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## DEMobilization AND RECONVERSION

30 March 1949

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## DEMOLILIZATION AND RECONVERSION

30 March 1945

COLONEL NEIS: Gentlemen: The American public, generally speaking, is well satisfied with the system of free enterprise, and as a consequence, we see a reluctance to consider any form of control or regimentation as being necessary in a war emergency. In a measure, this is reflected in the resistance that some segments of our economy give to economic mobilization planning in peacetime. I think that, if it were generally understood that good economic mobilization planning covered a complete cycle from peace to peace, the American public opinion would be much more favorably disposed towards such planning.

We in the College feel that good planning encompasses, first, the peacetime planning phase of economic mobilization when you have plenty of time to think these things out. The second phase, in some instances, would cover a period of cold wars such as we are presently experiencing. The third phase should provide for the actual period of hostilities, and the final phase of any good plan should contemplate the reconversion and demobilizing aspects of war mobilization.

The directive that will be issued to you in connection with your final phase of the course is going to lay great emphasis on the importance of reconversion and demobilization planning as a part of your final exercise. This morning we have with us an authority who has had considerable experience with the War Production Board, with the War Assets Administration, and is presently with the Council of Economic Advisers. He has made a special study of the field of reconversion and demobilization.

We are extremely fortunate in having with us this morning Mr. Paul T. Homan of the Council of Economic Advisers. Mr. Homan.

MR. HOMAN: Colonel Neis and gentlemen: Claims to expertness in this field are not likely to be made by me or very many other people because the question of how to get out of a war into peace on the economic front is one filled with arguments, controversies, political pressures, and all sorts of technical pitfalls. So I hope you will not be expecting this morning to get from me a blueprint of just how to do it, but rather some crystallization of the character of the problems that have to be faced and certain lines of approach to them that can be made.

This speech of mine is wholly unscripted. I am sure I have more points in my notes here than can be properly covered in the brief time allowed. I will try, however, to bring out the principal points and will be glad to

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take up any special aspects of them or develop particular ones in the discussion period afterward.

In preparation for my appearance this morning I looked over two documents that have appeared in this course, one last spring by Dr. Kaplan called "Demobilization and Reconversion Planning"--the same title that I have this morning; another one from last autumn by Dr. Nefflakower on "Economic Stabilization Controls in Wartime and Reconversion Objectives

In those two documents, particularly in the latter, but to a considerable degree in the former, there is quite an extended treatment of what may be called general economic problems connected with the inflationary forces at work and certain peculiarly difficult aspects of management of price control, getting rid of price control, and the fiscal and tax aspect of the postwar inflation.

So in an effort to make my remarks complementary to those documents rather than overlapping them, I will change the emphasis this morning and discuss somewhat more narrowly the routine processes of a more technical character that have to be put into effect, and, while not entirely neglect leaving somewhat to one side the broad economic aspects that have been quite well treated in those two documents.

Before getting into these more detailed matters, I would like to provide a little general economic setting to the subject. At the end of the great general difficulty, as distinguished from the particular ones, this inflationary difficulty which has arisen, (1) out of the character of war financing which has tremendously increased the amount of money in the system, and probably no war can be operated without having some degree of that war financing difficulty; (2) out of the tremendous amount of liquid assets that businesses and individuals have been building up during war because they were fully paid but were limited in the amount of money they could spend; (3) out of the very great shortage of physical goods available in markets--shortages to meet the demand of the civilian population for consumption; shortages in the materials and capital goods field for business investment. The combination of these factors puts the economy in a situation where the tendency is for the whole price system to get out of control and go ahead with a relatively uncontrolled inflationary spiral. It is that of the problem that we are usually referring to when we talk about the problem of postwar economic stabilization. As I said, these are the things I propose to neglect this morning.

The central questions we have are those of undoing what we have done, how far we shall undo what we have done, and how fast we shall undo it. To get that in focus, the first phase of the discussion, I think, is to relate briefly what we have done.

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In the briefest terms, (1) we have directed large fractions of our resources--labor, materials, and facilities--toward war production; (2) concurrently, we have cut down on the resources devoted to satisfying civilian demands; (3) we have determined the distribution of war-directed resources among their various uses; (4) we have determined the distribution of civilian production among the civilian population; and (5) we have tried to carry out these primary policies while avoiding a drastic inflation on the price front and while creating a sense of equitable distribution of the sacrifices of the war effort.

Now, going from those very broad general points to the second phase of that question, we ask, "How have we done it?" This begins to pick up instrumentalities through which we produce the broad objectives.

