

464

THE ARMY INDUSTRIAL COLLEGE
Washington D. C

Course 1935-1936

THE CONTRIBUTORY DIVISION
PLANNING BRANCH
OFFICE OF THE ASSISTANT SECRETARY OF WAR

by

Lt Colonel Frederic A Price, C A C

February 25, 1936

AIC 151 (2/21/36) 8

463

CONTRIBUTORY DIVISION
OFFICE OF THE ASSISTANT SECRETARY OF WAR

With respect to planning for a war emergency, we may adopt some specific tactical plan of Army organization, we may establish the character and quantity of equipment to be provided, may then plan for the induction into the armed forces of a certain total of men at a designated rate. Finally, we may adopt a schedule of replacement for expended materiel.

To provide for the acquisition of personnel and materiel necessary to meet these projects we have several planning agencies in the War Department. You have had presented to you the functioning of the General Staff with particular attention to the supervision of planning for Selective Service, for tactical organization and for type of all military supplies and equipment.

The series of lectures by members of the Planning Branch of the Office of The Assistant Secretary of War has presented to you the industrial planning for an adequacy of munitions to meet the materiel requirements of this nation in time of war.

In planning for the war-time mobilization of industry we find that any consideration of the conditions under which the requirements of a war of major magnitude are to be obtained leads inevitably to the study of certain factors which are contributory to the success of actual production.

We may establish the fact that there exists in the country the physical evidence of sufficient mechanical ability to fulfill such demands as are required by the adoption of some specific tactical plan of organization. We may go further than that and actually survey each facility to determine thereby just what particular type of munition requirement it is most suited to produce. Having done that, these facilities may be allocated to the Army and to the Navy, and within the Army to the various supply arms and services for the production of munitions peculiar to the requirements for which such supply arms and services are responsible. These branches may, in turn, enter into an agreement with such facilities, so that in time of emergency the Government may be able to count on these allocated facilities for the production of certain items at specified rates of manufacture.

All this may be done and yet give us no assurance that the materiel needed in a war effort will actually be forthcoming in the quantity and at the rate desired.

To have, as it were, made a survey of static industrial conditions to determine the volume of potential capability of production. To complete this analogy then, we must consider the kinetic forces that, acting upon potential capacity to produce, will transform raw material into the finished product of war munitions and supply it to the armed forces at designated points of delivery.

Among such contributory forces, this division studies the problems of War Labor, War Trade, Public Relations, Price Control, War Finance, Transportation, and Power and Fuel, in respect to the degree of aid which an efficient operation of these factors may contribute to the assurance of an adequacy of war munitions. These sections are shown on this chart of office organization as embryo units which later may develop into the separate administrations of a superagency character during a major war emergency.

The Contributory Division is concerned primarily with the assurance of an efficient operation of these contributory factors rather than with exhaustive studies of the character and required volume of each subject or with the details of the operative control which will be necessary in order to secure a unity of national operation in time of a major emergency. As a result of World War experience, and influenced by the changing conditions in our national economy, this Contributory Division seeks to maintain adequate plans for the organizations that we believe will be necessary to control and aid these contributory forces during our next major emergency.

It was not long after our entry into the World War that it became acutely evident that the magnitude of the task would require a centralization of power and direction over practically the entire range of social and industrial activities that theretofore had been undreamed of as even a possibility in our conception of a democratic government. Activities that thus came under an abnormal amount of governmental restrictive control included the subjects which now form the sections of the Contributory Division, viz., War Labor, War Trade, Public Relations, Price Control, War Finance, Transportation, and Power and Fuel.

Labor presents an ever-present problem not peculiar to war-time conditions. Any abnormal period, whether of war emergency or of economic depression, intensifies the problems which are inherent to the relationship between the employee and the employer. The period of the World War saw the eruption of the labor problem in all sections of the country - in the northwest with respect to lumber, in the far west and in the southwest with respect to oil and copper, in the middle west with respect to meat packing, as well as

to lake transportation and to coal mining, in the east and south with respect to shipbuilding, mining and many mechanical industries. These and many other labor disturbances caused a tremendous amount of injury to our industrial program through consequent delay in production and transportation, and in actual loss of materials. The tremendous labor turnover due to abnormal wages and the bidding for labor by many employers were additional causes of loss in efficiency of production and present like problems in the future for which a solution is mainly to be found in the appointment of a war Labor Administrator immediately after M-Day. The policies of the present administration as evidenced in the ramifications of the New Deal organization, present changing conditions in the economic status of labor which will materially affect the degree of control which it will be possible to institute over labor in the next major emergency.

