

AN APPRAISAL OF THE WAR PRODUCTION BOARD

25 May 1950

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Mr. Robert R. Nathan was born in Dayton, Ohio, 25 December 1908. He received his B.S. (1931) and M.A. (1933) degrees from the University of Pennsylvania and the degree of LL.B. from Georgetown University in 1938. Positions which he has held include: Chief, National Income Division, U. S. Department of Commerce; chairman, Planning Committee, War Production Board; and deputy director, Office of War Mobilization and Reconversion. At present he is president of Robert R. Nathan Associates, Inc., Consulting Economists. He is the author of "National Income, 1929-36," "Mobilizing for Abundance," "A National Economic Policy for 1949," "Economic Position of the Steel Industry, 1949," and co-author of "Palestine: Problem and Promise," and "A National Wage Policy for 1947." The U. S. Junior Chamber of Commerce selected him as one of the ten outstanding young men in the United States in 1940. He is a member of the District of Columbia Bar Association, American Economic Association, American Statistical Association, and the American Veterans Committee.

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MR. HILL: Gentlemen, we are always pleased and honored when one of the people who were in the central agencies for planning during the war will take the time to come down to review with us the problems which he faced. Our speaker this morning is especially qualified to tell us about the most central agency of all, the War Production Board. He was a very active member of that important agency, and I suppose that during his talk he will bring in some comments about PRP and CMP. But I hope he will go further than that, because the War Production Board was only one problem that we had in the changing government structure. Just today we find that we are going to have a new Under Secretary or Assistant Secretary of Commerce for Transportation. Those of you who are going to work on section 6 in your reports will probably have to take that into consideration when you try to fit in your proposals for mobilization with the transportation agencies as they now exist. I haven't explained to Mr. Nathan that there are six committees working on the final summing up of our mobilization exercises. The school is divided into six committees, Mr. Nathan, each one of which is trying to come out with the best report. You will be the first speaker to orient their thoughts along that line. So please come up here and tell them about it.

MR. NATHAN: General Holman, Mr. Hill, and gentlemen: I am going to talk generally and do it reasonably briefly, so there will be a chance for some questions. Perhaps we can get into more of the details in the question and answer period.

My reasons for being here today are, first, because you were kind enough to invite me, and, second, because I happened to have a little experience in the last war, having come into the defense effort back in May of 1940 and having stayed with it until we pretty much achieved our maximum degree of mobilization in the spring of 1943. In May 1940 President Roosevelt appointed the Defense Advisory Commission which was composed of outstanding individuals who were assigned the problem of trying to mobilize the resources of this country for defense. During 1940 and 1941 we fumbled somewhat through that stage of organizing the resources of this country for defense and then organizing them for war. Finally in the spring of 1943 we did achieve our maximum level of war and total output. In that period there were encountered experiences of an organizational nature and a basic economic nature. I am sure these experiences should be of interest to you in terms of preparing for future problems that we may have in mobilizing this country for military activity.

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I would like to break down the subject generally into three parts: first, maximizing our total output; second, the division of our total output between the military and nonmilitary uses; and, third, the economic implications of mobilization of our total resources for war. Then I should like to talk just briefly about organizational problems.

First of all, it seems to me very clear that for any country to conduct military operations in the most ambitious and most successful way, the maximization of total output is required. Therefore, I would set down as the first objective of any military mobilization plan, getting the most out of the economy. It is obvious that with the maximum production we can have the maximum diversion of resources to military purposes. That is a cardinal principle of wartime planning.

That is the principle which faced us in 1940 in a very serious degree. Those of you who have read about the experiences of the early agencies, such as the Advisory Commission, the Office of Production Management, the Combined Production Resources Board, and even the War Production Board which didn't come in until the war was in effect, will remember some of the very bitter fights that took place on this whole matter of the expansion of the capacity of the country to produce. That was the first big issue that was faced and fought out by the defense organizations.

We had a big battle in 1940 as to whether or not we needed more steel. I don't think we have to go too deeply into why the dispute took place, but we must understand that there was resistance to expansion. That resistance was completely sincere. There was no question of patriotism involved. There were many people who felt that we should be cautious about expanding our productive capacity, because, after all, they hoped that the United States would not be in a perennial state of war and there were some considerations of a peacetime nature which had to be taken into account. I don't single out the steel industry because it was an isolated instance, or because it was the only industry or group of industries that objected to sizable expansion.

Their position was primarily this: "We have roughly a 78- or 80-million-ton steel capacity in the United States. Over the last ten years we have never come anywhere near using this capacity. As a matter of fact, there have been very few times in the previous history of America when we have had a heavy pressure against steel capacity. So the desirable policy would be to go slow on a major expansion of steel capacity until we are sure we need it." There were others of us who felt that more steel would be needed if we went to war and who said: "If we wait until we are sure that we need it, it will be too late." We thought that the steel industry ought to take a gamble and expand.

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Some of us who were fighting for steel expansion operated under somewhat of a disadvantage in that we were accused of being the "full employment boys" or the "long hairs" or whatever they wanted to call us, because we felt that one of the major peacetime economic objectives of the United States was continuous full employment. That may have sounded at that time as sort of wishful thinking after ten years of substantial unemployment in America. But at least the objective was to try to get the economy back to a really prosperous level. Many of us had analyzed levels of employment, unemployment, and production. We had come out with all kinds of relationships which indicated that even without a war, if we in America were to have full employment, we would need more than an 80-million-ton steel capacity.

Well, it was a long and bitter fight. Finally it had to be decided by President Roosevelt, who literally issued a directive that there was going to be an expansion of steel capacity to the extent of 10 million tons, whether privately financed or government financed. Some of it, by the way, was government financed, as we know, through the Defense Plant Corporation. We did get those 10 million tons of steel expansion. Whether it should have been more or less is not especially relevant. But the basic point to get across is the fact that in that period there was this battle as to what should be done to maximize our total output. It wasn't only in steel. It was in machine tools, in aluminum, in many other areas where a sharp and often bitter conflict occurred as to whether or not there should be expansion in capacity.

Again and again, it should be emphasized that in planning the mobilization of our resources for military purposes, whether it be for defense or total warfare, one cardinal principle ought always to underlay our whole thinking, and that is this: We must do all we can, obviously within the framework of our free economy, to get the largest total output out of the country's resources. It was quite late in the actual stages of the war before some of our expansion was really completed. The next time, in laying out our objectives, we should set ambitious goals in terms of increased productive resources and increases in capacity, so that we will have the biggest possible pie out of which we can take the biggest possible piece for military requirements.

