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INTRODUCTION TO ECONOMIC MOBILIZATION

24 August 1953

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INTRODUCTION TO ECONOMIC MOBILIZATION

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COLONEL BARNES: I am convinced that the talk this morning has left you really impressed with the serious problems in these critical times that have to be solved. Somebody has to solve them, and you can take it as a sure forecast that some of you are going to be a part of the number that does part of this solving. That is a natural sequel of your 10 months' studies here in the field of economic mobilization.

We are starting this afternoon with the first lecture from the faculty along the lines of those studies. Dr. Hunter is going to explain to you what some of our experience has been with economic mobilization; what the general underlying philosophy of economic mobilization is; what its objectives are.

Louie, the platform is yours.

DR. HUNTER: Thank you, Elmer. General Greeley, gentlemen: This afternoon I take up the first of two introductory talks on the subject of our course, Economic Mobilization. This first talk is called "An Introduction to Economic Mobilization." Actually, both this talk and the one tomorrow morning are introductory in character.

Now, to introduce is to lead into and, as Elmer suggested, that is all we are trying to do in this Orientation Unit. We are not trying to give you a condensation of the course. We are not trying to give you a predigested view of the course. We want to give you some notion of what economic mobilization is all about, some conception of its character, its problems, its significance, some conception of its relation to the military operations to which you have devoted your professional careers.

So this afternoon I want to discuss with you some of these major characteristics, problems, and conditions of economic mobilization. While, in the course of doing this, I will throw out a considerable amount of explanatory detail, this detail is not important in itself, and you needn't worry about trying to keep much of it in mind. I would like, however, to have each of you carry away from this room a few main points that you can hang on to, a few big ideas about economic mobilization. The rest of the material, the rest of the detail, is useful only to the extent that it helps to get the main points across.

Let me repeat--in these first few days of the course we are just trying to help you to get your feet on the ground, if there is need for it. Some of you already have a good foundation to build upon from previous experience and duties.

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Once we are acquainted with some of the more fundamental considerations, then we will be in a position to dig into the more specialized aspects of the subject which will be taken up one by one in the various succeeding units of the course.

My discussion this afternoon is arranged under six headings, as follows:

1. Economic Mobilization and Logistics.
2. Revolution in Warfare and Logistics.
3. Economic Foundations of Modern War.
4. The Capitalist System and Economic Mobilization.
5. Government Controls in a War Economy.
6. The Armed Services and Economic Mobilization.

Let's start with "Economic Mobilization and Logistics."

I am going to begin with a definition of economic mobilization, and then I shall spend the rest of the period really trying to explain just what the definition means and you can forget the definition.

Economic mobilization, very generally defined, is simply the process by which all the productive resources of the economy are organized and directed in support of the armed forces either for defense or for war.

Now, the science and conduct of warfare, as you know, break down into three major divisions: strategy, tactics, logistics; these divisions can be likened to the supports of a three-legged stool, each one being essential to the functioning of the whole.

Strategy determines the overall military objectives and plans for the conduct of a war. It supports the political objectives or goals of a nation.

Tactics has to do with the direction and conduct of specific military operations, combat operations. Tactics, in other words, is the methods for supporting and attaining the strategic objectives in support of the political roles of a nation.

Logistics, the third leg of the stool, has to do with providing the supply base, the material ways and means, essential to the successful conduct of tactical operations.

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Now, let us take the term "logistics" and examine it rather closely. In recent years the term logistics has been given, as you may well know, a much broader and much more inclusive interpretation than has been customary in the past. The traditional, and narrow, concept of logistics which you will find in Webster is: "that branch of the military art which embraces the details of the transport, quartering, and supply of troops in military operations."

In this older concept of logistics, the production and even the procurement of military supplies were customarily ignored or taken for granted. Logistics under the older concept was pretty much limited to supply operations in the field.

In the past 20 or 25 years however the concept of logistics has been greatly expanded. Today logistics is commonly interpreted by the armed services and by military students generally to include the entire industrial and economic base of military operations.

Economic mobilization and logistics therefore cover pretty much the same ground. But attention in logistics is fixed primarily on the distribution or field supply end of the subject, while in economic mobilization we give some attention to the resources or the production base.

