CHARLES SCHWAB AND THE
SHIPBUILDING CRISIS OF 1918

BY ROBERT HESSEN

IN JULY 1917, three months after America’s entry into World War I, the nation’s ability to wage war was jeopardized by a shortage of troop and cargo ships. While industry strained its productive capacities to meet military requirements, ship building failed to keep pace with the nation’s mounting needs. After a year of futile attempts to accelerate ship production, the government called upon a prominent businessman, Charles M. Schwab, to take charge of its ship procurement program.

This essay will examine the background of Schwab’s appointment and the basis of his successful reorganization of the shipbuilding program.

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During World War I, the United States Shipping Board exercised general authority over ship procurement; its function, in consultation with the War and Navy Departments, was to determine the quantity, type and tonnage of troop and cargo ships needed for the war effort. But the actual work of providing these ships—of placing construction contracts and seeing that delivery schedules were met—was delegated to its subsidiary agency, the Emergency Fleet Corporation.

The Shipping Board was legally empowered to seize all suitable ships from any available sources. Initially, the Board tried to meet its quotas by confiscating German ships in U. S. ports at the time America declared war, and by “requisitioning” privately-owned American ships under construction in U. S. shipyards. But these sources were insufficient to meet rising

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military quotas; thus the Emergency Fleet Corporation was required to undertake a massive shipbuilding program.¹

From May to November 1917, the average rate of American troop shipments was 100,000 men a month. However, after Russia's withdrawal from the war, the Germans were free to concentrate their forces on the Western front, and they began to make major advances in the early months of 1918. The War Department feared that England and France might be overwhelmed unless American troop shipments were increased substantially. In March 1918, the Shipping Board sent orders to the Fleet Corporation from the Army for "1,000,000 tons of troop ships, 2,000,000 additional tons of cargo ships, some additional tankers, colliers, refrigerator ships, and additional hospital ships." This sudden upsurge in Army requirements caught the Fleet Corporation unprepared; hard-pressed when it had to procure shipping for 100,000 men a month, it was now ordered to provide transportation for 350,000 men.²

The head of the Shipping Board was Edward Nash Hurley, a former businessman and former chairman of the Federal Trade Commission. When President Wilson appointed Hurley in July 1917, he gave him authority to select the head of the Emergency Fleet Corporation. Hurley chose his friend Charles F. Piez, an engineer and businessman.³ Although their goal was to raise ship production, they did not attempt to offer financial incentives to generate speed and efficiency. Instead, they relied largely on appeals to the patriotism of the shipyard workers and owners.

Early in April 1918, Hurley sent President Wilson a report on the disappointingly low production of the preceding month; he complained of construction delays, shortages of materials, and careless workmanship which plagued the industry. Hurley declared:

³ On the careers of Hurley and Piez, see Dictionary of American Biography, Supplement I (New York: Charles Scribner's Sons, 1944), for Hurley, 446-447, for Piez, 598-599.
My own feeling has been that the owners of the yards are not fighting as they should be for increased production. It seemed to me that the only way to change the situation was to put the situation squarely before them, letting the public know where the blame lies.

Hurley's only recommendation was a public denunciation of the shipyard owners, such as he had done privately in a telegram to them on April 2. It concluded: "... the American people want ships, not excuses." 4

Finding themselves unable to cope with the mounting demands made upon them, Hurley and Piez decided to enlist the services of a leading American businessman to take charge of the shipbuilding program. They hoped that such a man would be capable of both inspiring and directing production. Their first choice was Henry Ford, but Ford refused. Charles Schwab was their next choice. 5

Nearly a year earlier, Secretary of Commerce Franklin K. Lane suggested that Schwab could solve the shipbuilding problem.

The President ought to send for Schwab and hand him a treasury warrant for a billion dollars and set him to work building ships, with no government inspectors or supervisors or accountants or auditors or other red tape to bother him. Let the President just put it up to Schwab's patriotism and put Schwab on his honor. Nothing more is needed. Schwab will do the job. 6

Schwab had a well-deserved reputation for getting things done; his meteoric rise in the business world was a famous success story. 7 Born in Williamsburg, Pa., in 1862, he completed three years of high school before entering the employ of Andrew Carnegie in September, 1879, as a dollar-a-day laborer. Schwab possessed a sharp, retentive mind; he demonstrated ingenuity

4 Hurley to Wilson, April 3, 1918, Wilson Papers, Library of Congress, Manuscript Division, Box 484A.  
5 Hurley, The Bridge to France, 135, 137-139.  
6 Anne Wintemute Lane, editor, The Letters of Franklin K. Lane (Boston, 1922), 254.  
and initiative in his work; and he had a relentless ambition to succeed. Carnegie quickly recognized his ability and leadership potential, and his progress was rapid. In 1886, at the age of 24, Schwab became General Superintendent of the Homestead Steel Works, then the nation's largest steel mill; a decade later, he was chosen to be President of Carnegie Steel.

