

ECONOMIC FACTORS IN RECONVERSION TO A PEACETIME ECONOMY

23 February 1950

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ADMIRAL SABIN: I suppose that one of the most difficult problems in relation to economic mobilization would be the conversion of a wartime economy to a peacetime economy. It would probably be a more difficult problem than a conversion from peacetime to wartime.

This morning we are very fortunate to have a speaker who has had a wealth of experience in those problems, both in converting from peacetime to wartime, and in reconverting from wartime to peacetime. At the termination of World War II the President appointed him to head up the Civilian Production Administration and thereby provide the leadership and guidance necessary for orderly reconversion.

He has had successful careers in the Navy, in business, and in Executive departments of the Government. He is also no stranger to this College, having been here on several different occasions. It is with a great deal of pleasure that I welcome him back this morning. Gentlemen, Commodore John D. Small.

MR. SMALL: Thank you, Admiral, Mr. Secretary, General, gentlemen; I always feel a little concerned whenever they ask me to come down to address the students of this College. This is one of the brightest groups--I say this advisedly--in the service. It is also one of the hardest groups to stand before and answer questions because in the past the students have put to me some of the most difficult questions I have ever run into anywhere. And that is all right. I am delighted to offer whatever experience, or whatever knowledge, I may have to try to answer any questions, whether they are on the subject I am supposed to talk on today, or not, both on the conversion of the country to war and conversion from war--things I have been most intimately concerned with.

I have written a talk, as all stuffed shirts do, but I will not adhere to it very closely. If you will permit me, I will just scan it and try to talk pretty much off the cuff.

General Vanaman asked me to come down here today to speak on the general subject of "Economic Factors in Reconversion to a Peacetime Economy." Well, I think that is a pretty broad subject. Certainly I am no economist; of course, I could talk about a lot of generalities in connection with the economic factors.

But then General Vanaman in his invitation to me went on to say that the general scope of the lecture would be "a brief review of World War II experience and suggestions regarding the means by which a more orderly transition from a war to a peace economy might be made in the event of a future war."

Now, the first one—to review our recent experience—is not too difficult. We lived through it. We all know what happened. We have some idea of the causes and results. I can do that with some feeling of firm ground.

But the second one—the means for having a more orderly transition from war to peace in the next war—is a tough one. What kind of a war are we going to have the next time? Is it going to be a long war or a short war? How much is it going to drain the resources of the country? How much is our economy going to be dislocated? What is it going to do to us?

A war that would start today would be far different from a war that started back in 1941. In 1941 we had a lot of resources available. We had a lot of cushion. Today, we have very little. So, conditions as of today are far different from what they were in 1941. Industrial conditions are far different. You gentlemen are far more capable than I of telling what kind of war the next war is likely to be. All I do is read the newspaper headlines. I am completely in the dark as to what the next war is going to be, or what the conditions are going to be that we will have to face. But I will try to give you, as best I can, some of the lessons we learned and show you how they can be applied, flexibly and realistically, to the problems that will probably confront us in another war, if we have one.

The last war, as I know you all will recall from your reading and from your own experience, was supposed to be a tough one. And it was a tough one in a great many ways. It was a long war. It was a war that got people tired. But it was nothing like an all-out war. We squeezed the economy, we had inconveniences and we had a lot of difficulties, but the economy was not squeezed anything like it could have been had the necessity been upon us.

Therefore, our experience in the last war, tough though it may have seemed to a great many people was not at all like what the next one will be, in my concept. Next time we will have a much tougher and a much bigger job; but it will be done under completely different conditions. During the last conflict our homeland was untouched. Is it going to be touched during the next war? It will, if you listen to the Air Force talk. They say, "Sure, they are going to touch us." Well, I would hate to have a lot of H-bombs or A-bombs hit here. There is no telling what they would do to our industrial centers. They are factors on which I have no crystal ball to guide you.

There are a great many people who like to think in terms of books of regulations, or rule books of one kind or another, so that given a specific situation you could turn to page 972, paragraph 8, for the answer. Well, you can do that in a lot of specific, routine situations, but you cannot do it in a broad, general, and constantly changing situation such as the transition from war to peace. There is no possible way of writing a rule book to which you can turn, page by page, paragraph by paragraph, and find exact solutions to your problems. I know there are a great many people who think there should be; people who think it would be feasible. But, in fact, it is not. In our infinitely complex economy a pull here frequently creates an unbearable tension somewhere else--at some unknown point. No human mind can think through all of the thousands of interreactions that result from an action.

In the CPA, I remember, after the war ended a man came into my office one day and wanted to get a regulation or rule relaxed. What he said made very good sense. It seemed to me there was no reasonable excuse for not doing what this man was suggesting. So I sent for the person who headed up that particular section--it happened to be a woman--and had this man explain things to her. She was very nervous about the thing; she did not think much of his idea. But I could not find out what was the matter or what bothered her.