It is the duty of the Labor Section, through liaison with organized labor, with industry, and with governmental agencies engaged in carrying out the labor and industrial policies of each political administration, to keep informed of the changing economic status of labor in order that plans for the organization of a war Labor Administration and for its method of operation may be continually modified to meet current changes in the status of labor in our national economy.

You have had presented to you a lecture on "Strategic and Critical Raw Materials" giving the list of those essential raw materials whose acquisition in time of war presents varying degrees of difficulty. Trade conditions under which they may be obtained depend on the location of enemy forces and the extent of enemy influence. Plans for war Trade operations to acquire necessary strategic and critical raw materials therefore cannot rest upon the terms of a general mobilization plan but must be contingent upon particular color operations. All other sections of this division base their plans upon the assumption of a general mobilization - War Trade, however, depends entirely upon a spectral origin. Now that the Commodities Division has progressed to the point where a clear conception of the nature, location, and use of strategic and critical raw materials has been obtained, we can proceed with definite planning for the war Trade necessary to obtain needed amounts of these items.

The Public Relations Section is charged with the responsibility of planning for an organization that in time of war will be able to place before the public such information, with respect to the participation by industry and labor in our procurement program, as will secure the wholehearted cooperation of the people at large in all the direct and contributory production necessary to meet the

requirements of the armed forces. Plans for censorship in time of war have been approved by the Joint Board. Plans for publicity with respect to the recruitment of volunteers in the first few weeks of a war and propagande to secure a favorable reaction of public opinion to the institution of Selective Service have been well advanced by G-1. There is yet needed action along two definite lines of planning under this title

First - A plan for the coordination of such publicity as in time of war may be instituted by various divisions of the War Department. This includes principally the General Staff, the Adjutant General, and The Assistant Secretary of War's Office.

Second - A plan for the coordination of publicity by the Army and the Navy to include the recognition of the character of certain necessary propaganda and a study of the most effective means of instituting methods of propaganda dissemination.

The rapid rise in prices during the World War early necessitated the control by governmental agencies of the prices of certain commodities. Just now we have been passing through an emergency period of economic depression in which we have experienced another endeavor by the Government to effect a certain control of prices. The practicability of such price control measures at this time has been as debateable as were the measures instituted during the World War. In either a war or a depression emergency most people believe in some controlled limit to prices - but the organization to effect this result and the means to be used continue very much of an unsolved problem.

Among the items to be considered as presenting a vital problem for price control during a war period is the subject of profits. Utilizing this item for its popular appeal value, the Nye Committee of the last session of Congress presented a bill for the control of our national economy during a period of war. This Committee was of the opinion that price fixing is only a subsidiary measure in war. They believe that the great calamity to be avoided is inflation, and that inflation does not come from high prices, but that high prices come from inflation. They are further of the opinion that if they can conduct the war without inflation they can, per se, conduct the war without high prices. It is their belief that they can prevent inflation by paying for the war with money that is already in circulation and without increasing the credit structure of our financial system.

46

To do this, they are depending upon a greatly increased scheme of taxation in order that the costs of war shall be met out of current receipts from these taxation measures. If, then, the war can be conducted without increasing the national debt structure and without expanding the total credit available in peace, the Nye Committee believes that prices in general will be but little affected by the occurrence of war.

The power to fix or to control prices entails such momentous consequences that it has been the best judgment, past and present, that it should be vested in a competent committee rather than in one person comparable to the administrator of a superagency.

It is the duty of the Price Control Section to study the price control measures instituted during the world war, the economic changes since that date that have changed the market conditions throughout this country, and to recommend an organization for effecting price control measures in a future war together with recommended methods of procedure in order that such price control measures as may be adopted will not act to stifle industry and so imperil the fulfillment of requirements for the armed forces.

