



DIRECT AND INDIRECT CONTROL USES
FOLLOWING NUCLEAR ATTACK

Mr. Edward F. Phelps, Jr.

NOTICE

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Reviewed by: Colonel Tom W. Sills, USA

Date: 11 March 1960

INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

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Reporter: Ralph W. Bennett

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MR. PULVER: General Houseman, Gentlemen: Our speaker this morning, Mr. Edward Phelps, is Deputy Assistant Director for Economic Stabilization at OCEM. Since 1954 he has been the principal Federal official responsible for the development of overall plans and programs in this most complex and difficult aspect of our national security program.

I won't take time to enumerate the responsibilities of his office. However, I know him as a most modest man, and so I guess it's up to me to tell you that under the Director of OCEM he is responsible for coordinating all this nation's planning for economic stabilization--not just for nuclear attacks, but for all contingencies. So, you see, we could have asked him to speak on just about any aspect of economic stabilization; but we selected as his subject "Direct and Indirect Control Uses Following Nuclear Attack" because he has been working and thinking on this aspect of the problem harder and longer than anyone else in or out of Government.

Mr. Phelps will also be with us this afternoon as the seminar panelist with the combined limited and general war section. Since members of other sections may be involved in limited or general war problems in the final unit, they are invited to observe the seminar this afternoon if attendance does not conflict with other assignments.

Ed, it's a pleasure to welcome you back for your sixth lecture at the College and to introduce you to the Class of 1960.

MR. PHELPS: General Houseman, Gentlemen: Six years is a long time.

I guess no subject on earth holds the same fascination for everyone; and there must be two or three of you in this room who could think of more fascinating subjects than this one. Therefore I'm going to try to paint with a fairly broad brush and at the same time try to do some little justice to the scope provided for me. I am also aware, after six years, of the soporific influence of the heating system here, and so will have that in mind as we go along.

I've been trudging down here for five or six years, interspersing this with trips to the Army War College and the Navy War College, dealing with your predecessors, several hundred of them now, in seminars and panel sessions, smuggling classified or semi-classified documents into your library, and otherwise discussing the general development of preparedness with several classes.

The first two or three years that I came down here I was pretty pessimistic, because I couldn't conclude that the Federal Government and the Executive Branch really meant business in terms of realistic nonmilitary preparedness. The last couple of years I've been a little more optimistic, because some preparedness gradually seemed to be emerging. I don't conclude by any means that the Federal Government or the Executive Branch or the Congress itself are yet actually conditioned

to living or surviving in the nuclear age. They are not conditioned. There isn't any question of it. Until they are, until all of us are, it's pretty unrealistic to expect that the country can be fully conditioned and that its great inherent capacities can really be brought to bear on the job of realistic preparedness.

I suppose with some trepidation I should say that I'm not certain that the Military Establishment is fully conditioned to living in this age. But it's true too of those of us who have been immersed in this kind of work for perhaps too long now. We've never lived in this kind of world. In a philosophic sense perhaps we expect too much/ ^{that} either the country or the world can condition itself so rapidly and so effectively as to really come to grips with questions and headaches and problems which have never before confronted any country, except perhaps in two Japanese cities, where there were only 100,000 or 150,000 casualties.

At any rate, we've been going through for the last five years inside the Federal Government and perhaps in the country a period of what I call conversational preparedness--lots of talk, lots of identification of problems, and lots of straight-out conversation about what might be done about these problems, and how we might learn to live with some of them. This is in itself a part of the conditioning process that has been going on for these five years and no doubt will go on for some additional period. At the same time, we are now approaching some actual preparedness. It's taking shape pretty slowly in many fields, somewhat faster in some than in others; but it's perhaps an inevitable by-product of

all this conversation and of this conditioning process.

To get down to cases, however, it seems to me that there are a couple of terms of art that we ought to straighten out before we get too deeply engrossed in this subject. I'm going to assume some sophistication on your part, if only because you've been exposed to so much economic erudition in recent weeks, with more to come.

The term "economic stabilization" itself is a euphemism. Stabilization in this country, in our kind of economy, and especially in wartime, is far more often a goal than an actual realization. If you wanted to be rhetorical, you could say that economic stabilization in fact may be incompatible with what the writers call / ^{our} dynamic economy.

What we're really talking about in this session and in similar ones is the question of dealing with the economic consequences of war-- talking about the policies and the techniques and the emergency measures which a country like ours might evolve or work out in advance of trouble to deal with those consequences.

Now, this distinction, this term of art, I think is important, because all too often it's loosely assumed that economic stabilization, particularly in wartime, is somehow synonymous with freezing everything, stopping any rate of movement of prices and wages, actually in fact stabilizing. This is simply not the case, and you would be better advised, if you've got to deal with the subject very much, to think in terms of dealing with the economic consequences of the various kinds of war.

As to the question of indirect versus ^{direct} / controls, you are presumed

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to understand the distinction there, although these terms are perhaps more relevant in so-called limited war or orthodox war than they are with respect to the nuclear age or the possibility of massive attack. Indirect controls, as you know, are those which involve tax, monetary, and credit policies and measures. They are generally used to help pay as we go in a mobilization period. And also they are intended to deal with the sources of an inflation which might be set in motion in an ordinary or orthodox mobilization. Direct controls, on the other hand, are the familiar controls on prices, wages, rents, and consumer rationing; and their purpose is to deal with the effects of the war-born inflation, the effects which leak by the dam you have erected in terms of so-called indirect controls. Direct controls--prices, wages, rents, and so on--are the controversial ones, the complex ones, the ones which are irritating and aggravating and which cause so much political and economic argument in this country, even in time of war.

