

THE ECONOMICS OF OCCUPATION, U. S. EXPERIENCES,
29 May 1946.

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CAPTAIN HENNING:

Gentlemen, we have with us this morning Mr. Noyes, Chief of the Economic Research and Statistics Section, Office of the Foreign Liquidation Commissioner State Department. He will talk on economics of military occupation and will primarily concern himself with the procurement in the ETO.

Mr. Noyes has had a broad background in various phases of economic studies. He is a graduate of the University of Missouri and was later a graduate student and instructor in Economics at Yale University. He was an economist in the Rubber Section of the Office of Price Administration, and from August 1942 to November 1945 he served with Headquarters, ETO, in the Office of the General Purchasing Agent. His final assignment was that of Executive Officer of that organization with the rank of lieutenant colonel.

I am happy to present Mr. Noyes.

MR. NOYES:

Thank you.

Good morning, gentlemen. As Captain Henning has explained to you, I have limited the subject of "The Economics of Military Occupation, U. S. experiences," to the experience of the U. S. Army in the European Theater up to its entry into Germany. That is not for any logical reason but for reasons based upon my own experience.

I understand from Colonel Taylor that you have already heard from Mr. Neumann on the subject of the economics of occupation so far as the German experience is concerned. Colonel Taylor mentioned to me something which bore out my own experience, that while the planning and the thoroughness with which the German Army and the German authorities approached their economic problems was most impressive, their actual operations were subject, I believe, to about the same types of difficulties that exist in any organization and that we had in our own organization during the time that we were in Europe. My personal experience bore that out particularly when I took over my desk in the Majestic Hotel in Paris. It had been vacated a few days before by an officer who had been in charge of economic affairs in the German military government of the occupied area of France. I found that his correspondence in the six months prior to the invasion of the continent was concerned almost entirely with an attempt to get an increase in his T.O. allotment.

The basic point that I hope to make this morning is one which I am sure has been emphasized and re-emphasized in this course. I am

sure it is not peculiar either to the economics of occupation or even to supply or logistical problems. That basic point is that it is absolutely essential, if operations are to be efficient and successful, that the program be well planned and that it be coordinated, between the Zone of the Interior and the theater and within the various headquarters within the theater. Most of the difficulties which arise in connection with the economic relations between an overseas army and the country in which it is located come from a lack of coordination between one Headquarters and another or between the Zone of the Interior and the Theater Headquarters itself. I would like to analyze this point in terms of three situations:

The first situation arises where we have an army in an allied country. Good examples are the American Army in England or the American Army in Australia. These are friendly countries, with well-organized efficiently operating economies already geared to war production. In such case the problem of military occupation is essentially one of fitting an army of several million men into a closely regulated economic structure.

The second situation is a liberated country, a country such as France or Belgium, which was formerly occupied by the enemy which is subject to the disruptions in its economic life which would naturally arise as a result of its liberation. It is a different problem to fit the Army into the economic life of such a country.

The third situation, obviously, is the occupation of enemy territory, where we move into a country which is hostile and where we approach the problem on a different basis. Here the problem is not so much to fit our Army into the economic life of the country, but to fit the economic life of the country around our Army in such a way as to have the two operate to our advantage with the least possible friction.

So far as an Army is concerned the economy of a foreign country, is of interest for only two reasons: (1) to get what we can out of it for the logistical support of our forces and (2) to keep it off our back.

As an army, we are not interested in the economy in so far as it operates to meet the needs of the local population. The American Army's only interests in the economy of England, for example, were, first, to get as much as we could in the way of supplies needed for our own forces, and second, not to have anything happen in that economy which would in turn make it more difficult for our Army to accomplish its primary mission.

