INTRODUCTION TO ECONOMIC POTENTIAL

1 March 1955 1827

CONTENTS

Page

SPEAKER--Colonel C. P. Conner, USAF, Chief of Economic Potential Branch, ICAF..... 1

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INTRODUCTION TO ECONOMIC POTENTIAL

1 March 1955

COLONEL CONNER: Gentlemen, I hope you enjoyed your extended vacation between the last unit and this one--about twelve hours, if I am not mistaken.

Admiral Hague, General Niblo, ladies and gentlemen: This morning we start what is often referred to as the "international phase" of your ten-month course here at the Industrial College. It is called the international phase because in this Unit you get into the economies of the nations throughout the world.

This Unit, "Economic Potential for War," is concerned with the economic capabilities of nations to support their armed forces in wartime. It is Unit #7, ending on 22 April and, for the greater part of the next eight weeks, it runs concurrently with the Economic Stabilization Unit, which you begin on Friday.

It is customary at a time such as this for the branch chief to introduce those members of the faculty who are working in the unit. I think about now you know pretty well who's who, so I shall limit my personnel introductions to just a couple of remarks. I know that you are an astute group, but perhaps you have not noticed that, of the ten members of the faculty assisting in this branch, four of them are doctors of philosophy. No other unit could make that statement. We have our own Harold Clem and Ben Williams, and then, on loan from other branches, we have Louie Hunter and Andy Kress--all of whom you know, I am sure. Also in this brainy category might be included Jim Walsh, who is studying on his Ph.D. at Georgetown, and who, incidentally, is studying this subject, "Economic Potential for War," at that institution.

Now, to guide this potent array of brain power, and for the purpose of establishing a reasonable amount of stability and sanity within the Economic Potential family, we have such common cotton pickers and jacks of no trade as Tom O'Neil, Bob Thorson, Dick Barrett, Gus Wirack, and myself.

And I certainly don't want to overlook our two charming, efficient secretaries. I will ask them to stand--Mrs. Elaine Schiller and Miss Lucy Steinberger.

So much for the formalities.

Gentlemen, this Research Study, R-165, (holding up) or branch monograph, which you have read, has explored in some detail the term "Economic Potential for War"--its meaning and its interpretation. It has also enumerated various factors comprising the economic strength of a nation, and has related these factors to the ability of a nation to support its armed forces in wartime.

This information to which you have thus been exposed is certainly basic to these studies on which you are embarking, and it warrants further exploration and discussion.

However, in my talk this morning, I will not go into that. I will not engage in a game of semantics and a one-sided interpretation of what you have read. I believe you will gain more and will be able to dig deeper into the particular points which you feel need elaboration by discussing them among yourselves. That we will do in our Committee meeting this afternoon. I will ask you to please take the monograph to that meeting.

What I do want to do this morning is direct my remarks principally toward two points.

1. I want to examine this concept of economic potential for war in the light of recent developments in warfare and in view of present international tensions; and then,

2. I want to go into some of the ramifications of the assigned committee problem.

Before getting into these two items, I want to spend just a minute, perhaps two, reminding you of our Unit objectives and the committee-section organization on which we will be working. I would like you to keep these in mind.

For those of you with poor eyesight, I will read. The Unit's objectives are to afford the student:

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First: A basic understanding of the various elements, or factors, which comprise the economic strength of a nation--any nation.

Second: A basic knowledge of the economies of nations throughout the world.

Third: An acquaintance with the difficulties in assessing and comparing the economic potential for war of nations and groups of nations.

We are not going to spend much time on the first objective. After all, for the past six months you have become acquainted with many of the factors of economic strength, and the monograph has a run-down treatment of them. The only additional scheduled time we will spend on this will be in the committee meeting tomorrow afternoon, when these factors will be subjected to committee translation.

On the second objective, each of you will be in a section studying a specific geographic area of the world. For instance, some of you will be in the USSR section; some in China; some in the Western Hemisphere; and so forth and so on. There are eight sections. By way of lectures, seminars, and individual research, section members will become familiar with the economies of their specific areas, and then, in the role of "experts," you return to your committees to share that knowledge with the other members of the committees. In this way, all of you become acquainted with all of the economies, the economies of all these geographic areas throughout the world. I am sure you recognize this committee-section organization from some of your other previous units.