Now, finally, it seems to me that before you can be properly con-
ditioned yourselves on ^{any} given morning to deal with this subject, there are a few fundamental facts you ought to have in mind. These are, I suppose, pretty basic. Perhaps you know them all. Yet I sometimes find it useful to reiterate them briefly, if only to stimulate your imagina-
and
tion/ to get you into the right frame of mind for trying to absorb a little of this kind of subject.

When we talk about economic stabilization, we are talking about it in what is obviously the world's most complex economy. It was Leon

Henderson, I think, who said that it was made even worse by the fact that people were made a part of it. It's an economy in which, as you know, the gross national product is now approaching an annual rate of about 500 billion dollars, and growing almost constantly. It's operating in a world where other economies are continuing to expand, where, if you will permit me to borrow the phrase, there is a revolution of aspirations going on, which have sharp and no doubt long-term economic consequences of their own.

This economy operates in a world where it has no choice but to be at war with other economies. And it appears that in our time economic warfare is going to become as much a part of our way of life, as much a part of life in the world, as perhaps military involvement may have been in the past.

It's an economy which has some 4 million businesses in it, producing and distributing about 8 million items. It has perhaps 5 million farmers, nearly 70 million people employed--an economy where the retail food stores alone last year did something like 53 billion dollars worth of business.

It's an economy influenced by cold war, as you know; and influenced so that there is a strong inflationary bias built into the cold war economy. This, of course, would make the stabilization job that much more difficult in the event a mobilization were superimposed on it.

It's an economy which is presently supporting, amid shrieks of pain, a budget of something like 79 billion dollars; and undoubtedly this

budget will rise despite contrary predictions by politicians and other pundits.

It's an economy which last year produced 128 billion dollars worth of tax revenues--Federal, State, and local--a rather substantial sum.

Now, if you wanted ^{to} occupy yourselves a little further, you could think in terms of the capacity of this economy to absorb war costs. World War II cost this country something like 450 billion dollars, accounting all by itself for well over 200 billion dollars of our present national debt, which also gets so much attention. Korea cost us about 150 billion dollars--a so-called police action, depending on one's whereabouts.

World War I cost this country 66 billion dollars. So you have some idea ^{in which} of the way [^] war costs are rising, and some idea of the capacity of this economy, which has to be stabilized in wartime, to absorb such costs.

As for the lasting effects of mobilization, you can draw your own diagram. The last I knew, our Federal budget still reflected the payment of benefits to either the dependents or some kind of remote relatives of individuals who fought in the War of 1812. If you go on through our wars since that time, I think you will have your own picture of the long-term impact just in that narrow connotation of war in an economy like ours.

I will pass the subject of potential war costs, for you are presumed to be experts in that field. But our economy, one way or another, is going to have to learn to absorb tremendous war costs in the future--missile costs, new kinds of fighter plane cost, nuclear sub costs, and so on ad infinitum.

And, finally, this economy is served by probably the most complex financial and banking system known to mankind. It consists of about 20,000 banks. The total economy undertakes about 90 percent of its business in a given year through checks. And in this country last year, as I recall, we cleared about 11 billion checks in our clearance processes.

Now, all these vast statistics have no purpose other than to suggest to you that the economy itself is an enormously complex thing, and that therefore mere man's efforts to stabilize it in time of war are going to run up against some pretty substantial headaches, and are going to involve some pretty substantial complexities. This is the kind of environment in which stabilizers must work in an emergency; and it's part of the frame of reference and part of the backdrop which must be kept in mind in discussing the extent to which a country like ours can make any progress in the preparedness field. It's in this general context as a stimulant to your own imagination that you have to think about emergency stabilization or about dealing with the economic consequences of war.

Now, I can't be so radical as to be altogether captive of the scope assigned to me this morning. So I shall deviate just for two or three minutes by making a brief comment about limited war, for this is a part of the package if we are to get into the nuclear attack situation.

In any limited war which can be foreseen now, to the extent the future can be foreseen, the economic problem, the economic consequence, which would result is a classic one; that is, more inflation, and probably

pretty fast inflation. This would come about not because of shortages, as was the case in World War II, when we had to tool up our whole economy to support war, when we had to make guns-versus-butter decisions; but, rather, it would arise from psychological reasons--people jockeying for position, moving because they weren't sure what the Government intended to do, reacting because the future looks cloudy, uncertain as to whether the limited war would expire in time or end, or whether it might develop into something even nastier. We would expect, therefore--and I think it is a pretty sound expectation--that we would immediately have to contend with a fairly sharp inflation, because of the psychological reactions when even limited war mobilization were superimposed upon an already inflated cold war economy.

This being the case, we would propose, as a matter of basic governmental policy, to use the whole arsenal of indirect and direct controls, as we have in past wars. They would doubtless be accompanied by the whole arsenal of irritation and aggravation and complaint and argument. But, notwithstanding, the agreed-upon policy of the Government today is to move quickly to use nearly all indirect and so-called direct controls.

The major exception would be that involving consumer rationing. Although it's a fundamental economic tenet that you ought to use consumer rationing when you use price and wage control, or vice versa, in a mobilization not yielding shortages there would be no need for and little sense in undertaking consumer rationing. And so you would see recreated in

economic terms the Korean situation, when we had what amounted to a psychological inflation accompanying that particular mobilization, when the Government was then forced to move and impose direct controls, as well as to use so-called indirect controls.

In that situation, about as soon as the Government did move, after a lot of argument, the bulk of the inflationary spurts died and the whole trip could just as well have been avoided. But this was a thing learned only in retrospect. There will be this risk in future limited mobilizations. But the lesson learned from World War II and Korea is that it was and would be better to move early and fast and comprehensively than to debate and argue and wait and lose 6 or 8 or 10 percent in terms of rising prices and wages.

