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THE CIVILIAN ECONOMY IN A WAR EMERGENCY

26 May 1949

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COLONEL STAMM: General Holman, gentlemen: You have received a biographical sketch of Dr. Elliott, so I see no reason for talking about that now.

In the past, when we have had Dr. Elliott here, he has always more or less limited his remarks to the civilian requirements in a war economy. However, this year we felt that we should let him say what he wanted to say. This morning he is going to speak to us on "The Civilian Economy in a War Emergency."

Dr. Elliott has been a professor in the Department of Government for years. In addition to that, he has spent a great share of his life (from 1936 on) in various advisory and executive capacities in American Government. At this time he is still functioning in an advisory capacity to American Government.

I take great pleasure in presenting to the College Dr. William Y. Elliott.

DR. ELLIOTT: General Holman, Colonel Stamm, and gentlemen: I hope Colonel Stamm's amiable invitation to extend myself into the emergency rather than the war aspects of the civilian economy was not calculated to give me enough rope to hang myself because it is a little short of a hanging matter, perhaps, to express some of the sentiments that I feel about, what I take to be at this good moment, a period of emergency.

Now, legally speaking, it is not a period of emergency. It has not been so declared. But, as one looks at the facts of life, it is an emergency. We are spending over one-half of the Federal budget on matters that are directly related to the struggle for the world that is going on between the totalitarian system in Russia, and its satellites, and the more or less "free" countries that we range on our side.

I do not know what the amount for the military budget is going to be. It is being whittled every moment. When there isn't anything else that is politically vulnerable enough to offer a little lopping, the military budget is always a very tempting objective. There are not very many votes affected when you cut off substantial slices of your defense budget. It may run, if there is a 70-group Air Force proposition, to 16 billion dollars before we are through with it, in spite of the efforts that have been made to lop it. It may be cut close to 15 billion dollars if one does not count in stockpiling acquisitions and a number of other things of that order that properly belong in the military budget.

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Actually, if you look at the subsidies that we are paying to our merchant marine, you will see that they are primarily justifiable only in terms of military necessity. Of course, the methods of indirectness that are used are possibly politically necessary. They are not very happy devices to load on more and more to the amount that you are giving to your merchant marine through legislation that ties them on to forced shipments under ECA or import-export programs, generally, in so far as they are government supported.

The total for direct military expenditures cannot run very much less than 16 billion dollars. If you put in the indirect methods, it will run a great deal more than that.

It is not conceivable that Congress will act on the European Recovery Program in terms of much less than four billion dollars this year, after all the jockeying back and forth for position among the different countries. There are always some anguished outcries when there is a cut made in that area. But I suspect that four billion, or some such round figure, will prove that anything less is not workable. I doubt if cuts deeper than that will be supported.

The original proposal, as you know, ran to about four billion and three or four hundred million for this year. That is for the 12-month period, not the 15-month period. If you add to that an arms program--I hope we will add to it because the whole investment in Europe is not going to be worth very much as long as Russia can overrun Europe to the Atlantic in a matter of weeks, if not days or hours--for the support of the Atlantic Pact, to the amount of, say, a billion and three hundred million plus a supplemental arms program of some 300 million dollars, the total runs, in round figures, to something around 22 billion dollars, which is pretty close to one-half of our budget, federally considered.

If this is not an emergency, and if we are not in a state of very hot peace, if not cold war, all this doesn't make very much sense. If there was not a genuine and real danger that action in some area of the world would precipitate a war tomorrow, whatever Congress wanted to do about it, or whatever the American people wanted to do about it, would not be worth any more, fundamentally, than it was the last time. I say, in effect, this is a period of very drastic emergency. With our forces exposed in places like Berlin or Vienna--they are tolerably tough fellows--they have to take many risks and must keep their nerve all the time.

Now, of course, if we are so foolish, we can relax everytime "good old Uncle Joe" makes another chess move and sets off his dog-and-pony peace shows in the Waldorf, or in Paris, or gives another demonstration for "peace"--not peace at any price, certainly not at the price of Moscow, but peace at the price of "our" system. We go into a conference on the Berlin issue as a jumping-off point, though I think we should

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have been a little tougher and said we would not confer until they had actually lifted the blockade completely and in fact. It is silly to make any sort of a concession by saying, "We accept your word," when the word has so far proved to be of so little value. But that is a cat-and-mouse job. Whenever Uncle Joe wants to tighten up on the blockade, the means are there. If we do not emerge from this conference with a corridor into Berlin, we will still be in the position we were when we went into the deal. If we do not emerge from it with a settlement that promises something that we can enforce, how much is the whole deal worth? And we are not in a position to enforce things, as yet. There are not fifty divisions available, for instance, that could be put on the Rhine. We haven't the required minimum for even a holding action, I take it.

It seems to me, in every analysis of the sort you are dealing with, you do ask, first of all, "What are our objectives in the light of that real world?" That is the strategic background of any kind of an analysis. That is the type of analysis needed for planning the civilian economy in emergency that I have been asked to make this morning.

Now if this is a correct picture of the real world, that I am giving you, even though we may live for a considerable period, some years, in this atmosphere of dickering, negotiations, tactical maneuvers on the part of Russia, back and forth, fundamentally we will not be living in a world of peace nor a world that promises peace. We will be living in a world threatened by a power system that is frankly and--this is very useful--openly dedicated to the destruction of every free system outside itself, for two reasons: Its own myths by which it has indoctrinated its own people and held them in line and won adherents among the soft-minded creatures abroad who are deluded into thinking this promises some freedom for the world when, as a matter of fact, it has produced nothing but slavery wherever it has gone, most of all in Russia. That is the first point--its myth; its inner being. That myth demands the violent overthrow of all free systems, by revolution or conquest.