Taking those objectives in order, I would like to develop a little further what I mean by the first point. What are the advantages in procuring from the economy of a country where our Army is located temporarily in the process of accomplishing its primary mission, the defeat of a third country by force of arms? The first and most important point is that it is tremendously desirable to utilize as efficiently as possible the amount of shipping which is available to supply our forces overseas from the

Zone of the Interior. So far as I know--if I am mistaken, I would be glad to have anyone correct me--there has never been any overseas force that has been supplied with as much shipping as it needed. When I say shipping, I do not mean just ships, but it includes loading in the Zone of the Interior, shipping across the ocean and off-loading at destination. Frequently the latter, for instance, is the limiting factor. Because of this bottleneck, anything that we can get in a theater of operation which will save shipping--especially bulky things, things that require a large number of measurement tons in contrast to their dead weight--if of tremendous value to us from the logistical point of view, since it enables us to use the limited shipping that we have for such things as ammunition, which have a relatively high ratio of weight to size.

Just to give you a brief example to illustrate how this sort of economy can be accomplished, in England we made arrangements for the manufacture of jerri-cans for the American Army. We set up a plant there which was actually shipped from the United States and operated in England. We shipped over prefabricated iron plates from the United States, which could be shipped as hold cargo, and fabricated them in this plant into complete cans. It was possible to ship all of the plates necessary to make jerri-cans in shipping space which actually did not detract from the other cargo that ships would carry. On the other hand, if we had to ship from the United States, the millions of jerri-cans which the American Army used in connection with its operations in Europe, it would have required an almost back-breaking amount of shipping.

The second point--the second objective, if you like--of local procurement is the most efficient possible use of the combined productive capacities of all the Allied Nations. One example, with which some of you may be familiar, is that a study of the man-hour cost of producing various items in England indicated that it took almost as many man-hours to produce one tank as it did to produce one locomotive. Both tanks and locomotives were very sorely needed by both British and American forces. By persuading England to concentrate her production on locomotives and use solely American-made tanks, the combined effort had both more tanks and more locomotives since tank production in the U.S. required only a fraction of the man-hours per unit required by locomotives. This type of operation--you stop producing so and so which is relatively wasteful to produce in your country and concentrate your production on those things which are most efficient, we will supply you with your deficiency in the item in which you are inefficient and we will use the surplus in the item in which you are efficient--made possible substantial increases in the productive capacity of England and the United States.

The third point is the minimization of the number of service troops required in overseas theaters. By procuring laborers in the country in which an army is located, we save not only that amount of man-power and allow a higher percentage of combat troops in our organization, but also effect substantial savings in shipping, supplies, etc. A local laborer

eats at home and sleeps at home and is not a burden on your supply system. You hire him for money and the only thing that you have to transport to the point of his employment is the finance office--and frequently as was true in England and later on the continent even this can be arranged with the local officials.

The fourth point is that there is frequently a saving in time. New ideas are frequently developed as a result of training operations in an overseas theater. If procurement can be made of the supplies which are related to those new developments on the spot, it may be possible to proceed more rapidly with the operation which is the primary mission.

An example of this was the waterproofing systems which were developed at the assault training center in England. As a result of the experience with those waterproofing systems certain deficiencies were found in the then standard procedure for waterproofing vehicles. They found that they could improve on it by the certain minor changes and addition to the waterproofing kit. Had it been necessary to go back to the U. S. and initiate new procurement for the items involved in these minor modifications, a period of a great many months would have been involved in getting those things manufactured, getting them on shipboard and sending them over for use by the Army. If, on the other hand, they could be procured in England, as it was possible to do, a substantial saving of time would be effected.

The fifth point: Frequently property can be acquired in a foreign country which is simply not available in the United States. The best examples of that with which I have had direct contact were in Air Force equipment. So far as the Ground Forces are concerned, there was very little that the British Army had that we did not have as good or better. That was not true universally in the case of the Royal Air Force. The RAF, at the time we commenced our operations in England, had a great many things that were better, and better adapted to that area, than any of the equipment which the American Air Forces had.

One example that I think of offhand was the fighter-borne rocket equipment England had developed at that time, rocket equipment for attachment to fighter planes for use in strafing tanks or for ship-busting. We were able to get the rocket equipment from the British and it worked very satisfactorily, while at the time no similar equipment was available from the United States.

