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AMERICAN EXPERIENCE IN ECONOMIC MOBILIZATION DURING WORLD WAR II

31 August 1951

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COLONEL BARNES: Gentlemen, the lecture this morning will complete the review of our experience with economic mobilization, I suggest that in the discussion period that follows you clear up anything that may be on your mind for the whole series of three lectures. Dr. Hunter still has the chart on which, I gather from the things I have heard in the hall, there is some confusion and discussion. It is still here if you want to refer to that. Dr. Hunter.

DR. HUNTER: Now, covering the recent war in a single period is something of an order, and though I cut and trimmed and, it would seem omitted most of the war, nonetheless there is a whale of a lot of ground to cover. So I hope you will bear with me and I will try to keep it down to the usual time.

I am not going to give you a play by play account of how we fought the last war on the home front. You can get such play by play accounts from a number of places. I think the best over-all account of the conduct of the war as seen from the Administration and organizational side is the "United States at War," by the Bureau of the budget.

Of course that represents a particular viewpoint--in certain respects, the Administration's viewpoint. It was written by a group of men who were right up in the center of the Executive Office, in the Bureau of the Budget, which is a very vital spot. It is a point which has many advantages for seeing what is going on throughout the whole Executive Branch, and even though you may not agree with all the viewpoints that are presented, this volume does give you an excellent over-all view.

To begin with, let us take a look at the economic mobilization problems that were posed by the Second World War. There were certain similarities to the First World War but there were also certain important differences. I would like to take a brief look at some of the similarities and then at some of the basic differences.

First, the similarities.--We got into the war by degrees, and with considerable reluctance. In each war for many months

our role was to assist the economic mobilization of our friends abroad by providing them with materials, equipment, military end items of many kinds, and with financial aid.

The first stage in the mobilization of our own resources for war in the case of both World War I and World War II was the process of expanding and converting our own productive resources to meet the needs of what turned out to be our future allies, first on a cash basis and later on a loan basis.

We were faced with many of the same basic problems in the second economic mobilization as in that of World War I. In each case there were the unprecedented military requirements added on top of expanding demands for civilian goods. The result was this tremendous increase in the load which the economy had to carry.

There were the same basic problems of insufficient industrial capacity, of critical raw materials in seriously short supply, and of an upward spiraling of prices as the gap between supply and demand became wider and wider. There was the same problem of economic stabilization; the same problem of persuading industry to convert to war production at a time when markets for normal lines of civilian goods were booming; the same problems of determining requirements and of obtaining balanced production, and of adjusting requirements to capacity. There was the same problem throughout of getting the public to accept the numerous controls and restrictions. On the organizational side, we developed in both wars emergency agencies for mobilizing our economic resources-- a variety of agencies to deal with such problems as production, price control, transportation, manpower, and so on.

But while there were these basic similarities, there were also important differences in the situation in the two wars. For one thing, the scale of the effort called for in World War II was vastly bigger. We fought in numerous theaters all over the world instead of chiefly in Europe as in World War I. Perhaps the best way to sum up the quantitative difference is to point out that the cost of World War II was approximately ten times that of World War I.

World War II lasted much longer than World War I. We were actively at war only 19 months in the first war; 44 months in World War II. The demands on our resources for that reason were more prolonged as well as much greater.

In the second place, because of this vastly greater load on our productive resources, we were faced with a far tighter situation with respect to materials, facilities, and manpower, and we

had to develop much more elaborate and much tighter controls over these resources. There was nothing in World War I controls of raw materials which went much beyond rather simple priorities, whereas in the Second World War we were compelled to adopt elaborate and complicated systems of priorities, a number of systems in fact, of which perhaps the most important was the allocation system as developed and applied in the Controlled Materials Plan.

In the First World War there was no consumer rationing except in a limited way for fuel. In World War II we had rationing of a variety of consumer goods; many food stuffs, gasoline, tires, and scarce durable goods, such as bicycles, automobiles, and so on.

In 1943 and 1944 manpower shortages became in many respects our most serious problem in war production and it was a problem on which the experience of World War I threw very little light.

In the third place, economic stabilization presented a far more serious and difficult problem in World War II than in World War I. We had unprecedented expansion of production, both military and civilian, that placed tremendous purchasing power in the hands of the public, a purchasing power far greater than the amounts of civilian goods available under the restrictions on nonwar production for meeting such civilian demands. There was nothing in our previous experience to compare with the inflationary pressures which threatened the stability and effectiveness of the economic system.

To sum up my first major point: While the experience of the First World War was in many respects similar to that met in World War II, there were important differences which resulted primarily and chiefly from the vastly larger scale and the longer duration of the Second World War. This meant that the problems of managing the war economy were not only more difficult but they were more numerous. More controls and much tighter controls were required to deal with the situation.

Now let us take a brief look at the plans for dealing with the emergency. I said yesterday I would speak a little further on this point this morning. As I noted yesterday, for 15 or more years the War Department with the cooperation of the Navy had been planning for this very situation--that is for a war of major proportions requiring the full mobilization of the American economy. Under the supervision of the Army and Navy Munitions Board, a planning office prepared a succession of industrial mobilization plans. The sad story, is that when the great emergency arrived for which all these years of planning were designed, the plan was not put into effect as such.

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Now the failure to put the Industrial Mobilization Plan into operation is a rather long and complicated story and the details cannot be gone into here. I will simply refer you again to the monograph on mobilization planning and national security, R128. I will call attention here to only two or three points.

