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CONTROL OF NATIONAL RESOURCES IN A MAJOR WAR

by

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If I may qualify the expectation of "a very fine talk", this to me is perhaps the most Horatio Alger experience I have ever participated in. I feel embarrassed. I hope this will not be too visible when I am through speaking.

Less than three months ago for the first time I visited this building in an effort and in the hope of finding out something about industrial mobilization, and about the plans for the adjustments business must make in the event of any future war. At that time, very frankly, I knew nothing about the problem. I was fortunate in having as my guide, Major Sadler. After the first day with Major Sadler I returned to my hotel and was in more of a daze than when I started. In all fairness to Major Sadler, that is no reflection on the information he imparted to me during the day. On the contrary, he gave me so much information in the course of that first day that I had the feeling that he was rushing it all to me fast because war might break within twenty-four hours. From that time on, I was able to grasp a little more each day, in the hope of preparing some brief analyses in our bi-weekly reports for our more than 25,000 industrial members.

The quickening of the international pulse some six weeks ago and the possibility that recurring crises might bring about the events discussed so much here, impelled me to start a project, the nature of which I wasn't entirely sure of at the time I started. I had an interesting conversation with Mr. Johnson and he suggested the need for a clear, impartial, honest analysis of the plans formulated in the various branches in the Office of The Assistant Secretary of War, with the hope possibly that that study could in time of war become the means of quickly, effectively and simply imparting the new information to business. That was six weeks ago. This morning I had the personal thrill of looking for the first time at one of the first of the completed volumes. I brought the first few copies down with me. Major Sadler suggested that I place perhaps five of the copies that I am leaving with The Army Industrial College in your hands now, and, if you care to, they can be circulated and glanced at while I am speaking. As a matter of fact, it may be a necessary diversion.

It is presumptuous of me after merely two months' research to discuss the control of the nation's resources with you after your study of at least a year. Not only is it presumptuous but practically impossible even to scratch the surface of the problem in the course of three-quarters of an hour. I do feel that it is possible, though, to raise some of the questions that occurred to me in the course of the research that I did, some of the questions which obviously could not be discussed in the book, some of the problems that must be settled here, if they are not

already settled. I recognize that there is much information that was not made available to me, both because of the pressure of time and because of the politics, in the wider sense of the word. I hope I will be forgiven if I should happen to label as unsolved, problems which are solved. I have no way of knowing, but these are to me the most important problems.

One primary thought concerning the control of the nation's resources impressed me most. That observation is, essentially, that it is impossible to regulate or control the operations of one segment of our industrial economy without concomitant supervision of all of the other factors with which that segment is joined. Perhaps I can clarify this thought by an over-simplification.

Let us assume that in time of war the military machine demands of General Motors that it produce 200 military trucks monthly. I use the word "demands" advisedly. This quantity is well within the ability of General Motors to meet during peace time. To assure delivery, the procuring agencies establish close observation of the activities of General Motors. In making the demand, a price is reached which, on the face, justifies the company's cooperation and assures it a reasonable profit.

But if the regulation, planning, compulsion and demands were to stop at that point, the likelihood is that the required production must sooner or later bog down. If the price of contributory materials required by General Motors were left free to the exercise of the economic laws of demand and supply in time of war - if a number of the strategic or critical raw commodities, rubber, manganese, tin, etc., which are necessary in the manufacture of those trucks, were available or not depending upon the freedom of world shipment at the time - if labor were left free to exercise the power which two new factors will have given it (the depletion of the labor market by protective mobilization and the increase of its value by the desperate need for its aid) and were permitted free exercise of that power through strike, slow-down, sit-down, or any of the other useful weapons which are in labor's arsenal, or if the components which go into the composition of the cost of living were undetermined by law, unsupervised by regulation and uncontrolled by Government - if any of these were permitted to function willy-nilly despite the demands upon General Motors for its trucks, despite the threat even of commandeering of plant and equipment, if the demand is not met, troops would walk to the encampments and battlefields, not ride.

I urge this observation on you not as a novel one - it is the very essence of the studies which have been conducted here. I urge it strenuously, however, because while the need has been made clear for the immediate control of all of the factors involved in our economic system which are necessary to the prosecution of a war, the actual planning, or perhaps more accurately, the actual details

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of the plans themselves have either been not as carefully formulated over one phase of our economic life as over the other, or for a number of reasons have not been publicized.

I recognize the peace-time difficulty of publicly discussing any limitation of the freedom of labor, particularly during an era when labor has just begun to lose its milk teeth and sink its new found molars into substantial food. I am concerned, however, over the possibility that the political wisdom which has impelled the soft-peddling of planning for the control of labor, prices and war profits has also perhaps inhibited the actual planning itself. I firmly believe that concrete labor plans, industrial mobilization plans, price control, the exercise of priorities, war-time discouraging of non-essential enterprise, and war profits control, must not only each be equally as well defined in time of peace, and the administrative mechanism as carefully planned for one as for the other, but I also believe that each of these can be made politically and psychologically palatable. I believe that palatability must flow from two things; (1) the demonstration to labor and capital that they are both regarded as equally important components and only as components in the control of the nation's resources; and (2) that each will be accorded certain guarantees, certain assurances to which they are each entitled and which will adequately protect each. Let me illustrate:

Labor in time of war must pay two prices (1) It must furnish the almost complete bulk of man power in protective mobilization, since the bulk of the country is actually labor in field or factory; and (2) It must not in the exercise of either whim or direct need impede the flow of production needed for the successful conduct of the war. Will labor willingly pay these two prices?