The other point in local procurement is when in an enemy territory, consideration can be left out more nearly completely for the effects of our procurement on the local economy. Then as a matter of financial economy, supplies can be obtained from the enemy country and used rather than requisitioned from the Zone of the Interior. That much money has simply been saved for the United States. That is not generally the purpose of local procurement in either an allied or a liberated country, but it does begin to have some importance when we get into an enemy country.

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Turning to the other consideration, so far as the economy of the occupied country is concerned, whether the occupation is on a friendly or an unfriendly basis, we must take into account the effects of the Army of occupation on the local economy. No matter how much we may like or dislike a country which we are occupying, an army is only making trouble for itself if it does not gear its economic activities to the economy of the occupied country. Sooner or later, if the economic system is broken down--and when I say economic system, I am using it in a very fundamental sense; I am not speaking of an ideology, but the day to day economic trade and intercourse which is going on in the community--it becomes the Army's problem to re-establish it. So it is greatly to our advantage to foster and maintain the system of everyday trade which is operating in the country where our forces are located.

One of the most important things that an army should attempt to avoid is placing a tremendous inflationary impact on the economy of the country where it is located. That divides itself into two parts--there are two ways in which such an inflationary impact may be created--through the official purchases of the Army or through purchases by individual soldiers.

So far as official purchases are concerned, the best way to avoid inflation is by the establishment of a procedure which will prevent large unnecessary purchases, especially for cash, so that a tremendous amount of currency is not thrown into a relatively small area in a short time.

So far as purchases by individual soldiers are concerned, it is probably inappropriate to go into this subject in any great detail, because there are a good many other things that I want to cover. I will simply suggest the problem to you for possible further consideration.

Before the invasion of France, very serious consideration was given to the question of whether or not troops should be required to allot a high percentage of their pay, leaving them only a relatively small fraction to be spent in the liberated country. It was finally determined, on the very highest levels, that such a procedure, so far as the Army was concerned, was of questionable legality. There was some doubt as to whether it was legally possible for the Army to force a soldier not to take his full pay if he chose to do so. So the plan was discarded. This in turn was largely responsible for the establishment of the franc rate at the figure which was so generally criticized by individual soldiers in the American Army.

Something has to be done to keep soldiers from spending in an area, for instance, the size of Normandy, millions of dollars a week. There is simply not that much goods to buy; and if soldiers are turned loose with large quantities of money, such as the pay of a full division, the effect on the local economy is simply disastrous. At the time of the invasion a system was worked out by which only a limited number of francs were issued to each soldier, but as soon as the first pay day came

around, they drew their full pay. Our attempt to solve this problem was to establish a franc rate which was sufficiently unfavorable so there would be relatively little temptation for the soldier to spend his money. That just did not work. As much as they may complain, soldiers generally will spend a large part of the money available to them. I think it is fair to say that in Europe, at least, we did not develop any completely satisfactory solution to the problem of expenditure by individual soldiers.

Another problem that must be considered is the local rationing or allocation procedures that are in effect. It is extremely difficult for an invading army--and I think this is particularly true in the case of enemy territory--to see why it should give any consideration, for example, to bread stamps which have Hitler's picture on them. The inclination is to throw them all out the window and "to hell with them." But, we have to replace the stamps with something or there will be a serious problem. Some reasonable system for the equitable distribution of food and other essentials is necessary to prevent civil disturbances. In almost every instance it is much more efficient, it requires many less man-hours, fewer guards and fewer service troops if we can adopt, rather than throw out of gear, the rationing and allocation procedures which have been established in the country which we enter. Therefore, to the extent that the Army needs to procure in local markets, it should attempt to do so through the use of the local rationing and allocation machinery rather than simply by riding roughshod over it and knocking it completely out of order so that it breaks down and the whole economy of the country consequently collapses. Then economy has to be rebuilt and reconstructed, largely through the efforts of the occupying army.

