead, the NAM limited itself to emphasizing that controls did not belong in peacetime economies, and in stating the various requirements it claimed were necessary to make controls work. Similarly, the Chamber of Commerce concentrated on how to make controls work better, rather than on praising them. But both organizations, it can be said, implicitly endorsed the wartime use of controls. In 1946, both moved to oppose the continuation of controls. The NAM, in particular, launched a vigorous campaign, basing it in part on a controversial poll, that we will discuss below, that showed 97 percent of its members felt that controls were a detriment to production [13, p. 237]. The Chamber of Commerce launched a similar campaign against controls although it adopted a lower profile.

Perhaps the most complete source of evidence regarding business attitudes is the testimony of prominent business people before the various Congressional committees which held sway over price control legislation. This testimony was made before a wide range of committees listed in the notes.[4] This record is much too long to present in a paper of this nature. The reader must be content with our generalization that business opinion generally, although not universally, supported the thinking of Nelson, and implicit logic of the official organizations such as NAM and the Chamber of Commerce — controls were making a positive contribution, even if they could be improved in many particulars.

After the war began, business was able to support controls. But this support was less enthusiastic than it was to become after 1943 because wages and farm prices were still virtually uncontrolled. In October 1942, the passage of the Emergency Stabilization Act placed wages and agricultural prices under control. But it was not until the famous "Hold-the-Line" Order issued in April 1943, that business support for controls became vocal and believable. This order had the effect of galvanizing public opinion, including business opinion, with an appeal to equal sacrifice for the duration [6, 7].

Business support for controls began to crumble after VJ day. Now many, although certainly not all, business leaders favored a relaxation or elimination of controls and those opposed to controls became the most vociferous. The OPA found it hard, even in June and July of 1945, to get the sort of extension of the Stabilization Acts that it wanted. But these were tentative skirmishes compared with the battles in 1946 when a substantial segment of the business community turned out to rid itself of controls [21].

SURVEYS OF BUSINESS OPINION

This portrait of business attitudes is considerably strengthened when one examines the surveys of business opinion made during the war.[5] Those undertaken by *Fortune* attempted to reach a group of special interest to us: directors, presidents, and other officers of major corporations. In late 1940 *Fortune* wrote to this group asking what policy they would prefer in "the event that rearmament or the incidence of war starts a sharp rise in prices." The executives were offered three alternatives: "the government should interfere directly, as in 1917, to fix prices and prevent any sharp rise not directly justified by production costs"; "trade associations should voluntarily take part in holding down prices"; and "prices should be allowed to move freely, find their own levels." Surprisingly, even though the poll was taken more than a year before America's entry into the war, the popular alternative, chosen by 34.7 percent, was direct intervention. Free prices were second with 26.7 percent, while trade association activity was third with 24.9 percent [8]. The "direct intervention" alternative, moreover, was written to make it sound unpalatable. The control mechanism was to be similar to the one used in World War I, which had not been particularly popular, and only price increases justified by production costs were to be allowed, so that profits would not increase much if at all. If this alternative had been written to suggest a more flexible approach, the percentage choosing this alternative would have been higher.

Somewhat later, in August 1941, the magazine *Modern Industry*, a periodical aimed at industrial managers, ran one of its regular monthly debates. The question was simply whether a ceiling should be placed on wages and prices. The readers were invited to vote after examining the debate. Although the poll was subject to the usual selection biases — those readers who took the initiative to vote may have been attempting to alter the general impression of business attitudes — the results were striking: 82.5 percent voted in favor of price ceilings and only 17.5 percent voted against. Free prices, incidentally, had an able defender, Irving Fisher, one of the most distinguished economists of the twentieth century [14]. His argument that inflation could be controlled simply by controlling the money stock evidently fell on deaf ears.

Significantly, neither publication sought an opinion during the war on whether controls should be abandoned. This was simply a dead issue. Instead, the question became whether controls should be modified, or how soon they should be removed after the war. In October 1943, *Fortune* surveyed its executives on whether controls should be removed immediately after the war, or whether they should be maintained until adequate stocks of consumer products were built up. Immediate removal won a narrow vote of approval, 51.8 percent. But the surprising result (admittedly aided by the formulation of the question) is that 46.9 percent favored continued maintenance of controls [9]. Similarly, a survey of seventeen "leading" industrialists reported by the *New York Times* in August 1944 showed that although these executives found controls irksome, they favored not only continuation of controls, but also strengthening of controls, and their retention after the war until inflationary dangers had passed [19].

