ORGANIZATIONAL AND ADMINISTRATIVE PROBLEMS OF THE PRICE ADMINISTRATOR

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GENERAL VANAMAN: Gentlemen, I have known Leon Henderson for a long time. In fact, we were born and reared in the same little town of Millville in New Jersey. We went to school together, and we played baseball and basketball on the high school teams together. I have admired Leon ever since I have known him. I have admired him greatly for his ideas, his ideals, his aims, his ambitions, his bubbling energy and enthusiasm, but probably I have admired him most for his intellectual honesty.

I wish I could convey to you my appreciation of this man, who did an outstanding job under rather adverse conditions during World War II and who did an outstanding job in the face of great criticism. But I believe you will see what I mean when he discusses with you this morning some of his problems as Price Administrator.

It gives me a great deal of pleasure to welcome the return to our platform of Mr. Leon Henderson.

MR. HENDERSON: Thank you, General Vanaman. Members of the class, I am very much pleased to have been introduced by a fellow townsman and to say that our little town of Millville, New Jersey, is very proud of the record made by Lieutenant Vanaman—on up through the grades. People in our home town don't know much about the military paraphernalia. What they do remember is that he was an excellent basketball player and a rather eccentric but very effective southpaw pitcher.

It has been my pleasure to appear here twice before—in 1947 and in 1949—and I know that what I had to say on those occasions is a matter of record and is available to this group. Today I intend to try to put our experience with wartime controls into present tempo, into the present pattern of economic activity.

Fortunately, or unfortunately, the historians have been making a record and critical analysis of many of the techniques and experiences of the wartime controls. For example, I was telling Colonel McKenzie that I know a record of the organized food buying in Chicago under his direction during the war period has been put together, and I expect that it will be available before long.

A recent publication of the National Security Resources Board, by Thomas Blanchard Worsely, "Wartime Economic Stabilization and the Efficiency of Government Procurement," makes an extraordinarily valuable reference work for those who need the detailed study.

Worsely has had an extraordinary experience. He was in OPA, transferred to QM and later to the Air Forces, handled contract renegotiation and some of the procurement financing problems, and then was on the staff here at the Industrial College. He details in his book the story of a problem which will be a central one in case there is war or the threat of war again--the problem of the control of prices of military goods. He tells a bit of the manner in which it was resolved and gives a broad outline of what the considerations were.

He could not possibly know that there was always a question, even in the early days of the approach to control, as to whether there would be one central agency having responsibility for prices. President Roosevelt, Mr. Baruch, and myself, all of whom had some experience with the First World War and with pricing in that period, made the determination that there would be one final authority. That produced quite a bit of stricture.

The Army and the Navy first attempted to persuade the Congress that they should have authority over the prices of military goods. Congress rejected that thesis. After the law was passed, the Army and Navy again requested the delegation of that authority and that they be left outside on contract prices. That again was rejected. We were finally able to work out what, to me, was a satisfactory solution. It meant that the final responsibility rested with OPA, and it required a constant reporting from the Navy and the Army as to what was being done on the matter of military prices, since they would conflict, and did conflict, at times very decidedly with civilian prices.

Anybody who wishes to see what the record was can find that there was a steady decline in the price index of military goods. I think that is contained in the Worsely study.

In the next emergency, if it should occur, in my opinion, it will be decided very quickly that there must be a final authority not only on prices but on everything that conditions inflation. That will mean, too, not necessarily that the same methods of control will be used for civilian goods as are used for military goods, but that there will be a central authority which can make the final determination.

In my 1947 and 1949 appearances here, I emphasized several things which I will run through briefly as a background for what I have to say today and, I trust, as a stimulant to the question period, which I treasure very highly.

I indicated that, given the problem of an all-out effort again, we would face a completely different set of conditions from what we had prior to our entrance into World War II, during which period a group of nations was standing at Armageddon and, in effect, giving us time to put our own house in order. When we began, in 1940, with the National Defense Advisory Commission, we had a surplus of most of the resources. We had a considerable number of unemployed. Very few industries were operating at top capacity. Raw materials, particularly those derived from agriculture, were in such supply that there was deep concern as to whether we would ever be able to dispose of them.

