

How War Amplified Federal Power in the Twentieth Century

by Robert Higgs*

One of the ironies of history is that, contrary to Marxist notions, wars do not benefit capitalist economies, but rather tend to create socialist economies. An inescapable feature of wartime government has been the tendency toward nationalization of production and strict regulation of consumption. From the Civil War (which created a de facto socialist state in the Confederacy) to World War II (with its myriad “alphabet” war control boards) to the Vietnam War (Nixon’s wage and price controls), wars have been the occasion for incomes policies, consumer rationing, nationalization of key industries, and other features that characterize socialist command economies. Worse yet, as Robert Higgs points out below, the perceived success of wartime economic management became the model for peacetime economic and social goals. —Ed.

After surveying the Western world in the past six centuries, Bruce Porter concluded: “a government at war is a juggernaut of centralization determined to crush any internal opposition that impedes the mobilization of militarily vital resources. This centralizing tendency of war has made the rise of the state throughout much of history a disaster for human liberty and rights.”¹ As a cause of the development of big government in the United States, however, war seldom receives its due.

World War I

Despite expansion during Woodrow Wilson’s first term as president, the federal government on the eve of World War I remained small. In 1914, federal spending totaled less than 2 percent of GNP. The top rate of the recently enacted federal individual-income tax was 7 percent, on income over \$500,000, and 99 percent of the population owed no income tax. The 402,000 federal civilian employees, most of whom worked for the Post Office, constituted about 1 percent of the labor force. The armed forces comprised fewer than 166,000 men on active duty. Although

the federal government meddled in a few areas of economic life, prescribing railroad rates and bringing antitrust suits against a handful of unlucky firms, it was for most citizens remote and unimportant.

With U.S. entry into the Great War, the federal government expanded enormously in size, scope, and power. It virtually nationalized the ocean shipping industry. It did nationalize the railroad, telephone, domestic telegraph, and international telegraphic cable industries. It became deeply engaged in manipulating labor-management relations, securities sales, agricultural production and marketing, the distribution of coal and oil, international commerce, and markets for raw materials and manufactured products. Its Liberty Bond drives dominated the financial capital markets. It turned the newly created Federal Reserve System into a powerful engine of monetary inflation to help satisfy the government’s voracious appetite for money and credit. In view of the more than 5,000 mobilization agencies of various sorts—boards, committees, corporations, administrations—contemporaries who described the 1918 government as “war socialism” were well justified.²

During the war the government built up the armed forces to a strength of four million officers and men, drawn from a prewar labor force of 40 million persons. Of those added to the armed forces after the U.S. declaration of war, more than 2.8 million, or 72 percent, were drafted.³ Men alone, however, did not

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make an army. They required barracks and training facilities, transportation, food, clothing, and health care. They had to be equipped with modern arms and great stocks of ammunition.

As the mobilization began, the requisite resources remained in the possession of private citizens. Although manpower could be obtained by conscription, public opinion would not tolerate the outright confiscation of all the property required to turn the men into a well-equipped fighting force. Still, ordinary market mechanisms threatened to operate too slowly and at too great an expense to facilitate the government's plans. The Wilson administration therefore resorted to the vast array of interventions mentioned earlier. All may be seen as devices to hasten the delivery of the requisite resources and to diminish the fiscal burden of equipping the huge conscript army for effective service in France.

Notwithstanding those contrivances to keep the Treasury's expenses down, taxes still had to be increased enormously—federal revenues rose by nearly 400 percent between fiscal 1917 and fiscal 1919—and even greater amounts had to be borrowed. The national debt swelled from \$1.2 billion in 1916 to \$25.5 billion in 1919.

To ensure that the conscription-based mobilization could proceed without obstruction, critics had to be silenced. The Espionage Act of June 15, 1917, penalized those convicted of willfully obstructing the enlistment services by fines up to \$10,000 and imprisonment as long as 20 years. An amendment, the Sedition Act of May 16, 1918, went much further, imposing the same severe criminal penalties on all forms of expression in any way critical of the government, its symbols, or its mobilization of resources for the war. Those suppressions of free speech, subsequently upheld by the Supreme Court, established dangerous precedents that derogated from the rights previously enjoyed by citizens under the First Amendment.

The government further subverted the Bill of Rights by censoring all printed materials, peremptorily deporting hundreds of aliens without due process of law, and conducting—and encouraging state and local governments and vigilante groups to conduct—warrantless searches and seizures, blanket arrests of suspected draft evaders, and other outrages too numerous to catalog here. In California the police arrested Upton Sinclair for reading the Bill of Rights at a rally. In New Jersey the police arrested Roger Baldwin for publicly reading the Constitution.⁴

The government also employed a massive propa-

ganda machine to whip up what can only be described as public hysteria. The result was countless incidents of intimidation, physical abuse, and even lynching of persons suspected of disloyalty or insufficient enthusiasm for the war. People of German ancestry suffered disproportionately.⁵

When the war ended, the government abandoned most, but not all, of its wartime control measures. The draft itself ended when the armistice took effect on November 11, 1918. By the end of 1920 the bulk of the economic regulatory apparatus had been scrapped, including the Food Administration, the Fuel Administration, the Railroad Administration, the War Industries Board, and the War Labor Board. Some emergency powers migrated into regular government departments such as State, Labor, and Treasury and continued in force. The Espionage Act and the Trading with the Enemy Act remained on the statute books. Congressional enactments in 1920 preserved much of the federal government's wartime involvement in the railroad and ocean shipping industries. The War Finance Corporation shifted missions, subsidizing exporters and farmers until the mid-1920s. Wartime prohibition of alcoholic beverages, a purported conservation measure, transmogrified into the ill-fated Eighteenth Amendment.

