UNIVERSAL
LIBRARY
OU_152826
UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 338/C54D Accession No. 27015.

Author Clark, J. M

Title Demobilization of war time economic control

This book should be returned on or before the date last marked below.

CONTROLS

By JOHN MAURICE CLARK

Already, at the time of publication of this book, first steps in demobolization of the war effort are challenging the attention of all concerned with the creation of a stable economy, of high production and job levels, after the war. As the war moves to its end, the complex picture of wartime controls, their number, variety, and interdependency, and questions as to how they should be relaxed, will emerge as vital elements in the postwar planning problem.

This third C E D study deals with this many-sided and controversial question. It presents a thorough survey of the kinds of controls, their objectives, their wartime effect, the authorization by which each exists, etc. Professor Clark analyzes carefully the varying circumstances under which need for them may abate, and offers specific recommendations for the time, manner, and degree of their cessation.

All types of control are dealt with — production, manpower, price, and wage controls, rationing, credit policies, and others — with full details of their effect upon each other and upon the economy.

(*Continued on back flap*)

(Continued from front flap)

Each phase of transition is covered separately, showing clearly the progressive changes in conditions affecting controls, as business terminates war production, retools, catches up with deferred consumer demands, and passes into a period of normal peacetime production.

Throughout, the approach is frank and unbiased, searching for the critical forces in the problem of control, considering competitive elements within business, relations between government and business, and other factors, and offering impartial and concrete recommendations for action, for planning, and for further study in connection with the questions, when, how, and how much may wartime economic controls be demobilized?

COMMITTEE FOR ECONOMIC DEVELOPMENT
RESEARCH STUDY

DEMOBILIZATION OF WARTIME ECONOMIC CONTROLS

THE BOARD OF TRUSTEES

PAUL G. HOFFMAN, *Chairman*
President, The Studebaker Corp.
South Bend, Indiana

WILLIAM BENTON, *Vice Chairman*
Vice President,
The University of Chicago
Chicago, Illinois

W. GIBSON CAREY, JR.
President, The Yale & Towne
Manufacturing Co.
New York, New York

FRANK A. CHRISTENSEN
Vice President
The Continental Insurance Co. and
Fidelity & Casualty Co.
New York, New York

W. L. CLAYTON
Anderson, Clayton & Co.
Houston, Texas

CHESTER C. DAVIS
President, Federal Reserve Bank
St. Louis, Missouri

RALPH E. FLANDERS
President, Federal Reserve Bank
Boston, Massachusetts

MARION B. FOLSOM
Treasurer, Eastman Kodak Co.
Rochester, New York

CLARENCE FRANCIS
Chairman of the Board
General Foods Corp.
New York, New York

LOU HOLLAND
President, Holland Engraving Co.
Kansas City, Missouri

CHARLES R. HOOK
President
The American Rolling Mill Co.
Middletown, Ohio

JAY C. HORMEL
President, Geo. A. Hormel Co.
Austin, Minnesota

REAGAN HOUSTON
Industrialist and Merchant
San Antonio, Texas

WILLIAM M. JEFFERS
President, Union Pacific R.R. Co.
Omaha, Nebraska

ERIC A. JOHNSTON
President, Brown-Johnston Co.
c/o Chamber of Commerce of the United States
Washington, D.C.

HARRISON JONES
Chairman of the Board
The Coca-Cola Company
Atlanta, Georgia

THOMAS B. MCCABE
President, Scott Paper Co.
Chester, Pennsylvania

REUBEN B. ROBERTSON
Executive Vice President
Champion Paper & Fibre Co.
Canton, North Carolina

HARRY SCHERMAN
President
Book-of-the-Month Club
New York, New York

ELMER T. STEVENS
President
Charles A. Stevens & Co.
Chicago, Illinois

JOHN STUART
Chairman of the Board
Quaker Oats Co.
Chicago, Illinois

SIDNEY J. WEINBERG
Partner, Goldman, Sachs & Co.
New York, New York

Executive Director
C. SCOTT FLETCHER

Treasurer
HENRY R. JOHNSTON

Secretary
ELIZABETH H. WALKER

Director of Information
ANTHONY HYDE

RESEARCH COMMITTEE

RALPH E. FLANDERS, *Chairman*
President, Federal Reserve Bank
Boston, Massachusetts

CHESTER C. DAVIS, *Vice Chairman*
President, Federal Reserve Bank
St. Louis, Missouri

WILLIAM BENTON, *Vice Chairman*
Vice President
The University of Chicago
Chicago, Illinois

DONALD DAVID
Dean, Graduate School of
Business Administration
Harvard University
Cambridge, Massachusetts

WILLIAM C. FOSTER
Vice President, Pressed and
Welded Steel Products Co., Inc.
Long Island City, New York

PAUL G. HOFFMAN, *Ex-Officio*
President, Studebaker Corporation
South Bend, Indiana

ERIC A. JOHNSTON
President, Brown-Johnston
Company
c/o Chamber of Commerce of the
United States
Washington, D.C.

ERNEST KANZLER
Chairman of the Board
Universal Credit Corporation
Detroit, Michigan

THOMAS W. LAMONT
Chairman of the Board
J. P. Morgan & Co., Inc.
New York, New York

RAYMOND RUBICAM
444 Madison Avenue
New York, New York

BEARDSLEY RUML
Treasurer, R. H. Macy and Co., Inc.
New York, New York

HARRY SCHERMAN
President, Book-of-the-Month Club
New York, New York

RESEARCH ADVISORY BOARD

SUMNER H. SLICHTER, *Chairman*
Lamont University Professor
Harvard University

ROBERT DE BLOIS CALKINS,
Vice Chairman
Dean, School of Business
Columbia University

DAVID F. CAVERS
Professor of Law (on leave)
Duke University

NEIL JACOBY
Professor of Finance
School of Business
The University of Chicago

HAROLD LASSWELL
Director of War Communications
Research, Library of Congress

WILLIAM I. MYERS
Dean, New York State
College of Agriculture
Cornell University

THEODORE W. SCHULTZ
Professor of Agricultural Economics
The University of Chicago

RALPH YOUNG
Professor of Economics
University of Pennsylvania

Research Director
THEODORE O. YNTEMA
Professor on leave from School of Business
The University of Chicago

Associate Research Director
and
Executive Secretary of Research Committee
HOWARD B. MYERS

Associate Research Director
GARDINER C. MEANS

Assistant to Research Director
SYLVIA STONE

COMMITTEE FOR ECONOMIC DEVELOPMENT RESEARCH STUDIES

THE LIQUIDATION OF WAR PRODUCTION
By A. D. H. Kaplan

DEMOBILIZATION OF WARTIME ECONOMIC CONTROLS
By John Maurice Clark

PROVIDING FOR UNEMPLOYED WORKERS IN THE TRANSITION
By Richard A. Lester

PRODUCTION, JOBS, AND TAXES
By Harold M. Groves

INTERNATIONAL TRADE AND DOMESTIC EMPLOYMENT
By Calvin B. Hoover

COMMITTEE FOR ECONOMIC DEVELOPMENT
RESEARCH STUDY

DEMOBILIZATION OF WARTIME ECONOMIC CONTROLS

BY

JOHN MAURICE CLARK
Professor of Economics, Columbia University

FIRST EDITION
SECOND IMPRESSION

McGRAW-HILL BOOK COMPANY, INC.
NEW YORK AND LONDON
1944

DEMOBILIZATION OF WARTIME
ECONOMIC CONTROLS

COPYRIGHT, 1944, BY THE
COMMITTEE FOR ECONOMIC DEVELOPMENT

PRINTED IN THE UNITED STATES OF AMERICA

All rights reserved. Permission to reproduce material from this book may be secured by writing the publisher.

THE MAPLE PRESS COMPANY, YORK, PA.

PREFACE

This report is a study of a coming process of transition, leading to recommendations for action, for planning, or for further study. It deals with an intricate pattern of interdependent contingencies in which timing and sequence are of the essence, and is too brief for full examination of all reasons and all possible alternatives. Numerous forecasts became matters of current history between the times of first writing and of final revision; but the writer has surprisingly won a bet he made with himself at about the end of June, that the revision would be finished before General Montgomery's forces took Le Havre. This "final" revision was completed on August 22, and no substantive changes have been made in the text since that date. Comments on later developments, especially the Byrnes report of September 7, have been put in footnotes.

The author has been unable to resist the temptation to construe his mandate somewhat liberally. His excuse is the compelling interest of the great conception animating the undertaking of the Committee for Economic Development, in which private business interprets its interest so broadly as to take in the most crucial public economic problem of our time: the problem of achieving ample employment under a voluntary system, in which government and private activities play complementary roles.

The work could not have been accomplished without the generous help of persons too numerous for individual acknowledgment: members of the Research Committee, Research Advisory Board, and Research Staff of the Committee for Economic Development, officials of various government agencies, and business friends, who have furnished data (some of it confidential), opinions that could not be quoted, and invaluable critical comments. Miss Sylvia Stone's editorial suggestions have been understanding and most helpful. Dr. Yntema, besides much practical helpfulness, has more than once furnished a welcome antidote when the author reached the point (familiar to writers) of doubting the value of his work. For the final result, the author takes responsibility.

JOHN MAURICE CLARK

WESTPORT, CONN.,
September 22, 1944.

CONTENTS

FOREWORD

The Research Division of the Committee for Economic Development is engaged in the study of economic policies that have an important bearing on the achievement of a high level of employment and production after the war. Some of these policy problems are peculiar to the transition from war to peace; others are basic in the peace-time functioning of a private enterprise system. A list of the studies thus far undertaken in the C.E.D. research program is to be found on p. 208.

The present volume by Professor J. M. Clark is concerned with one of the most important and difficult of the transition problems. It deals with the change-over from a controlled, inflation-driven war economy to an automatic market system in which demand and supply determine prices and the distribution of resources among employments. It shows how the removal of controls and the restoration of freedom in buying, selling and producing must be related to the reduction of the great distortions in demand and supply conditions induced by the war, if serious trouble is to be avoided. This is not a simple book, but it will richly reward the thoughtful reader.

A policy statement on the demobilization of wartime controls is being prepared by the Research Committee and will be issued shortly after the publication of this book. It can be obtained from the C.E.D. headquarters or from the local C.E.D. committee offices.

This study by Professor Clark has been made under the provisions of the C.E.D. by-laws which guarantee freedom of expression to the members of its research staff.

THEODORE O. YNTEMA
Research Director

I. THE SETTING OF THE PROBLEM

SCOPE OF THE STUDY

THE subject of this report is the demobilization of the special wartime economic controls, the main emphasis being on the controls of production, prices, and wages. The work of the War Production Board, the Office of Price Administration, and the War Labor Board thus takes the center of the picture. These agencies do not fill the entire picture, however, because there are numerous others engaged in control, including controls over food, fuel, rubber, transportation, shipping, trade and manpower, while the military procurement agencies, in their capacity as buyers, are among the most powerful and pervasive agencies of economic control as long as their buying directs something like half of the country's production.

For practical purposes, this report will not assume primary responsibility for findings on matters that are more intensively and more competently covered by other reports in this series. These other reports cover the subjects of termination of war contracts, disposal of surplus commodities and war plants, the financing of reconversion, manpower demobilization, provision for transitional unemployment, agricultural policy, taxation, money and banking policy, and international trade and finance.[1] Since not every reader will read all the reports,

[1] See A. D. H. Kaplan, *The Liquidation of War Production;* Harold M. Groves, *Production, Jobs and Taxes.*

See also the forthcoming books: Charles C. Abbott, *Financing Industry during the Transition from War to Peace;* Robert R. Nathan, *Manpower Demobilization and Reemployment;* Richard A. Lester, *Providing for Unemployed Workers during the Postwar Transition Period;* T. W. Schultz, *Agriculture in a Developing Economy;* Henry C. Simons, *Federal Tax Reform;* John K. Langum, *Monetary and Banking Policies in the Postwar Transition Period;* Calvin B. Hoover, *International Trade and Domestic Employment.*

each report should include enough to make a self-sufficient unit. Accordingly, this report will not try to avoid all overlapping, but will try to be brief and general where it does overlap, referring the reader to the other studies for fuller treatment.

ADVOCATING THE IMPOSSIBLE VS. PREDICTING THE INEVITABLE

The primary assumption underlying any study such as this one is that such studies and the recommendations based on them can have some influence on public policy. Presumably that is what this series of studies is for. They represent an investment made on the chance that public opinion can be clarified and public policy influenced in useful directions if various groups and individuals make their contributions to a great nation-wide symposium on these questions. For such an undertaking, nothing should be accepted as inevitable except the job of winning the war and of getting back to a peacetime basis afterward. The magnitude of this job is inescapable, but the method of doing it is ours to shape.

It is true that the method may be easier to shape in some directions and in some areas of action than in others. At certain points there may be virtually insuperable obstacles—vested interests or mental ruts from which people or groups cannot be pried loose during the time that is available. But one can never be sure that an obstacle is insuperable—certainly not without trying to overcome it. And the mistake of not trying is worse than the mistake of trying and failing. In such cases, the prudent policy-maker will try to have a second line of defense in the shape of an alternative plan, and he may plan to concentrate his efforts at the points where they seem to have the best chance to secure results.

It has sometimes seemed that policy in the field of labor relations and bargaining was less subject to guidance from sweet reasonableness than policy in some other fields; and that there were extreme attitudes on both sides, and a few fixed dogmas widely held, which could not be altered by the published word in the time available. But fewer and fewer employers indulge in the luxury of unalterable positions on these issues, and on Apr. 11, 1944, a committee of the American Federation of Labor produced a platform of postwar recommendations which sets a high standard of statesmanlike quality for other groups to live up to, and appears to open the door to mutual adjustments in unexpected directions. The general recognition of the existence of a national and world crisis has opened many doors, and may open more before the crisis is over.

These studies, then, must try to strike a wise balance between recommending the impossible and merely predicting and acquiescing in the inevitable. The worst mistake is that of being too timid to say what is needed because it is so unpopular or treads on the toes of such powerful interests that the chances of gaining it seem slim. The primary service of such studies as these is to report what seems to be needed, without unnecessary offense but without fear or favor. And if what is needed is a miracle, in order to bring the country through without shipwreck, then it is not the part of realism or common sense to start a priori with the assumption that the days of miracles are over.