One of the things I feel very proud of is the iteration which Mr. Baruch, who was my constant adviser, has made that, very early in the NDAC period, my staff and I made a determined fight for an enlargement of the supply of goods. I knew from prior experience that this was not a country which would take very easily and quickly the type of controls imposed in England or any of the other belligerent countries; that we might very soon, in either a preparedness or a war effort, reach a point at which we would have a galloping inflation; and that our effort should be centered first on the organization of supply.

I recall one very acute item, copper. It happened that President Roosevelt, as Assistant Secretary of the Navy in the First World War, had practically monopolized for the Navy all the available copper, and it had taken quite a bit of talking to the young Assistant Secretary of the Navy by Baruch and others to make him part with any portion of it for the other armed services. The President felt himself quite an authority on copper and knew that we would require, even in a moderate effort, much more than was immediately available. So we began a period of contest with other countries to tie up the Chilean and other supplies.

I recall very vividly a little session that Mr. Stettinius, Mr. Batt, and I had with Jesse Jones, who had first responsibility for the procurement of copper and other strategic and scarce materials. Jesse had his own ideas as to what he was going to do. Batt and Stettinius were going through the usual business negotiation with Jesse, and he indicated that he would buy a certain amount. As we were about to leave, with Batt and Stettinius, as I recall, a bit dejected, having been unable to make a greater impress, I said, "Mr. Jones, thank you very much for that much. I will go ahead on other fronts and see what I can do."

He contrived to get me aside on the pretext of talking about something else with which Batt and Stettinius had nothing to do. He said, "Young man, what do you have in mind?" My law at that time was under consideration. I said, "Just a slight change in the law to permit OPACS (my organization) to buy copper." He said, "You wouldn't think of amending my law, would you?" I said, "Oh, no, never anything like that. Just don't worry about this. You go ahead, you buy what you can, and I will buy the whole supply if I get a chance." He said, "Let's talk about this with Will Clayton tomorrow." The next day we had a little talk, and he said, "We are going to buy the whole supply."

That is one of the things, as I say, we did. But if we have a repetition of the acuteness of emergency we faced last time, there will be no similar opportunity next time. Therefore, what we would face is a completely different set of conditions, which would require a completely different set of controls.

In my opinion, unless we want to face the probability of runaway conditions, either in hoarding, in prices, or a general deterioration of the whole flow of essential materials, there will be a necessity for statutory power to control all resources. Also, that would need to take into account the problem of decontrol.

I have been asked many times, and you are at liberty to ask me other questions, why, in the OPA Act as it was presented to Congress, there was no provision for a postwar period. One of the reasons was that I knew it would provoke political opposition, some of it very genuine, as to the possibility of the majority party continuing its political control by means of the economic controls. So, with good advice, I decided that I would omit it.

And I may say, as I can at this time, that there was considerable uneasiness about trusting a New Dealer with the process of mobilization of economic resources. I was aware of that and decided I would let OPA take its chances.

I don't think that we could afford, in the next period, not to make provision for an orderly retreat from control. I shall speak about that later.

I emphasized, particularly, the necessity for public opinion support. And these three things--statutory power for control over all resources, decontrol power, and public opinion support--go together. In my opinion, the means by which we might possibly get the fullest support is through a constant discussion of programs originated by the proper authorities for wartime controls in order that we might be prepared. I have the distinct feeling--and it certainly has been underlined by observers and students since--that the long period of the hearings on the OPA Act, running in the House from the summer of 1941 up until a few days before Pearl Harbor, provided the best forum possible for the strength of the law as it was enacted after the Pearl Harbor incident.

One of the biggest fights we had came as a result of a strong interest on the part of certain members of the Senate. There was a determined group, one of the most determined being the chairman of the committee, that wanted no real OPA, and, if it were enacted, it would not control agricultural prices. The chairman thought, as I know full well, that if he delayed, lingered, and waited, perhaps we would despair and pick up our marbles and go home. What he did not see was that, during that period, which was sometimes called the "jawbone" period, I was already fixing prices, using the President's explicit and implicit powers, the main one being the right of free speech; that is, the right to call up, let us say, the paper people and say, "I hear you are going to raise prices. I trust you won't. It will be too bad for you if you do!"

I emphasized the necessity next time of being free from political interference. Certainly, this country had a greater degree of, let us say, selfish and group political influence over all the war controls, particularly those of commodities, than any other of the belligerents. I used to envy my opposite numbers in Canada and in England because of the relative freedom they had from intervention on the part of the blocs and the special groups. But that did not represent all of the interference, and it did not run only to me. It ran to Nelson, to Knudsen, and to the Army procurement officers. There was the personal intervention of many Members of Congress who considered it as a part of the representation of their districts to make special pleadings.