The second point is that the Russians cannot stand the comparisons of a free system. That is the Iron Curtain's protective side. The Politburo tries to prevent the Russian people from getting the knowledge that people live freely, happily, and at peace with one another in other parts of the world--without having statues to Lenin in every village; without doing obeisance to the great father, Stalin, every time they open their mouths; without an odor of fear going up which turns every man against every other man.

I assert that such an atmosphere in any predictable future, until that system changes its character radically, cannot lead anybody in his right mind to think we have peace, or anything that promises peace. We will have variations in the tempo of the cold war. We are getting one today. But what is the guaranty, if we don't give in on the points that the Russians want, and if we emerge after this Big Four

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Foreign Ministers Conference without agreements, or even with them, that within a matter of months, certainly years, the tempo won't change back the other way? There is nothing in the fundamental attitude of the other fellow that he wants peace, and until you get that attitude you haven't got peace.

Now I assert that that state of facts, entirely the product of Stalinism, creates a condition of emergency as long as it exists. I see no prospect of its changing so long as that system remains dominated by the Politburo, as it will, I think, for a considerable period of time. No one can predict the outcome of Stalin's death, possible splits, and all that sort of thing. I would not count on Malenkov not being able to ride out the troubles of succession to Stalin.

It is very important to make that point clear and explicit in our thinking and to persuade people in the State Department and everywhere else to believe it. If we had been able to persuade them of that in 1941, 1942, 1943, 1944, and particularly 1945, what a different world we would have been confronted with! Or better if we had been able to persuade Roosevelt and Hopkins—who really ran our foreign policy—world conditions would be different. But those of us who did try to persuade them were treated as little short of traitors. It was, as you know, a very unpleasant business to take this line, in spite of all the evidence to support it during that period. When the Eighth Colmer Committee report first came out in late 1945, it was greeted with outrage in some sections of the press, particularly the boys who had been on the Morgenthau line, the so-called "liberal" press. The idea that we must rebuild Germany, that we must reintegrate Europe, that we must stand our ground against the Russians and not permit them to move like a glacier over Europe, was treated in many quarters as mad. We were dealing with a friendly, peace-loving Russia, and so on—that was still the popular line in much of the press.

Today, what the Colmer Committee reported in 1945 is all clear, due to a changed public opinion. While it is much clearer than it was, and is now official policy, it is still not sufficiently explicit. Stalin's system would get the greatest diplomatic victory of all time—greater even than the one over Roosevelt and Hopkins and the other emissaries of Roosevelt—if it could persuade us to call off the dogs, to drop the Atlantic Pact, not to implement it with arms, to cut our defense budgets, to relax and to take the old attitude that now Russia is going to be good because Vishinsky is no longer railing at us like a fishwife.

We ought to learn something. It is exceedingly important that we do learn something in the world, about human beings, systems ruthless like the Russian and that kind of thing. The Moscow design is the dominant fact of our times. Everything I am going to say depends on this presupposition. If I am wrong on it, then I am equally wrong in at least most of what I am going to say because I think we need some

fairly immediate action which one might not need under other conditions. If we had, for instance, ten years to think about them, and a different type of world economy, we could take a long, quiet look-see. We would not have to put on in a matter of months, not years, an organization that could actually function and take up the job, let us say, that the War Production Board was doing in the last war, if we had ten years guaranteed to us. It would be entirely appropriate to have the National Security Resources Board do what that Board, I understand, is now reorganized to do--to study the methods of planning for the next war--if we had ten years of sure peace.

But we do not know how much time we are going to have. Nobody can guarantee it. Your intelligence services may tell you that thus and so is true about Russian operations; that they are weak in oil (they are); that their transportation is still very bad (it is). But there is nobody who would responsibly take the decision that we could count on the Russian forces not moving over Europe if the situation developed tensions inside that system, or if crises should develop outside that would cause them to lose too much face.

That being true, I assert that the civilian economy today ought to be planned on the level of putting into operation within a matter of days, if possible, certainly weeks, drastic and sweeping plans for the merging of this economy into a war economy. That would not permit the easy steps that we took last time.

Generals, admirals, and strategists of the military forces are usually accused of fighting the last war, or the war before the last. It is certainly true that the civilian economy is likely to be planned in terms of the last war, if not the war before the last.

What was the nature of the civilian economy in the last war? What is the civilian economy that we have to talk about and worry with here in the Industrial College? What are the differences between the situation that confronts us today and the situation with which we were confronted in 1940, or?

Some of us came down to Washington--I am glad to see one of them coming in right now (referring to Mr. Howard Coonley)--to try to deal with this problem before this country got into the war, but when it was quite obvious that it was going to become involved.

Now, for two wars we have had the protection of an ocean. We have had a rough time with submarines in both of those wars and I suppose there is no Navy man here this morning who will guarantee we won't have an equally rough time with the schnorkel, maybe, next time. We did not stand a remote chance of successful invasion in this country certainly after the early part of 1941. After Pearl Harbor, there was a brief period of gamble for the Japs, a desperate chance--well, we were really wide open. But our production was rolling, men were under arms. It was not like 1940. The providence that has protected drunken men, fools, and the United States again protected us.

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In those two wars in which we were engaged, we were allowed to use two full years at a minimum to build up whatever we had to do. That allowed us to make a slow transition from peace to war with leisurely measures that should permit the civilian economy to function at pretty much its normal volume--actually, at a higher-than-normal volume--at the end of the war.

