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ECONOMIC CONTROLS AND NATIONAL SECURITY

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Mr. Leon Henderson was born in Millville, New Jersey in 1895. He took his A.B. degree from Swarthmore College in 1920 and did graduate work at the University of Pennsylvania from 1920 to 1922. After teaching at the Wharton School and the Carnegie Institute of Technology, he became director of consumer credit research of the Russell Sage Foundation from 1925 to 1934. He served as director of the Research and Planning Division of the National Industrial Recovery Administration during 1934 and 1935. During the next few years he was an economic adviser to several government agencies, including the Temporary National Economic Committee and the Securities and Exchange Commission. He was an original member of the Advisory Committee to the Council of National Defense, administrator of the Office of Price Administration and Civilian Supply, and the first administrator of the Office of Price Administration, resigning that office in December of 1942. He is now chief economist for the Research Institute of America and Director of Research, Jewelry Foundation, New York City.

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GENERAL HOLMAN: Gentlemen: Back in 1941 and 1942 I doubt whether many of you here today ever searched your evening paper for the latest developments on price controls, wage controls, or economic stabilization in general. At that time you were much more concerned with the end items of production or when and where your outfit would go next than with the possible effects of inflation on our military programs.

But there were others who were concerned and the daily press of the Pearl Harbor period carried complete stories with all the details. And in these accounts the name of Leon Henderson was one of the most prominent because he was plunged in the thick of things long before any of our troops, ships, or planes were committed to action.

As the first administrator of the Office of Price Administration (OPA) our speaker carried the terrific responsibility for establishing the policies and procedures, as well as creating a favorable atmosphere for public acceptance, of the actions which had to be taken. In the situation then existing, it was a pioneering job all the way.

Mr. Henderson has talked to the college on this subject many times before. On every previous occasion he has devoted part of the discussion to how well we have profited from past experience. I hope he will do this again today.

He is now Chief Economist for the Research Institute of America and keeps in close touch with the changing economy. He brings together for us today the past and present. Mr. Leon Henderson.

MR. HENDERSON: Thank you, General Holman. Students, General Holman said that I had been here on prior occasions. In 1947 I covered rather extensively the main points, some 24 in number, I think, of the experience we had had with control mechanisms during World War II. In succeeding speeches I had assumed that, if you were interested in those, the library has not for any reason destroyed the copies.

Again in 1949 I summarized into major policy groupings what I thought the lessons of World War II had meant to us and what they suggested in the way of organization. In 1950 with at least a dim shadow of possible involvement, I indicated my opinion as to what would be the situation here in the case of any outbreak of war. Frankly, I did

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not see in the period ahead any potential involvement in something like the Korean episode. Today I am going again to assume that these things are background, to pay particular attention to the course of events in control as you have seen them in the last 13 months, and to make a little brash speculation as to some of the problems ahead.

In the organization of ideas which started, I believe, in 1949, I paid tremendous attention to what I called the knowledge of the economic process. It is my opinion that any mobilization effort, whether it is on the scale of preparedness, as it is today, or whether it is in the more acute state of actual conflict, cannot be operated effectively if not in direct touch with the knowledge of the economic process and how it is operating in our very complex economic system.

I have never made the suggestion, as my friend and mentor Mr. Baruch has done; but I think if I were to pick up this item that I call a knowledge of the economic process, I would want to have his suggested economic general staff. So many of the perplexities arising now, as I see them coming over the horizon, are conditioned by and will be determined by the workings of the economic system and our relation to the world economic system. Mr. Truman's State of the Union message, I would expect, will pay some attention to the effect of our military program on the economies of the rest of the world.

Another thing which I stressed was the need for over-all controls; and I indicated that if there were an outbreak of war, we would need to go much further than the War Production Board had gone in executing the orders of the President. My recommendation at that time was that it be embodied in a statute and not be left to the powers of the President.

Another thing that I had occasion to emphasize was the need for trained administrators. I have no occasion to withdraw from that. I have more occasion, in the light of the last 18 months, to fortify and amplify that recommendation.

