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DEMOBILIZATION AND RECONVERSION PLANNING

27 May 1948

L48-150

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Publication Number L48-150

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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MR. NIKLASON: World War II experience indicates that many complex problems are involved in making the transition from an almost completely controlled war economy to a normal, peacetime, free-enterprise economy. A thorough understanding of the types of problems which arose during the transition period following the last war should serve as a basis for developing a program which would produce a more orderly reconversion in case of another emergency. We are very fortunate to have as our speaker a man who has been in an exceptionally strategic position to study reconversion problems during and following the war. From 1944 to 1946 he was Economic Adviser to the Colmer Committee on Postwar Economic Policy and Planning; and under the auspices of the Committee for Economic Development, he produced two studies--"Liquidation of War Production" and "Small Business, Its Place and Problems."

It is a pleasure to present Dr. A. D. H. Kaplan.

DR. KAPLAN: Good morning, gentlemen: It has proved a futile effort for me to convince Mr. Niklason that whatever I may have known in 1944 about the problems of reconversion has been forgotten and that he should find someone who is more immediately conversant with those problems to speak to you. Before I get through with this I may do too good a job of convincing you where I was unable to convince him. I shall try this morning to recall some of the issues that seemed to emerge at the time the military phase of World War II was coming to a close, also during the period immediately thereafter, and to draw some conclusions from them.

With respect to any conclusions regarding the outcome of a demobilization and reconversion period, I think that the chances one takes in guessing are very similar to those one encounters when he gets to the top of the continental divide and is asked whether the rain that drops on top of that divide will go to the Atlantic or to the Pacific. It takes only a very slight shift in the wind or temperature to determine whether those raindrops will slide down westward or eastward. Likewise, it is comparatively easy to build up a case either for an inflationary period at the end of a war, which calls for certain types of action to meet it, or for a deflationary period at the end of a war, which calls for certain types of action to meet it.

One can take too much credit for having tossed the coin and hit the right side. It happened that I was optimistic about our ability to reconvert if we took the cancellation of war contracts in quick stride, got war work out of the way at once and moved vigorously into postwar production. I know that some of my distinguished colleagues were predicting

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be taken to speed up, or give clearer direction to, the process of shifting the economy to a different norm. In seeking to restore the balance to the prewar period, we cannot ignore the changes that the war years have wrought; we do have to go through the process of decontrol by stages, and we have to battle to maintain those stages in the face of a strong public opinion that demands that we have the thing over with. We realize now that we could have kept down the number and severity of our difficulties in the postwar period if we had not been in quite so much of a hurry to discard all wartime controls.

There are four stages in reconversion for each of which planning needs to be done. There is first the wartime problem of tapering off military production itself as some of the requirements have been met, as others approach being met, or as we see that the end is nearing. The more promptly this is done, the less difficult will be the second stage, in which manpower has to be released from war activities to civilian activities. Equipment and materials also have to be released so that there may be retooling and designing and effective reallocation of resources that can be spared to peacetime uses. The third period is one of catching up with deferred demand and seeing to it that, in the process of catching up, the released materials get into the hands of those who need them most or can make most effective use of them. Finally, we have the longer-run adjustment to peacetime levels or the peacetime goals.

It is probably impossible to know exactly when is the right time to let go of controls. Some of the decontrolling probably needs to be done on an experimental basis. In any event it is essential to do what we failed to do during these last few years: namely, to retain control powers during the process of decontrol so that, if it is found we have decontrolled a product, a price, a manpower situation, a wage situation, or a materials-allocation situation too rapidly; or that the business fraternity has not reacted as it was expected to; or that there has developed too much of hoarding, of speculation, and of overstraining of the market; or that a black-market situation has been created; or what have you, we shall have retained enough power (without the need of new legislation) to pull in the string that we had loosened for the time being--always holding over any decontrol the threat that, if it is misused, the control will be restored. We did not have that power after the last war; there was no way of correcting some of the mistakes that were made, mistakes that are bound to be made when we consider the complexity of postwar situations that can occur, some of them were virtually unpredictable.

With all-out warfare on a global scale, a large fraction of the economy is diverted from normal production into an intensive effort which, it would seem, swells pay rolls and in general accelerates the

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The successor agency for the postwar period should preferably not be a series of new agencies created by special postwar legislation, but should carry on from the experience of the wartime control agency. Recognition must be given to the fact that there is not a sudden break between war and peace but that there is a rather broad band of activity covering the process of adjustment.

In general, our economy should not assume the bulk of the prerogatives that we associate with the freedoms of a peacetime era until the conditions of peace are themselves almost fully realized. The powers of control must be retained even while decontrols are exercised so that the controls may be reinstated if the business structure responds unfavorably to the decontrol. Of course, in all of the planning, the positive goal of reconversion planning, apart from restoration of economic order, is the encouragement of maximum production and insistence upon maximum production.