Most important, the dominant contemporary interpretation of the war mobilization, including the belief that federal economic controls had been instrumental in achieving the victory, persisted, especially among the elites who had played leading roles in the wartime economic management. It was hardly surprising that 15 years later, in the depths of the Great Depression, the federal government employed the wartime measures as models for dealing with what Franklin D. Roosevelt called "a crisis in our national life comparable to war."⁶

World War II

When World War II began in Europe in 1939, the size and scope of the federal government were much greater than they had been 25 years earlier, owing mainly to World War I and its peacetime progeny, the New Deal. Federal spending now equaled 10 percent of GNP. Of a labor force of 56 million, the federal government employed about 1.3 million persons (2.2 percent) in regular civilian and military jobs and another 3.3 million (5.9 percent) in emergency work-relief programs. The national debt held outside the government had grown to nearly \$40 billion. Most important, the scope of federal regulation had increased immensely to embrace agricultural pro-

duction and marketing, labor-management relations, wages, hours, and working conditions, securities markets and investment institutions, petroleum and coal marketing, trucking, radio broadcasting, airline operation, provision for income during retirement and unemployment, and many other objects.⁷ Notwithstanding those prodigious developments, during the next six years the federal government would assume vastly greater dimensions—in some respects its greatest size, scope, and power ever.⁸

During the war the conscript-based armed force, which ultimately comprised more than 12 million men and women, required enormous amounts of complementary resources for its housing, subsistence, clothing, medical care, training, and transportation, not to mention the special equipment, arms, ammunition, and expensive weapons platforms that now included tanks, fighter and bomber aircraft, and naval aircraft carriers.

For the Treasury, World War II was ten times more expensive than World War I. Many new taxes were levied. Income taxes were raised repeatedly, until the personal income-tax rates extended from a low of 23 percent to a high of 94 percent. The income tax, previously a “class tax,” became a “mass tax,” as the number of returns grew from 15 million in 1940 to 50 million in 1945.⁹ Even though federal revenues soared from \$7 billion to \$50 billion between 1940 and 1945, most war expenses still had to be financed by borrowing. The publicly held national debt rose by \$200 billion, or more than fivefold. The Federal Reserve System itself bought some \$20 billion of government debt, thereby serving as a de facto printing press for the Treasury. Between 1940 and 1948 the money stock (M1) increased by 183 percent, and the dollar lost nearly half its purchasing power.

The authorities resorted to a vast system of controls and market interventions to get resources without having to bid them away from competing buyers in free markets. By fixing prices, directly allocating physical and human resources, establishing official priorities, prohibitions, and set-asides, then rationing the civilian consumer goods in short supply, the war planners steered raw materials, intermediate goods, and finished products into the uses they valued most. Markets no longer functioned freely; in many areas they did not function at all.¹⁰

World War II witnessed massive violations of human rights in the United States, apart from the involuntary servitude of the military conscripts. Most egregiously, about 112,000 blameless persons of Japanese ancestry, most of them U.S. citizens, were up-

rooted from their homes and confined in concentration camps without due process of law. Those subsequently released as civilians during the war remained under parole-like surveillance. The government also imprisoned nearly 6,000 conscientious objectors—three-fourths of them Jehovah’s Witnesses—who would not comply with the service requirements of the draft laws.¹¹ Signaling the enlarged federal capacity for repression, the number of FBI special agents increased from 785 in 1939 to 4,370 in 1945.¹²

Scores of newspapers were denied the privilege of the mails under the authority of the 1917 Espionage Act, which remained in effect. Some newspapers were banned altogether.¹³ The Office of Censorship restricted the content of press reports and radio broadcasts and censored personal mail entering or leaving the country. The Office of War Information put the government’s spin on whatever it deemed to tell the public, and the military authorities censored news from the battlefields, sometimes for merely political reasons.

The government seized more than 60 industrial facilities—sometimes entire industries (for example, railroads, bituminous coal mines, meatpacking firms)—most of them in order to impose employment conditions favorable to labor unions engaged in disputes with the management.¹⁴

At the end of the war most of the economic control agencies shut down. But some powers persisted, either lodged at the local level, like New York City’s rent controls, or shifted from emergency agencies to regular departments, like the international trade controls moved from the Foreign Economic Administration to the State Department.

Federal tax revenues remained high by prewar standards. In the late 1940s the IRS’s annual take averaged four times greater in constant dollars than in the late 1930s. In 1949, federal outlays amounted to 15 percent of GNP, up from 10 percent in 1939. The national debt stood at what would have been an unthinkable figure before the war, \$214 billion—in constant dollars, roughly a hundred times the national debt in 1916.

The prevailing interpretation of the wartime experience gave unprecedented ideological support to those who desired a big federal government actively engaged in a wide range of domestic and international tasks. To many, it seemed that a federal government capable of leading the nation to victory in a global war had a similar capacity to remedy peacetime economic and social ills. Accordingly, in 1946 Congress passed the Employment Act, pledging the

federal government to act as America's permanent macroeconomic warden.

The Cold War

The end of World War II blended into the beginning of the Cold War. In 1948 the government reimposed the military draft, and over the next 25 years conscription was extended time and again. After 1950 the military-industrial-congressional complex achieved renewed vigor, sapping 7.7 percent of GNP on average during the next four decades—cumulatively some \$11 trillion dollars of 1999 purchasing power.¹⁵

During the Cold War the government's operatives committed crimes against the American people too numerous to catalog here, ranging from surveillance of millions of innocuous citizens and mass arrests of political protesters to harassment and even murder of persons considered especially threatening.¹⁶ *C'est la guerre*. The government's reprehensible actions, which many citizens viewed only as abuses, we can apprehend more plausibly as intrinsic to its constant preparation for and episodic engagement in warfare.

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