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ORGANIZATIONAL AND ADMINISTRATIVE ASPECTS OF WARTIME RATIONING

11 June 1948

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Publication Number L48-163
THE INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

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DR. YOSHPE: We are devoting this morning to a discussion of the Organizational and Administrative Aspects of Wartime Rationing. Rationing has been characterized as the stepchild of the war effort. It has had a very stormy career for reasons which our speaker can explain far more authoritatively than I can. Nevertheless, it has been clearly demonstrated that rationing is an essential spoke in the stabilization wheel, and it is a basic mechanism for the equitable distribution of scarce consumer goods.

Our speaker this morning is known to all of you. You heard him earlier in the course in a lecture on food as a war resource, and some of you have had the privilege of hearing him in a seminar on economic stabilization. He has been with the Brookings Institution for many years and has been active in various capacities in the Government throughout the war period, particularly as the Director of Food Rationing.

Dr. Rowe has been engaged in the preparation of a comprehensive study of World War II experience with food problems, including price control and the rationing. I am very happy indeed to welcome back to the rostrum Dr. Harold B. Rowe.

DR. ROWE: I am honored and very greatly pleased by this invitation to address you a second time on a really important topic within your course on "Economic Mobilization." This whole subject of economic mobilization is of intense interest to me. Although I sincerely hope that we shall not again have to mobilize the economy of this country for war, I deem it to be of the greatest importance that the best possible plans for such mobilization be developed and continually improved.

Moreover, for one who is concerned as I am with understanding the organization and operation of our peacetime economy, analysis of the problems involved in mobilizing that economy for effective national defense can be both interesting and very informative. Finally, the problem area we are discussing today is naturally of particular interest to me because I was plunged deeply into it during the recent war.

I have been invited to direct my discussion to "An Analysis of the Objectives, Scope and Methods of Rationing, and the Economic, Political, Organizational, and Administrative Aspects of that problem in Wartime and in the Postwar Period." Of course, no one could possibly examine the many important aspects of such a broad topic within a single lecture period. Nevertheless, after some thought, I have decided upon a rather reckless attempt to open up for your further consideration problems, ideas,

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controlling--or at least dampening down--aggregate, effective demand and, hence, prices for the controlled item.

Other purposes can be cited, but I am inclined to think that upon close examination those which are valid can be placed in one or another of these three classifications. In fact, the classifications themselves overlap considerably. The reasons for my believing it to be helpful to distinguish them will become apparent, I think, if we consider how different the relative importance of these purposes may be and what widely different employment of rationing controls may be suggested, depending upon how the economic stabilization problem is to be dealt with in the Mobilization Plan.

When I met with you earlier in the year to discuss the general problem of planning for mobilization in the food sector, I used some time, too much time no doubt, in trying to explain my conception of the overall task of economic mobilization. In brief, I stated this as "fundamentally a task of accomplishing a unified direction or management of the economy so as to secure its best possible performance over all phases of the war cycle."

Dr. Hefflebower tells me that in his more recent lecture he employed a substantially equivalent statement. I also made the point--which Dr. Hefflebower elaborated more fully--that among the greatest obstacles to the accomplishment of such an effective management of the economy is the inflation potential which is generated during the emergency economic cycle and which constitutes one of the characteristic features of that cycle.

Now in theory this feature of the war cycle presents the mobilization planner with a choice among three basic alternatives. The first alternative that might be considered would be that of preventing inflationary increases in consumer purchasing power by financing the war with sufficiently heavy taxation. It is generally assumed that such drastic taxation in wartime is practically impossible. I agree partly because I believe that it is politically impossible to reach the necessary agreement as to how the burdens of the war are to be distributed, and partly because it seems almost inevitable that tax revenues will lag behind government expenditures in a period of emergency general mobilization.

I should like to say for the record, however, that I personally consider it desirable to go as far as possible in the direction of heavy taxation, and I believe that in a future emergency we should go very much further in that direction than this country has ever seriously contemplated going.

