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MOBILIZATION PLANNING AND THE NATIONAL SECURITY

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RESTRICTED

Dr. William Y. Elliott, Professor, Department of Government, Harvard University, was born in Murfreesboro, Tennessee, on 12 May 1896. He received his higher education at Vanderbilt University; Sorbonne, Paris, France; and Oxford University, England. He has been an instructor at Vanderbilt University, University of California, and Harvard University. In World War I, Dr. Elliott was a first lieutenant in the 114th Field Artillery, 30th Division of the A.E.F. During World War II he acted in the following capacities in Washington: consultant to the National Advisory Defense Commission in 1940, to the Office of Production Management in 1941, and to the House Special Committee on Postwar Economic Policy and Planning in 1945-1946. He was a member of Senator Tydings' mission to the Philippines in 1945. He was director of the Stockpile and Transportation Division of WPB and vice-chairman of Civilian Requirements. Recently he was the staff director of the Select Committee on Foreign Aid which conducted a study of European recovery requirements and American capabilities to fulfill these needs. Last year Dr. Elliott completed an exhaustive analysis of problems and issues in economic mobilization planning for the Legislative Reference Service of the Library of Congress. This was published as Senate Document 204, 81st Congress.

MOBILIZATION PLANNING AND THE NATIONAL SECURITY

5 April 1951

GENERAL HOLMAN: Gentlemen, our lecture today is the last of the general series of lectures devoted specifically to economic mobilization. Our speaker, Dr. William Elliott, of Harvard University, is one of America's foremost authorities on government administration. His guidance and counsel have been requested on many occasions by various agencies of the Government and his record of service to our country, beginning as a lieutenant of artillery back in World War I, is a most distinguished one.

Last year, Dr. Elliott and his associates prepared an exhaustive study on the problems and issues of the day which were involved in a study of mobilization. This study is published as Senate Document 204, 81st Congress. I am certain you will find it a very valuable reference in your final problem.

This morning, Dr. Elliott is going to talk to us about the basic concepts and policy alternatives which are involved in prosecuting a cold war, in developing our resources of manpower and materials, and in finding the right answers to the many questions which provide for effective mobilization planning. This is the sixth consecutive year he has visited the Industrial College and talked before our groups. We feel very honored, Doctor, to have you with us again. It is a great pleasure to welcome you to this platform.

DR. ELLIOTT: General Holman and gentlemen of the Industrial College: It is always a great pleasure for me to come back to this platform. I am glad, sir, that you did not allude to the fact that I am now working for Charlie Wilson and trying to put into effect some of those very things I wrote about, because there is nothing more embarrassing. Now I can't just urge others to do something. You remember the old saying, "Would that mine enemy had written a book." Well it might be revised to "Would that he had responsibility!"

But I do not come to you here this morning as a representative of the Office of Defense Mobilization. I accepted this offer as a professor, not as a consultant and before I came to be a consultant. I come to you as an old friend, I hope, and one who has always found it possible to speak entirely frankly here in this very reliable group where things have a habit of not going on the record when they are supposed to be off the record.

I come to you really as one who is concerned with a number of issues that you will not find in the official report that Mr. Wilson has just issued to the President of the United States and through the President to the Congress. We were on the Hill before the "watchdog committee" yesterday--that is the Joint Committee on Defense Production, of which Senator Maybank is chairman and which is comprised of members of both Houses; Mr. Wilson, I think, gave some very fine opening testimony. That report, "Building America's Might" which I would ask you to look at if you want a record of performance, is a very useful document. It is a great tribute--although it is carefully and studiedly not put in those terms--to the people who picked up the pieces two or three months ago. It has been less than three months now since Charlie Wilson, Lucius Clay, and so on, came down to do it. They organized the different agencies, got them staffed and operating. They got production orders and some deliveries rolling quickly. It had to be done; it was long overdue.

And so, at the very outset I want to be clear about this point. I think it has been an amazing performance by at least two very great Americans, and three or four others who are wonderfully fine people, like General Harrison and Eric Johnston--he has been here a little bit more than a month and a half. The whole apparatus that was set up to function at that time was hastily improvised. There was very little building behind it.

That report, I should like particularly to say, is one of the tributes to the drive and energy of Lucius Clay, a very old friend of mine, who has, as you know from my previous talks here at the college, not always agreed with me nor I with him on some things. But he is a man of great wisdom, drive, energy, and a true sense of the urgency of these times. He has a heroic kind of way of sticking to his guns in spite of difficulties and carrying through. I think he is, in short, a great soldier. Now General Clay, as you know, has gone back to actually producing things--for the time being--after staying on longer than he had originally planned. When the going gets tough, you can always count on Lucius again.

What I want to talk to you about this morning is the psychological setting of our problem. I think this is the important part of our war mobilization problem today.

I suggest we start off, as I did in that Senate Document 204, by a frame of reference that is based on alternative assumptions of the timetable which we may confront and in all probability will confront. You have to make up your mind about that. If you thought we were going to be involved in all-out war tomorrow, I daresay we would be doing a good many things we are not doing today. The stern fact is that we might be involved in all-out war any day. Nobody has an absolute guarantee that we won't be. Oh, I know we all assess the intelligence

and try to make up our minds as to what Stalin's thinking is in the Kremlin. But are you sure you know? I have not found anybody whom I would trust who had any right to be sure.