In 1901, Schwab became the first President of the United States Steel Corporation, newly formed through a merger in which he had been instrumental. After leaving U. S. Steel, he became the major owner of its tiny competitor, Bethlehem Steel. Schwab expanded Bethlehem's activities to include shipbuilding; in the decade from 1905 to 1915 he transformed Bethlehem into the nation's largest shipbuilder and the second largest steel company.

President Wilson thought that Schwab's experience certainly qualified him to head the government's ship procurement program, and he agreed to Schwab's appointment despite his two earlier clashes with the Wilson Administration. In 1914, Schwab angered Wilson and Secretary of State Bryan when he contracted to build submarines for the British in alleged contravention of America's neutrality laws. In 1916, Secretary of the Navy Josephus Daniels claimed that Bethlehem Steel was overcharging the Navy for armor plate, and he persuaded President Wilson to support a bill authorizing construction of a government-owned armor plant. To block passage of this bill, Schwab launched a costly campaign to rally public and Congressional opinion to his side; after his campaign failed, he made a conspicuous contribution of $100,000 to Wilson's Republican rival, Charles Evans Hughes.

With Wilson's approval, Hurley telegraphed Schwab on April 5, 1918, asking him to come to Washington on urgent business. A three-man delegation was formed to persuade Schwab to accept the appointment as Director-General of the Emergency Fleet Corporation. Hurley and Piez were joined by Bainbridge Colby, a member of the Shipping Board.


Hurley, Bridge to France, 137.
Hurley announced to Schwab that he had been "conscripted" for the public service for the duration of the war. Schwab immediately rejected Hurley's proposal; he reminded the delegation that he already was actively supporting the war effort—as Chairman of Bethlehem Steel he was working full-time to complete crucial Government contracts—and that he personally was risking millions of dollars if these contracts were not successfully completed. He also stated that he should be disqualified from consideration because as head of the EFC he would be involved in a conflict of interest: the Fleet Corporation needed the ships which Bethlehem Steel could produce, and Schwab believed this would result in charges of financial favoritism. Hurley, Piez and Colby offered Schwab assurance that any practical obstacles could be overcome. They spent the entire day trying to change his mind; Schwab promised to think over their proposal and to return to Washington for a second meeting.\footnote{Ibid.; Shipping Board Hearings, Testimony of Charles Piez, 4134-4135, and testimony of Charles Schwab, p. 3968; The Iron Age, April 23, 1925, 1191, reprinting statement of Bainbridge Colby.}

Bainbridge Colby later recalled the circumstances of that second meeting:

In our determined effort to bring Mr. Schwab into the work I had finally made an appointment with him to meet President Wilson on a certain day [April 16, 1918] at the White House at 2 o’clock in the afternoon. Up to that time we had failed to be convincing, and I well remember the luncheon I had with Mr. Schwab and his associate, Mr. Grace [Eugene G. Grace, President of the Bethlehem Steel Corporation] . . . prior to our appointment with the President. Mr. Grace earnestly protested that Mr. Schwab should not take up the work and I quite as earnestly brought forward such counter arguments as occurred to me.

We had reached no agreement and the hour came when we had to keep the appointment with Mr. Wilson. I vividly recall the interview. The President, with whom I had fully discussed the question, and who was entirely in sympathy with the effort to "requisition" Mr. Schwab, came out of an inner room assuming that the matter was settled and that Mr. Schwab was willing to
undertake the work. He put out both hands to Mr. Schwab and spoke in acknowledgment of his sacrifices and his patriotism in a way that would have moved any man. It affected Mr. Schwab, and in that instant his doubts and hesitation were gone and he agreed to be drafted.12

News of Schwab’s appointment as Director-General brought many messages of commendation to Wilson. One man described the appointment as evidence of Wilson’s “profound sagacity.” Another assured Wilson: “You will get results. He is a genius in steel.” “He can do the trick. Your best appointment”—“a grand thing,” others wrote. “Schwab’s appointment was a bullseye shot at Kaiserism. Shoot again.”13

As the price of his acceptance, Schwab insisted on complete autonomy in running the Fleet Corporation, as well as a written agreement with the government that he personally would not have to negotiate with any company of which he was an officer or owner. The agreement, designed to avoid any accusation of favoritism, was strictly observed; a special committee of the Shipping Board handled all negotiations with Bethlehem Steel and its shipbuilding subsidiaries.14

