

RESTRICTED

278

WAGE AND PRICE STABILIZATION

23 October 1946

147-30

CONTENTS

Page

SPEAKER -- Captain H. W. Stover, USN, of the Faculty,  
The Industrial College of The Armed Forces ..... 1

General Discussion ..... 12

Captain Stover

Students

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

WASHINGTON, D. C.

RESTRICTED

RESTRICTED

.....  
.....

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

PUBLICATION NUMBER L47-30

RESTRICTED

---

## Wage and Price Stabilization.

23 October 1946

CAPTAIN STOVER: Gentlemen, I have been assigned the subject, "Wage and Price Stabilization". I think you will agree with me it is a very, very hot subject at this moment--literally at the moment--and it is beclouded with a lot of issues which we will have to throw out and confine ourselves to a narrower field.

I might open up the subject by making this remark: At present, the basic principles of wage and price stabilization are buried under an avalanche of political implications and pressure groups. We are not even rational in our discussion as to what wage stabilization is or what price control is. We are taking sides with one or more of the pressure groups.

So, this morning let us see if we can sweep aside all of that bitterness, forget our pocketbooks for a moment, and look back at some of the basic principles; that is what we are after, basic principles of military procurement in wartime with the view of suggesting a plan for industrial mobilization. In that plan we want certain principles of wage or price stabilization. So, with that brief statement of our problem, let us discuss this subject in four parts:

First, the peacetime economic system; our economy as it exists, as we want it to exist; as we fought for it during wartime. In other words, let's discuss the pure American economy, call it what you will--capitalism, or democracy.

Then, let us take up World War II as a second part; its experience with the special problems, wage and price stabilization and any lessons we can learn about planning. It is proper to start our planning from World War II, or from VJ-Day.

For the third part, let us discuss very briefly future mobilization plans, economic mobilization plans as they affect wage and price stabilization; the lessons learned from World War II. We understand, of course, that our sole object in this ten-months' course is to write or suggest--to be familiar with--economic mobilization planning.

And for the fourth and final part, let us discuss briefly, very briefly, decontrol. With this in mind, no control during war is worth anything unless we have within it the machinery to unwind or decontrol. In other words, we have to win the peace as well as the war.

So, with that four-part breakdown, let's begin.

RESTRICTED

First of all, we have a peacetime economy of which we are all very proud. It has worked for years. Our two political parties differ in minor details as to how that economy shall manifest itself. We run off to the left occasionally in what we may call the New Deal, and then we run back to it in the form of rugged individualism. But, in general, all parties, with the usual exceptions, think we have a good system. It has certain basic characteristics.

Now let's bring this point out: We do not want to lay the ground work during war of a new plan. We operate under the same peacetime conditions, the same economy, the same framework of economy. We must not, on some M-Day or a predetermined date, open up a safe and pull out a new war economy to apply. That cannot be.

Let us put it another way. Let us have a spark which can be fanned into a flame of wartime control. That spark must be present, must be planned for years in advance, so what we are doing is taking our well-organized and well-executed peacetime economy and introducing some few (not necessarily minor) plans which can be fanned into a flame to enable us to fight a war.

This fine economic system we have--we criticize at the polls every now and then but actually it has worked pretty well--this so-called capitalism is characterized by the profit motive. We have discussed it off and on this platform from time to time. That is still the spark that enables our economy to be well balanced during normal times. It gets itself out of balance occasionally but it eventually rebalances itself.

Now we do not, for one moment, want to take away that spark of energy that creates sound business; so profits are to be retained in war and peace. We have no idea of ever planning for a war economy where we will say, "All right; there will be no profit. You are all working for Uncle Sam." No one has even mentioned that in a serious vein.

Second, we believe in perfect mobility of labor. Perfect mobility in peacetime is controlled by wage rates. We want no impediments to that free exchange of labor. One, for example, may enter into any occupation. One may train to become a doctor, dentist, lawyer, or what-not.

We also want a free mobility of capital; capital should flow from where it is not doing so well to where it will be more profitable, producing good interest. That is fundamental in our concept of a good economy.

A peacetime economy must have a minimum of controls. We Americans do not like control, all the way from free speech down to wage and price stabilization. We abhor the very thought of peacetime

RESTRICTED

controls of any sort in our economy. We simply say, "You can't do that. You can't control my habits, as long as they are not out of line with general morality." We have ample evidence on that point.

We barely permit a ceiling over the hours of work. That was a hardfought law. We passed it under the guise of social reform. We challenged the employment of women in industry working 72 hours, or more, a week and said, "It isn't right." So we passed the Forty-Hour Law. We permitted, with some opposition, a floor under wages. It has been raised now and then, but we said that no one should dare work for less than a certain amount. We now include that as a part of our social gains. We will probably always have them with us, but at present we abhor controls. They are supposed to be simply "limitations" which work occasionally, and at other times give us some trouble.