In my opinion, one of the things that would be necessary, particularly, in an over-all statutory power to control all resources, is some means and some standards by which political interference is minimized.

The next thing I emphasized was an absolute requirement of a knowledge of the economic process, in total and in detail, on the part of the controlling body or mechanism. I had the great privilege in this country of standing at the crossroads of several large efforts that were made during the thirties. I was chief economist of NRA; later I was economist for, and secretary of, the TNEC, the monopoly study; I was a member of the Securities and Exchange Commission. And it was very clear to me that there was resident nowhere in government the intimate knowledge of the economic process or the operations of our special industries that would give us the technical basis for control. Fortunately, as the years of the later thirties wore on, we were able to acquire a considerable body of information as to pricing practice that stood us in good stead when we came to the emergency. So I say a knowledge of the economic process, in total and in detail, is one of the requirements.

Trained administrators are another requirement. I have thought of this problem and have discussed it in prior years. I believe that those responsible for over-all planning for our next emergency must undertake some participation in the actual administration of military procurement and the Military Assistance Program in order that there will be available at least a certain number of key administrators with which to begin a control mechanism.

I am quite sure that we are better prepared--I don't know how well prepared--to establish in detail the requirements of the military program, given any assumption you want to make. I have been reading recently a private study of what was called the feasibility fight that went on between the War Production Board and the military agencies, as to what the economy could do and what the requirements of the military would be in any given period. After a rereading of that, the gravity of that particular contest strikes me much more forcefully than it ever did before. I know now, of course, that the methods of translating the over-all requirements from machine guns and planes into raw materials are better planned, but I would certainly insist that any over-all agency make this matter one of its prime responsibilities.

I discussed in the two prior meetings here (ICAF Library: L47-125 and L49-134) some of the lessons we learned, some of the techniques that we developed, and some of the techniques that were either borrowed from the experience of other countries or were adapted from the experience of other countries. One of the things I think is most outstanding--certainly economists have shifted very considerably in their opinion since the prewar period--is the efficacy of direct controls.

This was discussed at a meeting of the American Economic Association. I think J. K. Galbraith, who was the Deputy Administrator for Price in OPA, had the leading paper. I discussed it with him before we went to our trade association meeting.

Very few of the top economists in this country felt that, given the disequilibrium between supply and demand that comes with an enormous war program, we could accomplish much by direct control. I felt a bit different. I know, as we added economists to our staff, many of them felt we could operate only within a narrow range. What was found--and I think this is of extraordinary importance--is that there was no commodity, given the opportunity to find out how it moved in the trade, that could not be controlled. It might require a very elaborate regulation, but, given a knowledge, as I say, of the process of manufacture and distribution and of the margins that exist between them, and given proper enforcement, we found that there was no single commodity, no matter how complex and difficult it might seem on the surface, that could not be controlled.

Then we found, of course, that a severe gap existed in quality control. There had been quite a fight going on in this country for a long time as to standards and requirements of meeting rigid specifications. OPA lost out on that one. As a result, the possibility of shifting quality and gaining a higher price was one of the very definite losses.

Another gap was that the allocation of materials and the actual pricing, as well as distribution either through rationing or manufacturing enterprises, were not cohesively tied together. In my opinion, they will need to be put together the next time.

Again, we found that the power to buy and sell commodities on the part of the Government ought to be in some central place. The fact that the agricultural surpluses were under the control of an agricultural department made it very difficult for the Government actually to operate to the best advantage of the community.

Another thing I emphasized is that there must be a central control body headed by one man with final authority for the resolution of conflicts between various agencies. I have assumed that there really would be clusters of related agencies. I have contended that it is an absolute necessity to have a single administrator, even though he have the final authority of yea-saying and nay-saying over the economic life of this country. I say that with all the distrust I have of dictatorship, but I say it out of my firm belief in the democratic process. I do not believe in boards for final authority.

I believe that a top board is needed for policy, whether it is Treasury policy of taxation, Federal Reserve open-market policy, Commodity Credit policy of buying or selling, or RFC policy of lending or not lending. I believe there will be a necessity for the continuation of those agencies and that their splendid mechanical techniques and abilities should be preserved. But I think, given the necessity of making a final decision, that the authority to do so must reside in the head of a top board. I believe that standards and limits can be prescribed which will prevent any such individual from swaying from the right determinations.