So, as among the alternatives that I laid down in that document last year--a document that took five months to clear and another three months to print and that looked pretty pusillanimous after it was put into print because Korea had happened in the meantime, before it finally got into print (it probably never would have gotten in without Korea)--I advocated a mere 5- or 6-billion-dollar upping of the military budget, a figure for which I am heartily ashamed, but which at the time some thought would be radically dangerous to our national solvency!

Well there are A, B, and C sections in those assumptions. Let us look at them and see how they are changing today.

Section A was what I would call the "prosperity-state" assumption. All you have to do to lick Russia is to stay strong economically and we will scare the h--- out of them. A 200-billion-dollar gross national product is going up to 300 billion. It is right on the way up. That means we can outproduce them. Everyone has more refrigerators. There won't be any Communists. Why should anyone be a Communist in a country like this? We have no domestic problems. We are so strong that the whole world can lean on us. We can continue to give them a little aid here and there.

That was a seriously held position by a great many people. There was another position which derived from somewhat different basic conclusions. But it shared with the first position the idea that Russia would not attack us, would not dare to attack us; that Moscow was not fundamentally aggressive; that the Politburo depended upon the fatal disintegration of the capitalistic system; and that if we kept strong and did not disintegrate they would just wait. But the other assumption I called the "C" assumption because in some ways it came at the other end of the spectrum from its political complexion, although it reached pretty much the same result. This was a sort of "welfare state" assumption. The "prosperity-state" assumption (A), generally speaking, was of course in favor of a balanced budget, lower taxes, particularly lower expenditures in the military. The "welfare state" was apt to be even more concerned with keeping up the morale of the people by welfare measures and everything so that there would be no problem about communism, or even perhaps of losing elections. But the welfare state reached somewhat different conclusions. It was quite willing to take some chances with the budget and even to unbalance it a little bit in the interest of full employment and an expanding economy (a sort of Keynesian framework in economic terms). But above all it would assure a strong united people in terms of their appreciation of the goods with which the Lord and the Government had provided them. The significant fact however is that the two theories "Welfare"

and "Prosperity" seemed not to have very much difficulty in meeting on a figure for a military budget that in the first place was to be certainly not more than 15 or 16 billion dollars---preferably thirteen billion scaling down toward ten billion.

Let us do justice to this "tapering off." You cannot call it a business-interest point of view because it wasn't just that. There were many business interests which felt quite contrary to this "economy" view on defense and not just businesses which hoped for contracts. You could call it a "prosperity" issue--not just a "business" view. The "prosperity school" was, by and large, convinced that you could cut the military budget below 15 billion dollars; that you were not running any risk by so doing. Russia would not dare attack a nation as powerful and as fat as we were getting to be; all we had to do was to continue adding on to the national income, the gross national product, and there would be gross prosperity all around; we would prove the Russian Marxists wrong and they would see we were right and leave us alone!

The other school, the "C" school, the one I want to talk to you about in terms of the "welfare state" apparatus, obviously had something to say, too, for its position. It is true that people in a democratic society are happier if they are well fed, well housed, well clothed, and well looked after generally. Whether or not they are really fundamentally happier if they are not doing these things for themselves and are not having to rely on their own efforts, whether they will in the end be able to support that system and really feel responsible for it, is another matter. That is a matter about which people can differ politically---with honesty, I suppose--although it becomes quite an important matter in the long run. But against both "welfare" and "prosperity" assumptions it was certain that if the military budget was cut, as it was under those general assumptions, to 13 billion dollars and perhaps headed down toward the 10-billion mark that was a disastrous miscalculation as to the kind of world in which we were living. Those people who had the temerity to suggest this critical view were treated as if they were heretics or lunatics, or a combination of both, in spite of the obvious handwriting on the wall which was that Russia was spending right along anywhere from 30 to 40 percent of its gross national product on war-connected businesses; that it was stock-piling weapons at an appalling rate. The only way the Russians could fight us in a long war, or in any kind of a war for that matter, would be for them to be so far ahead in the initial stages that they could exploit their superiority. Furthermore there could no longer be any doubt that Moscow was making war-like gestures of all sorts on many frontiers; that at the time of the Berlin airlift we did not know whether we would have Clay as a hostage in Russian hands or not, but we thought--and thought correctly---that the still prevailing atomic superiority which we enjoyed would be a screen. In that kind of world a thirteen-billion-dollar budget, a depleted Air Force, and no systematic plan for quick effective mobilization was folly, as Korea showed.

The third assumption, the one that I more or less tipped my hand on, although I could not support it in a public document, I called the Baruch idea--the "B" Plan ("B" for Baruch), which was that we had better get ready quickly to meet a challenge which might be upon us in a matter of months, and which certainly could hardly be thought to be anything less than probable in a matter of years. The reasoning behind that is just as good today as it was then; in fact, it is much better. In the meantime events have shown that neither the "A" nor the "C" schools were right in thinking Russia was not aggressive. We simply found that Russia would use satellites in the first instance, but later any measures to achieve the basic design on which that system has always rested, and must always rest, namely, the destruction of any power system outside its own--particularly any free power system. This is because any powerful free system offers a terrible psychological threat to its own people by comparison. It is against this comparison that an Iron Curtain must be drawn.

