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AMERICAN EXPERIENCE IN ECONOMIC MOBILIZATION DURING WORLD WAR II

29 August 1952

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29 August 1952

DR. HUNTER: In approaching this morning's subject, I must confess that I feel a little less confident, a little less protected than I did yesterday in dealing with the rather remote past. Nobody is likely to rise from the past, including my tobacco-loving ancestor, and challenge the accuracy of my views.

But all of you have lived through the recent unpleasantness and many of you were here in Washington fighting the "battles of the Pentagon," and had direct, first-hand contact with the events and developments of which I shall speak. I shall surely have to watch my step. Already an error has been spotted in the monograph on planning, R-151.

But the chap who writes monographs, as well as the platform performer, is fair game. I know you won't hesitate to come in swinging if I leave any openings. After all, a unilateral discussion is a very dull business.

This morning, gentlemen, we turn our attention to the third in the series of historical lectures on economic mobilization--that dealing with our experience in World War II.

Now let me relieve your minds at the outset--I'm not going to give you a play by play account of what took place from 1939 to 1945. You can get such an account from a number of places, presented from a number of viewpoints. The best over-all account in my opinion, from the Washington viewpoint, a picture of the administrative and organizational developments, is that presented in the Budget Bureau's "The United States at War." Janeway's "Struggle for Survival" covers things more broadly and is a somewhat more impressionistic account. My treatment is going to be more selective. I am going arbitrarily to select a few phases or aspects of economic mobilization in the recent war and concentrate my attention on them. You will have plenty of opportunity during the next 10 months to fill in the many gaps in my treatment.

To begin with then, let's take a look at the problems of economic mobilization as posed by the Second World War. There were certain similarities to the First World War but there were important differences. Let's take a look first at some of the similarities:

1. We got into the war only by degrees and with considerable reluctance, and in each case for many months our role was to assist

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the economic mobilization of our friends abroad by providing materials, equipment, military end items of many kinds, and financial aid.

2. The first stage in the mobilization of our own resources for war was this process of expanding and converting our own productive resources to meet the needs of our future allies, first on a cash payment, and later on a loan basis.

3. We were faced with many of the same basic problems in this second economic mobilization as in that of World War I--unprecedented military requirements added on top of expanding demands for civilian goods and a resulting great increase in the load which the economy had to carry. There were the same basic problems of insufficient industrial capacity; critical raw materials in seriously short supply; an upward spiraling of prices as the gap between supply and demand for most materials and goods became wider and wider; the same problem of economic stabilization. There was 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 for military goods of all kinds and their supporting materials and facilities; the same problem of obtaining balanced production of the things that were needed by the Armed Services and the added problem of adjusting requirements to capacity.

4. There was the same problem throughout of getting the public to accept the numerous controls and restrictions. In the early phases, at least, we had the same "business as usual," the same "politics as usual."

5. On the organizational side, we developed in both wars emergency agencies for mobilizing our economic resources.

But after we have run down the list of all the similarities, there remain important differences in the situation confronting the Nation in World War II as contrasted with World War I.

1. The scale of the effort called for was vastly bigger. We fought in numerous theaters all over the world instead of chiefly in Europe as in World War I. We can sum up the quantitative differences by pointing out that the cost of World War II was approximately 10 times that of World War I. Don't forget, too, World War II lasted much longer than World War I. We were actively at war only 18 months in the first war; 44 months in World War II.

2. The materiel requirements were far more complicated and difficult to produce than in the First World War. Aircraft and tanks were used only to a very limited scale in World War I. Virtually no

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bombers were used--there was a very primitive type of bomber and very few of them--radar and other electronic equipment, and so on down the line. You could make a long list showing the kind of production problems, the kind of materiel we had to produce in the Second World War that we didn't have to deal with in the First World War, and the vastly greater difficulties involved simply from the production side.