In the first place, keep in mind that the Industrial Mobilization Plan was the product of a small branch within the peacetime military establishment. The plan as such had no official status and carried no authority except such as it might have within the military establishment. Outside the military establishment, neither the Administration--that is the President--nor Congress were obliged to pay any attention to it. There was nothing compulsory about it at all.

In the second place, the gradual manner in which we became involved in the war--over a period of nearly two years--was unfavorable to the adoption of the plan. If we had become suddenly involved in the Second World War, say overnight, back in the spring of 1940, as of the time of the Nazi blitzkrieg in Europe, quite conceivably the plan would have been seized upon and adopted, made effective in considerable part.

The plan was based on the assumption of a sudden transition from peace to war. It was designed to go into effect as a whole immediately following a declaration of war--that is, on M-day, as it was called. It outlined, for example, a well-balanced scheme of emergency agencies to be established at once when war was declared. By the time war was actually declared we had an elaborate organizational scheme in operation, in being and functioning, so obviously we couldn't start over just for the sake of putting a plan into effect.

In the third place, the Industrial Mobilization Plan failed to win enough friends in the right places. It failed to influence enough people to secure its adoption and implementation, either in the Administration, in Congress, or among the general public. By too many people, it was regarded with distrust, suspicion, or doubt. By still others, including men high in the Administration, the plan was regarded as not very realistic and of little value for dealing with the actual conditions of the emergency as these developed. Whether they were right or wrong in these views is beside the point. These views did influence the actions of such officials in so far as they had occasion to act with respect to the plan.

I think it is not unfair to say that outside the military establishment, the plan won little support except in business and

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industrial circles where excellent publicity and public relations work was carried on by the Assistant Secretary of War and by the procurement services. It is interesting to observe that important features of the procurement plans of the armed services, especially the facilities allocation system, were never put into effect. In other words, industrial mobilization planning did not carry as much weight within the military establishment as we might have expected. The over-all Industrial Mobilization Plan turned out to be one of the first casualties of World War II.

Now before turning to the actual course of economic mobilization in this country from 1940 to 1945, there are two general considerations of very great importance for understanding the problems and the difficulties which a country with a political system and an economic system such as ours faces in mobilizing its economic resources for war.

The first has to do with what I shall call the politics of economic mobilization; the second with the role of profit or the profit motive (or just plain self-interest) in economic mobilization.

Let us take up each of these very briefly--first, the politics of economic mobilization.

There is a tendency in our consideration of economic mobilization to build an ivory tower for ourselves from which we observe the past and pass judgment upon it. From this viewpoint, we are apt to assume that economic mobilization is simply, from the governmental viewpoint, a straightforward organizational and administrative job; that the way to handle it is the way you handle an organizational and administrative job in the armed services and in industry--first, you decide just what the job is and then you break down the job into its logical divisions.

You work out a clear-cut organizational scheme--the familiar chart with its boxes and lines. You make definite assignments of authority and responsibility, and establish clear-cut channels of command. And there you are, all set and ready to go ahead and do the job in a nice clean-cut, efficient way.

Now when things don't work out this way in real life, we gripe and growl and say that this is not the right way to run the war. We are inclined to sit back and criticize the Administration--under our breath of course--and this or that public figure because they don't conform to "sound and proven management principles."

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This kind of approach in my own opinion doesn't get us very far, except that it gives us a pleasant feeling of our own superior wisdom. It doesn't get us very far because it ignores or minimizes the fact that in a democratic system such as ours, we operate through political parties and party politics, through politicians, and pressure groups. We operate through indifference on the part of much of the population, including, conceivably, some of us. In this political system of ours issues are considered and resolved, not in a neat, clear-cut, and expeditious way, based on a logical evaluation of all relevant factors; they are hammered out in an atmosphere of partisan and party politics. All the tactics of opposition and delay, of confusing the issues, of obstruction, and compromise are employed. The end result is often overlapping and duplication of organization and authority, interagency friction, and conflict, working at cross-purpose and frustration. No wonder that at times we all yearn for some all-powerful authority, some "dictator," or, to use our favorite American term, some czar, to put an end to all this confusion and get results.

But we must remember, it seems to me, that our political system with all its faults and with all its virtues operates pretty much in wartime as in peace. We can't expect it to change overnight, nor the people who operate it, occupy seats in Congress, or the rank and file of the people from whom all political authority flows.

Our job here, as students of economic mobilization, is not so much to criticize and condemn--we can do that in our capacity as private citizens of course--but rather to study, analyze, and understand what goes on and, so far as the passing of judgments is concerned, hold our fire until the end of the course. We want to see how economic mobilization works and how one must work with it. This applies to our study of both past experience in this field and the current economic mobilization.

Next, a few remarks on my second point--the role of self-interest and the profit motive in economic mobilization.

Keep in mind the point I made the other day--that while the war economy is a controlled economy, it continues to be, in fundamental respects, a private-enterprise economy as well. One of the fundamental respects is that the conduct of business and industrial operations remains in the hands of private management. Only very occasionally, you will recall, did the Government or the services during the recent war step in and take over a plant, because of difficulties in the effective operation of such a plant. Another basic feature that continues in wartime is the profit motive, the driving force in the economy.