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When Schwab took control of the Fleet Corporation, the country was witnessing a wave of new wartime government controls over business. Although Schwab was not a consistent opponent of government intervention into the economy (he favored protective tariffs, for example), he opposed measures which he thought would reduce the efficiency or incentives of businessmen. He rejected the notion that producers should put aside their customary concern with profits and unquestioningly accede to the government’s wartime policies and directives. He viewed profits as a necessary and well-earned reward for a businessman’s successful efforts in supplying the government with the materials it needed. He opposed government attempts to stabilize prices and thereby reduce profits, as well as government threats

12 Ibid.
13 Wilson Papers, file 484A. Also see telegram from Winston Churchill to Schwab, reprinted in Emergency Fleet News, I, # 9, April 29, 1918, 7.
14 Text of statement on 4136 of Shipping Board, Hearings.
to nationalize recalcitrant industries which did not "voluntarily" agree to stabilize prices.

Schwab held that if the government wanted to stimulate effort and efficiency in wartime industries, the best means was to offer incentives, not to threaten stricter controls. He applied these beliefs to his operation of the Fleet Corporation; he was determined to run it the way he would a private business, using the same methods which he had employed so successfully throughout his career in steel.

One of Schwab's first decisions in his new position was to move the Fleet Corporation headquarters to Philadelphia. This served two purposes: it allowed him to be closer to the central zone of American shipbuilding; and it sharply curtailed his dealings with Washington. After more than a decade of undisputed authority as head of Bethlehem Steel, Schwab was unwilling to subordi

25 Schwab to A. B. Farquhar, August 5, 1918, Schwab Papers, Emergency Fleet Corporation records, National Archives (hereafter cited as EFCNA). Schwab had no further direct contact with Wilson; Hurley was their intermediary (Schwab to Ray Stannard Baker, January 26, 1928, Baker Papers, Library of Congress, Manuscript Division, Series I, Box 52).

26 Schwab Papers, EFCNA, passim.
It is a mistake to put men of prominence ... into working positions. After the appointment which stamps them as having obtained a position of honor in the conduct of the war it is rare that you find them taking detailed charge of the business. I therefore think that wherever appointments are made, we should procure men to whom the salary is a matter of importance.\textsuperscript{17}

Schwab sought only persons of proven ability to work for the Fleet Corporation and he employed the same standard of selection in placing shipbuilding contracts. He made no attempt to encourage the formation of new shipbuilding companies and he rejected the applications of ambitious amateurs who offered to go into shipbuilding with the financial backing of the Government: "... our only function is to build merchant ships by contracts placed with shipbuilding companies already in existence."\textsuperscript{18}

Schwab's major task was to deal with experienced shipbuilders: to discover and eliminate the cause of the delays which sharply curtailed production. During his first weeks in his new job, Schwab received several unsolicited reports and complaints about work conditions in shipyards under contract with the Fleet Corporation. For example, an observer reported the following conditions at Newington, New Hampshire: workmen were told not to work too hard; a carpenter spent nearly an entire workday planning a twenty foot piece of wood; a foreman sarcastically told one capable worker that he must not try to build the ship alone. Schwab's eye-witness claimed that on several occasions 100 or 200 men were idle for two hours at a time because production was so uncoordinated and haphazard.\textsuperscript{19}

What caused or contributed to such inefficiency? Schwab agreed with many observers who placed the blame on "cost-plus" contracts: builders were paid the full cost of labor and materials, plus a percentage of that amount as profit. Thus shipyard owners were paid sizable sums for the work of superintendence, without personal risk of any sort. The owners had no financial

\textsuperscript{17} Schwab to Hurley, August 1, 1918, \textit{ibid.}

\textsuperscript{18} Geoffrey Creyke, Schwab's administrative assistant, to William D. Galloway, May 17, 1918, \textit{ibid.}

\textsuperscript{19} George W. Richardson to Schwab, June 12, 1918, \textit{ibid.}
reason to insist upon efficiency from their workers or prompt
delivery of materials, since the added costs would be borne by
the Government and their percentage of profit would be cal-
culated on a higher base.20

To a man of Schwab’s business experience, the “cost-plus”
system was irrational, an invitation to inefficiency. Within a
month of taking over the Fleet Corporation, he ended the “cost-
plus” system and introduced a plan tying profits to cost-cutting.
On May 15, 1918, Schwab announced that henceforward ship-
yard owners would work only under lump-sum contracts, and
would be responsible for obtaining their own materials without
government assistance. This plan relieved the Government of
the need to supervise shipyard work, and placed sole respon-
sibility on the shipbuilders to prevent the waste of manpower
or materials.21