And so in terms of present-day preparedness the policy is pretty well outlined and agreed to. We have a reservoir of people and of know-how available throughout the country and, of course, in Washington on whom we could call without a whole lot of warning. We have some draft legislation which would support some of the direct control measures which would be involved.

The major disadvantage, I suppose, is the one which will always confront our kind of government and our country. That is that we would have to start from scratch and regulate, organize, create agencies, do everything simultaneously; whereas if you could be theoretical and a little bit idealistic, it seems to me pretty obvious that the country has the competence and the capacity to prepare itself in much greater detail

than is the actual case.

Therefore preparedness with respect to limited war in the economic field really amounts to agreement now as to the course to be pursued, general agreement as to the policies which will apply, general agreement as to the techniques which would start the ball rolling, a general freeze and so on, some knowledge that we do have people and know-how^{so} that we can respond quickly in such a situation, arrangements with other agencies which will find them helping us to do this simultaneous job of creating and regulating and organizing all at once, and so on. We do not have agencies in being. We do not have standby authority, which some people think we should have. We have virtually nothing in terms of tangible, physical buildings or people who could be made available tomorrow. But there is a pretty good probability that, given 72 hours, both the buildings and the people could become available on a crash basis.

Now, this question of limited war and limited war mobilization turn out to be academic, as for you know, your own colleagues in some of the services have differing views as to the probability of limited war. I don't know, any more than anyone else does, whether limited war is more likely than a nuclear exchange. But I would say that, while our preparedness is not what the country could produce with respect to limited war, we do have an inherent capacity to respond to that kind of emergency in the economic field; and I think, therefore, that it is fairly safe to assume that our readiness would meet most

realistic tests, even though perhaps ^{not} the idealistic ones.

Now, for the balance of this discussion let's turn to science fiction, which is increasingly preoccupying people in the preparedness field, whether or not this is the likeliest kind of involvement for the country. This has to do with the economic consequences of a massive attack on a country like ours.

Putting everything else aside--the problems of human welfare or survival or pure civil defense--in narrow economic terms, the economic consequences of massive attack would obviously be enormous and almost wholly unprecedented. This kind of thing has never before confronted any ~~country~~ ^{economy}, any civilization; nor has any country ever had to deal with it, particularly an economy as complex and as complicated as ours. And it's at this point, I think, that you should have in mind some of these oral shorthand statistics we were discussing a moment ago.

Remember the complexity of the economy and the way in which the society and the whole economic structure functions in the country. Imagine in that environment 50 million casualties as a starter. You can use your own figure, but this is presumed to be a conservative one. Imagine 30 to 40 percent of our national productive capacity destroyed, out of business. Imagine the Federal Government virtually impotent, unable to regulate or to control, or perhaps even to direct, running for relocation sites which in an emergency it never had to run for, and whose efficacy and eventual use^{are} still unknown and really untested.

Imagine attempting to extemporize policies or the nation's total response in a great many fields under those circumstances. Consider the economy and the country fragmented, broken up, islands of survival scattered all over the country, so-called undamaged areas. In this sort of situation what sort of preparedness would you advocate? Or, if it were your responsibility, down what avenue would you move in an attempt to develop, before such situation actually occurred, some degree of effective and useful preparedness for dealing in this case with the economic consequences?

Well, I will save you the job of answering by turning it into a rhetorical question and indicating that four or five years ago we had to develop an approach to just such a question. Every time we ever got into a discussion in the early days of conversational preparedness, someone would say: "Well, I'm standing on the corner of Porter and Connecticut and I've got a check. What do I do with it?" Or any other kind of question which might occur to an imaginative person would be addressed to those of us who had the job of trying to make sense of the country's approach to preparedness in this field.

So we had to try to develop a manageable preparedness concept, if you'll excuse the word. And I think we did. And I am sufficiently immodest to say that this whole idea of concentrating the country's non-military preparedness, particularly its nonmilitary mobilization preparedness, in so-called undamaged areas was the contribution which people in our particular field made in the early days, which we then regarded

as pretty radical, but which since has taken hold and nowadays colors virtually all preparedness work.

We simply decided, almost in self-defense, that the civil defense problem and function had to be divided out and moved out of the way from the question of mobilization preparedness following or for a massive attack. And so we gradually got the Government, OCEM and other agencies, often grudgingly, to accept the idea of concentrating our mobilization preparedness attention on the situation which would face so-called undamaged areas.

Now, I think it's obvious that no one knows in advance how many undamaged areas there would be, nor where they would be, for any map of an attack pattern, with the prevailing winds, suggests that the patterns could vary all over the lot. Therefore this provided us with the opportunity to say that the answer must lie in preparing the whole country, preparing everyone, sharing both the problems and the possible solutions with the country, rather than locking them up at the Federal level. And in general this is the course we commenced to pursue.

It was a long, uphill, and often lonely road to follow, because, as I indicated earlier, much of the Federal Government is wholly unconditioned to living and reacting in this kind of world. And we had to educate gradually, we had to talk and argue and debate, and almost pour ourselves along in terms of making any progress. And yet I think the results have finally commenced to appear; and, whereas it was proper

to be pessimistic for the first two or three years in this conversational period, I think it's equally proper to be a little more optimistic nowadays.

In any event, a basic consequence of massive attack on this country would find our banks and our financial system, the lifeblood of this complex economy, virtually insolvent, automatically insolvent and in a sense out of business unless the most forceful and urgent kind of action were taken. This is because of the interrelationship, the interdependence, of the whole national banking and monetary system.

