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AN APPRAISAL OF ECONOMIC MOBILIZATION SINCE KOREA

14 May 1952

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Mr. Bernard M. Baruch was born in Camden, S. C., on 19 August 1870. He received his B.A. degree from the College of the City of New York in 1889. Commencing with World War I, Mr. Baruch has performed a wide variety of important public services for the United States Government. In 1916 he was appointed a member of the Advisory Commission of the Council for National Defense; was made Chairman of the Committee on Raw Materials, Minerals, and Metals, and was also Commissioner in Charge of Raw Materials for the War Industries Board and member of the Commission in Charge of All Purchases for the Allies. He was appointed Chairman of the War Industries Board, and served in this position during 1918. Following World War I he was a member of various United States Commissions engaged in various aspects of the peace settlement. During World War II, he served as head of the President's Fact-finding Committee on Synthetic Rubber, 1942; and Advisor to War Mobilization Director James H. Byrnes from 1943 onwards; and made a special report to the President on War and Postwar plans in 1944. He served as U. S. Representative to the United Nations Atomic Energy Commission in 1946. Mr. Baruch is the author of "American Industry in the War," and "Making of Economic and Reparation Sections of Peace Treaty," 1920. In October 1946 he received the Freedom House award for outstanding service to peace, and in November 1947 he received the Woodrow Wilson Foundation Award for distinguished service.

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GENERAL VANAMAN: Gentlemen, a review of the many speeches that have been made by Mr. Baruch shows that there is one outstanding characteristic that is common to all of them. He wastes no time getting at the heart of the subject. Therefore, the greatest compliment that I can pay to Mr. Baruch, that of imitation, is to not waste one precious moment. I have the great honor, and the keen personal pleasure, to welcome our beloved elder statesman, Mr. Baruch.

MR. BARUCH: General Vanaman and Gentlemen: As I came into this room, I happened to glance at the first seat here, and I saw a man who was identified with great activity in World War II; and my mind reverted to one of the greatest of all that we have ever had here on the industrial side, I mean, in the administration of emergency production by our government, that great, magnificent character, who knew no fear of anything, "sans peur, sans reproche," Mr. Robert Patterson, Under Secretary of War. I felt that thought rise in my mind as I came in and saw Mr. John Small, Chairman of the Munitions Board here.

General Vanaman suggested that I give you "An Appraisal of Economic Mobilization Since Korea."

The situation today is not encouraging. Nearly two years have passed since the aggression in Korea. Yet only recently our highest military commanders testified that some types of ammunition must still be rationed; also that there is serious danger of losing our air superiority over the skies of Korea.

Within the last two weeks we have been publicly warned that 1954 will be the year of maximum military danger. Yet, the 143 wing air force which the military have stated is necessary for our security will not be available until 1955 or 1956 even if our production schedules are met, and will be even further away if the budget cuts now talked of are put through. Despite this, where in Washington or in the Nation can one find any real sense of urgency?

Here and there, some individuals are pressing every effort to speed the rebuilding of our defense. But the general temper is one of letting up rather than bearing down. Mobilization controls are being slackened, even though production schedules are not being met, Korea is still unsolved and NATO's defenses are only beginning.

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The disparities among various segments of the Nation--which is another way of saying how fairly the burdens of the cold war are being shared--are widening--not narrowing.

Many factors are responsible for all this. One of the most important was the refusal to do what had to be done when the mobilization was begun. For that neglect we are paying dearly today--in the higher cost of every defense item which has wasted billions of taxes, in the cruel cheapening of people's savings, in less defense production than we should have, which means greater casualties, in the bitterness among different segments of the population, in--yes--in the current steel crisis and others in the offing.

CRISIS BORN OF NEGLECT

The present constitutional crisis is complicated by two other questions.

First, are we really at war? The issue here is not so much whether war has been officially declared, but whether our actions and policies show any consistent sense of urgency. The second point is that the steel crisis is primarily the outcome of a refusal by the Executive to use the powers which were granted by Congress.

The present steel crisis could have been avoided if immediately after the Korean war began, the Administration had used the powers which were given it to lay down a stabilization program which treated all segments of the economy alike, instead of giving special benefits to favored pressure groups.

Parenthetically, special pleaders have appeared before the Supreme Court in the role of amicus curiae, but no one has come forward as a "friend" at court for the public.

POWERS LEFT UNUSED

The experience of both the First and Second World Wars showed that a proper mobilization requires an immediate over-all ceiling over all prices, wages, rents, and other costs--over the entire economy--in addition to a vastly increased production, channeled through an effective priority system, plus higher taxes and other monetary and credit controls. Yet, as you will recall, when South Korea was invaded, the President requested powers to mobilize the economy but deliberately refrained from asking for price and wage controls. Congress, however, refused to accept this piecemeal

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approach. Instead, it gave the President all the necessary powers to invoke a general ceiling over the entire economy. It was one of the few instances in recent years where Congress actually gave the Executive more power than it requested.