The second alternative would be that of substantial deficit financing of the war, with no effort to control the inflation potential--let it go. Under this course of action, government expenditures in excess

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called, perhaps incorrectly, the fundamental stabilization strategy to be incorporated in the Mobilization Plan.

The point that I would like to establish is that the purposes which rationing may serve in the Mobilization Plan, and hence the importance that it can have, depend upon the kind of economic stabilization strategy that is adopted. In order to make this point as clear as I can, I should like to have you consider for a moment the quite different uses for which rationing might be employed under three alternative plans that conceivably could be used. Please bear in mind that these are selected for illustrative purposes and do not by any means represent the only alternatives that may be considered.

One plan would be to tax up to the limit of wartime political feasibility, not attempting any direct control of the inflation potential, but try to provide such minimum economic controls as become necessary, (a) to prevent undue diversion of resources away from the important war purposes and (b) to prevent intolerable adverse reactions upon public morale. This plan would be a reasonably close parallel to the economic stabilization strategy adopted by the United States during World War I. If it should be adopted in a future emergency, the minimum of supplementary controls that would be necessary would depend upon many things--including how far taxation was, in fact carried; the scale of the emergency; and conditions within the economy at the time. In the light of our more recent experience, however, it is clear that shortages would appear for many individual civilian items, some of which would be essential, either basically or from the point of view of morale. Numerous illustrations can be cited. Gasoline, tires, and fuel oil during the recent war provide examples of items that had to be rationed so that the available supplies could be conserved for their most essential uses. I would cite coffee as perhaps illustrating a situation where rationing would be required for the same purpose even though the item itself has no importance except to morale.

In each of these cases the purpose would be of the first type which I mentioned, namely, "to control the allowance or share of critically short essential items to each use or each individual consumer in order to conserve the limited supply available for the needs deemed to be most important."

There is another type of situation that probably would develop, however, which might also call for rationing. Since a sizable inflationary demand for civilian goods would develop, there would be strong incentives to divert resources away from war uses and into the increased production of these items. In the industrial field it is quite possible that this problem could be solved through the effective control of materials. I would add the proviso, however, that controls over the use of materials of the kind we had during the past war would have to be supplemented by a much more comprehensive and stringent control of manpower than we have ever experienced in this country.

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directing the use of resources, of course you understand that the direction would take place by limiting the demand and hence checking price increases for items such as meats. At the same time the use of grains for food and the prices of grains would not be restricted. The resulting change in the relationship between meat and grain prices would reduce the incentive to feed grain to livestock. But when ceilings are imposed in accordance with a "hold-the-line" policy, the relationships between meat and grain prices are fixed. It is no longer possible to use rationing as the primary control to influence the use of resources, because (a) it would be politically unfeasible, if not impossible, to set the ration so low as to depress meat prices below their established ceilings, and (b) the ceilings on grain prices would keep feed grains "cheap" and thereby maintain the profitability of livestock feeding.

It should also be noted, although I shall not elaborate the point here, that effective direction of the use of resources through the manipulation of demand could not be accomplished through civilian rationing alone. Since civilians provide only part of the total demand, an integrated direction of government purchases for military use, for lend-lease, and for stockpiling would be required.

Although under a stabilization strategy which placed primary reliance upon price controls the second type of purpose which I outlined would not be very important, a third purpose would be identified. With restrictive ceilings imposed upon prices, demand would exceed the supplies available, and some form of rationing would be called for. In all probability the purpose would be stated in terms of insuring equitable distribution, preventing hoarding, or taking the pressure off the price controls. The real purpose would fall in the third category which I specified as "to limit expenditures for an item or items as a means of restricting the use of purchasing power and thereby controlling--or at least dampening down--aggregate effective demand and, hence prices for the controlled items."

