

DEMOBILIZATION OF ECONOMIC CONTROLS AFTER WORLD WAR II

3 June 1946.

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CAPTAIN STOVER:

I feel somewhat strange introducing a well-known friend and former officer and faculty member. However, it has been customary, I am told, that when a civilian speaks before the group, he must be formally introduced.

Dr. Lovenstein, while here on duty, kept a lot of his attributes behind an iron curtain. In the last few minutes, I unearthed a few facts which I did not know, and I am sure you did not know either. He was my associate and colleague on the faculty, and being a bachelor, he kept most of his clothes in the file cabinets. Even now I find shirts, ties and various things there, and they are all filed rather cleverly. For instance, last week we found under Frozen Assets a gold leaf Major's insignia.

However, I should like to introduce to the class Dr. Lovenstein. We had "Captain" on our schedule but we discovered that his terminal leave expired two days ago. Now we find out that Dr. Lovenstein went to the University of Richmond, and graduated in 1930, with a Bachelor's Degree; Columbia University 1931, with a Master Degree; and Johns Hopkins, where he got his Doctorate in 1938. He has been a teacher and professional man all his life. So now we will drop the title of Captain and introduce our friend and associate, Dr. Lovenstein, who will speak on the Demobilization of Economic Controls after World War II.

DR. LOVENSTEIN:

The subject that has been assigned me is one of tremendous proportions. As a matter of fact, industrial demobilization should bulk as large in the curriculum of the College as the study of economic mobilization. Surely the demobilization of economic controls is as important to the economy and to the military as the mobilization for war itself. A division is necessary for practical purposes but actually the process is continuous. If it has been given a smaller role in the present course, I am certain it is because of the brevity of this course, not the importance of the subject.

Capt. Worsley has outlined the major features of our experiences after World War I. What I want to do is to emphasize what has happened to us since VE-Day and to suggest what lessons may be drawn from our experiences in two wars. Then, if we ever have to face these problems again- or for what it may still be worth in solving the problems of this one- one can act intelligently. It is one of the great ironies of political and economic discussions that at the time when men have to act most intelligently and with the greatest dispassion, they act under the greatest emotion. Consequently, at the crises when issues should be solved with a maximum of intelligence, they are usually compromised with a minimum.

Naturally, all of us have intense feelings about the period we are now living through. After all, it is our life. What history will say about us concerns us less than what we do now with our own economy for our own welfare. It so happens that history's judgment, however, will probably be kinder if we act now with calm and with due regard for the facts. Let us, then, outline in terms of facts- as good facts as we have- what has happened to us economically since victory.

We might first turn to a guide which we should all incorporate into our thinking more than we do, namely, the Gross National Product, the dollar value of currently produced goods and services. The amount of the Gross National Product and how it is divided will give us an approximate idea of what has happened dollarwise since VE-Day. First we note that the Gross National Product in 1945 was about the same as it was in 1944- 197 billion dollars. In spite of the drop in the last part of 1945, the stimulus to production in early 1945, as a result of the Bulge, gave us a Gross National Product in 1945 that was as high as in 1944. But with the cut in Government expenditures, we find the annual rate of our Gross National Product in the first quarter of 1946 is down about 23 billion from the second quarter of 1945. In other words, we dropped from about 197 billion dollars Gross National Product in 1945 to a rate which will give us about 180 billion Gross National Product in 1946. When we analyze it, we find that the cut in Government expenditures has not been met by either an increase in investment by business or by an increase in consumer expenditure.

That is our first big point. Dollarwise the cut by Government has not been met by increases in other types of expenditure. Yet the amount spent by the consumer has increased. It has not increased enough to meet the cut, but it has increased. In the first quarter of 1946, we, the consumers, have been spending at the phenomenal rate of 111 billion dollars per year. We are able to do so because of lower taxes and a lower savings rate. Income payments to individuals have shrunk since the war but consumer expenditures have gone up. Here, obviously, is a tremendous inflationary pressure.

Now what has happened to profits? We discover that corporate profits, in 1945, were just about what they were in 1944- over 9 billion dollars. We discover also that corporate dividend policy was such that during the war years, corporations retained about half the profits they earned. Contrasted with pre-war figures, we see that a tremendous amount of profit has not been distributed.