Each one of the points that I will now list involves a whole network of controls of one sort or another, (1) encouraging maximum total production by a great variety of means, such as the use of subsidies, the use of labor overtime, reducing the number of products by a process of standardization and simplification, the use of psychological pressures, and so forth; (2) a whole series of specific orders, in the war years called "L" orders and "M" orders, thoroughly limiting the amount of production for civilian uses, not in general, but all over the place, in tremendous detail and limiting the uses to which certain critical materials can be put; (3) we get at the broad objective by consumer rationing; (4) price control; (5) priorities for war production; (6) allocating materials for war production; (7) regulating labor, both as to wages and other manpower controls; (8) directing all capital investment toward war facilities, largely taking over the whole investment functions by the Government, the Government itself financing facilities; and (9) by a whole series of fiscal measures for providing necessary revenues and for holding in check the inflation potential.

Now, underlying these points there are, as you understand, a whole series of types of control that have actually been exercised, the character of which you will undoubtedly have studied considerably in detail in the course of your studies.

But the next question is how to undo them. At this point, and before we start talking about how we undo what we have done, one ought to recognize that what we have done has in a considerable degree been affected by the fact that there is ultimately a problem of undoing it.

I think that almost everybody who has had an intimate concern with wartime planning in the economic field has always felt that, from the point of view of really making the most effective use of resources for war purposes, the measures that are taken, the controls that are imposed and the manner in which they are administered fall very far short of the sort of complete planning that would, from the technical point of view, be thought to be the most effective.

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Apart from the many kinds of private pressures and political pressures that operate upon the whole process of wartime controls, there is a very fundamental reason for this in the fact that it is hoped after the war to get back into something like the same sort of social and economic system that existed before the war. It would be easily possible so far to collectivize operations, and so far to break down the whole private structure of business and the incentive to business, and so far to organize everything into collectively planned units as to make practically impossible the ultimate restoration of our conventional form of economic system.

I suppose that we never can come out of any great war and be able to restore exactly what we had prior to the war. That is not necessarily a bad thing, because there is always some room for progress in our institutional system. But I think it is a necessary preliminary to think how to get back to where we were, to recognize that we have not done some thing because we recognized the problem of getting back.

Now, how are we going to go about undoing the things that we have done under these various headings? As I said at the outset, I am going to start out with more detail and neglect--although I hope to mention the more general economic problems.

I need to make one or two preliminary remarks before taking up the series of separate questions. The answers that we can arrive at in our kind of political and economic system are only partially technical answers. That is to say, we cannot blueprint the reconversion process with the expectation that purely technical economic blueprints of reconversion can be put into effect. This is because of the fact that the process affects everybody; the way it is done affects some people adversely and other people favorably. Any set of ways in which we do it runs into conflicts of interests of people and often into conflicts with respect to the field of their basic ideas so that what you generate is a tremendous volume of political pressures, at times of terrific force. So as we work out of one scheme of affairs into another, a great deal of the process of this vast unscrambling and redirecting of resources has to be carried out on the basis of some sort of political leadership.

There must be some way of composing the vast conflicts that arise. I think this is always a necessary warning--not to say that any political solution is a correct solution, but rather to say that, having done all the technical planning work that can be done, which is essential and has to be available to anyone who is exercising political leadership, there still is going to be a vast number of compromises and secondary solutions which are not subject to advance planning. In consequence, one has to come up, with more or less relative answers to questions. Should price control be continued for quite a long time after a war and, if so, for how long and in conjunction with what other bodies of controls?

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With these preliminary remarks, I propose now to take up a series of specific questions. I have numbered them consecutively. However, they run into one another. That is to say, they are overlapping and one more or less runs into the next.

My first question is this: "How are you going to arrange for private industry to have equitable re-entry into postwar markets?" I might say that what I am going to say this morning is a reflection upon the experiences of the last war rather than some provision of just how to get out of the next war. I am in the same position as that in which they charge the Army was in preparing for the last war. But I think that if one properly reflects upon the problems of the last war in terms of certain new factors that are there, it is not a waste of time.

This problem in the last war arose, and I think in any extended war will always arise, not after the war is over, but while the war is still going on. It arose first in a very small way and at a not very late date—in the course of the year 1943. It arose out of the fact that all over the country, as certain types of military plans developed, it became necessary—for example, in connection with some parts of the ammunition program—to cut back production. I mean you were over-planned, over-programmed. Then certain facilities became idle, and certain pools of unemployed labor develop. It is not so much a competitive question at this phase as it is a question of whether or not we are going to make some concession to the civilian economy for the purpose of providing a livelihood to all the labor force.