Under the broad subject of War Finance, during the World War we saw the creation of the War Finance Corporation to advance money to banks through the re-discount of commercial paper, the War Credits Board for the advancement of payments to contractors on partial completion of contract, and the Capital Issues Committee to regulate the character of new financial offerings in order to conserve the Nation's money for investment in such activities as were considered to further the best interests of the Nation. In another emergency there will be the necessity of meeting the same problems and in recognition of this fact the Nye Committee incorporated in their proposed bill a "War Finance Control Act" which provides for a Commission which shall pass upon all securities offered to the Securities and Exchange Commission for registration and which shall be authorized to make such loans to industry as it may deem necessary to further the usefulness of any establishment necessary to the successful prosecution of the war. Modifications in our banking system, and the inauguration of certain new regulatory commissions over commercial financial operations are causing a considerable modification in the necessity for expanded wartime financial control. As for example, the present Securities and Exchange Commission has virtually taken the place of the

war-time Capital Issues Committee, and if the Reconstruction Finance Corporation were to be continued in its present, or in a modified form, its powers could very readily be expanded to supplant the necessity for the War Finance Corporation of the world war.

The work of the War Finance Section of the Contributory Division is to study the effect of World War financial operations, and recommend for future war periods such financial institutions as past experience warrants but modified by current powers of existing governmental financial agencies.

The character of the impasse into which our transportation lines were forced during the early days of the world war is still fresh in all our minds. Governmental control over railroads was then the only solution. Can we provide for any less drastic measure in the next war that will secure the necessary results? Or will we have to provide for a Transportation Administration to consolidate the managership of all lines and methods of transportation? Will the present system of allocation of facilities eliminate the congestion that was prevalent or will it be possible to designate rail, water or highway transportation for the forwarding of certain munitions to indicated points of delivery? These are a few of the important questions to be considered in the Transportation Section.

The emergency of an economic crisis has precipitated official consideration of the present status of our transportation systems. An independent planning agency for the amelioration of existing transportation conditions has been formed under a Coordinator of Transportation. His latest recommendations for certain economies will be followed with interest for disregarding the method used in Great Britain to obtain the same result, our Coordinator has only obtained the bitter opposition of organized labor to his proposed scheme.

The great rise in highway freight traffic in the last fifteen years has injected another factor for study in this section. We are in the midst of a vital rearrangement of our transportation condition that in the course of the next two or three years should enable us to crystallize our plans for the efficient cooperation of the transportation industry of this country in moving the munitions of war where needed and when needed.

The study of power facilities, their geographic relationship to industry and the probable load to be required by facilities engaged in the manufacture of munitions, present

a few type problems under the power half of the Power and Fuel Section. Any study of the power subject is closely linked to certain activities of the Government since the World War, with special reference to those of the present Administration. The development in recent years of vast power corporations with their control over numerous subsidiaries, making possible an exchange or relay of power over great distances, has modified considerably World War power conditions. The entrance of Government-owned corporations into this field, and the extension of a more rigid Government supervision over privately owned corporations, present a continuing factor of modification in our plans for an organization to control the supply and distribution of power during a major emergency. The control of power distribution in time of war, which under the proposed 1936 Industrial Mobilization Plan will be vested in the Power and Fuel Division of the War Resources Administration as one of its Control Divisions, has been provided for under the terms of an amendment to the Federal Water Power Act approved August 26, 1935, which gave to the Federal Power Commission the following authority:

"During the continuance of any war in which the United States is engaged, or whenever the Commission determines that an emergency exists by reason of a sudden increase in the demand for electric energy, or a shortage of electric energy or of facilities for the generation or transmission of electric energy, or of fuel or water for generating facilities, or other causes, the Commission shall have authority - - - - to require by order such temporary connection of facilities and such generation, delivery, interchange, or transmission of electric energy as in its judgment will best meet the emergency and serve the public interest."

Linked intimately with Power is Fuel, for much of power is a transformation of fuel into electrical or mechanical power units. Fuel does not yet present any great problem based upon its volume of occurrence. The prodigality of the American people in the exploitation of our natural resources is, however, a matter of concern, lest through uncontrolled production we wastefully deplete a fuel resource that is of vital necessity in the tactical operation of armed forces on sea or on land. The special fuel problems for a not too far distant war are concerned with those presented by the necessary labor to produce and facilities to transport, rather than by anxiety over existing quantity of the raw material.

These seven sections of the Contributory Division thus have subjects which present situations for study and for control planning based primarily on World War conditions,

but suffering constant modification due to those changes which are continually appearing in our economic and social life. Our plans for a future war emergency must be based upon the lessons learned from the factual conditions during the last one. The underlying economic conditions of the future, however, are subject to such radical change that only by a close study of current happenings in finance, industry, government and social relationship can we provide adequately for that control over these contributory forces to production which is necessitated by the rapidly changing conditions of the relationship among those factors of our national economy.