One can, of course, find some business reasons for some of these retentions, but as it is, they are a wonderful temptation to labor, and Government, under Section 102 of the Internal Revenue Code, has reasons to look into the matter, both from the standpoint of revenue and for the control of purchasing power. Clearly, these retentions represent an enormous inflationary factor.

Now what about employment since victory? The Census Bureau reports that as of March, this year, we have 2.7 million unemployed, not counting 1.3 million veterans temporarily delayed from entering into the labor

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market, or a total of 4 million. The total does not include the numbers who will come into the labor market in September. Over a million veterans are reported looking for work. It will not be long before we really have a veterans' movement. I have a political philosophy for them taken from boxing: lead with the left and cross with your right.

In spite of the present total of 4 million and the probable higher total later, unemployment has not been as great as was contemplated. Part of the unemployment has been reabsorbed in trade, construction and in the production of nondurable goods. A larger number than was estimated were kept to help reconvert industries, clear plants, install machinery, and to build up stocks of materials and parts. The Administration contemplated a serious reduction in employment which has not materialized. We will want to comment on this fact later.

So much for a consideration of aggregate unemployment- what about wages? When regarding the economy as a whole, it is important to look at the total wage bill. If employment has decreased and hours are shorter, has there been a compensation in increased wages? We find that in February, 1946, we had a wage bill of 8.07 billion dollars as against 9.56 in April 1945, and that represents a constant decline. Wage increases and increased private employment have recently raised the total slightly. Yet manufacturing payrolls are down about 30 percent from the 1945 high.

How about our production? The Gross National Product only gives an approximate picture. For example, price rises might make it appear that we are producing more when actually we are not. The Federal Reserve Index of Industrial Production, in February 1945, stood at 232, with 1935-39 equal to 100. In February, 1946, the index was down to 150. (The figure is still about 20 percent above the 1940 average). Even with a slight rise in the last few months, the index is down considerably from its war-time high.

If you were to divide the industries in the United States according to their reconversion problems, you would discover a natural but important guide to reconversion policy. Production in the specialized industries, such as aircraft, ordnance and so on, has dropped, as you would expect, precipitously. Certain industries with major reconversion problems, for example, private shipbuilding and aluminum products, have dropped but not so much. Those industries with minor reconversion problems and those with no reconversion problems have kept on an even keel. An appraisal of post-war production in terms of these divisions will make the planning for industrial demobilization more effective. The value of differentiation in the planning is made even more apparent when it is realized that industries with minor or no reconversion problems, constituting one-half of the total in early 1945, with the rapid liquidation of war production, accounted for about two-thirds.

Of course, everyone is interested in prices- too naively interested in them. Retail prices, in February, 1946, were up 42 percent over 1940. Wholesale prices were up over 37 percent. The Cost of Living Index, in February, 1946, stood at 129.4, with 1935-39 serving as the base. The 29.4 percent increase is somewhat deceptive. It does not measure the

decrease in the quality of the goods nor does it mean much to have a good low price if the item cannot be bought at that price. Moreover, certain elements of the cost of living were way up- clothing, in the same month, stood at 149.9, food at 139.6. The average was lowered by prices paid for rent, fuel and electricity. The purchasing power of the dollar, in February, 1946, was 77 percent of its pre-war value.

Finally, we should ask ourselves, what about savings? For instance, take the corporations. We find them in this happy and distressing situation: in September, 1945, their cash and U.S. securities, representing only part of current assets, were sufficient to cover nearly all of their current liabilities. The net working capital ratio-- that is the excess of current assets over current liabilities-- was 51 billion as against 28 billion in 1940. And further analysis reveals that, in 1939, liquid assets were 6.6 billion, inventories 18 billion- a three to one ratio. In the third quarter of 1945, it is a one to one ratio, which means that business has plenty of liquid assets ready, for example, for an inventory boom.

Individuals have saved close to 150 billion dollars. Part of it they have used to buy insurance, pay off indebtedness on their home or other indebtedness, but there still remains 4/5ths or 120 billion dollars in the form of cash, demand deposits, time deposits and in the form of easily redeemable securities. If you divide that sum by the population, you get roughly \$1,000 per person, and an American with \$1,000 is a dangerous person!