Now very serious questions of judgment arise here. This arose quite early in the war, in 1943. However, there were sufficiently un-filled needs for manpower elsewhere that the primary solution, the sensible one, was obviously that of not trying to look after these people where they were but to force migration to points where they were still needed. But at some point or other that ceases to be the answer.

So the question arises as to whether or not we are in a position to give them employment without damaging the war effort, and this immediately comes back to the question of materials. Have we the materials that we can direct toward those secondary civilian purposes? At some point this becomes possible. There comes a period late in a war when it is by no means impossible to direct relatively substantial amounts of secondary copper and some other things here, there, or elsewhere. I will omit the terrible controversy that at this stage or at a little later stage is always bound to arise between the military and civilian managers of war production as to whether we are to relax or make concessions to the civilian economy at a time when we are still deeply embroiled in war. In any case at some point along the line there will be no particular reason why some materials cannot be allocated to restore a somewhat greater amount of civilian products in this field or that field and to make some allocation of manpower for the same purpose.

DIRECTOR OF PLANNING  
INSTITUTE OF PACIFIC AFFAIRS

But in this very early phase and before the end of the war we run into the questions: "Who is going to get the material?" "What are they going to make with it?" "What products are they going to sell?" and "How is this going to affect the competitive position of the people who are still fully engaged in war work?" This is just a little cloud you will see quite a while before the end of the war. But now we get around to a time such as we will say, the late summer of 1944 when we have broken through the German lines, the Army is spreading all over western Europe, and everybody knows it is just a matter of time until the war is over. Then, immediately the matter of making progress back into peacetime markets becomes a matter of tremendous importance in the minds of businessmen and industrialists everywhere.

The question then is how to arrange this re-entry. The problem is a big problem. If the war does not end suddenly, but goes off gradual we get around to a time, such as the spring and summer of 1945, when so much a proportion of our resources is not needed in the war effort and where it perfectly feasible to use a great many more of them in starting to build up the civilian economy. At that point, the next pressing question becomes that of reactivating the civilian economy.

I am stressing one point in this whole process of reactivation, that competitive re-entry of individual firms. I could spend the rest of my allotted time on this subject, so I am going to pass on very briefly by indicating the sort of general principle that was followed up to a point in the last war; that was, if you permitted or were able to permit some industries or businesses to get into civilian production, to limit them to old models. In other words, not to let them get a jump on new postwar models until the time had come at which more and more people could get in.

Now actually the problem didn't come to such a terrific focus after the end of the last war as it might have done had we followed a different line, and as it might easily do again, because actually with the war running out in the summer and autumn of 1945, instead of easing off on controls pretty well, they cut them all off. It was a terrible mistake. That gave us a new kind of problem. But had we followed a process of stepping down the controls gradually, keeping our procedures and building up civilian allocations for industrial uses, then the thing could have maintained itself as an important problem for a very long time. I just leave the problem with you for the moment.

I will go on to question number 2--"How rapidly should we discard production controls?" As soon as we are past the phase that I have been speaking of, or in the middle of it, so that very large amounts of material and manpower are available for civilian production, we are caught in a series of situations, such as a tremendous scrambling for material for civilian production. Inventories of essential materials are scattered around in very peculiar ways. They are located where they were needed

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in war production, not where they may be needed for civilian production. A very good case can be made for continued inventory control until that situation is unscrambled. In the effort of firms to fill up their pipe lines of materials and components, to get together all the essential things for producing, a very unbalanced situation arises in one firm's plant or another's. It takes a long time to unscramble it and also a lot of bitter feeling.

There is a very good case to be made for continuing the allocation of scarce materials and priorities on scarce materials for a fairly extended period of time. Then, if we think in terms of some continuation of inventory controls, some continuation of allocations, that may well be backed up for a period by the continuation of certain "I" orders on the uses that might be made of materials as was done after the last war. Although most of them were dropped like hot potatoes, a few, such as tin and some others were carried forward. All these scramblings for materials, the difficulty of collecting at any particular plant all the necessary things for getting on rapidly with war production, are also related to the general inflationary problem because of the competition of producers everywhere for the limited supplies that are available.