Of course, this isn't applicable only in the area of industrial facilities. It is also a matter of concerning ourselves with the area of manpower utilization. During the last war we recognized rather quickly and reasonably early that the total labor force is an expansible one. It is a bit like a rubber band. It hasn't very rigid limits. When we entered the defense effort in 1940, we had about 8 or 10 million people unemployed. There were lots of individuals who thought that once those 8 or 10 million were absorbed into the military personnel, or into industrial employment, that would literally be the end of the mobilization of manpower. Others

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thought a little expansion in manpower above that level might be possible. But I don't believe that in 1940 there were many people who thought that the labor force could be expanded as much as it actually was during the war. We obtained a very substantial increase in the labor force (1) by keeping the older people in productive service much longer, (2) by bringing in many of the younger people who normally would have remained in school, and (3) finally by bringing into the labor market lots of women who normally would stay in the house and who were perhaps marginal workers and could move in and take over the less demanding jobs in the economy; then the more capable people, the more productive workers, could move into military production or military operations. So there is the matter of planning expansion of manpower as well as planning expansion of productive facilities.

Of course it is almost needless to say that we have to expand not only fabricating facilities in terms of plants and equipment to produce finished or semifinished goods, but we must also plan to expand our raw material resources to the maximum. That means being sure that stand-by facilities are available in terms of bringing back into production submarginal mines, perhaps providing incentive systems to produce and increase the supply of minerals and metals and the products of various chemical industries. All kinds of basic materials must be expanded.

The major point is that we must be certain to do everything possible to provide the maximum total output. That is the first essential for really all-out mobilization.

How that is accomplished is not a simple matter. In the last war we used various techniques. One technique was direct government investment. That was done through the Defense Plant Corporation primarily, where the Government built productive facilities. The armed forces did that too in terms of ordnance plants and naval gun factories and other facilities of a military nature. But the Government also built steel mills and other productive facilities which have use in peacetime.

That is a direct method which we might characterize as being inconsistent with the free enterprise system and normally not desirable. In normal times it is not desirable for the United States Government to go into production in competition with private enterprise. There are areas where this is to a degree inevitable, such as in water and electric power development. It would be a mistake for the Government today to build steel mills and automobile factories and aluminum plants. Those should be left in the area of private enterprise. On the other hand, if we were to decide that because of military demands we needed large stand-by capacity which we couldn't get the private enterprise area to build no matter what incentives were provided, then maybe it would have to be done by the Government. But that should be the last step, the last measure, taken to achieve this objective of expansion of capacity.

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On the incentive side, we did devise some very attractive incentives, as you know, during World War II, especially in terms of accelerated amortization. When a corporation is allowed the opportunity of amortizing its new facility in a very short period of time, let us say, in five years, it is a very attractive incentive. If they get five years' use during the period of military operation when profits are very sizable, and they can amortize that plant over these years that means these facilities are practically free at the end of five years. That is a very attractive inducement to private business to build new facilities, especially when peacetime uses of the facilities can be anticipated.

Now we come to the next question, which is a very difficult one, how do we divide this biggest possible pie between military and civilian? That is a difficult task, the claims are not easy to measure or reconcile. Let us understand that the implications of this division are not just psychological, in the sense of selfishness. You know, some people in 1940, 1941, and 1942 were inclined to think that military officers, when they set their requirements high, just didn't care about the civilian, the nonmilitary or the indirect military needs; that they thought, "Just give us all we think we might ever need without any limitation and the rest will get along all right." I don't think it was really that kind of shortsightedness. Perhaps it was sometimes a lack of realization of how important the indirect military and nonmilitary needs were to military production. On the other hand, there were some military people who felt that the civilians in the economy were being coddled, and that civilians didn't want to give up anything at all; that they thought; "To the devil with winning the war; we are going to keep our comforts."

You have heard the expression: "Guns or butter--which are we going to have?" I remember a high War Department official coming into the WPB meetings and complaining because trucks were being used to deliver soft drink bottles. He thought trucks shouldn't be allocated for that purpose, that soft drinks were not essential. Well, it's always a matter of give and take, back and forth--what is really needed to maintain the civilian economy.

There is no question that so much can be taken away from the civilian economy as to destroy the incentive of the individual workers. There is no question that so much can be taken away as to disrupt the continuity of civilian life as to seriously curtail production. Surely, automobile output for civilian purposes must be limited. But, after all, we must realize that a place like Willow Run is not readily accessible. You don't crawl out of your bed in the morning and walk across the street to Willow Run. It is way out in the woods. People had to travel long distances and they needed cars.

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It so happened that we had a big supply of automobiles--enough to form a surplus--so we got along all right without producing any new cars after early 1942. But, nonetheless, we had to produce the fuel and provide the replacements to make the cars go. With no transportation facilities for workers in tank producing plants, we wouldn't have had tanks. So it is a matter of balancing the various needs, and it is not easy to decide where the balancing point is. It is also difficult because civilian requirements are difficult to determine. Many of such requirements are really indirect military needs and not just civilian needs.

The problem, of course, comes down to terms of the criteria which are used in making these apportionments and allocations. One of the greatest deficiencies or weaknesses in the whole war production effort and in the whole relationship of military to civilian came in the area of deciding the balancing point between military requirements and nonmilitary requirements. We never reached a scientific basis. We probably never should and never will get it done precisely because one can't just say that we need twenty units of output here and ten units there and none elsewhere, with a high degree of assurance.

Of course, in a sense, the decisions ultimately have to be arbitrary. They can't be done by means of a scale. There is no scale based on economics or something else which would permit anyone to say, "This weighs precisely this much in terms of its need and therefore the allocation will be made perfectly." Rather, it is necessary to have many verbal battles. Claimants, some real and some bureaucratically conceived, must go before different committees and argue as to which program is justified and which is not; who should get this and who should get that. Some days one group is deeply hurt and other days another representative is deeply hurt, but in the democratic process it gradually works its way out. I don't think, frankly, that we can ever determine precisely and automatically how that pie ought to be distributed as between direct military, indirect military, and civilian.

But that in turn raises the question as to what are the real requirements. The division of total output between military and civilian depends upon the basic requirements of different categories. I would like to talk about that now with serious emphasis.

Let me tell you a little experience we had in the war that left a lot of scars. Back in 1940, when we first met to discuss this problem of mobilization for defense, there wasn't in a solid sense, any real military requirements program. The military people who were in the picture at the time realize that this was the situation. The Munitions Board had the PMP schedules, these different schedules of requirements for two million men and four million men. I remember that when we went into this subject in

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the spring of 1940, we started asking a lot of detailed questions and became nuisances very quickly. You can well appreciate that, because we sought things which didn't exist. Most of the people there admitted that there wasn't any real requirements program in the true sense of the term.

In the spring of 1940 the United States began to expand military production and it was done sort of haphazardly. A little order was placed here and a bigger one there. Then somebody decided we ought to have more of something else. Frankly, it was very lucky that foreign orders were coming in then. They helped plenty. Our ultimate mobilization was speeded up in some real measure because we had a lot of foreign orders in 1939 and 1940 and they were firm requirements in the sense that orders were placed. After all, you can go into your corner grocery store and tell the fellow, "I'd like to have six pounds of cheese and four T-bone steaks." That is nice, but if the next thing you say is, "I have only enough money to pay for one of each," your desires are not a real requirement in the true sense of the word. Those orders that came from overseas were firm and they did help in terms of stepping up our mobilization. As United States appropriations were enacted and contracts placed, the whole process of economic mobilization was speeded up. The lack of early programming is evidenced by the helter-skelter way in which appropriations requests were built up and submitted.