Now, either you share that view or you don't. Our people who made the peace treaties did not share that view. They did not for one reason or another, possibly because they thought this country could not politically have taken any other course; possibly because they were genuinely deluded in their estimate of the Russian system they obviously wound up the war and took on the peace on the basis that Russia was really and not just "officially" "a peace-loving and freedom-loving nation." Undoubtedly Russia would be so far as the peoples of Russia are concerned; they would love to have peace; they would love to have freedom. However, they haven't the slightest chance of getting either one in any foreseeable future. They, like all people if left to their own devices, are wonderful people. Let no one ever have any doubt about that. If we could ever get back to those people, if they were in a position where we could talk to them as man to man, it would be wonderful. But you are dealing in this instance with these 12 or 15 men in the Politburo, certainly the most ruthless men in the whole world, determined to rule it and to destroy all systems opposed to them. They make no bones about this. They have been perfectly open about it. Although they used to employ subterranean methods and conspiracy--and do still at need--for the most part they do not conceal their aims but announce openly that they mean to take us.

That is the fact on which all other calculations have to be based. Therefore, it becomes a question of what their tactics rather than their strategy may be. Their tactics may embrace their not taking unnecessary risks as they have done so far, so long as we enjoy an atomic superiority as great as we presumably do--I say "presumably" because I do think that is a presumption, but a very safe one. The superiority is a certainty; I think the extent of the margin is presumption. Then I suppose until such time comes as we may not be able to deliver those weapons at the places that would cripple the Russian industrial system we may reasonably expect an armed truce. But at such time as that superiority ceases to be a controlling factor, what do we face? I suggest that we shall face it

at a period in which Russia has enough atomic weapons to engage in a surprise attack with some assurance of crippling this system successfully so that retaliation, even if it were possible, would not be so drastic as to be a certain deterrent. Who among you would wish at that stage to rely upon the atomic weapon alone?

Now you can draw two conclusions from this. You can draw the conclusion--and this is the conclusion we officially have drawn so far as I can make out--that we must build up other weapons, that we must be in a position to meet the divisions of Russia in land warfare and to have a tactical air coverage, for example, in Europe which I do not yet see emerging; maybe you do. I flag that one. But I certainly do not see the transport planes that are so necessary.

Our official line, so to speak, today is that we mobilized on the basis of preparing for the Baruch kind of plan, after Korea, and rammed it home. It was a partial mobilization. It was not all-out mobilization. There were some very good reasons for not going into an all-out mobilization. For one thing, the other fellow had the initiative in this instance. In other words, you let him punch first and then you try to counter-punch him. That is the official line so far as I can make out. It is the only democratic line in a democratic system that is tenable. But it involves preparing your system at great cost and in a gray period instead of a black or a white one, where the problem of psychological support in a country becomes absolutely critical.

Do people understand that this blowing hot and blowing cold does not change the real nature of our enemy's intent and therefore of our problem? When Vishinsky or Gromyko, or whoever is the spokesman, makes some tiny concession about "Well perhaps we'll consider inspection of arms, but not the satellites" just so that the Stockholm peace cry can go up: "Look who are the warmongers now. Mr. Gromyko has offered peace on a platter. Stalin wants peace."--that kind of thing does have an effect on a great many misguided people. It is hard to deal with, because it is slippery and plays on our wishful thinking. Therefore, your gray period of partial mobilization makes it exceedingly difficult to maintain necessary public support from people who want to stay home. They won't cash in their chips when they are bullyragged by anybody. But they can be soft-talked into apathy. That is what we are up against today.

I say we cannot have full mobilization. If we do mobilize and our country is kept fully mobilized with nowhere to go pretty soon you get the other fellow so jumpy he is going to jump you anyhow because you give him the tip-off. He thinks he is not fully mobilized until he really means to hit you--but he will probably hit you before he actually intends to do so. He does not have to be any more mobilized than he is to hit you.

So, if you mobilize "all out," you exhaust your system economically by bearing an incredible burden that you may not be able to decrease too much for years to come. You cannot mobilize and then demobilize, "off

again, on again!" You cannot pull people out of their jobs whenever you want to, and then put them back. You have all seen, already, how difficult that is in a period of partial mobilization. If you pull people out of civilian occupations and uproot them just after they have gotten their homes, businesses, and so on, they become a little bitter--particularly so if you should do it more than once or twice.

So you cannot turn mobilization on and off three or four times. You have to keep "tuned up," in such a state of readiness in a cold-war period that you are mobilizing what you need to keep in a ready and a rapidly expansible position. You can't convert facilities back and forth.

I am tempted to say I still raise a question about whether that is so. I observe a certain tendency on the part of the military to become economists and to tell us what we can stand in terms of economics. I wish to heavens you would stick to your own job, which is rather to tell us what in your judgment at this time is the base of the expansion which you can rapidly mobilize from which will provide you with the weapons that you probably would need to do the kind of job that confronts you.