Now, summarizing these figures, this is the picture we have: inflationary and deflationary factors existing at the same time- a tremendous capacity to buy and to produce but with dislocations in the economy causing a decrease of production and hence further stimulation to inflation. The bias is definitely toward inflation, demanding not only price controls, both direct and indirect, but also a policy of stimulating and controlling production. The responsibility of Government under these circumstances is not to make a guess among possibilities. It should be to select a course in the light of the facts and to fashion policies and maintain controls for its accomplishment.

It is obviously not enough to have the facts. One must have a guide for the interpretation of the facts. The usual one is to turn to the past. I am certain Capt. Worsley has described in detail the economic history of demobilization after World War I, so I shall not repeat it. Let us recall that then, as now, there was tremendous industrial expansion, doubling the national income, inflation and strikes. Indeed, nearly every device for getting out of post-war predicaments which has been presented today was offered in 1919.

But there are enormous differences. For one, the war ended everywhere at the same time. Besides, we had not reached the peak of war production in the last war. The degrees of control were not comparable because then we were at war a shorter period of time. The length of World War II enabled us to elaborate our controls so that the economy was profoundly affected. Later on, I want to comment on the absurdity of assuming that an economy which had been as thoroughly controlled as ours could by some

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miracle return to a natural free enterprise system by its own power. It is as much as saying that you could recondition an economy faster than you could recondition a soldier when he becomes a civilian- to-wit, personal testimony.

The consciousness of previous experience had two effects. One was it made us very wise and showed us what could happen. In another, however, it tended to focus attention too sharply on what had happened and caused us to regard those consequences as inevitable. Instead of using the past as a stimulus, we largely used it as a model.

Yet at least one group appreciated, whatever the value of the past, that much of the thinking would have to be done in terms of the facts as they evolved. I hope the laws of modesty are not so strict as to prevent me from pointing out that in 1941, prior to our entrance into the war, I organized the Committee on Post-War Problems. The Advisers included Profs. Paul H. Douglas, William F. Ogburn, Louis Wirth, Broadus Mitchell, Wesley C. Mitchell, Dale Yoder, Edwin E. Witté and Robert S. Lynd. The Committee sought to serve as a clearing house for ideas and as a stimulant to thinking about postwar problems. It was a revolution on a portable Corona. I received many letters- perhaps you would like to see them sometimes- from individuals and institutions that thought it was inspirational to look that far ahead and commended a young man's energy. Usually they ended on a note of compassion- I have never been able to avoid that. However, I noted that many institutions which then stated they had not thought about the problem, later made such undertakings a major part of their program, for example, the Twentieth Century Fund.

The Committee for Economic Development has done a marvelous job in constructive thinking on specific problems. I am sure you are familiar with their publications and their efforts. They tried as nearly as possible to specify programs and to go out on the limb and fight for them. Their efforts have been effective in countermanding the Nineteenth Century inspirations of the National Association of Manufacturers.

The literature on postwar problems has been quite large and a considerable portion of it has been of the highest quality. For example, the Pabst Post-War Employment Contest stirred up a nice brew. Prof. John M. Clark published a study for the Committee for Economic Development called "The Demobilization of Wartime Economic Controls." One could cite others. By and large, the criticisms that can be offered of the literature in general are these: They tended to depend too much on the experience after World War I; there was too little emphasis on immediate postwar problems; there was a tendency to speak confusedly of long-run and short-run problems; and the recommendations for the transitional period were general and sketchy. Yet they nearly all agreed on the general principle that controls should be maintained in an integrated manner and that retreat from controls should be achieved through a delaying action.

We should remember that the 1939 Industrial Mobilization Plan urged that the War Resources Board be continued as a postwar agency for emergency adjustments.

How much foresight did Government agencies demonstrate? Well, WPB saw quite early, in 1943, right after the peak of production had been reached, that there would be problems of reconversion which should and could be planned far in advance. In April of that year, Mr. Ernest Kansler was asked by Mr. Nelson to study the whole problem of transition. Later, a Committee on Demobilization Controls submitted a complete program which was approved in Oct., 1944. In February, 1945, after the Bulge, the Committee on Period One was set up to review the program and keep it up to date. Out of that development came our contract cut-back policy, which would probably have worked better if there had been a longer period of time to perfect it. The Spot Authorization Program was another step in the right direction. However, what effectiveness WPB planning for reconversion in the early phases may have had, so far as I am concerned, was cancelled by the subsequent policy of scrapping controls as quickly as possible. I feel that production controls are essential to price control; controls must be integrated. The early plans and actions of WPB which indicated foresight were not followed up by a broad, clear program for transition economics.