All during 1940 and 1941 there was a real struggle here in Washington as to what was really needed to win the war. Actually, the term "what we needed to win the war" never came into being until 1941, but we were trying to get a rounded picture of military requirements. I remember in the spring of 1941, when several of us in the War Production Board were talking about requirements, we got into a discussion with some of these people who were concerned with military strategy and we asked, "What is really needed?" Of course, if you walk up to an officer in the Air Corps and say, "What is really needed?" he will say, "I would like to have 10,000 airplanes." If you ask, "When?" he says, "Tomorrow." Well, I don't blame him. That would be desirable. You say, "You can't have them tomorrow. When do you really need them?" He will say, "As soon as I can get them." We asked, "What about a time schedule of requirements?" Well, his time schedule in terms of what he needs is tomorrow or as soon as he can get them. But you can't set a time schedule of requirements completely in the abstract, because it has to sort of mesh with what is possible. So that requirements in a real sense come down to what is needed, and that in turn has to be scheduled in some relationship to what can possibly be produced with the maximum of speed and effort.

In the spring of 1941 there was one man in this country who in my book was one of the greatest contributors to all-out mobilization not only in America but among the Allies. He was a rather interesting little chap by the name of Jean Monnet. Most of you probably never heard of him. He is the brain father of this plan for coordination of steel and coal

production in France and Germany. Monnet was the coordinator of French-English production in 1939 and 1940. He is a fellow who is brilliant in conception. He has real ideas. He sets a definite goal, figures how to reach it, and really sticks with it until results are achieved.

Monnet came over here after France fell. Although he was a French citizen, he came over here as deputy head of the British Ministry of Supply in North America without portfolio. He held that big job in the British setup even though he was a French citizen. He was busy germinating ideas. He expounded and hounded one simple idea which basically should have been obvious. He decided at the end of 1940 and in the spring of 1941 that the war with Germany was going to be won by American production; and that therefore if it was to be a victorious war for the Allies, the American economy had to go all out in production.

That sounds reasonably obvious, but to translate that conception into reality wasn't quite so easy. Monnet is the kind of fellow who works well with top leaders. He gets a team of people working with him. He would go to see Harry Hopkins, and if Hopkins thought the proposal was a good idea, Monnet would go and talk to Roosevelt. Then he would cable to somebody he had working with him in England to go in and get Churchill's reaction. Then he would go to see Stettinius or talk with Donald Nelson. Before you knew it, he had a lot of people working with him and for his idea. He was the kind of person who would go around pressing other people and getting them to push each other. He would tell them what was happening. He would write letters for them. He was really a wonderful maneuverer. He did a magnificent job.

Finally, in the summer of 1941, Monnet had progressed to a point where Roosevelt and Churchill had agreed on two things--one, that they were going to set up a schedule of what was needed to win the war; and, second, they were going to integrate the British production with American. In other words, they would try to integrate the production of the major Allies.

I was amazed when we started to talk about these objectives in the summer of 1941 to find that in the First World War there had been literally no exchange of production information between the United States and Great Britain. There had been integration of military activities to some degree, but there had never been any integration on the production front. I talked with officers who said, "In 1917 we didn't know what the British were producing quantitatively and they didn't know what we were producing."

Well, when the top men decided that there were going to be those two objectives--one, setting up a real set of requirements needed to defeat the enemy, and, two, to integrate our production--then came a trip which Stacy May took to England. He went over and brought back data on British

scheduled production and requirements in tanks, guns, and so forth, in major categories. They had about 30 or 40 categories--antiaircraft, anti-tank, tank guns, airplanes, merchant marine ships, submarines, and four or five classifications of naval vessels. He brought back data as to the then schedule of production by the British. It was the first time that the United States had any data like that from an ally. We put the United States and British figures together and the resulting figures were available to both sides. So for the first time we had a projection of production by quarter-years by both countries, so they could integrate their operations.

President Roosevelt then asked the armed services, "What do we need to win the war?" That was when the real struggle began. A Lend-Lease mission went to Russia in the early fall or late summer of 1941 and came back with the Russian requirements. So then we had the Lend-Lease requirements and we had those of the Army and the Navy. We had a tougher time getting the Navy requirements than we did the Army, although it was difficult all the way around to get them. But finally in the fall of 1941 we did get a set of what were said to be the requirements needed by everybody to win the war. The figures came out totals such as 125,000 tanks, 200,000 airplanes, 20 million tons of merchant shipping, and so forth. I don't remember the details. But the requirements data all came in and we finally put them together.

Then the question came up, "Now, what about timing?" After all, 200,000 airplanes produced in twenty years wouldn't be tough; but what about this number of airplanes in one year, or in two or three years? So we started what was the first of the feasibility analyses. What did we mean by "feasibility"? It meant the maximum that could be accomplished. With the use of some crystal gazing and a few indirect devices we came out in the late fall of 1941 with what we regarded as a basis for the victory program. We said that we thought the country could meet this set of objectives by the spring of 1944, or maybe it was very late in 1943.

Then we scheduled out the program by quarters as best we could, not on the basis of precise engineering data, but on the basis of what manpower we had in the economy, our national income, and the available supply of steel, copper, and aluminum. We used these three critical raw materials. There was obviously a lot of judgment and guesswork in the process.

Finally we said this is what we think could be accomplished by such a date, and thus and thus is the general trend in which it would go and the rate of increase. Those figures went over to the White House. Lord Beaverbrook was there at the time, and he urged the President to raise the figures, and the President did just that. You know, right after Pearl Harbor the President came out with his so-called victory program. The victory program, which had been submitted to him was pretty ambitious; but when it got through the White House it was much more ambitious, and there was a question as to whether it wasn't too big.

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The problem of programming became serious in the spring of 1942, because requirements were still flexible. There was a general tendency to raise the requirements even above the objectives which had been set. I think part of this tendency stemmed from the fact that the requirements had never been laid out in total, and what we had been working with were critical items--aircraft, tanks, ships, merchant vessels, and so forth. In working on the Victory Program, we didn't go down the line into all the complements needed to balance out the program. As a matter of fact, it wasn't supposed to be a balanced program at all, because many of these items were out of line because of special requirements from our allies. So there wasn't a balanced set of requirements in the Victory Program. But as soon as these big requirements were set by the President, everybody wanted to balance everything against these key-item requirements. Before we knew it, instead of having a program which was ambitious, we had a program that was a bit on the fantastic side because it was just too large.

At that point I want to say that in the matter of mobilizing resources to the maximum degree, there are two criteria. One is to push the objectives up to the point where there is strong pressure all the time to try to achieve them. But, there is the other consideration of not overdoing it; because, if the objectives are too large, then the maximum will not be achieved. If requirements are so big that it is utterly impossible to achieve them, I think there will be a degree of chaos in the whole mobilization and production program that will hold down or at least not maximize total production. The degree of failure may well vary with the degree of excess in the requirement program.