Going on to whatever thinking I have had in recent times about prior observations and experience, which is, of course, a continuing process--that is particularly true when the historians get to work--I have been getting a number of reports issued by the various agencies, and I really am surprised to know some of the things I did.

I think--I confess it here since you are all young men--that one of the things that fails us most in advancing life is the ability to remember unpleasant or unsuccessful things. I don't see how any man can have acquired old age without that being true.

I have made an assumption, as to the next period of control, of maintenance and continuation of the democratic process and the capitalistic system of production concurrent with total control over all resources for the period of the emergency. I introduce this today because, frankly, I am getting very tired of all this "scarehead" talk that, given a contest between our particular type of life and our glorious system of production and another system, we must pass into a dictatorship from which we would never emerge. I do not only believe that it is not necessary to surrender the stalwart support of our own system, but I do not believe that we as a nation, trained as we are, could ever win under a dictatorship that had full powers of yea- and nay-saying without regard to what the tradition of America has been. I think any war would be a test of our method of life, and democratic process would win.

The record of World War II is my best argument. At that time, despite the fact that war took upward of 45 percent of the total gross national product and despite the fact that we increased the debt over 200 billion dollars, there was no suspension at any time of habeas corpus, as was necessary in Lincoln's time, and every grant of authority was either within what were the accepted powers of the President or the subject of the usual scheme of debate in Congress, and everything that goes with it. I think the record will show that Roosevelt did not go so far as other Presidents have had to go in an emergency.

So far as most of the control mechanisms and their authorizations were concerned—and this is particularly true of the OPA—there was a submission of a bill to the Congress, there were long and extended hearings, there were committee meetings, there was a floor fight; it went to the other House, there was a conference, and there was an agreement. Then it went to the President, and he had the right to veto it. If it had been vetoed, Congress would have had the right to override the veto. Once the law was passed, there was only a minor suspension of any citizen's right to protest or to test it constitutionally. As a matter of fact, one of the outstanding jobs of legal architecture in the OPA was the emergency court, to which many aggrieved citizens went and got a speedy settlement of their cases. And I say that in 99 percent of the cases, or more, the emergency court upheld the constitutionality of the process that had been established in the OPA Act.

Again, our capitalistic system of production (the set of reliances that we have normally for production of goods) was maintained almost intact during the war period. There was allocation of raw materials, and there were priorities, but we relied on the profit system—a modified profit, yes—and we relied upon bargaining as between the managers of production and the labor force. We relied, for example, on the differentials in wages. We relied upon the whole scheme and process by which we have attained our proud national status.

Although we may even have to take direction over the movement of labor from one place to another, or face a question that Baruch and Nelson hardly ever had to face in World War II, the taking over completely of a factory for refusal to join in the cooperative effort, I feel that we can plan to go forward with the maintenance of this full democratic process. Any attempt to suspend the ordinary means by which we reach national decisions, to my mind, would be the occasion for alarm. I have never found that government could maintain something against the weight of public opinion in this country, and I think we can continue full reliance on it.

Fortunately, the Full Employment Act, with which I presume most of you are familiar, is now providing a time of experimentation with democratic planning. It may not seem significant to some of you, but to me it has significance of mounting importance that the Nation, at the present time, through the Full Employment Act, together with the President's Council of Economic Advisers and the Joint Committee of Congress on the Economic Report, is trying to find a way whereby the economic decisions that are made, particularly on the budget and on taxation, may add to our ability to go forward. We are having a testing period because through the Full Employment Act we have undertaken to say that the Government will not stand idly by, given another threat of a disastrous recession and the accompanying unemployment and bankruptcy; and we are trying to find means by which, with full debate on the methods of taxation, the timing of taxation, and the allocation of resources, we can have democratic planning.

At the same time, our information on national income and production is growing, and the increase in the accuracy of the work on national income probably represents one of the greatest forward thrusts in economic techniques in my time. There are being constructed in the Department of Commerce, as you know, models of what would happen if given a change in circumstances, such as a decline in demand, a rise in price, and so on.