Our war effort has performed miracles, because enough Americans have adopted the attitude that what must be done, can be done. If the peace effort requires further miracles, that should be faced in a similar spirit. The Committee for Economic Development has achieved remarkable results in precisely this matter of attacking the peace effort with some approach to the spirit that has gone into the war drive. We have perhaps already seen enough of the character of the new task to conclude that it may be the harder of the two. Its difficulties are of a different sort, its goals less simple and obvious. Success may be impossible, the inertia of custom, mass prejudice, and vested interests (economic and intellectual) being what it is, but we have no right to say so until we have tried. In any case, however, the first step is to find out what must be done if the peace effort is to succeed.

STAGES OF RECONVERSION

The process of reconversion will fall into stages, each with markedly distinctive characteristics. In each stage the various controls are bound together, and all alike face conditions and problems characteristic of that stage and different from those of other stages. Each stage, therefore, makes a natural unit in the account of the demobilization of the controls.

First comes the stage of fighting in two hemispheres, including the height of the war effort, with a probability that there will be tapering-off in war production during the latter part, but not enough to lighten pressures on the civilian economy very greatly. Second comes the probable stage of war in the Pacific after victory over Germany. In this stage the war effort and war production are expected to fall off heavily, though unevenly as between different branches of war production.[1] This will permit some release of men from the armed forces, considerable resumption of suspended or restricted civilian production, and preparation for further resumption. While little is certain in war, at the time of the final revision of this chapter (July, 1944) there appears to be less and less doubt that there will be a second stage of this sort. Third is the stage of immediate postwar reconversion involving the bulk of the release of men and women from the armed services; the winding-up of war business and the retooling, reequipping, and general reorganizing for peace production. Fourth comes the period characterized by the making good of deferred demand for civilian durable goods of all sorts. And finally comes the period of long-run adjustment when the economy will have to learn how to get on without this temporary stimulus.

[1] [More recent estimates indicate a smaller falling off than originally expected. (Footnote inserted in second printing.)]

II. MAIN FINDINGS AND RECOMMENDATIONS

GENERAL POLICY AND PREPARATION FOR DECONTROL

To disband all controls instantly at the end of hostilities would be an invitation to chaos. This mistake was made after the First World War, with results which were bad and could easily have been worse. If the same policy is repeated in the coming reconversion, the outcome will probably be different, but the possibilities for harm are no less serious. A positive policy is needed. Since many features of the situation are unpredictable, the policy must be a flexible one, prepared to meet different contingencies.

For the immediate transition, there are three main objectives:

1. Early preparation and speedy clearing of the decks for resumption and expansion of civilian production.
2. Fair opportunity for every producer, particularly new producers—including access to the necessary means of production.
3. Avoidance of cumulative depression, violent deflation, or violent inflation.

Insofar as the timing and manner of disbanding the war controls and the war economy affect the nature of the economic system which will take over and carry on, four other objectives or groups of objectives are important:

1. Maintaining competition.
2. Safeguarding national interests such as the interest in industries necessary to defense and in conservation of limited and irreplaceable resources.

3. Finding ways of making active and rational use of unprecedentedly great productive power. This involves, among other things, the development of soundly enlarged standards of consumption which will persist beyond the temporary filling of war-deferred demands, making this an enduring high-consumption economy.

4. Establishing sound international relations:

a. Safeguarding the economic basis of security against war.

b. Affording economic opportunity to all countries.

c. Making whatever domestic adjustments are necessary in order to conform to these international requirements.

The best peacetime control is rapid expansion of production under healthy competitive safeguards. Transition controls should look to this end, though this formula does not cover everything needed.

As to government organization for the transition, executive policy should be integrated under the Office of War Mobilization or a successor body, and constructive liaison cultivated between the executive and Congress both as to general national policy and as to specific conduct of the various agencies. For the longer future, a more thoroughgoing reorganization is needed in both legislative and executive branches to permit a positive and integrated economic policy.

War-control agencies should now canvass the various future contingencies they may have to meet and should formulate appropriate policies. They should also determine what legislative authorizations, if any, may be needed in various contingencies. They should clear this thinking through the Office of War Mobilization or a similar agency. An example of specific administrative preparation would be the strengthening of the U.S. Employment Service. An example of preparatory factual investigation would be a canvass of the effect of the war on the wage structure, on the bargaining position and power of employers and of organized and unorganized labor, and on the factors (including taxes) determining the level of wages industry is able to pay.

SPECIFIC PREREQUISITES FOR DECONTROL

At any time when war contracts are terminated on a large scale and not replaced by others, speedy settlement is important to clear the way for reconversion. Reasonable unemployment benefits should, of course, be paid. These problems will come in two main waves, one after the defeat of Germany and the other after the final armistice. It is worth keeping in mind, as the first wave nears, that the second will be larger in its total impact. It will include the principal part of the problem of disposal of plants. Here speed needs to be combined with due consideration of defense interests, conservation interests, sectional and international interests in location of industries, and the maintenance of good competitive conditions. This requires planning. Tax reform is indispensable, with special emphasis on the lightening of discriminatory burdens on risk-taking enterprise.

Reconversion-unemployment benefits should be as liberal as possible without causing idleness to be more attractive than employment, or causing too many of the available jobs to be less attractive than idleness. If this limitation on benefits is not consistent with sufficient maintenance of purchasing power, unemployment benefits may be supplemented by special grants of separation pay, limited to this emergency. Deferred normal public works should be promptly resumed, and a "large shelf of small projects" will be appropriate; but made work should be avoided in the initial transition period, while private industry is still in process of preparing to resume operations. As a matter of course, there is need of efficient services of placement for unemployed workers and of retraining and reeducation where these are appropriate.

CONTROLS OF PRODUCTION AND MATERIALS

During hostilities, early releases of materials for civilian production are properly subject to manpower requirements, and should be so used as to reinforce manpower controls as long as the latter are needed. Conservation orders requiring economy of materials at expense of quality should be released early where this will enable limited manpower to produce more service value, and also will permit inventories of war-quality goods to be disposed of in the wartime market and replaced with peace-quality goods.

As the war effort tapers off, there will be strong pressure to replace the cuts with equal amounts of civilian production or equal numbers of worker-jobs in civilian production.[1] This would be a mistake. Instead, some slack should be left, permitting and encouraging temporary war workers to leave the labor market, and progressively reducing or eliminating war-overtime.

For the sake of equality among competitors, the producers in any industry would like to be released for civilian production all at the same time, whether with or without quota restrictions. This may be practicable and desirable in some cases, but is not a feasible general rule. In releasing part of an industry, consideration may be given to prior release of plants in labor-surplus areas, of small and moderate-sized producers, and of converted plants as against plants built new for war work. As between industries, there is advantage in prior release of the minor durable goods, leaving the principal postwar problems of backlogs and accompanying scarcities concentrated in a limited number of mass-production

[1] The Byrnes report of September 7 on reconversion after the defeat of Germany contains the statement: "We should make the maintenance of the present national income and high level of employment our goal—and achieve that goal." However, Mr. Byrnes advocates a return to a 40-hour week "except to take care of production necessary to the war effort and some specially tight labor areas." Mr. McNutt's testimony of September 7 before the Senate War Investigating Committee contemplated continuing the 48-hour week in war plants. The Byrnes report suggests utilizing the greater "take-home" resulting from a 48-hour week as an inducement to keep workers in war plants when manpower controls have been dropped but does not state how civilian industry is to be prevented from meeting this inducement by following suit. These statements appeared after the "final" revision of this text (see *The New York Times*, Sept. 8 and 10, 1944). They do not literally call for maintenance of peak war rates of production after victory in Europe, but appear to lean farther in that direction than the present writer would do.

industries, easier to control informally. Inequities among competitors released at different times may be mitigated if the early starters produce war models or prewar models, and if all can start even on postwar models. Where quotas are used, new producers must be included; and some recognition should be given to current as against prewar output, where unequal war-work expansion has brought about changes of more than momentary import in the commitments of different producers.

Among the most important early releases are those for experimental development of new products. As the war effort tapers off, these releases should be made more liberal. Equally important, when there is early prospect of mustering out large numbers of service-men, are releases for advance retooling of plants in order to have them ready to offer jobs as soon as the men are demobilized.

After final victory it should be possible to wipe out all remaining limitations on products and use of materials, with the possible exception of minor and unusual temporary scarcities necessitating economy of materials or use of substitutes if all producers are to get their essential requirements. Allocations of industrial materials, with modified inventory controls, correlated with the disposal of war-production inventories, may serve an important transitional purpose in preventing a disorderly scramble to build up inventories, which might inflate prices temporarily and hamper some producers in securing the requisites for resuming production.[1]

In some cases, temporary holding of surpluses of particular materials and orderly disposal over several years may avoid

[1] The Byrnes program proposes substantially this policy for the period after the defeat of Germany, with the exception that only an informal scrutiny of inventories is suggested, and that limitations on civilian production would be mainly confined to a blanket priority for all war orders and a possible second priority to highly essential civilian production. This means that the questions of who should be released first, and whether release should be complete or partial, would be left to the procurement agencies in consultation with the War Production Board.

temporary shutdowns of production of the materials. But such methods should be used only to avoid or limit losses and not to protect normally profitable prices.

CONTROL OF TRANSPORTATION

The Office of Defense Transportation has emphasized cooperative methods. Easing of freight loads and early release of materials for maintenance and replacement of transportation facilities and equipment should make it possible for the ODT to return its rail transport powers to the Interstate Commerce Commission fairly soon after final victory. The trucking situation may need attention longer, though it should be eased before the final armistice.

CONTROL OF MANPOWER

Early and limited releases of civilian production may, by starting a drift of workers away from war work, necessitate tighter manpower controls rather than permit relaxation. It is desirable that temporary war workers should be released as local pools of unemployment appear. Since many of these workers are in industries and plants which will not be released, this involves a difficult problem of shifting and can be only partly accomplished.

After the final armistice, increased emphasis will attach to the (conditional) rights of veterans to their former jobs or equivalents. Aside from this, the restrictive features of manpower controls should be needed no longer; the controls would give place to a nation-wide system of assisted voluntary placement. On a less intensive scale, such a system is a permanent requirement of a well-organized national labor market.

CONTROL OF WAGES

While the end of the war is still distant, it remains highly important to avoid an inflationary price-wage spiral. This makes it necessary to prevent wage increases which would necessitate the raising of price ceilings, directly or through spreading from one occupation to another. Later, wage increases will be urged to counteract declines in purchasing power resulting mainly from the elimination of overtime. They would tend to be self-neutralizing to the extent that they necessitated price increases. During the final phase of the war and the immediate reconversion, active purchasing power will be best sustained by wages which tend to promote maximum physical volume of sales and employment. Wages should be as high as is consistent with this standard. Increased man-hour output, plus reductions of business taxes, may enable employers to absorb some wage increases. These should be distributed as equitably as possible; and the War Labor Board, if continued under an altered mandate, might render further valuable service in this direction.

Work sharing, though undesirable, may be a justifiable emergency measure on a temporary basis but should avoid the method of a substandard working week with penalty rates for overtime beyond this standard. This method tends to perpetuate the substandard working week, and thus to harden into a permanent obstacle to desirable full-time employment, expanded production, and the higher standard of living which increased productive power permits. It is suggested that more scientific methods of wage payment might be found which would furnish better protection to total real earnings and would tend to induce added hours of work up to a desirable standard working week rather than to penalize such working hours by punitive overtime rates. In this connection a guaranteed yearly minimum has possibilities and also limitations.

PRICE CONTROL AND RATIONING

While hostilities continue in two hemispheres, it is necessary to "hold the line" of prices as stiffly as possible. This means that adjustments of price ceilings for increased costs on civilian products which have been out of production, and are now released, cannot be liberal. Inducement must be sought largely in the advantage to the producer of an early return to civilian production. When the end of hostilities is near, and reconversion on a larger scale is possible and growingly important as a preparation for reemploying discharged service-men, greater liberality may be necessary and desirable.

As prices cease to press against ceilings or fall below them, it is appropriate to suspend ceilings provisionally, leaving outright cancellation until it is reasonably certain that inflationary pressure will not revive with reviving production, employment, income, and confidence after the setback during immediate reconversion. Where surpluses of basic materials threaten destructive declines in price, the substitution of price floors for price ceilings appears less desirable than temporary stockpile purchasing with orderly disposal over a limited period, as already suggested. The differential pricing now practiced in the case of copper, lead, and zinc will not be needed after the war program has sharply decreased; but there may possibly be other cases, perhaps involving high-cost foreign sources of a limited part of our supply, in which some method of averaging high and low costs would be desirable in order to give industry ample materials at a moderate price.

Aside from such possibilities, which might not materialize, the need for price control should, soon after the armistice, be confined to the major durables in which accumulated shortages will persist for some time. Here informal price controls, and use-priorities in place of formal rationing, might be sufficient as makeshifts during the interval of special shortage. Rent controls, with adequate provision for return on improvements, will be needed until the housing shortages are greatly reduced. They would presumably not apply to new housing, but builders could not afford to take undue advantage of this exemption. In fact, it is generally agreed that the housing-construction industry needs to develop cost-reducing methods if it is to tap the large demand for housing by persons of modest incomes.

Prices of most farm staples are likely, soon after the armistice if not earlier, to fall to the level of their supports. The farm economy may then be expected to return to a basis of controlled valorization of the AAA type; but it is to be hoped that a modern substitute can be found for the present standard of "parity," which is based on obsolete price relationships of 1909–1914.

Some rationing in the field of food is likely to be needed for one crop season after the liberation of Europe.[1] Rationing of petroleum products will presumably be needed as long as we are engaged on a major scale in the Pacific, though more liberal allowances may be possible after the defeat of Germany. It seems probable that formal rationing in these fields can be ended promptly after the end of hostilities. Formal rationing of durables, as distinct from informal use-priorities, can probably be ended soon after the war is over or possibly in some cases even before, if early reconversion has reduced the shortages.