About an hour or two later the head of the department came in to see me. He said, "Mr. Small, Miss So-and-So is in tears." I said, "What's the matter with her?" "Well," he said, "you were saying that the reasonable thing to do, the common-sense kind of thing to do was thus and so." I said, "Well, then, why not do something about it?" He said, "That isn't in the rule book." It has got to be spelled out in the rule book." I said, "Go ahead and use some reasonable discretion." "Oh, no," he said, "not at that echelon. They're afraid to use any discretion. They're afraid of using common sense. They want it spelled out in the book."

Well, there is no book, gentlemen. There can be no book.

Let me try to give you an analogy. Maybe it will make what I am coming to a little clearer. Take a great ocean liner tied up at a dock in New York. Nightfall is coming on. There is a heavy snow storm in progress. A gale is blowing. There is a blizzard. It is half past five or six o'clock at night. There is a lot of traffic. The ship is ready to set sail. She has a lot of power but is not maneuverable. You have to get tugs to back her out from the dock, to turn her around in the stream, and get her down to the first reaches of the river so she can go on her own.

Now, one tug pulls, one tug pushes. Somebody is guiding the tugs, telling them where to pull, where to push, what force to use, and so on.

But there is the effect of the tide, the effect of the darkness, of the traffic on the river that has to be considered. There is no rule book that would tell that fellow on the bridge how to handle the tug to get it out without bumping into something. He has to know from experience, from the subconscious evaluation of hundreds of variables, exactly what to do at any given moment.

What I am trying to describe to you is how controls must be exercised in the transition from war to peace. Certainly we know all the general rules and what the difficulties are, but we have to be flexible, realistic to meet the individual situations as they arise. That is the way we did last time. That is the way we will have to do again. Let me try to trace briefly what happened last time.

In midsummer of 1944, industrial war production was proceeding at a very high rate. We had this host of rules and regulations, laws and controls, and what not. But people had learned how to use them. They had become accustomed to them. The war had lasted long enough so that the country had become accustomed to wartime controls.

The services had started off the war with the concept of; "This is a rich country. They can give us everything we want. The economy can get along on what is left." That was all right at the beginning of the war, but by 1944 it wasn't so good. The resources of the country are not so huge that you can afford to give the services all they want and still have enough left over to handle the things that must be done.

But, somehow, the people in the country had gotten used to the rules and regulations and production at the time was high.

However, the thought was in many minds: What would happen to our country if one of our enemies surrendered tomorrow? What would happen? You can imagine; if a sudden peace faced us—just like that, chaos would reign throughout industry. Although we did not expect any such thing to occur, we did begin to give some thought to what ought to be done in the event there should be a surrender on either the German or the Pacific side. We ran into a state of mind that I will mention to you in passing because I think it was an emotional state of mind.

There was a feeling in the minds of a lot of people that to think of anything except the war was sacrilege. You were not to even think about it. You should not give any thought to tomorrow; only concentrate on today. Well, of course, that is entirely unrealistic. In a complex, huge economy such as ours, you have to plan ahead and think ahead. You have to know what you are doing; otherwise, you will have chaos.

So, back in the middle of 1944 they began to think about what would happen if we had a surrender on the German front or the Japanese front.

With a drastic cutoff of munitions and the releasing of thousands of war workers, what would happen? What would we do about it? What were we planning to do?

We found at that time, scattered here and there, flyspecking all over the country, that we were developing local unemployment situations. But in most places manpowers was as scarce as "hen's teeth." We did not have enough men to do the jobs. But in Podunk they had a lot of people that did not have jobs. We had to decide what we were going to do about those people.

There were some who said, quite incorrectly--and to whose viewpoint I am violently opposed--"Well, if they won't move from Podunk to Detroit, or wherever, let them starve." That is your old French king's idea. That is not the way to run a country. That is not the way to think about a country. We have to meet realistically these problems as they come up. We have to get our war production geared so that it does not disrupt the country too much.

Those local unemployment problems could have been solved in several ways. One is by moving work into the area. The other is by the Government moving people out of the area and guaranteeing to bring them back again, which government did not want to do at that juncture. It did not want to bind itself to spend the money.

So, in the middle of 1944, we began seriously thinking about this thing--not doing very much about it, but thinking about it, and realizing that, come a surrender or a sudden peace, we had a very serious problem on our hand; a problem of human suffering: people out of jobs, hungry. What were we going to do to get them jobs? How were we going to make provision for them, plus the soldiers who were going to be returning?