All during 1942 there was a bitter struggle between the people in the armed services and WPB on this problem of programming. Whereas the civilians in 1940 and 1941 had been working on the side of higher requirements with the help of some of the military men, in 1942 the civilians began to work on the side of not letting the requirements run away and toward cutting them down when it was obvious they were far beyond feasibility. So there was a very bitter struggle. We had a really terrible time and the going was rough some times.

We in WPB wanted to get the requirements back to what we regarded as feasible. The services felt that we had made a mistake in pushing them up, but actually we hadn't. We had suggested certain levels and then they went far above them.

I think the reason for our fight for ambitious but feasible goals was clear. Each procurement service was buying at the same time. The Army was buying here, the Navy there, and the Air Force here. The Merchant Marine and the Maritime Commission were also buying, and Lend-Lease was buying. In the Army the Chemical Warfare Service was purchasing here, the Quartermaster Corps there, and Ordnance elsewhere. And it was not

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that they didn't care about achieving a maximum result. Yes, there was considerable teamwork; but the fellow who was buying a certain item in the Quartermaster Corps didn't know what the fellow was doing in the Chemical Warfare Service. They were competing with each other.

You must realize that if you have objectives such as those that we had in the late spring of 1942, calling for 120 million tons of steel, including essential indirect military, and there were only 90 million tons of steel available, something was going to have to give. If you build fabricating and end-product plants to consume 120 million tons of steel and you have only 90 million to give them to work on, some of them are not going to be used. You are going to get pieces of this and pieces of that. You won't be able to finish many items, because everybody else is grabbing off the things they too must get. So you must set a goal which is on the one hand ambitious but on the other hand reasonably feasible. That was a real problem. I assure you that this is one of the most difficult and one of the most serious problems in over-all planning, because if you don't have a big enough program, you are never going to have an all-out effort; but if you have too big a program, the scheduling job becomes impossible.

I remember one of the fights we had in 1942 over the question of reviewing the new facilities program. Objections to building excessive facilities, because of the likelihood of inadequate supplies of raw materials, were met by arguments that the precise scheduling was impossible. That is precisely why over-all programming is so essential. In 1942 some facilities which were part way through had to be canceled. There was no point in building them. They couldn't have been utilized anyhow. There were too many facilities going up. It wasn't too serious then; but I think if it had gone on in any great degree, it might have become quite serious. It required a considerable effort to hold down the facilities expansion program because of each service seeing only its own needs and striving to satisfy its own needs. Fred Searles, a co-member of mine on WFB's Planning Committee, did an outstanding job on this problem, but not without strong words and some stiff conflicts.

Scheduling of raw materials, components, and facilities is really impossible if the total objectives are far greater than can possibly be achieved. On the other hand, even if you had a perfect program, you would still have to have some scheduling. Let us say that you could sit down and with a reasonable degree of precision say, "This is May of 1950. If we had a war starting three months from now, in 1951, we would have 100 million tons of steel; in 1952, 110 million tons; and so forth. Here is how much aluminum we can get. Here is what our objectives can be. We can't cut the civilian down more than such-and-such percentage, and this is left for the military." Let us say that we set up a military program based on these data on resources and on other needs. I am certain that a good scheduling allocation would still be necessary.

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The reason for that is the urge of each person to concentrate on success in carrying out his immediate assignment. Everyone can't keep his eye on the over-all picture and each one who is trying to do a job in the cell in which he is working is going to try to do his best job. The fellow down in Chemical Warfare is buying canisters, let us say, while the fellow over in Quartermaster is buying trucks. That fellow in Quartermaster is going to try to get all the trucks he needs and preferably ahead of schedule. It is his job to fulfill his requirements. Every other individual is going to try to do the same thing. Some are even going to hoard a bit. They will try to get a small inventory of materials and components, especially the critical items, because every one of them knows that if he has some inventory in the plant with which he is working, he will be reasonably safe. The next month there may not be the supply that there is this month and he may fall behind in his schedule. Everybody is out trying to do the best he can. Therefore you need some degree of control in terms of inventory control, in terms of allocation of resources, and in terms of scheduling.

The allocation systems which were developed in the war, PRP and CMP, were not bad. They were not the ultimate in perfection, but on the whole I don't think they were bad. You must remember that we live in an economy in the United States which is not totalitarian, which I hope will never be totalitarian, where you can go to Chrysler management and say, "If you put more pounds of aluminum in production than are needed, we are going to hang you in the central square in Detroit." That is not the way America operates, and I hope it never will be. There must be a considerable degree of latitude allowed to individuals. Therefore it is necessary to develop the kind of system which isn't so tight and precise that you literally destroy the incentive and initiative of every individual and take all judgment away from him. What you have to do is to impose certain limits which don't let people go too far out of line.

The material control system developed during the war reasonably well achieved that objective. It wasn't so precise that we avoided in ultimate terms some wastage and some accumulations or avoided some materials going to the wrong places. But the balance between restrictions and freedom was reasonably well achieved and the results were not unsatisfactory.

It wasn't easy, by the way, to implement many of these controls. I remember what happened in 1941, when we were beginning to talk about cutting down on automobile production. The resistance of the auto producers was not a question of patriotic motives. You can't blame the automobile industry for not wanting to have automobile production cut immediately. I remember when the first suggestion was made to cut production and then finally to cut it out entirely, the manufacturers said, "We have inventories of axles. Please allow us to go ahead and use them up." If you let them use up the inventory of axles, they would find they

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still have some wheels. They would use them up, and then they would have a few carburetors. If you let them finish using them, they would never stop, because there would always be an inventory of something. It is not easy to impose limitations.

In a sense in a democracy it is that pulling and pushing of interests back and forth which usually brings us to somewhere near the right conclusion. One person might say, "It would be desirable to tell these people, 'Here is the decision you are going to stop at such-and-such a point and no argument.'" Well, those arbitrary decisions can be made in a totalitarian economy. Maybe such an economy is a little more efficient at times than ours. I am not sure about that at all. But in our economy you give and you take a little. Somebody gets a little too much and somebody gets too little but the excesses aren't often calamitous or greatly unjust. What we went through in 1941 and 1942 was a process of negotiation, of giving and taking. I think we finally came out with the kind of limitation orders, of allocation systems, and of scheduling procedures which worked out pretty well.

I am going to leave that point and go on to another one. I am sure you will have questions on this matter of requirements and allocation, but I want to touch lightly on a few other items, especially on the economic impacts.

So far as economic impacts are concerned, if we understand how this economy works, we can readily understand some of the fiscal problems that are related to mobilization for war. I am going to oversimplify the picture and say this to you: The national income is a measure of two things. On the one hand, it is a measure of what the country produces in goods and services. If you could just close your eyes and imagine a big pile over here of all the automobiles, amusements, clothes, houses, chairs, machinery, airplanes, haircuts, ships, dental care, education--all the things that a country produces in any one year--that would be the national income. It is the value of the product of the economy. On the other hand, the wages and salaries paid out, all the interest, the dividends, the undistributed profits, all the incomes that are received by or accrue to individuals, these are another measure of the national income. In other words, the national income is a measure of what we produce and of the claims over it. That is why if you study national income figures, you see the income broken down by industries or types of products, or you find it broken down by types of income and size--some received 1,000 dollars, and some one million dollars, and so on. You find it broken down between interest and dividends and wages. The one is a claim on the product, the other is a measure of the product.