The shorthand we use to impress this point on people who have not been as exposed as you is to say that a bank in Pocatillo, Idaho, is not immune to atomic attack on New York City, or to remind those interested that you can save money in Connecticut in the form of life insurance premiums, that the money can travel to the New York home office of the insurance company, and then be perhaps reinvested in real estate in Texas. This intricate interdependence and interrelationship is what accounts for the fact that almost immediately following massive attack of the kind I have suggested, our banks and financial institutions would doubtless be on the verge of insolvency.

Now, if this is the case, it seems to me obvious that the whole emphasis in terms of economic stabilization or economic response shifts away from the preoccupation with dealing with inflation and limited war and moves over towards the fundamental job of keeping the banking and monetary system functioning and solvent, if you wish to use that term.

It's of no use to worry about inflation and inflationary consequences, direct controls, and so on if you are not going to have a functioning monetary and credit system. Therefore the whole emphasis in terms of stabilization preparedness has found us concentrating on the development of techniques and policies, most of them unprecedented, which would preserve the continuity of a functioning monetary system in undamaged areas.

Now, when General Huebner comes down here, he will tell you of plans to close the banks in New York State, issue script, and a number of other things which collide headlong with this approach. We will have to straighten out with the General sooner or later whether or not New York will remain a part of the national picture following massive attack, but this will come in its time. I don't blame the General, because he has simply got tired of waiting for the Federal Government to do what it should have done--to provide the leadership and the guidance which are necessary--and has moved on his own to do what he thinks might be workable and effective in New York State.

But in any event, whether or not the General is pursuing a different course, our preoccupation has been with the development of both policies and measures which would preserve a functioning monetary system in undamaged areas. Then it has been to find a way to provide stability, to deal with the economic consequences of attack, by relying on local and State officials and authorities to do the things which heretofore the Federal Government has undertaken. By this I mean price and

and rent
wage control and consumer rationing.

This is a neat trick if you can do it in this kind of country, when you consider that many of these subjects are anathema even in terms of limited war. But we have actually succeeded over a long period of time in making some reasonable progress.

The effect of this shift in emphasis and the effect of these new and unprecedented economic consequences is to require that the country simply must lay down its national policies before any such emergency ever occurs. There isn't any argument about it. It's equally true that the techniques for getting these kinds of jobs done have to be developed and laid down and be made available to local and State people before this emergency ever occurs, for the Federal Government would be wholly unable to deal with such questions. It would have no capacity at all.

Now, this being the case--and again leaping around with a broad brush--the progress we have made is about as follows: With respect to the preservation and continuity of the monetary system, remarkably good progress has finally been made, considering that these are questions that our Government has never before faced. Those matters involving such subjects as indemnification, sharing war losses, the use of money and credit, deposits following attack, the clearance of checks, honoring checks in destroyed banks--all of these related questions have been evolved in terms of the recommendations of a committee inside the Government over a period of three years. This group then reported--and I presided over this unhappy maelstrom; and that's just what it was for a long time--

this group reported to its parent, which was a Cabinet committee. The Cabinet committee, after much hemming and hawing, finally reported to the President and the Cabinet. And only ten days ago the President and the Cabinet finally approved a package of tentative national financial and economic policies, and also, perhaps more important, approved their dissemination to the general public in conservative terms. So that when we release our annex to the National Plan, it will contain, for the first time, some reasonably precise and definitive guidance as to what this country's national financial and economic policies would be in the event of massive attack. This should mean that for the first time we can commence to get hold of the resources and competence of the financial community itself, of private organizations, of financial institutions, and perhaps put some flesh on a skeleton which has been created painfully and slowly over a long period of time.

I am not going to speak to any of the technical aspects of this whole question of monetary and financial responses, for next week I think Dr. Robinson takes on that subject. I will say only that the Federal Reserve Board has made an immense contribution in this field, has taken this subject seriously from the very start. Without their help and support and interest, the Executive Branch, and certainly CCDB, would have never got off the ground in this particular field. Dr. Robinson has been a part of this from the start, and is thoroughly at home in the field and thoroughly conversant with it. So I will leave for him a discussion of some of the more precise pros and cons.

From my standpoint it's a major step forward that recognition of these kinds of subjects has finally been obtained at the Presidential and at the Cabinet level, and that we are at long last in a position to start talking about such things, in a conservative way, in an attempt to develop more understanding out around the country and more help in this particular field.

Now, we have also made an agreement that in the event of massive attack, the Secretary of the Treasury will have complete responsibility for the policies involved and the continuity and the maintenance of the surviving banking and monetary system. And by agreement with the other financial agencies he will redelegate to the extent necessary, so that these other agencies, such as Federal Reserve and the Federal Home Loan Bank Board, can do their emergency jobs, pursuing these same fundamental financial and economic policies.

You will find these described, those of you who are interested or captive, in the draft annex, which I loaned to either the class or someone. And, incidentally, since it is draft and has two or three secret things in it which are not supposed to be in it, it will be very helpful if, when you get through with it, you will turn it back in or destroy it--one or the other.

So, with respect to the fundamental policy matters, pretty good progress has been made for our kind of country.

On the physical preparedness side, perhaps even better progress has been made in some parts of our financial and monetary system.

I'm not going to describe all those; so you can relax. But it's enough to say that we now have currency stockpiles, and we'll have more. It's perhaps enough to say that the Federal Reserve Board has already appointed its agent banks, has already developed a tentative check-clearance system, is able to relocate at its various banks and offices, has developed its lines of succession. And this is also true of the Federal Home Loan Bank Board. To that extent these important elements of the banking and monetary system are prepared tangibly; and into that tangible, physical preparedness we now need to bleed ^{the} financial and economic policies which will make the mare go, and which the President and the Cabinet have just reached some conclusions about.