In my judgment, that was time that will not be permitted us in the next war we have to fight, or in any wars that may occur from here on out. Now why? In the first place, I have no confidence whatever that we would control sabotage, interruption of production from strikes, in the extremely successful way in which we have, in the main, in the two past conflicts. We are dealing with a different order of organized sabotage this time. It is something that has been far more deeply planned. It is something far more ramifying. The apparatus of the Communist Party that is set up in every defense industry in this country is not there for nothing. It contains a different sort of operator from the fellows that the Nazis brought in in submarines to blow up things, or the agents that were involved in the Black Tom explosions of the First World War, and the use of those little pencils that were really time bombs to burn up ships. Those had quite an effect, in the First World War particularly.

In the future we would not be confronted with that kind of a proposition. We would be confronted, I think, with something that would be shocking in its impact and magnitude; something that might have very disastrous results in key industries. In the last war, anyone who had to study the vulnerability of certain areas and sectors of this economy, such as the movement of iron ore down through the Soo locks, could not rest comfortably unless we had control of that situation in a way that we are not likely to have in a surprise attack, initiated from within as well as without.

Now, I do not refer to atomic weapons. They may be three, five, or ten years off in Russia, or they may have them; no one can guarantee that they haven't. But surprise attacks of that order alter completely the whole picture of warfare, in my judgment, particularly in a system as vulnerable and wide open as is ours. And biological warfare is also possibly a source of rude shocks.

We haven't, and we can't get, a police state. Our people are not accustomed to think of it. It is the very nature of our system to want to maintain freedom of movement, and so on. Yet this precious and necessary freedom leaves us extremely vulnerable--certainly in a way that Russia is not, nor any of its satellite states or states under its control--to that type of activity.

I have no words to give you gentlemen on the dangers from the air. That is your business. You have to calculate that. It may be that the jet planes can knock down any planes that come over, and that the day of guided missiles is far enough off to give us a relaxed feeling. It may be that the submarine will be brought under control once

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more, even though the schnorkel seems not to be, according to my friends who are working on it at Harvard, very easy to deal with by any sound-ranging devices, and things of that sort, yet. But you have that job. You have to estimate that. I imagine you would find it difficult today to guarantee against catastrophic surprise attacks.

I assert that in the operation of this economy in an all-out war fought against Russia, under the conditions we have to think about a war--that is the only war we are ever going to have to fight, in our lifetime certainly--that is what we are here for: to plan the conditions under which wars would be fought (that is your responsibility)--you at least must be ready for it, in so far as you can be in a system that does not spend much thought on it, that will make heroes out of you when the drums begin to play but that keeps you on a basis of short rations in the meantime. You have to struggle along with our system, strong in emergencies but never prepared for them.

That means an entirely different approach to the next war. Let me run very quickly over what we did the last time.

In 1940 the Advisory Commission to the Council of National Defense was set up. The membership consisted of one woman, Miss Harriet Elliott (no kinswoman of mine), and six men--Don Nelson, Knudsen, Stettinious, Chester Davis, Sidney Hillman, and Ralph Budd--you know the group that was brought down. Labor was brought in. Miss Elliott was there for the consumers, which was the very beginning of the civilian economy that I had later on to deal with at the end of the war.

The Commission had no chairman. It had a secretary, William H. McReynolds, furnished by the President's office, who had two or three other jobs and was not particularly active as a secretary. The Commission went its several ways as such. It did not have any stated or agreed objectives. It was not in any position to know what the magnitude of its task was. The President gave it little or no guidance. He did not tell it, "You've got the rest of the world to support, gentlemen. Get ready to do it." He just said, "The people have been hollering for a lot of businessmen to come down here to help me. You're here. You're stuck with it. It's your baby." That was nice politics. It took him off the hook and put them on.

Well, when I reflect back on what poor old Knudsen, who was one of the sweetest, finest, simplest-minded men I ever saw, had to reconcile with in figuring out what he had to do to get industry going, what contract authority he could have, what kind of guarantee he could give to business that this whole thing wouldn't blow up in, say, six months, I am convinced it took a man of superb patriotism and integrity to take the risks he took.

In the confidence of this room, I may say that I am sure Ed Stettinious lost a great many nights of sleep and that his health

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suffered considerably from the fears that he had of what he was asked to do without having adequate legal responsibility to do it.

Don Nelson signed the orders that got going to England during the days immediately following the fall of France, in the last of May or first of June 1940, a great part of our stocks of military equipment. Boy! his name would have been "mud" in History if that had turned out to be a bad risk. But England was not invaded, and our help bolstered them to fight.

We had to do things that were improvised, without coordination, without planning, without staff work, without integration, without any known objectives. I remember poor old General Haislip was the Budget officer at that time. I used to have a drink with him in the evenings and we would play golf together, if he ever got time to play. He came into my office one day and said, "I've got another sum of five billion dollars. What will I do with it?" You see, he had not been trained in those terms. This was more money than he every thought of. The estimates were very cautious for military commitments, naturally, at this time. They were so inadequate that my own memoranda on them were pulled out of the central files because they would not look well if ever congressional investigations were held after the war. I asserted, and I think I was proved to be shockingly inadequate--my mistake was, I ought to have been shot not for going as far as I did, but for being so moderate. Still I was so many hundred percent ahead of everybody else that I got the reputation of being a wild man. I said we had to have every ounce of aluminum, every ounce of rubber, every ounce of copper, lead, zinc, and everything else that we could lay our hands on. If we really meant business, we had to do this. If we did not mean business, for heaven's sake let's get out of the way of it, one way or the other, and even so we should have to mobilize all our resources to defend America alone.