Now, here is a very interesting fact. Before the War Production Board had dropped the system of controls which it had operated, it questioned all of the business advisory committees underlying all this apparatus--I forgot how many there were. My recollection is that there were 750 or 800 of them. The business advisory committees that worked with the administrative officials in the War Production Board were polled to find out whether they thought that the basic controls should be dropped quickly or continued along and eased off gradually. My recollection is that the results of this poll were that less than 100 of the over 700 business advisory committees were in favor of a rapid drop, and the rest expressed themselves in favor of drawing things out.

This ties back, I think, substantially to the first point that I was talking about--they didn't know how they were going to fare in the competitive scramble and they had a feeling that a more orderly restoration of business activities could be achieved through certain limited allocation processes and controls. This runs quite contrary to the general impression that business in general was eager to go and wanted to get rid of all controls as fast as possible.

There were many individual businessmen like that. But when you take the whole habituation and the whole discipline that they have been caught under during the wartime period, then there must be a very great number, and peculiarly the smaller businesses--the ones that feel they are to be caught at a disadvantage, who are bound to feel a great nervousness. They would rather avoid throwing everybody into a competitive scramble.

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You can see by the way in which I weighted my presentation of this point the general character of my own views. I think that the "discard and scramble" method which in effect was followed after the last war leaves much to be desired.

Just to continue one more aspect of this point, at the end of the last war, having dropped the controls, there was at least an appearance of carrying out a number of voluntary allocation schemes. My impression is that they were not very effective and were more or less rapidly discarded under the Civilian Protection Administration at the end of the war. However, let us put it in terms of a person like the CPA administrator. What he was now dealing with was for example how much steel to allocate even on a voluntary basis to certain types of uses. His problem was to find some basis upon which to determine how much steel should go to automobiles, how much to refrigerators, and so on.

If he allocated in such a way as to let certain plants, even whole industries, build up faster, it was possible to get a much higher rate of postwar efficient operation, industry by industry, and at a much more rapid rate, by keeping certain people fully supplied and keeping other people starved, gradually cutting the latter in one by one. But this would have played hob with the competitive situation.

In wartime there are sound criteria with respect to how to direct materials, because you have programs--the programs are drawn on paper. You must have so many planes, so many tanks, so many of this and that. You do it out, and that is where the material goes so far as plans work out as they ought to do. What is left is for the civilian economy. There the primary principle is to keep as nearly as possible to a replacement basis, with a minimum of new products.

When the war is over everything in the criteria applicable to guiding wartime production disappear. Our civilian economy is not program. So when an administrator attempts to allocate materials as between different civilian uses, he has to get pretty arbitrary. Nobody loves him except a few people who he appears to be favoring. I don't say there are no criteria, but I think it is a very important point to get, that you have very sticky criteria here upon which to operate.

Now let me go on to my question 3, which is a special illustration of the preceding point. This is the special case of postwar construction, in other words, in CPB language, "What was the fate of 'L' 41?"

Now "L" 41 was a wartime regulation designed to prevent any use of construction materials for nonessential purposes. There was an effort to continue it into the postwar period, but it was dropped in the fall of 1945 so that the immediate effect was to let everybody who wanted construction

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material converge on the very limited market. There was a great need for housing, but there was no principle of distributing the very limited amount of construction material between housing and essential commercial and industrial construction on the one hand and every kind of cheap and petty use that would call for construction materials on the other.

Then what happens? There is a terrific demand for housing, particularly the veterans' demands for housing. When the veterans got back in tremendous numbers what was their situation? Clothing was short, but it was short for everybody. Food was rationed for a time, but even when rationing was discontinued, the situation was the same for everybody. Veterans fared practically the same as everybody else getting things off the shelf. But when it comes to housing, they were not the same as everybody else. Everybody else is in a house, but the veterans don't have a house.

There are these tremendous pressures, particularly veteran pressures, for a big housing program. An emergency housing program is set up. But to make it effective, it is necessary to block other people out of the market in order to direct materials into housing. So an administration is set up and the attempt is made to restore some of the controls to cut off certain uses of construction materials. But it is practically impossible to restore the procedures and to make them effective. Materials get diverted in all sorts of ways. When price controls are restored, materials and labor dribble away into channels where price prospects are better. To make a long story short, the effort to have a program for housing, while not exactly a failure, was greatly impeded and made very, very imperfect by reason of the fact that it had not been planned in advance.

From this illustration I will point a moral. If at the end of a war there are some things that we want to program--they have a kind of analogy to the wartime program because they are of sufficient social importance and we want to give them a priority in the midst of the tremendous over-demand for every salable thing in the world--we must make up our minds in advance. We must determine what are to be regarded as essential postwar, peacetime programs and retain the amount of controls necessary to carry these limited objectives. Once we disperse the controls, then it is almost impossible to bring them back to meet even limited objectives.