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Now on the whole, we are less critical of "business as usual" than we are of "politics as usual" in wartime, but we have here too a tendency to get up in our ivory tower and from this lofty position forget some of the real down-to-earth facts of life. There have been recurring demands, at times concerted movements, for taking the profits out of war. After World War I, especially during the 1930's, this sentiment was very strong. The War Policies Commission investigation of the early thirties was instigated chiefly as the result of the demands of veterans' organizations for taking profits out of war. The Commission investigated the matter at some length. Then, you will recall the munitions investigation by the Nye Committee about 1935 which also concentrated attention on the profits made in wartime. Now, there is pretty general agreement that excessive profits and profiteering should be eliminated in wartime. The elimination of profit motive and the pursuit of self-interest is something else again because they are, after all, the driving force in our economic system and are quite properly regarded as the major factor in the extraordinary achievements of this system. Ideally speaking, it might seem a fine thing to get rid of all profit and profit seeking when the Nation's future is at stake. But, viewed realistically, you cannot change the basic motivations of 150 million people from profit to patriotism overnight and expect to get anything but confusion. Of course, we would like to subordinate as much as possible self-interest to national interest, where the two are in conflict, and through wartime controls we do in fact place checks and limits on the operator of self-interest. But few, even among socialists who seek to eliminate the profit motive would select a war period as the time when the change-over should be made.

Here as with politics and our political system, our job is primarily to understand the forces at work in a war economy and not to allow our understanding to be confused by our feelings about some of the things that go on, which seem pretty reprehensible. So much for that.

Now, let us see what actually happened following the outbreak of the European war. The actual course of economic mobilization can be followed more easily if we break it down into two periods: The "defense period," which comes to an end with Pearl Harbor; and the period of "full mobilization," say from December 1941 to the end of 1944. There is a third basic period, the period of demobilization, which was underway on the planning side as early as 1943, but I am going to ignore that completely for lack of time.

Let us take the defense period first. The two major objectives of this period, as seen by the Administration, were, (1) to carry out the preparedness measures necessary to place this country in a state of defense. (As the situation deteriorated in Europe, the requirements of defense rose higher and higher.) and (2) to enable Britain and its allies to obtain the materials and the aid essential to prevent the Nazi conquest of Europe. The requirements of allied aid mounted progressively higher and higher.

In pursuing these objectives, the Administration was faced with many difficult problems, but I want to call your attention to only two of these difficulties.

In the first place, it is very important to remember that during much of the so-called defense period, we did not know what we were preparing for. We were preparing to defend the country, yes; but defense against what, against whom, where, when, and on what scale? It is easy, with benefit of hindsight, to see what was ahead and what we should have been preparing for, but it was anybody's guess back in 1940 and 1941.

In the second place the Administration, throughout the Defense emergency, had to contend with the strong and widespread public sentiment which was opposed to any involvement in the European war, a sentiment which found active expression in a small but powerful isolationist group in Congress.

So the Administration had to move slowly and cautiously both to give public opinion time to move around to its view of the developing threat to United States security and to provide the isolationist bloc in Congress with as few opportunities as possible for obstructing the Administration's defense program.

Now during the period of the phony war--from the outbreak of the war in September 1939 to May 1940--a number of minor steps were taken in the direction of military and industrial preparedness, but I think in many respects the most important single accomplishment of this phase of the defense period was a political one, namely, the repeal of certain key provisions of the neutrality legislation of 1935 and 1937.

You may recall the great concern of the public at that time lest the United States be drawn into another European war as it has been drawn into the First World War. It was as a result of public disillusionment with the causes and results of the First World War and the disclosures of the investigations of the thirties that these neutrality laws were passed. Broadly speaking, the neutrality legislation prohibited the export of munitions to nations at war.

However, the experience with this legislation in the late 1930's hadn't been very happy. In the Italo-Ethiopian, the Spanish Civil War, and the Japanese invasion of China, the indirect result of the legislation was to aid aggression, aggression by major powers who could manufacture their own munitions against weak nations who could get munitions for defense only from the outside.

The President, anticipating the possibility of further Nazi aggression, sought the repeal of laws which would only serve seriously to handicap the nations already threatened by the extension of Nazi aggression. The movement for repeal began early in 1939; but a bill for this purpose was defeated by the Congress in May of this year. In the fall of 1939, after the outbreak of the European war, the President called a special session of Congress specifically to modify the neutrality legislation. This time he was successful.

This cleared the way for Great Britain and its allies to place large orders for munitions on a cash-and-carry basis. These orders--which reached an aggregate of three billion dollars in 1940--marked the beginning in a very literal sense of the mobilization of American industry for war.

There were no further major developments in economic mobilization till May 1940.

To illustrate the attitude of Congress in the intervening months, let me remind you that in the military appropriation bill, the House of Representatives in January 1940 reduced the Administration's request for 496 planes to 57 planes and eliminated a 12 million dollar item for an air base in Alaska.

All this was changed by the Nazi blitzkrieg in the late spring of 1940. The sweep through the Low Countries was followed by the capitulation of the Belgian Army and by the evacuation of the British from Dunkirk. The defense position in the United States became very grave almost overnight.

The Administration moved very quickly to meet the new situation. Within three weeks after the German invasion of the Low Countries, the President took the first important steps in preparing the Government to cope with the early phase of our economic mobilization.

On 25 May 1940 the Office of Emergency Management was established to assist the President and coordinate defense activities. This was done under the authority of the Reorganization Act of 1939. OEM was a kind of administrative holding company. Although not very important in itself, OEM was a very useful administrative device. Most of the agencies established for defense purposes began originally as units in the Office of Emergency Management.