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Now, if during war you want to take this pile of output, which must be made as big as possible, and you cut out a slice and say, "That goes for war," then you must try to relate the fiscal side, the money side, the income side, of it to the allocation of the product side. You have to begin to realize that you can't let all this income lie around where people are going to try to buy goods that are not available. Don't forget that our one measure of the national income is equal to the other. If all these goods are not available to people to buy, you have to get some of their income away from them. You have a fiscal problem of diverting some of your income to Uncle Sam who suddenly has become a huge buyer.

Uncle Sam is taking this big chunk of goods out of the national product for the military. To balance that, you must try to take an equal amount of money from the people. You either tax it away or borrow it. Depending on how you tax it or how you borrow it, or to what extent you do one or the other, you are going to influence the price level, and you are going to influence the stability of the economy.

In the last war we raised taxes tremendously. In 1940, our total tax take by the Federal Government was something around 5 or 6 billion dollars. Taxes rose in 1943 to where they were around 50 billion. That means that the Government took away buying power from people and from business by taxes. We did it, first, to pay for the war to the extent that we could; and, also, to get some of that buying power from the people so they wouldn't be competing for the limited supply of goods left over after the services took what they needed. If the people had more money to spend than there were goods and services on which to spend this money, prices would tend to rise.

The money raised in taxes was not enough to finance the war, so the Government borrowed the rest. Now, to the extent that the borrowing process is a voluntary one, that is, done through the purchase of war bonds, you leave quite an inflationary pressure in the economy by not taking away enough purchasing power and also you increase the national debt. To the extent that persons won't voluntarily buy enough government bonds with their savings, the Government must resort to credit expansion and that is inflationary. A lot of people are worried today because the national debt is over 250 billion dollars, whereas it was around 50 billion in 1939. Well, all I say is that if we didn't like a big debt, then we should have liked bigger taxes. It was necessary to have one or the other. There is no point in being against both of them. Yet it is interesting to note that most of those people who scream about a big debt are also against big taxes.

There is no question that our debt wouldn't have gone during the war from 50 billion to 250 billion if we had taxed more money away. Some people said, "We can't afford to be taxed more." That is nonsense. People had money to buy government bonds, so they had money for taxes.

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Whether we should have taken all the money to finance the war in taxes instead of taking some of it in bonds is a serious question, because there are psychological implications. People feel better when they have a bond, on which they have a claim, than when they pay their money to Uncle Sam in taxes.

You have to work out your tax program, your bond program, your whole fiscal operations, according to various considerations. What are the long-run economic implications of an unbalanced budget and a higher debt as against a balanced budget and no debt? What are the incentive implications of getting most of the money for the war from the people through taxes instead of borrowing it from them? What are the implications in terms of inflation? There is no question that the more you tax away from people, the less money they have to spend and the less inflationary pressure there is in the economy. But you have to think also of incentives.

Those problems of fiscal policy are extremely important to think through in advance, because they affect production. Let us not kid ourselves. If you don't have incentive enough, you may not get the maximum production, no matter how much flag waving and speech making you do. I am convinced that without accelerated amortization, many of the industries and plants which we now have in this country, which were built during the war, never would have been built. You must try to figure how far you must go in offering incentives. Men who unselfishly sent their sons to war and lost them still insisted on substantial incentives in producing for war. It is an inherent characteristic of business enterprise in a free economy.

Many people feel that if we hadn't had the excess profits tax, we would have had a great deal more production. I doubt this myself, because the profits weren't bad during the war even after the excess profits taxes were paid. Profits of corporations averaged 10 billion dollars a year after taxes, as compared with three and a half or four billion before the war. I think there was enough incentive given to do a fairly good job. Some people feel if we had been easier on the personal taxes, we would have had more production. I am not so sure. I agree, you have to strike a happy balance. But I want to leave the thought with you that this problem of fiscal policy is a tough one.

Now, theoretically, if you could get enough of this surplus buying power away from the people in the form of taxation or patriotic borrowing, forced savings, or whatever you want to call it, then price control wouldn't be necessary. In other words, if you could take away enough buying power so that there wouldn't be more demand for than supply of goods, you wouldn't need price control. But we know that is impossible. You can't attune your fiscal policy so finely that you can avoid surplus buying power. So we must have a substantial degree of price control during a war.

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I think our price control during the war was highly successful. It wasn't absolute. There were black markets and gray markets here and there. But by and large price control was quite effective here in the United States during the war, and the system was reasonably fair. Many employers thought the controls were too rigid and said they should have had upward adjustments. I remember people coming to WPB and complaining about OPA, saying that excess profits tax and price control were vicious; that they were now earning 400,000 dollars a year in their little plant and they were being left with only 100,000. They said the Government was vicious for taking that 300,00. We asked them how much they had made in 1939. Well, if they had made 15,000 then, they were pretty lucky. They didn't seem to recognize that if it hadn't been for the war, they might still be making 15,000 instead of 100,000 after taxes. But that was too rational to expect.

But there must be a degree of control which is not going to be very agreeable to everybody. You are going to have somebody unhappy all the time. I think that price control is not only essential, but I think that on the whole it worked quite well during the last war.

Of course, rationing is another measure which is required to accomplish two objectives. One is to help avoid mass inflation and the other is to help disperse limited supplies in the most equitable way. As I said before, if you took away all the buying power that was excessive, you wouldn't have any tendency for inflation. You wouldn't need price control and you wouldn't need rationing from the inflationary point of view.

But we must remember that when you begin to squeeze down consumption, you have to be certain that you retain some degree of equity in the way scarce goods are distributed. That is essential. You have to be sure that the fellow with the longest arm at the boarding house doesn't get everything. If you have five people eating at the table and you cut down the amount of food from enough for five to enough for one, the toughest guy will take it all and the others will starve. You have to work it out so there is some degree of fairness, so it doesn't go on physical ability, length of arm, loudness of voice, or level of income and wealth. There has to be some other basis, maybe a little arbitrary, as to what is equitable. That is why we had to introduce rationing. On the whole I think it also worked rather effectively.

The L orders, the limitation orders, were among the toughest of all. You told some people, "You just quite producing washing machines." Those orders were very difficult for some people to take. But again I think it is highly necessary to do that. You can't expect people to respond patriotically and say, "We ought not to produce nonessentials and my product is not essential. Everybody should produce essentials." If

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some of you had sat in WPB in 1942, I am sure you would have seen every product in American industry being demonstrated and justified as essential. All products were claimed to be critically essential. Everybody said, "Mine is essential"; and they could go through a process of reasoning to show why the war would be lost if their production was cut down. So it is necessary to impose certain arbitrary controls.

Enough about these three things--the maximizing of output, the division of the pie with the proper programming, and the economic impacts generally.