Organized warfare has always rested on an economic base. The conduct of war has always required not only fighting men but the weapons, the clothing, the food, the equipment necessary to outfit and supply these men in the field. All these men and all these supplies necessary come from the economy, that is, from the productive system of a nation, whatever kind of an economic system it may be; whether the economic system rests primarily on agriculture or industry; whether it is a primitive economy or an advanced economy, an efficient one or an inefficient one.

But while this has always been true, it has not been until comparatively recent years--in round figures perhaps the last half century--that what we call economic mobilization has become essential to provide the supply support of the armed forces. With certain exceptions--one of which, the Civil War, I will refer to briefly tomorrow--economic mobilization belongs to the past generation. It is as recent as the airplane, the automobile, and the radio, and of course it is in part a product of these technical innovations.

The first general resort to economic mobilization came in the First World War, the second time in the Second World War, and then, during the past three years, the United States and some of its allies have been engaged in economic mobilization for the third time, this time, for a limited war and, if it should be necessary, an all-out war that might follow.

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Just for emphasis let me repeat my first two main points that I would like to have you carry away.

First, economic mobilization is a phase, the major phase, of the logistical or supply side of warfare. Its function is to provide the supply base for tactical operations in support of strategic plans.

Second, while organized warfare has always rested upon an economic base, economic mobilization is a relatively new phenomenon. It is a development of the past 50 years and therefore something quite new in the history of warfare.

In fact the changes of the past half century in the logistical requirements, conditions, and problems of war are so great as to comprise a revolution in both warfare and logistics. And this brings me to the second topic in my outline.

We are all familiar with the weapons and equipment side of this revolution. Less familiar and less well understood are the broad economic implications and consequences of the new logistical situation.

The economic aspect of this military revolution can be made clear by distinguishing between what I shall call the "ordinary" and the "extraordinary" measures which in our time have become essential for the effective logistical support of the armed forces.

What do I mean by "ordinary" measures?--by "ordinary" measures I mean simply those measures which governments prior to our time customarily employed to provide the supply requirements of war. Broadly speaking, these ordinary measures fall into three groups:

1. Raising troops, by whatever means, voluntary or compulsory, which can be termed the manpower problem.
2. Providing all kinds of military equipment and supplies, which we can describe as the procurement problem.
3. Raising money to pay for the supplies and equipment and to meet the payrolls of the armed forces, which comprises the financial problem.

It is true that in dealing with these several kinds of "ordinary" problems of war, governments may, and often have, resorted to unusual methods. Supplies and property have been commandeered without payment. Loans have been forced and funds seized to fill an empty treasury, and so on.

But, and this is an important point to note, the actual working of the economic system, the functioning of the productive resources of

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a nation, is, under the older way, in its essentials, not interfered with. For example, in a country such as ours, with a private-enterprise economy, the Government in its earlier wars met its supply problems ordinarily by going into the open market and buying what it needed at the best prices possible. Getting equipment and supplies was therefore pretty much a straight procurement job. It had its headaches, and was commonly attended by much confusion, owing to lack of plans and preparations. No attempts were made by the Government to interfere with the normal functioning of business and production; for example, by telling manufacturers what they could or could not produce; to whom they could or could not sell the goods they produced; and at what price; or by controlling the sale and use of scarce materials, facilities, and equipment; or by regulating prices, wages, and credit.

With the coming of the First World War all this was changed. As the result of the new conditions of warfare, there was a tremendous expansion in military requirements, an expansion far beyond anything anticipated by any of the belligerent powers. All the great powers were compelled to take extraordinary measures to deal with the supply crises which developed. The belligerent governments found themselves compelled to intervene directly in the actual functioning of the economic systems of their countries. They could not get the necessary supplies, the necessary production, through the traditional methods of military procurement and war finance.

So they established a variety of economic controls which interfered with the freedom of private enterprise, interfered with the freedom of the businessman, the merchant, the manufacturer, and the consumer.

Tomorrow morning I shall consider in some detail just why this change took place in the First World War, just why governments found themselves compelled to take extraordinary steps to deal with the situation which they faced. For the time being let me say that such compulsion was the outgrowth of the revolution in warfare that I have been talking about, a revolution produced by the development and introduction of a variety of new weapons and equipment. These weapons and equipment were the products, in turn, of civilian developments of far-reaching importance, civilian developments in technology, in industry, and in business enterprise.