But these powers were not used. We were told to "wait and see" what would happen, even though huge mobilization demands were being thrown into an economy already operating at full-blast, with little slack anywhere.

A lot of nonsense was spread about "voluntary controls" being all that was needed. And all the time, while the powers which Congress had granted lay unused, prices were jumping; living costs were cutting in harshly upon family budgets; savings and pensions were being depreciated; the balance between various segments of the economy was being disrupted; the real purchasing power of every defense dollar was being cheapened.

CEILING CAME TOO LATE

In December of 1950, wage increases were granted the steel workers, miners, and auto workers. Only then did the Administration act. Not until these wage increases were granted and passed on to the public in the form of higher prices did we finally (and too late) get the over-all ceiling on prices, wages, and other costs which had been so urgently needed for months. Then it was on a higher plateau.

Commenting on this failure to use the powers granted by Congress, the Joint Congressional Committee on Defense Production declared last October--

"This delay in carrying out the law added billions of dollars to the costs of our rearmament program and precipitated many of the difficult obstacles which the Office of Price Stabilization has found to be almost insuperable in the control of our economy."

Not long ago, I went over our defense expenditures with some of our highest officials. In fiscal 1951 and 1952 nearly 60 billion dollars were budgeted. One out of five of those dollars--12 billions--went to cover the rise in prices which followed Korea. Over the next fiscal year we are expecting to spend roughly 50 billions. At least 10 billions of that will represent the needless tribute to inflation which we must continue to pay. This 10 billions, it might be added, is a greater sum than the economies currently being proposed in the budget.

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By the end of the next fiscal year, more than 20 billions will have been poured down the rathole of inflation--needlessly.

DO NOTHING POLICY

Had they been used promptly, the powers granted by Congress in the fall of 1950 could have prevented the inflationary race from starting. Instead, workers, businessmen and others were encouraged to get in under the wire with higher prices and higher wages before the ceilings came down. Even after the ceiling was put into effect, it soon was punctured by escalator clauses for this and that special interest.

No real, determined, all-out effort to prevent inflation was ever attempted.

The recent seizure of the steel mills is the logical offspring of this fumbling policy that followed the Korean aggression.

I do not blame the steel workers for seeking higher wages to offset the rise in their living costs. I do not blame the steel companies for wanting to pass on the increase in their costs by raising their prices. I do blame the Government for failing to lay down a standard of equity and justice transcending the selfish concerns of individual pressure groups and protecting the common interests of all.

TREAT ALL ALIKE

A yardstick of justice, to merit being considered as that, must be capable of being applied to all persons and groups alike. The general ceiling over the entire economy embodies just such a principle of equal treatment for all. As you know, I have always urged that the ceiling be invoked as of the last day or month prior to the outbreak of the emergency. By doing that we accomplish two most important things;

First, we preserve the balance between the different segments of our economy, which was arrived at by the normal workings of supply and demand. By invoking a general ceiling as of conditions before the crisis started, we come as close as possible to maintaining the balance which reflects the workings of a free market.

At the same time, we lay down the principle that none should profit by the emergency. Our "norm" is the relationships that existed prior to the start of the war crisis. That does not mean that you freeze your economy rigidly, without change. Adjustments are made to eliminate inequities and where defense needs dictate. However, by

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taking as your starting point the balance that prevailed in the economy before the emergency, you do start from a just base which treats all segments of society alike.

KEEP THE BALANCE

In contrast, the first thing that happens under piecemeal mobilization is that you lose the balance in your economy. Under the "wait and see" approach no action is taken until after the economy has been disrupted. After that, you constantly chase the disruptions in an attempt to recover the equilibrium which should never have been lost.

This is unsound economically. It is unsound morally. Once this balance is gone, you have lost the basis for enforcing the principle that none shall profit through the emergency. To the contrary, each group is invited to exploit the national peril for its selfish advantage.

Those who advocate piecemeal, partial mobilization do not seem to realize that in doing so they deprive themselves of a moral base for their actions--our most important asset. They make expediency their watchword. In doing so they put a premium on selfishness.

THE CRUCIAL CHOICE

Perhaps that is how we should think of the problem of mobilization, as a choice between two courses--that of expediency and that of principle.

This is worth stressing. The whole course of your mobilization depends on the very first decision which is made--on this choice between expediency and principle.

The favorite argument cited to justify the course of expediency is "This is a new kind of crisis. The experience of the past is no longer valid." That was the cry at the start of the last war. The same cry was raised at the outset of the Korean war. Instead of doing what we knew had to be done, we were told that we should "feel our way," imposing only partial controls here and there in the economy, gradually extending these controls as the emergency deepened.