Finally in the physical field, I will wave some props and simply say that every commercial bank in the country, some 14,000 of them, plus all of the Federal Home Loan Banks, has now received operating manuals designed to guide them in terms of tangible, physical preparedness. Commercial banks have received the first five of nine, and the remaining four will be devoted largely to these fundamental policy matters. So that in a relatively short time every bank in the country, however relevant it may feel the subject, will have available some fairly definitive guidance ^{as} to what it ought to do, and as to its place in the scheme of things. This kind of physical preparedness has been going on for some time, and has outstripped the progress made with respect to these really basic policy matters.

Now, turning briefly to the direct controls field, I would say that the thing I should report on here is simply that there is now general agreement, without argument, as there used to be, that the direct control job following massive attack will have to be undertaken in undamaged areas by local and State authorities; and that the Federal Government will have a very small contribution to make for some interim period after a massive attack. I think it's fair to say that we have pretty much gotten people to see that any thought of a normal or orthodox price - control, wage-control, rationing agency, operating in Washington or from a relocation site, is a pretty useless and ineffective thing; and that if this kind of job is to be done at all, it will have to be done a long way from Washington. And, of course, if it is to be done, it will be done only because the people who inherit the responsibility, the people who will have to respond, will be armed with guidance, with knowledge, before this ever happens to them.

Now, on the price-rent side, in fairly specific terms, we propose to ask each State Governor, on behalf of the President, to exercise his own emergency authority or his own statutory authority, to undertake the interim administration of price and rent control in local or State or perhaps in regional areas. He will substitute his authority and his administration for that of the unavailable Federal Government until such time as the Federal Government can gradually pick itself up, create and slowly organize national or Federal emergency stabilization agencies, and very gradually commence to pick up these fragmented and interim

local and State operations.

On the wage-control side, we propose an experiment with the Department of Labor. We propose to delegate to Labor, through its wage and hour offices, the interim authority needed to administer direct controls on wages and salaries.

As to emergency rationing, which is perhaps the most important of all in this situation, we propose to do exactly as in the case of price and rent control; that is, to ask the Governors, request the Governors, to administer immediate programs of emergency rationing on behalf of the Federal Government in a sense, until such time as the Federal Government can respond.

All of these delegations and requests of this sort would be interim in nature, while the Federal Government undertook to get back in the ball game. And I think you can see the nature of the wholly new and unprecedented responsibility which would fall on local and State authorities.

We would propose to make all this as clear as possible in Annex 27 to the National Plan. And you have merely the first attempt to define some of it, remembering the limitations which apply to drafters in this field. We would then propose to attach to the Annex specific operating manuals which would tell local and State people how to deal with the price-control job, the rationing job, the rent-control job, and which would tell them further the extent to which they should support actions designed to keep the banking and monetary system functioning.

The manuals I speak of are already in draft. We believe we could

do a pretty good job with respect to price and rent control and probably wage control. The emergency rationing job is a tough one--one of the toughest kinds of problems this country has ever faced. We are not at all sure of the answers, for all we can be certain of is that immediately following attack, even in undamaged areas, the country would commence to run out of essentials. Our food supply--although I suppose you could find an argument here and there--would be absolutely minimum in terms of what might be needed for an interim period, until production and distribution and processing could be restored.

I have heard people say that as far as gasoline is concerned, you couldn't get any gasoline for ^{any} civilian purpose in the whole eastern half of the United States for 90 days. I don't know if this is true or not. But I do know that there would be an immediate, urgent need for emergency rationing, on an austerity basis of a kind never heretofore faced in this country. And the problem is that you can't react to it as we did in World War II, for the production and distribution system has been decimated and fragmented; and you don't have the flow of goods from farm to processor to distributor to consumer which made our World War II kind of rationing system work.

So our problem is to put in the hands of local and State people some kind of guidance, wholly new techniques perhaps, which would permit them to ration on an emergency basis for a number of weeks, until the whole fragmented response could be picked up somehow and made more effective, more cohesive, and more workable.

To back up all this kind of work, we have now taken our first step away from the Federal Government. And this has taken a long time, for there are still people who believe that preparedness in this and other fields should be kept pretty quiet, should be dealt with pretty much in a closet, that there's the possibility of frightening people, and so on and so forth. We long ago committed ourselves so far in our particular field that we don't even bother to argue this. We simply continue to set up situations which will force or tend to force the wider dissemination of knowledge about preparedness and the nature of the problems concerned.

In that connection, we have succeeded in having in every regional OCEM office, which are weak reeds today and may be for some time, one individual, called a regional stabilization officer, who will work full time in the stabilization preparedness field. We have put him to work with his own regional plan. We have told him that his job in the next three or four months is to try to develop a regional capability to do some of the preparedness work which has to be done. When he has accomplished that, we propose that he then go to the governors of the States, and from then on his job and ours is going to be to increase economic literacy out around the country to the extent possible. It's going to be to educate governors, mayors, and civil defense people, and business people about the nature of these kinds of problems, and about the nature of the solutions which tentatively have been worked out.

A year from today, a year and a half, two years, if the Russians will be good enough to adapt themselves to this kind of schedule, we ought

to have a substantially greater degree of preparedness in our particular field than has been the case up to this point. In fact, what is happening is that we are just commencing to reap the harvest of seeds planted over a period of the last five years. We compartmentalized preparedness in the early days, and we did what we could where we could. Sometimes we failed miserably and at other times we made a little progress. But in total the work done, not necessarily by OCEM, often done by people in other agencies and around the country, is commencing to bear some fruit.