CONTROL OF CREDIT

Regulation of consumers' credit, under Regulation *W*, should be continued until the stimulus coming from its relaxation will do the most good and the least harm. This means release at different times for different types of credit. Restrictions on general charge accounts might be ended as soon as unemployment becomes a general problem, while installment sales of the major durables, other than house furnishings, might with benefit be restricted until the backlog of deferred demand is greatly reduced. Returning service-men, or workers needing a car to get to a job, might present valid claims to relief from the restrictions.

As a separate question, control of consumer credit might have permanent value as part of a long-run program of eco-

[1] The Byrnes report of September 7, which appeared after final formulation of these findings, indicates large food production in Allied-controlled areas and also large stockpiles available for release after the defeat of Germany, and makes it appear that the need for continued rationing may be substantially less than earlier estimates indicated. A later Department of Agriculture report predicts no easing of supplies after victory in Europe (*The New York Times*, Nov. 14).

nomic stabilization. This possibility should be examined in connection with the question of mitigating depressions.

MAINTAINING HEALTHY COMPETITION

Competition is the great peacetime substitute for wartime controls of production and price, and must be in healthy condition as the controls are demobilized. The antitrust laws should be effectively enforced, preferably without unsettling changes during the time when business is struggling to adjust itself to many other postwar uncertainties. Increased action against international cartels is to be expected and accepted. Insofar as antitrust action may be taken against monopolistic practices of organized labor, this method should not be used in wage matters. As to restrictions on output by labor, antitrust action may be justified in extreme cases which go beyond defensible work sharing and are clearly harmful; but as there is apparently a prospect of voluntary action in this area in connection with attacks on the problem of unemployment, voluntary methods should be exhausted first.

Antitrust action is only the negative side of the preservation of competition, and is less important than the positive side. There must be enough competitors, strong and efficient enough to hold their own; and there must be a real chance for new enterprises to be started and to grow. In the long run, the ability of industry to maintain its health on a modest average competitive rate of return may depend on a reduction of the spread between high-cost and low-cost producers. This may be undertaken by aiding high-cost producers to develop greater efficiency; and there should also be investigation of the possibilities of averaging certain elements of cost which do not represent efficiency or inefficiency, either in choice of location or in productive performance, but which do create differentials between producers.

FISCAL POLICY AS AN ECONOMIC CONTROL

Fiscal policy is now doing all it can be induced to do to absorb excess incomes and so reduce inflationary pressures.

After the end of fighting, war expenditures will of course be reduced and normally useful public works resumed; and taxes which directly burden consumers' expenditure or handicap expansion of private business investments should be reduced. If, as a result, some deficits are incurred at some time during the first three years after the armistice, this should not cause alarm. But deficits should not be sought for their own sake; signs of ability to balance the budget, without resort to production-repressing kinds of taxes, would in themselves have a favorable effect on business confidence.

The question whether a particular fiscal policy tends to stimulate or depress business is not merely a matter of the amount of the surplus or deficit. It depends fully as much on kinds of expenditures and revenues as on mere quantity; also on whether public expenditures are so managed as to combat private monopolies or to strengthen them. Public-works administrators should be given freedom to bargain as to the prices they pay, and not be forced to take whatever offers the market affords, so that sellers know they can sell as much to the government at a high price as at a low one. This amounts to presenting the market with a rigidly inelastic demand, and tends to fortify monopoly elements in the price-wage structure. Public spending cannot have its proper effect if it operates in this way.

CONTROLS IN INTERNATIONAL ECONOMIC RELATIONS

Some key materials, especially those of military importance, may properly be treated as affected with an international public interest after the war. The principle of *equal access* to basic material for legitimate use by all countries will need to be defined and implemented. The determinations of exchange rates and the reduction of trade barriers are also matters affected with an international public interest. The export of capital from this country will need to be better supervised than in the decade of the twenties. Heavily unbalanced payments on account of European rehabilitation are not a fair burden to lay on an exchange-stabilization fund. Exports of capital are a way of financing an export balance in commodities and afford stimulus to our economy while they last. They will become unsound unless we adjust our economy to accepting payment in goods, which must ultimately offset the export balance. Trade barriers will not be reduced to harmless proportions unless domestic economies are so well organized internally that they cease to have reason for fear that increased imports will displace domestic employment and lead to depression.

LONG-RUN PROBLEMS OF CONTROL POLICY

Even in the first three years after the armistice, a backlog of deferred demand for durables will not be sufficient to furnish ample employment. In addition, there will need to be something like a revolution in consumption, some parts of which will involve public action. Whether this revolution in consumption comes about naturally or not, there will be fluctuations of prosperity and depression, and the average level is very likely to be below a satisfactory standard. The postwar efforts to control the economy will center on this problem. An answer consisting of public spending, while each economic group tries to grab the benefit for itself, will lead to inflation rather than to a healthy increase of physical production and real income, and may lead to a permanent need for public control of prices and wages.

A more satisfactory working adjustment must rest on two foundation stones. One is the development of a real sense of responsibility on the part of organized economic groups, in the exercise of their great and growing powers, which are too formidable to be exercised in the irresponsible fashion of an age of simple individualism. The other necessary foundation for postwar adjustments is a better understanding of economic questions than now exists. The questions are difficult, most of the existing answers are one-sided and incomplete, and many are unconventional and disturbing. The chief sign of hope lies in the fact that business and labor groups are facing these problems with more of the spirit of open-minded search for answers and less of unalterable defense of customary positions. Things are moving, and they need to move far and fast.

III. HOW NOT TO RECONVERT

A SERIOUS PROSPECT

THERE are many ways of going wrong in handling the demobilization of the special war controls and the reconversion to the kinds of controls that are normal and suitable for peacetime. The list would be a long one even if limited to mistakes that are fairly likely to be made. If a New Deal administration is in undisputed power, it will be prone to make one kind of mistake; if the Republicans are in full power, they will tend naturally to another; if the current variety of split situation prevails, with a bipartisan majority against many administration measures, there will be a third set of possibilities for going wrong. There are also some mistakes that are likely to be made whatever the administrative and political situation.

It would not be wise to become too much impressed with the likelihood of dire disaster in case certain things are done wrong. That is, we should not get into a mood which would predispose us to getting panicky later on, when reconversion is under way and two or three serious mistakes may have been made. Many things will be done wrong, and many right things will be left undone; and in spite of this we shall probably come through somehow. But we had better not start with the express expectation of muddling through; because this coming crisis will not permit as much muddling as earlier crises which we have survived. Coming through in recognizable shape is a probability, not a certainty. Catastrophe is also possible.

THE EXPERIENCE OF 1918–1920

After the First World War this country blundered through to the temporary and spotty prosperity of the twenties; and this has often been called a fairly successful reconversion—often also a lucky one. Actually, it affords a very good model of things to avoid in the reconversion that will follow the present war. Twenty-five years ago we were reconverting from a war of 19 months' duration, which absorbed at the peak less than 25 per cent of our national gross product and ended before substantial inroads had been made on supplies of miscellaneous durable goods available to consumers. The current war will have lasted longer, brought about a greater increase in plant investment and output, and absorbed roughly twice as large a percentage of our expanded national product. In its peculiar industrial field—that of metal durables—it has brought about far more than twice as much new construction, conversion, and diversion of productive facilities from ordinary peacetime production, and the job of reconversion will be correspondingly larger. The earlier reconversion experience, easier though the task was, included: (1) considerable unemployment and real suffering during the winter of 1918–1919, (2) an unsound inventory and speculative boom in 1919–1920, (3) a violent and drastic deflation and depression in 1920–1921, and (4) a return to "normalcy": a prosperity marked by sick-industry conditions, especially in agriculture and coal mining, the prosperity coming to an end in 1929 for reasons some of which we can now identify (with the aid of hindsight) as having been inherent in the situation.

The troubles we experienced in the first three years after the Armistice of 1918 were due to causes most of which will be with us when the present war ends but which will be multiplied manyfold. The time sequence will presumably be different, owing mainly to the likelihood that the Pacific war will continue after the European fighting has ended. Nevertheless, a survey of the earlier experience reveals a surprisingly large number of elements, both major and minor, which have their counterparts in the situation that is visibly in store for us in the coming postwar reconversion.

To make the briefest kind of summary, in 1918–1919 controls of prices, wages, production, and priorities were abruptly taken off, largely within a couple of months and while government spending was still close to its peak and government deficits were still large. Much war-contract work was stopped at once, especially Army contracts, but much Navy and Shipping Board work was carried to completion; and food, clothing, and supplies went to Europe in large quantities, the movement being financed by both private credit and government spending. Thus there was a mixed situation, involving unemployment for some while the government was still paying out large amounts of money to others. Perhaps the net effect can be summarized by saying that controls went off while people's money incomes were still running ahead of the supplies of goods on which those incomes could be spent. People were still being paid to produce things they could not buy for personal consumption.

The resulting inflation did not come at once. Much of the work of reconversion appears to have waited for tangible evidence of consumer demand which might justify it. Meanwhile, production of materials fell off, though these materials were soon to be in intense demand. Consumer demand soon began coming into the markets. The existence of accumulated war savings undoubtedly furnished some part of the financing, though there appears to have been no reduction in the volume of these savings in the aggregate. While some were liquidating war savings, others were increasing theirs; and the federal debt was still rising. Reviving demand for consumers' goods caught the economy with reconversion incomplete and the inventory "pipeline" waiting to be filled. The result was a boom in production and prices, in which uncertainty of deliveries caused buyers to multiply their orders, and the effect was intensified by speculative buying. The rise in prices continued for a few months after industrial production had leveled off and after manufacturing employment had begun to shrink.[1] Wages and cost of living rose along with wholesale prices until the whole price structure collapsed in June, 1920.

After the resulting violent deflation and depression, recovery was helped out by some backlogs of demand which had not had time to materialize earlier. Railroad rehabilitation, housing construction, and expansion of the automobile industry, of highway construction and related construction work, including the various developments that went with the growth of suburban life, all contributed. A major factor was the international situation, marked by the persistent attempt of this country to collect money payments on war debts and reparations while it restricted imports to such an extent that full payment in goods was impossible. This could not go on forever, but the reckoning was postponed by export of capital to the amount of approximately six billion during the postwar decade, on an increasingly unsound basis. Meanwhile, the international price structure was unsettled by what amounted to forced sales, largely of agricultural products, by countries with large payments to meet. In 1929 all the chickens came home to roost at once.

WAYS OF GOING WRONG NEXT TIME

Governmental Disorganization

One of the simplest ways of making sure of plenty of mistakes of omission and commission in the reconversion period is simply to leave the federal government in its present dis-

[1] See Paul A. Samuelson and Everett E. Hagen, *After the War—1918–1920,* National Resources Planning Board, June, 1943, pp. 13–14. For other features of the account, valuable material may be found in studies made by the Bureau of Labor Statistics, Division of Historical Studies of Wartime Problems (Stella Stewart, chief) during 1942 and 1943, including Stella Stewart, *Post-War Planning of World War I;* W. H. Moore, *Post-Armistice Industrial Developments, 1918–1920;* and J. D. Edwards, *Settlement of Claims Arising under Cancelled War Contracts, 1918–1926.* See also Albert T. Lauterbach, "Economic Demobilization in the U.S. after the First World War," *Political Science Quarterly,* Vol. LVII, December, 1942, pp. 504–525.

organized condition. Do nothing to integrate the executive branch; do nothing to improve the unduly sprawling organization of the existing Congressional committee system, or to alter the method of choosing committee chairmen by seniority; and above all do nothing to improve the liaison between the executive and the Congressional committees. To make the most of the possibilities of calamity which this structure contains, we should also continue the present situation in which there is no clear Congressional majority supporting a comprehensive national policy of any sort, whether administration sponsored or not. But even without this, the other features are sufficient to ensure ample trouble.

The fact is that we do not have a form of government capable of doing its part in regularizing the state of activity of a vast modern industrial economy, with a proper combination of unified policy, coordinated administration, promptly flexible administrative leadership and responsibility to the elected representatives of the people in Congress, who must be the ultimate policy-determining or policy-sanctioning body. To get the utmost harm out of this situation, it is necessary only to let the various important functions connected with reconversion each be shared among several agencies with ill-defined jurisdictions and to let each agency develop its own ideas of policy until it comes in conflict with the others and also is called on the carpet by an assortment of Congressional committees who, for lack of active and constructive liaison, will have become thoroughly suspicious of administrative intentions.

At present[1] it seems that we have a fighting chance to escape the worst in these matters. The Baruch-Hancock Report calls for coordination as far as the form of the administrative framework can provide it, though it does not guarantee harmony as to the policies that will constitute the meat of the program. The reports of the George Committee indicate a

[1] This section was revised in June, 1944, several months after the foregoing paragraphs were originally written.

view of the organic nature of the problem which holds promise of executive-legislative harmony, provided that a similar attitude extends to other committees. Secretary Hull's reports to Congress have been important contributions to a "good-neighbor" attitude between the administration and Congress in a particularly delicate and trouble-fraught area. But the over-all situation remains well loaded with potential dynamite.

Specifically, the disposal of materials involves numerous cross-currents of interest. The government will want to get a good price, and administrators and industry will want to clear the supplies out promptly. Fabricators have an interest in getting materials cheap, and producers of materials are interested in not having them made too cheap and in having the war-stocks kept off the markets or at least not thrown on so fast as to freeze out current production. Labor in different industries has equally diverse concerns. There will be the interest of other nations to which our State Department may accede as part of negotiations aimed to promote some interest of our own. In this area there will be much that will not be easy for any coordinator to coordinate.

A better example, perhaps, is the work of assisting demobilized service-men to find jobs. This involves vocational rehabilitation and training, divided between the Federal Security Agency and the Veterans' Administration, and job placement, divided between the Reemployment Division of the Selective Service Administration and the U.S. Employment Service under the Security Agency, which is under the War Manpower Commission, with local draft boards and special local committees participating. The Selective Service Administration is no longer under the War Manpower Commission, though expected to cooperate with it.

This is not so chaotic as it sounds; for example, the Selective Service Administration is charged with the specific reemployment rights accorded by the Selective Service Act to servicemen who left permanent jobs, and civilian workers who lose their jobs come naturally under the National Employment

Service, which should be the nationwide clearing house for job opportunities. But a logical division of function, where it exists, does not avoid the passing of cases from agency to agency or guarantee against overlapping in practice; nor does it ensure adequate support of one agency with central over-all functions. Presumably, a really successful outcome will make great demands on the intelligence, patriotism, and good will of the personnel of the various agencies. Failure to build up an adequate nation-wide employment service, well staffed, with well-defined functions and scope of operation, is one of the first and most obvious of possible mistakes.