By the way, I might say that generally manpower controls are among the most difficult controls to operate with any degree of precision. I think Collis Stocking, who is here and was in the War Manpower Commission, will agree that it is much more difficult to introduce manpower controls than controls in copper or lead, L orders, M orders, rationing, and so forth. But I think that some of the incentives and techniques that were adopted during the war were excellent. By and large we learned a lot about manpower control during the war that can be of great help the next time, if we have a next time. I think that there has been an experience, which undoubtedly you have discussed in your manpower sessions, which has been very valuable.

I would like now to talk just briefly about the organizational side of this subject; there are some real questions. One question is the matter of civilian versus military control of procurement. You know, in 1940 and 1941 there was a lot of talk about whether procurement ought to stay in the armed forces or go to WPB. When Donald Nelson became head of the War Production Board, he was given a directive which gave him very broad powers. He really was given anything and everything in terms of powers. He decided that procurement had been in military hands for so long that it ought to stay there, although I am not sure he would have agreed to that had it been at an earlier period.

I think myself that the question is not so much whether procurement should be in civilian or military hands; it is a question of how procurement can be best coordinated. I don't know how some of you feel about military unification. I am certainly not an expert on it. But it would seem to me that in the procurement area the greatest degree of unification is desirable. It probably can't be complete, because you always have two problems in procurement. One, you need the expert who knows the product, the use, what he wants, and all its technical aspects. On the other hand, you need people who are looking at the product from the commercial and economic side, in terms of minimum interference, of maximum coordination, maximum efficiency, lowest cost, and all those aspects of it. The coordination of those two is by no means a simple matter. To the extent that a very substantial degree of coordination in procurement can be achieved between the Army and the Navy and the Air Force, I would say to that extent you minimize the argument as to whether it ought to be military or civilian. That I think is most emphatic.

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If it stays military, I think you should have also the maximum percentage of civilian people who are familiar with procurement. There was the fellow from Montgomery Ward who died in a plane that crashed across the South Atlantic. There was another who was brought in, Al Browning, who became vice-president of Ford, who died of a heart attack not long ago. People like that, who have had real experience in procurement, can be brought in more and more. The problem is much more one of integration and coordination than it is one of deciding between military and civilian.

Of course, there are other problems. There is this dollar-a-year problem, whether businessmen should be brought into the Government on a dollar-a-year basis. Personally, I would prefer that they come in on a total basis rather than at a dollar a year, although it is a matter of motives of individuals. I think some of the businessmen who came into Washington during the war were not only as patriotic as anybody in any other area, but more patriotic than some, no matter what their position was, in or out of uniform.

On the other hand, there is no question that some people have difficulty in dissociating previous relationships, interests, and ties. It is not a question of competence or of integrity at all, but a question of background, point of view, and general thinking.

I think it would be helpful by and large if the businessmen who come in during a war come in on a full, solid basis. After all, when you go into uniform as a GI or as a Reserve officer and so forth, that is your whole job, your total affiliation. On that front I think it would be highly desirable if the whole dollar-a-year approach were abandoned and we had people on a full-time basis.

So far as the organizational structure generally is concerned, WPB had one great deficiency. It was completely dissociated from strategic planning. I am not talking about tactical planning; I am talking about strategic planning in a broad sense of what the economy can produce and how it should be apportioned between military and civilian demands. There was no organization which had this responsibility up until the summer of 1943 or the fall of 1943, when the Office of War Mobilization was started with Jimmy Byrnes as sort of Assistant President. Until then there was no place to get a decision in this matter of how the economy ought to be expanded and how its output should be apportioned. The WPB was really an operating body, handling allocation, expansion, stimulation of production, breaking of bottlenecks, and so forth.

The military people were represented on WPB, but who were the military representatives? They were supply people like Patterson and Forrestal. They were people at the logistics level--Admiral Robinson, General Somervell, and so forth--nobody from the strategic level. The top persons in Charge of WPB had no contact with the Chiefs of Staff.

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The top military supply men said they would provide such contact but they just weren't in the over-all production position to really do the integrating job. There was no place in Washington short of the White House Oval Room in President Roosevelt's office where groups could come and battle out this problem of top economic strategy, of maximizing our resources, and dividing them up. It just didn't exist. There has to be some place in the Government, some kind of office of war mobilization, where you have the topmost economic and military strategy integrated.

I can understand why these problems were so intermeshed and were not solved until so late. The military felt that the civilians ought not to know about strategy. True, most civilians ought not to have anything to do with strategy. It is not their business. On the other hand, there were certain civilians, like Donald Nelson, or Hopkins who was assistant to Roosevelt, who had to be concerned with the combination of the two aspects of the job in order to carry out their assignments successfully.

There ought to be one top body which concerns itself with what I call the big problem of economic and production strategy. The military strategists and the production people must set up the objectives on an ambitious but feasible basis. They must decide the distribution and the dispersion of what will be available. It is their total job to knit together the total war effort. I think with that kind of body you can overcome the conflicts that often arise between military and civilian, where things of a strategic nature are kept secret from you if you are not in uniform.

I remember that in 1940 and 1941, when questions were asked of the Quartermaster Corps about inventories of blankets, the answer was--this is a military secret. Well, I can conceive that if blankets were being readied to go to a certain front, the number might be a military secret, but civilians usually get blocked at every point by the military saying, "You shouldn't know anything about that." Lots of wrongs were covered up with that statement. But if the civilian and military efforts had been integrated at the strategic level, we would have had better total results, less delays, less waste, and less-frayed tempers.

MR. HILL: Mr. Nathan, you have taken us down to your office in the War Production Board. You have given us many things to think about.

Are there any questions?

QUESTION: Would you comment on the Industrial Mobilization Plans which were prepared before the last war, the ones of 1939 and 1936, and why they were not used?

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MR. NATHAN: I do not think it was because they were no good. They were extremely useful on two fronts. First of all, they were useful in placing educational orders with various industrial plants. It wasn't that a man who was given a certain allocation of production did actually get that in the war; but nonetheless, the fact that these producers were alerted, that they had a little experience in limited military production, was extremely valuable. They were useful also in developing experience among military men in laying out requirements programs.

But the reason why the first over-all plans, those for the mobilization of two million men and then for four million, were not used was because we didn't start out, and probably never will start out, by saying, "We are going to have two million men" and then later, "We are now going to have four million." We actually start out by saying, "Well, we had better get ourselves ready for more men in this category than in that." There has to be much more flexibility and more alternatives than those plans provided for. The plans just didn't seem to be up to date with changes in strategic planning nor, I guess, with the latest in weapon development.

I would hope that in the plans being developed today there is a greater degree of flexibility than there was in those earlier pre-World War II plans. Today the planners probably are keeping the plans up to date, varying them according to strategic plans, reducing and increasing and replacing items as technological progress and tactical planning change. As of that time what we really had was a set of fixed objectives with limited emphasis on timing.