I also suggested that any over-all scheme of controls should provide, as it did not provide in the control orders and laws of World War II, for decontrol. It may not be new to you, but most people do not realize that the major organizations that were controlling transportation, oil, rubber, and the rest of those major organizations did not have a full and complete statutory background. The OPA, dealing with prices and rents, was the one which did have. Wage control was the result of a formula which was worked out and given expression through an executive board.

But I stressed also as one of the major points that any control, to be effective, must have public support; that the powers to do, to go forward and to plan, do not reside in the statute or in the Executive orders, but it was directly a nexus with public opinion; and I

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shall have occasion later on to refer to these. My contention was that we should have an over-all authority. At this particular and peculiar preparedness stage, where it is public policy to have a preparedness program alongside a civilian economy, over-all authority is quite difficult to obtain, let alone the administration and authority for a complete centralized control; but it is also difficult to prevent inflation unless there are many more powers available to the central control authority. And I think that, while this may be somewhat repetitious, as I go on I will advert to some of these circumstances.

I said at one of these meetings--I think it was in response to a question from one of the faculty--that I was a bit uneasy about the National Security Resources Board (NSRB), which was the designated instrument in the pre-Korean period for making the over-all preparation. That is, it was the preparator of the preparedness plans for the next emergency.

(Story told off the record.)

The reason for telling that story is to illustrate what I think has been, in different words, Mr. Baruch's recommendation and mine; and that was that the agencies responsible, as was the contemplation of the NSRB, should actually administer and should have broad powers in the realm of policy making and administration. And if our effort, for one reason or another, had to be increased, I would expect to see a greater amount of authority concentrated in what is now the position occupied by Charlie Wilson.

I made a suggestion then--again, I believe, in response to a question--that some part other than just planning should be done by the central organization, whether it was stockpiling, whether it was centralized procurement, whether it was research and development; but at any rate, that I would use the NSRB, as then constituted, as a model for pilot agencies, so that the administrators would get their feet wet with the actual problems themselves.

I don't believe that any high-ranking officials in that organization are at any central post where they are directing activities. I scanned the organization charts at Defense Production Administration (DPA), National Production Authority (NPA), Office of Price Stabilization (OPS), and Economic Stabilization. Not one of those top administrators--and I think I can say this for their first or senior deputy too--was in the planning mechanism or in any responsible post-crisis dealing with what was then a fairly substantial military program even before Korea. I said then and I say it again--that recommendation of action was a good one.

As to the consent of the governed or the public opinion phase, I am going to use some examples. As you probably recall when the

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President asked for the National Defense Act of 1950, he did not provide for control of prices or wages. I was the insistence of Congress, acting upon the pressures of citizens and businessmen, which included the price control provisions and the wage control provisions in the Defense Act.

While I think that would be a healthy and a welcome addition, I believe that if the structure of the original Defense Act had taken note of the necessity for these powers, we would have a strong Defense Act, and that you would have more public support for its provisions. In other words if you deal with the mechanism as it emerged as a result of compromises and the last minute adjustments, you will find that something was lost as to the centralization of authority and delegation of responsibility so necessary for an efficient mobilization program.

For example, because of the wrong guess made by the Administration as to what the people would want, there was very little done on the side of price control until the gathering storm of inflation was already upon us. And some part of the lack of support or indifference of public opinion to price control, and one so necessary for administration, is lacking because of that error in judgment or error in guessing. (I happen to be in a position where I can do all the Monday morning quarterbacking that I wish.)

On the public opinion side again, the Capehart Amendment and the Hurlong Amendment, which went through in the last session of Congress, supposedly put restraints on the authority of OPS which came about largely because of the necessity for the OPS organization to move so urgently and so rigidly into areas that it should have had much more time in order to do it right.

If you will recall, the Di Salle appointment came at a time when prices were running away and the building of an organization was not an easy task. I have always felt that we should have stand-by powers, stand-by organizations and techniques, and stand-by people for administrators, to give us some of the advantages of preplanning.

I think that the same thing might be said on the topic of political interference. I had occasion in dealing with the English and the Canadians to hear complaints repeatedly about political interference in our administration. That was not just true of me, but it was true of Don Nelson, of transportation, and all other controls.