I know there are many "unknowns" in that equation. Nobody knows them all. You cannot tell when, where, how much, the area, how many lives would be involved, or anything like that. What you do is like an alliance where your allies are more of a problem than your enemies sometimes. We have had some allies like that in the past. We guess as intelligently as possible.

All those factors are almost incalculable in some ways and they drive any kind of chief of staff nuts trying to get the answer to them. Even to get a framework of foreign policy reference from the State Department is pretty difficult. The State Department is just fulll of wonderful ideas about a great many other people's jobs, but resents like anything (and naturally) your having any ideas about their job, and particularly if that job is to outline a policy.

There is nothing more anathematic to the old-line foreign service officer and to the ordinary hardened State Department man than to suggest that we must have a strategic plan based on a controlling foreign policy. They do not operate that way. When it comes to that kind of business, there is no one in the whole world more conscious or more resentful than a State Department denizen of any outline of policy. There is a policy-planning staff--I see a good deal of them and they are very able people--but you try to get a "policy" out of that planning staff and see where you wind up!

So, I suppose you could say we live necessarily on uncertainties. There is a great deal of truth in that. What we do not want is to allow the other fellow (Stalin) to impose <u>his</u> conditions. Perhaps that is one of the difficulties of a democracy. At what period does atomic destruction confront this country as a possibility, a real possibility, one

that would be cripplingly destructive? How do we make this the least likely outcome?

That is the kind of framework for real basic decisions that has to be faced by those who are running our country. I guess the first alternative has been faced--that of partial mobilization; and the second one--of greater risks in carrying the war farther against the Chinese Reds--was thrown out, although I observe it emerges from time to time in places like Congress and in the minds of some simple-minded people; people who just ask simple questions, who do not try to find out all the difficult answers; who are concerned perhaps with the survival of their children's children as a system. But that is a very grave issue and actually the framework of a great many other decisions fall into place, once you have chosen.

Now, I say we have taken the first decision! That means the production of a great number of instruments of war to equip our allies in Europe, assuming that Europe can be held. Presumably, some parts of the Near East and some parts of the Far East are also parts of this wide operation. Along with it goes something like the Rockefeller Report that is just coming out. Along with it goes an enormous foreign-aid program--about 9 billion dollars is the first installment--including foreign arms to the tune of over six billion dollars. This is the existing pattern and we have two or three years (we assume) to get underway with this program. The program that the ODM and the military have laid out is certainly the minimal program you can safely go on. It has a certain cushion in that it takes quite a while to ship whatever you get. Therefore, if you get a stockpile large enough to cover your delivery and shipping period and you are not crippled or half destroyed by a surprise attack--that is a big "if"--you can roll into production with your assembly lines on a three-shift basis. You could expand them.

I do not know whether or not we have enough alternative production lines. In some instances, I rather doubt it. But that is your business. You look well into that problem. And, please stop telling us how much we can afford. Let us determine that. Let us determine whether and how we are going to do it. But if you think the 18,000 jet engines that I understand somebody thinks you can get in a month is the right figure--that looks pretty formidable to me--if you can really get them at that time, and if you think 35,000 tanks and 50,000 planes a year is right in the bag and you can produce at that rate at that time and with some safety factor included in it--you had better allow for some--okay, then we're on the right road and we're really rolling. That is what you told us. That is what we are trying to do.

It is going to be exceedingly difficult. In this period we were caught without these strategic materials which I think every man who has ever heard me speak here before will lay it on the line that I have warned we would be caught without. Here we had poured our own treasure all over

the world in the different ECA countries, but somehow there was very little of the reverse flow that Congress tried to write into the bargain. We haven't enough cobalt, or columbium, or manganese, or beryl. We haven't even enough aluminum. We haven't enough nonferrous metals. We haven't enough mica or quartz crystals. What have we enough of? Not much, gentlemen. It is the same old story in spite of previous experience; inadequate stockpiles to fall back on. So we kick the market up and go out and pay $1.87 a pound for tin. We used to be able to produce tin in Alabama for that price, certainly in Alaska, and in a number of other places. You could produce some in Mexico at that price. If the market stayed that way, we would have to begin producing it.

Or take rubber—you could not get anybody in this country last year or the year before to do a little buying of rubber on the side. We might have had our friends, the British and the British Commonwealth, to help us in that deal. The Russians were getting an awful lot of rubber, then the Chinese Communists, and no one seemed much interested. "Whom the gods would destroy, they first make mad." I take it that the old maxim means that the punishing gods pull some sort of a veil of illusion over people's faces so that they won't (or can't) look at the facts of life.

Well now, we pay for it and with what results? The small businesses of this country are having a hard time getting some of these materials. What do we do? We slap on the controls and say, "Okay, boys, we must have this military stuff. You shift around and find something else. We're going to cut your steel 15 or 20 percent, your aluminum 35 percent." A big company can often make an adjustment to that sort of thing, as a rule. A little company, however, has a hard time doing it. Sometimes we put on an "L" or an "M" order and the manufacturer cannot continue making his line of items.

That is entirely appropriate for an all-out struggle. But do these people feel they are in an all-out struggle? No. They see other things around them going on pretty much as usual. It is true that the war news comes back from Korea to the effect that so-and-so's boy was killed, or so-and-so's boy was lost in action, or so-and-so's boy was wounded, and so on. That is old stuff to them now. They have had six months of it. They get used to it.