In February 1946, when *Modern Industry* asked its readers to vote on whether controls should be extended beyond their June 30 expiration date, 53.8 percent voted for extension of controls. The editors of *Modern Industry,* moreover, noted that both those in favor of extension and those opposed appended many suggestions for the reform of controls, and the editors concluded that many of those opposed to the extension of controls in their existing form were prepared to support a modified version [13, p. 236; 15].

The most sophisticated polls of business opinion during the war were conducted under the direction of George Katona among "producers and distributors of consumer goods in the Chicago area." These polls revealed a surprising reservoir of support for controls among small businesses. One question Katona asked was whether "on the whole OPA did a good job or a bad job." Fully 78 percent of those expressing an opinion thought that OPA had done a good job. Katona was especially concerned with whether business people acted consistently with their view of controls. He classified 19 percent of his sample as fully cooperative in the sense of supporting controls for the economy as a whole while endeavoring to live up to the spirit of the law. Fifty-seven percent were intermediate. Typically, this meant that they favored the general idea of controls, but sought to get around controls themselves. Only 24 percent were classified as fully hostile: attempting to evade controls while opposed to them in principle [12, pp. 160–68].

The conclusion we would draw from the quantitative evidence is the same as the one we drew in the preceding section. Although far from unanimous, business favored controls before they were introduced and, while they were in force, at least through VJ day. There was some business support for the continuation of controls even during their last year, but it was clearly eroding rapidly.

EXPLANATIONS

The crucial question is why did the business community, which we automatically think of as a strong advocate of a free price system, generally support controls during the war? As economists we are particularly interested in whether we can explain this attitude in terms of rational self-interest. We believe that we can. There appear to have been several factors that combined to produce support in the business community for controls. We offer these factors as tentative hypotheses since the evidence for them is at best limited and circumstantial. Nevertheless, we believe they show that business attitudes can be explained without recourse to essentially irrational psychological factors associated with the war or to explanations that presume that positive attitudes toward controls were appropriate to only a subsector of the economy.[6]

First, note that for at least some strategically placed firms, controls simply added to profits, or appeared to do so. For example, consider a firm that expected to sell a large portion of its output to the government at favorable prices. The prices of armaments and munitions were not controlled by the OPA; they were generally set in a negotiation between the contractor and the Armed Services. To such a firm, controls on wages and wage goods and a system of controls and priorities on other inputs would be simply a way of holding costs down relative to their own favorable prices. Some of the earliest controls, for example, were those placed on used machine tools, an important input in the production process for firms gearing up for war. For these firms, support for price controls is no more mysterious than support for import controls, or other limitations on the market, by firms that stand to gain from them.

But this factor by itself would not be sufficient to account for the degree of support for controls we found. There appear, however, to be two more general forces at work. One was the fear that without controls business would be accused of profiteering. This fear did not evolve in a vacuum. Business had been accused of profiteering in World War I, and the charge had been repeated in the inter-war period. The Veterans of Foreign Wars and the American Legion had been struck by the huge disparity in pay and working conditions between American doughboys and their counterparts in war industries, and by the huge profits made by many firms, often the largest. This led to an effort to pass legislation providing for a "draft of capital" in the event of another war, or a confiscatory excess profits tax [11]. Many other critics of the war mobilization, notably Bernard M. Baruch, devised schemes to eliminate war profits [1; 22, Chapter 5]. Every year from 1922 through 1935, Congressman John McSwain and others proposed legislation to curb "undesirable" business behavior in wartime. These efforts resulted in the creation of the War Policies Commission in 1931, charged with studying methods to "equalize the burdens and to remove the profits of war." In response to this investigation, the House, in 1935, passed the McSwain Bill, which provided for strict wage and price controls plus a 100-percent excess profits tax. This bill failed to pass in the Senate, and it eventually died [24]. But its passage by the House in the midst of the Depression is a sign of the latent hostility to wartime profits.