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Second, and much more important for the immediate situation, on May 28 and 29, the President established the Advisory Commission to the old Council for National Defense, the first in a series of key defense and war agencies.

Now, the Advisory Commission was, to all appearances, everything that an efficient administrative agency should not be. In its early period it had advisory duties only, although in time it was given certain operating responsibilities. It was without a head, not having even a chairman. Each of the seven members had cognizance over a certain phase of the defense program--industrial materials, industrial production, price stabilization, farm products, civilian supply, transportation, and so on--and each member reported individually to the President.

Why was it that the President set up an organizational eunuch such as this, instead of, let us say, putting into effect the provisions of the Industrial Mobilization Plan? The main reason was simply this: The Defense Act of 1916, still on the books, provided authority for reviving the old Advisory Commission. To have taken any stronger, more effective action would have required congressional authority and given rise to heated and prolonged debate. The Administration's defense program might well have been hindered rather than aided.

Weak and ineffective as the Advisory Commission appears to be on paper, its accomplishments were far from negligible. Under such men as William Knudsen, Stettinius, Leon Henderson, and Ralph Budd, the first steps were taken to speed up and coordinate the defense program. These men operated as high-level expeditors and trouble shooters, needling, and prodding the various elements in the defense program--(1) business in industry moving slowly and reluctantly to convert a war production; (2) the armed services, slow to raise their sights and to break away from time-consuming peacetime procedures; and (3) the old-line government agencies, likewise tied down by routine and inertia.

For all its organizational weaknesses, the Advisory Commission's activities resulted in valuable experience and training for a growing body of officials and staff employees. Lack of authority didn't prevent them from coming to grips with many of the key problems of economic mobilization. At any rate, they learned what these problems were and something, at least, of what needed to be known and done if these problems were to be solved.

It is important to remember, too, that many of the divisions and branches of NDAC formed the nuclei of the separate agencies established to deal with production, price control, research and statistics, civilian supply, transportation, and so on.

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In the year and a half between the fall of France and the attack on Pearl Harbor, there was a steady rise in the tempo of our economic mobilization, in response to both our own rearmament program and our policy of increasing aid to Britain and its allies. In September 1940 the Selective Service Act was passed. About the same time we transferred 50 overage destroyers to Britain. In March 1941 came the Lend-Lease, an act made necessary by the exhaustion of British funds for paying for munitions produced in the United States. In effect this act provided the basis for all-out aid, short of declaration of war, to Britain. It made us in actual fact, the arsenal of democracy and greatly accelerated our transition to a war economy.

As the defense program took on larger and larger proportions and the tempo of mobilization increased, the problems of expediting and coordinating the whole program became increasingly difficult, and the Advisory Commission became less and less adequate to do the job.

In January 1941 it was replaced as the directing and coordinating agency for war production by the Office of Production Management--the OPM, as it was known. Three of the divisions of NDAC were transferred to OPM: Production, Materials, and Labor. The new agency was given not only a directing head but two of them: Wm. Knudsen, as director general and Sidney Hillman, prominent labor leader, as associate director general.

This was an action that organizationally was very dubious but politically very wise since the support of labor as well as management was essential for the advance of the war effort. OPM not only had a more effective organizational structure than the Advisory Commission, but it was given priority and other powers which the Advisory Commission lacked and this power was later increased.

Another important organizational advance came in April 1941 when the price stabilization and civilian supply activities and personnel of the Advisory Commission were transferred to the Office of Price Administration and Civilian Supply under the dynamic Leon Henderson.

Jurisdictional difficulties developed between OPM and OPACS and this led in August 1941 to the establishment of a new agency to ride herd on OPA and OPM and coordinate the entire defense production program. This was the Supply, Priorities and Allocations Board, a top policy outfit without operating functions. Civilian supply responsibilities were transferred to OPM, and OPACS became simply OPA.

In addition to the three key production, price and coordinating agencies, OPM, OPA, and SPAB, a number of other defense agencies were established prior to Pearl Harbor, such as:

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1. Office of Agricultural Defense Relations.
2. Office of Export Control.
3. National Defense Mediation Board.
4. Petroleum Coordinator for National Defense.
5. Office of Scientific Research and Development.

These were the most important although they were not the only new defense agencies set up prior to Pearl Harbor.

This brings us up to Pearl Harbor. Let us see just where this country's mobilization effort stood at the end of 1941.

At that date we had a total military establishment of more than two million men and facilities for a greatly accelerated training program were well advanced. All major types of armament were in production by this time. Plane production in December 1941 was at the rate of 25,000 a year; total munitions output was at the rate of one billion dollars a month; total war expenditures were at the rate of over two billion dollars a month.

By Pearl Harbor, too, the main organizational structure of the war agencies had been established. Despite the confusion, controversy and conflict centering in these agencies, they were in being, they were staffed and in operation. On the whole, our mobilization effort was much further advanced in December 1941 than it was a year after we entered the First World War. Finally, the attack on Pearl Harbor brought about a unity of national purpose which greatly facilitated our economic mobilization in the months ahead.