167

THE CONTRIBUTORY DIVISION

(Discussion following lecture by Colonel Price)

2-25-36

Q - The Army and Navy Munitions Board has a lot of those same duties and functions as the Contributory Division. How do you avoid duplication of effort in these two organizations?

A - There is no duplication of effort because you must remember that the Army and Navy Munitions Board is not an integral factor distinct from this section of the O. S. - that we form one-half of it - therefore our labor is theirs.

Q - Two of the subjects studied by your Division are price control and war finance. Do you find it possible to consider those two subjects as separate and distinct from each other or are they so closely inter-related as to be inseparable?

A - Of course they are interrelated because modifications in price control will cause changes in the financial operations which may be necessary to meet changing conditions. Changes in price mean changes in return and profit and so influence the necessity for obtaining financial aid from the Government, so the two are closely dovetailed together.

Q - You spoke of the liaison with labor and the difficulty which labor injected into the consolidation of transportation. I would like to ask what practical steps would be taken in planning for the War Labor Board in view of that attitude?

A - I only spoke of that attitude with reference to the present recommendations of the coordinator of transportation which have now been presented to Congress. They are being violently opposed by organized labor for the reason that the Coordinator has come out with a scheme for consolidating certain railway facilities in eleven cities of the United States. In order to effect that consolidation and reap a financial benefit it will be necessary to discharge a large number of railway employees, therefore the railway brotherhoods are actively engaged in combatting these proposals.

of the Coordinator of Transportation. The British had the same problem and they solved it in the same way but they made a provision that no man could be discharged from railway employment by virtue of any consolidation of facilities, so labor was kept in their positions until they retired from old age, or transferred to another job.

Q - In this set-up where does the War Resources Administration fit into the picture in its war-time status?

A - They don't fit into this picture, this picture fits into them. We are the embryo that may develop into similar organizations within the War Resources Administration and their planned organization is the same as ours. We have sections which are comparable to theirs.

Q - Does the War Resources Administration take over the Contributory Division's duties?

A - These sections of the Contributory Division which start here as purely planning agencies in our office form half of similar organizations within the Army and Navy Munitions Board. In time of war emergency the divisions of the Army and Navy Munitions Board are available for transfer to the War Resources Administration in order to form similar organizations and sections in it. They don't have to go over but if the Administrator desires them, our records and personnel are available for transfer.

Q - You spoke about the Nye Committee having recommended that the next war would be financed out of money in circulation and the Nye Committee also recommended that there be a board appointed to control issues of securities to finance a war.

A - No - not securities to finance the war - securities to offer to the public. All securities which are to be placed on the market during the war period would have to go to the War Finance Commission before going to the Securities Exchange Commission for registration on the Exchange.

Colonel Jordan The Class will later visit Pittsburgh will you please say something about the power situation in Pittsburgh - whether it is ample or if there will be a shortage? Pittsburgh is one of the vital areas as far as the manufacture of munitions is concerned and I would like to have the class hear from you on that subject.

470

A - Pittsburgh was one of the vital areas so far as power was concerned during the World War and was one of the three or four localities in which a power shortage occurred. Power conditions at this time are very interesting because during this economic depression, or since the turn in the summer of 1932, we have been having a great increase in the curve of electrical power consumption. That has been due to the great increase in domestic consumption. We speak of the mechanization of industry but our social life is getting to be more highly mechanized than our industry and the next few years will see a further increase in it. The commercial power has made quite a dip in the consumption curve during the depression. There has not been since 1929 any increase at all in power production capacity, so it has been pointed out continually in the last two or three years that as soon as we get in a status of industrial recovery we are going to experience a great shortage in electrical power. That means that if war should occur within the next three or four years undoubtedly there will be a serious power shortage in a number of industrial communities. As this shortage becomes evident, however, business will of course take care of it and build to meet it. Any such building, however, takes at least a year and a half and in large hydro-electric plants probably from two to four years, so it will be a considerable period of time before we can reach a condition that is even as good as we had in the first days of the World War. There is a reserve officer who is on duty with the Federal Power Commission who has made a very intensive study of the power situation in the Pittsburgh area and has given us a study with respect to certain plans which he thinks could be placed in operation in order to break temporarily this power shortage until additional power units might be instituted. There is one thing we must remember with respect to shortage of power and that is that this tremendous increase in domestic consumption of power has in a way given us a large possible reservoir from which we might be able to draw in time of emergency. You remember that during the last war we had meatless days, gasolineless Sundays, etc., and there is no doubt but that under a proper system of propaganda we could again get the cooperation of the public to such an extent that at least during certain peak hours of load the consumption would be willingly curtailed to such an extent that the resultant amount of power would be of great value in industry. However, that power situation in Pittsburgh is a sore point and probably will be for some time. Even the development that has taken place under the T.V.A. is not of any great value as far away as Pittsburgh. The ordinary