Again, we believe in free markets; selling anywhere we wish. In fact, we believe in free international markets--the general citizen does. It all depends on what we make or how much protection we want. That fact decides whether we have free markets or not. But, in general, we believe in the best man winning. I might add if it is Argentine beef, we can get in desired quality and quantity, let's buy it. If it is Mexican meat, and during normal times, let us buy it. If it is German cameras, let us put our Eastman Kodak Company on the spot and say, "Here; can you produce for that price?"

In general--with certain limitations--we do not like to get into a war of depreciation of monetary systems. Nor do we want to be the dumping-ground for the world like we were for Russian anthracite some years back. In general, we believe in free movement of goods and free markets everywhere. We expect to develop our own product, whether it be a service of some sort or a manufactured product.

Now we have mentioned these outstanding points only. There are literally thousands of other things which characterize the American economy.

With apologies to those of you who were here last year, may I repeat some of my experiences when I listened in, in London in 1933, at the World Economic Congress, to what turned out to be an exposition of each economic system in sixty-eight nations. They had all been called in to settle their ills. As you will recall, at that time we were in a desperate world depression; business had collapsed markets were dull and wages were low. It was a spiraling downward movement.

In London, in 1933, with the backing of our own President, Ramsey MacDonald called to London representatives of sixty-eight nations, to see if we could sit down together and work out a solution for the world depression. They wanted all of us to sit down around a table with clean hands and try to settle our affairs;

RESTRICTED

to see if we could not possibly revise world trade and correct our international disturbances. It was a very gala occasion, of course, as you can well imagine for students of economics.

I heard Secretary Hull parade this same line-up of things that we wanted. England said that suited her. She wanted those same things. Also, Mr. Hull had the reciprocal tariff plan, which was our free international trade concept. We heard France give a discourse on her well-balanced system, which was not creaking at that time. We heard Germany and others describe theirs. It sounded as if we could mesh them together. On the surface, we could nod our heads and say, "That sounds like ours. Why can't we shake hands and go to work?"

In this connection, let me bring out an interesting sideline: We had just gone off the gold standard a few months previous to this time. France had already been off, but they did not like it. I remember a Frenchman said, "If America doesn't follow along, I'm going to pick up my marbles and go home." The German delegate said, "We are seldom very clear as to what we can do. But, remember, we are handicapped by the erroneous opinion that we lost the war back in 1918. We would like to have that war-guilt clause removed, once and for all, from world archives. Once you clear up anything in the war-guilt line, we will feel very much better and this fine system we have will mesh into yours and we'll all be happy." Dr. Schacht, by the way, was the exponent for that belief at the time. He is now dodging other questions, I believe, in Europe somewhere.

Then we had the Russian delegate, Litvinoff. He spoke quite vehemently in quick Russian.

Well, after the various nations--South American, European, and what-not--had agreed to bury their troubles and take these various systems which, incidentally, all looked alike, we thought we could go on our merry way.

A Russian spoke rapidly for about an hour. It sounded good to those of us who did not understand Russian--about 99 percent, if not all of the group. When he finished, the applause was deafening. They stood up and applauded while he arose and took three or four bows. The next day, the LONDON TIMES printed his speech in English. It went something like this:

"We have watched the grovelling in the dust of the capitalist nations. It has been a great show you have put on. You are dying and we know it. You probably know it, or should know it. We came here to gloat over the failure of capitalism. You talk about free trade; you have none. You talk about lack of controls; you are shot full of controls. You talk about this and that gold economy; you have no gold economy."

RESTRICTED

Then he made a fascinating plea: "Come into the fold of the Soviet Union, where we will give sanctity to you. You will be very happy under our system. We've more trade than all the rest of you put together;" and so on and so forth.

But we had applauded a little bit too hastily. From then on, there was a damper placed on the entire Congress. As you recall your history, the thing died out very quickly. We adjourned and all went home without suggesting a new meeting date. That was in 1933.

In any case, the whole plan, to a student of any economy, was rather a shock. We said, "We've gotten some good ideas from all these nations--virtually all of them--but we can't even take time to sit down around the conference table and agree on anything: cancel war debts; do this or that." All of us had an axe to grind. We would grind that one first, then we would start on another one. All of this left Uncle Sam with a huge international debt. We have been carrying the reparations payment, and everything else, on our own shoulders.

Well, at least we have this economic system. We know it works for us. We also know it has cyclical movements to it. We go up, at times. We get into spirals and inflation. Then we get into the hang-over. We hold our head for a long period of time and then finally say. "Put in a lot of social reforms to head it off again as we did from 1933 to 1937 or 1938." In general, it works.