Pearl Harbor marks the beginning of the period of all-out economic mobilization. Within the next three or four months there was a general rounding out of the structure of the war agencies. A number of the defense agencies were reorganized on a more effective basis and with increased powers, or were supplanted by new and stronger agencies. A number of new war agencies were created to fill gaps in the existing mobilization structure. Within six weeks after Pearl Harbor we had the replacement of OPM and SPAB by the War Production Board; the replacement of the Defense Mediation Board by the National War Labor Board; and the establishment of the War Manpower Commission, War Shipping Administration, Board of Economic Warfare, and the Office of Defense Transportation.

On the military side, the creation of the Joint Chiefs of Staff in December 1941 fairly well rounded out the reorganization of the

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military establishment which had been in progress for over a year, and is a rather interesting point: When we come to assess our economic mobilization, we often overlook the fact that the military establishment itself was faced with and had to carry through a reorganization that was dictated by the unforeseen conditions and problems of the defense and war emergency. This certainly was not the least of the deficiencies of prewar military planning.

Under the First War Powers Act of December 1941 and the Second War Powers Act of March 1942 there was a general beefing up of the authority of the war agencies.

In dealing with the period of full economic mobilization after Pearl Harbor, I am going to limit my attention to what are, to me, the two central developments--those relating to production and those relating to economic stabilization, with the principal emphasis placed, rather arbitrarily, on production.

Now let us take a look at the production problems which we faced in this country following Pearl Harbor. They were the problems associated with getting war production into high gear with the greatest possible speed.

In one respect the attack on Pearl Harbor simplified the job to be done. It settled the basic issue of what we were mobilizing for. No longer were we mobilizing for a rather vaguely defined defense against a variety of possible threats, plus aid for Britain and its allies. It was mobilization for all-out war on a global scale.

Although our over-all strategy in this global war was not clearly defined until 1943, it early became clear that military requirements would far exceed the highest estimates of the defense period. Moreover, these requirements would be far in excess of the ability of existing industrial capacity to meet. The production goals of the armed forces were raised and raised again and again as the implications of the job to be done came to be more fully grasped.

The major production programs increased rapidly, not only in size, but in number. There were not only aircraft, ammunition, naval construction, and tank programs, but a huge military construction program, an enormous merchant shipping program, a landing craft program, and before very long, communication and electronic equipment programs. And these were only the top-layer items.

The military production programs had to be supported by programs for the production of the materials, equipment, and facilities

required in the production of military equipment and supplies. Such were the programs for the expansion of production in critical materials, such as steel, aluminum, copper, rubber, chemicals; programs for machine tools, industrial equipment of all kinds; programs for critical component parts--the "B items," common-use items, such as fractional horsepower motors, bearings, and so on.

New programs were continually being brought into the picture and adding their demands to the already unprecedented demands of existing ones.

It always takes production programs considerable time to get under way because of the extensive and time-consuming planning and preparatory work. In other words, the critical factor of lead time must always be calculated and allowed for--something easier said than done.

The further along the various production programs got, the greater the pressure of their demands upon all supporting programs. As the limits of existing capacity were approached or reached, the competing programs collided with each other--military programs with military programs; civilian supporting programs with civilian supporting programs; military programs with civilian supporting programs and then there were the nonsupporting and nonessential civilian demands interfering with everything else.

Total requirements at times were apt to add up to double or more the total capacity to meet those requirements. Everybody was battling everybody else to get what was believed to be essential for their own programs. Obviously, some outfit had to step in and bring some kind of order out of this chaos. Some outfit had to ride herd over war production as a whole. Somebody had to bring the many competing and conflicting production programs into some kind of order and balance. Somebody had to be responsible for increasing productive capacity where capacity was most essential. And somebody then had to undertake the difficult and painful job of dividing up available supplies among the many competing programs and their claimants.

The war agency that had these jobs thrown right into its lap, was the War Production Board, the agency which succeeded and absorbed OPM and SPAB early in January 1942. Donald Nelson, as chairman of WPB, was charged with full power and authority over the entire war procurement and war production programs. His authority, given him by Executive order, was far more sweeping than anything granted to Baruch and the War Industries Board in World War I. In a very real sense, Nelson was made the directing

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head of the American war economy. Only one major economic power was withheld from him--authority over prices. If you read some of the controversial literature of the war period, you will find endless arguments as to whether he used his authority properly.

Nelson took over with some modifications the organizational structure of OPM. I shall not go into this side of the picture because WPB underwent a number of major reorganizations and, in fact was in almost a continuous process of organizational adjustment--as indeed were most of the war agencies.

Two staff committees of WPB were of particular importance, (1) the Planning Committee--a small group serving as Nelson's brain trust and (2) the Requirements Committee where the critical raw materials pie was divided among the many claimant agencies--military and civilian.

The story of the War Production Board's harried and hectic career can't be told here. For much of the duration of the war, it was the major storm center of the whole economic mobilization program. The battles with other agencies and the civil war at times within WPB make the peacetime friction within the bureaucracy seem very small-town stuff.

The original concept of WPB was to keep all production under the control of a single production agency--WPB. This principle was violated by the establishment of several so-called "commodity czars"--the oil, rubber, solid fuels, and food czars. In each case, the action of setting up an all-powerful czar was taken to expedite the production program, to break up what appeared to be serious bottlenecks. But the setting up of these semi-independent production agencies led to a great deal of friction and confusion within the over-all war production program, and their effectiveness is still a subject of debate.

Another area of heated and long-continued controversy was in the relationships between WPB and the armed services, more specifically between WPB and the Army Service Forces. Some would narrow it down even further, specifically to a contest between Mr. Nelson and General Somervell.