I have spent so much time upon the preceding topics that I shall be able only to read the topics of the rest of my questions. I have, however, managed to open up the principal lines of thought that I wished to open up this morning.

My next question is "How can we promote physical plant reconversion?" There is not very much that needs to be said on this. In his early lecture, Mr. Kaplan pointed out that a good system of terminating contracts is to make contract settlement rapidly, take a certain amount of chance, and don't pinch

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pennies, so that everybody can clean his plant of war material at the earliest possible moment and get his lines set up for civilian production. Give every incentive to every type of business to get that phase over with as fast as possible. It is not necessary to pamper them, or to do much for them except to permit them, as rapidly as possible, to get their plants back on a working peacetime basis.

This is tied up, however, with another question which I suggested earlier, namely, in the light of competitive positions what plants ought to be carried on in war production to the end of certain contracts?

My next question is, "How should we dispose of surplus war assets?" On this point I will say little more than that, from the point of view of the postwar economic situation, where everything is in short supply and the great necessity is to get products on the market, the primary economic objective is obviously that of moving the material fast. If you are aqua with the actual Surplus Property Act that was passed, you are familiar with the fact that it was designed to protect practically every social objective which was favored by the people of the United States, except to get rid of the material fast. The objectives on the whole were admirable. It is a good idea to have veterans' preference. It is a good idea to favor small business. It is a good idea to pay attention to the competitive structure of markets and so forth. But it is really difficult to take some 20 objectives, as I recall, stated in the policy at the beginning of the Surplus Property Act, many of them conflicting. It is impossible to sell surplus property fast and in big amounts without a lot of inequities, without a lot of windfall profits, and without favoring a lot of speculators with you would rather drown. It becomes a matter of judgment, in the formulation of a surplus disposal policy, to which extent other objectives can be combined with speed in disposal of things that are badly needed. Speed is anti-inflationary; it fills a great need. It is a great pity to have the disposal dragged on over months and years.

I have time only to mention my next three points: how to dismantle labor controls; at what rate to get rid of price control; and at what rate to reduce taxes. These have been given earlier attention by Dr. Koplow and Dr. Heflebower. Finally, a few words are necessary on how to assess our continuing international obligations, and the effect which that may have upon postwar reconversion or demobilization activities.

It is perfectly clear that at the end of the past war we completely misconstrued the character of the postwar political and economic obligations of the United States. We went through the history of the rapid and brutal cutting off of Lend Lease. We moved into the UNRRA program on the presumption that all we had to do was put up a couple billion dollars, feed some foreigners a little while, give them a little aid in rehabilitating their industry and agriculture, and they would be all right. The next big oper-

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was the British loan, made in insufficient amount and in completely unrealistic terms. Finally, after a period of years we got around to a real conception of what the character of the economic obligations were for supporting a politically and economically stable world.

Probably nobody could have been wise enough at the end of the war to have foreseen the entire imbroglio in which the world has become involved and to which we are now a party. Surely we should have shown more foresight than we did. But, not to look toward the past, but looking toward the future, as we get toward the end of a war, we must assess what the economic responsibilities and burdens of the United States are going to be. How will it affect our judgment with respect to the whole question of dismantling the central structure that we have discussed earlier this morning?

I feel quite certain that, had we properly assessed the character of the international situation and the degree of civilian assistance as well as military preparation that was going to be necessary and given them due weight in relation to the economic demobilization problems on the domestic front, it would probably have induced us to dismantle our central structure at a more gradual rate.

In conclusion, let me make just briefly the following points: How big the problem of economic demobilization is depends on the length of the war. The longer it is, the bigger the problem. As I said at the beginning, the major never to be worked out cannot be worked out entirely by economists or planners in the back room, because of the conflicting objectives and political pressures and the need for political compromises. However, the character of the problems one by one can be foreseen, the technical features of dealing with them can be worked out in advance, and many tentative decisions can be made as to what is preferable to something else. In other words, if we are going to have forceful and intelligent political leadership, the whole basis of economic analysis and judgment on each separate part of the problem has to be worked out in advance. My general judgment is, in the broadest terms, that it would have been a great deal better to have kept a good many controls for a longer period of time.