In the late summer of 1944, oh, very tentatively--just like a baby starting to walk--we said to some of the companies, "You can use two, three, or in some cases five men on planning what your production lines are going to look like come the peace." Well, everybody squawked at giving even a few men for such a job. Nevertheless, we did give some spot authorizations for this kind of thing, both manpowerwise and materialwise. We gave allocations that amounted to a few million dollars; 50 million, I guess, would be tops. Anyway, it was just peanuts, compared to the total war effort. But, even so, we got a lot of criticism for it.

Then came the Battle of the Bulge, the German break-through, or attempted break-through. Then if you even mentioned the word "reconversion" they jumped down your throat, the men in uniform. I was a naval officer in civilian clothes, so I could "feel" for both sides of the thing. We stopped actually making any real steps toward reconversion at that moment.

Then, along in the spring--January, February, and March--the possibility of a German collapse became clearer. Along about February or March 1945, we decided to get back to work to see what we were going to do should there be a sudden surrender.

Fortunately, in the War Production Board we had plans pretty well laid out as to what the Government in its control of industry would do. We had general plans and specific plans. The general plans turned out to be pretty valid, as events demonstrated later. The specific plans almost invariably were not so good. The more specific you get, the worse it is.

This idea of great brains that can direct our economy in detailed fashion down here in Washington has no validity. There was no great brain, or group of great brains here in Washington. You have to be realistic about it and realize that 90 percent of the job was done back home. It was not done down here. It was done out in the country, in the field. All we were doing down here was to have a rein that we would pull or ease to guide in general fashion. But the fellows out in the plants, in the foundries, all over the land, were the ones who did the real work, not the so-called "big brains" in Washington.

As I say, we started a couple of months before the German surrender actually came. We laid out general plans and specific plans. Those general plans and specific plans were that we wanted to do several things. Come the surrender (the German phase), we knew there was going to be a very great release of resources. By "resources" I mean steel, copper, and so on, all down the gamut of these products we use. We likewise knew there was going to be a great release of war workers and a great release of plant capacity (bricks and mortar and machines.) That was going to hit us awfully fast. How fast were we going to be able to adjust the rules and regulations?

By that time we had this economy of ours all confused and all tied in knots with those rules and regulations. Why, one couldn't do the simplest things without breaking a rule. So we said the first thing we were going to do was to review all these rules, which we did ahead of the German surrender. We said that, come the day of German surrender, we were going to sweep away half, or more, of these rules. With this great release of resources there would no longer be any need for these strict rules governing things that would be in ample supply.

Maybe you think we didn't have a battle on that point throughout government. And I am including you gentlemen in uniform when I say "throughout government." We found that many objected to any relaxation. But we did finally work out a fairly realistic plan for relaxing these "L" orders, "M" orders, price regulations, and so on.



Then we found we had still another problem. Most of these controls and orders say that we are not to do certain things. But that was not going to cure the many problems we were going to confront. We had to have something basic to work with. Some worked out a scheme for giving help where it was needed. Well, help means priority. Priority means exactly what the word implies--come first. If you give anybody a priority on anything, you are pushing somebody back of him. That is inevitable, unless the priority is for some very small amount of the whole, say 10 percent.

But, for the most part, if you have priorities it means that where you help one, you hurt another. Normally, when you hurt someone, you did not know who it was you hurt, which is a very bad situation when you are dealing with an economy as complex as ours. In our economy where you pull a string, the pulling of that string moves through the fabric and creates an unbearable tension that breaks somewhere in the fabric. You have no possible means of knowing where that tension is going to appear in the fabric of the economy.

Priorities are bad. They are fundamentally bad, except in time of war, when they do help to get war production out. But in a peacetime economy you men certainly cannot think that someone sitting down here in government should decide whether A, B, or C company should make X number of refrigerators, or how many each company should make. If the Government decides such things, that is regimentation. Our country does not want regimentation. We want freedom. We want the companies to carry on, on their own. We want them to handle their own affairs. So we in WPB and CPA wanted to use priorities sparingly. We wanted to use them as little as we could.

Now, of course, all of these rules and regulations were not released the day after VE-day. When the cutback started, the subcontractors had to slow down and get their contracts cleaned up and then reconvert such of their facilities and equipment as they needed to reconvert.

A great many companies in the country had no problem of reconversion. People making cotton goods, for example, had no problem. The steel mills had a problem but not so severe as many because most of the heavy steel forms were usable in industry. The lumber people had no problem. There were a lot of people that had no problem of reconversion.

But most of the consumer durable goods people--manufacturers of refrigerators, ice boxes, washing machines, toasters, and so on; the people that give us a great multitude of jobs; the contractors who supply the things that go into the making of the article and the final assembly; the stores that sell them; the trade that depends upon the stores selling these things--had a very severe reconversion job.