This revolution in warfare has greatly broadened the economic base of military power. As demonstrated by the experience of two World Wars, the military strength and capabilities of nations rest as much upon their technical, economic, and industrial resources as upon military effectiveness defined in the traditional terms of the physical size of armed forces, in terms of fighting spirit and ability, and in terms of skill and leadership in the conduct of military operations.

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War in our time has in fact become far more than a contest between the armed forces of nations; it is much more. It is a struggle between these forces and the great manufacturing industries which provide them with supplies and munitions. It is a struggle, in fact, in which all the productive resources, including the economic system by which these resources are coordinated and directed, are mobilized in support of the armed forces.

During the past generation the armed forces have become quite literally only the cutting edge of a vast national military machine, a war-making machine which includes all the resources of a nation. In many respects, in fact, the economic and civilian aspects of warfare have come to overshadow, quantitatively at least, the military side of war.

Indeed the traditional distinction between the civilian and military is coming to have less and less meaning in warfare and, in the new age of aerial and atomic warfare ahead, it may have no meaning at all.

This brings me to "Economic Foundations of Modern War."

To represent this basic fact about modern war, I have had a chart prepared in which the various elements to be mobilized in wartime have been represented as layers of a pyramid.

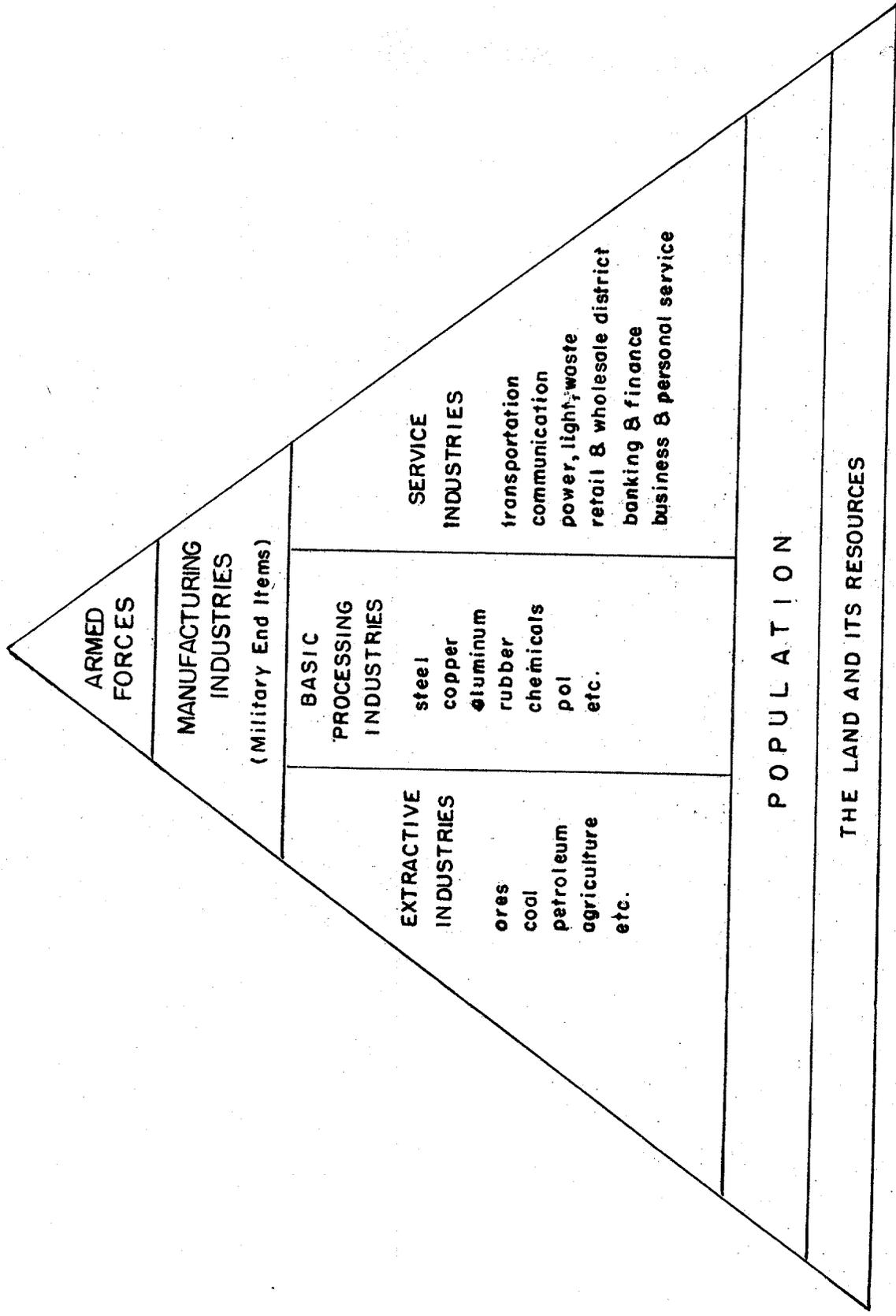
This figure is intended to be suggestive only (chart, following page). At the top we see the armed forces, which I have suggested are the cutting edge of the national war machine. Traditionally, the military strength of a nation has been thought of chiefly, if not exclusively, in terms of the size and fighting ability, and the leadership of its armed forces.