The civilian economy during this time was sacrosanct. When I proposed even a mild priority system, it was thought to be too drastic; it would interfere with business. And when I tried to get small stock piles taken out of current consumption at all costs, at a time when it was quite obvious that we had some leeway, but not much, by putting government procurement ahead of private procurement, it was thought this would interfere with private business. It was quite obvious it would upset the market if it was not skilfully done. Later on, we found out how to do that better.

Well, we didn't have stock piles and we were not building them up. We couldn't get them. If you ask me, I think we are repeating that performance today. The stock-pile objectives are inadequate, but the performance is shocking. To me, if anybody gets complacent about a four- or five-month stock of manganese in this country, he's got an argument on his hands. We wound up the war with a 12- or 15-month stock. The steel industry never let itself get below an eight- or a nine-month stock of manganese before the last war. It is not a safe proposition. It is too big a volume, tonnagewise.

We couldn't get priorities in the early days of 1940 and 1941. Then when we got the priorities, they didn't mean anything because everybody inflated them. It became immediately apparent that we had to put on limitation and conservation orders. But they were not put on for another six months till well along in 1941. There was no allocation procedure to see whether these stocks went to the right place, to the right person, beyond just lopping off the end use here and there through sweeping, general "L" or "M" Orders. That, you will hear more about later on. I don't propose to deal with it at this time.

When OPACS was set up, it was set up as an office of price administration and rationing controls for the civilian economy. It was set up separately, first as a part of the OPM and then detached from it and set up as an Office of Price Administration, setting up just price and rationing control and leaving the control of the civilian economy to the industry divisions and operating Vice-Chairman of the War Production Board. The programming of civilian requirements was in a separate shop called Civilian Supply, subordinated to OPM.

Leon Henderson was head of the Division of Civilian Supply as well as OPA. The civilian economy was being dealt with in three different places. One was dealing only with price and rationing controls. That was Henderson in his capacity as Price Administrator. Then as Director of Civilian Supply, he was dealing with the civilian requirements, the programming, and the claimant agency functions for them, and nothing more. Joe Weiner was his deputy for that. The Industry Divisions were controlling the actual production and issuance of orders as a part of the general WPB control of all industry. They were, in effect, the people who had the real responsibility; with Henderson and Wiener holding a watching brief--and kicking.

There were some good reasons for that separation which enabled Leon Henderson to have the pressure taken off him in his capacity as Price and Rationing Administrator--the responsibility, too, along with it, I may say--for seeing that his price and rationing controls did not upset production. He was in the enviable position of saying, "Well, I'm sorry, boys, but we haven't got enough. This is the way it is. These are the prices you are going to live with. You go over and talk to the boys in OPM and the OPM and the WPB. They'll tell you how to get the stuff produced. They will issue the orders to do it. If you don't like the prices I am setting, or the controls I am setting up, why, that's too bad. We'll argue about that later, maybe. We'll come to some conclusion six months from now." It usually took about six months to get an appeal. As a pressure-resisting device that was all right because OPA didn't have to bother about cutting production.

The Canadians did not use that separation of rationing and price controls from programming and production. They had a quite different system. They had the whole thing in a package. Hugh Gordon, up there, had the entire package of civilian production programs, price and rationing, for textiles, for consumer goods all

across the board, in his hands. He had the industry divisions part of it, the price and rationing part of it, the programming part of it, and he did, I think, a very creditable job.

So, if my advice was to be taken, I would, myself, insist that those functions should be pooled the next time much more on the Canadian model than on our own, though I am aware of some difficulties involved there. If you do pool, you have a lot of military requirements that come into this area of civilian production, such as textiles, leather for quartermaster requirements--shoes particularly; such as the enormous range of things that have to be converted out of the civilian economy over to military use from the factories making consumers' durable goods, and so on.

I think the answer to that is that you must make the civilian requirements a subordinate part of your total WPB setup, susceptible of being carried on as it was this time, by the chairman of the Board, so that you do get an integration of the war economy and civilian economy by a board with complete priority powers, with no arguments with anybody about where they come from.

When Don Nelson began to lose his hold on the allocations situation, and his control over allocations, when it was lost and began to be parceled out piece by piece, it had to be put back together at the end of the war. OWM, Office of War Mobilization (subsequently Office of War Mobilization and Reconversion), had the job of reintegrating at the highest level the various agencies that had been split off by this fissiparous process during the war. Manpower, War Food, ODT--any one of them was able to control the whole war economy. So you had to put them back together under one control--after Don Nelson had let them slip away.

Now that difficulty of integrating an entire war economy, and of having to put them into a package, leaves the civilian part of the economy, in my judgment, necessarily subordinate to the whole picture. I think it ought to be packaged so that the fellow who has the responsibility of getting out baby shoes and diapers will know how to go about getting them and be able to control leather and textile industries. Of all the headaches that occurred during the war, I remember diapers as the most violent because your boys overseas don't like to hear their babies are getting wet bottoms because they don't have diapers. You do have to take care of these things.

The transportation system is, of course, highly essential to military functions, but without it the whole civilian economy suffers. Transportation for the civilian economy--rail, water, air, and road--is essential. But it must be controlled.