The third objective is fulfilled by the assignment of the committee problem, which calls for a comparison of the economic potential for war of the Free World Allies versus the Soviet Bloc. The problem requires a written summary of findings and conclusions. After the eight sections make their reports to the committee, then the committee has the background needed to attack the problem. That will be in the final week of the unit. When you get into your discussion of the problem itself, and I am sure that you will realize many of the difficulties in trying to assess the economic potential for war of a nation, or compare the economic potentials for war between nations.

Our first lecturer, Mr. Juster, who speaks tomorrow, will try to give you an insight of some of the problems that you will be up against when you work on the problem.

Well, let's move on to the two major points I want to discuss; the first being an examination of the concept of economic potential for war

in the light of recent developments in warfare and in view of present international tensions.

When World War II came to an end, this nation was keenly aware of the role which economic power played in the attainment of final victory. We were pretty well convinced as a nation that the chief element of national power was the ability of a nation to lay its hands on raw materials and then convert them into munitions of war.

In addition to this great economic strength that we had, we had military strength. We were the sole possessor (or so we thought) of the atomic bomb, and indeed it appeared that we had very little to worry about.

But then, in the period of 1945 to the present, we have seen some rather conspicuous advancements in the Soviet economy, and, perhaps, what is most disturbing, we have seen the possession by the Soviets of nuclear weapons in quantity. So now, that economic strength on which we had come to place our main reliance for national power, is very vulnerable, very much subject to damage by enemy action.

As a result of these recent developments, people have begun to ask themselves: How much dependence can this nation place on economic strength? Will this country be able to realize its economic potential for war after war starts? Is this whole concept of potential economic strength obsolete?

Well, there has been a lot of speculation, by professionals and amateurs alike, as to just wherein our security lies; the direction our planning should take.

Some feel that the next war will be a nuclear war, and that it will be a short war; that it will be over in the first few days of the conflict. In such a case, of course, military force in being would be the important thing, and unmobilized economic strength would play an insignificant role.

Then we have the other school of thought, which feels that, no matter how severe the initial damage to both sides, both adversaries would pick themselves up and fight with whatever strength they could muster. In a situation such as that, economic strength would play a vital role in final victory.

Then we have the school of thought that believes that the world has reached an atomic stalemate; and these persons generally argue that, unless the Kremlin loses all sense of rationality, there might not be a general war for many years to come, or at least not one in which nuclear type weapons will be used. This thinking is reflected in the article written in the "New Yorker" of 29 January by staff writer Richard Rovere. Mr. Rovere said:

> "There is a growing tendency here in Washington to think that atomic stalemate and the balance of terror (provided the balance is kept) will eventually lead us back to something resembling the world of a decade ago, and that any wars that may be fought will be conflicts whose outcomes are likely to be determined by productive capacity, manpower, and other familiar elements in the equation of armed combat."

Well, in spite of all these differences of opinion that individuals seem to have as to just what is the answer to our security problem, it is quite clear that our national policies are explicit as to our reliance on our economic potential for the assurance of victory in any future conflict.

This point I think was very well emphasized in President Eisenhower's letter to the Secretary of Defense on 5 January of this year, the letter in which you recall the President explained the reasoning behind the cut in the armed forces. President Eisenhower said in part:

> "Our first objective must be to maintain the capability to deter an enemy from attack and to blunt that attack if it comes, by a combination of effective retaliatory power and a continental defense system of steadily increasing effectiveness. These two tasks logically demand priority in all planning. Thus we will assure that our industrial capacity can continue throughout a war to produce the gigantic amounts of equipment and supplies required.
>
> "We can <u>never</u> be defeated so long as our relative superiority in productive capacity is sustained."

The President's reference to "relative superiority" is important. It points up the fact that it is the relative economic potentials for war of likely adversaries that is the important thing. We must know our enemies' capabilities as well as our own.