Now, immediately below the military apex of the national war effort is what might be called the industrial backup of the armed forces. This layer is made up of manufacturing industry engaged in the production of a wide variety and vast quantities of military end items, not only, as you know, weapons, ammunition, and equipment, but food, clothing, and innumerable civilian-type items. This layer of course includes tens of thousands of industrial facilities and business organizations--the prime contractors, the subcontractors, the sub-subs, and so on.

However crucial the importance of manufacturing industry engaged in the production of end items, used by the military, it is obvious that manufacturing industry does not stand alone, but that manufacturers of end items are dependent upon a wide variety of other industries and services.

So, beneath the manufacturing industry layer we have another layer, one which is in many respects both broader and deeper than the industrial

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layer which it supports. As you see, I have divided the third layer of the pyramid into three major parts: the extractive industries, the basic processing industries, and the service industries.

The extractive industries are the primary industries which supply the raw material needs of a nation--the metallic ores and nonmetallic minerals; the fuels such as coal, petroleum, and natural gas; the wide range of agricultural products, both foodstuffs and industrial raw materials; the many products of the forest industries.

The basic processing industries include such critical industries as: steel, copper, aluminum, and a long list of other nonferrous metals, a number of which have become increasingly critical for the purpose of modern warfare, such as the heavy chemicals, petroleum products, rubber, and so on.

Then, over on the right, is a whole cluster of what, for want of a better term, we call the service industries--the great transportation systems of the country, rail and steamship, truck and bus, air transport, pipelines, and so on; and the communication systems--the postal service, the telephone, telegraph, the radio, newspapers, and periodicals.

Then there are the utility services we are all familiar with--power, light, water, and waste disposal.

Then, last, but far from least, come a variety of business services including among them banking and financial services; wholesale and retail distribution; insurance, advertising, and scores of others.

Finally, down at the bottom of this logistical pyramid, we have the population base which, as the Manpower Branch will demonstrate, plays so fundamental a role in the military potential of a nation; and then the land itself; the land with its resources, its climatic and geographic features, its locational advantages and handicaps.

As you can readily see, however, this concept of the logistical pyramid greatly oversimplifies the actual situation. For example, it fails to show the interdependence of the various layers and parts. The service industries depend on the manufacturing and extractive industries; and the extractive industries depend upon the service and manufacturing industries.

While this chart oversimplifies the picture greatly, it is at least useful in suggesting how deeply rooted is the military strength of a modern nation. A failure in any part of this pyramid will be felt, sooner, or later, in a slowing down or reduction in the stream of supplies which is the lifeblood of the armed forces. A crop failure, a transportation breakdown, a strike in a critical industry--any one of these can have serious military consequences.

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Strike at the foundations and you strike at the economic roots of military power, and you weaken that power. These are the commonplace but fundamental facts in the wartime experience of our generation, but they are relatively new in the history of warfare. And there are many today, among both civilians and the military, who have not fully grasped their significance.

All right; let me repeat the third and fourth in the series of major points around which I am building my talk this afternoon.