I do not need to tell you folks here in the Industrial College that there is one essential thing in the civilian economy that you cannot cut out: You cannot make the people of this Nation do without

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automobiles. So I assert that in any war that we would have to project today we would have to remember that there is a big element of the civilian economy that is inefficient in terms of manpower—in terms of getting the women to work—if you do not keep up repair parts for refrigerators and for washing machines, etc. Without labor saving gadgets women will stay at home. You might try to force them to work, but you will not be very successful if you don't give them repair parts and services where their homes are run by gadgets. So, you see, there is a big area of that kind that you have to protect in a civilian economy to get maximum mobilization for war.

But we can live on our fat. We can reduce civilian gadgetry mostly to repair parts.

In any war that we would fight in the future, I suggest we would have to confront immediately one of three levels of the civilian economy. We will call them the high ("last-war") level; the middle ("British last-war") level; and low ("disaster") level. Let's start off with the last-war level, where the civilian economy flourished till the last few months of the war.

High Level ("Last-War")

Don't let anybody kid you. I never got complete cooperation from the military then. I howled my head off about the military waste that was being made of vital materials with some results but not much. Why, I remember General Clay wanted to get enough cotton duck for tents to swaddle a three yard band around the earth nine times. He wanted to do that at a time when we couldn't even get the duck for workmen's overalls or gloves. Now that is silly planning. We finally blocked Lucius on that. Bless his soul! He is a real hero now. I'm very fond of him. I think he is a great man. But I remember spending most of the early part of the war needling generals into action, to get to work on the thing, and to be really tough when production counted, and the last part of the war in restraining their exuberance. The civilians have a guilt complex about their past behavior that spoils military men in the war by giving blank checks.

You ought not to plan for 15 million sleeping bags when there are not more than two or three million men who are ever going to use them in any theater you can think of. Next time, we may have an opportunity to use more of them. I would like to think that it would be possible to have them in places where Arctic sleeping bags, weather of that sort, would be useful. But probably we won't and it is silly to plan for 15 million if you will need at the most three or five million. That is where the Army must help the civilian economy. It must help the civilian economy in a way it never has done before. I think with Karl Compton's help you could do a better job of it on specifications and substitutes for saving many critical materials.

Don't let yourself be taken in by these specifications that demand the most difficult things to get. Sure, it's nice to have

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those specifications. Howard (referring to Mr. Coonley), do I see a kindred gleam in your eye there? If synthetic mica is acceptable as a substitute for natural mica (block and splittings) don't put in specifications for something that comes from way off in Madagascar. Don't let the Army plan your draft of it and use men and ships at a time when they are needed desperately somewhere else. I suspect we were taken for a big ride on that one. I don't think Karl Compton believed you needed all that block and splittings, as did some of our brethren in the WPB and all the boys in the Army and Navy, particularly the Navy. Why, they couldn't land a plane on the water with a spark plug that didn't come from East Africa or Madagascar. Mica, throughout the war, caused us a heap of trouble.

Here is something I would like to point out. When you get technical information from some of these companies, you will come out without knowing anything definite. They like their present methods. Substitutes are a headache. Lots of times they don't tell you an easy way, from their viewpoint, to do it. Get hold of Karl Compton and his research and development section. Use the committee that was set up partly I hope at my suggestion to settle this kind of an issue. If you will do that, there won't be any argument. If that group, which represents honest scientists and the best technicians you can lay your hands on, says that it is this way, I'll go along with that. You had better change your specifications and use the ones that are workable. In that way you can help the civilian economy by not being so wasteful in the war economy.

The Middle Level ("British Last-War")

But the civilian economy may have to function on a much lower level than it did at the end of the last war. You could not possibly go into a war in the future, in my judgment, without immediately bending your efforts toward something like the British had. I refer to the concentration of industry. But unless I am very greatly mistaken, I don't think we are going to take that step in time, even in planning. If we do get into a war, or are pushed into it, or have to stick by our guns to the point of making one in order to live on the earth as free men, we are quite likely to back into it the way we were kicked into it the last time, with all the lack of planning and lack of everything else.

The last time the British went a great deal further than we did. They concentrated their industry. They had to. They were bombed out. There was only one factory to make perambulators, or baby carriages, for the babies. In time, that one was bombed and there was a great shortage of carriages for a while. The mothers all wanted prams and there were none to be had. But they fished them out of the attics and did other things.

The British had tighter rationing, fuller price controls, and much tougher transport controls.

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If I were planning this job, I would plan on all three levels and have them ready to go. It's something like taking a battery position. I always felt you had to have a rear position ready to get into, or a forward position to move to, if possible, when the time came. This is the way we ought to plan this thing.

Low Level ("Disaster").

Another level would be the disaster level. That might be one that we would have to plan on. We should be ready for it and know what steps we are taking and what things we could completely eliminate because we might find, in this kind of emergency, improvised planning, that we would ruin the war economy by some silly step that would cut out the whole basis for the war economy by killing off an essential civilian support for it--transportation, for example.

You cannot place priority restrictions on rail transportation. If you do, you will be in an awful jam. The elimination of shipments and production is more easily done. The railroad is the most difficult thing I know of to apply restrictions to. But you can stick restrictions on ships any day in the week. You see, they move differently. You can control them. You can put on an M-63 Order for all imports. That was mighty useful. With that single tool, I was able to get many hard things done. We simply said, "You don't get your stuff brought in until you put it under control." That worked out very well. I think it was a very persuasive tool. Leon Henderson could wave his arms, make speeches, and do a lot of good, but with this you did not have to speak publicly. You just said to the division director who controlled a material, "You don't get sugar brought in from abroad unless you put it under control," or the same thing in a priority way for leather, etc. It provided us with the necessary weapon.