Regarding this productive capacity of which the President speaks, it is more apparent than ever that a nation such as ours, organized on democratic principles, can not hope to maintain at all times a full state of readiness for war; that we must not use our assets based on the threat of war which does not exist; we must use them on a threat which does exist.

With the enemy's capability to strike at the heart of our industrial strength, the need for economic intelligence and its application, the need to know the extent of the enemy's capabilities, his intentions, his probable course of action, are more important than ever.

Who is bluffing whom, in the military and political squabbles of today? Can Red China and the Soviet Union make good their threats? We know that they have the military force in being, but do they have the economic strength behind that military force to gain final victory?

It seems to me that our politicians and our military strategists are at a terrific disadvantage if they don't have a knowledge of the enemy's capabilities. They can't very well make sound decisions and calculate the risks without that knowledge.

In World War II there was considerable evidence that major decisions were made without a clear understanding of the relation of economic power to the total power of the nation. Germany underestimated the potential of the USSR. Japan underestimated our potential; and we underestimated the potential of our enemies. In a speech in 1942, for instance, President Roosevelt stated that Italy, Germany, and Japan had reached their maximum productive capabilities for the building of ships, planes, guns, and tanks; yet in the next two years Germany increased its production of planes and ships over three times, its production of guns over four times, and its production of tanks over six times. We underestimated our own production capabilities just as greatly.

Now I want to go into this second point of mine--the assigned committee problem. You have seen in this curriculum book that was issued that the problem assigned to the committees asked for an estimate of the comparative effectiveness of the economies of the Soviet Bloc and of the Free World Allies to support a general war. I hope you have noted the terms "estimate" and "effectiveness;" also the term "general war."

"Estimate" is used to indicate that what is desired is a judgment--a judgment after careful analysis of all of the available material. It does not connote in any sense an exact measurement or mathematical precision.

By "effectiveness," what is desired there is more of a qualitative estimate than simply a quantitative total of the product available. In other words, we are interested in the extent to which a nation's resources can be brought to bear in wartime.

The term "general war" is used to mean a war in which many nations are involved--an all-out war, a war for survival, but not necessarily a war in which there is complete annihilation of all people's economies and nations as a whole. More of that a little bit later. So you might say that what we are asking for is: After careful analysis and evaluation of all the available material, what is your judgement, your opinion, of the relative capabilities of the Free World Allies versus the Soviet Bloc to raise the necessary military forces, to equip them with munitions, and to sustain them throughout a period of continued warfare?

In order to tackle this problem, you might ask: Don't we have to know more about this war which we assume will come about? About all you know from the given basic assumptions is that there will be a war; that it will be between the two world blocks; and that it will be continuing in nature--it will not be over in a period of one month, six months, or some such short period, but will last over a period of time sufficient for economic forces to be mobilized.

The things that have not been specified about this war are: The kind of war it will be, the exact nature of the war, and when it will occur. We just don't know. Neither does anybody else. So, in order to be realistic about this problem, it will be necessary for you to evaluate several possibilities. What are these possibilities? There are a tremendous number of combinations and permutations under the headings of "what kind" and "when"; but, in general, they can be classified, each of them, into two general categories.

Let us take up "what kind" first. This war which we have assumed will eventually come can be a war generally resembling World War II, in which there would be no use of nuclear-type weapons, or in which there would be a limited or restricted use of them. This type of war would thus be characterized, we are assuming, by the ability to build

up economic power after the war starts. In this sense we would be interested in looking at an economy from the standpoint of expansibility; convertibility; its development; its research capability; and so on.

The other type of war we are liable to get into is a war in which there is major, critical, devastating damage from enemy nuclear weapons either at the onset of the war or shortly after the war starts. There are an awful lot of permutations on that, too--how much damage is done; how much damage is not done. Nevertheless, the general type of war is a war in which the important measure of the economy, the important thing about it, would be, not its expansibility, convertibility, or capacity, but its resiliency and its recuperative ability; the ability of the nation to carry on, to heal up its wounds, to support what is left of its armed forces in the struggle against what is left of the enemy's armed forces, and the ability of the nation to exploit the slightly greater damage it might have caused to the other side.