Thereafter, when reports of shipyard inefficiency were sent
to Schwab, he replied that the new lump-sum plan was safe-
guarding the taxpayers’ interests. Senator Warren G. Harding,
acting on information from one of his constituents, complained
to Schwab about costly delays at shipyards in the Great Lakes
area. Schwab reassured Harding: “... all of the ships being built
on the Lakes are at a fixed price. If there is any inefficiency or
any inefficient labor or management on the part of the ship-
builders the loss falls upon the company and not the Govern-
ment.”22

Along with introducing new profit incentives for the owners,
Schwab directly appealed to the shipyard workers and man-
agers to accelerate production. He promised to publicize the
work of the most able managers—and he did, in the Fleet Cor-
poration’s own publication and in his statements to the general
press. For the shipyard workers, he offered more visible and
tangible forms of recognition. He won President Wilson’s ap-
proval to award “service badges to the men who give four
months’ faithful service to the Government in the shipyards . . .

20 See Wilson Papers, file VI, folder 4555, especially Grenville S.
MacFarland to Wilson, February 12, 1918.
21 Memorandum, May 15, 1918, Schwab Papers, EFCNA, and Schwab
to Samuel Mather, May 28, 1918, ibid.
22 Schwab to Harding, June 26, 1918, ibid., but also see Schwab to
D. H. Cox, July 26, 1918, itemizing faults found by Inspectors, and Schwab
to Harding, July 26, 1918, ibid.
and bars for additional length of service.” He told an audience of shipyard workers, “With these service badges you can walk through the crowds, meet the boys of the Navy and the Army, and hold your heads high.”

Schwab stimulated rivalry between shipyards by establishing a Competitive Department in the Emergency Fleet Corporation to publicize and reward exceptional effort in ship production. Rear Admiral F. F. Fletcher agreed to serve as Chairman of a three-man board which would evaluate each shipyard’s performance. Each month, a red, a white and a blue flag would be awarded to the first, second and third best yard, along with medals of gold, silver and bronze to men who had done particularly meritorious work within each of the winning plants.

But Schwab’s appeal was not confined to patriotism or publicity; he urged shipyard owners to establish bonus and wage incentive programs, and with his own money, he established a “... bonus of $10,000 which I have offered to the men in the plant which produces the largest surplus tonnage above the scheduled program during 1918.” He even persuaded several shipyard owners to match his $10,000 award, among them W. Averill Harriman, the young Chairman of the Merchants’ Shipbuilding Corporation.

As Director-General of the Fleet Corporation, Schwab served as an integrator, giving cohesion and direction to the activities of men who on their own could not have produced what they did under his leadership. The results of his policies were dramatic and undeniable. In June 1918, two months after he took charge of the Fleet Corporation, there was a marked increase in three major categories: keels laid, ships launched and ships delivered for active service.

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23 Speech in San Francisco, July 4, 1918, reprinted in Marine Engineering, August 1918, 440, 442.
24 Schwab to Fletcher, May 29, 1918, and Schwab Memorandum, May 17, 1918, in Schwab Papers, EFCNA.
Writing to Carnegie in September 1918, Schwab could not conceal his pride in what he was accomplishing:

I have been connected with the shipbuilding business four and a half months and am getting everything fully organized and in good shape. . . . I feel quite confident that our country will not lose an hour in the war by reason of lack of ships. We put into commission last month three hundred forty thousand deadweight tons of shipping, or about as many ships as the whole United States was able to complete in any one year prior to the war. I expect to increase this tonnage each month. . . .

In the fall of 1918, Government contracts were regularly completed on schedule, or even ahead of schedule, and the intervals between keel laying, ship launching and active service were steadily reduced. Wilson and Hurley were delighted with the progress under Schwab's direction, and even Navy Secretary Josephus Daniels, Schwab's antagonist in the 1916 armor plant controversy, favorably revised his estimate of Schwab.28

On December 3, 1918, three weeks after the Armistice, Schwab telegrammed President Wilson asking for permission to resign. Wilson replied: "I accept your resignation only because you wish it and because I feel that I must do so in fairness to you." Wilson thanked Schwab for "... a service of unusual value and distinction"29—a verdict echoed in editorials throughout the nation's press.30

29 Schwab to Wilson, December 3, 1918, telegram, Wilson Papers, file 484A; Wilson to Joseph Tumulty, December 7, 1918, *ibid.*, and Schwab's acknowledgement to Wilson, December 9, 1918, *ibid.*
30 Schwab’s press scrapbooks, in Bethlehem Steel Corporation Library, Bethlehem, Pa.