From these general principles, I would like to move to some of the requirements in specific areas of decontrol.

With respect to production, materials, and equipment: So far as the war contracts themselves are concerned, I think it is perfectly clear now that war contracts, once their original purposes are ended, should not be dragged out but should be tapered off as rapidly as possible. I would say that in the rapid settlement of war contracts we have had the one outstanding success of our demobilization period. The Military Forces cooperated magnificently, on the whole, in making a rapid ending of the war contracts possible. I think Congress cooperated likewise. Instead of following the Comptroller General, who wanted every contract settlement preaudited (it would have taken until 1987 to do that), Congress voted to take the chance of some of the contracts being settled on something less than a perfect basis in order to get the decks cleared. In all of the chaotic conditions and in all of the mistakes of the reconversion period, it is notable that we moved boldly to the elimination of some 90 billions of dollars of contracts in one stage or another, and that the swift cancellation did not mean chaos. It came to be realized quickly that the contract total outstanding was a paper figure; that it came down to only 10 billions of dollars of real inventories; that a considerable part of that inventory could immediately be retained for civilian purposes; that another considerable part of it could be reallocated; and that the "area of dispute" in the war contracts would come down to something less than one and a quarter billions of dollars, so that the whole problem was manageable. Congress got the idea and got it quickly. The Military Forces, instead of saying, "Here's a good chance to drag on and pick up some extra materials for later periods," played the game squarely. With very few exceptions, the demobilization went through with maximum rapidity. That was an outstanding accomplishment.

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the war contracts in those areas while you have made others stay with war contracts, but you are punishing those who have stayed on war contracts by not giving them a chance to go into civilian production." I think the answer to that issue is, that you have to protect the firms that are still on war production by insisting that the civilian production that is allowed, where the labor and production have tapered off on war materials, should be of a wartime, substandard, take-care-of-the-interim kind; and not to permit those companies that have been relieved of war production to move ahead into regular postwar top-quality models. Those who stay with war production must be given a chance to start from scratch when they come into real postwar peacetime standard production. Without some assurance of that sort, the companies are going to resist the continuing of war contracts during a tapering-off period when it is still essential to have some of the contracts carried out.

4. In the release of war contractors some degree of priority needs to be given to small- and moderate-sized producers who are not in as favorable position to finance a reconversion period as are the larger companies.

5. Some priority should also be given to converted plants as against those that were newly built for war production. I think the reason for that is obvious.

6. Prior release should be given to minor durable goods which had been pushed out by war requirements and have had a long waiting period to get into production while other lines were booming on war production; I have already mentioned the fact that where prior releases are given to some firms, those prior releases should be coupled with a limitation of production therefrom to prewar or wartime models, giving all companies a chance to start at the same time with the higher-grade true peacetime models after the war is completely over.

Priorities of the type here suggested have been found to represent, in general, a higher level of equity than would a hit-and-miss type of release to those who happen to have inventories on hand or who happen to have been favorably situated.

Let us go on to the question of manpower and wages. I have already indicated my feeling that the provision for a speedy settlement of war contracts to resume civilian production should take priority as a goal over the desire to prolong war production merely in order to maintain employment levels. I think our experience proves that there is plenty of work for labor to do in reconversion, so that it is not necessary to carry on contracts merely to keep people at work.

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an exaggeration of those imbalances by making it easier for those who have already had the power to exercise still more of it and, in the long run, as we have seen, hurt all labor by engendering an inflationary spiral.

I cannot emphasize too often the importance of retaining public controls in all areas in an integrated program: manpower, money, prices, and material allocations.

Emphasis should be placed also, for the decontrol period, on the maintenance of reasonable controls in behalf of the worker and his family as consumers, while holding wages until productivity catches up with costs. I think that if we could have set from the very beginning a pattern of thinking in terms of consumers' needs--those who had to rely on nonwar activities as well as those who were directly benefiting from wartime rates--we might have had a "hold the line" all along the line. But once controls were released over material and manpower, we could not expect the line to be held very long in the area of prices. As costs build up, prices must move along with them.

Along with the retention of manpower and wage controls, we need, in order to maintain some semblance of willingness of labor to go along, to retain for a longer period than we did such wartime fiscal policies as the excess-profits tax in order that those who run out soonest on the war and demobilization efforts may not be grasping the cream profits by being the first in the postwar field. The retention of the excess-profits tax and price controls should be made part of the basis for the wage truce that labor would observe during the postwar period. Labor has been in the position where its leaders have been able to say that there is no point in labor holding down on its demands when the stops are open for the other areas of the economy. Labor must be shown that the same controls are being exercised over other income-takers and over other parts of the economy. If there is an equal control all along the line, I think we are more likely to get more general agreement to comply.