CONTRACT TERMINATIONS

The next group of mistakes may occur in connection with the termination of war contracts. Here there are four main chances to go wrong. Slow settlements may impede the financing of reconversion, delay in determining the status of war-plant facilities may hold up plans for reconversion, disposal of inventories may be bungled, and ultimate disposition of plants may unduly fortify concentration of ownership, tending to monopoly.

The first danger is probably not great. There appears to be widespread agreement on the policy of prompt payment of as much of the contract claims as can safely be so paid; and even if good intentions in that respect fail to be fully carried out in practice, credit funds will presumably be made available, at least in most cases where they are needed. If there is a danger here, it would seem to arise largely from the difficulty which many smaller contractors and subcontractors might have in convincing private credit institutions that they were good loan risks, when their assets consisted too largely of unsettled contingent claims against the government. This can be a serious matter, since in many cases such claims will be more than the concern's entire net worth.[1]

[1] See C. C. Abbott, *Financing Industry during the Transition from War to Peace* (not yet published).

Another way to slow things down arises in connection with the provisions for disposing of plant facilities owned by the government and operated by private companies. Typically, the company has 90 days in which to decide whether it will buy the property at a depreciated-cost price, and a further 90 days during which it has the privilege of meeting the bid of any other company. These provisions seem admirably calculated to promote a delay of six months or more, with the result that really prompt reconversion can be very effectively hamstrung merely by doing nothing about these provisions and letting them run their course. If this policy is too obviously wrong to be followed, the matter might be dealt with by individual negotiation, in which case there would be different possibilities of going wrong. Separate negotiations on this one matter would leave the government with too little bargaining leverage. Careful negotiation covering all phases of contract termination could be unduly time consuming simply because of the overload of work on the administrative agencies. The dangers of hasty negotiation are obvious.

Ways of going wrong in the disposal of inventory supplies are easier to point out than to avoid in practice. After the First World War many supplies were disposed of abroad, while in this country supplies were at first withheld from the markets and then disposed of when prices began to rise, but the speculative boom was not stopped.[1] One mistake which seems to have been made in France after the First World War was to let such supplies get into the hands of speculators, with the result that the economy did not benefit from the favorable terms on which they were originally sold. If we do no more next time than we did last time, we shall not be in a position to forestall or control a speculative inventory boom

[1] See Samuelson and Hagen, *After the War*, 1918–1920, p. 32; also National Planning Association, *When Demobilization Day Comes*, Planning Pamphlet No. 14, pp. 24–26; also Disposal of Surplus War Materials, 78th Congress, 2nd Session, Senate Subcommittee Print No. 7, especially p. 111.

if one should develop.[1] We can trust the government to wish to do the right thing with these supplies and to use them to promote rapid and orderly reconversion by getting materials into the hands of producers as fast as they are needed and letting dealers have finished goods as needed to obviate shortages, but not forcing either materials or finished goods on a tottering market. There are, however, many ways of doing the right thing at the wrong moment or in the wrong way.

The ease with which great industrial empires can grow still greater through the advantage their position and financial strength give them in acquiring huge government-financed plant facilities is too obvious to need elaboration. All we need to do in order to increase greatly the monopolistic and semi-monopolistic features of our economy is to let nature take its course in the disposition of these facilities. This might or might not delay the immediate reconversion; it would be fairly sure to make trouble for a program of high-level employment in the long run.

DEMOBILIZING THE ECONOMIC CONTROLS

Another way to make trouble for ourselves would be to let the anti-inflation front cave in completely now, while the war is still going on. However, this is so obvious that it hardly seems worth while to consider the possible results of complete collapse of the efforts at control. Whatever happens, there will presumably be a determined effort to make at least an orderly retreat toward inflation, which will delay the process. If the process goes very far, however, farm prices, industrial prices, and wage rates will all have risen to new high levels; but within a couple of years after the end of fighting, the farm prices will encounter world market conditions, which are likely to make it impossible to maintain anything like the war levels; while industrial wages, and with them industrial prices, are likely to resist deflation more effectively. This would

[1] For further consideration of the many factors involved in the disposal of government-owned supplies, the reader is referred to A. D. H. Kaplan, *The Liquidation of War Production*, McGraw-Hill Book Company, Inc., New York, 1944.

leave the farmer relatively worse off than if everybody's prices had remained lower. Of all the groups that have promoted inflation in the pursuit of their own supposed interests, farm organizations would seem to have been making the greatest mistake from the standpoint of the true interests of their own members.

Another possibility is a second deliberate devaluation of our currency in the foreign exchanges in order to maintain our high domestic price level without destroying our ability to sell our exports in declining world markets. Devaluation would do this, and would also be an obstacle to foreign countries selling their goods to us until the other countries followed suit. Most of them now recognize that workable rates of exchange are rates that will lead to a balanced international flow of goods and services. This includes movements of capital that build toward an acceptable future balance and are not (like those of the middle twenties) merely an indefinite putting off of a day of reckoning which we refuse to prepare ourselves to meet. All countries recognize that these exchange rates are matters of international concern, and sound rates are not likely to be those which American farmers or any other special group alone would choose. But if one country as powerful as the United States starts unilateral competitive devaluation, other countries will have no choice but to join in the race. To start such a race would be one of the more serious mistakes we might make.[1]

In any case, a big price inflation before the end of the war would give us a price structure more difficult to bring into satisfactory postwar relationships, international and domestic. There are already serious inequities between those who have gained the most, and those who have lost, in real buying power. Without implying that the prewar adjustment was correct, these inequities seem to include clear violations of necessary long-run supply and demand adjustments. To the extent that these are not rectified after the war, the economy

[1] The Bretton Woods program is a long step toward avoiding this danger.

will be handicapped in getting the abilities it needs in the jobs where they are needed. Rectification will be difficult because it will require that groups weak in organized bargaining power make gains relative to those that are stronger. Further wartime inflation is bound to make all this worse. If the anti-inflation barriers are broken down, it will not be to afford equitable treatment to the forgotten fifteen million but to meet the demands of those who have power to hold or increase their wartime gains.

If price control is maintained in some fashion until the end of fighting, there is still an opportunity for us to go wrong by dropping the price and commodity controls immediately and disbanding the control machinery, thus leaving ourselves without protection against a possible postarmistice inflation, like that of 1920, which could do a great deal of harm. Or, if there should be a heavy price deflation in the basic materials as the markets lose the support of the war demand, we could undoubtedly make considerable trouble for ourselves by setting up a new NRA, or embarking on a hasty program of price floors in place of ceilings, at levels that world conditions will not support, backed by indiscriminate stockpile buying, which could easily degenerate into a sheer racket.

It will probably be inviting trouble if we make up our minds that things are going in just one way, and are prepared for that and nothing else. We need to plan, but for more than one eventuality. We might have temporary deflation without permanent surpluses, in which case the way to go wrong is to let the deflation go as far as it will. Or the deflation might be a sign of an enduring condition, in which case the mistake would be to try to peg prices rigidly against forces that would prove irresistible. On the other hand, we may have inflation without real or permanent shortages; and in this case it would be a mistake not to resist it. A mistake on the opposite side might be made by failing to adjust prices sufficiently to permanently increased real costs. Or we might have temporary deflation and temporary inflation, both at once in different areas. One of the clearest conclusions is that mistakes are not going to be easy to avoid.

In general, we can go wrong if we disband every control as soon as a moment arrives when it is not pressingly needed, without making sure that the need will not soon revive. There is likely to be a pause of a few months before the post-armistice industrial activities get fully under way, and during this pause shortages and inflationary forces may disappear temporarily or turn into surpluses and deflationary pressures. But this might change again. There may be partly unsalable wartime stocks coupled with shortages of things consumers really want, especially durables. This, and the need of building up inventories suited to postwar markets, will create an active demand; and this will be passed on to a demand for materials and components. This demand might revive to such a point that producers would multiply orders to assure themselves of future supplies and would thus create fictitious scarcities even if supplies of materials are actually ample. If industry wishes to make this situation a little worse, it could probably do so by abruptly curtailing the production of basic materials as soon as the initial pause is felt, thus leaving the markets less well supplied and more exposed to a scramble for inventories when demand revives. Government could make things worse in this respect by failing to make surplus war inventories promptly available for civilian production.

A companion mistake would be to stop all rationing while there are still heavy requirements to feed and clothe destitute populations in Europe; or to abandon the entire structure of priorities, allocations of materials, and inventory controls while the pressures of active reconversion are still to come. This would remove our protection against a violent inventory boom which would be bound to end in a destructive collapse. This mistake might be made for various reasons and under various pressures. The officials at the top might be tired of an unpopular job and anxious to get back to their own businesses. Or, if these officials are kept in harness by a realization of the need for continued control, they might lose the best of their staffs, especially where these consist of business men who have made a financial sacrifice in order to serve the country through the war emergency. Or controls may be broken up by increasing resistance to rationing on the part of consumers and to allocations and other such restrictions on the part of industry.

There are similar chances to go wrong in the matter of credit controls. It is going to be hard for such controls to do anything very effective to restrain a postarmistice inflation, and it may be the line of least resistance to throw up the sponge. The Federal Reserve System has dealt mainly with general restrictions that would raise interest rates. These will conflict with the need of keeping interest rates low in order to maintain the market for government securities. Then if the credit authorities are too reluctant to impose selective controls, they may become impotent. These factors appeared in 1919 and prevented the credit system from being in a position to check a buying boom in its beginnings. Later, in 1920, when the boom had gathered headway, individual banks continued to expand credit in the face of a 7 per cent rediscount rate imposed by the Federal Reserve System.

Restrictions on consumer credit, under Regulation *W*, constitute the chief selective credit control. They are not very active at present, and so it would be very easy to make the mistake of abandoning them. After this it might be next to impossible to restore them when the need arose—as it inevitably would in the field of consumer durables, if not elsewhere. In that area, monetary demand is bound to be in excess of supply for a considerable period, without any help from expanded consumer credit. In that case, removal of consumer credit controls would merely make matters worse.

If a stimulus is needed at any time, in any particular area, it can be furnished by easing restrictions on installment credit or on general charge accounts or on both. Here the easy mistake to make is to relax controls too soon, and use up this stimulus before it is needed. Then when a depression really comes, we shall have one less shot in our locker with which to combat it.

THE TAX DILEMMA AND BUSINESS ATTITUDES

Taxes, of course, are a field in which it will be much easier to go wrong than right. Political lines of least resistance will lead in the direction of taking off first the taxes which lay burdens (though relatively mild ones) on individual incomes of small and moderate size, while continuing burdensome business taxes. The result would naturally be to release more consumer purchasing power before production of civilian goods is restored sufficiently to supply the demand, and to deter business from investing in the creation of new products or in any other restoration of civilian production which is at all risky, owing to the way in which business taxes load the dice against risky investments.

This would tend toward immediate inflation. But a more serious effect might be to channel industrial reconversion into the most obvious, most familiar, and least imaginative lines, because they are superficially less risky. Thus these lines would become risky through overcrowding, and meanwhile the necessary preparation for the later stage, when consumer demand must rest on a basis of income derived from an expanded and reoriented civilian production, may be retarded or choked off.

Business can make mistakes, too. All it needs to do, in order to make sure that there will not be a revival of production sufficient to absorb the postwar labor force, is to "play safe" and wait for demand to materialize before converting or reconverting its war plants. Of course, for business as a whole, this would mean anything but playing safe in reality; it would make a postwar depression practically certain. And it would be terribly easy to do, especially if the preliminary settlement of war contracts is delayed and if taxes are mishandled.

To clinch the matter, business might hold out for rates of return such as used to be considered fair and reasonable in simpler times, failing to readjust its ideas to a new era in which there are many more billions of investment to be absorbed and in which old-fashioned percentages of return on vastly increased capital sums would absorb a larger fraction of the national income than capital and enterprise as a whole will be able to secure. The demands of capital and of organized labor might then afford an example of a deadlock between an irresistible force and an immovable body, leading to stagnation of investment and employment.

LABOR POLICY

Labor policy represents an area in which it may be easiest to go disastrously wrong. While average weekly real earnings have risen very substantially by any rational method of computation, this is an average of groups that have made really big gains, others that have gained little or nothing, and some whose real incomes have fallen. Among those whose real incomes have increased, there are many strong groups who are, nevertheless, firmly convinced that they have suffered serious injustice under the "hold the line" order and have acquiesced only in order not to disrupt the war effort. Such groups feel that as soon as the end of fighting frees them from the obligation not to strike, they have something coming to them. It is entirely possible that there will be a wave of demands for increased wages, which were denied while the war was going on. The conscious conflict between organized labor and the farm bloc is also likely to flare up into active warfare. In the course of the resulting struggles, many things could happen to injure the course of orderly reconversion of the economy.

Strikes in the mechanical trades could delay necessary retooling, or, if demands are met for the sake of avoiding a strike, wages in these trades might be out of line with others that call for equal skill, setting an excessively high mark for all the other trades to shoot at. If such a movement went to considerable lengths, a wage structure could easily result which many industries could not pay unless prices were raised, which might curtail demand and so cause unemployment. To put the same thing more generally, the situation affords splendid opportunities for setting real wage rates in many occupations above what industrial productivity will support, a situation which might lead to unemployment or an inflationary spiral, or both, depending on how far the government goes in furnishing work to those whom private industry cannot employ.

Another alternative would be an attempt on the part of the employers to beat down wages, using the leverage of unemployed war workers, or possibly even to attack the closed shop or maintenance-of-membership arrangements established during the war. Moves of this sort might precipitate a struggle which would prevent orderly remobilization. In dealing with these difficulties there are two ways in which the government can go wrong. One is to let matters take their course; the other is to intervene without a well-thought-out policy which can withstand fire.