This leads into my next point--that it is tremendously important to coordinate the local procurement program with other economic activities of the Army and with the activities of the civil affairs organization. It goes almost without saying that--one of the silliest things that can be done is to have Civil Affairs shipping food into a country and have the quartermaster buying food from the local producer. It is not an efficient supply system to have the food come in through Civil Affairs, go into local stores, then have the same or similar types of food purchased by the local forces and distributed to the Army and other occupying forces. So it is of tremendous importance that these things be coordinated, that the quartermaster procure only those items which are not a part of the Civil Affairs Program of relief or rehabilitation.

Turning now particularly to our operations in allied countries, I would like to say just a little about the procedure which was followed by the American Army in fitting itself into the local economy. With full deference to Mr. Ingersoll, I think on this score at least, we managed very well in England; and I think that the cooperation which we received from the British War Office and the representatives of various supply ministries was extremely good. They approached us very soon after the arrival of the first U. S. forces in England and pointed out the fact that they were very happy to do anything they could to

help supply us, but that it was perfectly clear to them and they hoped it would be to us that it was impossible for the United States Army to institute any large purchasing program in the open market in a country where economic affairs were so closely regulated as they were in England. A unit quartermaster, for example, might be able to go down and buy ten buckets in a local store, but he would thereby take the entire allocation for that area for a week or for a month and he would not have enough buckets really to make any difference in his supply position at all. It was necessary, therefore, if we were to procure any substantial amount of anything out of the English economy, that it be done on a planned basis--a procedure under which we would notify them in advance of our requirements so that they could make appropriate adjustments in their allocations of plant capacity and raw materials to increase the production of the particular items which we desired and also consider with us the effect on their raw material position. This was accomplished by the establishment of what was referred to as the U. S. Requirements and Supply Committee which was sponsored by the British War Office. And with them, we developed a very simple form by which the various service chiefs in what was then SOS Headquarters, would prepare their long-term requirements.

These forms were presented to the USR and S Committee that considered the possibility of filling the requirements from the resources which were available in the English economy and then notified U. S. forces whether or not it was possible for them to meet that particular requirement. The General Purchasing Agent, General Wayne R. Allen, represented U. S. Forces on this committee, and while the power to accept or reject any requirement rested with the British representatives, his vigorous advocacy of the U.S. position and his power to carry any unfavorable decision to higher levels if he considered it unfair or unreasonable amply protected the American interest. When an over-all requirement was accepted, the follow-up procedure was very similar to a simple banking operation. We would obtain credit on the books of the appropriate branch of the War Office to the amount of the accepted requirement in accordance with the time phasing thereon. The quartermaster--if it happened to be a quartermaster item--would then draw demand forms against this balance which he had established, in much the same way as you draw a check on your bank. These demands might be filled from pre-existing British stocks, diverted for the purpose, or by shipments direct from the manufacturer to the U.S. depot. Procurement was completely centralized. American forces were not buying in the market in a disorganized fashion and in competition with British requirements. The requirements of individual units were all purchased for and issued to them in the same way as the supplies which arrived from the U. S.

This procedure worked very well and we got a tremendous amount of supplies. If you have had an opportunity to look over any of the material covered in the reading list which Colonel Taylor prepared for you, perhaps you have noted the figures on tonnages of material procured in England. It still seems almost fantastic to me that we were able to get as much as we did out of an economy which was so

closely regulated and so highly geared already as the English economy. We were getting at the peak, for example--shortly prior to D-day--about 500,000 ship tons of supplies a month out of the English economy. When we consider that in terms of what it meant to the mounting of the operation, I think you will agree with me that it is hard to overestimate its importance.

I have not stressed the financial aspects of our procurement program because I noted from your schedule that you have already had a lecture on Lend-Lease and Reciprocal Aid. I would like to point out that all of the supplies I have referred to here were provided as Reciprocal Aid and that no disbursement were required on the part of the U. S. Army. Aside from whatever net financial saving this may have accomplished for the U. S. taxpayer, the saving in paper work for the Army at the time, and for the General Accounting Office later, was tremendous. Any estimate of the actual saving in manpower can be little more than a guess, but it has been estimated that to document each procurement, as would be necessary to effect payment from U. S. funds, would have required the equivalent of a division of men.