Now, let us discuss our price and wage control. In order not to conflict with the work of the Manpower Group which is coming along a little later, let us say we are not discussing wages, as such; we are discussing prices. A wage is nothing but the pay for a man's service; but it is a price nevertheless. So, let us forget wages, as such, and discuss prices.

What is price in our present system? Well, prices really determine everything we do: what we like, where we work, what we eat; in other words, our likes and dislikes. The very foundation of our economy is based upon prices. We could go into considerable detail--which we will not--to show that price is simply a matter of parts of a gold dollar. It is pushed into the bank and becomes stretched out in the form of purchasing power. It used to be ten times as big as when it went in.

We also have these factors in credit and banking, but let's waive those points for the time being.

A price is the way we take a limited income and spend it--it is always limited, whether it be a million dollars a year or \$20.00 a week. What position we hold is simply a matter of price. So, therefore, when we discuss wage or price stabilization or price control, we strike close to the heart of all of us; in fact, we are right at the heart of our economic lives.

# RESTRICTED

We might say price is an equation: money over goods; money over wants and desires, and so on. But there again let us strip ourselves from any academic approach. This economy which we have is very delicately balanced. It is balanced on a pinnacle of prices. Whether I get beef or pork or fowl or fish or this or that, it depends upon prices every time. It depends also on how strong our demand may be. Whether I pay an outrageous price for meat depends upon the demand--we call it the technical subjective valuation; whether a man buys a big, 12-cylinder Cadillac car or a little, tiny car. The main question is, how strong are my likes for it?

A part of those likes is concerned with purchasing power. of course. What do I have to trade for it? Let us take one simple illustration. We are so far out of balance we do not know where we are. Some of you probably saw this statement. We have no meat and when you have no meat, therefore, no soap. When no soap, the laundry service is curtailed. Why no meat? Well, prices again. The farmer said he simply would not sell at the prevailing price. No meat? Well, one of the by-products of meat is used in wool. No meat, no wool. No wool, no suits. No suits, no clothes, and so on.

Again, a by-product of meat is used in the manufacture of lacquer. The price of meat is not such that the farmer wishes to sell; therefore, the lacquer industry is about to fold up.

The synthetic rubber industry is curtailed and crippled; no meat, a by-product of which gets into the industry somewhere along the line. I am not a chemist, so I do not know.

But no meat, no lard. No lard, no baking. The National Biscuit Company is closing down several of their large bakeries.

No meat, no hides. No hides, no shoes. Again we are crippled. No meat, no soda-ash. No soda-ash, no glass. The bottling industry is being curtailed. No glass, no milk bottles. And, I might add, no milk bottles, no milk. No milk, no babies, shall we say. No babies, no economy. We are right back there again. So here is just one little, tiny thing--price. All of this leads us into these impossible, peculiar and humorous situations, if not serious, which can almost wreck the peace that we won with a large amount of good, sound controls. All right, there is that economic system balanced on a pinnacle of prices. What I do, what I wear, would all depend upon a price. Of course, we could break down price into all its different categories, and so on, but let's forget it.

Now let us look at World War II, going into Part II of our story here. There is one excuse for price control, or wage control. There is one excuse only; namely, we do not want inflation. You cannot fight a war, you cannot win a war with any large degree of inflation. It is impossible. Therefore, any plan to mobilize industry

# RESTRICTED

to send this spiraling peacetime economy into a wartime economy must contain some element which will prevent inflation. That is our whole story.

You ask, "How can we prevent inflation? What is inflation, anyway?" Well, we can describe it and define it in a thousand different ways. Very few agree on a good definition. We all agree on runaway inflation. That is virtually what we are trying to avoid. We know it is a narcotic, it is habit-forming. One thing leads to another. It is a spiral--that word gets a familiar meaning here--which carries up all of our prices. It definitely deadens our likes and dislikes that force us into channels where we do not like to go. It makes us eat fowl when we really prefer meat, for instance.

The Government cannot enter into a vigorous procurement program if we have spiraling prices. We must, at the outset, through some type of regulation, freeze or control prices. There are two kinds of inflation, generally: We have monetary inflation, and all of us understand that; we saw it in the last war. Russia had it and Germany had it. They printed too much money and the huge volume of it depreciated everything with which it came in contact. Then we have credit inflation, in general, we can control those two. We know and understand monetary inflation and we do not tolerate it. Our fiscal operations have been quite sound in that respect.

Credit inflation--well, there is some doubt as to whether our huge sales of Government Bonds will bring upon us credit inflation. There is no evidence that it will do so. Our banking system the Federal Reserve System, is a measure of control which is not damaging. We probably will never have uncontrolled inflation from those sources. So, the only source of uncontrolled inflation, then, is price raises, which simply means the flying back and forth from here and there to higher prices, higher wages, and a certain amount of greed for huge profits.