There has been much loose talk of late that immediately upon the commencement of the next war our democracy dies. If plans have been made for the burial, I have not been let in on them, and if an agency has been prepared for that democratic cremation, frankly no evidence has been available to me here at the Army Industrial College or the Planning Branch. I was interested this morning in sitting through the first committee session that I have ever attended. If the procedure which was followed there is the prelude to the death of democracy, my powers of observation have been completely clouded by the war atmosphere here - and I found less war atmosphere here than I have in practically every civilian group I have attended within the last ninety days.

To return, modern war presents little opportunity for parliamentary quibbling and offers small premium for sentimental sophistry. War effort must be fast, complete and unreserved, and frequently, brutal - brutal in its effect on the civilian front as well as on the war front. But, (and the reservation is a big "but"),

while the arena of control will shift from the halls of parliamentary congress to the office of an administrator, that administrator and those dictatorial powers will be no less under the control of public opinion in this democracy and no less subject to the vagaries of political pressure than they were in Congress. If there is any doubt of this, let us recall that during the World War, despite the unanimity of public opinion about the need for successful prosecution of the war, despite, and let's not kid ourselves, the actual dictatorial control which was in the hands of Wilson and exercised by his appointees, when the switches in the railroad yards froze in December 1917, not only was the war dictator subject to political and editorial heat remorselessly focused on him, but even his own Democratic chairman of the Senate Committee on Military Affairs in a speech before the National Security League declared that, "The military establishment of America has fallen down. There is no use to be optimistic about a thing that doesn't exist. It has almost stopped functioning because of inefficiency in every bureau and in every department of the Government of the United States." And Theodore Roosevelt then led the audience's unrestrained sheering after that vocal burial of the possibilities of American success in the war.

I mention this not as criticism of the criticism which existed but as proof that under our form of government no matter how one-man the control, how drastic the regulation, the concessions which will be compelled from the various segments of our economic society must be bought. Thus, if labor, to return to my thought, is to agree to absolute non-stoppage of essential productive activity, it will demand, and must receive, the following assurances (1) That industry will not be permitted to profiteer at the cost of the civilian population - and this means war profits control over industry; (2) That industry will not be permitted unreasonably to increase the cost of living beyond labor's ability to pay - and this means price control; and (3) That labor will have the opportunity to earn its just share of any legitimate profits which war brings to industry - and this means the continuance of the right to collective bargaining and the assurance that the legitimate demands requested in collective bargaining will be forced by the Government if the freedom to strike no longer exists.

Now we begin to see the interrelationship between the segments of our economic society. If labor is to pay its price, it demands three guarantees which in turn are prices to be paid by industry. Will industry pay these prices? Will it submit to profit control, price control and collective bargaining? The answer here again is "yes" if it in turn is guaranteed a number of things: (1) That labor will not be permitted arbitrarily or unreasonably to make demands for wage increases which have no relationship to the profits of industry or the cost of living; (2) That labor will not be permitted under any circumstances to stop production in essential

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enterprise; (3) That industry will be assured adequate power, fuel, labor and the necessary raw materials which go into the construction of an essential commodity; (4) That any war profits taxation will not only leave business with a profit but leave it with a cushion on which to fall during the post-war readjustment, (5) That it will be provided with the necessary labor, skilled and unskilled, despite protective mobilization, and that it will be able to retain those of its key men who are vitally necessary to its activity; (6) That the determination of what is essential enterprise and what is not essential in time of war will be reasonable, and (7) that it be informed promptly of the ways in which business can best adjust itself and alter its activity in order to avoid war-time discontinuance and the resultant impossibility of peace-time resumption.

What will be considered an essential or non-essential enterprise? To what extent is pre-war thought being given to this most vital of all questions to industry? Here more than anywhere else industry needs the assurance that the determination will not be arbitrary or capricious. One amusing instance is related. During the World War when a list was compiled of non-essential cotton manufactures the administrative officer in charge came to corset laces and in disposing of that problem, commented. "Corset laces are certainly not essential. They can just as well wear them without any trimming."

The control of prices is perhaps the keystone upon which the entire industrial mobilization effort must rest. Without the control of prices we might just as well forget the control of labor. Without the control of labor, the control of industrial production starts off not only lame but with a crutch broken. As yet there is no unanimity of opinion as to what the method for price control should be. I share the opinion of a number of the officers here with whom I have spoken, contrary to the price control philosophy elucidated by Mr. Baruch, that an attempt to control all prices is not only uneconomic and undesirable but impossible. The mechanics, the administration, the policing, the enforcement, the constant supervision involved in the control of all prices is beyond the grasp of any one man's imagination, even Hugh Johnson's.