For further comparison let us see how the situation might be changed under a third type of stabilization strategy. Let us assume that it differs from the preceding one only in the general method by which it contemplates control of the inflation potential. Instead of relying primarily upon comprehensive price controls, thereby substantially abandoning the market mechanism for directing use of resources and distribution of products through competitive price adjustments, this plan would seek to retain those functions for the market, so far as it was possible to do so. To this end, it might place chief reliance upon a broad control over aggregate expenditures for civilian items, while otherwise leaving the markets largely uncontrolled. Rationing provides the means by which this control over aggregate expenditures might be imposed.

In practice, the control probably could not, or should not be extended over all civilian items. Perhaps it could be applied to foods,

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and how to organize, as well as the administrative and political problems to be resolved, depend in no small part upon the basic decision regarding the place which rationing is to have in the over-all plan.

Now, let us consider the methods of rationing which are available and their relative effectiveness for the purposes we have identified.

First of all, let me say that only formal rationing that employs some type of ration currency (which must be surrendered to the vendor in order to make a purchase or obtain delivery of a controlled item) will be considered. There are various possibilities of working out informal controls which have more or less merit for limited local application, such as in a local emergency created by a temporary interruption of food transportation into an urban center. But it simply is not worth your time to consider, nor my time to discuss, any of these for nationwide use within a general mobilization plan.

Second, let me state, without taking time to elaborate fully, that no method should be considered unless it relies upon this currency to control distribution at all levels. By this I mean that consumer buyers should be free to present their ration currency and obtain their supplies at any retail outlet they wish. Similarly, each retailer should be equally free to purchase from any wholesaler. But both retailers and wholesalers should be allowed to obtain their supplies only by, in turn, surrendering the currency they collect from their customers. When people move into a defense area, let them take their ration books with them, and the volumes that the retail stores can handle will be adjusted automatically to the demand, because volume depends upon the ration currency presented. Beyond this there should be no limitation upon the volume of business that can be done by any retail or wholesale distributor. There is simply no place in a rationing system, to be used under conditions such as we have in the United States, for quotas or other restrictions upon shifts of business among distributors.

This does not mean that quotas may not be applied to primary distributors, that is, producers. On the contrary, quota control over processing or production may be very useful in certain circumstances. An illustration would be the slaughtering quotas for meat packers worked out, but only intermittently employed, in the recent war to deal with the special situation created by the fact that some packers are federally inspected and some are not. The Federal Government could buy only from inspected plants, thereby taking a part of their volume, but the product of the nonfederally inspected plants could not be shipped across state lines. You see the extent of the problems which this created in maintaining uniform distribution under the rationing plan. An even better, though less publicized, illustration was the sugar zoning order under which deliveries by refiners and processors were restricted to specified zones.

Also there may be exceptions to my statement when applied to conditions of countries having a compact geographic area, a not too complex distribution

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be used in this "price system" is controlled through the issuance of point allowances. These allowances represent the authorized expenditures of points for the purchase of the controlled items at the quoted "point values" or prices. The most significant distinction between this type and expenditure rationing is that under point rationing the "prices" which control the amount of the respective items which can be obtained with the allowed expenditure are in a separate currency and, therefore, can be controlled independently from the money prices; whereas under expenditure rationing they are identified with and in fact are the money prices. Otherwise, their operation is identical in all significant respects. The importance of the distinction will be brought out more clearly after we consider some of the problems involved in the use of these methods. The principal requirements to be satisfied for any or all of these systems to be effective again fall under three heads. The main problems of administration arise in the attempt to meet these requirements:

1. Counterfeiting and theft of ration currency must be prevented. This requirement is so obvious that I shall not elaborate on it. But make no mistake, it raises real problems which warrant consideration.