The Office of War Mobilization and Reconversion, in addition to whatever controls it might have exercised or policies it has determined, has rendered a service in its quarterly summaries which are the best single statement of the economic conditions of the U.S. which the American people have been afforded. Regularly, quarterly, it was possible to read, in about fifty pages, what are the major economic events of the day upon which economic policy must be based. These reports should be continued after the emergency and be distributed broadly. The mechanical deficiencies in the coordination and dissemination of the facts are a criminal omission in a democracy.

The reports of the Office of War Mobilization and Reconversion did indicate topside awareness of the economic facts. Step by step, the analysis would show- "Look, gentlemen, here are your savings. Gentlemen, here is a possibility that inventories may be hoarded." Yet having been wise in the analysis of specific problems and often in specific policies, they were vague about their general policy, in the appreciation of the relatedness of the problems and the unified nature of the controls. While specific recommendations did add up to a general policy, it was by implication, by adding the guesses on individual possibilities. The apparent existence of a general policy obscured the fact that there was not a clear, overall policy aware of the relatedness of the problems, and there was not the necessary administrative ability to meet whatever might develop. Reading the reports, one could exclaim, "Intelligent, intelligent, intelligent!" yet end by crying, "By God, what have they done?" It is, of course, possible to be intelligent by the minute and a fool by the hour.

Summarizing our economic history since victory and contrasting it with the literature and policies concerning postwar problems, this much can be said. The presence of both inflation and deflation factors was clearly foreseen. However, there was over-emphasis, because of experience in World War I, on the possibility of great unemployment immediately after VJ-Day. In spite of previous experience, there was the repeated error of the quick demobilization of economic controls, not so quick as last time

but relative to the degree of controls we had this time, much too quick. There was an unbelievable lack of appreciation of how thoroughly the war had affected our economy. War and consequent controls had penetrated every part of wage-price relationships, had tremendously affected the distribution of manpower, the credit situation and taxes. These conditions could not easily be changed. All of these are related. We recognized that fact during the war but the minute peace came and the great urge for escape, if not freedom, we threw away most of the controls, not realizing their related necessity. As a result, we ended up with one major control, OPA, as if it were possible to control prices without controlling the factors behind prices.

But, by far, the largest indictment of our lack of insight is what I call the policy gap between the intelligent, able, equipped secretariat right below the top level and the men who by our political devices of elections, succession, appointment, golf and poker, may rise to the top. The gap between those who know and those who acquire knowledge by reason of appointment is so great that it is normal in America- or in England or any other country- to accumulate intelligence of the highest sort which we cannot reduce to policy and use effectively in our own lives. Now I don't want to indulge in politics. There is no point in it- here! But I act upon a new freedom to point out that I do not believe the sum total of reflective judgment on the part of the experts in our society would have led to the type of administrative policy with regard to reconversion which has been exemplified in Mr. Snyder's control of the Office of War Mobilization and Reconversion. The existence of data and the recommendations of experts did not result in top policy reflecting such insights. From our bitter experience we should at least be able to gather some lasting knowledge. We should be able, now after two wars and a study of the variations in our postwar experiences, to draw some conclusions, however tentative, of the likely nature of a postwar America.

We have to assume always that we are now going to return to the type of society we had before this last war, and, further, that it is going to be the kind of society we will have when we enter the next one and to which we will try to return after the next one. Now, you may not believe it will be the same. I may not believe it. But let us assume it and, therefore, we can assume the postwar experience will have to be the same.