It was very hard, getting out of war work, to get the tools and materials because the tools and materials which they had on hand were not the things they were going to use in the filling up of these multiple consumer goods pipelines. They were not the things they needed for their new production. We had pipelines full of stuff, but they were not the kind of things they needed for production in the plants they were being sent to. So, the reconversion problem for these fellows--the physical problem of reconversion--was a very serious one.

In the WPB we got rid of many rules and regulations. We simplified the rules and regulations. We maintained weapons--tools, if you like; control tools--by which we could prevent troubles that were going to arise. For example, at the end of the war (VE-day), with the releasing of large volumes of resources, a lot of things came into ample supply, but a lot of other things still remained very scarce. It was essential that these scarce supplies be spread equitable across industry. It was necessary that they be spread very thinly across the country so that no one had more than he actually needed to keep him going at the maximum rate to provide employment for the people who were going to be released. Speculative hoarding was one of the things we were afraid of. We could not permit the manufacturer to hoard. He could not "play safe." He had to play, materialwise, close to his "vest." We had to spread it thinly.

All of this meant that inventory controls had to be retained and strengthened. Certain things like tin we certainly had to keep limitations on. We could not let everybody use tin that wanted to use it, or jute, or quite a number of other things. While we had controls on many items, still on a great many others we took the controls off completely.

During the war, as I said, we had grown quite adept in the use of certain of these control weapons, like the Controlled Materials Plan (CMP), covering things such as steel, copper, and aluminum. CMP worked beautifully. The services and other agencies at the end were doing a grand job with CMP. I think if we had fought the war for another five years we would have gotten CMP down to a point where it could almost have controlled the entire economy.

As I say, CMP was working well. But CMP meant you had to give a ticket to everybody who was going to get on a steel mill schedule, or a copper mill schedule or, what not. That meant millions upon millions of pieces of paper would be floating around the country. If you did not give them a piece of paper and thereby permit them to order materials, then the mill schedules were not going to be filled; therefore, the most they would be producing would be only 50 or 60 percent of capacity. So to prevent that possibility we open-ended CMP, which gave us a reserve, a pool, on which the economy could draw without tickets. We did away with CMP completely by the end of the year. We started off with a wholesale, a reasoned, a considered--but still substantial--release of controls.

Then promptly after VE-day, week by week and month by month, we released other controls, putting upon the protagonist the proof that the control had to be kept on. It was not a question of proving we could lift the control. The control was going to be lifted unless somebody could prove we had to keep it. In other words, our whole feeling was: Lift the controls, set the economy free; let industry use its own initiative and its own resourcefulness. The industrialists will do this job better than we can do it for them through pieces of paper coming from Washington. So we did do that. We, week by week and month by month, released these controls.

In some instances, however, we found that we had to put the controls back on again because things that we thought had freed-up, or were going to be freed-up a month or six weeks from then, didn't. All of a sudden they got tight, for one reason or another, and we had to put the controls back on to take care of that particular problem.

The objective of the War Production Board at that time was to see that the industrial transition from a two-front to a one-front war was orderly; that war production did not suffer, while at the same time peace production was not unnecessarily restricted, and the creation of job opportunities was not impeded. That was the basic job we had to do and these things I have been telling you about are the ways in which we were trying to do it. We released controls to set them free wherever we could. We used priorities sparingly. Where they hit a bottleneck, we tried to give them tools or materials and spot authorizations of one kind or another. We simplified the priorities system. We changed from this double-A system, which we previously had, to double-M for the military, which was overcrowding everything, and double-C for the civilians, which we gave out very, very sparingly.

Throughout the summer of 1945 reconversion proceeded at a very rapid pace, but the war production did not suffer. The record is very clear on that, showing that we were able to do this job through the summer of 1945 without hurting war production one iota.

Then came VJ-day; none of us knew about that ahead of time. But we all knew about the Manhattan Project. We couldn't help knowing about that because it had driven us almost crazy. We did not know what it was. Then the A-bomb hit. With VJ-day right around the corner, the problems that had been looked upon with fear and trepidation were directly upon us: the drastic release of manpower; the possibility of millions of unemployed people selling apples on street corners, with no apples to sell. What were we going to do about them?

Well, in November of 1945 the War Production Board had done its job. The job of war production was over. So the President decided: Let's say to those men in the WPB, "You did a swell job. Go on home now. We'll change the name of the agency to the Civilian Production Administration.

They will have this terrific, thankless job of knocking people over the knuckles through the next several months."

The new agency--the Civilian Production Administration--had available all of the powers of the former WPB. This was more power than any office has ever had in our Government prior to WPB. The power of the War Production Board was simply beyond belief. WPB had power which it never fully utilized; in many instances it never had to.

CPA was directed to use these powers for six main functions. I will enumerate them for you without referring to their order of importance.