The Government's fiscal policy comes in there, again, on our high taxation. So what we are trying to do is to eliminate inflation. We want to plan so that the Government can procure, and in doing this procurement in large amounts--40 percent of our entire national economy goes into war--we do not want to upset the civilian balance.

Let us at this point say that, in general, our wage and price controls during the war were satisfactory--during the war. In other words, we did win a war. We did not have uncontrolled inflation. We are sure of that point.

So let us look at some of the little weaknesses here and there, based on the assumption that even though we did get through we have a huge debt that is not inflationary at the moment.

# RESTRICTED

There are two kinds of control. One may reach out and grab one item and say, "Here! This is steel. I will control the basic price of steel because almost everything we have is made of steel." Or, one may control cotton. That is called selective control. We had quite a battle early in the war. Leon Henderson, at the time, said, "Let's take some basic things and freeze those up tight-- but just a few." So we put in what he wanted. Well, frankly, it worked out all right for a time. Then, as you know, we came to the crossroads, where things were slipped out from underneath this control. Finally we said, "All right. Right across the board we'll freeze everything." We were going to have a comprehensive, general control over prices.

As its corollary, we put in a Wage Stabilization Division in the National War Labor Board and said, "All right. You handle wages. Freeze them too, the same as prices."

I mentioned the two different organizations because I believe a good, sound mobilization plan should treat a wage as a price and put it under one organization; or at least have the actual decision in a high-level board of some kind that has one eye on wage, one eye on price, and is aware of the fact that the two are not only related but are the same thing.

In 1942 the pressure of wages going up became rather heavy. Finally they came out with the famous Little Steel Formula and said, "All right. We'll go back to January 1941 and freeze all wages as of that date. You can't get out from under that ceiling."

One may increase wages only on anyone of four conditions. First, a maladjustment between wages and the cost of living. It is a hard problem to handle. The Board found it to be a very hot potato. After all, I have been maladjusted, you have, we all have.

Now what is "cost of living"? What is my cost of living? Well I can get out my check book and tell you what the overdrafts add up to, but I cannot get down and say, "This is my own standard of living." My standard is a lot higher than it has been. So, as all of you can see, there is a pretty good-sized crack in the door.

Second, correcting gross inequities in industry. Well, that is wide open, too. I think that is just as bad; in fact, you might not even close the door on that. We have all been unequally treated, during war or peace. When I look across the fence, the patch is always greener on the other side. Somebody is getting more money. The one I think should get less, gets more. So I ask to be raised up to his level.

Third, correcting the sub-standard of living. What is "sub-standard of living"? Politicians have dwelt with that for a hundred and some years. Roosevelt, for example, said one-third of the population

of this country was undernourished, underfed, undereducated, under this and that. We, as a people, lean towards, and wish for, a high standard of living. Well, you take the average so-called under-privileged person, list his absolute minimum requirements, and you will find a rather size sizeable <sup>one</sup> needed. So, a "standard of living" is a very hazy thing. When you say you correct a sub-standard of living, the door again is wide open. You cannot close it on that. Every group can come in with a strong plea and, with unassailable logic, can show "My people are existing under sub-standard living conditions."

Finally, there was this very loosely-worded and loosely-interpreted clause which said we could raise wages if it aided in the prosecution of the war. In other words, if a very critical industry suddenly finds it cannot hold its people that they are all rushing away, the Union may come in and say, "If you want to fight this war and win it, you had better pay the people more money, even though it is high, because the prosecution of the war demands it."

There were some cracks in the Little Steel Formula, which had been put in as a rigid hold-the-line wage control. Well, as history tells us and as we will recall from our own recent history, the line cracked. It went to pieces until now those four principles for increasing wages are completely gone. We have swept out the whole thing. The Wage Stabilization Board is almost a name only, with practically no authority left. Its death may come at any time now.

Some of our faults, as I see it, in our treatment of World War II were, first of all, we started in with selective controls. Leon Henderson picked some things out and said, "Freeze this, that, and that. They are all fundamental." What happened? We did freeze a few of those things and everything rolled up around it. I believe others will probably agree that we should have frozen the entire wage or price system immediately, or else had the machinery ready to freeze it early--literally freezing and stabilizing it or putting it under rigid control, with some loopholes.

In December 1941, or early 1942, we said we could not do that. So, taking our cue from that, let us say in any future planning we should write a clause in our plan which will enable us to freeze all prices immediately. You cannot freeze meat without hurting all of these other things. In other words, our economy is so delicately balanced you cannot grab any one item. You have to grab everything.