With these assumptions in mind, we can be certain, first of all, that there will be a tremendous accumulation of savings in hands of business and individuals. I am afraid that in spite of our research into purchase policies, we probably won't have close pricing in the next war. We used to speak of events as B.C. or A.D. but now we say Before Taxes and After Taxes. Well, after taxes, in the next war, business will have vast savings. And so will individuals. The very nature of war production is that we have to pay a larger labor force to produce goods, a major part of which they cannot consume. War materiel in World War II represented almost half of the Gross National Product. Even if wages were fixed, the savings process is inherent in war production, unless they are taxed away- and that has never happened. If we operate as we have before, workers will be attracted into war industries by higher wages;

wage increases will be made in other industries to keep workers and to compensate for higher living costs, all of which adds pressure to inflation. So we are going to have a tremendous volume of savings.

We can also be quite certain that victory will not suddenly convert shortages into abundance. Physical reconversion and economic maladjustments will cause unemployment and decrease in wages. The factors which cause such declines are known; the amount may not be. At any rate, we know that past experience can prove an inconclusive or even a misleading guide and that better statistics would reduce the guessing. Savings may offset the decline in purchasing power derived from higher wages and employment during the war but in doing so they will only sustain the inflationary pressure. This combination of forces will surely be present again.

We can predict, also, that if we are still Americans in the same spirit that we are now, we will have a rapid break down of economic controls come V-R Day.

And I am certain we will have the same vagueness about the domestic and international economy to which we are so anxious to return. It occurs to me, as I watch this anxiety, that everybody is returning to something entirely personal. For instance, one business group wants to return to the early part of the Nineteenth Century. We should wish them bon voyage. Others less ambitious would compromise for any condition earlier than 1933. Still others look at Canada; they look at England, if they don't look any further; and they realize they are in a new world. Therefore, internationally and domestically, it is not enough to chant, "Going home, going home!" You have to give your mailing address. Vagueness about domestic and international problems is sure to be present again. It doesn't surprise me. In 1940, only one-half of the adults had completed their high school education, only one in fourteen had finished college. Now I make no special plea for the colleges for what we do teach them- God knows, I make a plea for what we could teach them. But certainly one cannot expect citizens to bear their mature responsibilities in the present world if they are not given training- and we are not giving it.

May I pause to observe, as an educator, that I am impressed by the fact that young boys who mature during a war and are called upon to go into some camp and don uniform automatically acquire the right to an education, whereas the boys who mature after a war, who are not called upon to don a uniform, are not assured an education.

Now about our objectives in the demobilization of economic controls. Once we are out of the war, it is certain we will want, first of all, to clear out our plants and make room for civilian production. That means physical, financial and contractual reconversion. On those scores we have learned our lesson, and, except for the disposal of surplus property, we did quite well.

Secondly, we will want to steer a course through the currents tending toward inflation and those moving toward deflation. As we have pointed

out, such a course implies a coordinated policy and, above all, the maintenance of controls to assure quick administrative action. The last thing we should do is to try to guess which forces will win and by all means avoid guessing by an administrator not even equipped to guess.

Thirdly, we will want to maintain competition, recreating it where it has disappeared during the war and stimulating it where it has not existed. Lacking the chance to create competition, we must, as is our traditional policy, seek to regulate such industries. At any rate, if we are going to live in a society which is to be basically regulated by competition, we better be sure we have it- and no illusions! Incidentally, you might have noted the increased trend toward mergers prompted by shortages and the struggle to control present and future markets.

Then, we must find ways to use our enormous productive power. War further stimulated our ability to make more things faster. It has proved an ironic embarrassment before. The Brookings Institution reported that in 1929, at our previous peak, we used only 80% of our productive capacity. With all the talk about New Deal spending, we never got back to the 1929 Gross National Product- until the war.

Another vital postwar consideration is the safeguarding of our national interests for defense, the conservation of limited and irreplaceable resources. To me, that does not mean simply fighting for islands or buying them through loans. It means acquiring a sound economic base at home.

Finally, we have to establish sound international relations- the United Nations, Bretton Woods, airplane competition, and all the rest for which we fought- at least, some of us. Perhaps in no other phase is the chance for long-run success so obviously dependent upon the wisdom, courage and integrity of an immediate postwar policy.

These, then, will be our objectives as they have been before. Now it helps in planning to phase policies. It shows when each policy should mature and how to time policies with reference to events and to each other. While there was much talk about phasing, very little serious attention was paid to it. My limited experience in this war proves to me that phasing in the war and for reconstruction has a common characteristic: we phased to meet a crisis, not to anticipate one. Something came upon us. The bright boys were put to work. They got something together that was passably intelligent, and if possible, reduced it to statistics so that they could get involved over figures in case anyone attacked the idea in general. The public relations man set out to convince the public that it was good, and was around later to apologize for what happened.