An allegation of profiteering posed two distinct dangers for the business community. First, such an allegation might have led to legislation, either during the war or afterward, that might have proved more damaging than mere wartime controls. This was apparently what the editors of *Modern*

Industry had in mind at the end of World War II when they took the NAM to task for advocating immediate removal of all controls. The editors pointed out that Congressmen and others might derive the impression from the position taken by the NAM that industrial management was "interested solely in unrestricted prices and profits during the period of war-created shortages, and not consumers' welfare" [16].[7]

The fear of being charged with profiteering also influenced business when it considered its relationships with long-term customers. Business, of course, wanted to put these relationships on hold, so to speak, during the war. In many cases controls facilitated this process. If a producer, for example, chose voluntarily to hold down the price charged a long-term customer, he might see profits slip away to newer rivals, and see his capital relative to theirs impaired in the post-war period. Price controls would allow him to maintain long-term relationships without being exposed to this risk. The priority system was especially important in maintaining long-term customers. With priorities, a manufacturer could turn away a long-term customer in favor of a profitable wartime contract while explaining that he was forced to do so by the government. It was this aspect of priorities that led steel-makers to request the imposition of rationing when the Korean War broke out. But perhaps the best evidence that these concerns lay behind business support for controls is Katona's observation that "preoccupation with the firm's reputation and sales volume after the war was frequently found to be associated with cooperative attitudes" [12, p. 167].

There was a second general source of support for controls. This was simply the belief that the controlled market was more efficient than an uncontrolled market because controls facilitated planning. Obviously, other things equal, prices that are stable make it easier to plan than prices that vary. It seems likely that some businessmen followed up this observation with the conclusion that since long-term planning was crucial during the war, the government could aid business by fixing wages and prices. This view was typical of those respondents whom Katona found fully cooperative [12, p. 161].

It should not surprise us that many businessmen reasoned in this way. As distinguished an economist as John Kenneth Galbraith has argued that controls do in fact have this effect, and that large corporations, for this reason, prefer a controlled economy [10, pp. 253–56]. But what this reasoning suggests is that many businessmen did not understand, or did not believe, the basic case for a free market. That case rests on the assumption that prices change for a reason: because there are underlying changes in supply or demand. If the price responses are inhibited by controls, then fluctuations in supply and demand will produce shortages and surpluses. The symptoms of changes in the economy that make planning difficult can be transformed, and in the process exaggerated, by controls, but controls cannot eliminate uncertainty. Business was annoyed by shortages during the war, but it appears that many people in business believed that these were the independent product of the war and not a consequence of price control. To put the matter in a different way, we can say that from a neo-classical economist's point of view, support for controls was partly the result of a "price control illusion" — the view that controls could truly reduce uncertainty about the future.

A variation on this theme was the notion that because the market relies on indirect incentives it must be slower at reallocating resources to the war effort than a command system. This view was stated succinctly in a *Business Week* editorial published in June 1941. The government simply could not wait for "prices to act on profits, and profits to act upon capitalists" [3, p. 72]. Clearly, war called for controls.

How could business people reconcile their support for controls during the war with their long-run support for free enterprise? Below we will offer some suggestions. But it should be noted that the question is somewhat artificial. No penalties were imposed on a business person who changed his position without noting the contradiction in the underlying arguments. One line of reconciliation was to argue that wartime economies were different. For one thing, the war made it relatively easy for the government to set priorities. In a peacetime economy it would be harder for government to decide along what lines resources should be allocated. The war also produced a measure of patriotism that could be counted on to hinder black markets and other side-effects of controls. This sort of argument disposed of the intellectual problem, but left the case for controls an empirical one. Perhaps, even in peace time a skilled government administrator could do a good job of allocating resources.

But implicit in some of the support for wartime controls was the more philosophical view that while controls were indeed more efficient than the free market, the loss of freedom for the business community had to be weighed against this efficiency. In wartime, when maximizing output had the highest priority, business could be asked to bear the burden of an extensive network of government regulations. But with the return of peace, economic freedom became an affordable luxury. Few people in the business community would have felt comfortable saying this explicitly, yet it appears to be implicit in much business support for controls.

SUMMARY AND CONCLUSIONS

The conclusion reached here is that the business community, as a whole, strongly supported wage and price controls during World War II. The expectation that business would view price and production controls as a destructive force finds little conformation in the available evidence. In fact, most of the vociferous resistance to controls came from organized labor, notably John L. Lewis and his United Mine Workers.

Why did business support controls? We believe that business supported controls for two basic reasons. First, controls protected business from charges of profiteering. Such allegations, if widely believed, might have resulted in destructive forms of regulation and would have undermined long-term customer relationships. Second, it appears that many business people believed that by forcibly creating a stable set of prices, government would actually be increasing economic efficiency, since stable prices were the best environment for economic planning. Whether this line of reasoning involves simply a price control illusion, or whether it is an important insight into the actual workings of the economy, is still, of course, an issue debated by economists. It should be noted, however, that support for controls was bounded by the war. Support eroded rapidly after VJ Day.