As to the inadequacies and the deficiencies which continue, they would almost be too numerous to comment on. There are a few which are obvious.

The country as a whole has little inkling of the nature of these economic consequences of an massive attack. If you want to find that out for yourselves, start an argument in your living room or in the locker room or somewhere else. I think you will be regarded as the kind of eccentric who may have been an airplane spotter in the recent war. People just don't understand. They're not conditioned. They're not conditioned even as well as the Federal Government, which is not well conditioned. And so that job has to be tackled gradually and over a period of time. There are ways to do it.

Local and State capability in these fields that I have just commented on in passing is extremely limited. A tremendous educational and conditioning job is necessary there. Again it's within the competence and the

capacity of the country.

We have to translate this conversational preparedness into something definitive for any real standby preparedness. I think it can be done, but it's going to take a good deal of time yet, for it's too often a one-man or a one-agency or a broken-up, compartmentalized approach, when it could be a total approach by the whole country.

The competence of financial organizations with respect to the whole banking and monetary question post-attack has not been tapped to any extent. This is now on the horizon and ought to make a great difference. But until banking and financial people understand the nature of the economic problem, understand the tentative national policies which have gradually evolved, we can't expect any real preparedness.

And, finally, of course, an interesting and somewhat abstract question, How would we all respond in this situation? How would you and I respond? We are supposed to know more about some of these subjects than lots of people, and if we could define the manner in which we would respond, what would the people of the country do? What would economic entities, economic organizations, do? How would undamaged areas actually react and respond? These are the unknowns, and it's going to be pretty difficult to set conditions as to guarantee responses.

The only rationalization I can think of at the moment is one which the President seems to like to use. He says that it's planning that counts, not plans. This may be at least partially true. And so you rationalize all of this missionary work--and this is precisely what it is--all of this

early formative attempt to define wholly new questions and wholly new responses by suggesting to yourself or philosophizing that this is a missionary undertaking, and that it is itself a part of a long-term conditioning process; that perhaps three, five years from now, if the holocaust does not occur, better planners, better preparers, will do a better job of being definitive.

I don't know if this is the case, but it seems to me rather logical that as we gradually learn to live in this kind of world, we will improve our responses and will be able to draw more kinds of people into the work. In the meantime the preparedness goal in the stabilization field is to provide the basis for responses by those who survive in undamaged areas, even though they are cut off, and even while simultaneously civil defense welfare and and human/survival work is going on in the other damaged parts of the country.

Take

The concept is simple. / what survives, to the extent that it can be made to function and support the country at that time, and support it, buoy it up, breathe life into it, with a view to getting back to something approaching normal. Whether this is a useful goal, and whether it can be accomplished, I don't know; but it is the objective of preparedness in this field.

I have already gone overtime, as usual, and will have to deal with the things I have omitted or left out in our questions or in our later seminar sessions, where some of you are presumed to be a little more interested. I have not said anything about Operation Alert, which I was

supposed to cover; but will get to that later. Meantime you've had the broadest- brush kind of treatment of the total subject, and I hope it will be of some use to you in your final reports and the balance of the course.

Much obliged and good luck.

MR. PULVER: Mr. Phelps is ready for your questions.

QUESTION: Sir, in the course of your studies you have evidently made a fundamental decision that after an all-out attack you would attempt to preserve the money and banking system as we have it in this country, as opposed to doing away with money and freezing debt and Government conscription of all goods and materials. Would you give us a little of the reasoning behind this decision?

MR. PHELPS: Yes; and I can also qualify our decision.

I think you should assume that if the damage far exceeded a figure in the magnitude of 35 to 40 percent of our national productive capacity, we would be likely to assume that what we have in mind could not actually be done. You only have a couple of choices when you get down to it. On the one hand, you can assume that there would be such a mess that you would have to start all over again and extemporize and do what you could do. The risk of this is the disappearance of our kind of system, and substitution for it of barter or chaos or the issuance of script and so on.

This didn't appear to be the kind of preparedness posture which a country like ours should get itself into. And so it seemed to us that if this nuclear exchange were going to mean anything in terms of the

eventual resolution of world problems--and it's hard to see how it could-- but if it were, obviously we ought to find some way of preserving what it was that presumably got us in trouble in the first place. So our fundamental objective is indeed to preserve continuity of the kind of system we are used to, rather than to develop a kind of preparedness which would suggest a substitute for it.

Now, you could, of course, embroider this to a considerable extent if only in terms of psychology by suggesting that for people who survive and who can function, to do things they are used to doing, even though they are restricted, is far better than to impose on them in such a situation a wholly new way of economic life and economic activity.

I don't know whether these precise plans would ever work. Nobody can know. I would say that if the damage exceeds the magnitude I have suggested, there's a good chance they couldn't be made to work, for the consequences would simply be too great. And I might perhaps have to fall back on the idea that it isn't anyway the plans that are so important as it is the planning, which in and of itself conditions and would tend to guide useful responses as opposed to chaotic ones.

I think this is just a little of the background for this decision. I think that on balance it's almost the only preparedness decision which the country could take.

You may notice that it omits any discussion of the gray areas in between heavily damaged and undamaged. And, of course, it does not envisage any kind of functioning economic activity in the damaged areas.

We have gone all the way out to the end of the horn and started in those areas where preparedness would appear to represent a useful endeavor, and where responses presumably could be guided if people had been prepared. Then, as to the areas in between, we would simply suggest that when civil defense and refugee work, military control to the extent necessary, had run its course, this same general kind of preparedness, these same kinds of objectives, would hold for the people in those areas. And it's probable that in the heavily damaged areas there never would be anything closely approaching, at least never in a given generation, the kind of systems and the economy which is true today.