Phasing, of course, is essential. One should not, however, look back to a previous period for a frozen pattern. The phasing must be creative and forward-looking. And the assumptions underlying the phase should be clear. All during this war, VE-Day to VJ-Day was tragically indefinite. Nobody knew what it meant. We froze the period around vague expectations. The Bulge and subsequent stimulation to production showed how dangerous it was to be at once both fixed and uncertain about a policy. In our

type of a society and with industrial production so much a part of war, it is inevitable that we plan ahead and gear up for definite objectives. But too little attention was given to the logic of phasing and the relation of policies. Too often there was just one policy, not a primary and reserve policy. Policy was often adopted which resulted in the elimination of controls, destroying the flexibility essential for quick administrative changes of policy. There was too great a tendency to think of postwar problems in the middle or long-run and not in the transition or short-run. And very often, developments which were likely in the long-run were confusedly prepared for in the short-run, to-wit, the relaxation of controls over construction.

We will, of course, have to solve the problems of phasing. I am afraid, however, that this last war will have the same influence on our thinking in the future that the first World War did on our present thinking. We will have to have two wars, and two fronts, in order to have two phases. If we have only one in the next one, there will be a lot of well-trained people who won't be prepared.

Now let us consider what we shall face in terms of specific controls. First, the controls on materials and production. Plans and success for early reconversion will depend a good deal on our preparation at the time controls are imposed and the quality of those controls. A clear policy on cut-backs with regard to industries with major, minor or no reconversion problems can be provided for within the pattern of war-time controls. We had a logical cut-back program this time but it is questionable that it worked as well as it should have. The program for cut-backs in Phase One would serve as an excellent basis for further study. It is my feeling we could have done a much better job on spot authorization. It should be spot and not spotty! You might ask, why weren't these policies better thought out and executed? Why weren't we able to utilize our resources fluidly enough so that we would know how much slack we had here and there and act accordingly? The answer, it seems to me, lies largely in the hurried preparation of war controls and the narrow conception of their war and postwar functions.

For example, look at the accomplishments about which we crowed. We exclaimed proudly, "Look at the priorities system moving into CMP," and so forth. Could anybody have contemplated that we wouldn't move into allocations? Yet how loudly we hailed the fact, as if in the midst of our trials a great revelation had come upon us, when common sense, if not previous experience, should have made it clear that a system of hunting licenses would not work in a long war involving extreme shortages. How many times does the obvious have to be discovered anew!

My point is that our controls in war should be so thoroughly thought out that we will not only have controls worked out in terms of war needs but we will have a reconversion pliability written into those controls. If we had such appreciation of the continuity of mobilization and demobilization, we would not have to drop controls and then resume them, if indeed they can really be revitalized once dropped. We would not have attempted some material controls when by and large the economy is free of them. We would have been more prepared to release surplus property when

its release would be timely. We would have been prepared with a stock-piling program to prevent inventory booms in later periods of reconversion. We would have understood that material and production controls are necessary to support price control and not merely as a war device for allocating shortages.

We must always seek to view the economy as a whole, not just part of it. It is my feeling that a Government agency imposes itself on public opinion in rough proportion to its activities. When an agency falls below what might be called a marginal limit of activity, we forget about it as an agency, so that, like the Civilian Production Administration, it ceases in a sense to be a going part of public opinion and cannot bring forth public opinion to support its actions in a small way or to sustain it when it seeks to reimpose its sanctions. It is not enough to have controls for specific purposes, the idea of control itself must be maintained until it is no longer needed.