distance for transmission of power economically is 250 miles so you can see that even with a large installation any distance away from an industrial center it is not possible to get the maximum benefit where it is most needed. The study of the transmission of power over long distances however, is being made now in a very intensive manner and several people are taking very much interest in it. I noted in a recent number of an electrical magazine a long article with respect to the possibility of transmitting power over 1500 miles. The cost, however, of such an operation which entails a system of synchronous transformers at least every 100 miles together with a so-called "tuning" of the line which entails a proper balancing of inductance and capacitance, is so much greater than the cost of power from individual installations at places where it is needed, that it is out of the question at the present time. Pittsburgh is one of the sore points in the power situation.

Q - Does Pittsburgh power come from Niagara Falls?

A - No, it is of local production. Niagara power is taken eastward up the Mohawk Valley. There are some new power production facilities in process of construction near Pittsburgh but they won't nearly cover the quantity that will be required when and if this country gets back to its full industrial production.

Q - Have the sanctions of our neutrality policy had any effect on planning of your War Trade section?

A - They of course will. What is sauce for the goose is sauce for the gander. If a country agrees to certain sanctions against other governments at war they cannot but expect to have the tide turned against them when their own war emergency arises.

Q - During the past years you have not made any changes in reserve stocks?

A - No.

Q - Does your division favor any particular plan as to price fixing?

A - We do not believe in the Baruch plan which is that a definite ceiling shall be placed over all prices. The Baruch plan contemplates that no price during a war emergency shall rise above a definite ceiling instituted by Government direction. The Nyc Committee recommended under the functioning of the price control commission that they be empowered to fix prices as of a certain time or aggregate of time which existed before the start

471

of war and not further back than a certain number of years before our entrance into the war, and that the price so fixed by this commission should give to the farmer a certainty that his purchasing value should not be decreased thereby. There are enough ifs and ands in their wording of the power and their direction to this price fixing commission, however, so that they can virtually fix any price that they desire. There are two broad avenues of thought concerning price control, one is to fix definite prices for all commodities and services, etc. The other thought is that if we fix prices of raw materials which we can assume to be the start of our economic flow of prices through all commodities, then we have instituted a governing power over subsequent prices and if you fix the price of raw materials, then in the natural course of events there is not the same tendency for the price of finished products to fluctuate as when prices are uncontrolled from the first sources of production. If by instituting control over the prices of raw materials we prevent rise in prices of finished products, then labor will have no excuse for demanding increased wages, giving as their excuse the increased cost of living. When prices of raw materials are controlled at their source the natural forces of supply and demand are allowed to effect changes in value after that according to their own law of balance. These are the two definite schools of thought.

Q - To get back to the Pittsburgh problem, is coal the source of all power at the present time? Is there some hydro power?

A - There is some of both. A good many hydro-electric plants operate in conjunction with coal plants and you throw in your coal plant at the time of your peak load of the day or of the season of the year.

Q - I would like to hear an exposition of the ideas of the Contributory Division on this thought of the Nye Committee that a major war could be fought without a credit inflation. What is the idea of your division on that?

A - The Nye Committee bill is divided into a certain number of parts. The first part deals with the financing operations necessary to finance a war. That part is not published in our 1936 Industrial Mobilization Plan, and the representatives of the Planning Branch and the War Department before the Nye Committee stated that the War Department did not feel itself competent to pass any judgment upon the methods instituted to finance a war but that the only point the War

Department would make was that in its opinion no such financial control measures should be instituted as would in any degree stifle industry or place any restriction on the flow of material. That was as far as the War Department would go in giving any opinion as to the practical methods of financing a war.

Colonel Harris For the benefit of the reserve officers present I would like to repeat something of the conflicts as to the responsibility of the War Department in planning. There is no contemplation in time of war that the War Department will operate any of these controls discussed this morning. Colonel Jordan stated something of the magnitude of this Division and I quite agree, but the calm and effective approach of the subject by Colonel Price has resulted in a marked advance in the solution of the problem. Colonel Price is another officer who is completing his tour and one who will be very greatly missed in our organization.