Turning now to the situation which arises when you enter a liberated country, we find, of course, several differences. When the troops first arrive there, it is impossible to establish any centralized arrangement to provide them with supplies from the local economy. They have to live off the land to a large extent.

As I pointed out, one of the reasons why the centralized procurement procedure was so desirable in a country like England was that the expenditure of U. S. funds is a very complicated and difficult process in overseas theaters. The documentation which is required in order to actually disgorge money, even though it may be only printed franc notes, is extremely complex. It was necessary therefore to develop a procedure by which troops could fill their immediate demands on a decentralized basis and procure whatever might be necessary to expedite the fulfillment of their mission, one where they would not be impeded by any paper work that was not absolutely necessary.

To accomplish this we developed a highly simplified procedure. It involved some difficulties, but it was much simpler, I think, than any other procedure involving the expenditure of U. S. funds which has ever been devised. It provided for the appointment of purchasing and contracting officers who were at the same time Class A agent finance officers. These gentlemen were equipped with small pocket-sized forms that one could actually stick in the pocket of a field jacket, complete with carbon paper to be filled out in triplicate. They were called local procurement vouchers, LPV's. All that was necessary was to make out one of these in pencil for any disbursement funds required and then the original of the voucher, signed by the vendor was sufficient to clear the accounts of the Class A agent officer.

As I said, this was not designed for the long run but for the period immediately following the invasion when it was necessary that centralized procurement is discarded and that individual units be allowed to procure on their own.

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Another important consideration when entering a liberated country or invading any country is the conservation of the important resources which will be of later use to you. There is a tremendous temptation on the part of unit supply officers to pick up anything they see or pick up part of anything they see. The effect of that on the local economy may be of much interest to you as members of an invading army. On the other hand, the effect on your own operations later may be very serious, and is a matter of real interest.

For example, there was a rock quarry which had been used by the Germans which was just a short distance from Omaha Beach. The fact that it was left intact--nobody decided that was a nice gasoline motor or "We will take that transformer"--made it possible to pave the roads with gravel running in and out of Omaha Beach about D plus three. If that quarry had been put out of operation by a little irregular procurement on the part of an overzealous supply officer passing by, it could not have been restored until the type of supplies which could be used in repairing it began to arrive across the beach, many days later.

I cannot go into any detail as to the procedures which should be followed in conserving property, but it is highly important in connection with army movement. In the very advanced echelons of any army, there should be persons whose job would be to locate and conserve important utilities, important transportation and communication facilities--to protect the U. S. Army from itself in so far as the destruction of those things may result from ill-advised informal procurement on the part of supply officers.

I might just mention what we had in the ETO. It was not nearly enough but it was a big help. We had a group of men divided into teams who were briefed on the area and who would follow immediately behind the divisions. It was their job to survey the potentially useful factories, warehouses and so on in any area which we were approaching, get in there as fast as they could and get guards on those installations so that they would be preserved for the use of the American Army.

This function is not to be confused, incidentally, with Civil Affairs operations. It was not concerned primarily with the conservation of the local economy. It was simply a matter of preserving things which would be directly useful to the American Army.

Following the period of this type of operation you eventually reach a stabilized situation in a liberated country and come to the point where it is desirable to establish a procedure more like the procedure in England. As the economy gets back on its feet, it is important that we do not have a lot of people all over the country procuring independently without any coordinated plan. A procedure to meet this situation was put into effect by SOP-10-F excerpts from which are in the reading material which has been supplied to you.