Especially in the later stages of reconversion, there would be chances to go wrong in opposite directions. If reemployment is unduly slow in coming, for reasons already suggested, or if people merely lack confidence in its coming or if provisions for compensation of the unemployed are inadequate, then consumer demand will fail to revive sufficiently. On the other hand, if the government takes literally the proposal frequently made, that troops should not be mustered out until there are jobs actually waiting for them, then there will be unnecessary delay in filling many jobs; and that will mean that other jobs, dependent on the facilities or the income created by the first, will not be ready as early or in as large numbers, so that the delay will work cumulatively.

Or if the government avoids this mistake, it can make another one by starting vast public-works projects the moment any unemployment appears, with the result that these projects get to the stage at which they begin absorbing large amounts of labor a year or more later, at just about the time when private construction would otherwise revive. If the government is indiscriminate in furnishing employment, it may come to the rescue of labor groups and industries which have priced themselves out of the private market. The government may pay union rates which are so high that private contractors regularly disregard them. Then in many localities the only workers fortunate enough to be paid the nominal union scale would be those employed on government projects. Or if this happens immediately after the end of fighting, when private contractors, in order to compete with war work, are paying union scales, which they formerly disregarded, then it may tend to hold the private contractors up to the union rates and thus help to maintain prices and wage rates which are so high that they stand as obstacles to the expansion of private demand. If the government actually guarantees literal full employment, without sufficient safeguards, it can easily find itself forced to choose between progressive inflation on the one hand and permanent administrative control of wages and prices on the other. It is hard to say which would be the more unwelcome.

MISTAKES IN LONG-RUN ATTITUDES

For the longer pull, there are two opposite ways of going wrong in basic attitude and policy. One is to go on doing lip-service to the necessity of preserving private enterprise and letting it stop with lip-service, doing nothing to discover and change policies that may make it impossible for private enterprise to do its job and to maintain health and vigor. Another is to try to create a favorable business climate by abandoning or emasculating all regulatory policies that are at all unwelcome to any considerable business group. The result would be that a flourishing crop of abuses would grow up, including unchecked monopolistic practices in industry, while the government might be expected to continue to promote monopoly in agriculture and in the sale of the services of organized labor. The result would be an economy of restricted output and unemployment.

The outcome might be slightly delayed, since one of the first effects of unduly high wage rates might be to drive some industries to install laborsaving equipment, thus temporarily sustaining demand and employment in the equipment-making industries. But the areas in which there are opportunities for this temporary mitigation at any particular time are probably smaller than those in which there is no such opportunity. Any stimulative effect of this sort is likely to be outweighed by depressive effects elsewhere (for example, reduced demand for housing because of exorbitant cost). The enduring effect of restrictive monopoly is bound to be depressive.

There are, of course, plenty of chances to make mistakes in the field of international policy, and some of these may be briefly mentioned, though they are not the primary subject of this report. Lend-Lease may be left in its present ambiguous state, with the result that there will be vague and general expectations of repayment, but countries will not know where they stand and whether or not this war will follow the model of the First World War in leaving behind a legacy of uneconomic international financial obligations. All we need to do is to follow the line of least resistance and fail to face the question whether we want repayments in goods and whether repayments of other sorts have any real meaning, and we may easily slip into the same impasse which made so much trouble before.

Along with this would naturally go a failure to establish conditions under which this country may resume an export of capital. Capital markets, if invited to repeat the experience of the twenties and thirties with international investments, would probably adopt an attitude of once bitten, twice shy. Or if the export of capital is resumed actively, enabling this country to continue an export trade balance and to postpone the receipt of a balance of payment in goods, then the next mistake we may make is simply to act as if this could go on forever, without ever leading to a reduced export balance or an import balance as returns on investments begin to mount up.

This attitude is closely akin to the final mistake we might make if we avoid all the others and enter upon a period of prosperity and active employment while making good the deferred construction of houses, schools, roads, automobiles and other durables. The mistake would be the same we made during the prosperous twenties, that of regarding a temporary condition as a new and normal era of permanent prosperity.

An enduring state of abundant employment will not come without great changes. Many people think that they realize this, but it is human nature to think of the uncomfortable changes as coming to the other fellow—he must mend his ways in order that my way of life may continue, though what I understand as my way of life very likely is an unattained aspiration which never existed and cannot possibly continue. A "changed world after the war" probably means, to the average business man, the downfall of the New Deal and a return to something called "free private enterprise," including freedom for a trade or industry to make mutual arrangements to stabilize itself and ensure a "fair" profit—meaning more than capital can permanently earn. To the average worker it probably means more power for organized labor to enforce its demands in a setting which will somehow assure full employment for good, bad, and indifferent workers alike at "fair" wages—meaning more than the indifferent worker is worth. For some farm leaders it means a docile farm bloc in Congress which will assure farm parity, with improvements, and will also somehow produce from somewhere a demand for farm products at parity prices. For a certain type of New Deal reformer, it means a free hand to promote the health of private enterprise by regulating every practice in which abuses are anywhere uncovered and to spend the nation into full employment in peacetime as it has been spending itself into full employment during war, piling up astronomical debts that are no burden because we owe them to each other.

None of these pipe dreams are coming true, and the more thoughtful members of each group know it. The system which these pipe dreams reflect is the system which was exhausting its expedients without solving its problems during the decade before Hitler's war intervened, and will progress toward the end of its rope faster after the war, if these attitudes are maintained. The way to ensure ultimate breakdown is for all these groups to adopt these attitudes and stick to them rigorously. Nothing more would be needed.

CONCLUSION

Wherever one looks at reconversion, one sees chances to go seriously wrong and problems that will not solve themselves. To follow lines of least resistance and to drop all controls as soon as the guns are silent would be to invite chaos. A positive and many-sided policy is needed to make the transition reasonably prompt and orderly. Most groups would agree on this when faced with the actual alternatives. Later they will confront an even more difficult and more necessary task, that of somehow reconciling their conflicting ideas of the brave new world they want after the war.

IV. OBJECTIVES OF POLICY IN WAR, IN RECONVERSION, IN PEACE

THE NECESSITY OF WAR CONTROLS AND THEIR MAIN OBJECTIVES

THE special economic controls which war has forced upon us are not in themselves desirable. To this most of the general public would agree; and there can be few, at least of the higher and more responsible officials charged with administering the controls, who would not be glad to lay down their thankless and perplexing responsibilities, to close up their desks and go back to normal peacetime pursuits. The War Production Board has shown a disposition to release or suspend particular controls when they were not clearly needed, and rationing has regularly been undertaken reluctantly—too late, in fact, for the best administrative results. The natural tendency would be to get rid of the entire system of special wartime controls, but for one fact: the controls are needed for an all-out war effort.

The prevailing view of business spokesmen appears to be that, while these special controls are war measures and should be got rid of on return to peace, the entire system cannot safely be scrapped wholesale the moment an armistice is signed. The economic disturbances which constitute a war emergency will not vanish instantly; and we do not want to repeat the mistakes of 1919–1920, when some of the steepest price inflation came after the Armistice. If we want to know how soon controls can come off, we must know what they are needed for: both the special purposes which made them necessary as war measures and the modifications of these purposes peculiar to the transition back to peace and a peacetime economy.

The basic objective of wartime controls is simple. The paramount end is to concentrate all possible resources on winning the war and, to that end, to cut civilian activities to the essentials. The free-exchange way of going at this task of national mobilization is the way natural to systems of democracy and private enterprise, but it does not meet the needs of total war. To make limited resources go as far as possible, no enterprise or activity must get more than it needs. Civilian demands must not be allowed freedom to compete with war production for facilities, materials, and manpower; and different branches of war production must not compete with one another. Hence control of production and allocation of resources are necessary.

But more is needed. The money the government spends for war goods, much of it, comes back into the markets in the shape of swollen demand for civilian goods just when the supply of these goods is limited.[1] This spells inflation. Only through controls of prices and wages can the inflationary forces be definitely held in check, and only through rationing can there be a tolerably equitable distribution of scarce necessities.

Because these controls are temporary emergency matters, it is appropriate to put them in the hands of special agencies created for the purpose, which in the natural course of events will go out of existence when the emergency is over, rather than to lodge them with the permanent agencies of government. This course has its drawbacks, but is the lesser evil. While the pressure of the emergency lasts, it acts as a partial antidote to bureaucratic tendencies. One important and difficult objective is to keep a high grade of personnel in the temporary agencies as the war emergency reaches or nears its end and the prospect is that most of the staff will soon be disbanded.

[1] It is not necessary here to explain just why this cannot be prevented by sufficiently drastic taxation. Taxation can moderate this excess demand, and it is highly important that it should do so.

MAIN OBJECTIVES OF PUBLIC POLICY DURING THE REMOVAL OF WAR CONTROLS

A major objective in reconversion is, naturally, to remove the war controls as soon as they are no longer needed. They will be needed, of course, as long as the same economic dangers persist which necessitated them in the first place. But there will be different purposes to be served, basically because the controls will now be aiding a transition from a unified military objective to a state in which most of the picture is filled by multiple civilian objectives, dependent on general freedom of choice by consumers and producers. The objectives we are concerned with are those things which, during this transition, cannot be trusted to take care of themselves without organized public effort.

In war, there is plenty of incentive, and we use more resources than would be normal or desirable in time of peace. But in war, effective output is paramount. Even price control, often thought of as restricting possible output, is not doing its work properly unless it is a consistent part of a system that makes war production more effective than it would be without it. In reconversion, we still want output—not maximum output at any cost, as in war, but a volume of output that will employ plenty of people in the creation of needed and useful products and services. This means producing and consuming considerably more than we have ever produced and consumed before in peacetime. And the chief limitation to be apprehended is the possibility that there may not be enough incentive, in the shape of effective cash demand, to stimulate producers to turn out that volume of output.

Temporarily, there may also be production bottlenecks of various sorts: industries prevented from producing through difficulties of financing or bad distribution of materials or unduly violent disturbances and uncertainties as to prices or failure of any of the many adjustments that will have to be made in a hurry. The chief objective, then, is to remove any hindrances to production, either on the side of incentive or on the side of resources and facilities. Any economic controls that may be continued into reconversion, whether controls of production or price or other matters, need to be squared with this standard.

In reconversion, the best of all controls is speedy expansion of production. This and the forces of competition should become the consumer's best safeguards against inflation or exploitation. They may be far from perfect, and they may need to be supplemented, during the transition, while relationships of supply and demand are still abnormal. One test of a successful reconversion will be whether these natural economic safeguards prove sufficient in the more permanent economic structure that will emerge after the confusions of reconversion. As long as there is continuing danger of runaway price inflation or of restriction of production through unrestrained rivalry in acquiring and hoarding materials or of similar economic miscarriage, controls may be needed. But the emphasis shifts from allocation of unavoidable shortages to the promptest possible wiping out of shortages and doing away with the need for special controls.

In both war and reconversion, policy needs to give right of way to whatever is essential for the national safety or the national welfare, as distinct from market demands. As reconversion proceeds, there comes to be a smaller and smaller area of production and use in which there is danger that really essential needs would be sacrificed if left to a free market. Nevertheless, we shall probably not go all the way back to where we were in 1939. Military considerations will have more to say about industrial questions—what to do about synthetic rubber, for instance, or what kind of plant location to encourage. This will be true and legitimate even if we join wholeheartedly in a world organization for collective security. War might still come, and national preparedness is a necessary second line of defense. We shall probably continue to take increased thought for the health of the population as a national asset.

In both war and reconversion, there is an economic mobilization too huge and rapid for the free-exchange mechanism to handle successfully. Economists have not commonly pointed this out, but the efficiency of the free-exchange mechanism depends on the size and speed of the movements it is called on to engineer. If the movement is a moderate one, industry will turn out what is wanted in return for a moderate incentive in the way of price and profit; derived demand for materials and means of production will fairly reflect the requirements for the end product that is wanted, and the movement will take place in fairly orderly fashion. But if the market wants something—say automobiles—right away, in amounts far beyond what industry is geared to produce right away, and especially if the demand is large enough to make a considerable impression on the supplies of basic materials, then several things will happen:

1. The price and profit incentive will become excessive, under the pressure of buyers willing to pay heavily for prompt delivery. Even if a rise of 10 per cent in the price were all that were needed to stimulate as rapid an expansion of production as is practicable or desirable, the price might rise 100 per cent or more if it responds to the pressure of unsatisfied demand during the interval before supply is able to catch up; and competition will not prevent this.

2. Then for every ounce of effort going into making the product that is in increased demand, there would be several ounces going into making other things for the people who are lucky enough to be in the expanding industries and who suddenly get more purchasing power to back up their wants in the markets.

3. Rival producers bidding for materials and other means of production to fill inventory pipelines are fairly certain to exaggerate the effect of the new demand and may create scarcities that are fictitious and booms that are bound to collapse.

In time of war, all these effects are bad for the war effort. In the return to peace, the fictitious scarcities and temporary booms are bad, and the exorbitant price and profit incentives are bad for a variety of reasons. Questions of equity aside, they tend toward instability and tend to prevent the buyers' dollars from creating the largest possible number of jobs.

But the fact that one original increase in demand may add to itself secondary increases which double or triple the effect is not bad; it is desirable if the economy has idle productive power which the extra demand can put to work on something useful. The trouble here is that this principle also works in reverse when demand for anything decreases. The first thing that will happen in the return to peace will be decreased demand for war goods, and the effects of these decreases also will be multiplied and will preponderate over the increases in civilian demand, especially at first.

In fact, there will be, and ought to be, a large net contraction in production and in gainful employment. We want less overtime, more young people in school and college, fewer housewives in factories, and honorable retirement for many older workers. We want to slow down the pace at which the best of our iron ores and many other limited resources are being used. One problem is to prevent this salutary contraction from cumulating into a deep and stubborn depression and, at the same time, to prevent deferred demand for certain products from leading to a violent boom.

DESIRABLE PRICE LEVEL AND PRICE STRUCTURE

Aside from avoiding either runaway inflation or destructive deflation, a desirable objective for the price level and the price structure is not easy to define with any precision. If a moderate general postwar price increase comes about naturally as a result of strong demand or accompanied by strong demand, it should probably be welcomed, not resisted, as tending both to stimulate production and to ease the burden of debt charges on the national budget. Whatever injury this would do to bondholders and other recipients of fixed incomes would probably be a lesser evil in the postwar situation. But attempts to bring this about deliberately could easily be bungled, to say the least.