What happens in the country when Congress begins to face inflation, next fall perhaps—or next winter—if we don't control inflated prices? The school teachers are suffering, let us say. They begin to feel it—and they do, too. Unless you can control these inflationary factors of this equation and really hold the line on wages and not give in every time there is a strike or a threat of strike, you will have labor getting up and saying—I hope you will understand this is a Harvard professor speaking and not someone from ODM—"Our way or we walk out. You're not playing according to our rules. We're going out on strike right across the board if you don't break those wage ceilings. But you've got to take

it our way for other controls and put the screws on the farmer. He can't have parity because that will knock our wages. It will raise the cost of living and you must have some appropriate price ceilings (even rollbacks) and cut profits right down to the bone."

Well, that is an entirely natural view for the highly organized 2 or 3 million workers who are going to get these increases in escalator clauses, and so on, and who are strategically located so they can break the ceilings by strikes. But it then becomes quite difficult, to put it mildly, to go to the Congress and try to sell anything less than parity to the farmers. I don't know who may be goose, and who gander, but both like their sauce!

That increased cost of farm parity prices across the board today won't be so much because they have already gone up 3, 4, or 5 percent; but the cost of living can still be kicked up another 2 percent. Then how do you expect the business people to take the kind of controls that will be necessary? How do you expect people to take taxes? How do you expect them to take credit controls? How do you expect, in short, to do the kind of job without which you cannot control inflation and at the same time pay for this 50 to 60 billion dollars a year, which is the modest proposal that our defense budget puts on us? It is going to be 60 billion or maybe 70 billion dollars next year, or possibly more--to cover inflated costs--and we get less for our money.

In other words, the psychological attitude that is behind all this requires that we "pass" something like a miracle in this country: that we produce enough arms, stop inflation, yet have no real controls, or only controls on the other fellow. In short, that we make and keep everybody happy and still do a tough job. Pre-Pearl Harbor we were in a state quite like this. The draft, or compulsory military service, you recall, was kept by only one vote. Will we get a second Pearl Harbor? Will we be kicked into it again? Or will the Russians have sense enough to fight a cold war for a while and let us "stew in our own juices," and have all the domestic rows we are likely to have under such conditions? How much leadership are we going to develop? Will this country hang together, even though it does not like some of the things that have been going on, enough to support the President of the United States who is honestly and faithfully trying to do his job in his own way? Will Congress have the patience and the restraint necessary? Can it see and can it lead the people of this country to see that this is a long pull, if it is not to be a short one? And that whether it is long or short we must be armed and armed adequately.

I do not know the answers to those questions. But I am quite sure that it is going to take a degree of devotion, wisdom, and leadership that is very unusual. I do not distrust the people of this country. As a matter of fact, I have found them to be ahead of the Government of this country--I do not think I am wrong about that--when an issue is put

to them fairly clearly. But when they see confusion, they reflect it. When they get a strong lead, they reflect that. If ever there was a time for that kind of strong lead and for praying for it, giving it as individuals wherever we can, and forbearing with patience and fortitude whatever we confront, this is it.

Now, I am aware I have left open a large number of problems of which I have not even scratched the surface. Many of the big problems are in that report--Senate Document 204. I beg you to take that along with C. E. Wilson's "Building America's Might" in lieu of a fixed speech on my part and to bear in mind that I have touched only the highlights.

If I would confess to you one other thing that today troubles me as much as anything else, it is the way in which foreign requirements and and allocations are handled, or not handled, under this particular setup. I have nothing but admiration for Bill Foster in the tremendous job he is trying to do. But he does not have behind him an American requirements committee. He hasn't behind him an apparatus such as the old Controlled Materials Plan or something else that will do a job like that. He hasn't the machinery or the mechanism, in short, that will balance the equation and shape the policies under which we have so far operated. We are developing that in the DPA but it doesn't function yet.

Nothing can so destroy everything we are doing as inflation which makes people impatient of this burden we are bearing for foreigners, on the one side--we have got to lick that and keep it licked--and, on the other side, a feeling that we have injudiciously undertaken to bear other people on our backs, people who do not even want to walk themselves and won't help you even if they do walk. Those things, I think, have to be most carefully avoided. The psychology of that may be a very important part of the successful balancing of the defense program.

While what I have said up to this point seems quite a bit on the side of stressing difficulties, I do want to wind up with one cheerful note. For the moment, the difficulty is probably rather that we are having the disgorging of inventories--and the banks are forcing it in some cases--so rapidly that we are going to have a slight setback. Some of the businesses of this country are failing because they overreached themselves in commitments. Industry in some places is slacking up. People have stopped buying some lines like hot cakes, and are beginning to shop around. That is a very healthy thing to have happen. If people would stop eating so much red meat all the time they could eventually accomplish their aim in the form of lower meat prices, and so on. People can partially protect themselves and they are beginning to do it in some ways. You don't have to be a fool for conspicuous expenditure.