1. To expand the production of those materials that were still in short supply.--There were many things still in short supply, sheet steel being outstanding. Sheet steel permeates our whole economy. It goes into almost everything, certainly most consumer durable goods.
2. To limit the use of those materials which were still scarce, for example, tin and lead.--A good many of the consumer grades of textiles were scarce; lumber, also, and quite a number of others.
3. To restrict the accumulation of inventories so as to avoid speculative hoarding and unbalanced distribution which would curtail total production.
4. To grant priorities assistance to break bottlenecks which threatened to impede the reconversion process.
5. To facilitate the fulfillment of relief and other essential export programs.--The Government had entered into relief commitments abroad and other commitments. Unless we gave those people some help, you can be quite certain they were not going to be satisfied because the companies that were supplying this article or that article were going to take care of their domestic customers first. They were going to let the export trade go by the board unless something was done.
6. To allocate scarce materials or facilities necessary for the production of low-priced items essential to the continued success of the stabilization program.--Well, I began to get mentally into difficulty when I hit that one; but it turned out to be all right. Here we were. Wages had gone up somewhat. Various things had gone up and these fellows were stuck with price ceilings. We wanted to see the \$2.00 or \$2.50 shirt back on the market. Clothing was a problem. Several other things presented problems--take, for example, building materials. If we had not done something about them, they would have gone sky-high. So we allocated materials for use in scarce low-priced merchandise.

Incidentally, I had an awful battle on that shirt proposition. The civilian shirts all during the war had short tails. I wanted to have long tails put on them; at least make them long enough so they wouldn't pull out of your pants. OPA didn't want any of that. We had a terrible struggle just on that little detail. We finally got together and got the long-tail shirt back again.

From late 1945 through 1946, CPA followed its directive but used its powers as sparingly as possible. It lifted controls just as rapidly as it could possibly do so. It helped increase the production of scarce materials. It prevented undue drains of scarce materials, either for export or for any particular phase of the economy. It did its utmost to get the Nation back to free enterprise; back to an economy free from governmental control.

Also, it is an agency that did fight to liquidate itself. It was a real struggle. But I think everybody in the agency will agree with me on that one; that we did fight to liquidate ourselves and get out of business. A great many people disagreed with that philosophy. There are some that still do. Some still put their faith in a planned economy. But more and more people are beginning to realize, I think, as they look at some of the other nations, that a planned economy does not mean freedom, as we have known it, or as we have fought for it.

Throughout the foregoing remarks I have concentrated, for the most part, on the control of materials. Now, what happened in the field of manpower was equally important. In order to save time, I will give you a little chronology of what happened.

In April 1940, we had 8 million people unemployed in the country. That is about 15 percent of the labor force. When the war broke, we had a great pool of unemployed from which to draw for war production and for the armed services.

In July 1941, unemployment had dropped to 5 million. Industrial production was increasing very rapidly by midsummer of 1941. During 1940 and 1941 the only controls over manpower had been those indirect controls exerted through Selective Service. There were no other controls.

In January 1942, Congress passed the Emergency Price Control Act and established the National War Labor Board. The "no-strike, no-lockout" pledges were exchanged by management and labor. Manpower was beginning to get tighter.

In April 1942, the War Manpower Commission was formed as a policy-making agency only.

In October 1942, the President ordered the stabilization of wages at the 15 September 1942 level.

In December 1942, the War Manpower Commission was made an operating agency.

In February 1943, the work week was increased to 48 hours. Manpower was getting very tight.

In September 1943, the Baruch Plan was available for adjusting production programs to local labor conditions. That was the first time any thought had been given to adjusting procurement to a place where it had labor. That was seemingly a brand-new thought, although far-sighted men had been preaching it for a long time.

By September 1943, manpower was the most critical factor in war production. Then began the widespread use of referrals through the USES.

In November 1943, we reached the peak of war production. There was 5.3 billion dollars worth of war production in November 1943.

In the summer of 1944, spotty local unemployment was developing.

In the fall and winter of 1944, acute manpower shortages were again plaguing us almost everywhere.

In the spring of 1945, spotty local unemployment developed again, just before VE-day.

In April 1945, just before VE-day, the Army announced a 15 percent cutback in munitions procurement thus releasing manpower.

When VE-day came along, manpower began to be released from war work in volume.

In May 1945, the War Manpower Commission relaxed most of its controls.

In June 1945, the Army announced a 50 percent cutback in artillery ammunition.

In July 1945, the War Manpower Commission reduced the number of critical labor areas.

In July 1945, the Secretary of the Interior had asked the Army to release 30,000 men to go into the coal mines. . That shows you how tight labor was in that industry.

In August 1945, they did away with all the remaining war manpower controls.

I know that sounds pretty sketchy, but it does give you the high spots on manpower.