So far as price control and rationing are concerned, by this time it is well established that the pent-up demand of a postwar period is a powerfully inflationary force and that prices will undergo an exaggerated postwar movement in the scramble for inventories, aggravating scarcities, unless something is done to prevent those artificial scarcities that result from hoarding, from speculation, from mergers to capture special sources of supply, and from deals to prevent commodities from getting to the other fellow. I think it is obvious now that we gave up our price controls too early after World War II. We did not retain them at all after World War I; but there, too, we ran into the disastrous inflationary period of late 1919 and 1920, with the collapse in 1921.

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by pushing the price higher and higher and higher. All we do there is decide whether they are going to the person who needs the thing most or merely to the person who is able to pour the most money into getting it. In other words, what we are developing is just the opposite of a fair allocation of those materials. When there is just so much available, and all that is available is going into production, price-pushing is not going to give more production. That merely tends to compound the inflationary spiral and perhaps to create more speculative urges to hoard and hold for higher prices.

Price controls, then, need to go hand in hand with allocation controls, including rationing where needed; perhaps with some profit controls and with wage controls if price control is to be effective. Our postwar planning for decontrolling must be in an integrated agency that can handle all facets of the problem. Prices, manpower, and materials should not be separated among a number of separated groups.

We must avoid waiting until Congress gets around to special postwar legislation in order to set up the machinery. The machinery for postwar demobilization must be set at the war's beginning. I would say, so that all will understand something of the general process and not indulge in the successful sniping of an orderly decontrol period that marked the last postwar period.

Winning a peace is perhaps a more complicated job even than winning a war. At any rate, its techniques are less well-defined and there are so many more possibilities of things going awry unless we have some way of working them out by planning.

Planning for the demobilization period must be done in advance. The demobilization must be a consistent working our way out of the war period instead of a mere improvisation of special agencies at the end of a war period.

In the long run we are going to save time in demobilization if we hold the whole program together, if there is not a sudden and chaotic demobilization, but one in which the reins are held all along the line until each of the particular units shows an ability to carry on by its own motion.

COLONEL McCULLOCH: I think that this has been a most scholarly presentation. I believe everyone would agree that unless control is exercised in all fields, it is useless to exercise control in any one field. The thing that worries me, however, is a consideration of the actual occurrences at the end of the last war in demobilization. For example, when there was a possibility that too fast a demobilization would surfeit the labor market and create unemployment, we were faced

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labor leaders. Management, in general, failed to take statesmanlike initiative to that end. There were even a few in management letting it get around--and they convinced some labor leaders that the rumors were true--that they believed the way to bring down wages was to permit a period of unemployment to readjust labor's sights on postwar wage levels.

It is true that the Committee for Economic Development took an altogether different attack. I can point to some employers--Studebaker, for example--who reached out with a voluntary increase to take care of the take-home-pay situation when war overtime ended. But in terms of the atmosphere that prevailed at the time, just as soon as it was seen that there was a heavy demand for labor, labor's reaction was, "Well, we are going to get what we can now."

That may all be rationalization; but I am convinced, from whatever nearness I may have had to the situation, that a long-term truce on very reasonable terms could have been made with labor if we did not have some of the die-hards in strong positions on the management side.

We can agree entirely, on the point that labor and management and all concerned have to see, at the beginning of the war, what is going to be done and what needs must be met at the end of the war. I have faith that if they are prepared for it early enough, they will go along with the program.

COLONEL McCULLOCH: I agree with the theory, but it does not apply in certain specific cases. For example, in the case of the railroads, what in the world could management do when the rates were set by ICC on one side; wages were being considered by a government board on the other side, when labor refused to accept the recommendations of the board; and yet, management could do nothing about increasing their income in order to meet wage increases?

MR. KAPLAN: Railroad labor accepted the disciplines during the war period. It seems to me the mistake we made was to assume that all the stops were out as soon as the war was over. If we can get it into the bones of all of us that a war is not won until a peacetime situation is restored--and that there is just as much need for controls during the transition period, though they take a modified form, as there was in the previous period--we can get that kind of discipline with whatever penalties may be needed to enforce it. But I do not see how we are going to get it by the psychology of "Well, the war is over and now that it is peace, we go back to everything that we did before the war." I believe that the people in the railroad business are as amenable to the over-all psychological climate as any other group is. The experience with them emphasizes the importance of having it understood that the war program is not ended until the full peacetime equilibrium or something akin to it is restored. If they can see the demobilization program

way. If we can get across the psychology of expecting transition controls from the very beginning of the war, and it is understood that when stage one is completed we have to go on to stages two, three, and four, we will continue to act accordingly and gain momentum in the right direction. But changing the direction of the momentum once it has started in the wrong direction is what is so difficult to do, especially if the change is sudden. It is that kind of chaos I think we have to avoid.

MR. NIKLASON: Thank you, Dr. Kaplan, for a very able presentation of a difficult subject.

(15 December 1948--450)S