This kind of planning and this kind of an approach to it ought to be done and in being, in my judgment, on several levels, as I have suggested. Now, no man is wise enough to know how to plan and what to plan for, completely, in advance. Your planning should be in terms of alternatives. You should have alternative plans for the three different levels; plans that will fit together so that the several parts integrate. Your shipping program should merge into your manpower program, your transportation program into your stock-piling program. In this way you know what you have to draw on.

Unless that kind of a job is done across the board, before we are plunged into a war such as we are having to confront, these wasted years may be the most precious time that this country has ever had given to it. In fact, it may mean our national survival because if Europe and the whole of the Middle East are added to Asia against us, what kind of a future will we have as a civilization? We will conquer it back some day, maybe. But if war should come, what will happen to our system if we are caught napping?

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Gentlemen, I hope this is all a bad dream. Nevertheless, one does get a little bit worried about dreams becoming realities in terms of his batting averages. I remember, back in 1939, I had the temerity to suggest, in a speech to the students in the National War College, that France would fall in the next war; that the French Army was not going to stop the German Army. I mentioned a number of other things. You can go back and read the record. I simply say the record shows that my batting averages were better than most in predicting what was going to come off. Well, over a period of time you get to have the awful hunch that maybe that means something. If it does mean anything, we haven't time to waste. We are not in a situation today where the National Security Resources Board can be there just as a planning agency, to tell somebody how they ought to plan if there is to be a war some time. It is highly essential that you bring in your own groups to plan here if nobody else will do it. You should decide on your war-production controls, the things you are going to do, and the way in which you are going to move in.

That ought to be set up and in being. There ought to be a reserve corps being trained for it. There ought to be personnel available, whose jobs are adequately protected. All of the industries should be ready when you ask, "Will you give me this man today, or any time I want him, if I must have him?"

If our system cannot produce that kind of planning, it is at a great disadvantage, to put it mildly, and the advantages on our side, great as they are, may not be enough to offset such a disadvantage. It is apt to leave in peoples' minds the desperate feeling that we cannot muddle along with that kind of system any longer. That frightens them.

History has shown that civilizations that have lived too long in an atmosphere of crises and have not produced leadership under democratic governments have a known fate: They develop Caesarism. Gentlemen, that is not encouraging. I do not want that to happen. To my mind, our own Constitutional system has afforded the world the greatest freedom and the best civilization that human beings have ever been privileged to live under. But unless we are capable of meeting the challenge we may not enjoy the blessings of that liberty and that freedom forever.

QUESTION: Dr. Elliott, I would like to ask one pertinent question which I think has been bothering us for some time. How do you find out what the civilian requirements are? How do you know how much you can cut off, and so on?

DR. ELLIOTT: Well, General Holman and I were just talking about that. I don't think there is any way you could state a cut-and-dried plan. It all depends on your assumptions and on the conditions with which you are confronted. It would be extremely foolish of me to get up here and say, "Look! I've learned that business inside out. What I wound up the war with, for the civilian requirements, is the

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right figure for you to shoot at--so many million tons of steel, and so on. ODT must have this. War Shipping must have that." That would be sheer nonsense.

But what I have tried to suggest to you, sir, are three integrated plans for different sets of assumptions as to what you would be confronted with. None of those plans may exactly fit the set of facts with which you will be confronted, but they will be sufficiently close to any conceivable set of facts. So, if you are confronted with a period where you have to mobilize and get things going slowly, an assumption roughly similar to what we had the last time would work. If, on the contrary, you are confronted immediately with a shock that has destroyed a considerable part of your potential, I think a much larger magnitude of effort would be required because you are caught short. That, I think, is the main assumption that I would operate on.

I would say that the British level of civilian requirements is much more appropriate, containing tighter controls.

In connection with transportation, we would never go to quite the limit that the British did. For one thing, they had a different situation with which to deal. They did not have all the automobiles that we had in this country.

Here is one thing I would like to bring out. You cannot put this economy back on a non-petroleum basis. You cannot warm the people, you cannot heat the homes, you cannot run the industries without fuel-oil today. Oil heating possibly ought not to be permitted, in my opinion, if we are thinking about the future of a war. You ought to have your petroleum uses restricted to mobile uses. It ought not be burnt up in the homes and plants. You can use coal for that. But such advice in our free economy is Utopian. We use oil instead of coal for many reasons. To change back, even for war purposes, would require re-equipping the whole system. In war we couldn't furnish wholesale equipment for the change-over in time. We are stuck with tremendous and inescapable civilian requirements for oils.

Oil in the Middle East is very essential. The oil companies are out to make money; sure. But without that Middle East oil the European Recovery Program won't function. If Russia got that oil, and could ever move it and refine it, that country could fight a real war.

The civilian economy must have a level of oil consumption in this country quite different from that in Britain. If you ran every automobile off the streets, except the ones that were absolutely necessary, and if you greatly crowded your transportation system, you would still use such a tremendous volume of oil that you could not possibly cut that oil consumption in the way you ought to cut it for the military requirements.

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So, you see, that is why I do not want to try to give you a set of figures and say what should be the minimum level of the civilian economy. But when we cut definitely the transportation, or the repair parts, or the oil (petroleum), a man can't get workmen's clothes or workmen's gloves; we can't get wire screening for protecting health or medicine for the civilian population; nor can we get the baby shoes.