Is there a lesson to be drawn from all of this? If you will permit us to step outside our role as historians for a moment, we would suggest the following. Our argument strengthens somewhat the case for the use of temporary controls in national emergencies. We can hope for a considerable degree of business support for controls in such situations. But the case for permanent controls can hardly be viewed as more persuasive in the light of our findings.

NOTES

* We are indebted to a number of people for their help. Our horizons were considerably broadened by the participants in our session of the Business History Conference. Ray Dixon and Ed Haskins from the staff of the National Association of Manufacturers in Washington, DC, helped us explore the records of their organization. Louis Cain provided detailed comments on an earlier draft. And the Rutgers University Research Council provided financial support.

1. Originally, we termed business support for controls "surprising." But Louis Cain pointed out that business support for controls is less than surprising to historians familiar with Robert Collins' work on business attitudes in the 1930s and early 1940s. See, for example [5].

2. The TNEC was charged with studying the structure and performance of the economy, especially the role of the anti-trust laws. Thurman Arnold, the Anti-Trust Chief, who was prominent in establishing the TNEC was confident that the anti-trust laws could be employed to prevent inflation in the event of another war. The TNEC hearings began in 1938 and lasted for almost two years.

3. The annual meeting of the NAM, the "Congress of American Industry" was inactive during the war. Our conclusion concerning the NAM is based on a reading of the minutes of the board of directors' meetings. The Chamber of Commerce issued a series of wartime publications: the *Washington Review*, published between January 1942 and the end of the war (its name was changed in March 1942 to *Washington War Review*; it exists today as the *Washington Report*); the *War Survey* ; and the *National Defense War Service Bulletin*, the latter

two running from 1941 to 1945. These publications, plus the "minutes of the proceedings of the Board of Directors," are the basis for the statements in the text.

4. House Appropriations Committee Hearings:
77C1S: Second Deficiency Appropriations Bill for 1941.
77C2S: First Supplemental National Defense Appropriation Bill for 1943.
78C1S: National War Agencies Appropriation Bill for 1944.
78C2S: Second Deficiency Appropriation Bill for 1944.

House Banking and Currency Committee Hearings:
77C1S: Price Control Bill.
78C2S: Extension of the Price Control Acts.
79C1S: 1945 Stabilization Extension Act.
79C2S: 1946 Extension of the Price Control and Stabilization Acts of 1942.

House Select Committee to Investigate Executive Agencies Hearings:
78C1S: Part 1.
79C1S: Part 6, An Investigation of the Reconversion Policies of OPA.

House Select Committee to Investigate Food Shortages Hearings:
79C1S: Meat, 1945.

Senate Agriculture and Forestry Committee Hearings:
77C2S: Investigation of the Administration of the Farm Features of the Anti-Inflation Bill.

Senate Appropriations Committee Hearings:
77C2S: First Supplemental National Defense Appropriation Bill for 1942.
78C1S: National War Agencies Appropriation Bill for 1944.
78C2S: Second Deficiency Appropriations Bill for 1944.

Senate Banking and Currency Committee Hearings:
77C1S: The Emergency Price Control Bill.
77C2S: A Joint Resolution to Aid in Stabilizing the Cost of Living.
78C2S: Extension of the Emergency Price Control Act of 1942.
79C1S: Extending the Emergency Price Control and Stabilization Acts of 1942.
79C1S: Inflation Control Program of OPA.
79C2S: Extending the Emergency Price Control and Stabilization Acts of 1942.

5. These provide, we believe, some of the best available evidence on the state of business opinion, a considerable addition to what is available to historians who study opinion in periods preceding the advent of the polls. Nevertheless, the polls do contain a number of well-known defects. Perhaps the more important problems relate to the wording of questions. The pollsters are well aware that even slight changes in the wording of questions may have profound effects on the proportions favoring or opposing a particular action. But they rarely adopt the obvious check of asking the same question in slightly different forms so that the limits on this phenomenon can be established.

6. Our explanations may be viewed as an alternative to, or perhaps as a supplement to, the work of those historians who have argued that the leaders of big business participated in the management of the wartime economy in order to promote the interest of their own firms and their own sector of the economy. See [4, 2, 20].

7. The poll results reported in April were, obviously, an important part of their case. *Modern Industry* questioned the validity of a poll taken by the National Association of Manufacturers on the grounds that the latter's poll was not representative and that it asked the wrong question — have controls hampered production? Obviously, one could agree that controls hampered production and still support them for other reasons.

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