More important, the war effort does not rest or depend upon all prices. It does depend vitally upon a few basic costs. Those who would fix all prices would set a ceiling determined by the average price for a period of years prior to the outbreak of the war. A price structure so fixed would find it difficult to withstand three months of war conditions without cracking in a dozen places. If proof is needed of this, examine the price structure and change in the three months after the beginning of the World War compared to the three years prior and see if you can find any consistent pattern applicable to all prices which demonstrated any uniformity for thirty days after the World War, let alone ninety.

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A more reasonable approach and one more capable of successful accomplishment is a plan which would enable a price control commission to fix and supervise the prices of the basic commodities which are essential in industrial manufacture, as well as the basic costs of goods and services which go into the elementary construction of the cost of living. Fix these, the basic commodities for industrial manufacture and the basic components of the cost of living, and the rest of the prices will adjust themselves. It is true that luxury prices, if uncontrolled, will shoot sky-high even though non-essential in war time. There is little sound objection to this in face of the fact that the substantial portion of the profits of the luxury manufacturers, distributors and sellers will be recovered in war taxation. War profits, even unreasonable profits, are not necessarily undesirable in time of war so long as a substantial portion of them will be recovered by taxes and so long as their existence in the first place does no harm to the civilian population. Encourage the spending of money in war time, even for nonsense. Don't buckle it up, unless there is the slightest injury to the government, the war effort, or the civilian population.

Until the Price Control Commission can function I believe there is an excellent possibility that the Federal Trade Commission can serve as a stop-gap agency. The Lea-Wheeler amendment to the Federal Trade Commission Act enacted less than a year ago, 1938, has given the Federal Trade Commission power which, I am sure, the F.T.C. itself does not entirely appreciate. Until that amendment was passed, the F.T.C. could not act in any complaint unless an injury to a competitor had been alleged and proved. In the absence of any injury to competition or where all competition uniformly acted unfairly, the F.T.C. was powerless. Now, however, the Federal Trade Commission has the power to issue complaints against any concern engaged in a practice which is unfair to the consumer, whether or not competition is injured. Food and living cost profiteering in war is objectionable largely because it is unfair to the consumer. The F.T.C. could thus step in in every case where the price has no relationship to the component costs, to the ability to pay, or to the previous price of that commodity in peace time. I believe that in war time the courts will sustain this position. But if the courts do not, by that time the Price Control Commission will be ready to function.

I mention the Federal Trade Commission because I believe further that it is important for the Commission today to begin a really thorough study of the basic prices in the United States, a study without which the Price Control Commission will not be able to function regardless of its legislative authority.

In the course of such study both the Contributory Division and the Federal Trade Commission should give some attention to the effect of the State Fair Trade Laws during war time. The State

Fair Trade Laws today permit a manufacturer of any trade marked or standard brand merchandise to fix any price for his commodity. Once fixed, no retailer or distributor of that commodity may sell that article below the fixed price. That Fair Trade structure in interstate commerce is made possible by a law passed two years ago, the Miller-Tydings Act, a Federal statute, which provides that any price fixing agreement entered into under the State Fair Trade laws does not violate the anti-trust laws of the Federal Government, regardless of their state shipment. In the absence of price control in time of war this legislation gives the producer the opportunity to establish profiteer price levels which even normal competition between the distributors cannot destroy. The Federal Trade Commission is already violently opposed to the laws. Perhaps that opposition can be galvanized into action if the war-time effect is considered.

One of the price evils which must be watched closely, and which I believe is being watched closely, is one which caused considerable disturbance during the last war. The United States found itself in the anomalous position of advancing loans to the Allies in order to cover their purchases in the United States. With these loaned funds the Allies successfully competed in the American market, bidding against the United States for material of which there was not enough to supply the needs of both. Not only were the needs of the Government interfered with but the inter-government competition itself increased the cost of living, lowered real wages, and was one of the most important of the contributing factors to world war labor trouble.

Now to discuss the second contributory factor - labor. Let us try as completely as possible to free ourselves from the atmosphere of charge and counter-charge, emotion and criticism which has clouded this problem within the last three years. The law now on the Federal statute books, the National Labor Relations Act, can in my opinion be permitted to remain in substantial effect without doing serious damage to the control of labor. As a matter of fact, by the use of an additional statute and by slight amendment of the N.L.R.A., such as giving an employer the right to request the board's intervention, the law can serve one of the functions previously outlined. Let us first recognize that within the last 50 years there have been close to a dozen presidential labor investigating commissions appointed by both Democratic and Republic incumbents in the White House and in Congress. These commissions have reached one uniform conclusion - the economic and National desirability of collective bargaining. The existence of unconvested collective bargaining and almost a complete closed-shop in England today is not noticeably impeding the rearmament program. If the problem is analyzed, I am certain that it will be found that the war difficulty stems from the threat of strike rather than from the existence of collective bargaining. The National Labor Relations Act does little more than protect that

right and prevent employers from using a number of standard methods which have the effect of obstructing labor's exercise of that privilege. Let us see whether or not that right cannot continue and serve a useful function while the country's production from industry is assured. I believe that it is politically impossible to enact a statute to end the right to strike during war. But I do believe that it is possible to enact a collateral statute to the National Labor Relations Act which will, in effect, insure that there will be no strikes in essential industries after M-Day.