I don't know whether that answers you fully, but it's part of the background.

QUESTION: I wonder if you could elaborate just a little bit what you said about who was going to be responsible for exercising wage controls, because it seems to me that that would just about have to be done by the local governments because they would be the only ones that would be in position to take any enforcement measures.

MR. PHELPS: No. We thought the same thing for a long time; and in the course of discussions with our colleagues at the Department of Labor, who have been through this kind of subject before in connection with limited war^{or} in connection with World War II, we finally decided to give the Department a chance to do something which it thinks it can do, that is, to prepare its own wage-hour offices, which are numerous, which have a great many regional, State, and district appendages all over the

country--prepare them to the extent that they could undertake, with perhaps State Governors or local authorities, the wage-control job on an interim basis, as a substitute for Federal direction and control, until such time as an emergency wage and salary organization could be created and could be presumed to be functioning.

We have gone this route because the Department felt quite strongly, and feels strongly, that it has a competence and a capability to do this job; and that therefore we don't need to by-pass this built-in capability; that we don't need to turn to the State governors and the mayors and make them responsible for wage and salary control.

I don't know if this is true. The Department seems to think it can do this job. And so at this point in time we have simply said, in effect: "All right, Mr. Department of Labor, we'll give you a chance to go this route and see if you can prepare your State field wage and hour offices to the point where they would respond immediately to undertake the interim wage and salary job on a local State basis in the event of massive attack."

It may work. It may not. If it does not, then the job unquestionably would devolve upon local and State authorities. It's a sort of trial run and is being undertaken at the express request and recommendation of the Department of Labor. And it seems reasonable at this stage of the game to give them a chance.

QUESTION: It has been my observation that the degree of participation by Federal agencies in Operation Alert has been steadily

decreasing since 1957. And also we have been told that plans for the permanent relocation of Federal agencies in the Washington area have been set aside. Can you give us some reason for these changes?

MR. PHELPS: Well, I don't think I'd agree with either of those positions fully. With respect to Operations Alert, the job of getting realistic participation in the civil governments playing at war, or playing at attack, is a pretty difficult one, as much as anything, because so many of the executive branch agencies are indeed not yet fully conditioned to the kind of preparedness which is involved.

Therefore, given a rather questionable preparedness posture, given a pretty fuzzy idea of what national policy really is with respect to many aspects of preparedness--I won't name them, for fear of the wrath of my colleagues--but, nevertheless, in many fields there is not the definitive kind of preparedness today which sooner or later will be required. Given that situation, many Federal agencies have tended to give lip service to their participation in Operation Alert, have joined in in a sort of fuzzy way, and sort of sweat it out, and so on.

I don't think it's true that they are backing away, however; or that they have not continued to participate. They are under the gun and under the orders of the President to participate and to see that these exercises are held. My guess is that as the conditioning continues, and that as more definitive national policies are gradually developed, there will be, almost inevitably, more sensible and more useful participation.

In my own field, the participation of Federal Reserve, Federal

Home Loan Bank Board., and gradually of the Treasury Department is improving. We have a fairly active kind of participation; and we get a great deal out of Operation Alert. Perhaps the single greatest advantage is that for a short time we operate in a climate which permits us to force attention to subjects which otherwise might languish on the vine and not get very much attention.

The whole development of these basic post-attack financial and economic policies grew out of an early Operation Alert, for we were able at that time to get that subject out of the welter of subjects ^{and} before the President. And it was from that that the Cabinet committee was appointed, and gradually evolved some tentative policies, which have now been approved.

The Alerts permit us particularly to flag deficiencies, to point to the inadequacies of our preparedness; to prove, conclusively, that we don't really have much but conversational preparedness; and that localities and States are woefully unprepared. And then, having proved this, having gotten our particular agencies to concur in this sort of analysis, we use that to beat the Executive Branch over the head in a variety of ways during the ensuing year.

And so from our standpoint the Alerts, even though unrealistic, even though participated in on a somewhat questionable basis by some agencies, even though they may tax the capacity of the Federal Government today to make any sense of the question, and certainly even though they try to test a capability which doesn't exist in many fields, are still

useful.

As to relocation, in general the Cabinet has approved a relocation arc which provides for a number of agency relocation sites. In the stabilization field, for instance, our site has been approved, a special site, at which point emergency ~~special~~ stabilization agencies would be created as rapidly as possible under the circumstances. It is still proposed, as far as I know, that all of the important agencies relocate to their particular sites. And certainly it is assumed that a large body of Executive Branch representatives will at given times flock to the existing OCEM site, which is an extremely elaborate, underground affair, now fully completed, occupied, and able to sustain life and limb and activity for a rather long time in a locked-up status.

So that while again the Government may make somewhat feeble progress, and certainly painful progress, in this connection, I think it is safe to say that it is making progress; and that as the conditioning con-
and
tinues, more and more agencies, /more and more individuals will take this kind of thing somewhat more seriously and more actively.

The technique has been developed which sentences--that's the word most widely used--the representatives of a variety of agencies to a week's term or several days' term at this OCEM site, for instance. They have no choice but to go up there and grumble and gripe and look at the walls for a few days at a time. This in itself is a part of the conditioning process, and has quite an impact on people, no matter whether they think the whole business is pretty unrealistic or not.

I would say that the Government indeed proposes to continue its relocation activities and to improve them. But it may be some time yet before it's a part of the daily way of life. And certainly it will be some time yet, I guess, before the whole issue of national shelter really gets the attention which it appears to require.

QUESTION: We have been told that the President's response to one of these Operation Alert exercises was to institute martial law and that this disrupted the exercise. What you described would substitute local authority for martial law, as I understood it. Would you comment on the current status?