I don't remember all the timing of congressional appropriations of 1940 and 1941 very clearly, but I am quite certain that when those appropriation bills went to Congress, they did not call precisely for recruiting and equipping two million men or four million, or precise goals of that nature. There must have been five or six different appropriation bills in 1940 that went in one right after the other. The appropriations would jump ahead here and jump ahead there but certainly not in line with the supply plans that were available. One service went in ahead of others. One type of item went in ahead of others. The result was that the actual securing of appropriations didn't fit into these mobilization plans. There hadn't been enough experience and thinking of a flexible nature to adjust the goals quickly, so we almost went on an ad hoc basis of putting money here and putting money there without regard for the available plans.

I conclude that those plans were not used mainly because they hadn't been developed with enough variations, with enough flexibility.

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QUESTION: I gather from the problems that you just brought out here that you are in favor of price controls in the case of another emergency. Would you care to comment on the advisability of wage controls and the freezing of manpower, the movement of manpower to areas where they are short of help and into more critical industries?

MR. NATHAN: If we had another emergency, I don't think there is any question that we would have to have both price controls and wage controls. There is no doubt about it. You cannot in a period of tight control have complete freedom of one without the other. First of all it is essential to have really three broad monetary or fiscal measures. One is price control, one is wage control, and the other is profit control. That means you are controlling all the ways in which your claims over resources are distributed. That doesn't mean that absolute rigidity is possible. We never had absolute rigidity last time. I think flexibility in decisions by boards or agencies is essential. Of course, they must be tough minded and hold the line against inflation but still must make absolutely essential adjustments.

Take, for instance, this matter of manpower allocation. It seems to me that if the degree of emergency next time is substantially greater than it was last time, it may be necessary to just direct people to go from one place to the other. Personally, I would much rather we didn't have to do that. I would much rather rely on special incentives to get people to go to less desirable areas and on restrictions such as limiting the employment of persons in certain activities, for instance, nonessential production.

We tried that in 1943. We were fairly well agreed on not permitting certain nonessential employers to increase their staff without approval. I think that is highly desirable. It is highly desirable to do everything in terms of holding a bait out to get individuals to go to other areas where they are needed more. I would rather do it on the incentive basis rather than in terms of actual directives on the use of manpower.

QUESTION: In 1941, either before or after Pearl Harbor, we evidently didn't have a very good idea of what we were going to have to do or what we were going to need to do it with. At the present time do you feel that we have any better idea of what we are going to need, keeping in mind the changed organization provided by the Security Act and its amendments?

MR. NATHAN: I don't know whether we do or not, but we should be better prepared to do the job. We should be in a much better position now to decide on what we need, for several reasons. First, we have had these security organizational changes; second, we have the freshness of the World War II still in front of us; third, the unification of military services that has taken place; and finally, I think the increased alertness

that prevails more broadly as to the new technical developments in modern warfare ought to give us a basis for deciding quickly what we really need and keeping requirements up to date.

QUESTION: Do you know of any plan that has been devised since the close of World War II which in your opinion is better than the Controlled Materials Plan?

MR. NATHAN: No, I don't. I am not too familiar with the precise plans that have been developed over at the NSRB. Undoubtedly, some improvement can be made in some of the devices that were used during the war. But on the whole it was a quite workable plan. The Controlled Materials Plan came in after other plans had failed; so it had the benefit of other experience. It came too after the war production program had been brought down to more feasible levels. Before that the program was way out of line.

The kind of plan should depend in some measure on the kind of situation faced. In 1943 we got up to a point where about 45 percent of our total national output was going into what we called military purposes, for fighting the war. It is possible that under atomic warfare considerations we may have to go even higher. Now, 50 or 60 percent is hard to conceive in economic terms, because it could almost destroy the whole indirect military as well as the nonmilitary economy. But if, for instance, we had to go to a 60 percent proportion of your total output being diverted to the war, perhaps the Controlled Materials Plan would have to give way to something much tighter, much stricter, in which penalties for variations from various specific directives would be truly severe. It might require much more specific directives as to precisely how much material each producer could hold in his inventories, precisely how many components each could stock, and so forth. But, in line with the large portion of our resources that we devoted in 1943 and 1944 to military purposes, the Controlled Materials Plan worked quite well.

REMARK: In connection with the last question, I would like to report that I was with the War Production Board in the Chemicals Bureau during the war, and there our experience was that direct allocation was the effective way and that the CMP was scarcely used, at least in the Chemicals Bureau. One reason for that was that both the producers and the customers preferred to be told what to do rather than to have it left to their judgment.

MR. NATHAN: But how many successive stages of fabrication did you have in chemicals as compared with a lot of metals? You see, in a lot of those chemicals they really move from a very primary stage to an end stage quickly, not through a great many stages of fabrication nor through a great many plants. Not all products in the chemical field could be so characterized, but I would think it more nearly true of chemicals than of metals.

REMARK: Yes. Certainly much fewer than in steel.

MR. NATHAN: That is right. When you go through eighteen stages from the raw material to the end product, it becomes awfully difficult to direct the allocations. Of course, again you know you always can vary your techniques and program between the primary product and the end products. You can sort of meet yourself both ways by partly a PRP and partly a CMP approach.

REMARK: May I suggest one other thing? Later on I was with price control on chemicals and there again we found that the most effective areas of price control, again in chemicals, where the problems were related to distribution, were where there was direct allocation. There the administration of price control was much more crystallized. Where it was left to, say, L orders, it was much more difficult so it was necessary to have continuous adjustments.

QUESTION: Assuming that in another war we would probably have another organization similar to WFB, I am interested in the coordination between such an organization and our presently organized Munitions Board. Will you comment on the interrelationship between those two agencies and how closely they will be able to coordinate on procurement matters in another emergency?

MR. NATHAN: During the last war the functions of the Munitions Board relative to the total effort were actually smaller than they were before the war. In other words, if you were to take, say, the whole military establishment in 1939--this is my judgment and I may be wrong--and look at the part that the Munitions Board played, and then did the same thing for 1944, I think you would find that the Munitions Board in 1944 was a substantially less important part of the total operation than it was in 1939. That was because of WFB having been organized, and the fact that a lot of ANMB functions were moved over there. My guess is that this will happen again. I think that the important functions of the Munitions Board in the actual period of hostilities are mainly on internal integrating and coordinating operations within the services, doing that internal integration and also being a real liaison and coordinating point with the outside agencies such as WFB.

QUESTION: You mentioned the essentiality of integrating war production with strategic considerations and mentioned in that connection the Office of War Mobilization. In my rather cursory study of that subject it would seem to me that the pattern of organization followed in World War II was to work upward from functions; that is, as functions demonstrated they needed coordination, an agency was put in to effect it. But that still resulted in building a sort of organization of several pyramids, all stemming upward from functions which were still somewhat

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compartmentalized. I would like to throw out for your comment the idea of starting from the top of that matter of coordination by considering the problems of the President, those he has to meet head on, those which he may delegate but of which he still maintains surveillance in matters of procurement, and those which he delegates in part but still requires some coordination from his level; and establishing at his level a staff organization which would not only advise but would participate in accordance with his policy in some of the functions of executive direction. The organization would be based upon as small a number as possible of groups of related functions of the President, problems of executive direction. It would probably be headed by a chief, who would be an Assistant President and would coordinate the several divisions, and who would have the capacity and the flexibility to take on all problems of integration that arose somewhere within this organization.