Third, economic mobilization is concerned especially with those extraordinary measures which governments have found indispensable for giving the armed forces adequate logistical support in wartime; measures which go much beyond the traditional war-supporting activities of raising troops, procuring military supplies, and raising money; measures which, as we shall see, include direct government intervention in and control of the economic system.

My fourth point is that the armed forces are but the cutting edge of a tremendous national war-making machine, a machine which includes all the productive resources of a nation.

This brings me to what is in many respects the most difficult and the most complicated phase of economic mobilization--"The Capitalist System and Economic Mobilization."

We don't have the whole logistical story by any means when we list all the productive components in this logistical pyramid--these farms and factories; these mines and mills; and all these raw materials and manpower are simply parts, or cogs, in a vast, complicated, and delicately balanced economic system--an economic system which has drive and movement, direction and coordination; an economic system, moreover, which is subject to disturbances which can and do interfere, at times seriously, with its efficiency and its effectiveness.

This economic system is one in which balance and stability are very important, and yet very difficult to obtain and maintain.

The problem we are faced with in economic mobilization is not simply that of getting production--production in the usual sense, as conducted in mill and factory. We have to get the entire economic system, of which production facilities and output are only a part, working at maximum effectiveness.

To do this gets us into such fundamental considerations, for example, as motivation: why 160 million people behave as they do in economic matters--and this is an exceedingly complex and difficult problem. It gets us into such questions as individual rights in what we call free

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enterprise. It gets us into the whole question of public attitudes, public morale, the psychology and sociology of human behavior, which has a significant bearing on how people operate under various conditions of peace or war.

Our economic system is one based on private property and private enterprise--in a word, capitalism. It is a system which contrasts sharply with other economic systems, such as socialism and communism. It is a system in which the main driving forces are self-interest and the pursuit of private profit.

We are all familiar with the peacetime achievements of this private-enterprise system of ours. Operating with the aid of our great wealth of natural resources, it has made us by far the richest nation in the world. In overall productivity, in national income, and in standard of living, we lead the world. No other major nation comes anywhere near us in economic achievements.

The most distinctive feature of this capitalist or private-enterprise system is this: It is a system in which the basic economic decisions are made by private individuals and private business organizations operating in the open, competitive market--the free market, as we call it, under the changing conditions of supply and demand.

These basic decisions have to do with such questions as: what goods and services shall be produced, in what quantities and of what characteristics and qualities; for what prices these goods and services shall be sold; and to whom they shall be sold. All these basic decisions are made by private individuals or private business organizations, whether as producers or middlemen; whether as businessmen or as consumers.

Furthermore, in this peacetime private-enterprise economy of ours, coordination--that is, the balancing of supply and demand--is provided by the more or less automatic operation of the market.

It is right at this point that we get into our greatest difficulties in mobilizing our resources for war. Even under normal peacetime conditions this coordination, this balancing of supply and demand throughout the economy, has been one of the weakest points in the operation of the private-enterprise system. The periodic and often violent swings from boom to depression have given this system a bad reputation in Europe and elsewhere throughout the world. Moreover, dealing with the often wide fluctuations in business conditions and employment has become our major peacetime headache.

The abnormal conditions of a war emergency greatly accentuate this instability and compel the government to take positive steps to provide the coordination and the stability indispensable in getting maximum production.

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This brings me to my next major conclusion, and also to the next heading, in the outline--"Government Controls in a War Economy."

In contrast with the free-enterprise economy of peacetime, the war economy is a planned, directed, and controlled economy. That is, it is an economy in which the most important decisions are made, not by private businessmen and business organizations, as is normal in peacetime, but are made rather by government agencies and government officials responsible for the direction and achievement of the war production programs.

These decisions, as I indicated earlier, include decisions as to what kinds of goods shall be produced; of what qualities, and in what amounts; when and in what order, and on what schedules, many key items and materials shall be produced, and for whom they shall be produced; also what prices shall be paid and on what credit terms; what wages may be paid and what profits allowed.

To make these decisions and to make them stick requires elaborate systems of controls administered by government agencies, usually emergency agencies of great size, the controls we are all familiar with--price controls, wage controls, and so on.

Now, why is this necessary? Why, during a national emergency, do we interfere so drastically with the free operation of an economic system which has produced with such extraordinarily effective results in peacetime?