Now, I have tried to tell you what was done the last time. What we will do the next time depends, as I said in the beginning, on what happens next time. I do not know what is going to happen. My guess would be, reading the headlines, and not knowing anything about it--I am very honest about that; I do not know anything about it--my guess would be the next war is going to be very swift. We are going to get hit. We are going to get hit awfully hard. There is going to be a lot of devastation in our country either from bombs that are dropped or bombs that are carried. We are going to be hit very hard, to start with.

Now, how long will the war last? It could end in a matter of weeks if we retaliated instantly and with sufficient force to drive home the lesson. As I say, it could end in a few weeks. It could end in a few months, certainly. My guess would be, however, even if it did end in a few weeks or a few months at high government levels, that would not end the war; that we would then have what would be, in effect, a sort of guerrilla warfare, if you like--the occupation of a vast land area for years and years and years. At least it seems to me conceivable that that might happen.

When the next war hits, if we have a Pearl Harbor which sets it off, or something that sets it off, I think we are going to go into it within a matter of hours. Everything will then be under control--not piecemeal control as we developed it in the last war, but instantly; manpower, wages, prices, materials, money. Men, money, materials--the three wheels--all must run in unison if we are going to have an all-out effort, which I am convinced we must have in the next emergency if it hits us. God forbid!

If we get into another war, the cutting out of all the nonessentials will be a much more drastic thing than it was even at the height of the last war. We must get into the thing even if it only lasts a few weeks. But if it only lasts a few weeks, there will not have been time to drain the pipelines, to drain the economy of, say, dishpans, of refrigerators, or automobiles, or whatever. There will not have been time to have used up all the steel, all the copper, or what not, if it lasts only a few weeks. Therefore, the reconversion problem in a quick war would be relatively simple, except for the rebuilding and getting back into use of devastated areas.

But if the next war does continue, with a very heavy drain on our resources, over a long period of time, causing strict regimentation--which I think is unavoidable--then the steps that will be necessary in reconversion will depend upon the period of time during which that war lasted; the extent to which these things were drained; and the scarcity of these things when the war ends.

Do you see what I mean? That is what I tried to explain to you in the beginning, that you cannot write a book because you do not know what the answers are. You do not know what the conditions will be that you

will be facing at the time. You will have to adjust your thinking, your regulations and rules, and your controls to the specific situation you will face at that moment. From the experience of the last war, we now know how to handle any general situation we might be confronted with. But there are so many gradations in those general situations that you would have to pick the one that fitted the specific conditions you were then encountering.

When the war ended, we had in WPB a whole room filled with pigeonholes. Each pigeonhole was a facet of our economy--pulp and paper, steel, copper, and everything else that was an essential ingredient in our economy. Contained in those pigeonholes was the record, as in the case of steel, copper, or whatever, of how we progressed in the war with increasing shortages, and what we did about them during the war and when the war ended--how we relaxed the controls and got out. We have a history, product by product, individual specific things by individual specific things, there in the National Security Resources Board. The NSRB has that record. We know what the WPB did then. We know where we were when the war ended.

At least that is a starting point for the next war. But it is not good enough. We have to go beyond that and have total regimentation. As I say, we have the record of what we did in each of these individual facets. Any of you gentlemen who are interested in the specifics can turn to that record and find the specific answers.

Come the end of another emergency, I hope they can do as was done in the last one--get out of controls as rapidly as possible, but at the same time hold those few controls that are considered essential until we get going on an even keel headed out for sea.

Thank you.

CAPTAIN MILLER: I want to remind you gentlemen that although the Economic Stabilization Course is about completed, in a few months you will have a Mobilization Course, in which you will be using most of the material that Commodore Small has given you this morning.

We are now ready for your questions.

QUESTION: Commodore Small, in recent writings, Mr. Bernard Baruch has been suggesting a sort of mobilization plan, which incorporates the best techniques we have learned in previous wars, to be passed by Congress with the idea of some permanent agency making periodic inventories to keep it up to date.

As a man being in the business during the last war, and in a position now with industry, I wonder what you think of that idea; particularly what industry would think of it?



MR. SMALL: Mr. Baruch is, I am glad to say, one of my very dear friends. I honor him and admire him and think he has one of the best brains in our country. Certainly there is nobody in this country more patriotic, more thoughtful, and has more knowledge of what we are talking about and what you gentlemen are studying, than he has.

I do not think Mr. Baruch is thinking of a plan. Rather, he is talking of a law which he thinks should be on the books.

There was a recommendation by Don Nelson when he was in the War Production Board, by Cap Krug when he was in the WPB, and by myself when I left CPA, that an agency be set up which would be the kernel, the nucleus, of another WPB come another emergency. That agency was set up. It is the National Security Resources Board. The functions are in the Resources Board; the pigeonholes are there. The implementation of it is another problem.