2. All of the commodity must be brought into the system at the point of primary distribution. By this I mean that there must be no supply of the commodity available for purchase except through the surrender of rationing currency. You simply cannot ration part of the market and leave the rest of it unrationed. This is why so many problems arose in fitting together the civilian ration controls and the military procurement system, and in refusing to allow exceptions, or have any supplies not controlled. Unless primary distributors can be required to collect ration currency for everything they produce and sell, there will be a potential supply for black markets. This is the most fundamental requirement for maintaining effective control. In my judgment, it also presents the greatest administrative problems and is the most difficult to satisfy.

The difficulties on this point vary more as between commodities than they do between systems of rationing. I would like to illustrate by one comparison. Sugar is not very difficult in this respect because there are only a few sugar refineries and beet sugar processors. There is no difficulty in checking their compliance, as to whether they have collected the required amount of ration currency for all the deliveries they have made. This is especially true because they have no raw materials with which to operate except those given as raw sugar quotas. Now consider the opposite situation with respect to butter, where 30 percent of the butter is made on farms and sold direct to consumers within the same communities. The problem of enforcing compliance upon so many small farm producers is almost impossible unless some very ingenious and drastic method can be developed. I am submitting this to you as the most fundamental and the most difficult problem there is in devising a ration system that will really work in the sense of accomplishing its purposes.

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With few if any very important exceptions, ration allowances will need to be established in relation to economic criteria, that is, they derive from the general goal of efficient utilization of resources in their most important wartime uses. In some instances this requires a rather detailed control over the distribution and use of individual items. For example, in rationing gasoline the criteria for establishing allowances for use in private automobiles would reflect decisions regarding the importance of the contribution to the mobilization effort which such transportation service enabled individual users to make--as physicians, defense plant employees, farmers, etc. Similarly, fuel, tires, automobiles, typewriters, etc. may have to be apportioned according to the importance of the use to which they would be put by individual consumers. It is also possible, in theory at least, that some item of current consumption might be so important to health or morale that the available supply would have to be apportioned to nearly every individual. Some would argue that coffee afforded an example of this kind, although personally I am of the opinion that it does not and that it could be handled satisfactorily within a general rationing program covering a large variety of food items. In any case, the important point is that in all of these situations I have just mentioned, unit rationing is the only method that can be considered. So far as I know, it is the only method under which individual ration allowances can be established in conformity with criteria relating to the distribution of a single item for specified uses.

But suppose rationing is undertaken for the purpose of limiting the consumption of some broad class of goods such as foods? In this case a large number of items would have to be controlled. Theoretically, of course, this could be accomplished by placing each item under a separate unit rationing control. Realistically, such a course would be so impracticable as to be impossible in this country. Among other things, there would be separate regulations for each item, consumers would carry a bag full of ration books, and retailers could not possibly cope with the problem of collecting the many different coupons. Separate ration allowances would have to be established for each item, a task on which any field organization of local boards that I can imagine would certainly break down. Moreover, even if this task could be accomplished, it is probable that hardly anything could be further from satisfying the requirements for emergency economic mobilization than a distribution of each individual item among all consumers. Food consumption varies--geographically, by age groups, employment, religious beliefs, etc. Some people do not eat spinach, others abhor liver. In short, it simply would be out of the question to "spoon feed" the population of this country under a series of unit rationing programs covering a large number of individual food items.

But it should be apparent that the criteria indicated in this situation do not relate to the distribution of individual items. Instead they refer to the aggregate of a large number of goods. It is in such

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to substantial monopoly influence. On the other hand, point rationing may be employed--as we did during the past war--when prices are under complete, and more or less independent, control.

There is some additional significance to the fact that, through the manipulation of point prices, somewhat greater administrative control can be exercised within the point rationing system. However, in my opinion this can easily be overemphasized. For one thing, the automatic adjustments which take place within the system almost invariably are more satisfactory than any which can be made by Executive decision. In fact, the problem in setting point prices is mainly one of determining as nearly as possible the prices which would be established by a competitive market for the supplies available and with the point purchasing power that has been issued. On the whole, I am of the opinion that the greatest danger is that administrators, especially if they are inexperienced or lack competence, will try to control in too much detail, whereas they had much better rely upon automatic adjustments by a competitive market mechanism so far as possible.