MR. NATHAN: I think the idea you suggest is an excellent one. What you said about these top bodies emerging as the need developed down below is about the way it happened. That is how WPB came about and OWM. Those things came very slowly. They don't develop on a very well thought-through basis.

But if they would approach it the way you suggest, starting up at the top and saying, "Mr. President, here are some of the things you have to do. Let us set up a body with the proper functions," that would be fine. You are right--a limited staff, at the White House level to really organize and plan and see to it that the strategic and economic considerations are really headed and coordinated, would be invaluable. I think we would have had a much stronger war effort by starting with OWM way back at the beginning, fitting it in from the top rather than keeping on adding from the bottom.

QUESTION: It seems to me that we could have used the President's executive assistants, the Department of Labor, Agriculture, and so forth, in much greater detail than we did in the last war. Would you care to comment on why the WPB did or did not use these departments in the war?

MR. NATHAN: What finally happened in the war was that everybody stole everybody else's good men. The Office of Manpower took them from the Department of Labor, and WPB stole them from the Department of Commerce and elsewhere. Before you knew it, it was a movement of personnel rather than an assignment of responsibilities.

It is hard to really explain this seemingly inefficient method. I think that the problem, as a matter of fact, may stem from two sources. One is the human deficiency, that is, the fact that I guess everybody tends to be bureaucratic. Whether you believe in bureaucracy or not, you get a certain assignment and you figure that, at least if it is all

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... tied in right under you there, you are better off. You know what you are going to get. So instead of saying, "Here is a job that I have which has six parts. I can farm four of them out to Agriculture, Labor, Commerce, and Treasury, and I will keep the other two here," you say, "Well, no; it will be done better if I do it here and have control over it." It was probably a human failing of that kind that resulted in our not making full use of other agencies, but rather tearing them apart to some extent.

But I think there is a second aspect too--a very difficult one and I don't know the answer to it--and that is the problem of direction, the problem of control over work. For instance, let me give you an illustration we had in WPB.

We had what we called the Office of Progress Reports, which was set up in the fall of 1941, before WPB came into being, for the purpose of establishing data and preparing analytical reports on production progress. We brought over to head that up a fellow by the name of Mike Meehan, who is one of the top economists in the Government in organizing and analytical ability. He is a very able fellow. We thought a long time about assigning that task to personnel in the Office of Business Economics in the Department of Commerce and letting them do it. Then the question came up as to secrecy of data. Also, the question arose of getting the kind of contact man who could bring pressure as to quality and speed. Jurisdictional lines had to be short and direct. Could you sit down with the Commerce Department man often enough, or does the contact man have to run back and forth? The plain problem of administration and organization is something that most people weren't willing to, or just didn't seem to be able to, face.

I honestly don't know how we can make better use of the executive departments than we did the last time. Very little use was really made of the other departments. The general tendency was to build up our own organization, and, if others had good people, to steal from them and go ahead and duplicate their staffs. There was a lot of waste of talent in the war effort because of this situation. I just don't know the answer. But it wasn't successful last time.

QUESTION: I think it is a fallacious belief that we could have gotten more in taxes from the people by keeping them down during the war. It is true that when we ended up the war program, all individuals had quite a little money; but if they hadn't had that money, I don't believe everybody could have returned to his home place and obtained employment again without a lot of help from the Government. In other words, the people themselves put up a lot of money in getting back to where they belonged; and if they hadn't done that, the Government would have had to pay out those sums. So I think it is just a fallacious statement that you could have had more from taxes. I would like to ask your opinion on that.

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MR. NATHAN: That is what you call a declaratory judgment or something like that. That point can be argued. I will answer it in two or three ways.

In the first place, most of the money that was borrowed by the Government during the war didn't come from way down at the bottom of the income scale. I would say that of the increase in the Federal debt of 200 billion dollars that occurred during the war, I doubt if more than 25 billion actually came from people who earned less than 3,000 dollars a year. The people who really needed it later for such as getting back home from working out in Las Vegas or somewhere else and going back to Chicago were not the ones who lent most of the money to the Government.

Second, a tremendous portion of the bonds were held by corporations. You may say, "Well, but the corporations built big new facilities in 1946, 1947, and 1948." Their new profits financed most of these facilities. You would be surprised to know that a lot of corporations have more money in cash and government bonds now than they had in 1946. In 1946 some people did use up their savings, but the net result in that year was additional savings, that is, much more was saved anew than was spent out of past savings. We had a savings economy in 1946, 1947, 1948, and 1949. In other words, some people cashed in and used up their war bonds in those years, but the rest saved even more. In other words, the aggregate of savings in 1946 increased; and the aggregate increased in 1947, 1948, and 1949. The instances that you mentioned, of somebody here and there using his war bonds to get himself adjusted, is really the exception rather than the rule, certainly in amount.

I think the amount we spend on defense should not be decided on budget consideration, whether we have a deficit or a surplus, or what we can afford. We can afford a lot, there is no question. If we can spend 100 billion dollars a year in war, we can spend more than 13 billion in defense. The question is a strategic and political one.

I said on a radio broadcast Tuesday night that I think our whole security program is getting fouled up as a result of people yelling, "Can we afford 13 billion?" We certainly can. We can afford 30 billion if it is necessary to maintain peace. The question is, What do we really need? If we stick to that and then argue the economic and political policies of financing on the basis of what we need, we can work it out.

If we decide that we need 30 billion instead of 13, the next question is, How are we going to finance it? There again you have to ask yourself whether you mind the debt going up 15 billion dollars or more a year. If you don't, we won't raise more taxes but will borrow the money by selling bonds. We can raise lots more taxes and get that money if we want to.

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Some people are going to be hurt a little more here, and we may destroy a little incentive there. But there is no question about it; if the people of the country have the money to buy bonds, they have the money to pay taxes.

You have to decide which hurts most, higher debt or higher taxes. If you don't worry about deficits, if you don't care about the size of the debt, all right, then don't raise taxes. I would much rather see more of it paid by taxes. We can more nearly balance the budget that way. But I think the way to balance the budget is to put the taxes on certain areas where there will be a minimum effect on private spending. Of course, in that case the big corporations and higher income groups will howl to Congress. The same people are screaming about the deficit. Some want to cut the excise taxes, but they sit there like mummies when we talk about increasing taxes elsewhere to offset the cut in excise taxes. We can't have everything. If they are going to cut excise taxes, they should put taxes on somewhere else. They don't want to put them on somewhere else. It is a matter of facing up to the issues. Which do you want?

MR. HILL: Mr. Nathan, you have given of your time most generously. We know that you are under pressures of a business and personal nature which you have put aside to come down here to talk to us. You have been of great help to our six committees. On behalf of the faculty, the students, and our most welcome visitors, I thank you very much.

(18 July 1950--65)S

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