One of our major fights was on the price of oil. I fixed the price of oil and the whole oil industry, headed by the delegation from Oklahoma, with tremendous political power, tried to break that price. I had a fellow in my organization, Sumner Pike who stood firm. Finally matters came to a head. Judge Vinson, who was the head of a very substantial agency, came to our rescue. He said that it was an issue of importance and note and he sustained our price, but political influence could have ruined it.

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Let us take an example that happened recently, which is the Quartermaster's necessity for obtaining meat. I think Quartermaster General, Herman Feldman announced, before he left, that he was going to buy 10 million dollars worth of offshore meat because he couldn't get enough domestic offerings. The meat industry's action on prices was such that he couldn't go into the open market. He couldn't buy corned beef, for example, in the 40-cent range. He was compelled to go to the 90-cent and dollar-a-pound range. And it was only by using the mechanisms that, I think, General Somervell and I devised to satisfy the meat people that he was able to get meat for the troops.

The same thing--but it wasn't effective--was the fight against quick amortization, that you may have noticed. There was great alarm sounded because the authorities, from Wilson on down to Fleischmann of DPA, were working seemingly overtime to confer the amortization benefits on those who were building auxiliary and extra defense plants.

Fortunately--and I say "fortunately"--there was determination on the part of the top brass. Fortified by their knowledge of how delay might have crippled us in such a period, they went ahead. But the opposition was an example of the touch-and-go kind of political influence for various purposes, which could have been, as I say, quite destructive.

A preparedness period, if we can call the present period that, has many difficulties. That was one of the reasons--not the main one--why the M-day plan was not able to be used, when we started on our defense preparations in the forties. But even preparedness does give a number of organizational difficulties and authority difficulties.

At the present time we cannot barter for critical and strategic materials. We have to buy them. First, we are not set up so that, let us say, Mexico has lead and we need lead. Mexico wants some pipe to bring the oil from one of its oil fields into Mexico City. We say: "We will buy the lead in the open market. You will have to dicker for your pipe."

More than that, let us suppose--this is going to be an actual case--that there are 5,000 tons of tungsten behind the Iron Curtain, and those people want to exchange that for vegetable oils, and they will not let it go unless they get vegetable oils. As we are set up now, it is difficult and dangerous from many standpoints to do that kind of negotiation. We will offer to buy tungsten and pay them dollars for it, but we will not let them get vegetable oils. Under the wartime powers it was possible to make almost any kind of dicker.

Military goods pricing is another thing. I am not going to advert much to that. I referred previously to the Worsley studies. Although action has been taken recently by which OPS gave exemption to military

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pricing, that would not be, in my opinion, in a war period a good thing to do--to give complete exemption for all military goods when they represent such a substantial portion of the total of buying and affect the prices of all commodities. But the exemption is one example of the arrangement that you have to make in this gray period.

I spoke in other speeches of other difficulties. One of our problems, you probably know, was the conversion of facilities used for civilian production to wartime production. That was one of the toughest battles of the early defense period and continued somewhat into the post-Pearl Harbor period.

As of now, looking ahead, any change in the military program, any revision upward, would mean the necessity of conversion of existing facilities. I am not quarreling with what has been done, that is, because of relocation necessity of dispersion, and other matters, we are building completely independent producing plants outside the Detroit, Pittsburgh, Chicago, and other industrial areas. But I am saying that if we had at the present time a necessity for conversion, there would be difficulty on account of the limited nature of the authority for mobilization and the lack of complete understanding by the public.

As we stand today the price level is slightly lower than what it was at its peak, around March of last year. The indications on the usual forecasting method would seem to be that we might have a rise of prices of 3 to 5 percent. My contention is that the forces which will determine whether they stay in that narrow band or whether they go up or down are not clearly to be discerned right now. And I can conceive of a number of situations, not just an armistice in Korea, not just an outbreak elsewhere, which would mean that the control authority ought to have very, very strong powers.

For example, we were able right after Pearl Harbor to shut down the commodity exchanges. I had no statutory authority for doing it. There were several times before Pearl Harbor when I should have closed the exchanges and suspended all futures. We could have saved ourselves a lot of trouble. If we have one of those similar situations come up in this gray period, the organization and authority is not present.