3. Because of the far greater load on our productive resources, we were faced with a far tighter situation with respect to materials, facilities and manpower. We had to develop much more elaborate and much tighter controls over these resources. Nothing in World War I controls of raw materials went much beyond rather simple priorities, but in World War II we were compelled to adopt elaborate and complicated systems of allocations--especially the Controlled Materials Plan--systems which literally required tens of thousands of persons to administer. In World War I there was no consumer rationing except in a limited way for fuel. In World War II, there was rationing of many foods, of gasoline, tires, and other scarce durable goods. In 1943 and 1944 manpower shortages became in many respects our most serious problem in war production--a problem on which World War I experience threw very little light.

4. Finally, economic stabilization presented a far more serious and difficult problem in World War II than in World War I. The unprecedented expansion of production, military and civilian, 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 non-war production for meeting 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 with in World War II, there were important differences--differences which resulted primarily and chiefly from the vastly larger scale and the longer duration of the Second World War, and the more elaborate and complicated types of equipment. 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.

All right--now let's take a look at our plans for dealing with the emergency. 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, of course, is that when the great emergency arrived which years of planning had in mind, the plan was not put into effect. The failure to put the Industrial

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Mobilization Plan into operation is a rather long and complicated story--and the details cannot be gone into here. I refer you to the Monograph RL51. But I just want to call your attention here only to 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 outside the military establishment--and I get the impression that it didn't carry too much prestige even within the military establishment. Neither the Administration--the President, that is--nor Congress were obliged to pay any attention to it.

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. 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--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.

In the third place, the Industrial Mobilization Plan failed to win friends--enough friends in the right places--and 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 unrealistic and of little value for dealing with the actual conditions of the emergency as these developed. I think it is fair to say that outside of the military establishment, the Industrial Mobilization Plan won little support outside of certain business and industrial circles that had become more familiar with it as a result of the contacts with the Procurement Branch of the Services. Even within the military establishment important features of the procurement plans were never put into effect. The Plan was in fact one of the first casualties of the European war.

Before turning to the actual course of economic mobilization in this country, 1940-1945, there are two general considerations of great importance for understanding the problems and 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 has to do with the role of profit or the profit motive, or just plain self-interest, in economic mobilization.

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Let's take up each of these 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 any organizational and administrative job in the Armed Services and in industry--first, you decide just what the job is and then you breakdown 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, establish clear-cut channels of command--and there you are, all set 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 a heluva way to run the war, and we sit back and damn the Administration (under our breath, of course) and this or that public figure--we damn them because they don't conform to sound and proven principles of management.

This kind of approach, in my opinion, doesn't get us very far except to give us a pleasant feeling of our superior wisdom or to relieve our sense of frustration. 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 through pressure groups. Issues are usually 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 party and partisan politics. All the tactics of delay, of confusing the issues, of obstruction and compromise are employed. The result is often overlapping and duplication of organizations and authority, division of responsibility and inadequate authority. No wonder that at times we all yearn for some all-powerful authority--some dictator, or, to use our American term, Czar--to put an end to all this confusion and get results. For example, I see in the 'morning' paper that a "Czar" is called for to deal with the problem of aircraft production.

We must remember, however, that our political system, with its faults and with its virtues, operates pretty much in wartime as in peace. We can't expect it to change very much overnight--nor the people who operate it. Our job here, as students of economic mobilization, is not to criticize and condemn it but to study, analyze and understand it, to see how it works and how one must work with it. This applies both to our study and analysis of past experience in economic mobilization as well as of the current economic mobilization.

Next, a few remarks on my second point: the role of self-interest and the profit motive in economic mobilization. On the whole we're apt

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to be less critical of business-as-usual than we are of politics-as-usual, in wartime, but there has been a certain amount of Ivory Towerism here too. 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 '30's was the result especially of demands of veterans' organizations for taking the profits out of war. There was also the munitions investigation of the Nye Committee which did a great deal to bring forth the facts, or so-called facts, with respect to the role of profits in war making.

The point I want to make here is simply this: There is pretty general agreement that excessive profits--profiteering--should be eliminated in wartime, especially as regard to war contracts, although it is very difficult to say where honest profits leave off and profiteering begins. But the elimination of profit motive and the pursuit of self-interest is something else again, because they are, after all, the great driving force in our economic system and are quite properly regarded as a major factor in the extraordinary achievements of this system. Viewed realistically, too, 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 self-interest to be subordinated as much as possible to national interest, and through wartime controls we do place checks and limits on the operation of self-interest. Here, as with politics and our political system, our job is primarily to understand the forces at work in a war economy and not be too quick to sit on the moral judgment seat and say what is right or wrong.