So much for "what kind." We can say we can divide them, in spite of all the adjustments you might make, into two categories--war resembling World War II, and nuclear war of devastation.

The next thing is on the "when" we find that has two possibilities also, generally speaking. This war which we have assumed will occur, regardless of which of the two types it is, can occur either at once, beginning tomorrow, or within the next couple of years; in other words, within a period of time in which economies would not have time to change or to be modified substantially. Economies just don't change over night. What you are going to have a year or two from now is pretty much what you have now. This war can either occur at once or can occur later on, deferred, in which case the economies would have time to change or be modified substantially.

If this war occurs later on, if it is deferred five, ten, or fifteen years from now, there will be an intervening period of power struggle, a period which is important, which is of great significance, and what happens in that period, as I say, is of great importance. We would have to look at these economies and ask ourselves: How are they going to be in this intervening period--what are the capabilities for giving sustained support to the military forces in being and for continued economic growth? What is extremely important is: What position would they be in some 15 years hence? What would be the economic stature at that time for the war we assume will occur?

So, actually, as I say, there are four general possibilities here, four combinations of types of war when war will occur that you have to consider--war resembling World War II, either now or later, or a nuclear type of war, either now or later.

Because of honest and different opinions as to how to approach these evaluations, we feel that the process of reaching committee agreement on this one point alone could involve lengthy discussion. It would take time that you don't have to spend in this unit. So we in the branch feel it is appropriate for us to prescribe the general approach for you to use in evaluating the economies under these various conditions. We are laying the guide lines for you. These are the guide lines:

We ask you initially, in part (a) of the problem, to make your comparisons of economic potential for war under conditions where economic potential plays its greatest role. We ask you initially to determine the potential which these economies could reach--the part which these economies could play in a war under favorable conditions. Of the four possibilities that you are going to consider, it is obvious that a war similar to World War II in nature would give you the most favorable conditions for economic mobilization; and, since you know more, or you will know more when you get into your committees, about the economies as they exist at present, we ask you to make the combination at once--combine it with World War II.

In addition to being the most favorable and the most tangible of the four possibilities, this evaluation you make in part (a) is basic. Actually, it is an inventory; it is an essential take-off point for your subsequent evaluations under other conditions. In fact, it is an essential take-off point for anyone making any further study of this subject under any assumptions they want to make.

Then, in the second part of the problem, part (b), we ask you not to go into making three additional studies, starting from scratch--you will have already done the spade work. We ask you to examine your part (a) findings to see what vulnerabilities would be revealed in these economies by each of these three other possibilities of war--the three other combinations of time and type of war--to see what modifications, changes, and adjustments you would have to make in your basic study.

Now, I am not going to spend any more time on the problem. We will have ample opportunity to discuss it. I realize you will have some questions. I wanted to throw these considerations toward you because I think you have to be thinking about them throughout your studies.

It should be quite apparent to you from the monograph that these studies on economic potential for war have no finite answers; that you can not expect to close with the problem to your complete satisfaction. You must be prepared to settle for something less than the absolute answer.

But the fact that economic potential for war is an inexact science is not to infer that these studies are meaningless. Much of science consists of efforts to narrow the range of guessing. Professor Jones, from Yale, said in an article he wrote on "The Power Inventory and National Strategy:"

> "So long as there is politics among sovereign states, there will be estimation of power. Even though the best estimates are only rough, they are better than reliance on intuition and emotion."

In conclusion, let me remind you again of our unit objectives. Although the assigned committee problem is interesting and challenging, and although it is a focal point of these studies, I don't want to over emphasize it. Actually, from a standpoint of the time you will spend specifically working on the problem, it is not too important.

Much of the good you will get from this unit, we hope will come from your section and committee discussion. In fact, such discussions were scheduled as a major means of acquainting you with this subject. In that connection, our schedule of lectures, seminars, and essential reading is relatively light in favor of these group discussions. We hope that you will take advantage of these opportunities in these discussions to probe the depths of this very complex subject.

On behalf of the unit faculty, I want to wish you a profitable journey along the road in your studies of economic potential for war.

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