Another problem is the impact of the excess-profits tax, which I will not labor. I would like to say that, talking about an economic general staff, the head of an economic general staff would make a suggestion to the person responsible for the construction of additional facilities that there are many avenues in the excess-profits tax which could be used positively for the increase of production. That is, if you run into a snag on the five-year amortization, or on the money available by the Government for the building of increased facilities, there are still a number of good, staunch provisions to work with in the excess-profits tax which can be used to mobilization advantage.

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But the hardest thing is going to be the organization of the supply of raw materials. We have had an extraordinary increase in both time and size, of the expansion of capacity, raw material capacity, atomic energy capacity, plane facilities, tank facilities. As a matter of fact, one of the reasons for the imbalance as between military end products and the rest of the program is that the efficiency of building and the knowledge of what to build are far outrunning our knowledge of what is to be decided upon in the way of design and models for the military end products. That is a difficult thing for the public to understand but it is true. We also face the prospect that by the end of this year we will have 8 or 10 percent additional steel capacity and before the end of 1953 we will have a doubling of the aluminum capacity.

Considered in the narrow focus, maybe we have the iron ore and maybe we have the bauxite, but steel and aluminum are seldom used alone. We have to bring about power, transportation, copper, zinc, and lead--every one of the groups of raw materials that may constitute a necessity for expanding the national product.

Again, at the risk of being boring today, I say that the regular authority, as it exists now, and the structure or organization, with so many authorities outside the control organization are deficient. To mention one, Symington's ability to hold off the Bolivian tin contract is an example and lead from Mexico and copper from Chile are others.

The organization for the supply of raw materials commensurate with our needs in 1952 and 1953, and for an all-out program in case necessity demands it, just does not exist. That needs to be right now in the preplanning stage. We cannot create immediately new, on-the-scene, ready-to-be-processed raw materials stockpiles.

We are right now at a major point in the military program; this to me argues the necessity for an economic high command, which would work with or subject to the head administrator, the head of all control. We have again the old feasibility dispute. I expect in your library you have the study by the Committee on Public Administration cases on the dispute that went on through the War Production Board (WPB), and the Joint Chiefs of Staff as to feasibility of the military program. But we are at that point of feasibility now.

Here we have now on one side the Joint Chiefs of Staff better than anybody else knowing what the perils are and knowing, to make my own date, that as of, let us say, July the first we ought to have an effective fighting force, fully equipped for an emergency. And here we are at a touch-and-go point as to the impact of the military program. When you get down to only 10 percent copper, 20 percent this, and 30 percent that available for civilian business, you can disturb the economy violently, particularly when the price level has come to rest.

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The feasibility dispute is here. Some would want to prolong the defense program, as suggested in Mr. Wilson's latest report. There are others who would compress it and make sure that we are ahead of our due dates. Still there is no real authority to deal with the feasibility dispute in terms in which it ought to be dealt. You can't have the personal contact of a strong person like Wilson, whose views are not shared by his old colleague in General Electric, Phil Reed, whose views are not shared by most of the Army's military planners. What we rest on is mainly assessments of the equities of the situation.

Just by way of summing up: I think we have profited by the mistakes and the experiences of World War II. I think our organization is better, although it isn't quite perfect, because of the patchwork way of putting it together and the lack of a statutory head. But we are still really working on a quota system on production.

I think we have made enormous progress in the reactivating and expansion of facilities. I think our technical work control is so much better. CMP is certainly adequate for all major items. We had to make tests in OPA. We suggested rationing to give it a test for 92 percent of supply on the allocation of raw materials. Tickets could be written for 112 percent then because of slippage. This time there has been no slipping. CMP may have 8 or 10 percent of tickets out for which there is no material, but the organization itself and the techniques of administration are so much better for adjustment.

That goes also for the OPS orders, for the techniques they have worked out on control, because the program that they have represents a really professional and technical improvement.

The budget relationships are so much better, as are the war powers in procurement. There is still enough of a build-up of materials for the military strength. The labor force question, I think, is almost outside the main influence of the controllers. Stockpiling is not so good. As to research and development, there is still no efficient, direct connection between research and development and the operating organizations applying the mechanism in the defense effort. I think I am on good ground for saying that.

We still, however, are operating with the democratic process. There has been no abridgment of the ordinary process by which we evaluate decisions taken. While you may quarrel with some of them if you are a purist technician, I think we are very fortunate that we have the public debate.