Before ending on that note, I would like to say--and even this is arguable--that what happened after the war--was offensive to one's sense of the orderly working out of the problems. What we in effect did was to hang on to price control for a certain period, but apart from that to throw the door open and tell the business world, "Go scramble." Business really scrambled, and it got back into industrial operation at a rapid rate. After scrambling along somewhat inefficiently for the first 12 or 18 months, business had the whole economic system working at a tremendously high rate. So it is really arguable whether better industrial productive results could have been secured in the same period of time in any other way.

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But the question arises whether by proceeding that way, we can manage at the same time to do other things that are important, for example, taking care of certain essential programs like housing or programs implied by our foreign obligations; and how, if we completely relax controls, we can avoid becoming involved in an inflationary spiral. Some restraint for a period upon the ingrained desire for freedom of action appears to be the necessary price for avoiding later economic and political difficulties of most serious nature.

I have told you where my own views lie. I admit the irarguable character. For what it is worth, my view is that the only sensible way in which to approach the end of war is to identify the character of each of those problems in detail, to work out what seems to be a reasonably proper technical way of dealing with them separately, and to devise general economic controls for taking care of them on the assumption that we plan to step down gradually and to avoid the intervening chaos.

You may use a military analogy here--you can plan a battle, but the battle won't flow quite the way you had it on paper. The fact that you had it on paper will, however, apprise you of the various contingencies you might have to meet and the various moves that might be made. And so it is here. I think it is only on the basis of that intelligent and forward planning that the responsible political officers, who will be buffeted around by all the pressures and by all the economic interests involved, can make reasonably sensible use of their powers of political leadership.

QUESTION: I will raise just one question. You mentioned the problem of returning various industries, or facilities, to the civilian markets on an equal, competitive basis. Could you elaborate a little on this theme?

M.R. HOLMAN: It is the private interest to which it is vital. The question, I think, that is involved here is this: What do you concede to a whole body of hundreds of thousands of separate private interests in what they regard as a fair competitive start? How far are you willing to acknowledge them as having public importance or as being in some sense a matter of real public interest?

If you started to program down your military procurement after a war and wanted to do it in the most efficient fashion, from the point of view both of the most efficient production for the remaining war contracts and the most efficient starting up of civilian production, you would concentrate the former in some plants and start the latter in other plants. The effect of that, just to make it concrete, might be that Packard would get into the business of producing automobiles two years after Chrysler did. You may say that is of no interest to you or to me, but it is of very great interest to Packard. In the end you might find many companies completely squeezed out of their place in the peacetime market.

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All the people involved are members of the American community, as proprietors, managers, or employees. The interest of all must be protected. Their interest in getting out of the war is that of getting out in a way that permits them to restore their means of livelihood in peacetime. They are animated by a sense of what is equitable, what is fair, and what is not fair, and you simply cannot operate this whole process of reconversion without conceding a great deal to that sentiment. It is necessary to reconvert in a manner which makes people in general feel that they are getting back on a fair competitive basis.

QUESTION: You didn't mention subsidies. I will go along with you on easing off controls, but perhaps we are apt to have to go a little further than that to get production started in certain channels by subsidies?

MR. HOMAN: Were you thinking of any particular industry?

QUESTIONER: Yes, farming or farm materials, tractors perhaps. I don't think of another one offhand. I know there are several.

MR. HOMAN: The principal use of subsidies during the war is of two sorts. One is to get out a lot of extra, marginal production at a somewhat higher cost without having it affect the whole level of costs across the industry. Thus you can subsidize a particular lead mine without paying a higher price for all the lead you buy. The other is largely on the consumer side, to hold down the cost of living as a kind of secondary support to the price control system, which relieves the pressure on upward wage movements.

The situation after a war is essentially inflationary in character. I can't think offhand of any product that needed a subsidy since the war to keep up the production at some level that was satisfactory from the point of view of distribution of our resources among many different uses. The principal reason for continuing subsidies would be because you wished to carry out a particular kind of program. For example, if you wish to have a large amount of low-cost housing that will rent at rates too low to be taken care of by commercial building, then you have to subsidize. Or if, for a period after the war in connection with carrying price control through for a longer time, you wish to keep the cost of living down and keep wage pressures down, you might wish to carry forward some kind of food subsidy. But I would say that in getting out of a war, the subsidy problem does not loom very large in my mind.

COLONEL NEIS: Mr. Homan, I am sure that the students would keep you here all afternoon if time would permit, but our allotted time has run out. I take this occasion to say that you have opened up to us a number of very stimulating areas of thought. On behalf of the students and faculty, I thank you for a very fine presentation this morning.

10 May 1949--750)S/mng.