The answer to this question is not an easy one. It is not an easy one because to get the answer for it goes to the heart of the way in which our economic system, the capitalist system, is organized and run. There is nothing quite so complicated, nothing quite so big, with so many interlocking and interdependent parts, as this economic system of ours. A very considerable part of our course this year will be concerned with the varied aspects of this question.

This afternoon I shall simply try to give some general notion of the answer by discussing the question briefly under three headings:

1. Diversion.
2. Stability.
3. Coordination.

I am going to start with "diversion." It is the easiest of the three to present and to group. A major objective in a war economy is the maximum diversion of productive resources from peacetime, that is, civilian uses, to military operations. This diversion is essential to

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mount as large a military effort as possible as rapidly as possible in support of strategic plans. This point is so obvious to an audience such as this that there is no need to elaborate much on it.

There is just one qualification to the amount of this diversion of resources from civilian to military uses. This qualification is one that the military has not always been too mindful of at times in the past. The diversion must not be carried to the point where it injures the productive efficiency of the war-supporting economy. The great national productive machine must be kept in efficient running order. To withhold materials essential for the maintenance, repair, and operation of railroads, of utilities, of farm machinery, of civilian services such as laundries, of essential factory equipment, will gradually but surely impair the capacity of this civilian economy to produce a maximum of military supplies and equipment.

Where you draw the line of course is a very difficult problem, the line between the less essential and the more essential.

Now, at first sight, this problem of diversion of resources from civilian to military production seems a relatively easy one. For one thing, the need of such diversion is so obvious that surely every one can see it and agree upon it. So far as the principle is concerned, this is no doubt true; but of course in applying the principle here, as in many other things, is a horse of a different color.

Let's take a look at just one phase of the problem of diversion. We might call it the problem of butter, that is, of consumer goods--autos, radios, clothes, meat, and all the rest. Remember, there are 160 million consumers today; and, we have to deal not simply with cold logic and reason, but with the psychology of individual and mass behavior.

During the last election campaign you recall there was a good deal of talk about war-created prosperity. Paradoxically enough, war and prosperity in this country in the past have usually gone hand in hand. The reasons are plain enough. War demands give business and production a shot in the arm. Orders for vast quantities of military supplies pour out and industry steps up the scale and speed of its operation. Not only is any unemployment quickly wiped out but millions of persons not ordinarily in the labor force (housewives, older persons, teenagers, and so on) are drawn into production.

Wage rates and total wage income both rise steadily, not only as a result of a greatly enlarged labor force but as a result of overtime with high overtime pay rates, upgrading of jobs, and employer competition for workers. Because of the resulting higher incomes, people have a greater sense of security; they give less thought to saving for a rainy day.

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What else happens when consumers' incomes rise sharply and are well maintained? Well, we all know what happens, because we are all civilians in respect to some of our activities, regardless of the clothes we wear. We know from our personal experience just what happens when our incomes go up. We simply itch to go out and spend the money from the increased paychecks or pay envelopes. Now we can turn in the old car and get a new one, or get the new washer or woodworking machine, or whatever goods we have had our eyes fixed on for sometime.

Keep in mind, too, that for millions of people increased income means getting not simply additional luxuries, but more of the basic necessities, of food, clothing, and housing.

All of this results in tremendous pressure to increase production and output in the civilian consumer goods industries; and this pressure, with its opportunities for greater sales, higher prices, and larger profits, comes just at the time that the military services are trying to place thousands and tens of thousands of contracts for military supplies.

How does the manufacturer of consumer goods respond to this situation? Does he shake his head at consumer demand and say, "No; the armed services come first?" Some do, but, if past experience is any guide, the great majority do not. This is particularly true where a major conversion of production facilities and equipment is required, to shift from making civilian goods to making military goods.

There are many and persuasive reasons why producers are often reluctant to shift from civilian to war production unless they are required to do so. The changing over, the conversion of facilities, is often difficult and time consuming. Reconversion, at the end of the emergency, presents the same problems. Also, the production of unfamiliar military items, with their often exacting specifications, is filled with many headaches.

The manufacturer's normal business is booming and his profits are high but he still fears, quite rightly, the loss of his market if he gives up civilian production while his competitors do not.