As to particular prices, there is general agreement that they should be flexible enough to respond to changes in cost conditions, but not that prices of manufactured goods should fluctuate hourly or daily with momentary shifts in demand and supply. The implication is that the major part of the benefits of improvements should be passed on to the consumers fairly promptly—as competition necessitates where competition is active. The alternative is to try to peg prices so that the gain from improvements in any particular industry would go, not to consumers, but to those in the industry, including investors and workers. They would thus become a privileged group, entrenched against the leveling effects of competition.

INTERDEPENDENCE OF DOMESTIC AND INTERNATIONAL CONDITIONS

It is coming to be a commonplace that a national economy cannot prosper except in a sound world economy and also that the world economy cannot be sound if important national economies are sick. The objectives of national and of world economy are thus interdependent. In a nutshell, national economies will not be sound unless world trade is free enough to permit them to do normal exporting; world trade barriers will not be relaxed until great nations cease to be afraid of normal imports; and this will not happen unless the domestic employment situation in these nations is thoroughly strong.[1]

[1] Since this paragraph was written, the conference of the International Labor Organization in Philadelphia on May 10, 1944, adopted a platform emphasizing the obligation of the ILO to promote national policies aimed at stabilizing high levels of employment throughout the world. This is significant as recognizing the international interest in national policies in this matter.

SECURITY VS. LIBERTY

It is often said nowadays that workers after the war will want "security" and will be willing to make heavy sacrifices of "liberty," if necessary, in order to get it. This contains some serious truth but needs to be made concrete. Increased security of income will undoubtedly be furnished under an expanded social security system. As to an assured job, absolute and universal security of this sort can be afforded only by public employment. At present it seems clear that organized labor prevailingly does not want this kind of absolute and universal security at the price of making the state the sole or principal employer.

Labor recognizes that private employment is subject to fluctuations and uncertainties which cannot be wholly eliminated, though they may and should be reduced until most competent workers need not fear more than transient intervals of unemployment, which need not bring with them the alternative of destitution or the stigma of relief. In the light of all this, most workers apparently prefer the kind of liberty they now have in bargaining with private employers to giving up this liberty for the sake of a greater degree of security. This attitude may change if the postwar employment record is not a good deal better than it was in the middle thirties, but at present there is no sign of a general stampede to abandon liberty in favor of the security of collective employment.

POSTWAR GOALS OF EMPLOYMENT AND OUTPUT

This being the case, we encounter the question of a standard of satisfactory postwar employment, which can, of course, be only a rough approximation. The earliest estimate made on behalf of the Committee for Economic Development—56 million jobs—is still a good goal if the war ends quickly. If demobilization lasts until 1947, then this figure might need to be raised somewhat. It implies 54 to 55 million civilian jobs, depending on the number retained in the armed services.[1] It allows for a "float" of possibly 3 million persons attached to the labor force but not actively employed at any given moment. This includes workers seeking more satisfactory jobs or holding out for higher pay or moving from one temporary job to another, some seasonal workers, workers just entering the labor force or on the point of leaving it, and some handicapped workers who have not yet made their adjustment. It includes any unemployables who may have been counted in the labor force (and who should be receiving special treatment).

As to the national income or national product necessary to furnish that many jobs, probably the best way of estimating this is to go back to 1940 and allow for increased employment and increased product per worker. Indexes of physical product in the war years have been thrown pretty completely out of gear by the tremendous expansion of new products, the dollar values of which are inflated in ways that price indexes cannot measure. The probability seems to be that dollar values, deflated by the existing index of wholesale prices, give an exaggerated picture of present real output and tend toward an exaggerated estimate of postwar possibilities.

A satisfactory standard of postwar employment requires something like 8 or 9 million more civilian employed than in 1940, and productivity per worker may be estimated very roughly as having increased about 2 per cent per year, though any estimate on this score is highly uncertain. This would point to a net national income of something like 130 billion in 1943 dollars, or an increase in real income of roughly 40 per cent over 1940. In per capita terms, this would mean that the average person's command over goods would have increased something more than 30 per cent above the high level of 1940. For the present purpose, the precise figure is

[1] The George Committee estimates the total working population in mid-1947 at 60 million and armed forces at 2 to 3 million, leaving 57 to 58 million on the civilian labor market, calling for 54 to 56 million civilian jobs. *78th Congress, 2d Session, Report* 539, Part 4, p. 2.

not important. If every person's idea of a fair income is one-fourth to one-third more than he has, then this should mean a satisfactory income for everyone. Perhaps the chief catch is that we shall not have this income unless we make use of it. What this implies will be discussed in Chap. X.

THE RETURN TO PEACETIME RELATIONS BETWEEN BUSINESS AND GOVERNMENT, AND A FRESH START

The end of war controls is not the end of controls. Imagine that the war is over and the war controls are all removed. An imaginary business executive, rejoicing in their removal, goes to his office and starts to carry out his postwar plans. His concern produces manufactured food products and has branched out into certain pharmaceuticals, for some of which the postwar demand is expected to grow far beyond the wartime supply, while the demand for others is expected to decline with the end of the fighting. He plans to absorb another concern which has patent rights which might prove valuable, build an extension on its plant, and start production.

One of his first cares is to get competent legal advice that his project may not infringe the antitrust laws. His plans for construction must, of course, satisfy the building code and the zoning ordinance, and his blueprints for mechanical equipment must conform to the safety-appliance laws. He hardly notices these matters, taking them for granted. As for his products, he has to meet the requirements of the pure food and drugs acts, plus possibly some state laws or local ordinances which have the effect of protective tariffs. The refinancing involved in his project must pass the Securities and Exchange Commission, and some temporary borrowing is done from banks, at rates approximately determined by Federal Reserve Bank policy. For materials he buys farm products, at prices managed by the AAA, and bituminous coal, at prices probably fixed by the federal government.[1]

[1] Renewal of bituminous coal control seems likely.

He uses electricity at rates controlled by a state commission. If he does not like his freight rates, he appeals to the Interstate Commerce Commission; or, if he distributes by truck, his vehicles must conform to the varying and perhaps conflicting regulations of all the different states through which they pass. Occasionally he will want to use planes, subject to another regulatory authority.

When it comes to employing labor, he has to conform, of course, to a fairly lengthy code, including the child-labor laws and the wages-and-hours law. The National Labor Relations Board may order him to hold an election in his plant to decide with what union he is to bargain. His concern will also have to work out a policy with respect to the reemployment of veterans, under the rights which the law has given them to employment in their original jobs or something equivalent. Particular cases, or classes of cases, may have to be worked out with representatives of the Reemployment Division of the Selective Service Administration. Of all the controls he will have encountered in his postwar resumption of production, this is the only one which the war brought into being, and it probably troubles the executive less than many of the others.

After some weeks or months of this, will this executive go home still feeling that his business has been freed from controls? Perhaps not, for some of these regulations may really trouble him; but it is not impossible that he may take just this attitude, provided that the controls he is encountering are things he has got used to, and provided that they are not applied in ways that go notably beyond what he is used to. The fact is that private business has never in its history been free from controls, but when new ones are imposed it is acutely aware of them, and may look back on its past state as one of comparative freedom. The reformers who promote new regulations are even more prone than business men to adopt this attitude, and as each new regulation goes into effect they contrast it with the previous state of "laissez faire."

This makes sense only if "laissez faire" means whatever assortment of controls we look on with the semi-unconsciousness born of custom.

Laissez faire is in fact a movable milestone, though probably only within limits. There are degrees or kinds of control to which business would never get accustomed to the extent of taking them for granted and not thinking of them as impairments of free private enterprise. Possibly some of the controls in force in 1939 were of that sort. At any rate, we have pictured our imaginary business executive in a postwar world in which, with the single exception of the veterans' reemployment provisions, the only controls remaining were those of pre-1940 vintage. There were plenty of them.

The relations of government to business will be making a fresh start, with the same problem uppermost which dominated the period immediately before the war: the problem of adequate and reasonably stable employment, how best to promote it, and what to do if it is not forthcoming. We shall return to this question in Chap. X. At present, the country seems to be in the mood to rely on employment by private enterprise to the fullest extent possible. If this mood is reflected in a policy rationally adapted to the end in view and given the necessary favorable conditions, private enterprise is likely to have a real chance to show what it can do in this direction.

V. THE FRAMEWORK OF WARTIME CONTROLS

GENERAL FEATURES

A DETAILED account of wartime controls would be a very lively moving picture, and the only way to put it on paper would be in the form of a looseleaf encyclopedia, constantly revised. To say that we have a regimented economy would be warranted, but not specific enough to be very informing. Regimentation is both positive and negative. Much of the positive control is exercised by government in its capacity as buyer of half the country's output of goods and services, with power to make orders compulsory, telling industry what to produce and to what specifications. For private sale, producers are free within limits to decide what they will produce, subject to both negative restrictions and positive pressures.

A chart of the controls would show a working compromise among different principles of organization. There is organization by industry in the case of food, rubber, petroleum, and solid fuels. There is functional organization in the assignment to the War Production Board of control over production in general, to the Office of Price Administration of price control and rationing in general, and to the War Labor Board of control over wages. There is organization by area in the Foreign Economic Administration, though it comprises functional units like the Board of Economic Warfare. Some forms of control might logically be classed under more than one heading, for example, controls of transportation and credit. Two units act as coordinators or umpires.

Organization entirely by industry units could not do all the things that need to be done. In particular, it could not allocate materials among industries. Therefore a functional

WPB is indispensable. Also, if each price were under the control of an independent unit concerned with a single industry, the over-all interest in the prevention of price inflation would be sure to be sacrificed. Therefore a functional OPA is indispensable. But where a particular industry, producing an essential product, presents peculiarly crucial production difficulties and is not itself well organized to handle them, an industry "czar" may be in order. Then the authority of the functional foremen over this industry may be preserved or diluted in varying degrees, as needed to assure the czar that the rulings of some other body will not prevent him from getting results.

The war controls do not displace prewar controls but may in some cases modify or suspend their action. Railroad rates are still under the ICC, and the OPA merely intervenes as an interested party in important cases. The antitrust laws are not suspended, but particular actions may be postponed if a war agency certifies that prosecution would interfere with the war effort. Some kinds of used bottles are collected for repeated use, as a war economy, while others still have to be destroyed in conformity to prewar laws.

CONTROL OF PRODUCTION

Producers working on war orders are subject to much more active government control because of the government's capacity as purchaser than when they are working on civilian products in peacetime. They work to exacting specifications. In some cases, these have been forced to give way on account of shortages; in other cases, they are subject to change without notice as combat experience indicates improvements. The government as customer not only checks quality and rate of progress of production, but in some cases exercises some supervision over methods of organizing production in order to assure itself that goods will be finished on time. At the best, formal procedures have been short-circuited, and private industry and government procurement agencies have become a team, cooperating in design of equipment, in reduction of waste, and in speeding production.

The War Production Board has sweeping powers to control and stimulate production in aid of the war effort, while the administrators of food, rubber, petroleum, and solid fuel are charged with special segments of this power. In this picture the procurement agencies are both controllers and controlled, in that while their requirements are more authoritative than civilian orders, they have had to be correlated with these orders in something approximating an over-all production schedule for the whole industrial segment of the economy.

The original theory was that the war orders took precedence and the civilian economy took what was left. This simple theory broke down when the war orders alone added up to more than the whole available supply of some things. It became clear that there was a minimum of civilian supplies, such as farm machinery, railroad maintenance materials, and necessary special work clothing, which were more important to the war effort than any army supplies which might wholly displace them.[1] It became necessary to assign a small but highly important percentage of steel and other key materials to meet the most essential civilian needs. For this purpose the Office of Civilian Requirements acts as a claimant agency alongside the Army and Navy.

Before such a result could be reached, several stages had to be passed through. First came sole reliance on priorities, with the result that top priorities soon exhausted available supplies of the scarcest materials. The priority is a form of paper currency with a strong tendency to become irredeemable through rapid overissue. It has been said that no one knew the precise amounts of priority claims outstanding at

[1] In August, 1943, the Army, in cooperation with the WPB, agreed to forego delivery of about fifty per cent of some of its leading woolen and worsted requirements for the fourth quarter of the year, in order to make more blankets and winter clothing available for civilians (*The New York Times*, Aug. 3, 1943). It seems probable that a necessity for civilian rationing may thus have been averted at the cost of smaller military reserves.

any one time. The issuance of graded priorities is in itself a confession that supply and demand are not known; if they were known, there would need to be only two ratings—orders that will be filled for a given amount within a given time, and orders that will not. In other words, priorities had to be converted into allocations which would carry a more positive assurance than "if there is any left after higher priorities have been served, you may scramble for it with the other holders of priorities of equal grade with yours."

The intermediate stage was the Production Requirements Plan, which undertook to allocate materials on the basis of quarterly requirements. However, it lacked assurance that total requirements would be covered by available supplies and did not stop the process of scrambling, with the possibility that more essential items would be held up because less essential ones got there first. To cure this, several things were necessary.

Requirements for munitions (so many tanks, planes, etc.) had to be translated into requirements for materials (so many tons of carbon steel, of various alloy steels, of copper, etc.). This was amazingly difficult, and it took well into 1943 to achieve workable approximations. Production schedules for munitions are on a monthly basis, but the basic allocation of critical materials is by quarters, except for small producers of *B* products (component parts and civilian products), which have been put on an annual basis.[1] Estimates of supplies had to become increasingly dependable before procurement agencies would feel justified in cutting their requirements to fit them. The ultimate result was the Controlled Materials Plan, which, after initial stages, was fully introduced at the beginning of the second quarter of 1943. Allocations of critical materials are made by the Requirements Committee

[1] Program announced by the WPB on Oct. 25, 1943, to go into effect on Jan. 1, 1944. For those producers whose allocations were put on an annual basis, interim supplementary allocations were permitted, this authority being delegated to the WPB's district offices (see *The New York Times*, Oct. 26, 1943).

of the WPB, on which the major claimant agencies are represented. This plan does not cover all materials or all products, and priorities are still employed, with measures to combat overissue, inflation, and devaluation.