Not only is this matter of flexibility important from an operating or administrative standpoint, but it also has a direct bearing upon some very significant legal, political, and public relations aspects of rationing. Administrative decisions on regulatory matters such as the determination of rationing allowances, of course, must be within the limits prescribed in the legislation by which they are authorized. Moreover, the legislation itself must conform to constitutional limitations upon delegations of authority and discrimination. From these it follows that a rationing agency certainly should not be empowered to establish rationing allowances except on the basis of clearly defined standards.

Both in legislation and in rationing regulations it is possible to go a very long way in the direction of setting up standards which satisfy the necessary legal requirements and at the same time provide reasonable administrative flexibility, but the task is very difficult. There is too often a tendency for executives to ask for unreasonable discretion, while legal advisors tend to press for rigid standards not always appropriate to the complex economic situation to be controlled. When the necessary flexibility and adaptability can be provided within the control mechanism--as can be with both point and expenditure rationing--this problem is enormously simplified.

Even if there were no legal difficulties, no wise executive would ask for authority to establish ration allowances at his own discretion. By obtaining such authority he would simply invite requests and petitions to change the allowances of all the individuals and groups who wanted larger rations. Moreover, he would become the target for every form of pressure that could be brought to bear in order to secure these increases. Hence, even if no restrictive standards were imposed upon him, the

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Next, I would seek improvements of methods along several lines: How to lick this problem of getting all supplies under control is the big one. Beyond that, I would consider eliminating the control over point prices and allow them to be established competitively. In other words, I would cut out of our point rationing program of the recent war all the machinery for the direct governmental determination of point prices and let them be determined by competition within the system.

I would seek a simplification of the rationing currency along with improvement of or the elimination of the rationing banking system. Some of my former colleagues would turn handsprings if they heard me say this, but I have not been quite certain in my own mind that the rationing banking system was very much of an asset to us. I have the feeling that for expenditure rationing, a much better system might be to issue five and one dollar bills in an additional color that could be used only for purchasing rationed goods. Then the rationing allowance to each individual would be issued as a card authorizing the individual to obtain the specified number of dollars in these bills at any bank in exchange for an equal number of dollars in regular currency. Tricks of this character provide a real opportunity to simplify these rationing systems.

In developing the criteria for issuing the ration allowances on expenditure rationing, I would particularly consider two plans that have been proposed for overcoming the difficulty that not exactly the same amount of purchasing power can be justified for all individuals. One plan that has been proposed is that of permitting the sale of ration allowances by those, who, because of lack of income, cannot expend as much as their authorization calls for. The one which I devised myself, (and, therefore, think a little more promising!) is that of allowing each individual a specified percentage of his estimated past expenditures for the rationed items, but within fixed maximum and minimum limits. There are some difficulties, of course, but this idea has pretty good possibilities.

In conclusion let me mention the problem of organization because I know the interest you gentlemen have in it. I hope this quite imperfect analysis of what is involved in rationing will have revealed to you what I meant when I tried to say at the seminar discussion the other day, that I can express an opinion on organization only in relation to some statement as to what stabilization strategy you contemplate. If you are going to relegate rationing to the minor role of providing for the spot treatment of specific shortage areas, it really doesn't make so very much difference where you put it in your organization plan. All it needs is a place where the necessary attention to the detailed administrative processes that are required can be given.

If, on the other hand, you are going to try to combine it with price control in the kind of program we had in the recent war, the only chance in the world that you have of getting the degree of coordination and

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Under the point system of rationing, currency and even forms could be designed and printed with sufficient flexibility so that they would still be suited to the last minute decisions that would have to be made with respect to which commodities should be included. The expenditure rationing type of control is somewhat the same. If the problems are of the type that I indicated at the end of my talk, we should work on those. Honestly, I think either a point or expenditure system could be devised that could be put into operation on very short order when a defense emergency arose. I think it would take an infinitely short time and would involve an infinitely smaller amount of paper work than the so-called "simpler" system.