Following the pattern of the present Railway Labor Act I believe a statute should be enacted, for emergency duration only, providing a definite grievance procedure in all essential industries before the right to strike can be exercised. No one, neither the railroads, labor, nor the public, objects to this procedure in the railroad industry today. The reason for this lack of objection is that the public mind cannot conceive of the nation's transportation arbitrarily stopped as a result of the whim of either party. That national conscience, however, is not disturbed if the automobile industry were stopped today, regardless of the cause. But in time of war every essential industry will become as vital to the nation, its beliefs, its hopes, its desire for victory, as is the railroad industry today. Under the Railway Labor Act, and under the proposed War Emergency Labor Act for all essential industry, the employers subject to its provisions would be placed under a duty to make every reasonable effort to enter into and maintain collective agreements with their employees and to settle disputes arising under those agreements as expeditiously as possible. When an employee or group of employees have privately attempted to adjust a grievance with the employer and feel that they have exhausted the possibilities of settling the dispute, they may petition the proposed National Labor Adjustment Board to adjust the differences involved. If that Board fails to reach a decision, it then has the power to appoint a referee.

Any awards made by the Board or its referee would be final and binding upon both parties and enforceable by the United States District Courts.

The Board would have the right to mediate in any labor dispute where its services are requested and the labor dispute concerns changes in rates of pay, rules, or working conditions which have not been adjusted by the parties to the dispute. If the mediatory efforts of the Board are unsuccessful, the Board is required to induce the parties to arbitrate. If either party refuses to arbitrate, the Board then notifies both parties that its mediatory efforts have been unsuccessful and for 30 days thereafter no change may be made by either party in the rates of pay, rules, working conditions or established practices in effect prior to the time when the dispute arose.

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Once an arbitration award is made, the award is absolutely and finally conclusive. There is, however, an appeal from such arbitration for the following three reasons

1. That the award primarily does not conform to the requirements laid down by the Act or the proceeding required by the Act;
2. That the award does not conform to or confine itself to the dispute;
3. That a member of the Board of Arbitration was guilty of fraud or corruption.

If a dispute fails of adjustment and mediation and arbitration, and, in the judgment of the Mediation Board, is of such importance as to threaten substantially to interfere with interstate commerce, the Mediation Board notifies the President of the facts. The President may then appoint a Board to investigate and report the facts of the dispute to him. After the creation of the Presidential Board and for 30 days following the receipt by the President of the Board's report, neither party to the dispute has the right to change the conditions out of which the dispute arose.

No section of the Railway Labor Act outlaws the right of employees to strike. The Act provides that employees are free to quit their work and that no court may issue any process to compel the performance of an individual employee of any labor or service without the employee's consent. But in a very real sense the right to strike is abridged by the Act in the light of the complicated and lengthy proceedings which are provided by it. Thus, suppose a dispute arises over some question concerning the employees' rates of pay. The parties in private conferences fail to agree. They may then appeal to the National Railroad Adjustment Board, or the National Mediation Board steps in. When the National Mediation Board steps in and makes its award the matter is concluded. If the Board fails to make an award the parties to the dispute are prohibited from proceeding further for 30 days. During that 30 days the Mediation Board, if the dispute is sufficiently important, informs the President who then appoints a Board to investigate and during the period when the Board is investigating and for 30 days thereafter the parties again are prevented from making any moves such as striking. If, on the other hand, the Mediation Board succeeds in inducing the parties to arbitrate the dispute which the Mediation Board cannot settle, the parties may not do anything during the arbitration proceedings and are practically at a standstill if the arbitration award is appealed to the courts.

As a result of this complicated procedure, at least 120 days must elapse after the commencement of official intervention in a labor dispute before employees who are parties to the dispute may change the situation by going out on strike. 120 days is a period

usually sufficiently long to cool hot heads and to make adjustment of the dispute more feasible. If, however, heads are still hot at the expiration of that period the moral force of an adverse report by a presidentially appointed investigating board would be so great as to render any strike virtually impossible if undertaken by a party who is found by the President's Board to have acted wrongly in the dispute.

Here is where the National Labor Relations Board comes in. This procedure previously outlined which, in effect, prevents strike in essential industries would not affect other industries. Other industries would still come under the jurisdiction of the National Labor Relations Board as they do today. Employees in such industries would still be free to strike as they are today. These are normal impediments, perhaps doubly valuable in war time, when they affect non-essential industries only. These are the controls which will prevent prices in non-essential industries from flying sky-high without the existence of actual Government control or regulation. In addition, in essential industries if labor has in effect lost its right to strike it must have some way of assuring itself a just portion of any of the war profits made by industry. That is the function of collective bargaining, even if the right to strike cannot enforce it. And in the absence of the right to strike, it will be the duty of the Government to assure labor in essential industry this just distribution.

These are the critical problems as I see them in the control of the Nation's resources in time of war, critical not only because of their complexity but because they involve human emotions and public opinion. These latter factors mean that no matter what legislative authority is secured in the early days of the war, the segments of public opinion involved must be prepared to expect the adjustments before that time. Labor must know its responsibilities and its guarantees. Industry must know its profits and its inhibitions. And, above these, Government must know that it will receive, with maximum efficiency and minimum cost, the machinery of war.