The responsibility for them ought not to be less vital than for quartermaster military requirements beyond a low minimum—not militarily "safe" figures. Beyond that, you ought to allow the civilian economy a flexibility to function, as it does function, in my opinion, more efficiently if it is allowed some flexibility. For one thing, it is much more productive.

If you are confronted with disaster, you have to cut very deep. These three levels of an integrated type of planning would be the civilian planning I would try to set up.

I hope that makes the point.

QUESTION: What I was trying to get at is, how do you find out what that minimum level is. With any one of your three levels you are confronted with the same problem: How much can you cut before you get to that point?

DR. ELLIOTT: What we did at the end of the last war was pretty useful—we sat down and studied the Requirements Committee figures. That was the product of trial and error but it worked out with some reasonableness. That is the level with which you start. That is the "high level." Everything would function much more efficiently if you would approach it in that way.

The second level is the kind of level that the British used. But they cut much deeper than that. They concentrated their industry. If you had a plan for the concentrating of industry, what parts of the civilian economy would you leave for production? Well, if you should ask me, "What things?", I would tell you. They are things like transportation and fuel oil. They are the essential civilian economy for rationed and work clothing, particularly in a really limited area because you can wear old clothes for an awful long time; and things of that order. The entire list of them you can find by consulting either the British list of civilian requirements, the Canadian list, or our own.

And the third level would protect nothing for a while except the absolute essentials. There would be an entirely different degree of essentiality. In other words, you would close the night-clubs, the bars, and things like that, though continuing some of the bars might be necessary after real disasters for morale purposes. All of them would probably be run by the Army in a very short time. But one could go to the real depths of the proposition and use everybody, no matter

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how effectively he might be otherwise engaged, if you had to mobilize for disaster. That would mean going down to the level the Russians went, on a disaster base.

As I say, I don't think you can possibly spell that out except to say this plan in each one of its phases relates logically: Shipping would be thus; manpower controls would be so; transportation would have to be run in this way; concentration of industry would have to run this way. You would cut out all kinds of things, like zinc for the tooth-paste tubes. Just think of that for a minute! You would just say, "Boys, there aren't going to be any more tubes used. You're going to use any other type of container you can find." You simply point out to them that in the future they will not use this type of material for this kind of thing.

QUESTION: Dr. Elliott, what you say seems to make sense so far as the concept of a plan for civilian requirements is concerned. However, we have the problem here of trying to determine civilian requirements on a more or less emergency basis.

You mentioned that the National Security Resources Board has established a plan. We understand that, as of now, it does not have too much of a plan. I would like your comments on that.

DR. ELLIOTT: I am not familiar with the National Security Resources Board's plans, so I am guessing a little on details.

This is my guess on that: First of all, we don't have a National Security Resources Board until we have a chairman and some stability for that organization. The planning it has done up to now, in my opinion, has been very sketchy. The directive for planning under which, I understand, the Board is to operate is not this type of business at all. It is a study of what they ought to do to frame the basis of planning and policies. That is what I have been talking about here this morning. That is necessary in order to get your objectives and methods firmly fixed; I agree. But we ought to get over that pretty quickly.

The civilian requirements picture is bound to depend on assumptions. Everything depends on assumptions. You can't plan anything without a basic set of assumptions. I have tried to suggest that in your planning you had better consider a set of three alternative assumptions for levels of cutting the civilian economy. I have suggested that to the NSRB. I don't know whether it is going to use them. If the Board ever gets in the position where it can operate, maybe it will do something. But until the NSRB gets a chairman it won't do very much. The boys who are working over there are trying to do the best they can, but they are like an army without a general or a chief of staff.

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QUESTION: In that connection, do you think it is possible to carry out this very essential type of planning with any existing framework, or does it require a special organization to do it, to get the best possible people?

DR. ELLIOTT: Well, in the first place, I don't think the existing governmental framework has done it; that's pretty clear. But I see no particular reason why the existing governmental framework could not do it. Actually, it is the job of the National Security Resources Board, with whatever directives it is given, to do this kind of thinking.

I would assume that it is also the job of some organ in being to set up a skeleton WPB. I don't see that anywhere. But that could be done. It is not outside the existing governmental framework. It simply requires the recognition of a problem and a willingness to act, topside.

To get the right people, referring to the second part of your question, is the most important part. That gave me more trouble than anything I can think of. In the first place, until the Government pays higher salaries in the top levels, both in the military and in the civilian echelons, it is going to be exceedingly hard to keep competent people in that level. They are taking a certain amount of beating.

For instance, there's Ralph Bunche, a fine colored boy, one of my students at Harvard. I met him yesterday coming out of the State Department. (He had just had a press conference, so I feel free to tell you this.) He told me he had turned down a position as Assistant Secretary of State because he couldn't afford it. Instead, he would rather stick by his job in the United Nations. He felt that he had a duty to his own family. Three of the professors at Harvard have turned down offers to become Assistant Secretary of State. Numerous others have turned down similar jobs. They can't afford to accept them.

Gentlemen, that is a key point. If you are going to pay high salaries in the lower levels and keep on all the flotsam and jetsam, you are not going to have any good people at the top.

The second point is that we cannot get business to supply these people on the right kind of terms. The patriotic businesses find themselves at a disadvantage against their less-patriotic competitors, when they let their men come down here to spend two or three years. I think we have to work that out on the same basis that we work out a national mobilization act for manpower. We should have the right to call on a fair and proportionate share of the best talent of this country for assignment to those positions. They should be protected in their jobs the same as the GI'S. That is a very difficult thing to do.