Production of certain civilian goods may be either forbidden entirely or limited, usually to a quota of a previous year's production. Or the producer's use of particular scarce materials may be limited, thus either limiting output indirectly or affecting quality, as by altering composition of fabrics or forbidding use of steel springs in upholstered furniture. As a result, some substitutes have been found which give superior service at less cost, and others have been found which cost more and are incurably inferior. These *M* orders are presumably responsible for only a part of the wartime deterioration in the quality of civilian products. Inventories of producers and dealers are also limited.

Materials may be wasted by both unduly low and unduly lavish quality. Minimum standards of serviceability are pertinent remedies for the first, and the ultimate remedy for both is a war model made to meet maximum and minimum specifications. Producers, being subject to price ceilings, have tended to concentrate on the higher priced grades of goods, which yield wider margins. To keep low-priced goods available to consumers, producers have been required to maintain former relations between their output of low and high grades; and dealers have been ordered to stick to their customary price lines. Neither method has prevented the shift from the cheaper grades of goods. In this country not much use has been made of outright war models. Bicycles, domestic cooking appliances, and some work garments are typical instances.

One kind of production control with which little has been done in this country is the concentration of certain kinds of civilian production or trade in a few establishments in order that they may produce more nearly at capacity, and thus economize manpower. In England, this was confined to industries or trades which were drastically curtailed and which could not convert to war production. In this country, the civilian economy has not been so drastically slashed, outside of industries convertible to munitions. Thus our problem takes a different form. It is perhaps in the light of this difference that our authorities have refused to sponsor arrangements for the compensation of closed establishments out of the earnings of the "nucleus" establishments which are allowed to remain in production.

Whether this was wise or not, it leaves us less to unscramble when peace comes. What has been called "concentration" in this country seems to be rather a by-product of orders limiting civilian output and establishing quotas. For some products (domestic cooking stoves and certain farm machinery) the quotas have been zero except for the smallest class of producers. In such cases there has naturally been no occasion to grant quotas for new producers. If quotas are needed in the early and limited stages of reconversion, the needs of new producers will call for very special consideration.

The unit of action in these war controls is an entity called an "order" or "regulation," designated by a letter and a number. For example, *L*-211 is a limitation order setting specifications for steel products, and maintains continuity of existence through a series of extensions, amendments, and revisions. In the field of control over materials and production there are over 500 of these orders. The basis of classification is not simple, as the orders were drawn to meet an infinite variety of concrete situations, and not with a view to fitting into a simple classification scheme. Efforts are being made to simplify procedure and make it less burdensome.

Orders interlock, so that the release of a particular civilian finished product requires not only the repeal of the order that forbids its production, but the adjustment of a good many other orders which may not refer to this finished product at all but which allocate the materials that are needed to produce it or state how they may be used. Or the release of a given material may need to be accompanied by changes in specifications drawn to economize the use of this material in various products. The WPB is studying the interrelations of its controls.[1] Or if declining armored-vehicle requirements permit production of civilian passenger cars, an automobile manufacturer may be unable to produce as usual because makers of component parts or subassemblies are still at work on naval precision instruments or something else that is still needed. Industrial planning for wartime reconversion involves preparation for meeting contingencies of this sort, which cannot be forecast with precision.

CONTROL OF TRANSPORTATION

The Office of Defense Transportation exercises general supervision over railroads and all other forms of domestic transportation; "its jurisdiction . . . extends over . . . the water carriers, the trucks, buses and private automobiles, the local transit systems, the pipe lines and the air carriers, and to some extent over storage facilities. Being derived in large part from the war power of the President and Commander-in-Chief, it also extends to intrastate as well as interstate operations and to private as well as common-carrier or contract-carrier operations."[2] Its general policy has been to make the greatest possible use of methods under which investigation leads to voluntary economies and informally supervised cooperation, and to employ sparingly the general power to issue compulsory orders, a power which it nevertheless possesses and does not hesitate to use on occasion.

It acts as "the claimant agency of domestic transportation for critical materials before the War Production Board, for

[1] Fruits of this study are presumably embodied in the order of Aug. 15, 1944, relaxing many *L* and *M* orders. From this standpoint it is significant that the plan covers lists both of materials and of products which use them, and also that the release is not general and automatic; each individual application is to be passed on in the light of local availability of manpower and other conditions.

[2] J. B. Eastman, "Public Administration of Transportation under War Conditions," *American Economic Review Supplement*, March, 1944, pp. 86–88.

rubber before the Rubber Director, for gasoline before the Petroleum Administrator, and for coal before the Solid Fuels Administrator."[1] Rates charged and wages and prices paid rest with other regulatory bodies, and matters of labor supply are subject to the War Manpower Commission. The ODT may negotiate voluntary rate agreements, or it may intervene in rate cases just as the OPA may do, both being interested parties.

Under the supervision of the ODT, carloading has been greatly increased, loading time diminished, and both freight and passenger cars and even locomotives have been largely treated as a nationwide pool and moved where needed. Routing of some traffic has been controlled, and the worst wastes of circuitous routing have been eliminated. Measures have been taken to reduce congestion at ports and to shift appropriate traffic from railroads to inland waterways and trucks. Truck hauling has been limited by rationing of gas and tires and has been regulated in considerable detail in an effort to confine it to the most essential services. An attack has been made on the problem of the placing of orders at unnecessarily distant points of production.

It would appear that the ODT's effort to minimize regimentation has benefited from the earnest desire of the carriers to do whatever might be necessary to avoid repeating the experience of wartime public operation and also from the comparative success of anti-inflation measures, as a result of which the railroads have been helped to avoid swollen costs. They have prospered instead of facing a financial impasse such as helped to bring about federal operation at the time of the last war.

Maritime transportation is under the War Shipping Administration, which has absorbed the Maritime Commission. Ships are built for its account. It operates them and directs the operation of ships still handled by private concerns.

[1] *Ibid.*, p. 89.

After the war, decontrol will be complicated by the need of a good deal of rebuilding of private organizations.

Exports and imports have also become for the most part, directly or indirectly, an integral sector of the war effort. Government participation includes Lend-Lease, government purchasing of some essential supplies, and "preclusive buying" by the Foreign Economic Administration, sometimes involving virtual barter transactions with foreign countries, for the purpose of preventing war supplies from reaching the enemy. These transactions have been exempted from the price ceilings which apply to ordinary exports and imports. Limited amounts of commodities that we badly need ourselves may be exported for three main purposes: (1) to secure in exchange supplies we need more, (2) to secure supplies in order to keep them away from the enemy, and (3) to give needed support to the economies of friendly countries. The system includes a blacklist of firms trading with the enemy.

Shipping space being limited, only trade regarded as essential may use it. In the light of all these considerations, traders must secure licenses as well as shipping space for the export or import of commodities.

RATIONING

Rationing begins where allocation leaves off. It consists of taking limited supplies of particular products allocated to civilian consumption and arranging for the sharing of them down to the individual consumer. The main purpose of organized rationing is to share unavoidable shortages of necessary consumer goods as equitably as may be and more equitably than if the first comers or the long purses were allowed to take as much as they could get. A more elementary purpose is simply to limit demand in some other way than by letting the goods be priced out of reach of small incomes. Thus it supports price ceilings by restricting or, ideally, eliminating the excess of demand above supply at the ceiling price; but it is not a substitute for price ceilings as a means of controlling prices.

Rationing, however, covers far fewer commodities than does price fixing. The decision to ration or not to ration is determined partly by how scarce a commodity is, partly by how essential it is, and partly by whether sources of supply and channels of distribution are such as to make the necessary administrative control feasible. Rationing now covers numerous major foods, shoes, gasoline, tires, fuel oil, and certain major durables such as new automobiles, typewriters, and bicycles. The major rationing body is the OPA, but it rations on request of other bodies, and the amounts it has to divide among consumers are allocated to it by other bodies (WPB, Petroleum Administrator, and so forth).

Where formal rationing does not exist, informal methods of dividing shortages inevitably come into use. Manufacturers ration their dealer-customers in various ways. They are likely to confine all or most of their supplies to former customers and to limit them to a percentage of their usual purchases, or in some cases to a percentage of their current orders. Or the manufacturers' salesmen may be given quotas within which they have discretion in attempting to keep the customers satisfied. Some claim to favor the smaller customers, and some admit that the customer who brings enough pressure to bear may get more on that account. The retailers' methods of sharing goods among consumers are even more unsystematic. In the field of clothing and house furnishings the practice seems to be first come, first served. In the case of other kinds of goods, it may be more appropriate to limit the amount the purchaser can take at one purchase, or other methods may be used. It is hard, however, to prevent consumers from hoarding, which aggravates existing scarcities, and may create scarcities where none need exist.

Neither formal nor informal rationing is anything but a necessary evil. Formal rationing is the most burdensome and unpopular of the war controls, and the least likely to be kept in force a day longer than it is needed.

Not all rationing is equally burdensome. The simplest is an equal coupon allowance for everyone, suitable for some standardized necessities like sugar. Next comes rationing by points, covering a group of products. England has employed group rationing by money values for meats. Most burdensome of all is rationing which requires a certificate of individual need for each purchase (new automobiles and tires) or an allowance of different quantities to different individuals, graded according to various criteria of need (*B* gasoline cards and oil fuel for heating). None of these methods fits cigarettes, which are scarce but unrationed. Our most persistent rationing problems are likely to be of the sort in which formal rationing, if employed, calls for individual certificates.

CONTROL OF PRICES

Price control may use price as a stimulus to production, and must allow prices sufficient to enable the production of essentials. The extent to which there is need to rely heavily on price as a positive stimulus (as distinct from an enabling factor) varies with the amount of unavoidable risk and with the organization of the industry or trade and possibly with other factors. Liberal price incentives have been used deliberately in agriculture, and unavoidably in the case of some novel and experimental products; but the general assumption has been that normal returns are sufficient. To some extent, producers will even forego a higher return in order to do what the government wants of them, but it is not prudent to count on this implicitly. The relative scheme of financial inducements is still a powerful factor in determining how resources shall be used, even during war; and of course it becomes much more nearly supreme as soon as peace comes. Reconversion pricing will need to give fuller recognition to these factors of financial incentive than war pricing has had to do.

The pressure on prices is of two sorts: the upward pull of dollar incomes far in excess of supplies, and the push of increased dollar costs, reflecting either higher real costs (rail in place of coastwise transportation) or simply higher payments for labor or material means of production. OPA ceilings have shown that they can resist the pull fairly well; but if costs of producing needed supplies go up, leaving too many producers in the red, prices must rise. Of course, the two kinds of pressure work together. Rising costs can push prices up in a market full of excess buying power. In a market with less demand, rising costs might have more difficulty in pushing prices up, or the effect on output and employment might be more serious. During reconversion, costs may rise as demand weakens, changing the shape of the problem.

The power of direct price control resides mainly with the OPA, acting upon statutory authority. The statute sets general policy standards and imposes specific limitations in favor of agriculture which aim to safeguard farm prices against control until they reach parity or something better. Prices of basic foodstuffs are a matter of joint interest to the OPA and the Food Administration, and similar joint interests exist with other administrators for special commodities. Aviation gasoline and certain products required in the making of synthetic rubber have been exempted from price control. By agreement in September, 1942, the OPA left the War Department in control of the prices of a comprehensive list of finished items of a munitions character, component parts and subassemblies for the munitions items if fabricated and not suitable to other uses, and also certain foodstuffs. The OPA retains its control of basic materials, and may reassert control of exempted items if it becomes evident that prices are not being effectively controlled.

From the standpoint of reconversion, different kinds of pricing problems may be presented by different main classes of goods. These include, first, raw products—raw farm products, lumber, metals, and mineral products. Then come manufactures—manufactured foods, textiles, metal durables, other durables, and miscellaneous goods. Distribution down through the retail level is a distinct area, including the main classes of commodities and the service trades. Export and import trade also calls for separate treatment.

Forms of price-ceiling order are surprisingly various. Prices fixed in dollars and cents are most satisfactory where practicable. Freezing the prices of a base period is often necessary as an initial measure, but if it stays in effect long it will need to be modified, perhaps by allowance for changes in particular important elements of cost. This converts it into what has come to be known as a "formula" price, of which there is a great variety. Then there are the various devices for obtaining a little additional output from high-cost sources without raising the price on the entire supply, most of which does not need it. The chief example is the premium price for output in excess of quotas in the case of copper, lead, and zinc. Geographical price structures are varied and complicated and need to be free to change and evolve, rather than to be rigid and harden into the mold of a permanent government order. The shift from a buyers' to a sellers' market, combined with compulsory or virtually compulsory orders, has done curious things to some of these structures; and when the reverse shift comes, it will presumably undo them.

An obvious part of price fixing is the identification of the commodity to which a price applies. This leads into the whole question of grading and of the need for more specific grade definitions than in many cases exist. With a sellers' market, a system of grades with fixed ceiling-price differentials may tend to cause quality to concentrate near the minimum standards for the various grades; but in a buyers' market, the effect would be different and less predictable. Another kindred matter is the attempt to prevent the average level of prices from being raised unduly by the disappearance of the cheaper grades of commodities, with or without deterioration of the quality of the goods that remain. But in this country the rationing of shoes at one coupon per pair regardless of quality has caused the buyers' preference to shift toward shoes of better grade, and destroyed the desirability of maintaining the precise customary proportions of the cheaper grades.

A final resort to avoid an increase of a price is an outright subsidy. This may be given to a small, high-cost part of the output, in which case the saving to buyers greatly exceeds the subsidy, or it may be given to the whole output. In the latter case, the reason is a belief that, unless the cost of living is held down, the demand for wage increases will become irresistible, and this will precipitate an endless spiral. In either case, each dollar of subsidy is expected to yield multiple savings, not only to consumers but to the government, thus reducing the cost of the war. Most of the current controversy about subsidies centers on food subsidies paid on the whole output of the subsidized commodities for the purpose of averting a wage–cost-of-living spiral.

It has been found necessary to control prices in the export and import trades. In the case of exports, the most practical reason is that, if exporters can make unlimited profits, they will be under too much incentive to send goods abroad which are needed at home. Furthermore, it is the policy of this country to mitigate, not to aggravate, the wartime rise of prices in friendly countries; and we do not want it said with truth that the hardships of high prices in these countries are due to the extortionate prices which the Yankee traders demand. We are cooperating with the Latin American countries in their efforts to control their own price inflations.