One of the important problems in the makeshift industrial mobilization which was pieced together during the World War arose from the fact that American industry, as a result of the anti-trust laws, had not been able to participate in open and frank industrial organization. The absence of such organization made it difficult for emergency agencies to view any industry as a whole. To a certain extent this has been remedied since the World War by a lessening of influence of the anti-trust laws and the increased importance of trade associations.

An even more dramatic step in this direction, however, arose from the industrial cooperation compelled by the N.R.A. As a matter of cold fact, it is one which has prepared industry for war participation. Industrial mobilization is planned economy -- planned

economy for a specific purpose, but planned nevertheless. That experiment, the New Deal, even where it has failed, has resulted in information, administrative organization, and statistics which are invaluable to industrial mobilization. To mention but a few -- and here may I attempt a brief indication of how existing business regulation can be converted into war-time usefulness. This, unfortunately, is in itself a subject for more than one entire talk. I recognize that the brief statements I will make will be sketchy and being sketchy may sound in some instances impractical.

The National Labor Relations Act has already been discussed as a vehicle in the event of war.

The Wage and Hour Act provides a formula which, if necessary, can apply the principle of maximum wages as well as at present it applies the principle of minimum wages. In addition, under the Wage and Hour Law employers must already have built up records available to the Government which clearly demonstrate who are the executive and administrative employees indispensable to the orderly operation of the enterprise.

Under the Walsh-Healey Act, the law in peace time has injected the principle that a manufacturer supplying the Government must comply with certain conditions. Emergency amendments during war time can, through the medium of the present statute, impose any necessary wage, working conditions, profit restrictions, operation regulations, etc., deemed advisable in the case of any manufacturer supplying the Government.

The extension of the Federal Trade Commission Act has also been discussed as a vehicle for eliminating any practice in time of war in the course of selling, advertising, distribution or competition which is unfair or unwise either to the public or the Government. Little publicity has been given the voluntary trade practice agreement program of the Federal Trade Commission. Despite the existence of the anti-trust laws, within the last few years industry after industry has been encouraged to enter into voluntary trade practice agreements, blessed by the Federal Trade Commission, fixing the practices which are fair and unfair in each industry. The "chiseler" in time of war is an even greater menace than he is during peace time. Here is the vehicle for his control without an additional legislative grant.

The Robinson-Patman Act, preventing any manufacturer or seller from giving discriminatory prices to favorite buyers is a vehicle which, while not necessary in time of war, may be extremely useful in maintaining the economic status quo. War contracts and priorities available to a few will only tend further to stimulate the growth of trade monopoly and impose upon a great bulk of our business community competitive pressure which they will find difficult to withstand. The Robinson-Patman Act gives some assurance that

at least in normal competition the favored few will not be able further to lessen the distance between their competitors' backs and the wall.

I was interested in the course of the committee discussion this morning to hear the question of taxation raised indirectly several times. I was interested and disappointed that the question was shunted off, that the problem of war-time finance is considered separately from war-time taxation. Perhaps it is because so great a part of my time is concerned with the problem of taxation that I am particularly conscious of what appears to be astigmatism on the part of the Planning Branch in one direction, war taxation. It seems almost inconceivable to me that in planning for an adequate supply of labor, an adequate supply of commodities, an adequate production of materials, that there isn't an equal amount of pre-war energy devoted to planning for an adequate supply of capital. War cannot be fought without men or munitions, but neither can it be fought without money. The World War taught the lesson that it is impossible scientifically and without waste to secure men and munitions by the use of devices created in the heat of conflict and in an atmosphere of turmoil. But that same war also taught the same lessons concerning taxation. Congress spent six months wrangling over the 1917 war profits tax with no more idea of how much that act would produce, or what the effects would be upon business, than we today have as to when the next war may break.

An excellent statement of the problems involved in war taxation can be found in Professor Paxson's volume "America At War", in which he analyzes the functioning of our democracy during the last war. Professor Paxson says

"Wars can be fought only with goods on hand or with goods manufactured while the war is waged. The economic strength that backs armies and produces the sinews of war is an intangible existing at the moment of any declaration, and is certain to be depleted if war is prolonged toward the moment of exhaustion. The fiscal bookkeeping whereby the ownership of this economic strength is transferred from the citizen to the nation becomes a matter of public policy. It may make the rich richer and the poor poorer, or it may wipe out the rich to the disadvantage of the poor. No fiscal system is sound, in the long run, unless it leaves the taxpayer who has paid his tax in a position in which he may hope to earn enough to pay another tax next year. Single cropping, too long indulged in, bankrupts the farmer, unsound taxation defeats its own intent by destroying the very base upon which it is levied. 'The power to tax' is indeed 'the power to destroy'.