Now, let's 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:

1. The defense period--which technically comes to an end with Pearl Harbor, but in respect to economic mobilization really extends into the early months of 1942.

2. The period of full mobilization--say from the middle of 1942 to the end of 1944.

There is also a third period--the period of demobilization--which gets underway on the planning side as early as 1943, but I shall have not time to discuss this phase. All right, let's take the defense period first. The two major objectives of this period, as seen by the Administration, were:

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1. To carry out the preparedness measures necessary to place this country in a state of defense--and as the situation deteriorated in Europe, the requirements of defense rose higher and higher.

2. To enable Britain and her allies to obtain the materials and the aid essential to prevent the Nazi conquest of Europe--and the requirements of Allied aid, too, mounted progressively higher and higher.

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

In the first place, it's important to remember that during much of the so-called defense period, we didn't know what we were preparing for. We were preparing to defend the country--yes; but defense against what and against whom, where, when, on what scale? It's easy, of course, 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 opposed any involvement in the European war--a sentiment which found particularly active expression in a small but powerful isolationist group in Congress. The Administration, rightly or wrongly, believed it must move slowly and cautiously both to give public opinion time to move slowly 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.

During the period of the phony war--from the outbreak of the war to May 1940--a number of minor steps were taken in the direction of military and industrial preparedness. In many respects the most important single accomplishment of this period, however, was a political one--the repeal of certain key provisions of the neutrality legislation of 1935 and 1937. The great concern of the public lest the United States be drawn into another European war had led to these laws prohibiting the export of munitions to nations at war, but the experience with this legislation in the late 1930's had been rather unhappy. In several wars--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 only get munitions for defense from the outside.

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The President, anticipating the possibility of further Nazi aggression, sought the repeal of laws which could only seriously handicap the nations already threatened by the extension of Nazi aggression. The effort for repeal began early in 1939, but Congress defeated the proposal in May of this year. The President called a special session of Congress in the fall of the year specifically to modify the neutrality legislation, and this time he was successful--in November 1939. This cleared the way for Great Britain and her allies to place large orders for munitions on a cash and carry basis. These orders (which reached an aggregate of \$3 billion in 1940) marked the beginning, in a literal sense, of the mobilization of American industry for war.

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

To illustrate the popular and Congressional attitude toward the emergency, let me cite just one example. In considering the military appropriation bill, the House of Representatives in January 1940 reduced the Administration's request for 496 new planes to 57 planes and eliminated a \$12 million 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 Dunkirk. The defense position in the United States overnight became very grave. The Administration moved quickly to meet the new situation. Within three weeks of the German invasion of the Low Countries, the President took the first formal steps in organizing for economic mobilization.

First, on 25 May the Office of Emergency Management was established to assist the President and to coordinate defense activities. This was done under the authority of the Reorganization Act of 1939. OEM was a kind of administrative holding company. Most of the agencies established for defense purposes began originally as units in OEM.

Secondly, and much more important for the immediate situation, on May 28-29 the President established the Advisory Commission to the old Council for National Defense--a statutory hang-over from World War I--the first in a series of key defense or war agencies.

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 duties; it was without a head--not having even a chairman; each of the 7 members had cognizance over a certain phase of the defense program--industrial materials; industrial production; price stabilization; farm products; transportation; and so on--and each member reported individually to the President.

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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 would have given rise to heated and prolonged debate and possible defeat. 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--business and industry who were reluctant to convert to war production; the Armed Services who were slow to raise their sights and to break away from slow-moving peacetime procedures; the old-line government agencies likewise tied down by routine and inertia. For all its weaknesses, the Advisory Commission 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. 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 or branches of the Advisory Commission formed the nuclei of the separate agencies established later to deal with production, price control, research and statistics, civilian supply, transportation, and so on.