What all this adds up to is simply this: Unless controls, controls with teeth in them, compulsory controls, are employed, we will not get the conversion of productive resources from civilian to military uses that a maximum war effort demands. Instead of civilian demands giving away to military demands, civilian demands will compete with military demands.

The experience of the first two World Wars, and of the Korean war, demonstrates this very clearly. Competition between civilian and military demands will inevitably reduce the scale and intensity of military operations.

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Consequently, we introduce controls to make sure that scarce materials, facilities, manpower, machine tools, and other critically scarce items are diverted and channeled into those fields where they will promote best the war effort.

This brings me to the second of the three points under which I am explaining why a controlled economy instead of a free economy has been found essential in wartime: "Stability," the stabilization of our economic system, is so important an aspect of economic mobilization that we devote an important section of the course to it.

We usually think of economic stability primarily in terms of stable prices and the prevention of inflation. We have all had our personal experience with this side of the problem in the past 10 or 15 years. As we shall see, economic stability goes much deeper than prices, for unstable prices simply reflect instability and maladjustments in the economy itself.

Under normal conditions, the free-enterprise economy has a certain measure of stability provided by what we might think of as a kind of built-in stabilizer. This stabilizer is the market, operating through the play of supply and demand and through the movement of prices. If there is more production than the market can readily absorb, prices go down; if scarcities develop, say, through increased demand, then prices go up and producers work hard to increase output.

Now, what happens when we enter a major defense or war effort? This is what happens: The props are quickly knocked out from under this delicately balanced built-in stabilizer of the private-enterprise economy. The tremendous requirements of the armed forces plus the rapidly expanding civilian demands build up the demand side of the market so heavily that supply cannot possibly keep up. Supply and demand become, in effect, permanently out of joint, for the duration of the defense or war emergency, at any rate, and frequently run over into the post-emergency period.

This overbalancing of supply by demand is of course reflected in price increases, and soon we have an upward spiraling of prices with all the disturbing and demoralizing effects of inflation. This is why, in a defense or war economy, the Government has found it necessary to provide artificially the stability which the economic system itself cannot provide naturally through the market and through the movement of prices.

So a variety of measures are introduced to establish, or to attempt to provide some degree of economic stability--controls over prices, wages, rents, credit, taxation, savings-bond programs, rationing, and so on.

The third major reason why a controlled and directed economy is necessary in a defense or war emergency, as I stated earlier, is the need for coordination. "Coordination," as you know, is a word used in many ways. It has many meanings, so I will explain just what I have in mind here by coordination.

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Let's start out with the strategic plan which calls, let us assume, for offensive military operations in a theater or theaters on a given time schedule. The plan specifies so many forces--Army, Navy, Marine Corps, and Air Force, and calls for the kinds and amounts of equipment and supplies essential to support the operation. There are not only the tremendous requirements of the regular equipment of each branch of service involved, but special equipment of various kinds, such as landing craft, shipping, and so on.

What happens? Each service gets under the procurement load, goes all out to meet its own equipment and supply requirements. Each service is determined to get its own job done, sometimes, it would seem, more or less regardless of what happens to the requirements of the other services. Interservice competition in procurement was a serious problem in both the First and Second World Wars.

So somebody has to ride herd on the armed services. Somehow, their procurement and supply programs must be coordinated.

Obviously, if the military operations called for by the strategic plan are to be successful, we must have the forces, equipment, and supplies in the amounts essential for the conduct of the operation. To have twice as many aircraft and only half the landing craft called for will certainly foul up the operation.

Now, I think you can see that, just as there has to be coordination within the military establishment with respect to logistics, there has to be coordination throughout the entire supporting economy. There has to be a balance, for example, established between the requirements of the war-supporting civilian economy and the requirements of the armed forces.

If the civilian economy doesn't receive sufficient materials, equipment, and service to keep it in efficient operation, production will suffer, and with it, sooner or later, the war effort dependent on production will suffer. So there has to be a balance established, not only between industrial capacity for the different kinds of military end items, but likewise between the production of end items and the production of raw materials, and between the production of manufactured goods and the services which support such production--power, transportation, and all the rest.

I think you can see that in a tight war economy too much of anything is almost as bad as not enough, because too much of one thing inevitably means that there won't be enough of something else. Too much high octane gas may well mean not enough synthetic rubber. Too many fractional horsepower motors may mean too few antifriction bearings.