One of the things I think would need to be done, whether here, in the National Security Resources Board, or elsewhere, is to construct some planning models. Let us make an assumption of an outbreak of war or the threat of war that might come, whereby we would need to divert immediately 50 percent of the resources of this country toward the making of war. On that assumption, I would like to see some planning models--they may exist--as to what resources would have to be diverted, by what mechanism, at what points would we tap the flow of resources, and what kind of orders would need to be issued. Also, are there communications, transportation, and labor mobility capable of making that sudden transfer?

Since the depression period, we have learned many things about economic controls, direct and indirect. Certainly, we have revised our ideas on inflation.

With the termination of OPA, the price level went from 112 to 168. One could see no reason why it should stop at 168 if he were firmly embedded in the classical economic tradition. The overpress of demand was still there. I believe some new review would reveal that the Federal Reserve Board policy, the only control probably that was left, was one of the best means we had of preventing the expected runaway inflation.

To my mind, the price level is still in a dangerous position. It has receded to about 152 as of the present time. I believe there are large areas in which the underpinnings of special demand and artificial stimulation are holding it up, so that there is still a threat. On the other hand, I do not see the threat of extraordinary inflation, partly, as I say, by reason of the improvement of many of the fiscal and monetary controls.

It was always expected, for example, that if we had a large debt, the management of it would prove to be impossible. As a matter of fact, we have had an extraordinary amount of intelligence in the handling of the debt, to the extent that it is not an acute problem today. The central banking mechanism, as further developed during the war period for the handling of the government financial needs at low interest rates, has been so smooth that we have not been threatened with the problems that were anticipated. Part of that result has been due to something which, to my mind, represents the real accomplishment of the period--the resumption of the growth in productivity.

Since the turn of the century, this country has increased its man-hour productivity at a rate somewhere around 2.5 percent. There have been interruptions due to depressions and wars. It was an enormous problem right after the termination of hostilities in the early days of the reconversion, but we have resumed at high speed our ability to go forward, not just with the physical production due to an increase in the labor force, but the actual use of our technologies and labor capacity; so that we have at least a 2.5 percent gain every year. To my mind, that growth rate needs to be taken account of in the planning.

As I mentioned before, we had practically full employment in 1947. Today we have something like 4.7 million, or nearly 5 million, unemployed, and still the rate of employment is at the highest level it has ever reached--higher than it ever was postwar certainly--and our production is nearly double that which it was in 1939. We are finding that there is a new entrance into the labor force of about 400,000 or 500,000 new workers every year. This year many GI's will be coming out of class and going into the labor force. So that we have an unprecedented situation, in that we have high employment, and high unemployment at the same time.

The unemployed pool could be a training resource, and I think that, with the enormous amount that we are spending for defense and on military projects, we should consider a number of programs that would utilize that resource to provide a stand-by pool of trained men.

Again, I think we have not taken full advantage of the necessity for stockpiling. I know some of the problems that are occasioned in that category. I happen to deal a lot with foreign countries. I know that the two programs of foreign assistance and stockpiling could be better put together. There has been a decided resistance. I spoke of this with alarm last year, and I have had no occasion to revise my ideas.

Last year, as those of you who have read the account of my talk have seen--and I think Admiral Sabin had some questions on it--I voiced my uneasiness about the National Security Resources Board. I would like to say that I see a bright hope in the NSRB with the appointment of Mr. Symington. I think it represents a forward step.

I have taken a little more time than I had anticipated. I hope that I have been provocative and that, in the remaining minutes, we can have questions to which the answers will at least be interesting, if not enlightening.

COLONEL McKENZIE: I need not remind you gentlemen that we have a speaker today who is prepared to give us a great deal of information for our problem in unit 10. We have 20 minutes for questions.

QUESTION: Would you discuss some of your experiences in the handling of wages for labor during the past war, and what might be some modifications of that in a future war because of developments since that time?

MR. HENDERSON: In the determination of controls, there was a decision that OPA would not undertake to encompass wage controls. That was a decision in which I concurred, at the same time saying that there was a necessity for controls immediately when we reached, let us say, a volume of employment of 95 percent of the labor force. We were operating under NDAC, OPM, and OPACS, and the President had a labor adviser, Mr. Hillman, and also had his own ideas as to labor mobility and control. That was part of the reason for the decision.

I think the OPA Act was passed in January 1942. I asked for an audience with the War Labor Board, and there is a memorandum somewhere about what I had to say then as to the imperative need for wage stabilization.

I think our greatest control over labor was not just through the efforts of the labor leaders but certainly primarily through them and men with whom they could work. However, I believe that, if there is another emergency, the Government must have the power to move workers from one spot to another, whether such power is used or not.