In the year and a half between the fall of France and Pearl Harbor, there was a steady rise in the tempo of our economic mobilization--both in response to our own rearmament program and our policy of increasing aid to Britain and her 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 for the job. In January 1941, it was replaced as the directing and coordinating agency for war production by the Office of Production Management. Three of the divisions of NDAC were transferred to OPM--production, materials, labor. The new agency was given not only a directing head

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but two of them: William Knudsen as Director General, and Sidney Hillman, prominent labor leader, as Associate Director General. This was an action that came in for a tremendous amount of criticism, but while organizationally the action was very dubious, politically it was 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. This power was later increased, although there were certain limitations on it.

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 to coordinate the entire defense production program. This was the Supply, Priorities and Allocations Board, known more commonly as SPAB--a top policy-making outfit without operating functions.

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 Office of Agricultural Defense Relations; Office of Export Control; National Defense Mediation Board; Petroleum Coordinator for National Defense; Office of Scientific Research and Development.

This brings up us to Pearl Harbor. Let's see just where this country's mobilization effort stood at that date. By the end of 1941 we had a total military establishment of more than two million men, and facilities for a greatly accelerated training program were well advanced. By this time all major types of armament were in production. Plane production in December was at the rate of 25,000 a year. Total munitions output was at the rate of \$1 billion a month, total war expenditures at the rate of over \$2 billion a month. The main organizational structure of the war agencies had been established despite the confusion, controversy and conflict centering in these agencies. And despite the overlapping of functions; the lack of clear-cut authority; and the absence of effective coordination, these agencies were in being, were staffed though still expanding, and they were actually operating. 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.

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Pearl Harbor therefore 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 war agencies. A number of the defense agencies were reorganized on a more effective basis and with increased powers, or they 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 of Pearl Harbor we have the replacement of OPM and SPAB by the War Production Board; the creation of the National War Labor Board; the establishment of the War Manpower Commission, War Shipping Administration, Board of Economic Warfare, and Office of Defense Transportation. On the military side you will recall that the Military Establishment underwent very radical changes, too, in the months following Pearl Harbor. The creation of the Joint Chiefs of Staff in December 1941 fairly well rounded out the reorganization of the Military Establishment which had been in progress for over a year. 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'm going to limit my attention to what are, to me, the two central developments--those relating to production and to economic stabilization, with the principal emphasis rather arbitrarily assigned to production.

Let's take a look first at the production problems which we faced in this country following Pearl Harbor. They were the problems, of course, 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 her 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 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. But these were only the top layer items.

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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--programs for the expansion of production in critical materials such as steel, aluminum, copper, rubber, and chemicals, as well as machine tools, industrial equipment of all kinds and hundreds of critical component parts--the B items. New programs were continually being brought into the picture and adding their demands to 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 that has to be done before you can get production rolling. In other words, the critical factor of lead time must always be calculated and allowed for, and these lead times, it became increasingly evident, were appallingly long. 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 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. Total requirements 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 essential for their own programs.

Obviously somebody, 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, of course, 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 of the President, 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 head of the American war economy. Only one major economic power was withheld from him--authority over prices. Nelson took over with some

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modifications the organizational structure of OPM--I shan't go into this for WPB underwent many reorganizations, like all war agencies.

Of the staff committees, two were of particular importance:

1. The Planning Committee--serving as Nelson's brain trust.
2. The Requirements Committee, where the critical raw materials' pie was divided up among the many claimant agencies--military and civilian.

The story of the War Production Board's harried and hectic career, of course, can't be told here. For much of the duration of the war, it was the storm center--at any rate the major storm center--of the whole 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--in the case of oil, solid fuels, rubber, and food. In each case, the action was taken to expedite the production program--to break 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, and their effectiveness is still a subject of debate. There are some who feel that this was the only way to get the job done and there are some who feel we didn't get the job done any better or any faster by setting up these czars.

Another area of heated and long-continued controversy was in the relationships between WPB and the Armed Services. That battle, in its post mortem phase, was still going on up to the outbreak of Korea. Since then, its echos seem to have died away.

The 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 counter-charges were hurled back and forth. The battle was continued after the war and even after the agencies involved were disbanded.

So much, briefly, for mobilization on the production side. Incidentally, we did get the production we so desperately needed--the physical production of the hard goods (and soft) essential for the conduct of the war. More of this later.