This conflict between the top production authority and the top procurement authority would indeed have been very difficult to avoid and it was not avoided. Personalities were very much involved; charges and countercharges were hurled back and forth. The battle has continued since the war in the post-mortems that have gone on.

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So much for the production side. I have very little time left to give to price stabilization, but there are some things I do want to bring out. The subject will be dealt with in detail later on in the stabilization unit of the course.

The vital importance of price stabilization, primarily through price control, was recognized from the beginning. All concerned with the problem, from the early planning stage on were agreed upon the necessity for early and effective action in this field. And there was not too much disagreement on what needed to be done to maintain price stability and, through it, economic stability. But to secure public support, to secure the acquiescence of the various special interest groups, and to obtain the necessary authority and backing of Congress--these were among the most difficult and, it often seemed at the time, the least successful phases of the mobilization effort. No war agency was so continuously and acrimoniously under attack as the price control agency, OPA.

Now, just why was this the case? Why was it that a program generally agreed upon by informed men as indispensable to an effective mobilization of the economy had such continuously rough going?

Why was OPA opposed so bitterly by industry groups, by trade associations, and even in Congress? There are lots of minor reasons that could be cited, such as the reputed high proportion of college professors on its staff. But the basic reason, I feel, is this:

Prices, including wages the "price of labor," commodity prices, rents, and so on, are the most sensitive point in the private enterprise economy. Touch prices and you touch the pocketbook, you interfere with profits, and you dampen the mainspring of the economic mechanism. Nobody--except housewives and other forlorn consumers loved OPA.

The story of OPA's struggle to establish and hold the price line in the face of very great odds against it is a long, complex, and controversial one. There was the more or less continuous struggle to get adequate authority from Congress to do the job, and there were critical occasions in which Congress withheld with one hand the appropriations necessary to make effective the authority which it gave with the other hand.

Although after a time OPA was moderately successful in holding the front door closed against price increases, price stabilizations was threatened by increases through the side door of wage increases in one form or another, through the back door of parity prices for many agricultural products, and through the windows of quality downgrading and the elimination of so-called low end items by producers.

Moreover, in this struggle to hold the price line, OPA frequently received something less than full support from those agencies whose job was primarily to secure increased production, for example, WPB and War Food Administration. For there is nothing quite equal to higher prices to aid in the stepping up of production.

Price stabilization wasn't accomplished by price control alone--that is by the regulation of the prices of commodities, services, and rents. Wage control was a critical phase of any stabilization program and this had a long and controversial career of its own during the war. Another useful adjunct to price control was the premium price plan by which government subsidies were given to high-cost marginal producers, chiefly in the critical metals field. The subsidy method was later extended to oil and to certain foods.

Still other essential features of price stabilization were fiscal measures designed to reduce inflationary pressures through the use of high taxation and savings-bond programs to absorb excess consumer-buying power. Also, action was taken to discourage credit and installment buying, and the rationing program helped relieve the pressures on prices.

On the whole, I don't suppose there was another phase of the economic mobilization program which gave the Administration more trouble in 1942 and 1943 than price stabilization. To help cope with the situation, the Office of Economic Stabilization was set up in October 1942 directly under the President, and Justice Byrnes was brought from the Supreme Court to head up this office. His job was that of coordinating the stabilization program among the various government agencies directly involved--OPA, Treasury, Agriculture, War Labor Board, and Federal Reserve.

Gradually the functions of the director of Economic Stabilization expanded and he became the President's top coordinator of other phases of the mobilization effort since the War Production Board didn't develop along that line as some had expected. In May 1943 Director Byrnes became head of the Office of War Mobilization.

Now, let me conclude my discussion of these two phases of the mobilization of the American economy, production and stabilization, with a very brief summary of what was accomplished, for, despite all the turmoil, the controversy, and the confusion, the achievements were very great.

Let's take a look at economic stabilization first. The consumer's price index remained fairly steady during 1939 and 1940

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at pretty close to 100. Then it rose steadily to a plateau of about 125 which it held from the middle of 1943 to early 1944. Thereafter it mounted to about 130 in late 1945. This was a far better achievement than in World War I when the wholesale price level rose from 100 in July 1914 to 206 in November 1918, three-fifths of this increase taking place after our entrance into the war. Incidentally, we did a better job in financing World War II than World War I, paying 41 percent of the wartime outlays with taxes, compared with nearly 33 percent in the first war.

The sad part of the wartime economic stabilization program was its rapid collapse in the demobilization period. The consumer's price index which had risen only from 100 to 130 in the five years of the war shot up to 170 in the two years following the end of the war, an increase four times as great as that during the period of our participation in the war.

Let's take a quick look at what our controlled and directed war economy accomplished production-wise. Making allowance for the price increases which took place, this is what happened. Despite the fact that over 10 million were drawn into the armed forces, the following increases in production took place between 1939 and 1944, (1) raw materials, as a group, 60 percent; (2) all manufactured products, 150 percent; (3) munitions production went up from a monthly rate of one-third billion dollars in late 1940 to a peak of over five billion dollars in early 1944; and (4) total output of specific items--planes, nearly 300,000; tanks, 85,000; shipping--fighting ships, over 1300 and merchant ships 53 million tons. At the same time civilian consumption, in 1939 dollars and despite restrictions on the production of civilian goods, rose 15 percent.