We are going to have, in my judgment--and I think it is also good business judgment--a little while where we can get this thing in order, if we will. The cost of living is not going up for a limited time until

the impact of the full program really hits. We haven't now the taxes to sop up the excess purchasing power that is going to be poured on the civilian goods. I hope we'll get them--and soon. But we do have one blessed moment, a respite, in which that can be done. But just because it is a respite, it makes it so hard to confront. The people of the country begin to believe there is no need for it.

You know all this. I am only coming over here to get some comfort by just talking to you and trying to show you the kind of problems we are facing. In the final analysis, they all lead up to this simple thing: How can we do the job of keeping people really keyed up? It isn't, in our country, simply a question of information. The people are awfully tired of being informed, misinformed, counterinformed, crossinformed, and every other kind of "informed." It is a question of getting more than that. It is a question of getting a look into this situation and getting people to feel these things deeply. I do not think it is totally impossible, but I confess it is very difficult. It is peculiarly difficult because there is a traditional--and perhaps a sound one--democratic distrust of "informing" foreigners about things--and what a job we have done of that--and most of all about propagandizing our own people. But without some sort of propaganda that really bites home--and that means it is not just propaganda; it shows what people feel and obscurely understand though not clearly--I do not believe we can possibly swing this deal.

That is the most puzzling thing to me about the job which Charlie Wilson has ahead of him. He is a great, rock-hewn, solid kind of American fellow and he is confronting a job the complexity, subtlety, and difficulty of which demands support and help. Perhaps the sound sense of the American people which he so well symbolizes will somehow reduce the thing to its true perspective; otherwise, we will simply go around in circles and end up nowhere. It's like that old saying about economists--if laid end to end, instead of reaching around the world, they would reach nowhere at all!

Thank you.

QUESTION: In Senate Document 204 you list four problem areas based on six quotations. These problem areas seem to refer to what you call economic mobilization in its widest sense. Then you go on to refer to economic mobilization in its very narrowest sense, or the technical sense. Now, some place in between the two, what would you consider the three or four major problem areas? For example, would manpower help make up the first four, followed by stabilization, balance, and timing? In other words, what would make up the first four areas in something less than this very widest sense of the term.

DR. ELLIOTT: That is a very good question. But it covers the water front. I am glad you asked it. But it will take a while to answer. Of course, the narrower sense is the problem of technique, the price and rationing division, indirect fiscal controls, equitable distribution orders, and things of that sort. I did not try to cover them all in that document. It is framed very largely in these same terms I have discussed here today. What you regard as major problems rest on assumptions about what you think the country is ready for and will support. You can do certain things in one psychological framework and you have to do entirely different things in another.

In one frame of reference you might do what the British did and put on very tight rationing controls and possibly make it stick, although it did not stick very well last time with very high meat consumption outside OPA channels even with a good big lot of points for meat, and so on.

You can have gray and black areas in other things, too. Perhaps you have to attack that kind of a problem, as I was suggesting, by getting the people of the country to say when meat goes over so much a pound, "No more beefsteak for my family--not because we can't afford it, but because we don't believe in it." But you just try to put that kind of thing across and the meat packers, butchers, and cattlemen will have you up on the Hill in a minute, charging that you are blocking and curtailing the consumption habits of the people.

It is just like the beer industry. Last time, the beer industry tried to stop beer from being crosshauled and shipped to the Pacific Coast when there was already plenty of beer being produced on the west coast. All that issue involved was drinking a brand of beer that you were not used to or did not like so well. I understand that is a deprivation; but it is certainly not taking away from my fundamental liberty. There were advertisements in every paper in this country--not mentioning one by name--but the beer industry was not prepared to stop that crosshauling voluntarily. It might have done it, if left to its own devices and to the WPB. In the meantime, it got transferred over to the Food Administrator, then all bets were off! That industry would never have dared to come out and suggest in full-page advertisements all over the place, "Your rights as an American, as contained in the Declaration of Independence, are being interfered with if you can't drink the brand of beer you want," if alongside that ad someone had said "Ammunition is not getting out to the Pacific (or tents or medicines) on time, so that you at home can drink Piff-Paff beer in California instead of your local brew." Of course, I must say that the Army posts throughout the country were not very helpful about that. They were bound and determined they were going to have the brand of beer they wanted, come what may--rail embargoes or whatever.

I give you that as an illustration of the psychological setting of the problem. You must remember this: You cannot do things by the book just because it makes economic sense for you to do them that way. This

is all a political problem in the deepest sense of the word. That means a psychological and a morale problem.

Having said that about the setting which controls my selection, the big area that does give us the most to think about at this time is materials shortages. But I have already covered that in my previous remarks. Next probably comes manpower because there is the problem of balancing off manpower. You can get the manpower if inflation continues. That is one way of getting it; sure. Why? Because you just pitch together a whole lot of them to try to make the family budget stretch. They all have to work--women too. There are many high-minded inflationists who say that is the way to do it. In other words, don't take any painful measures. Just pay them anything they ask and pass it on. Don't consider the money.

Well that is all very nice if you do not happen to have an income that does not adjust itself automatically. Maybe it's right to make your wife go out and get a factory job, but we don't like it. Psychologically, that is not a very good solution to the problem in the long run. It suits some people, but it doesn't suit others. Therefore, the technique of getting manpower controls and getting enough to direct them is a very difficult task.