Again, in 1945, we virtually--I say virtually; I might say substantially--removed all wage controls. A wage is a price. When you remove one price control, you have opened the door wide. As we recall our recent history, in the middle of 1945 wage controls went out of the window, despite the fact that the machinery was there for rigid control; it just would not work. The pressure groups were much

# RESTRICTED

too strong. Unionization, collective bargaining, all kinds of pressure groups simply blew the top off of our attempts.

The spiral started and we are finding it, in the last couple of weeks to be a perfect spiral. We have not found a ceiling for that spiral yet. We have not found out what will cool it off. But it is there and we have seen it. Now Walter Reuther opens up the question again. He says the cost of living has gone beyond the wages received. He proposes raising the wages a little higher.

So, looking back on World War II, we took our control off wages--we did not take it off; we let it blow off--simply because of lack of vigorous control at the top.

Now let us look at our future mobilization plan as it relates to wage and price controls; or, we will say, price controls. First, we should rapidly control all prices. I said all. We will underline that. We found out in this war when one of them got loose, it was a bull in a china shop. We must rigidly control all of them. We must put a straight-jacket on prices, which includes wages.

Your normal reaction to that is--and this is a subject all in itself--will they stand for it? Can you do that? With this very fine, delicately-balanced economy we have in peacetime, we do not want any controls. To those people who love to be free and easy in their living to go and come as they please, these doctors or lawyers, whatever they want to be, how can you come along and say to them, "All right. The emergency is on. You sit right here and work for so long. You buy butter at 40 cents a pound. You will buy this and that." That will put our whole economy into a straight-jacket. That would bring us down to a point, as I see it, which is very close to us--Colonel Neis has brought it out several times--and that is public opinion. Now how far can we go? We can call it mass psychology or social psychology. It is a subject worthy of considerable study. We can break our backs in here and bring out plan after plan. The War and Navy Departments can bring out excellent plans, but until we have the bulk of the people approving these rigid controls we have lost the war and lost the peace.

Definitely we have proved that the American people in wartime will take an awful beating from price controls. (We will say "beating" and like it.) We proved, in general, that the American farmer will work long, hard hours, with his family away at war, and, in general, submit to rigid controls.

We have proved that the laboring man, in general, will submit, and has submitted, to very rigid controls which may worry him somewhat at times. He wants to break out from under them, but he knuckles down. We have proved that the average businessman, given just a small glimmer of hope of a profit, will allow himself to be controlled and shoved all over the map, with just the possibility of a profit; or that the Government may bail him out in case of a loss--to which he is entitled and gets. So we know, in general, that controls in time of war not only

RESTRICTED

284

must but can be applied.

Now how far can we push them down? How long can we hold them down? That all depends upon how we can organize public opinion; the reaction of the people, generally. It has been done. Industry has done it in a great many cases. We have all kinds of evidence that the American people will organize behind a worthy cause. But the first thing to think of in any mobilization plan--we will get more of this later on, in the background--at all times, must be, will the public take it? Can we educate them to accept it. As far as wage and price controls are concerned, it has been done.

The last thing is decontrol. This is our hot potato at the moment. Unfortunately, our past mobilization plans--our war plans, so to speak--contained no element of decontrol. We got all wound up. Then along came the war, with this tremendous maze of material being poured out and produced. Now just as soon as we reached VJ-Day the thing flew apart. The decontrol machinery, which was simply a hodge-podge of a few boards here and there, flew apart. Wages started spiraling, prices started pulling out until we had everyone swinging dead cats in all directions. We are doing just that today. This could degenerate into a political discussion as to who did what wrong? Who let the cat out of the bag? Who did this or that? But all of that would not get us anywhere.

Let us say, then, you cannot control an economy during war without putting in the very elements which we expect to unwind and get us out. Decontrol is very important. To use a very trite phrase, "we have to win the peace too. In a decontrol period, assuming we have full, comprehensive, or general control, such as the freezing of all prices during war, as we come out we again want a very high-level, competent board reporting to the top, with full authority, full police powers, and with public opinion behind them to start this decontrol.

I would say, first, let us start with general control and then go to a selective control. To make it very simple, let us say the last one to be decontrolled will be rent. We will probably do just that now. Just as soon as VJ-Day hits again, or a V-Day, let us start plucking out from the general, comprehensive control. It can be done, but we will never be happy. At least do not hold the line until the door comes off the hinges. We really have nothing to work on. We have a few little miserable prices still held down and they are starting to break out at the seams right now. So, in a matter of days, maybe weeks, we will probably have 99 percent of all prices out from under. Maybe it will work. We all want to get under a free enterprise system as quickly as possible. We do not want to wait for years. We want it to be a matter of months, so we can move freely here and there, wages will be just another price. At the moment it is the tail wagging the dog.

RESTRICTED

# RESTRICTED

So, gentlemen, without getting involved in a lot of political implications, we will call that a brief discussion of the principles of wage and price control. We take it we do not want any part of it in peacetime. In wartime, we have to have it and the public approval goes along with it. In general, we must build up a new plan which will embody in it the decontrols that we have so badly botched up this time.