What I think is lacking in the savings bond program, and everything else, is good public relations. I have a feeling that we should pay more attention to that. What I would like to see on public relations is for the Defense Department and Mr. Wilson's organization to put the

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same kind of effort on it as they have done on the expansion of capacity; to go ahead with a wider and fuller explanation to the public as to why the program is needed and what are the dangers ahead.

As I have said, to my mind all this argues for an economic high command, an economic general staff. So many of the problems of NATO, the military aid program, the value of money, the budget, so many things, are present outside the frame of reference of the mobilization control mechanism and authority. It seems to me that there ought to be the best economic high staff made available to the top controller. In turn, to my mind, that would fortify the public opinion that is so necessary for support.

I will now take up the questions.

QUESTION: I have two questions: First, does the Council of Economic Advisers make any contribution to the defense organization? Second, do you recommend that we have a reserve of administrative officials for an emergency, like the military services have in their program?

MR. HENDERSON: I will take the second one first. I suggested that we already had a very substantial military budget and that through a rotational scheme I would try to bring in the same quality of administration as would be required if there was an expansion due to an emergency or a war. However, I don't know whether I made it clear-- that for a two-year program we should get, let us say, eight men, and they would adjust themselves to the pressures of their business and divide up the time and the service; and then we would have a pool on which we could draw.

That was one of my suggestions and I used the example of stockpiling. We have had to bring in Mr. Larson on that and two or three top men on the new program that was plainly indicated before. If somebody had asked who would be the top ones in event of war, you would say, "these men." I happen to know one of those fellows; he told me that it took him a month to find out how an official operated here in Washington.

As to your first question, the Council of Economic Advisers does make some contribution to the defense organization; but that is an organ of the Employment Act, and its responsibility is under the Employment Act. The act specifies what it is to do, which is to recommend to the President and to Congress through its reports what it considers the guiding posts for legislation to maintain full employment.

That is important, but I am talking on a broader-range basis. I am talking not just of economists. When I say "an economic high command" I don't mean a board of economists. I mean a board of economic

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operators--the head, let us say, of the American Smelting and Refining Company--fellows who are operating in the economic sphere, people of known administrative ability. I am quite sure that is what Mr. Baruch meant.

QUESTION: I think you agree that one of the major needs in a mobilization period such as this is a proper, well-informed evaluation or balancing of the military requirements and the industrial capacity and the civilian requirements. Further, I think you agree that we do not have such an evaluation at the present time. Is it your feeling that such a function would be handled in this economic staff? If not, who should do this?

MR. HENDERSON: I would say that the economic staff should do the work necessary to keep the person who has to take the administrative responsibility advised, and well advised. If it is a strong board, it will support him on taking decisions which are unpleasant, you might say, with that background of guidance.

It is Phil Reed's contention that the military program is already too high to be borne without a tremendous impact on the strength of the civilian economy. Phil Reed is a man of high capacity and experience. Being at the head of General Electric, his opinion is to be respected. But the resolution of that question cannot be done except on an ad hoc basis by the man who sits there now. That is the kind of question that ought to be kicked up to a Baruch kind of board. I am not suggesting Mr. Baruch, but a Baruch kind, as we know him--people who cannot be influenced by political and other considerations.

QUESTION: Mr. Henderson, you spoke about the need for public support; you said that in an emergency there would be need for more controls, with the result that within the foreseeable future there might possibly be an entirely controlled economy. You spoke about the need of provision for decontrol in our present legislation. Would you comment upon what you think might be the means whereby our decontrol could be so established so that there would be no possibility of bringing about a completely controlled economy in the future?

MR. HENDERSON: On the first point, I think you have an inherent contradiction there. The responsibility for control and domination comes from the people. I don't believe that in a free system, with free press and radio, any government can force an opinion and get it accepted by the people. I do feel that there are many areas of information that the authorities hesitate to go to the people with, for various reasons.

I have no fear of a continuation of controls. When speaking of the need for specific decontrols, I meant within the framework of the OPS Act or the Defense Act. I think Congress should set up certain

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standards which would let the administrator temporarily suspend or set aside, when certain conditions have been reached, certain controls, and give him certain standards which he could follow automatically.