I would like to say something on the prevention of "manpower piracy." I regard this as one of the big mobilization problems existing right now on the east coast. That is representative of the same sort of thing that happened last time where wages are being raised, sometimes without any ceilings on them, sometimes with.

I say all this with some reservation because, frankly, I do not know. I am only speaking from hearsay reports. The aircraft industries, for instance, are pulling skilled people from one to the other and back again.

Do you freeze, or don't you? Certainly not now. We aren't ready for it. At a certain stage in this business you had better freeze or else you will have this kind of black, gray, or other labor market going on all the time--in other words, upgrading, and so on. You know how that works. Anybody who has been through this mill knows where to look for the trouble. We have a pretty fine, experienced man in the person of Mr. Fleming. He is, I think, superb in many ways. He is a fellow with knowledge and patience and is trying to anticipate and to prevent, if possible, these things.

I think you are going to have some severe difficulties with transportation as a whole, especially when the full strain of this business becomes apparent and you impose on top of your civilian economy the war burden. We cut off a lot of the civilian economy last time. We are

doing that, of course within very narrow limits, again this time. We are superimposing from 20 to 25 percent of the gross national product on top of the civilian economy, hoping that the civilian economy will stay about what it is. Of course it won't, without controls. It will have less to buy and more to buy with.

Well that means trouble in connection with certain types of cars, notably freight. The goal of 10,000 cars a month is not being met today, though the steel is now I believe being provided for all that can be scheduled.

The next big problem comes with this business of inventory control and the shaking down of hoarding. That is one of the most important jobs we have. I think we have to iron that one out and keep small business from being frozen in the process; we must protect the small businessmen. They will blow you right out of the water if you don't. It is foolish to think you can do anything else than keep small business afloat with materials, even if that means some emergency "kitties" especially for this purpose.

Our transportation is going to be a very big factor in this whole business. Take, for instance, special-type tank and pressure cars. I had an awful lot of trouble with them last time. We ran these M-61, M-62, M-63, or T-1, T-2 transportation orders. That helped somewhat. We eliminated a great deal of crosshauling. That is not being done. You have to get a special dispensation from the provisions of the Antitrust Act and a whole lot of other things, you see, in order to do some of that stuff. It is a rough business and I predict some real trouble in it.

The storage-warehouse situation is desperate. It is part of the same thing. People have bought up huge inventories.

What is the real basis for figuring your requirements on transport by air? What safety factors have you in there? What are you talking about? If you are talking about moving two or three divisions, okay, then your answer is perfectly adequate. You can pull off some of the domestic planes and get by with it.

But that is not what you are going to be up against. You are going to be up against transporting everything you can get to some place, just like this Berlin airlift hit you and took up everything you had. Then you will get overcommitment because you cannot support all your other operations in so many different places without them. You will find that even with the best Navy in the world there are still some places you cannot get to. There isn't any water available to get there. You have to rely on the Navy to move the big stuff all the time. Don't ever forget that. You can't move big stuff by air--in required volumes.

Then I think there are some strategic decisions about security problems which will involve whether or not we may be crippled at the very outset by surprise attack, sabotage, and so on. Now, I don't dare talk even here of any of those things. I can't get people very much interested in them. But I will tell you one thing I put in that report (Senate Document 204) which I think is quite important. I can say this: It seems elementary that we would do what we did last time, namely, have all ships leave principally from one port on the east coast. You know why. It doesn't take any great imagination to figure out that one. You can see that if you had your harbors mined, to say nothing of atomic weapons, one fine day you would find you couldn't deliver stuff to Europe. What good would all of this stuff be then? Not much.

Well, that is one element. And, of course, there is inflation, credit controls, monetary factors, and tax factors. They seem to be the most critical things at this time because it is so easy to say we are going to have a cash surplus this year. We probably will on the present basis of taxation; but that hasn't a thing in the world to do with it. Our commitments for next year are what will really count. The absence of civilian goods at that time will create through the employment figures and the rise in wages, and so on, a lot of money that has no outlet. If you are not prepared to tax that up, gentlemen, no other controls are going to satisfy. Those are really the big ones.

QUESTION: Doctor, we have been told all along that because of the differential in gross national product to the military consumption it is necessary that we cut down on consumer goods. They even proposed increased taxation not only to pay for things as we go along but also to prevent people being able to buy. Yet, nowhere through all this do I find that they are telling the people of the country bluntly in such words as they can understand that they are going to ask for a lower standard of living in order to make the thing tick.

Why hasn't the Administration told the people in words they can understand what it is going to do? After all, everybody seems to be fighting to maintain a standard of living through parity, price increases, high wages, and everything else, which is contrary to what the law claims is being tried. Would you comment on that?

DR. ELLIOTT: You have the answer to that just as well as I have. You know why the people aren't being told.

QUESTIONER: But the people won't understand unless they are told.

DR. ELLIOTT: I don't know. Or maybe they think they can pass a miracle and have it both ways--have your cake and eat it too, and not pay for it either.

There is some psychology in not telling people they are going to go without until you can control hoarding.