Now, the drafted law, the power, which would permit that to be translated into action come an emergency has been written by the NSRB, and I think has been cleared with all the other agencies. I do not know whether they all agreed to it or not, but I have read it and I thought it was a good law. I think the draft covered the waterfront. It probably had its flaws. I am no lawyer; but I did think it was a very good law.

This question now arises: You have a drafted law. Should you put it on the statute books as of any given moment, to have it ready as a stand-by in the event of a sudden emergency, or should you have the Congress pass it at the instance of the emergency?

Should we have an emergency this afternoon, the law would be on the books before midnight. I am sure of that. Should we have an emergency, say, two months from now, the law would be on the books within an hour of the time it took to get Congress together. We might have a time lag of a day or two getting people back in Washington for a meeting of the Congress.

Personally, I would like to see the law on the books now, so that everybody would know what to expect come an emergency. But I would not like to see that law implemented, or have anybody have the power to implement it except the Congress. If the drafted law were put before Congress today, they would be arguing about the details of it for years. If the drafted law is put before them when an emergency arises, they are going to pass it.

It is a good law, in my opinion.

Does that answer your question?

QUESTIONER: May I carry that a little further?

With all due respect to the talent in the National Security Resources Board, and our friends here, we feel that NSRB could change as the Administration changes, since its members are the advisers to the President.

I think Mr. Baruch had in mind something that would be taken out of the hands of the Administration, so to speak, so far as politics was concerned, but, at the same time, be in a position to go into action quickly in some form. Now I do not know what the specific law is that you are referring to, but I think the idea is to have something that can go into action immediately.

MR. SMALL: I haven't gotten the impression that that is what is in Mr. Baruch's mind.

The law is the main thing on which action needs to be taken.

Now, on this other business of having the pigeonholes ready for action--the history of what we have analyzed, re-surveyed, and keeping in constant touch with industry and the services as to what we will do next time--if your thought is take it out of any possible political implications and put it into the hands of the military, I would say absolutely no; very definitely no. Our country will never consent to giving the military control. I suggest you adjust your thinking to that one. It will never be done.

QUESTION: Commodore, we all agree that the Government should stay out of business to the greatest extent possible.

During your talk you commented to the effect that at one stage of the late war your outfit gave some of the companies authorization for five persons--the five may have been a figure of speech--to do some planning for conversion from war to peace. I just can't picture in my own mind any organization which has been built up over a period of years, and which is as powerful as some of them, waiting for any such authorization.

My impression during the early part of the war, in my minor contact with big industry in the country, was that even before they got their production lines set up for war work they were already laying plans to convert back to peacetime production, with or without authority.

Would you care to comment on that?

MR. SMALL: Surely. When I made that reference I was talking about midsummer of 1944 when war production was at its peak; when the demands of Selective Service were at their peak; and when we were draining the war production industry of our country of many of our best young men. We

were taking fellows out that it was criminal to take out of industry, particularly chemists, production men who were key men, men that affected hundreds of jobs and really affected war production.

Selective Service representatives went into these companies not only with a fine-tooth comb but with a butcher knife as well. If they could find some guy working on reconversion, they nabbed him and put him in GI uniform immediately. Goodness knows I used to get enough of these complaints. I do not think there was much of that on a broad scale. Perhaps the presidents of the companies were thinking about it, but so far as utilizing manpower for reconversion at that time was concerned, in broad generalities, they were not.

There were several hundred places where we said, "Yes; you can do this amount of planning." We told them that because it would affect possibly thousands of jobs. We gave them just a handful of men--possibly 30, 40, 50, all in all who could do the basic ground work. We thought they ought to learn to do the job that had to be done. On some of the long lead-time material, we may have let them buy pieces of equipment that would take three or four years to make a handful of stuff, perhaps 50 million dollars worth. I am just pulling that figure out of the air, too. Don't take it as being too accurate.

In broad generality, the country was not at that moment--I am talking now of the war production industry--devoting man-hours to the job of reconversion.

QUESTIONER: Commodore, we feel most keenly interested in Mr. Baruch's views on this particular subject; also his rather vocal argument with the President concerning the fact that there was no legislative plan in effect, and the President's denying that there had been one which he had turned down.

MR. SMALL: I think more and more people are definitely feeling that a law such as this one we were just discussing should be passed by the Congress and be on the books so that we would not have to wait one hour in the event of an emergency; so that all industry, all the economy, should be able to look at the law and know what to expect come the emergency. There is a great deal to be said for that.

I, personally, would like to see that, too. But I do not think it is feasible to do at this juncture. I do not think the country would accept it at this juncture because there is a risk involved. The risk is too great. The risk is not a risk of security. It is a risk that by so doing--somehow, in some way--might lead us into a dictatorship. Those powers are much too great to take chances with.

QUESTIONER: Now I would like to go one step further.