On the matter of wage stabilization, I think the techniques have been developed for appeals, so that there need not be a suspension or strike during determinations.

QUESTION: To what extent and through what mechanism was there coordination between fiscal management and monetary management on the one hand and price control on the other?

MR. HENDERSON: There were distinct differences of opinion, in which Federal Reserve and OPA were pretty generally aligned against the Treasury. One was on the amount that ought to be collected by taxation to pay for the cost of the war. A second was on the type of bonds that would be sold. A third was on compulsory saving. And OPA had quite a difference of opinion from that of the Treasury on the matter of the use of excise taxes as a means of diversion of resources. I think I won out on that.

We had argued prior to the war for a fiscal and monetary authority, and the skeleton of that was set up, but the Budget Office was so new and had been so recently dissociated from the Treasury that the old powers and traditions prevented a fiscal and monetary authority.

I spoke of a "cluster" earlier this morning. I had in mind that, in a new period, just as we would have rationing and rent control and price and allocation of civilian supply together, I expect we would have a fiscal and monetary authority which would have similar operations.

Coordination certainly was not so good the last time as it could have been.

QUESTION: As to the 4 million-plus that are now unemployed, is there any knowledge as to what portion is transient, shifting from job to job, or anything like that?

MR. HENDERSON: Yes. The Department of Labor has good knowledge of the composition, and I have seen it referred to recently. I don't know where. It may have been in "The Washington Post" last Sunday, in the Rennie column. You can get it from the Bureau of Labor Statistics.

QUESTION: What is the proportion of those who just don't want to work, who are going out of the field altogether? Do you have any knowledge of that?

MR. HENDERSON: No, I don't have. Economists say there is no commodity that will not move at some price. There are different degrees of propensity to work, but there is no one who won't work if he gets the right price.

QUESTION: Mr. Henderson, this question concerns the timing in asking Congress to pass stand-by emergency-power legislation. There are two schools of thought on that. One is that when such legislation is drafted, it should be pitched to Congress well ahead of an emergency, in which case we run the risk of having it neutralized, compromised, and pressure-grouped. The other is that we should wait until the last ditch, when an emergency might form public and congressional opinion behind it and give us the sort of thing we actually need to be tough. Would you give us your opinion?

MR. HENDERSON: I favor the first, as you probably would gather from my prior remarks. I would not favor asking for the stand-by legislation, but I would certainly favor, once there is a program, making it and the techniques involved public--through hearings by Congress. I would depend on the public support coming from that, from the knowledge that it had been well reasoned, that there were standards, and assurance that guarantees were not being set aside.

As I said earlier, I believe the period of OPA discussion in 1941, coming as it did with enormous opposition from Congress, gave us a chance to bring home to the public the potentials of inflation. And as time wore on and the people were able to fit certain things into slots from their own thinking and reading, and noticing what was happening to prices, they gave the necessary public support.

QUESTION: Assuming that we have a war tomorrow morning at eight o'clock, I would like to ask: How fast do you think price controls should be instituted and how fast could we get them into operation?

MR. HENDERSON: I would say, if war broke out tomorrow morning, the necessity would be to follow the Baruch formula for a freeze on prices, interest rates, future commitments, and everything else. I would say that we would need to have such an over-all freeze almost immediately. I think boards could be set up afterward for the correcting of maladjustments.

OPA was prepared on Pearl Harbor night for what we would do about the commodities coming from the Far East. I had received no word at all from military intelligence, but I had foreseen what might happen. We had different individuals in charge of the various commodities. I would go to the person in charge of pepper, for instance, and say, "Suppose war broke out at eight o'clock tomorrow morning, what would you do about pepper?" In no case was the right answer given to me the first time. Then I would say, "You had better get to work and figure out what you would do." He would say, "Do you think there is going to be a war?" I would say, "You don't want to be fired for not knowing your lesson, do you?" And so we met the Pearl Harbor situation immediately. We knew what we wanted to do; we closed all the commodity exchanges, froze all the contracts, and suspended all the futures. Then we entertained administrative review.

QUESTION: Would the over-all freeze you speak of have to include a freeze of wages?

MR. HENDERSON: Yes.

QUESTION: It would be impossible to freeze prices and profits and not freeze wages. Is that correct?