I might say one more thing--small change is important in ration currency systems, just as it is in our money system, and it is rather hard to provide. Fortunately, tokens--the equivalent of the red and blue tokens that we had in the recent war--are something that can be devised quite independently from the commodity for which they are to be used. They take the longest time in production and are more costly than any other preparations that are involved in a smooth, effective introduction of such a scheme of general rationing as I proposed.

QUESTION: Mr. Rowe, during the late war we had the field organizational setup, with the regional offices, district offices, and local boards. Under your suggested plan of expenditure rationing, what type of field organization, briefly, would you recommend?

DR. ROWE: May I interpose one point so that I am not misunderstood? You say, "my suggested plan of expenditure rationing." It is true that I do think one of the most promising lines of investigation for a suitable plan of rationing in the next war is in the direction of expenditure rationing. But it really is not my plan. I would answer the question tentatively along these lines:

First of all, your problem of the field setup would be simplified because there would be really only one rationing program with a field organization to represent it. Bear in mind that there would be very few if any price controls over the rationed commodities and this would further lighten the burden upon the field organization.

The job to be done in the field would be somewhat different under the type of comprehensive rationing control that I suggested. The tasks involved in the issuance of industrial and institutional ration allowances, in the hearing of hardship cases, in the appeals for adjustment because of special circumstances, would be of small dimensions compared to what we had in the recent war. There would be the one big hurdle to get over in the first registration and issuance of consumer allowances.

Another job, the checking of compliance at the point of primary production, would come up and assume greater proportions. I want to repeat

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DR. YOSHPE: I would like to raise one question, Dr. Rowe. You spoke of the organizational pattern possibly combining the functional and the commodity approach. In the case of food, for example, you felt that a War Food Administration might be a very essential type of organization. In World War II, we recall from the record that the setting up of the commodity czars in the fields of petroleum, agriculture, and rubber caused the OPA rationing authorities considerable difficulty. I wonder if you would comment on that, and, also suggest, in terms of an organization that combines the functional with the commodity approach, what phases of the rationing authority would go to the functional agencies and what phases would go to the commodity segments of the structure?

DR. ROWE: I see clearly that you intended to ask me a difficult question. It is perfectly fair, you understand. Let me start with your reference to my former suggestion that the pattern of organization would not have to be absolutely uniform for all commodity areas. If I am correct in my statement that within the industrial area the use that is made of resources can be controlled by materials allocation, by manpower controls, and by prohibitions upon the production of refrigerators, radios, and things of that kind, then it follows stabilization controls will not have to be relied upon to perform this function. Price control can impose the desired restraint upon price increases and influence upon returns to producers; rationing can seek a satisfactory distribution of the products available; and these controls can be more or less independent of those over materials or of each other. In this case it is feasible, and may even be most workable, to organize on a functional basis.

The fact that this may be true in the industrial area, particularly with respect to the more durable consumer goods, does not affect my argument that organization by functions will not work well in the food area. I do not think there is any means of influencing the farmer as to whether he sells his grain to the flour mill, or feeds it to his livestock; whether he uses important fertilizer in the watermelon patch or puts it on items that are essential to the war effort; except through the incentives offered by the returns he can get for the different products. Therefore, you cannot differentiate the functions of controlling returns and regulating the use of resources.

It is part of my argument that we have not perfected, and we are not likely to perfect, systems of detailed controls for directing the use of agricultural resources or the distribution of individual food items anywhere near so good as the automatic direction which the uncontrolled economy accomplishes through competitive price adjustments. The only feasible way that I see of handling the food situation is by using a system that preserves that competition.

How do we do this and still accomplish stabilization? I think it argues for an over-all limitation upon aggregate consumer expenditures

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