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You stated that you would not want to go into more detailed planning-- you explained why in your lecture--and that this so-called blueprint should not be a blueprint at all, but, rather, should simply be the delegation of broad powers.

MR. SMALL: If I understand you correctly, the law is an outline of the powers. Now, within the individual segments of the law is the question: What do we do about manpower? Well, there is a terrific amount of detail involved on that one. Or, how do you handle this, that, or the other thing-- materials, for example: What do you do with steel? Do you handle it the same as you do textiles? What do you do with lumber? You see, they all differ pretty widely in the mechanics and type of control tools with which you work.

So, if you are talking about a blueprint, a book of rules and regulations that says, "This is what you do" and outlines exactly what is going to happen, and that is a fixed thing so that all you would have to do would be turn the page and find the answer--if that is what you mean, I do not think that is realistic. I do not think it is sound.

But I think if an emergency arose and this law we are talking about were passed, within an hour, they should be able to pull their orders out of the pigeonholes and put them into effect. Then they can take this plan which contains a wide group of actions, preconceived actions, and discuss it with the services, and with industry. It is a fluid thing; a quick-silver thing. It is not a book of rules, but hundreds of preconceived actions that would be taken come an emergency under the conditions as they exist at any particular time. And I pointed out that conditions existing today, with production at a very high peak, with unemployment very low, would be far different from what it might be if we were in the midst of a depression where we had, say, 7 or 8 or 10 million unemployed.

So, your blueprint is not a blueprint. It is a framework. Maybe I am not being too clear in giving this answer, but I am very clear in my own mind.

QUESTION: My question concerns the position of the military man in any planning and action in the reconversion period. The military man is charged with winning the war. What technique can the Federal agencies use in assuring him that business will not hedge and jockey for position in the peacetime economy which is going to follow, at the risk of war production? I am thinking of what is in the military man's mind at that particular time.

MR. SMALL: That was the problem we were always bothered with during the latter part of the war--during 1944, the early part of 1945, and the summer of 1945. It was a psychological problem: How are you going to allay the fears in the military mind?

You refer to the companies jockeying for position. I do not think they should be jockeying for position. I think the companies ought to be given equality of position, in so far as you are able to do it, in converting from war to peace. We should not give one company a lead over another company. In other words, they should all have an even start. I realize that this is theoretically sound but impossible practically.

We found in 1944 that the few steps we were then thinking about which would save months of unemployment come reconversion, come sudden peace, did not really detract from the war, even though a lot of military minds thought they were horrible, that they would detract, that they would spread like wildfire, or like some dread disease that would spread very rapidly, and everybody would suddenly forget about the war and start to think, "What's going to happen to me come the reconversion?"

Actually, it did not work out that way. I do not see why it should. With the controls which we then had, if we had found that that condition endangered our war production, we would have pinned the fellow's hide to the wall who was doing it. We would have exposed him to public condemnation. No company would dare permit it. They wouldn't dare do it. I am talking now of the larger companies. They are really the ones that have the largest over-all effect.

So, the fears which we had in the summer of 1945 did not materialize. There were a lot of ghosts. There was also some substance, but not much. But the controls were there ready to use in the event they turned out to have substance and not be phantoms.

QUESTION: Commodore, there was always a suspicion among the social planners that the planned economy people would take advantage of the war to impose controls on the country and at the same time, at the end of the war, avoid relinquishing those controls.

Would you give us your opinion as to the validity of that suspicion?

MR. SMALL: I see faces around this room of people who were with me in the War Production Board and in the CPA. If anybody had that suspicion, I had it. It was no suspicion so far as I was concerned. It was a certainty. These fellows did have it, and there are numbers of them who will always have it. They believe that the planned economy is the right thing. They are people who, deep down in their hearts, are convinced that is the way to run our country.

Well, now, I can't argue with them for the way they feel. I just feel diametrically opposite to them. I think the more freedom we have, the better our country gets along. At the same time I know the economy is so complex you cannot plan it and run it and have freedom. The two do not go together. They never have gone together, they never will. It is impossible for them to go together.

In a planned economy--controlled economy is a better word for it--the more you control the economy, the less you have of individual freedom. The more you head toward complete governmental control, the closer you approach dictatorship--call it by whatever name you want, whether it be communism, fascism, or just plain dictatorship. The two things are completely opposite. Yet, there are many people who believe in it wholeheartedly. I know many of them. Some of them are my very good friends. I know they believe these things sincerely. But the lessons seem so clearly to show that it is fundamentally wrong to head in the direction of the planned economy, that I cannot understand why they cannot see it my way and they cannot understand why I think as I do.

It is no suspicion. It is a very real danger to our country.

CAPTAIN MILLER: Mr. Small, on behalf of the Commandant, the faculty, and student body, I thank you for this fine lecture.

MR. SMALL: Thank you.

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