PRINCIPLES UNCHANGING

This effort to mobilize by bits and pieces--by fits and lapses--invariably breaks down. It breaks down because the basic principles of a proper mobilization are unchanging.

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Those who contend that "partial" mobilization requires only partial, piecemeal controls, do not understand the problem. The principles of a sound mobilization are always the same.

The basic object of mobilization is to organize the Nation so that no matter what happens--no matter how the details of the program change--the armed forces will get what they need when needed, with the least necessary dislocation of civilians. Mobilization does not mean drafting millions of men into the armed services before they are required, or curtailing civilian production merely for the sake of curtailment. A proper mobilization program is always a balanced one, with the fullest use made of all available resources of men, money, and materiel.

What mobilization does do is to channel these resources so that first things come first, with less essential activities held back to speed what is most essential. The backlogs of deferred demands and purchasing power which are built up, help take up the slack of adjustment to peacetime conditions.

PARTS OF A WHOLE

To carry through such a mobilization five principles must be kept constantly in mind. They are parts of one whole, like the fingers of one's hand--

1. Bring the economy under balanced control at the very outset of the emergency. Do not let the economy get out of control and then act.
2. No one mobilization control can be operated by itself. All controls must go together.
3. The time to put this system of controls into effect is as soon as you invoke the priority power. When priorities become necessary, it means you no longer can rely on the workings of supply and demand. At that point you pass from peacetime to mobilization conditions.
4. The time to stop inflation is always NOW. It is far easier to keep the inflationary race from starting than to halt it once it has broken loose.
5. Underlying any mobilization must be a clearly demonstrable basis of justice, with all segments of the Nation treated alike. Without such a moral base, disunity and bad morale will be a constant obstacle.

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PRINCIPLES WERE IGNORED

You can go back over the mobilization program which was adopted after the Korean war broke out and see how each of these five principles was violated. Power to impose priorities was sought without the necessary supporting control over prices, wages, and other economic forces. Even after the powers were granted, they were not used until the economy was out of control. When they were used, it was in a fumbling, piecemeal manner which favored some groups over others.

If, on the outbreak of the Korean war, an over-all ceiling had been imposed and stiff tax increases levied, there would have been relatively little inflationary pressure loose in the economy. We might even have financed our defense effort with a balanced budget!

We would have gotten more planes, more tanks, more of other weapons--more quickly--and with fewer casualties, also with lower prices, less of a national debt, less taxes and even less government restrictions. We would also face less of a problem of adjustment in the future.

WINNING THE PEACE

In mobilizing we must bear in mind the needs of winning the peace as well as the needs of defense or war. By maintaining a lower and balanced price level we are able to face the economic competition of other nations without destroying our living standards; we can encourage a more cooperative pattern of world trade which helps win the peace. Today, our economy is propped precariously on stilts. This will become a particularly grave source of danger when the competition of Germany, Japan and other nations makes itself felt again.

Can our economy be kept at such artificially-inflated levels as now prevail, in the face of intensifying world competition, without raising American tariffs? And if tariffs are raised, what becomes of the NATO alliance?

Why is it that we persist in repeating the blunders of the past whenever we set out to mobilize our economy? I cannot give you the full answer. Mainly, however, I believe the reason is this:

Mobilizing a democratic nation is never easy. Particularly at the outset, normal peacetime ways are disrupted; deeply established habits are interrupted. Mobilization requires denials and disciplines to which we are not ordinarily accustomed.

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PUBLIC IS LULLED

There always are some who would evade what must be done, who hope that it won't be necessary to see the task through, or who want to continue with profits as usual and reform as usual.

There always are those who attempt to lull the people with assurances that we can mobilize without really inconveniencing anyone; that we can have both butter and guns; that we can eat our cake and still have it.

And always these painless mobilizers choose the course of expediency rather than principle. Since the details of mobilization vary enormously with the scale of the effort undertaken, it never is too difficult for them to muster what seems like a plausible argument for contending, "This is a new kind of crisis. We must feel our way. The public will not approve." But fundamentally what these now-you-see-it-now-you-don't mobilizers are trying to do is to squirm free of the disciplines which acting on the basis of principles entails.

SELF DENIAL VITAL

Self-discipline--that is what the painless mobilizers are trying to avoid. Like a child making excuses for not washing behind the ears, they will devise fanciful new economic theories, juggle statistics, invoke every bureaucratic stratagem--do almost anything --to avoid the soap and water of living up to principles.

I can understand why many behave in this fashion, since wishful thinking is one of our occupational traits. I must say, though, that I have been keenly disappointed that some of our military leaders threw their support in favor of piecemeal, creeping mobilization.

When you--future generals--here today rise to positions of responsibility, I hope you will not repeat this mistake. I hope you will hold fast to the unchanging principles of mobilization and not lose yourselves in expediency.

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