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"If perfect fiscal wisdom were procurable it might conceivably spread the whole profit and loss of war upon the whole population, in precise proportion to the suffering and advantage of every individual and every group. But if there were perfect wisdom in control of governments, there would be no war. In an imperfect world, however, the imperative need to spend, driven by fear of defeat, compels a fiscal policy based more upon the immediate productiveness of measures than upon their ultimate wisdom. There is some small chance of correcting the injustices of war finance by subsequent taxation, whereby unwarrantable profits are recaptured by the nation, but the chance is weakened by the slight political mobility of the small citizens who pay the taxes and the extreme agility of accumulated wealth. There cannot be great accuracy in any laws passed under pressure. There has been no war in which the suffering was ended at the peace."

Obviously, neither The Army Industrial College nor the Office of The Assistant Secretary of War can formulate policies of taxation, but neither can they formulate price policies. In the latter case, the assistance of the Federal Trade Commission and other agencies will be requested and in the former, the Treasury Department is well equipped to tackle the job. But the stimulus and the elucidation of the needs must be originated here, and the pre-war need for these fiscal plans is as great as for the planning for any of the other factors involved in making the maximum use of the nation's resources.

One need only recall two of the bills proposed at this last session of Congress, one particularly, the Bone war profits tax. That bill was thrown into the Congressional hopper with the printed support of fifty Senators, more than enough for automatic passage in the Senate. That bill would in certain cases result in more Federal and state income tax, to say nothing of other taxes, than the total income of the individual taxed. But that doesn't interest me as much as the fact that an enterprising newspaper the day after the bill was introduced interviewed the fifty Senators and asked each one several elementary questions concerning the bill. The interview illustrated that approximately five of the fifty had read the bill. The other forty-five admitted they hadn't read the bill but approved its policies. I mention that for two reasons, and in killing these two birds with my last stone, prepare for the onslaught of your questions. Those two birds - one of them is General Johnson and the other is the problem of war taxation. Unfortunately I read General Johnson's column yesterday for the first time. With the preparation of this book I haven't had an opportunity to read any collateral material for the last six weeks. With the book finished and in the course of my preparing these remarks yesterday, I got a copy of General Johnson's article, which you

probably have read. I was interested to learn for the first time, perhaps fortunately after I had accepted the invitation to address this group, that this training course "consists in a few months' get-rich-quick course in the mechanics of industry given to soldiers in the War Department." I have never been one personally to shy away from a get-rich-quick course. But, unfortunately, the little research I have done and the lectures at The Army Industrial College for the last three years that I have read and reread, and my knowledge of the activities of the Planning Branch lead me to believe General Johnson's conclusion is not entirely correct. General Johnson states that "the most pathetic spectacle in business life is an Army officer resigning to go into industry. I know just how sad it is because I did it and I have observed others who did it. It took me seven buffeted years to begin to suspect what it was all about." But apparently this naive belated confession did not make him hesitate to accept the post of head of the N.R.A. several years ago when, as an Army officer he directed the economic activities of the entire nation in one agency, and most frequently under one man. I don't justify his activity then any more than I would justify the facts Johnson outlines if they were true. But my understanding of the activity here is that these men are not going to direct industry. If General Johnson had attended any lecture at The Army Industrial College for the last ten years I am sure he could have found that out for himself. The officers in the Planning Branch, it is my understanding, are not going to direct industry. But someone must formulate the plans and place them and the direction in the hands of the industrial executives competent to direct industry. If this group is any less competent to create those plans than fifty Senators, forty-five of whom have not read the bill which would create an entire system of taxation for war-time purposes, - if this group is less careful than that body, all of my remarks have been misdirected, and I am certain they have not been. I take this opportunity to comment on General Johnson's column because I feel that the activity here must, as I have stated several times in the course of my remarks, go ahead with a completeness and a directness that perhaps in some channels has not yet been attained, no punches pulled, no problems shelved. The reason I make that request is because my contact with industry leads me to believe that any problems not solved now, here, but solved elsewhere in time of war will be at the expense of industry.

I appreciate two things, in closing. I appreciate the opportunity which has been given me to meet many of the officers in the Office of The Assistant Secretary of War. I appreciate even more the cooperation which has been extended to me without limit, without reserve, by everyone whom I have had the occasion to ask for that cooperation in the course of preparing the volume, "Adjusting Your Business to War." I hope, in closing, that it is of some value to you.

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Discussion following lecture by
Mr. Leo M. Cherne
Executive Secretary, Tax Research Institute of America

May 17, 1939

Q Mr. Cherne, I have been fascinated by this address of yours, and while I was reading Mr. Baruch's proposal for freezing prices I was fascinated by that also. So I expect I belong to the group of people that don't understand all that I know, and I am going to ask you if you would mind elaborating a little on the difficulties of applying a maximum or a ceiling to prices as suggested by Mr. Baruch. I had in mind, in reading that, that it was somewhat similar and its administration might be somewhat similar to that of applying a maximum scale of wages, and I would like, and I believe it would be very informative, to all of us if you can allay my fascination with Mr. Baruch's proposal.