MR. PHELPS: It sure did disrupt the exercise. If you had wanted to see some agonized planners, you should have seen the OCCDM and other people who had this view introduced at the last minute in one of the early Alerts. However, they responded as only planners can; and in the course of the next 24 hours developed a position which was somewhat more acceptable to all concerned. The position, namely, was that, while there may be a place, and obviously will be a place, in many parts of the country in such a situation for military support and participation, it would be termed something like "military support to civil authorities." It would be anything but classic martial law.

As a result of this particular exercise, a committee was put to work representing the Joint Chiefs, OCCDM, the Department of Justice, and others to try to evolve just what this military support to the civil authority might mean. I am not certain; they may still be struggling; but

I think it's safe to say that the fundamental policy of the Government, at least as it is stated, does not envisage the widespread imposition of martial law; although it is obvious, I think, that in some parts of the country, if martial law were not actually involved, at least the participation and involvement of the military would be very substantial indeed.

I think it's safe to say, however, that there is no official policy-- there may be some cynical comments from time to time, but there is no official policy--which suggests the use of martial law as the fundamental response to massive attack on this country of the magnitude I have suggested. The whole attempt will be to so prepare the country that civil authorities, particularly in undamaged areas, can respond without the need for martial law.

I think no better example exists in the abstract than in the financial and monetary field. Why, in Pocatello, Idaho, should martial law be declared if Pocatello sits there, able to function, having its physical resources, its people, its manpower, untouched by destruction itself, and perhaps only briefly, if at all, by fallout? Why should in that situation the country's preparedness consist of the immediate imposition of martial law? Why not instead, with respect to Pocatello, prepare the people and the organizations in and around that area before this ever happens; so that, even though cut off, they could respond in the direction of sensible national objectives?

I really think that, while it's all right to be cynical and assume that maybe this thing would take on such proportions that in the last analysis

the rifle and the bayonet and the police power and martial law might turn out to be widely necessary, there is also room for a wholly different kind of reliance and a wholly different kind of preparedness. And my guess is that, given the sensitivity which surrounds martial law, it will tend to be played down and the reliance placed elsewhere during the preparedness period in any event.

I suppose you can always say that the Military Establishment is presumed to be ready to deal with its mission. And so if somewhere in the underbrush there lurks the possibility of martial law on a selective basis, this will be a decision made at the time and the military will be ready to support it.

QUESTION: As tremendous as our problem is, it appears that the Russians, with their highly centralized government, might possibly have an even greater problem; and if they have thought about it as much as we have, I hope that that will assist in deterring them. Have you made an analysis of our position vis-a-vis theirs in this field?

MR. PHELPS: I certainly wouldn't want to call it an analysis, because I've never been able to get the same story twice from the sources that I've been in touch with. Over a period of two or three years I have been very interested in trying to discover whether other countries in the world, particularly European countries and perhaps Russia, were taking seriously these questions of mobilization preparedness and civil defense. I have been able to talk to numbers of people who have gone to these countries and have asked them to try to keep an eye open for any signs

of work in these fields.

I will have to say that I get a very spotty picture. There are countries in the world, the Scandinavian countries, for instance, which seem to be taking the digging-in process very seriously indeed. Shelters are part of their way of life. Industry in many cases is going underground, and so on. In other parts of Europe, and perhaps to some extent in Russia, there do not seem to be very many outward signs of much preoccupation in these fields.

Russia is presumed to have a hangover civil defense organization, a preparedness organization, which it has reorganized in recent months or years; and is supposedly doing something in these fields. But everyone I have talked with that has been there comes back with nothing very definitive. I haven't found in many of our intelligence sources anything really useful.

This is partially true of the European countries, although I also understand that at some of them there is an attitude of resignation, on the ground that they are right next door to the source of all evil; and that therefore, from their standpoint, it doesn't seem to be a sensible thing to spend as much time or as much effort in the preparedness field as this country is trying to do.

I can't give you a good answer. I really don't know what some of these countries are doing and thinking, and I haven't been able to find out. Perhaps some of you would like to act as emissaries when you take your Odyssey; and when you come back, we'll have another seminar and

you can report on what you found. I suspect you'll find a very spotty sort of picture, for this is all I have ever been able to uncover in the course of a good deal of questioning and a certain amount of reading.

QUESTION: Would you not suspect, though, that with their more highly centralized government, speaking of Russia, their problem is more complex even than ours?

MR. PHELPS: Well, you would lead me into quite a discussion. I can't say that I would immediately agree. It's true that maybe because they are more centralized in some respects, they are more vulnerable. But, on the other hand, their standards are so different from ours and their sets of values are so different, the area of their country, the population, and so many other things being so different from ours, I don't know whether they would be a lot worse off than we in terms of responding to massive nuclear attack or retaliation, as the case might be.

I don't think I'd want, just thinking out loud, to put too much faith in that assumption, for I can't conceive of a more intricate economy than ours and one which is more a part of our day-to-day way of life; and to think in terms of having a couple of hundred nuclear weapons dumped into the middle of it suggests to me a kind of problem and a kind of consequence which it would be difficult to equal almost anywhere else in the world.

Maybe I don't know enough about Russia. I've never seen it. But I just have the feeling that there may be some inherent advantages which reside with Russia in terms of responding to massive attack, rather

than inherent disadvantages. I certainly feel that we have a tremendous quantity of disadvantages arising out of our complexity and intricacy and so on and our concentrations of population and productive capacity.

MR. PULVER: Mr. Phelps, on behalf of the Commandant and the student body, I want to thank you very much for your frank and forthright discussion of this most difficult problem.