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I have very little time left to give to price stabilization. The vital importance of price stabilization, primarily through price control, though not exclusively so, was recognized from the beginning. All concerned with the problem of stabilization, from the early planning stage on, agreed on the necessity of 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 so acrimoniously under attack as the price control agency--the OPA. Just why was this the case? Why was it that a program generally agreed upon by informed men in business, government and the military department, 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 in Congress?

There are lots of minor reasons that could be cited, such as the reputedly high proportion of college professors on its staff, but the basic reason, I feel, is this: Prices (including the prices of labor, wages, rents, etc.) are the most sensitive point in the private enterprise economy. Touch prices and you touch the pocket-book of everyone, you interfere with profits, and you dampen the mainspring of the economic mechanism. Nobody, but nobody (as Gimbel's ads say)--except the 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 and 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 stabilization was threatened by increases through the side door of wage increases of one kind or other; 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 of civilian supplies. Moreover, in this struggle of OPA to establish and hold the price line, it 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--because there is nothing quite equal to higher prices in making the production mare go. This can be said--that the military procurement

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authorities, working in the same direction toward increased production, worked more cooperatively with OPA than did the production agencies themselves, although this is a matter of opinion and judgment.

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, of course, 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 high taxation and savings bond programs to absorb excess consumer buying power. Then action was taken to discourage credit and installment buying and the rationing program played an important contributory role.

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.

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 as measured in prices. The consumer's price index remained fairly steady during 1939 and 1940, 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. So you have a movement up of something less than one-third in the over-all price level as measured by the consumer's price index. This was a far better achievement than World War I, when the whole 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 in April 1917.

Incidentally, we did a better job of financing World War II than in 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.

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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 the peak of war production in 1944: raw materials as a group, 60 percent; all manufactured products, 250 percent; munitions production went up from a monthly rate of \$1/3 billion in late 1940 to a peak of over \$5 billion in early 1944. Total output of specific items: planes, nearly 300,000; tanks, 85,000; shipping--fighting ships, over 1,300 merchant--53 million tons. At the same time civilian consumption in 1939 dollars--in other words, discounting inflation and despite restrictions on civilian goods--rose 15 percent. In specific industrial fields that one can pick out output increased in astronomical fashion. The synthetic rubber program rose from practically nothing to an annual output of over 3/4 of a million tons in 1944; aluminum output increased 350 percent; the machine tool industry, 1941-1945, 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--and 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 1/4.

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--measured in 1939 dollars.
2. And of this unprecedentedly great income, 43 percent of the total 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, and this restoration of faith in private enterprise was perhaps the most important by-product of our economic mobilization.

QUESTION: I would like to ask a question about the industrial mobilization plans, your No. 2 subject there. Since so much time was put into preparing these plans by the Army and Navy and you said in your speech that the general public did not approve of these plans, how were they put before the general public?

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DR. HUNTER: I regret to say that they were not put before the general public in the happiest form. Of course, the elements of the public who were most directly interested naturally were the contractors for the services who were already engaged in producing supplies or who were on the allocated list for whom plant surveys were made and who expected to get contracts under these plans.

The Assistant Secretary of war was responsible for industrial mobilization planning and he travelled around the country frequently and talked to many groups, large and small, in the business and industrial field. He talked about the Industrial Mobilization Plan, the importance of procurement planning, the key role of industry in carrying out these plans, etc. It was in that way that these groups got a considerable knowledge of what industrial mobilization planning was and what it would lead to.

But so far as the general public was concerned, its acquaintance with the industrial mobilization planning came almost entirely from periodicals and newspapers, and too often in the form of rather sensational articles: "What M-day means to you. Uncle Sam has blueprints in which every person will have a place in the war effort." Many such articles gave a highly sensationalized and inaccurate picture of an economy regimented to the last degree. This was usually the way in which the general public became aware of the plans and learned about them and you can understand the reaction.

COLONEL BARNES: Congressional hearings, too.

DR. HUNTER: And Congressional hearings.

QUESTION: Did industry have any hand at all in the preparation of these pre-war mobilization plans?