I do want to give you an opportunity to ask any questions you may have, at the end, so I will hurry along here and finish up within

the next minute or two. I do want to say just a word about the possibility of developing and coordinating the industrial capacity of a country like France with the war effort of the U. S. We made a more pretentious effort, I think, in the case of France and Belgium than in any other countries. You have listed in your reading assignments several reports which were made by General Minton who was then, I believe, Deputy Director of Materiel. He was, of course, extremely well informed as to the shortages in U. S. production, things which could not be produced in sufficient quantity because of one bottleneck or another. He came to Europe and investigated the possibility of producing those things there. As a result of his recommendations and those of General Allen we established a rather elaborate production program. It was cut somewhat short by the termination of hostilities, but it was well under way in the spring of 1945. It covered, for example, tires which was one of the most important items which could not be produced in sufficient quantity in the U. S., not because of a shortage of raw materials, but because of a shortage of skilled workers. I understand, building large truck tires is a job which requires a considerable amount of skill. There were, of course, in France, workmen who had worked in tire factories prior to the war and, in fact, during the German occupation. These men were available, but there were no raw materials or other things to get factories operating.

The French reasonably enough, I think, took the position that their own economy was in dire need of tires and that the tires should be divided among the U.S. Army, the French Army and the French civilian economy. The French were supported in that position by the Civil Affairs representatives of our own Headquarters; and, as a result, a program was developed by which necessary raw materials were shipped over from the U.S. and the tires were manufactured in French factories. The output was divided between the French Army and civilian requirements and the American Army requirements. Since it was a new project, there was some confusion in initiating it, but by February 1945 we had a substantial amount of tire production in France and by April and May it was up about to its prewar level.

Similar programs were instituted in connection with cotton duck, steel products and other items in critical supply. A very substantial amount of cotton duck, which was very short at that time in the United States, was manufactured in France and Belgium.

As was the case in England, all our procurement in France, Belgium, Luxembourg, Holland and the other liberated countries of Europe was on a Reciprocal Aid basis. Again this not only effected a substantial monetary saving to the United States, but reduced tremendously the personnel required to handle the fiscal functions.

I have not dealt at all with the economics of the occupation of an enemy territory. That is, perhaps, just as well because I have no practical experience on which to draw. I might suggest to you several considerations, however, which we ran into in planning for problems of procurement and the economic relations of the Army in an enemy country.

So far as I know the question is still being debated in Frankfurt as to whether it is better in entering an enemy country to simply cut loose on a cash procurement basis on the theory that the cash is not costing us anything and that we do not care too much what effect it has on the economy or whether we should follow a straight requisition basis in which we simply take whatever we need and hand to the people holding the property requisition receipts which may or may not be redeemed at some future date depending on the findings of the military government authority. If they collect, of course, again, they would collect simply in terms of currency which would be the obligation of their own government. The arguments on both sides are rather lengthy. The main argument is that things can be obtained for cash when they cannot by requisition. We cannot requisition something which is not in existence. On the other hand, when in a position to distribute cash, we may perhaps be able to induce people to work for us who would otherwise simply remain idle.

The main argument for requisitioning is that if we do use cash, even though no one may care at the moment about the inflationary effects or the damage it may do to the economy, it may, in the long run, spoil our own market. In other words, we may induce such a degree of inflation in the area that our own purchasing and procurement program will be ruined.

I will just say one or two words in conclusion. There is always a tremendous advantage to an army in using local officials to the fullest extent possible. It is highly desirable that you use rather than override and ignore local officials at the operating level. They know much more about how to get things for you than we could possibly know. Secondly, from our European experiences we have learned that almost inevitably the potentials of a country like France are underestimated in planning. The fact that people are poor, that they do not have enough food or enough clothing is likely to lead you to the conclusion that they have no industrial capacity. However, there is likely to be, even in the direst and most disorganized situation, a substantial amount of industrial capacity which will go idle unless we use it, and the use of it will contribute to rather than detract from the restoration of the local economy.

Although I had planned to stop a little early for questions, I note that I have used up all of my time. If there are any questions, and we have a minute I shall be glad to answer them.

CAPTAIN HENNING:

Are there any further questions?

Thank you very much, Mr. Noyes.

(21 June 1946--200.)S