Thank you. (Applause)

I shall answer any questions now that I possibly can.

A STUDENT OFFICER: Among the reasons for changing wages in the Wage Stabilization Act, was it a matter of furthering the war effort? It seems to me that we must have something there to obtain labor for an unpopular industry, if it is important to the war effort. If it is not wages, then what is it? Is that justifiable and effective way of getting the labor to support an industry that may not have some other appeal?

CAPTAIN STOVER: That's right. I assume our whole atomic bomb industry was not popular. It wasn't an industry, to start with. We had nothing to control it. I was speaking of that escape clause only as a means to escape. We should have a clause allowing wages to go up where it definitely aids the prosecution of the war.

In peacetime some of the industries disappear; new ones grow up. We must have a door that can be opened to pour in high-class labor, or give it inducements, if possible--all kinds of inducements.

It all depends again on this very factor of how far we will go to create better working conditions. Kaiser did it very well. He did not pay the highest wages in the world, either. He started out with almost a new industry and built it up with very unskilled labor of all kinds. He was an excellent industrial administrator.

A STUDENT OFFICER: Yes, but Kaiser's system reacted on other industries.

CAPTAIN STOVER: It did. It was purely a war industry. It did react on others, but he got the ships out.

A STUDENT OFFICER: Someone speaking here the other day suggested a little inflation at the beginning of war is a pretty good thing. Everybody got better wages, and so forth. I wondered if you agreed with that.

CAPTAIN STOVER: We had a little controlled inflation at the beginning of the war. We raise everyone a little and give them a

a little tidbit of candy. The wage increase is controlled. It is desirable. We all like a good inflation, but it is the hangover that hurts, coming down in that long period of readjustment when jobs are swept away.

During the Thirties, of course, we were trying to stop deflation. We tried desperately to put prices in reverse. But it actually took a war to bring all that out. Then we had the very desirable little tidbit of inflation which lifted up the bulk of the people and gave them an incentive to go ahead and win the war.

A STUDENT OFFICER: I am a lot more interested in this problem of getting production out of mines, having been in the personnel game and also in command of troops.

I, personally, am not convinced, from the record, that the increase of wages increased the amount of production. As a matter of fact, I think a little study of the facts will indicate that work, per man, decreased as the war went on and the wages increased. On the other hand, let us look at the Army. They did not use increase of wages to a soldier to get more production out of him and yet, as the war went on, he produced more and more. Now how was that done, compared to the method used in civilian life?

It seems that certain factors of leadership have been completely overlooked in industry. How that leadership should have been exercised, I do not know. May be it could have been done through better foremen, or through better leadership throughout all echelons. But, anyway, I would certainly like to hear some comments from anybody that can show how more production per man increased with the increase of wages.

CAPTAIN STOVER: I would like, if I may, to take a crack at that, although I know I am treading on the toes of the Manpower Group which is to follow along later.

I believe your statistics are correct. The productivity went down as the wages went up. Productivity having gone down, there were several reasons where, I feel, we filtered in a lot of submarginal workers who never worked, never should work, and who were expensively trained. Only a few of the big industrialists in the country could put to work all of that conglomerate mass of people they got in. That would dilute the productivity right there, you see.

As to the wages going up, they certainly did go up even with controls. We upgraded them in a great many cases. I think you will find there were certain plants, certain key plants, that did get increased productivity per man. The total wage bill per unit of output went down. I mean by that they did a better job with large mass production. Chrysler had such a record in the production of small arms ammunition. I believe Ford taught us some thing about the Willow Run

RESTRICTED

plant, the actual cost per unit, despite the fact that they all absorbed a lot of riff-raff of sub-standard people who should not work and would not work.

By our educational system within industry, better organization, better administration, better selectivity of controls, you can get the right man in the right groove. But where we quickly threw up a hundred million dollar Government defense plant and rushed in there with an advertisement for people, our ordinary worker became a foreman and our educational system broke down. We had only a fragmentary bit of education within plants.

But I think your problem will be handled in due course by members of the Manpower Group. I think you are right smack in their groove. I hope they have your complete answer.

A STUDENT OFFICER: It would appear to me that the decontrol plan should not be in the economic mobilization. It has been stated from the platform that any mobilization plan must be made by the Military in peacetime. We have difficulty enough in getting our plan accepted by companies as a whole. It would make it that much more difficult if we tacked a decontrol plan on to our mobilization plan.

CAPTAIN STOVER: That is correct in principle, I think. However, even if it were more difficult, it is better to write it in. Now when we say, "made by the Military", I believe we all agree that it should be presented and approved by civilian channels.