Now, about manpower! There was much talk about manpower and manpower controls. Actually labor was allocated or distributed for the war effort largely through wage competition and then frozen. It was not basically a truly administrative direction of the labor force. Controls acted for the most part after the fact. They tended to be awkward fixations rather than controls. It was not entirely the War Manpower Commission's fault. For the mobility of labor is one of the great unsolved problems of our time. Materials usually move quickly in response to prices but you cannot move labor that quickly. A man doesn't necessarily move because the price differential for his services is higher in one place than another. Indeed, he might not have the where-with-all to move. One of the bills pending in the Congress, you know, is to pay the cost of moving labor from one place to another. We may conclude, therefore, that manpower controls imply a program for both war and peace. Since wartime controls of manpower are usually dropped first, we must have an elaborate and adequate system for assistance, retraining and so forth. If, indeed, we had a coordinated system of manpower controls capable of providing for reconversion we would have made better predictions about unemployment than we did. As it is, the better employment picture is due largely to the operation of forces in the market place and not to administrative solutions for the redistribution of the labor force. Our failures with regard to the present totals of unemployed are due to administrative failures and these will, I am afraid, become all the more apparent in the near future.

The dropping of wartime manpower controls calls for a positive program to replace it. Unemployment allowances have to be increased considerably. It is a great illusion to believe that in paying a man unemployment insurance you have fully compensated for his loss of purchasing power as a consumer. Professor Slichter, for instance, estimated that in 1940, with 8 1/2 million people unemployed, the amount of compensation paid them, as a result of unemployment represented only 10 percent of the shrinkage of income caused by the unemployment. To pay him an unemployment compensation which is too low will cut purchasing power and aggravate the causes which disemployed him.

Moreover, a national employment service, enjoying the cooperation of unions, management and Government, is essential for full employment. We had, as you know, in this war and afterwards, pools of unemployment in one place and great labor shortages elsewhere. It is incredible that the great society which could move 11 or 12 million men all over the world cannot move a few million within its own boundaries.

We are all touchy these days about the question of wages. One way or the other, we feel strongly about labor unions, strikes, the Case Bill. It is difficult to speak unemotionally, yet in spite of the furor of the conflict, there are clear-cut propositions which can be deduced and upon which a wage policy can be based.

First and foremost, we must always keep in mind what happens to consumer expenditures. When government purchases drop off as they have, the slack must be picked up by consumer and business expenditures. We must be able to produce enough to assure full employment but the consumer must also get enough to consume what has been produced. It is impossible to separate the wage earner from the mass consumer. That is a lesson that has to be learned in American economics. The wage bill has got to be enough. If in a postwar world there is a decline due to lower wages or shorter employment, the deflationary pressure must have a compensation. These forces operate, of course, in peace and we have suffered from chronic maladjustments. In transition economics, the pains are acute and the attack may be fatal.

Now just what should the adjustments in wages compensate for? First, there should be compensation for a rise in the cost of living. While during a war, such a differential may act as a brake on consumption, labor unions are fearful of losing their past gains and do not relish losing out in the race with rising prices. Certainly, during the transition and later, with reductions in take-home pay, without wage increases a worker may well fall below his pre-war real wages. In this regard, one must be certain the worker has his share of the savings before we can expect him to make up his purchasing deficiencies out of savings.

Secondly, labor should have its share of increased productivity. The word productivity is used very loosely but even at best it is difficult to measure productivity. For instance, to what extent are the increases in war productivity transferable to civilian production? Usually there is a recoupment of wartime losses in productivity in the period following. These must be incorporated in wage determinations, but the percentage of gain may not be as great later as it was immediately after the resumption of civilian production. One thing is certain, increased productivity must result in lower prices or higher wages, if full employment is to result. The gain may be shared by either of the two devices or by a combination of them. It should be remembered that in the period immediately following the end of hostilities, goods are scarce, prices will press hard against ceilings or raise them so that there is a particular point at this time in considering passing on gains in terms of higher wages.

Collective bargaining, fact-finding bodies, mediation and arbitration boards will have to determine the possible pay raises from the following sources: increased productivity, tax reductions on business enterprises, the volume of postwar civilian production and savings from downgrading, less overtime- and even veiled subsidies in the form of apprentice payments.

The guiding principle should be, does the increase affect prices? No one can sit down and work up a scientific formula for these adjustments. One can establish a general principle and call it a formula. At best the adjustments are an art and that means you have to keep the National War Labor Board in existence. Probably Economic Crime No. 1 was letting the National War Labor Board disappear and then trying to revive it by indirection in a series of loosely connected labor policies. There must be a clear-cut policy so that labor and management will feel they are measuring their demands against a known policy. It does not have to be the Little Steel Formula. It may be higher. It probably will be, but it has to be definite and predetermined. It cannot be arrived at by allowing a strike, then using the settlement as a guide and helplessly passing it off on another wage dispute. Government derives a bargaining advantage from a firm and consistent policy, but it is meaningless and tragic to sanctify a particular settlement and call it a labor policy.