A I will see whether I can clearly and briefly indicate the reason for my lack of fascination. I brought out in the course of my discussion that the interrelation between labor, capital, prices, and Government needs is so close and so complete that the control of any one of those must of necessity involve an equal control of the other, which means that if we are to control all prices we must control or fix a ceiling over all wages. If you fix a ceiling over prices and wages there is no logic which would prevent you from fixing a ceiling over the amount of all profits earned by industry. Perhaps it is a question of both philosophy and economics. It is possible to fix the ceiling levels of those three if all three are

fixed they can work because you have then completely stopped the workings of the economic laws of demand and supply. You no longer permit them to function since you have stopped all three incentives, but the Industrial Mobilization Plan, as I know it, does not contemplate absolute rigid control over industry. It contemplates only those controls which are absolutely necessary for the conduct of war. Industry will still be free to earn reasonable profits, and we don't even know what reasonable profits are. We don't contemplate and perhaps would be afraid of contemplating a rigid ceiling over wages. If you can't control those two, you can't fix prices because prices are only the economic identification of the value of things based on the action of demand and supply according to the conditions at the time. Any Government control will limit demand and supply, but it is absolutely impossible to decide that a period of one year, two years, three years, or ten years before the war that an average of those can create a national price level which economic conditions during the war years will permit as the ceiling price level.

The closing of world trade, the absence of certain commodities, the difficulty in the manufacture of certain finished products because of those two lacks, and must immediately result in an increase of prices that is not patternable or predictable on the basis of one to ten years of pre-war experience.

My objection essentially is that you are freezing more than can be frozen, and even if it could be frozen, freezing more than it is possible of control. Price bootleg, price evasion, the willingness of the civilian population to support your effort, will all fall with a frozen economy.

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A frozen economy, I may say, is totalitarian economy. The totalitarian economy has found it notably difficult to get production. Russia is having the darnedest job getting consumers' goods, despite patriotism, despite controlled press, because the incentives have been frozen.

I think you accomplish the same thing and a much more valuable thing for your war-time needs, we are talking here not about the wisdom of planned economy but war-time needs - if you fix those few basic things which will control all others, the raw materials in industrial manufacture and those few components, rent, clothing, food, which make up the cost of living, then every civilian is automatically a policeman over the price that he pays for those goods. Every manufacturer is automatically a policeman for the price he will pay for those necessary commodities which go to his construction. Your administrative problem, your economic problem, your enforcement problem are simple, and you accomplish the same result, and even there I wouldn't suggest a flat price fixed.

Q Mr. Cherne, there appears not much difference between your basic ideas and Mr. Baruch's. He says the price of anything is the price of everything, and he sets forth what he calls the essence of all power which consists of three things, the power of commandeering, the power of price control and the power of priority, and they are all, as I see it, in his system integrated. Now, you present many of the arguments against his theory of price ceiling which he presents for it. We won't go into that, but the question that I want to ask is this, whether you accept his theory of universal control over everything or not. Can you tell me whether or not there is anything, in your opinion, which is impracticable about using

the ceiling method with reference to those things which you recommend the control of?

Now, in that connection I have in mind one thing that Mr Baruch says, which is very important, and that is this: If you start out in a war emergency to make a judicial process, a study as to what the price is going to be, before you arrive at that determination those prices will have gone up so high that you will have a distortion, and furthermore when announced they will be obsolete or at least obsolescent.

Now, you propose, and the Industrial Mobilization Plan proposes, using the ceiling with reference to rents. Of course it is clear that that is more stable and probably the application there is easier, but is there anything from the economic standpoint that you see that is basically wrong about the application of the price ceiling in some degree?

A I see nothing basically wrong with the application of the price ceiling even completely, when its application is restricted to those which absolutely need restriction. When I say that I see nothing basically wrong, actually there is something basically wrong in every type of restriction which prohibits the normal function of our economic laws. When I say wrong, it is wrong according to the particular economic point of view which I espouse under this type of economy, anything which interferes with that is wrong but there are certain interferences that are necessary. I feel that the trinity that Mr. Baruch outlines is an accurate one, but I also feel that you would not recommend the use of priorities over all industry if it were not necessary, you wouldn't commandeer every plant, all equipment, unless it were necessary. Now, if you are going to restrain

the use of those two of the trinity only to where it is necessary, why fiddle around with prices that you are not interested in.

Q Would you take just a couple of minutes and tell us something about the Tax Research Institute?

A I would be very happy to It will take me very little more than a few minutes to tell you about the Tax Research Institute because its history is not a long one. The organization was formed approximately four years ago by two men, Mr Hovgard and myself. It was formed at that time as a result of one conviction, the conviction which we still adhere to, that modern legislation and modern Governmental problems have imposed difficulties, restrictions and inhibitions and new demands upon business which business has not been able to cope Frankly, as an attorney, I am familiar with the fact that the attorney is in many instances less capable of coping with those problems than the average business man. The multitude of new laws, the thousands of new regulations, the complexity of the simplest of tax problems, and most important of all, the fact that the adjustments must be made by the executive himself in the course of the every-day operation of his business, it seemed to us, made it necessary to find some formula which could quickly, accurately and simply present to business all of this information, with the recommendations as to course of action. The National Labor Relations Act says a man may not obstruct the right to collective bargaining, but can he do this or that? Can he post a notice on the bulletin board which informs his employees that he has nothing against unions but they had better not join? When and under what circumstances can discounts be given? How do you handle a discount chiseler who when he pays his bill after 120 days deducts

2 percent for cash. These and a thousand and one other problems arising under the new laws are the reason for the formation of the Institute. We started at that time in one small room. I mentioned to Colonel Miles that the room didn't have quite the exposure and sunlight that his room has because our budget for rent at that time didn't permit the most favorable exposure.