A STUDENT OFFICER: Why couldn't we submit that as a separate plan?

CAPTAIN STOVER: It would not go through. I would rather keep it wrapped up and hidden in the basic plan--hidden and sugar-coated a little bit, probably.

There, again, any plan is impossible to certain interests and a decontrol plan is more impossible because that is a case of who gets bumped first all the way down. Somebody has got to lose a job. Somebody has to get a smaller pay envelope. The very fact that we shrunk the 48-hour week to 40 hours, and that the industry went from forty-eight to forty, decreased our take-home pay but kept the wage rate as it was. That, in itself, was a weasel piece of interpretation that allowed us to do that. The result is simply to strike and say, "I want my same take-home pay that I got in the heat of battle." Somebody has to take a small pay home if we shrink this big industrial system and come out with a new automobile rather than a Sherman tank. In other words, this housewife has got to go back into the kitchen. She enjoyed two or three years of work, and then gave up that pay envelope she received because our peacetime economy does not want her running a home and a plant at the same time.

RESTRICTED

MR. MAGNUSSON: But suppose they did?

CAPTAIN STOVER: They did what?

MR. MAGNUSSON: Suppose they did want to stay on the job.

CAPTAIN STOVER: Well, as I say, the system will not stand for it.

When we start to cut, somebody has got to go home.

A STUDENT OFFICER: Didn't you say in the beginning of your talk that when you put these ceilings on, you put them all on at the same time? Then how do you figure they should be taken off? Piecemeal? You had some objection to putting them on piecemeal; they raised the prices up. They did all sorts of things. Won't it do that same thing if you take them off piecemeal?

CAPTAIN STOVER: No. We get into a war suddenly.

A STUDENT OFFICER: And you get out of it suddenly, too.

CAPTAIN STOVER: Yes; that is true. The cessation of hostilities comes suddenly. We have got to ease ourselves back into the chair, let's put it that way. We would have virtually riots. We would have not only sit-downs, but we would have all of the evils attending this readjustment period.

I still think we have got to ease ourselves down slowly. My own personal belief is that we must lift those controls as rapidly as possible by a selective system which, naturally, will have its rough spots.

A STUDENT OFFICER: I would like to develop this point a little bit further from the psychological side.

It appears to me as long as you have control and you do not need it, it doesn't do any harm. By removing it, you only permit a psychological development of the same evils you have with piecemeal control. You permit division to develop and things of that sort.

CAPTAIN STOVER: Well, if we had a backlog of demands for new cars for several years standing, would you want a complete lack of control? I mean by that to drop all controls immediately?

A STUDENT OFFICER: I would keep it where you have a shortage of supply and an increase in demand.

CAPTAIN STOVER: That runs pretty well through everything, doesn't it? For instance, no one has criticized rent control. Now I won't say freeze all rent and hold it there for years but--

# RESTRICTED

A STUDENT OFFICER (interposing): The landlords have, according to the papers this morning.

CAPTAIN STOVER: Boy! I walked into that one with my chin, didn't I? (Laughter) They do not object to the control. They object to our present rental structure. They all say, "Give us a lot more." We should give the necessary increase which would carry them along, but we should not give them the same take-home pay.

I do not think we want to take the rent control completely off, but at the same time we do not want anyone to operate any apartment house at a loss or without a fair return on his money, or a fair profit-- anyway you want to picture it.

A STUDENT OFFICER: You haven't got the authority for that last statement, have you? I mean where you said we wouldn't want the landlords to operate apartment houses without a profit.

CAPTAIN STOVER: Oh, not at all.

A STUDENT OFFICER: That is your own personal opinion; all of our rent structure should be frozen at once.

CAPTAIN STOVER: Your costs, in certain instances, have run away with them. The apartment houses have been allowed to become run-down. The upkeep of them has been expensive. Replacements have been necessary, and so on.

A STUDENT OFFICER: As you know, I am prejudiced.

CAPTAIN STOVER: I knew that when you spoke. (Laughter)

COLONEL NEIS: I would like to throw a thought in here. From the standpoint of organization and administration, as we look backward, don't you think that wage control and price control should have been administered in one body rather than attempting to handle wage control in one organization and price control in another organization, such as we ultimately came to do?

Another thought I would like to throw in here, for the benefit of those who will be later engaged in considering the O.P.A. and other control agencies, is the desirability of divorcing from this price control activity unpopular activities such as rationing. I believe that O.P.A. got a great part of its bad name, came into public disfavor, as a direct result of its necessity for rationing people and telling them they could have this or they couldn't have that.

So I believe that, from the standpoint of public relations, as you mentioned a few minutes ago, if we could divorce rationing

RESTRICTED

287

activities from price and wage controls and incorporate price and wage controls which, as you so appropriately pointed out, are all one phase of this thing, into one group, we would have made considerable strides.