MR. HENDERSON: It was correct as of 1947, I would say, but not with 5 million unemployed.

I am not arguing whether it is desirable or advantageous. I say, so far as economic control is concerned, we would not have to freeze wages when we have nearly 5 million unemployed. If we have only 2 or 2.5 million, that is, if we have nothing with which to work, on the other hand, I think it would be advisable to freeze wages immediately.

QUESTION: Do you feel that we should be prepared to live with our large national debt for some time to come, without too much concern? And what will be the situation in the next emergency, assuming we have one soon? Should we go ahead and not worry about the debt going up quite a bit, or do you think we should actually keep it down in some way?

MR. HENDERSON: You have two questions there. As to the debt now, frankly, I am not concerned. The burden of the debt today is less than it has ever been. I think the lead article in last week's "Business Week" discusses that. We judge a debt as to its burden. I don't mean to indicate a lack of concern about it. I am talking about whether it interferes with economic operation.

I would expect in the next emergency that we would raise a larger portion of our cost of the war through taxation. I think our mechanisms are much better this time, and, therefore, the increase in the debt would not be too great.

A third thing, which may seem surprising, is that if we gain 2.5 percent in productivity every year and attain what Sumner Slichter envisions in 15 or 20 years--a 416 billion dollar gross national product--we shall have to have a basis for the currency with which to carry that, because it would take 120 billion dollars of money. We would get only about a billion in gold, and there is a limit to what we can do on mortgages and rediscounting, so an increase in debt would be needed. Slichter, who certainly is a pretty sound economist, is not alarmed.

What I am trying to say is we have learned many things that were not true as we discussed them before.

I see no problem on the matter of the debt, so far as controls are concerned.

COLONEL GODARD: Mr. Henderson, I think you have indicated a sincere belief in the efficacy of public opinion in the mass. But wasn't OPA a victim of the contradiction of that very thing? The public of this country was certainly in favor of maintaining controls, yet the Congress threw them off. Would you care to resolve that?

MR. HENDERSON: That came later, I would say, out of war weariness, and it came by reason of the fact that some of the controls had deteriorated.

On the way over, Colonel McKenzie and I were discussing the meat control, which was one of them. OPA let go, in 1943, of a very real control over new slaughterhouses.

I said previously, in discussing techniques, that any time we had studied the approach to a problem, could impose controls immediately, and get after violators, we could hold it.

But nobody realized--I admit I didn't-- what the yen for meat was in this country. The enormous appetite for high-priced meat was one of the things which helped destroy us. Another thing was that we never did get rid of political interference. OPA became a political issue.

I would say that, out of four big issues, we licked congressional opposition three times by going directly to the public. I have a great faith in the efficacy of it.

QUESTION: Mr. Henderson, from your remarks regarding Agriculture bucking your program, I dare say you don't have use for the regularly organized government departments in running the war. You prefer, instead, the top group of people not connected with any of the departments setting the policies, and, in cases, I judge from your remarks, you also like to see them regulate and make decisions. So the government departments in time of war serve no useful purpose other than to assist you as they see fit. Would you discuss that and the part you think they should play in a future war?

MR. HENDERSON: That is a sort of derogatory way of saying it. I have plenty of use for the established agencies, but I say that when decisions are to be made which involve doing one thing in order to get a number of things done, whether it is finance or whether it is to relieve pressure on a market, the top emergency administrator must have the final determination. In the actual administration and carrying out of policy, we could not hope to duplicate, for example, the Commodity Credit or the RFC setup.

I think we were very lucky that the Byrnes-Vinson OES mechanism for determination was created. We were lucky to get by as well as we did.

QUESTION: Mr. Henderson, would you like to discuss the probable successful methods of controlling black marketing in a future emergency?

MR. HENDERSON: In my mind, the black market in most commodities did not represent a substantial percentage of the total volume that was moving through the markets. We can stand about 5 or 6 percent of black marketing, just so long as the remainder moves all right. But a lot of the black marketing that tended to destroy controls came as a result of deliberate repression of enforcement by Congress. OPA never did have enough money or people. That is one of the reasons I say the program must build a real substantial support.

COLONEL McKENZIE: Mr. Henderson, there is the bell.

If we did not believe General Vanaman when he made the statement in his introduction about your intellectual honesty, we are certainly now more than ever convinced that is the reason you are repeatedly invited back here. Thank you, sir.

MR. HENDERSON: Thank you.

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