Besides, nothing but ignorance can explain a resort to free collective bargaining- which in its nature depends upon a rather normal market- when there isn't a normal market. A coal strike could not be as crippling when the economy was at full or nearly full production. And business with less savings would have less strength for obstinacy.

Finally, let us consider price control. It is obvious that prices are the result of the supply of and the demand for labor, materials, capital, and so forth. The price of anything is an expression of a complicated pattern of related supplies and demands. When, in the war, we broke down controls in materials and production in one group and prices in another, it was found necessary, and it worked best, when these agencies worked together. But come the blessed gift of peace, the principle seems to prevail that it is possible to control prices as an isolated phenomenon. Mr. Bowles has had the herculean responsibility of trying to control the fever without any help in controlling the disease. As far as I'm concerned, the civilian medal he deserves has not been struck, but he probably knows the medal he wants and should get.

With or without other controls aiding price control, there can be only one policy: slow retreat. Devices may be worked out to define administrative policy but in essence it must remain an administrative judgment. With regard to selective decontrol- the way one gets out from under price control- no mechanical formula will work, certainly none that has been suggested by the Congress. To state that a control should be dropped when an industry reaches 100 percent or 120 percent of its production for a certain period of time is not in itself sufficient for a decontrol policy. Prices are so related that decontrol must be related.

As far as I can see, decontrol can be selective only if the forces of the market place rush in to fill up gaps so fast that the decontrol takes place automatically and at an accelerated rate. I do not believe any system of selective decontrol will work if the period is drawn out. We can eliminate price control effectively only if all other policies are such as to stimulate production.

In summary, it is my profound belief that we made the serious mistake of not keeping the war psychology alive in terms of controls, and maintaining them as an integrated, unified system. If anyone wishes to gainsay this assertion, I ask them to look at Canada and England. There was a time when one could refer to England with the assurance that, after all, England is so conservative and they have already done this, what is wrong with us? Now perhaps that argument is weaker, but the fact is England has not followed a policy of abandonment and Canada hasn't, because they realize one cannot. They are economically wiser as nations. They do not have our naive faith that things will work out by themselves. We should remember that even though in the American Revolution we rallied to the tune of Yankee Doodle, it is not constitutional authority for doodling.

It has quickly become traditional, in all public utterances, to make a reference to the atomic bomb. The speaker, with great modesty, usually disclaims his right to speak- and then goes on and has his say. Having said all these things about postwar reconversion, I cannot myself believe that we are going to have a society as free of economic injury as we have this time. I have continually emphasized that we may draw false leads from the past. Surely, we may derive a fatal optimism from this war. After all, this time we did have the automobile industry to reconvert. It is impossible, I feel, in the historical happiness of the American people, to impress upon them the miracle of engaging in one of the most destructive wars of all times without suffering any destruction at home. I am sure that future historians will look for a haunting metaphor to summarize the mind of God's economic chosen people who could rain annihilation on the countries of their enemies while worrying at home about how much sugar they could get and how quickly.

We must have perspective. The pattern of world history and economics is vastly changing. I do not feel myself that any of the suppositions in this talk- that our economic entities of plant and population will be intact- will be worth much if atomic warfare is allowed to break forth upon the world. Our conclusions should be that in the next postwar period we are not simply going to rearrange our building blocks. We may not have the building blocks themselves.

Thank you.

GENERAL ARMSTRONG:

Gentlemen, I suggest that when we get a copy of the report of this talk here this morning that each of you take it along with him, particularly those who will be assigned to planning jobs. Take it out and

read it on frequent occasions. Citizen Lovenstein has been able to talk to us very frankly and I think that his theories are absolutely sound. I am personally concerned with our planning for the future. I can't yet speak with the same freedom as Citizen Lovenstein--I can still ride in the tumbrel to the guillotine--but I commend to your attention the report of the prodigal son who has returned here and whom we always shall welcome to the Industrial College as the best instructor that the college has ever had. (Applause)

(9 July 1946--200)P.