CAPTAIN STOVER: I agree with you. Rationing has nothing in the world to do with price control. It is purely a matter of allocation. We must have a separate rationing board. From the economist's viewpoint, wages are just the price of man's services. It is an integrated part of our pricing system. As you all know, we had wages played with, and usually kicked around, by the Secretary of Labor and everyone else. In fact everyone, no matter who he reported to, always took a crack at low or high wages. Wages should be stabilized completely and put into the hands of some price expert, group or board. Of course, prices were kicked around a lot too by a number of overlapping agencies.

A STUDENT OFFICER: I would like to take exception to your statement that rationing has nothing to do with price control. If your rationing system breaks down in the least your price control system is gone. That is what happened to France.

CAPTAIN STOVER: We know, for example, that the production of gasoline during the war was so low we had to give out small quantities to civilian circles. We did this by means of rationing.

I still think you can define the two.

A STUDENT OFFICER: You can define them administratively. But I take exception to your statement.

CAPTAIN STOVER: Perhaps I was a little too strong in my statement.

A STUDENT OFFICER: You have inflation with the large buying power in your population.

CAPTAIN STOVER: It depends on the kind of inflation we have. You refer to the fixed volume of money with the increased buying power. This swelling up of the buying power depends upon how much that buying power has been siphoned off in taxes and bonds.

A STUDENT OFFICER: Then why don't they cut down on a lot of things, such as high rent, the cost for operating this property. All of that cuts out that inflationary trend.

CAPTAIN STOVER: All of that sounds good, but I do not think it is going to work.

A STUDENT OFFICER: No, it won't work unless the lid is clamped on them. It certainly could be clamped on them.

RESTRICTED

RESTRICTED

CAPTAIN STOVER: We must remember that we have dammed up about four or five years of consumer purchasing power. We had stopped credit extension but now it is opened up again. You can buy anything you want to with a nickel placed on the line. The purchasing power which had been left free from taxes and bonds is now swelling up again on credit extension.

A STUDENT OFFICER: That is the inflationary angle.

CAPTAIN STOVER: That is an inflationary movement right now.

A STUDENT OFFICER: Yes.

Last night's paper carried an article by Mr. Baruch on how to stop this spiral. Did you happen to see that?

CAPTAIN STOVER: No; I'm sorry I didn't.

A STUDENT OFFICER: One of the interesting things was full production. Then another thing, which I think is very good, is terrific taxation to clear off our national debt. That will, of course, cut down on the profits for industry.

CAPTAIN STOVER: That isn't only Mr. Baruch's usual soundness, but it is also the basic principle of all economy, that we step up production until we flood the country with so much goods there is no room for inflation.

A STUDENT OFFICER: Do you think there should be a stabilization of the hourly wage or the annual wage?

CAPTAIN STOVER: I think you will find some conflicting laws there. You see, we have this background of social legislation saying that a 40-hour week is the proper way to work--according to the hourly rate.

A STUDENT OFFICER: Well how about overtime? (No response)

Now that the matter of taxes has been brought in, which rounds out, to my mind, the price control and the decontrol problems, I would like to hear from you on the matter of Selective Service for labor.

CAPTAIN STOVER: I am going to have to pass that one up. The Manpower Group that will come on later has that problem. They would shoot me if I opened my mouth on it. That is right in their field.

A STUDENT OFFICER: Well then how about the drafting of capital, if you won't talk about the drafting of labor?

RESTRICTED

# RESTRICTED

CAPTAIN STOVER: I don't want to talk about that either. However, we did draft capital during the war. The Government was, in fact, the greatest prime mover of free capital. That has never come out enough, I believe, in our recent history of the world, but actually the Government was one of the greatest collectors of capital and got into a lot of business, at least on the financial side, through the drafting of capital and putting it where it wanted it.

A STUDENT OFFICER: I'm afraid you misunderstood when I said "drafting of capital". I mean such things as the compulsory Savings Bonds, which required the excess money that might be spent to go into bonds.

CAPTAIN STOVER: Well, isn't that nothing but a tax?

A STUDENT OFFICER: I suppose you could call it that, except that it is repayable. It is the same thing as your Liberty Bonds and your Defense Bonds; but it is still a draft.

CAPTAIN STOVER: Wasn't your purchase of Bonds pretty well drafted?

A STUDENT OFFICER: Not as much as it was in some other places.

CAPTAIN STOVER: Well, of course, we have gone on the belief that we take all we dare it taxes until it hurts and then we get back and sell all we can in the way of a negotiable security until it hurts again. As long as those two methods work, we have not been forced to draft any further capital.

Well I think our time is just about up. I am going to abdicate at this point.

Thank you very much.

(Applause)

(5 March 1947-350)E