In specific industrial fields, output literally skyrocketed. Synthetic rubber rose from practically nothing to an annual output of over three-quarters of a million tons in 1944. Aluminum output increased 350 percent. The machine tool industry from 1941 to 1945 produced a total greater than the aggregate production from 1900 to 1940.

In the transportation field, railroad ton-miles doubled between 1940 and 1944 and passenger-miles quadrupled--all this with virtually no addition to railroad equipment, although the number of employees increased 40 percent.

Electric power output increased 70 percent, with an increase in generating capacity of only about one-fourth.

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Considering not simply production, but the over-all functioning of the economy, two basic facts stand out: (1) we increased our national income--the total value of all goods and services--over 50 percent, in 1939 dollars; and (2) of this unprecedented great income about 43 percent was diverted to the conduct of the war in 1943 and 1944.

During the depression of the 1930's, the American people, even the American businessmen, had come to have doubts in the effectiveness of the private-enterprise system. The wartime achievements, although accomplished under government control and direction, restored and strengthened the traditional faith in the system. This restoration of faith in private enterprise was perhaps the most important by-product of our economic mobilization.

QUESTION: Your talk dwelt mostly on political handicaps and advantages for this five-year period and through the many phases, but you skipped over what I have found to be the greatest deterrent--organized labor. Labor seems to be starting all over again, its refusal to give up any of its so-called rights, taking advantage of the situation at every opportunity, it seems to me, to gain more such so-called rights. Have you any suggestion as to how we might tackle that in the future?

DR. HUNTER: I will pass that question on to Colonel Van Way. It is a very controversial, not to say inflammatory, one.

COLONEL VAN WAY: I will postpone it until 21 September.

COLONEL BARNES: Let us for the time being state it as an observation that one member of the class feels there was considerable obstruction tactics on the part of labor which was not fully patriotic at the time and they were out to gain whatever advantages they could.

DR. HUNTER: This is such a complicated as well as controversial issue that it is impossible to deal with it in the few minutes we have here.

COLONEL BARNES: I said it was an observation of one member of the class.

QUESTION: I was wondering why we didn't adopt the policy of paying more of our war bills as we went along instead of ending up with a debt of some 270 billion dollars. I realize we paid more than we did during World War I, but it appears as though we could have paid a good deal more. Had we done so, what would have been the effect of paying for as much as we could have during the war on the reconversion programs postwar?

DR. HUNTER: This question is very much to the point. There is general agreement among economists and other informed people who have considered the problem that it would have been much more desirable to have carried on the war to a much greater extent than we did, on a pay-as-you-go basis. The improvement in this respect over the First World War was not very material. There was pretty general agreement that this was desirable, but for the answer of why we didn't do that, we would have to go into all the problems that face Congressmen in dealing with the whole question of taxation.

Of course, if we had taxed much more heavily and thereby paid more of the cost of the war as we went along, we certainly would have reduced that so-called inflationary gap between what the war-time public received in its pay envelope and what the public was able and wanted to buy in such goods as were on the market. At the same time, this would have reduced the "repressed inflation" of wartime which broke out and made so much trouble in the postwar years. Most economists feel that heavy wartime taxation would have eased the problem of reconversion and minimized or reduced, somewhat at least, the inflationary trend after the war.

QUESTION: I understood you to imply in your lecture this morning that the mistakes that occurred in the First World War were carried on through the Second World War and therefore there was hardly any hope to correct them in any future war. Is that true?

DR. HUNTER: I didn't intend to have that view inferred from my remarks. I think it is very difficult to anticipate what kind of a future situation you will face as well as to decide how you will deal with it. I think the American public showed itself more advanced in sophistication, in understanding the problems of a war economy, and what is necessary in wartime in the Second World War than in World War I, and I think in the past year we have proceeded more rapidly in our economic mobilization and have been supported by public understanding to a much greater extent than would have been the case if the Second World War hadn't occurred. Whether we will keep up, whether we will advance sufficiently in public understanding to deal with the problems when they come along, your guess is as good as mine.

QUESTION: The second question: In the books that we have been reading, several of the authors have recommended that schools be set up to bring people in from industry to give them short indoctrination courses similar to the plans of our ORC. Has any progress been made along these lines to date?

DR. HUNTER: We have. The principal work being done in that field is being done by the Industrial College in its Reserve Instruction program.

Aside from that, in a number of schools, courses have been introduced and I believe some of the trade associations in their meetings have discussed problems of this sort. Can anyone on the faculty throw further light on this question?

COLONEL VAN WAY: Certain universities have started courses. One in particular, the University of Colorado, has started a course termed "Industrial Mobilization," and the subject matter is very similar to that which we have in CRIB.

QUESTION: Doctor, during the course of your lecture and also in connection with our reading material this week, you have pointed out that when a military man gets the ball and has to make war, he must be supported by a sound, over-all national economy. You referred on your chart to the cutting edge of the armed forces. If we are going to maintain a keen cutting edge, it seems there cannot be any blunts in the national economy. We have a very real and serious problem before us today. This morning we are not producing an ounce of copper in this country because of the strained labor and management relations. The question is, in building a sound national economy to maintain a keen cutting edge, are we doing anything to recognize that, and, if so, what agency is doing it?