So there is some point in saying that by 1953, if you keep your eye on 1953, you will have back your refrigerators, your consumer durables, and so forth. In the meantime, the automobile industry is going to be mighty clever about using that steel, chromium, aluminum, and tin that has been deprived it and make cars in larger numbers than it made in 1948.

Mr. Wilson, in his last speech and also in the one he is shortly to deliver, has emphasized that point. People have to be carefully prepared. I think they will take it very well if someone explains to them why they have to do it. Then they ought to know how they have to do it. Well, do you tell them not to buy certain things? Try not to do that. I have tried in a couple of speeches to get that one in. I haven't gotten it in yet, but I am still shoving it. Maybe one day it will get in by mistake and then my neck will go. I hope nobody else's will. But I don't know. People used to think you could deal with the American people only by buying them. I do not believe they ought to be bought. I do not believe they will stay bought if you do buy them. The only way in which you can hook them together in a time like this is with hooks of steel, not gold.

QUESTION: Doctor, you mentioned this military-economist. I wonder if you could go into a little more detail on the formulation of military requirements. There are two ways you can do that. You can determine your strategic plan and then go on and determine in detail what you need in order to support that plan. Or you can go the other way around. You can start like you do with the budget and tell them how much you are going to give them, how much of the national economy they can have, and then work the thing out backward.

Would you go into a little more detail on that?

DR. ELLIOTT: I may have indicated it but didn't say it, but I think it ought to be your job to lay it on the line as honestly as you know how to do it.

Now, the ingredients that you generally lack are (a) a firm strategic plan. That is a very important ingredient. Topside, you have an awful time. But someone has to do what the magistrate of Laboulaye did, who was feared for miles around for the justice of his decisions. He offered up a prayer to God, then cast the die. He made up his mind and said, "This is it!"

Now, when you put 50 billion dollars into this picture, (or sixty-billion a year) you have a combination of factors. In other words, you are saying, (a) "This is the minimum that we can get by with to prepare this country over a period of years, which we think is the minimum we can reasonably expect to be left alone without being attacked; (b) that if we have this minimum figure, that will represent a substantial

increment of our being able to fight a war of defense until such time as we are ready to fight a real one; (c) this is the amount that the economy can digest without terrific pains in a peacetime period where full controls and full mobilization are out of the question for the reasons I have tried to give you, psychological and every other one; (d) the factor of inflation; and perhaps (e) digesting the thing from the military point of view, that you did not have the men to use it and could not get the men ready, could not get the camps ready"--that does take quite a little time to do. You cannot pass a miracle in that respect. Nothing but the grace of God and the stupidity of the Kremlin's decision to attack in Korea ever got us out as far as we are today. Let us be grateful for those small favors.

COMMENT: Doctor, you made it clear that you think soldiers should be soldiers and not economists--

DR. ELLIOTT: No. I did not really mean to say that. I want them to be economists, too; they have to be. They have to understand economics. But sometimes, it seems to me, they have shown an undue consideration for the national economy in terms of trying to spare that. I had the embarrassing experience in a debate with an admiral over the air about a month or several months ago--he was retired and in all probability was thinking about his pay--to have him put this question to me: Aren't we going to inflate the country into ruin if we go into this arms program? Well, coming to me from an admiral, I thought: God, what's left?

QUESTION: I am inclined to agree that people who are trained as soldiers should stay out of the economic racket. We have others who are quite well-qualified to handle that, I believe.

Now, you made a statement regarding our requirements, say, for tanks and accompanied it by a remark, I think, to the effect that if we knew those things could be produced, then it would be perfectly all right. I wonder if you would like to expand that a little bit? Just what did you mean by that statement?

DR. ELLIOTT: That was a somewhat cryptic remark. I would not like to expand on it completely. What I intended to bring out was this: On that magic date when we are supposed to hit a capacity of 50,000 tanks per year, those who are watching those production lines had better be pretty sure that the production lines really can handle that number of tanks; that there are enough production lines; that it is not a three-shift operation on the same old production line; that there are enough alternative production lines if some of them got knocked out. That is something I think we never calculate--sabotage, destruction, and all the other things I have talked about so many times here.

I just close with this footnote: Maybe you can blame me now. I still can't get anybody to plan what we do (as I have suggested here in previous years) to meet alternative "disaster levels" for this economy; in other words, if we have to face a real disaster, what would it mean to the economy? You cannot obviously plan it in advance because you don't know what is going to be knocked out. But you can make certain general assumptions. You can say what would happen across the board if a certain percentage of our ports were knocked out, or the same thing for our big steel facilities. No one that I know of is doing that kind of planning. Maybe it is too secret and hush-hush for me to know about. Maybe you can reassure me. I wish to heavens somebody could do it and really do it in an intelligent way. That is where military people have to be economists, too--to see the interconnections. That is why the Industrial College is so essential. Maybe you are doing it--or have done it.

Please forgive me. I've been playing strategist all morning and you haven't scolded me about it. I really feel I owe you an apology for "telling you off" about your own business. Thank you, gentlemen.

COLONEL BARNES: Dr. Elliott, we are much indebted to you for giving us your time this morning--busy as we know you are--and for being so frank with us. Your discussion has been stimulating and will be very helpful to us. Thank you very much.

(11 July 1951--350)S.