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In peacetime this difficult and intricate problem of keeping the innumerable parts of the economic system in step with each other is accomplished through an elaborate network of business relationships and institutions--the banking systems, the produce and security exchanges, the wholesale and retail distribution--the entire marketing system.

But this peacetime system of coordination, of balancing the innumerable parts of the economic system, is not adequate for wartime needs. I will simply indicate the two main reasons why it is not adequate.

First, because supply and demand are so far out of balance, with the resulting instability.

Second, because the normal coordination of the economy operates too slowly and cumbrously to meet the needs of a dynamic, rapidly changing war situation.

So the government must assume responsibility for keeping all parts of the war production effort and all parts of the war economy in step and in balance with each other. And don't let us fool ourselves about the size and difficulties of this job. To my mind it is the most difficult administrative job in the world, a job in comparison with which the running of a socialist or Communistic economic system is relatively simple.

I will now sum up the point I have been developing for the past 15 minutes:

In contrast with the private-enterprise economy of peacetime, the war economy is an economy planned, directed, and controlled by the government, in this country by the Federal Government primarily and chiefly. It is only through such central direction and control that we can secure the diversion of resources and the stability and coordination of economic effort essential for supporting a maximum military effort.

This brings me to the last item in our outline, "The Armed Services and Economic Mobilization."

My discussion so far this afternoon has focused on the basic role of economic resources in the conduct of modern war. Now, you may concede everything I have said and yet argue that economic mobilization is a civilian responsibility and something with which the military services need not concern themselves. You may possibly hold that the increasing range and complexity of military operations are such as completely to absorb the time, attention, and energies of the armed forces--therefore, why bother military men with what are essentially civilian tasks?

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Now, this is a viewpoint not without some weight, but I think it breaks down under close examination. As I have suggested, the armed services are simply the cutting edge of a great national war machine, embracing all the productive resources of the nation. Obviously, a primary condition of the effective functioning of such a national war machine is the close and smooth coordination of all its parts; not only of labor, management, the farmer, and all branches of the economy, but also between the military and the civilian components of this national war machine.

Accordingly, it is absolutely essential that the armed services have an understanding at least of the fundamental conditions and problems of economic mobilization. I think you can see that military strategy, if it is to be sound, must be closely related to the ability of the economic system to support the operations called for by that strategy--support in terms of ships, aircraft, munitions, and men. For the armed services to ask for too little from the national machine is to risk prolonging, if not losing, a war. On the other hand, to insist on getting more than the economy can supply for the armed services may result in an overload which may well result in getting less rather than more, and may even lead to a serious breakdown in the economy.

But the issue I am pointing up here is far more than an academic one. Much more is involved than the mere understanding of economic mobilization by the military in the interest of effective civilian-military cooperation.

Responsibility for economic mobilization is by no means entirely a civilian responsibility. The fact is that the armed services have primary, indeed exclusive, responsibility--statutory responsibility--for one of the major functions of economic mobilization.

This function is the design, development, and procurement of all military equipment and supplies.

In carrying out their procurement responsibilities in the national emergency, the armed services exercise a very great influence upon the functioning of the economic system. Consider, for example, the tremendous scale of procurement operations during wartime and its impact upon the market.

Our total war outlays in 1943 and again in 1944 exceeded 50 billion dollars, or about 43 percent of the national income. Of these astronomical sums (which somehow day by day seem to get less astronomical), the armed services spent about three-fourths.

The impact of such colossal procurement operations concentrated in the hands of the military establishment upon the economy is difficult

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to exaggerate. Such purchasing power can be compared literally to economic dynamite in its potential effects upon the stable and efficient working of our economic system.

Badly handled, irresponsibly handled, procurement on this tremendous scale can disorganize markets, can stimulate speculation, can give rise to serious shortages, and can accelerate inflation. So long at least as the military establishment continues to have responsibility for procurement, for its own procurement of supplies and equipment, military men must obviously be equipped with the knowledge and understanding of the war machine and its mobilization which is so essential for the wise exercise of this procurement responsibility.

It is for these reasons that the study of the problems of economic mobilization has come to occupy an increasingly prominent place in military education during the postwar years.

For your patience, and your wakefulness, I thank you.

(20 Oct 1953--450)S/en.

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