DR. HUNTER: The problem you mention is simply one of the many a democracy has to face in economic mobilization. What would seem to be the most efficient war economy would be one in which you established absolute control and authority in the central government, with that government receiving unquestioning obedience in everything from all elements in the population. That would be the ideal setup. But we operate in this country within the framework of our political and social system, and it is part of the philosophy of that system that everybody has a right to speak his piece, every element, whatever their economic interests or activities, is free to advocate whatever policies he pleases. And there are many different groups. There are many conflicting interests, conflicting in the sense that in dividing up the product of industrial effort labor seeks to get as much as it can; management tries to do the same with its salaries and bonuses; and dividend collectors, the poor stockholders, complain about the small amount left to be divided among them.

So we have to recognize that we must somehow work out a compromise between the complete frustration of effort, which would result if every major element or interested group in the economic and social system stood out simply for what it wanted and wouldn't behave unless it got what it wanted, and the other extreme a completely regimented economy which is the thing we are fighting to escape.

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As to what we are doing specifically in the current defense effort with respect to the labor problem, I will again refer you to Colonel Van Way--for example, the bundling of the quarrel between labor and management in setting up the War Stabilization Board.

COLONEL VAN WAY: WSB is where labor wanted its quarrel to go. Without going into too much detail, briefly WSB was wanted by labor to handle some of the problems that it was not able to get favorable consideration on in NLRB. That was done in a limited degree, and it is limited to the extent to which it is expected to interfere with the war effort. The Labor-Management Policy Board would bring together OEM and the Department of Labor. Labor wanted its arguments handled under the purview of the Labor Department. Mr. Wilson wanted to have some authority. There was also a joint board set up with Mr. Fleming and Mr. Wilson as cochairmen. That was one attempt. There have been many others which we will go into later.

QUESTION: I want to raise a question with respect to the table you presented yesterday, "The rise in the cost of war." There was some explanation of this question yesterday, but there was still considerable discussion of it after the lecture. That was in connection with the total national wealth. The figure of 400 billion dollars seems rather low when you consider that our total national income in 1950 was estimated to have been 300 billion dollars. It looks as if the estimate of 300 billion dollars as the cost of World War II would indicate an amount almost equivalent to the total national wealth and would destroy the end result.

DR. HUNTER: I will be glad to try to clear up that point. Let me say in the first place, there are no adequate figures later than 1938 on our total national wealth. I believe the National Industrial Conference Board prepared its last estimate then. The figure on the chart was simply a rough estimate based on certain crude adjustments. So it is a very rough figure. Keep in mind that this cost figure relates to total war expenditures. It covers the total war period of about six years, whereas the figure for national wealth is as of a given time.

Look at the total national wealth in this fashion: It represents the total capital resources of the country in terms of the estimated monetary value. This national wealth--these capital resources--includes all the factories, the farms, all the equipment, all the service facilities, the railroads and other transport facilities, electric power, and other utilities--in other words, the total capital goods of the country, agricultural, mining, industrial, services, and so on.

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National wealth is not just a lot of static, "dead," property; it is a productive machine. In using that machine, you can wear it out if you don't maintain it, and keep it in repair, if you don't replace the equipment as it wears out--and that is a problem we are faced with in a war period. There is a danger that we will divert so much of the national output directly to the armed forces that this capital equipment, these farms and factories, this machinery of all kinds, these automobiles, locomotives, machine tools, and all the rest will not be kept in efficient operating condition; and we may end the war with an actual reduction in the total national wealth. This is, in fact, what happened to Great Britain--the British consumed a substantial part of their national wealth as a result of the almost single-hand struggle against the Nazi regime.

The situation in this country was different, in important respects. On the capital equipment side, it would be my estimate that whereas in certain fields such as railroad equipment there was definite deterioration during the war--in other areas that individually you may be familiar with the same thing may be true--yet on the whole the total capital equipment in the country was increased during the war, that sufficient new plant and equipment was produced to more than compensate for losses through accelerated wear and deterioration.

Some of that new equipment was of little use in peacetime. Take power plants, ammunition loading plants, many of those, their value was reduced to virtually nothing in peacetime terms since they were not readily suitable to conversion. But I think we came out of the war, by and large, with a total national wealth in terms of all this productive capacity increased rather than the converse. When we consider the basic mineral resources of the country, there was an accelerated drain on the aspect of the national wealth.

QUESTION: I thought I heard you say this morning that one of the reasons why the mobilization plan which was prepared by the War Department was not used because it has no official status. I thought yesterday you said that when the National Security Act of 1920 was passed, the War Department was specifically given that mission to carry out. If it had no official status, what assurance do we have that any future plan under another Security Act would be carried out?

DR. HUNTER: Let me clear up that point. The act of 1920 specifically assigned responsibility for the industrial mobilization planning--I don't recall the precise phrase--to the Assistant Secretary of War. Now, to give authority for doing something is not to give official sanction or sponsorship to the product of that

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activity. There is quite a distinction between the two things. Congress gave the Assistant Secretary of War responsibility for industrial mobilization planning, and the planning was carried out. But that didn't mean that Congress tied its hands in advance by suggesting or implying that the resulting plans would be adopted and put into effect.

That is what I meant by saying the plan had no official status. It had no authority in itself. There had to be action either by the Executive Branch or by the Congress. Such action within the Executive Branch might, within the scope of the President's authority, put part of that plan into effect bit by bit; or, of course, Congress might have taken some action. Many bills were introduced in Congress during 1940 and 1941. Its action effectively would put into effect in some degree a modification of the industrial mobilization plan. They did not get to first base.

COLONEL BARNES: Louie, you have done a swell job on these three lectures and I think everybody agrees with me. Thank you very much.

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