For example, OPS just recently suspended M-51, which it has authority to do. But it has exercised a tremendous amount of study and taken personal responsibility for the great impact that it has on industry. I would like to see that avoided. I would like to see certain general guidance given, which the administrator, when he reaches that point, can say: "I believe that I can certify that we ought to suspend this regulation now."

When I was in charge of the ordnance property accounting I worked out a general order on 14,000 cases of officers with property accountability who were being held responsible for the loss of side arms or things like that. I was in a position to make certification that in my opinion the Government would lose more in expense than it would gain in recovery. I could do that. I set certain standards and I took them over to General Lord for approval and then we moved through those cases quickly.

But I had the administrative standards by which to guide my action. There was no congressional history or anything else. They went by certain standards. Right now you get public criticism. If you suspend prices of one industry, all the others would come in and OPS would be overwhelmed.

QUESTION: I gather that you don't care too much for the NPA as it is in the Department of Commerce.

MR. HENDERSON: That is wrong. What I say is that it is not really a part of the Department of Commerce. It just happens to be located there.

QUESTION: What do you think of the present arrangement, where the NPA is located within the Department of Commerce and the program and allocation authority is in a separate organization, DPA, which is immediately under the Office of Defense Mobilization (ODM), compared with what I understand was the World War II setup, under which WPB had the programming and the actual operation comparable to DPA? Which do you think is preferable?

MR. HENDERSON: I think the earlier is preferable. We went through that question very completely. I would say that a great deal of the administration which was left in the Department of the Interior ought not to be there in any kind of crucial emergency, because the decisions that have to be made are other than normal decisions.

QUESTION: Are you willing to stand on your remark about the powers of this economic high staff?

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MR. HENDERSON: My answer would be this: For many months this relationship that I have spoken about has been under study; and, to the best of my knowledge, no satisfactory decision has been reached as yet. I think I am on good ground for saying that. But in the kind of organizational structure that we have, no satisfactory working organization which would give us complete effectiveness has been found. I don't want to go into detail on that. It might seem that I know things that perhaps I ought not to know. But I am quite clear on that.

QUESTION: I gather that you would like to see price ceilings expanded to include military goods. I remember that during World War II there was an agreement that all military goods would be exempted from the price ceilings--

MR. HENDERSON: That is not true.

QUESTION: What part is not true?

MR. HENDERSON: They were not exempted. There was the so-called Forrestal-Patterson-Henderson Agreement, which left the final responsibility with me. They made regular reports to me, as the records will show. We also had very active conferences, at which they took up conflicts between our policy determinations. I think that the price control authority is where the major responsibility has to be in any period where the military purchasing impact is high on the whole economy.

QUESTION: Would you say that we should have a similar situation, or should we have some sort of cooperative setup rather than a mandatory imposition of ceilings on military goods in this phase of current mobilization?

MR. HENDERSON: I think that the general principle could be best worked out on a similar arrangement. However, I think that the price administrator should have the right under certain circumstances to suspend a price ceiling.

I will tell you this: When in the last war we worked out that arrangement, a lot of that nonsense of the Army purchasing officers buying in the open market at their own price disappeared. I think the Army and the Navy officials of that period would say that it was a good thing.

QUESTION: Do you think that the present price levels are the result of action taken by the OPS, or do you think they are the result of the availability of goods and consumer demand and things of that nature? Also would you comment as to what your view is on the desirability or effectiveness of the maintenance of farm parity prices?

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MR. HENDERSON: On the first, it is mixed. Some of the prices are held where they are by reason of the ceilings. There is no question about that. I think a number of them, particularly at the retail levels, have been affected by these tremendous savings. There has been an enormous increase in the rate of savings. Temporarily there are moderate prices. Because the price freeze came at about the high peak, many of those prices are moderate. I would say, looking back at control, that I am quite sure there would be no demonstrated price group which could not automatically absorb any increases in the cost.

I would stand on what my contention was during World War II--that the responsibility and the authority must not be confined in a strait jacket.

QUESTION: You mentioned that the excess-profits tax could be used to expand production. Would you expand upon that, please?