DR. HUNTER: Perhaps some of you who were involved in the detailed planning can speak more effectively than I can on that. In connection with plant allocations, plant surveys and the like, industry played at times important cooperating role. Industry was frequently consulted. I don't recall at the moment the extent to which industry committees were formed and actually were consulted in the detailed phases of the plans. Does anyone here happen to know about that?

STUDENT: Industry was consulted. Industry did help with part of the planning and was involved in it the same as they have been this time, only not to the degree they have been worked with this time.

QUESTION: Did Mr. Baruch have any part?

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DR. HUNTER: Oh, yes, Mr. Baruch had a very active, high-level role. He came down from time to time and consulted with the planning authorities at their request and a great deal of weight was given to his remarks. I don't recall that he issued any general statements to the public on the subject of the kind that we have seen from time to time in the postwar years.

QUESTION: You mentioned that the military didn't support the plan fully. Will you develop that a little further? Why didn't they?

DR. HUNTER: Perhaps I had better qualify that. I did stick my neck out a little there. Keep in mind that the planning branch was a very small outfit. Of course, it expanded somewhat when the war got under way. I think in 1940 and 1941 it became somewhat larger. Back in the '30's, 25 or 30 officers were about the peak.

I checked back on that and talked to some people who worked in the planning branch at that time. The planning branch did the main body of the planning work. Its members, I understand, were the War Department members on the Army and Navy Munitions Board. But they were off in a corner working by themselves. There was naturally a great deal of support from the Technical Services in the War Department. The Navy, quite frankly, was not so much interested in the industrial mobilization planning and for quite a good reason. The Navy, after all, had its fleet in being, and while they expected naturally that there would be expansion when the war came they did not believe it would anywhere near approach the expansion of the army which existed only on a token basis. I have talked with Navy men who were active in that work at the time and they would say to me confidentially, "Well, we were only in there to make sure the Army didn't grab up all the best facilities and leave us caught in case an emergency did come." That was doubtless an overstatement and simplification.

Now you come into the defense period itself. Here was really the key to the matter. The facilities allocation program was the heart of the procurement planning of the services. They made the plant surveys. Somewhere between 10 and 15 thousand plant surveys were made and the plants were allocated as between the two services. Now the emergency comes along. How are you going to make use of those allocations? Under the existing legislation contracts had to go to the lowest bidder and an allocated facility on a given contract might not be the lowest bidder. Until the services had authority to negotiate contracts, to give a contract to other than the lowest bidder, they couldn't put these allocations into effect. Even when the services were given authority for negotiation, particularly the War Department, in the summer of 1940 they were reluctant to exercise this authority, to use the power of negotiation so that they could channel the contracts to the facilities allocated to them.

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Why were they reluctant? I think you can see why they were reluctant. Negotiating a contract is one thing and giving it to the lowest bidder is another. The lowest bidder is a mathematical, mechanical determination, but with negotiation, if you negotiated a contract and gave it to one plant it meant all the rival plants may be disgruntled because they didn't get it. Congress are apt to hear complaints and these complaints would be channeled to the services. The contracting authority were thus placed on the defensive. So they were very reluctant to exercise the authority for contract negotiations when it was given. Without the use of that authority, the carrying out of procurement plans based upon the allocation of facilities was not possible.

QUESTION: You implied in your discourse that the reason that the OPA was not accepted was because of poor salesmanship. It was not sold like the other part of the mobilization program had been sold before the public. Have we made any analysis to correct that in future circumstances?

DR. HUNTER: A number of studies have been made. I am not sure that the principal lack was that of failure to sell their stuff. That might be one way of interpreting it and certainly that was one factor.

The OPA itself set up in its closing years after the war an historical group. They had a number of quite able historians and economists who went over the whole record and turned out a whole series of monographs dealing with the various phases of OPA's work. To what extent those monographs have been studied and incorporated in the planning experience since the war, I don't know. A number of the people who were in the price end of planning over in NSRB had experience in OPA and had direct personal knowledge, but the details of that I can't speak on.

COLONEL BARNES: Louie, I know you worked hard on these three lectures, and, as far as I am concerned, by what you have done in the last three days you have earned your salary and mine, too.

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