Business has shown a great willingness, in many cases, to help with that. They did fine during the war, in the main. When you get to

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the place where they tell you a man can go for six months, remember he is of no use for six months. You want him for two or three years. He just gets his feet wet in six months.

I don't know the answer, but we must find it.

QUESTION: Doctor, if controls were to be imposed simultaneously, is there any relation between the beginning of the controls and the termination of the controls? By that I mean, because you impose them all simultaneously should you relax them all simultaneously? Are they independent of each other as to time?

DR. ELLIOTT: That is an extremely tough question.

Equity demands, in some sense, that you put competitors on an equal basis. If you are going to mobilize them for the war, you ought to unmobilize them and not hold one disadvantageously against the others. Yet the nature of the operations you are engaged in may mean you can take off controls from one but not the other.

I had to face that problem quite early in the war. Some of the coffee people came to me and said, "Keep the rationing on." Incidentally, they were the same set who had been in eighteen months before and said they were going to nail my hide to the wall for not bringing in enough coffee to keep off rationing. We had to use the M-63 Order for imports, as you may remember. We had a terrible time taking commodities off this list. Some of the people said, "We like rationing. We don't have to compete with one another. We're all getting an allotted quota. It's nice."

Now that is a tough one. I wish I could give you a simple answer. In the War Production Board, in theory at least, we took the line that we would pull anybody out of the war when we could get him out. But in practice we did not do this, regularly at least. The Industry Divisions held them all in line until the log jam was ready to break across the board. You can understand why they did that. They felt it was extremely inequitable to pull some people out and let them get a six-month jump on the others.

QUESTION: Dr. Elliott, you mentioned this reserve corps. I would like to have you emphasize just a little bit as to what level you would go down to; secondly, who would administer this reserve corps? Who would train and prepare and, to my mind what is very important, determine in time of peace who the headheads are so that you would not use them in time of war?

DR. ELLIOTT: I wish I had the answer to that question. You put your finger on an exceedingly hot point. I'm sorry; I don't know the answer to it.

The best I can think of, along the lines of how you would work on it, would be to say that it is necessary to have this kind of reserve

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for every spot that you know is a key spot. You must have a program. You must have people in there who know the different industries and commodities; fellows of a caliber like Mr. Gordon get together for the WPB Requirements Committee. You must have those people on reserve, on call, so that when you need them they can spend perhaps a month or six months down here in Washington getting familiar with what has to be done. Those people ought to serve, in my judgment, as consultants for that job. They ought to be on definite loan by the companies. Take, for instance, a fellow like Arthur Whiteside, head of Dunn and Bradstreet. He and his staff have been put at the disposal of the Government time and time again. He has done a wonderful job. But not everybody is like Arthur Whiteside. You will have to get sufficiently broad-gauge fellows from your industries and have them ready to go.

I would add to that the fact that one of the best things you can do in this Industrial College is to train such a group. You can do that next time in an entirely different way from what we were doing the last time. I don't mean just having a desk here, but having the fellows actually doing the job. They have had the military background and they know how to get back into it. It would certainly help to bridge that chasm between the civilians and the military which is necessary to bridge.

COLONEL WEIS: Would you mention the legislative aspects of some of the problems you had, Dr. Elliott, in connection with procurement?

DR. ELLIOTT: It would take very little legislation, I think, to assist in this job. Most of it is now available to us under the broadly-drawn legislation for the National Security Resources Board, if we wanted to use it.

There is some question of budgets, always. But, so far as I know, there have never been any great quarrels on that point. It may be that you would require legislation to set up something like a skeleton WPB, apart from the planning operations of the NSRB. That would have to be carefully studied. I think it would be possible to do it as a part of the mobilization planning of the National Security Resources Board, without legislation. The less legislation you have to get now, the better.

Now you don't have to have legislation, oftentimes, if the President's top-side White House staff, his political advisers, and his Budget Bureau understand and make use of all the power they already have. But I haven't given that matter adequate study.

My conviction is that it would be possible to get any supplementary legislation. With fellows like Tydings running the Military Affairs Committee in the Senate, and with a friendly group in the House, in the main, I don't think you would have too much difficulty in getting this kind of legislation. It doesn't require a lot of money. It requires organization.

COLONEL NEIS: Would you also comment on the Industries Division setup within the old WPB? I think the students would be interested in that.

DR. ELLIOTT: They varied very widely.

My conviction is that you need, as the top man in an industry division, somebody who is not in an active competitive position in that industry. That person is awfully hard to find. If he doesn't have the experience, the rest of the industry isn't of much use to you. But if he is in a competitive position, he may be used or he may lean over backwards. Some of them really did that. There were many instances when the fellows actually penalized their own companies. Then their companies got sore. They said, "We're not getting anything out of it. We're being penalized for it."

We need very badly to develop and to have in industry a broad-gauge fellow like our friend Coonley here--Howard, I hope you will forgive me for saying this--but there are few people who have the respect of industry, broadly, like that. You need far more people of that order.

Now my conviction is that, if I may be quite honest about it, you often get a better executive job out of an investment banker, or some broad-gauge man like Fred Eberstadt, who would go through the whole problem and understand it, than you would out of an industrialist. The industrialist, quite often, couldn't see the woods for the trees. The people in your Industries Division frequently are better when taken from among people who were not expert in the details of production but who understood the structure and had the respect of the industry. That is what is so essential.

COLONEL STARM: I'm sorry our time has run out.

Dr. Elliott, we thank you very much for a fine lecture.

DR. ELLIOTT: Thank you, Colonel Starm. I enjoyed it very much.

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