We started in the preparation of reports to business men, with the hope of selling several thousand business men on the idea of cooperating with us. In the course of the four years we have moved to a better exposure, we now have five floors in one building and two in another. We have what I believe to be the best equipped and largest research organization in the country in any private institution, and better, I believe, than in many Governmental institutions. When the Wage and Hour law was passed, we had three times as many attorneys, accountants and industrialists on the problems of the Wage and Hour law than the Wage and Hour Division had in Washington to work for the entire country.

That, essentially, is the history of the Institute. Since that time our membership includes over 25,000 of the nation's business executives, attorneys, accountants, social workers, labor unions, and more than two hundred members of Congress themselves. A number of those Congressmen have told us that it is through our activity that they are able to know what the laws mean that they are passing.

Q Mr. Cherne, you have brought out that one gentleman who was very apt at writing helps to misinform the public that the Industrial Mobilization Plan contemplates exercising control over industry through the medium of Army officers. Would you have any suggestions as to means of dissipating that misinformation?

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A One of the reasons Mr. Johnson permitted the various divisions in his office to offer cooperation to me was the belief that our organization could do much toward disspelling much of the nonsense that has been prevalent about industrial mobilization, about The Army Industrial College, and other vital phases of the work here. Our reports every two weeks go to the most important segment in American public opinion, the vocal segment Our reports readily clarify the educational orders, strategic materials portion of industrial mobilization, and our big effort is the volume "Adjusting Your Business to War", which within sixty days we expect to be in the hands of 20,000 business organizations in the United States. To assure that, we have made provision to supply at our own cost more than 8,000 of those copies to that number of our own members without any additional charge from them In addition, and I think this may interest you, one national publication has already secured from us the right to digest that volume in its June first issue, "Ken", a publication which can do much to controvert the nonsense that is disspelled, and perhaps more important, the nature of the publication is such that they themselves might be impelled on occasion to indulge in imaginative fantasies,,and the placing of that accurate information in their possession will do some toward eliminating that possibility, at least in that direction.

I think more important than anything that we can do and the need I have felt throughout the entire activity here is that your informational service is almost non-existent Unfortunately a tremendous burden today rests on the shoulders of one or two men whom I have found to be working day and

contacting agencies, contacting publications, giving interviews, helping people such as myself I came in blind, and I am fortunate that I have received the cooperation which I wouldn't if it hadn't been for those few men, but you can't inform a country or disspell nonsense through the efforts of one, two or three men, and even with the efforts of fifty men I think you need a plan, a public relations program. I think 50,000 miles of air flight by Mr Johnson is valuable but doesn't scratch the surface, because while he is covering 50,000 miles of air travel explaining industrial mobilization, one column by Hugh Johnson hits three and a half million people, and those three and a half million people don't attend industrial conferences on industrial mobilization. Unfortunately, I have given you an answer which doesn't lay a plan and doesn't solve the problem, but that's the best answer which I am capable of today.

Colonel Miles Of course the one thing that would prevent our undertaking any such campaign of education would be the fact that, whether it is incorrectly feared or not, in ^{disPELLing certain uncertainties} ~~doing so~~ we might raise others of greater size In other words, the country is very sensitive, as we see it, to militaristic effort, and perhaps in the long run the truth of what we are doing and the able assistance which gentlemen like yourself are giving, and the fact that many thousands of influential men throughout the country no differently is perhaps better for our purposes than any direct attack which we might make. I may be wrong about that, but looking at the thing from the inside as an Army officer and realizing that if we loose public opinion we loose everything, that the gamble which we might take by having an informational service which would raise immediately the cry of bias,

might be worse than remaining quiet about it

Mr. Cherne If I may make one comment, Colonel Miles, I agree with you as to your interpretation of the American attitude and I also agree as to the probable lack of wisdom of approaching that problem directly through perhaps an informational service, but I disagree in the hope, your expressed hope, that in this era of high-power propaganda truth will ultimately find its way

I was interested recently in seeing the March of Time of the Coast Guard It impressed me as I knew little of the Coast Guard at that time I think a similar March of Time of the activity of this portion of our military activity would not only dramatize the work you are doing but make it as important to the people in the country as it is and realize it in its true perspective I think that a news reel, just as my observations must of necessity point out, that there are few places where you will find more latent pacifism, and I hope the term doesn't offend you, than I have found here in the War Department As a civilian I normally assumed that since it is the soldier's business to fight war he is licking his lips and rubbing his hands together for M-day I think it important to bring to the public's attention what I found, that there is little licking of lips and little rubbing of hands about the imminence of M-day.

Colonel Miles Well, far be it from me to argue with you However, I think we all want to thank Mr Cherne for this very fine talk and for his frankness in dealing with these questions with which we deal with from day to day, and how any man other than a genius could attain his present position on this subject I don't understand.