MR. HENDERSON: As it is now, in case anybody wants to go into this further, J. D. Longworth's studies on the subject are the best. It is almost a suggestion to management to use cheap money for necessary expansion. Normally, every company has submitted to it by its research staff, by its technical group, and by its engineers, proposals for expenditures in the next budget period.

Now, it has to cut its cloth ordinarily to fit its finances, but the Excess Profits Tax Act is an indication to me that it should be clear to businessmen that they should use their own funds, at anywhere from 17-cent to 25-cent dollars, for auxiliary things other than actual capital investment. In other words, you could do internally with the excess-profits dollars a lot of design engineering, experimentation, and everything which cannot be challenged as a cost.

I think it is not only an indication but an obligation of the executives who control a corporation to do that. Where the expenditure of that dollar is going to improve your over-all technical ability or marketing ability in the foreseeable future, I think it is their obligation to do it.

QUESTION: I would like to ask two questions: First, is your preference for centering the mobilization activities in the mobilization agency tempered in any way by the fact that we have a long period of cold war to look forward to, which could be very uncertain in duration? In other words, in the last war we started with Pearl Harbor and we knew there was going to be an end within a reasonable period. Now we don't know whether it is going to last for 10 years, 20 years, or what. Might there not be an undermining of the normal agencies of the Government?

Second, would you please amplify on the feasibility that you mentioned?

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MR. HENDERSON: It is tempered by what you say. My remarks were to point out the difficulties that are inherent. I suggested that we could have and should have for this period much more control.

I see no reason why, if we have an economic high command, Cabinet-rank people should not be on it as individuals, not representing the agencies; or, a Federal Reserve man could be on it. I see no reason why on the economic high command they should not be there.

We must look forward, however, to making adjustments in this mixed economy between the military and civilian requirements. As we work in this formative period, we have the necessity plainly of getting ourselves actively prepared. I would be for more delegation of authority.

As to feasibility, I was thinking about two fellows who usually think alike, two fellows I have worked with--Mr. Wilson on the one hand and Phil Reed on the other. They seem to have a basic disagreement as to the feasibility of even the existing program, which may rise to 4 billion dollars a month expenditure. I know that Phil Reed wouldn't have come to that conclusion and wouldn't have announced it publicly without a tremendous amount of study.

Now we are at a place, in my opinion, of touch and go. If we increase and move toward the July the first date of real preparedness, we would have to tighten controls very, very substantially. It is not feasible, in other words, to do more in the existing climate. So, as I say, on your feasibility, we are at a touch-and-go point right now.

It gets down then to the measures that ought to be taken by those who know they would be held responsible if America should be found defenseless in a sudden attack. I mean the Joint Chiefs of Staff and the military organization, those who believe that the strongest thing that we could have is a strong economy, with great capacity, and that you can't disturb the delicate price relationship right now. The question of feasibility is right now with us, as it has not been before. There is quite a bit in Mr. Wilson's latest report on that.

QUESTION: Mr. Henderson, you have covered pretty well the control statutes which you recommend and certain standards that should be included in those statutes and at what point you think it would be advisable to do it. It seems to me that, rather than doing this the economic high command should review those, because what we are thinking about now is that usually, when statutes are created, conditions change so radically over a period of years, or after a war, that the chance of having those things properly set up would be better when that standard was reached if it had first been reviewed by the economic high command. What I am coming to is, shouldn't we have a constant planning board to determine when decontrol should start, just as much as when control measures should be placed on?

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MR. HENDERSON: This takes me back to what was the central issue in 1942, when it was quite evident that there had to be something done about wages. The big contention was within the Administration that the President ought to use his Executive powers, one, to satisfy the parity provision and, two, to establish standards of wage increases.

Well, that would have given me more authority; but I contended--and won out--that it had to be debated in the Congress; that the Congress represented the focus of all kinds of things for which it was responsible, and that the general standards ought to be established there.

So I would prefer that general standards be established by the Congress. Congress made my life miserable day after day, but I still wouldn't mind one bit letting it hammer out general standards on that anvil. Despite all the political considerations and everything else, that is my answer.

On the administration business, I would say, have any top group that you want to have.

COLONEL CROSBY: Mr. Henderson, our time has run out. On behalf of the student body and the faculty, I certainly thank you for a very informative lecture.

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