The objection is raised that we are depriving our own traders of profits for the benefit of the foreign traders instead of the ultimate buyers, since the efforts at restraining profiteering in the Latin American countries are not always very effective. However, at the Rio de Janeiro conference, this country pledged equality of treatment in the sense that we would let the Latin American countries have goods for any use for which these goods are allowed to our own civilians, and at our domestic prices plus customary exporters' margins, adjusted for special wartime costs.

In the case of imports, the basis has been the actual foreign price plus customary margins. An effort was made to resist further increases in the foreign price wherever our position as buyer was sufficiently dominant. In some cases, the United States government has imported goods and sold them at a loss, especially where they constituted a minor high-cost fraction of our total supply. This is one form of differential price subsidy. With this country exporting limited amounts (commercially) at limited prices and importing all it can ship in, at less effectively limited prices, other countries have accumulated large amounts of dollar exchange, which may tend to swell our exports when trade controls are relaxed.

The standards and procedures of wartime price control are essentially suited to a temporary emergency; others would have to be developed if price control were to continue long. The most general standard for determining whether a price ceiling allows an industry or trade a reasonable return is whether a majority earn as many dollars as they did in the test period 1936–1939, plus 6 per cent on any additional capital subsequently invested. In the long run, this latter element would become increasingly dominant and would necessitate control of accounts or a shift to a different standard. At the same time, procedures, in the interest of peacetime standards of due process, would need to become more formal and more time-consuming.

It is true of price control as of production control that different orders interlock. Orders as to finished products must be in harmony with orders as to the raw materials that go into them, and orders governing different outlets for the same materials must not penalize more essential uses as compared to less essential. But it appears, on the whole, that this interlocking is not likely to create great difficulty in the process of decontrol—not unless there is partial removal of price ceilings in areas where inflationary pressures still persist.

If this mistake is avoided, a price ceiling will in general be removed only after it has become inoperative, supply and demand being balanced at the ceiling price or lower. Then the removal would not in itself have any material economic effect.

CONTROL OF MANPOWER AND WAGES

Just as the mobilization of production has depended on a mixture of buying orders, technical cooperation, price incentives, and compulsory restriction of civilian production, so the mobilization of labor has depended on a mixture of hiring offers, quick training courses, wage incentives, and restrictions on movements or uses of labor which conflicted with conversion to war. In each case, the citizens' desire to be a part of the war effort has counted for much in voluntary response to government appeals but has needed to be backed up by formal measures. Civilian manpower control has stopped short of the much-disputed universal service law, the United States being the only major belligerent in which the civilian population has not been placed under formal and positive obligation to render essential service at the call of the authorities.

Sources of manpower have included reduction of unemployment from over eight million to less than one million; five or six million added to the working force, most of whom would not normally be candidates for jobs; longer hours (overtime is estimated as equivalent to about five million added workers); and some transfer from nonessential employments, though not enough to justify us in calling ours a really "all-out" war effort in comparison, for example, to that of England. Some impression has also been made on "featherbed" or output-limiting rules on the part of unions, but the 40-hour week stands as the basis beyond which time-and-a-half is paid for overtime. As a result, when the War Manpower Commission requires certain civilian industries to work 48 hours, their wage costs are increased and price ceilings are endangered.

In general, manpower controls appear to be of such a sort that their restrictive features are likely to disappear quickly and automatically as soon as the manpower shortage has turned into a general surplus. The system includes the tightening of rules for occupational exemption from the draft and the requirement of a certificate before a worker may take a new job after leaving a war job (though this requirement is not airtight). It includes a 48-hour work week in civilian industry in shortage areas, maximum employment quotas for some civilian industries, and other measures to cut labor hoarding. Some of the best results have been secured by the setting up of about two hundred regional boards which aim to treat the labor supply of the region as a unified resource and to place it where it is most needed.

If the future course of the war should make a more drastic policy necessary, the effect would spread to production and price controls in various possible ways, depending on the nature of the added manpower controls, the extent to which they restrict civilian output or increase total output, and the area where any restriction falls. Tighter manpower controls might be needed as the labor shortage grows less and some civilian production is released but while there is still a large war effort needing to be protected against a premature stampede back to peacetime "business as usual."[1]

Manpower problems obviously interlock with wage policy, which is mainly in the hands of the National War Labor Board, acting under statutory policy standards and subject to rulings by the Director of Economic Stabilization. The present structure of wage-stabilization agencies and policy grew by successive stages. In April, 1941, after several years of relative wage stability, a round of substantial wage-rate increases began, at a time when the cost of living had risen

[1] The WMC's policy for the war period following the defeat of Germany, as announced in September, 1944, does not appear to anticipate this possibility. The foregoing paragraphs were written before the announcement of WMC policy.

only 1 or 2 per cent above the level of August, 1939. The movement was marked by disputes and strikes, and the efforts of the Defense Mediation Board to adjust these disputes encountered strong opposition. Our entry into the war was quickly followed by an antistrike agreement entered into on Dec. 23, 1941, by the A.F. of L. and the C.I.O.; the passage of the long-delayed Price Control Act of January, 1942, containing a rather vague and general mandate for wage stabilization; and the creation on January 12 of the National War Labor Board, headed by W. H. Davis (who had also been chairman of the former Defense Mediation Board). The Board's jurisdiction was at first limited to the settlement of disputes, and it may be that the prevention of work stoppages, rather than wage stabilization, was still regarded as its most urgent function. Later, it was given statutory standing by the Smith-Connally Act of June 25, 1943.

The shift of emphasis to wage stabilization was marked by the seven-point program of inflation control, announced on Apr. 27, 1942, including a mandate for wage stabilization along with the OPA's general price freeze. The War Labor Board's contribution was the "Little Steel" formula of July. Under this the general limit on increases of wage rates was 15 per cent above January, 1941, this being the approximate rise in the cost-of-living index from January, 1941, to May, 1942. Back of this lay a presumption that the cost of living would be held at something not very far from its May level. This policy represented a partial and limited acceptance of the rule that wage rates must at least keep pace with cost of living.

This rule is firmly established in the minds and feelings of organized labor, perhaps too deeply rooted to be suspended even to meet a temporary war situation. The de facto power of this rule is independent of the question of its reasonableness in wartime. At such a time, maintenance of this standard of hourly rates means a large increase in "real weekly income." The equity of such a large and general increase is open to question; also its reality, since it represents a theoretical power to buy goods in excess of the amount actually available for civilian consumption. Broadly speaking, the increase is real only if not spent but saved, and then only if ultimate repayment comes out of someone else's pocket, not the saver's own.

Nevertheless, a gross failure to maintain this standard might rouse such resentment that it would mean serious injury to war production through impairment of the voluntary cooperation of labor. When it appeared that, owing to inability to control food prices, the cost of living could not be pegged by OPA price ceilings alone, the Little Steel formula threatened to become untenable, and subsidies were resorted to as the only means of pegging the cost of living and so averting an inflationary spiral.

The Price Control Act of October, 1942, contained a more definite wage-stabilization mandate, and under it the President at once issued an Executive Order setting wage levels of September 15 as the general maximum standard, with exceptions for wages below a tolerable standard of living and for adjustment of gross inequities or "to aid the effective prosecution of the war." The order also required War Labor Board approval for all wage increases, whether disputed or not (most proposed increases were no longer disputed by employers). At the same time the Board of Economic Stabilization was established, with James F. Byrnes at its head, to bring about that unified action by separate agencies which the seven-point program had recognized as necessary in combating inflation.

The next major landmark is the "hold-the-line order" of April, 1943. The part pertaining to wages forbade further increases except as clearly necessary to correct substandards of living or to give the benefit of the Little Steel formula to workers who had not yet received it. Various adjustments might be made, but must not raise costs appreciably or be a basis for raising prices or resisting otherwise justifiable reductions of price. The War Manpower Commission was authorized to control the movement of workers from one employer to another and to prevent the new employment from paying more than the old, except where this would aid the war effort. Under this order the price level was actually stabilized for a year; both wholesale prices and cost of living.

Since 1939, the different dimensions of wages have increased by very different amounts. Basic wage rates are hardest to measure. They have probably increased over 30 per cent in manufacturing and over 20 per cent in all occupations, including the "forgotten" white-collar workers. Average hourly earnings have increased much more, registering shifts to higher paying occupations, upgrading, promotions, and overtime. Average weekly earnings have probably increased over 80 per cent in manufacturing—less in other occupations—and total pay rolls have considerably more than doubled.[1] Against this stands an increase of about 24 per cent in the official cost-of-living index of the Bureau of Labor Statistics, which might be raised to about 30 per cent by allowance for deterioration of quality, which the official index does not measure.[2]

The differential structure of wages has, of course, been modified by the war. The effect is a combination of gains to war workers and those doing work early recognized as war-essential, gains to well-organized workers, and gains to workers so low paid as to be affected by the new minima of the Wages and Hours Act. Factory workers have gained more than others. For factory workers, a study has been made by the Bureau of Labor Statistics of their "take-home" after deduction of social security tax, bond purchases (beginning in

[1] S. H. Slichter gives an increase from 44.2 billion in 1939 to an estimated 101 billion for 1943, an increase of 128.5 per cent, with more to come. See *Proceedings*, American Academy of Political Science, reporting paper of Nov. 10, 1943, p. 28.

[2] *Ibid.*, p. 29. The Advisory Committee to the President's Committee on the Cost of Living estimates the true increase at from 26.8 to 28.5 per cent between January, 1941, and December, 1943, during which time the BLS cost-of-living index rose 23.4 per cent.

1942), and income and victory taxes (beginning in 1943). The purchasing power of the "take-home" increased from January, 1941, to October, 1943, by about 17¾ per cent in terms of the official cost-of-living index, or possibly 12 to 14 per cent in terms of the higher estimate mentioned above.[1] That is, factory workers as a class have gained in immediately available net buying power and have their war bonds besides. Others have fared less well.

In general, it seems fair to conclude that wage stabilization caught the wage structure after the more obvious war jobs had received large increases and offered strong resistance to further readjustments. Wage differentials, plus pressures employed by the WMC, did not suffice to move so many workers out of civilian work as had been forecast as necessary for the full war program, which suffered at some points for lack of manpower. Workers who were moved out of civilian work did not all come from the least war-essential occupations. Higher pay attracted too few workers out of some civilian occupations and too many out of others in which the war effort required that an effective minimum force be maintained. This will leave a postwar legacy of need for readjustments.

CONTROL OF CREDIT

In the field of credit, the form of control most pertinent to the main problems of this report is the control of consumer credit, carried out by the Federal Reserve System in liaison with the OPA under Regulation *W*. It was instituted on Sept. 1, 1941, at a time when consumers were still buying automobiles in large numbers, when the markets were full of excess purchasing power, and the OPA had not yet acquired teeth. Under Regulation *W* and partly because of it, the volume of installment-sales credit shrank from over 4 billion dollars on Aug. 31, 1941, to 707 million on February 29, 1944, and the total volume of consumers' credit subject to the regu-

[1] See N. Arnold Tolles, "Spendable Earnings of Factory Workers, 1941–43," *Bureau of Labor Statistics Bulletin* 769.

lation shrank from over 9 billion to less than 4 billion during the same period. At present, with the chief commodities normally sold on installments largely out of the markets and consumers in the main unusually well supplied with cash for the grocer, this regulation is in a quiescent state that belies its potentialities. It is one of the few controls of consumption, short of rationing; it can repress or stimulate and is selective.

OTHER CONTROLS

Most taxes exert some incidental controlling effect on economic activity, but the taxes levied in this country during the war have not been particularly notable in this respect. They may have finally reached a level nearly as heavy as perfect economic wisdom would have dictated, in the light of all considerations; but they came late. And they fell far short of soaking up the inflationary excess of purchasing power, especially the part going to those most likely to spend it. The excess-profits tax formed a second line of defense against war profiteering, and the Bureau of Internal Revenue temporarily put the force of its regulations back of the proposal that no salary, net after taxes, should exceed $25,000.

Somewhat similarly, the power to grant or refuse capital funds, exercised by the Reconstruction Finance Corporation and other agencies, exerts incidental control, but this will not be gone into here. The Alien Property Custodian administers property with a view to giving the American economy the benefit and preventing alien property from being used as an economic agency of war against this country. American business in general does not feel that control is exercised over it by this kind of thing. The War Relocation Authority has a special task of dealing with enemy-alien populations within our borders. These are examples of special problems with which this report will not attempt to deal.

COORDINATING CONTROLS

This discussion has brought out some of the ways in which the policies of one war agency affect the interests of others.

The seven-point anti-inflation program was a recognition that this is one organic problem, reaching out into more areas than any one agency could hope to administer successfully. Taxation, credit, farm production and prices, industrial production and prices, shipping, trade policy, manpower, wages, all need to be harmonized in a successful policy. But a single all-inclusive superagency is impossible.

ODT's attempt to reduce cross hauling on railways affects WPB's assignment of steel orders among plants. WPB's ratings of products as more and less essential govern the WMC, while both agencies have an interest in wage cases that might run counter to the interest of the OPA in preventing inflation. A conflict between agencies, leading to a deadlock or to a hard-fought victory of one agency over the other, may be costly to morale. A mediator or an umpire may avoid or reduce the danger. Or where a policy is strongly opposed by private groups, there may be need for an agency of high standing and comprehensive interests to review the policy and support it if it is sound.

In response to these needs, Justice Byrnes was appointed to the new office of Director of Economic Stabilization on Oct. 3, 1942. On May 28, 1943, he was appointed to head the new Office of War Mobilization, with still more comprehensive scope, making him "deputy President" for domestic economic matters. Judge Vinson succeeded him as Director of Economic Stabilization, covering anti-inflation measures.

SOURCES AND TERMINATION OF AUTHORITY FOR CONTROLS[1]

In general, most of the formal powers of wartime control may be expected to continue as long as may be needed to wind up the war economy and see it through the transition to a peace economy. In several cases this will require legis-

[1] The National Industrial Conference Board is making a survey of the legislative authorizations.

lation, both to extend the term and to modify the character of statutory powers. But powers granted for the war emergency will not come to an end when the fighting stops. De facto power to make controls effective is another matter. It will last only as long as the controls command popular support.

Most of the control agencies have been created by Executive Order, and fresh activities have been added from time to time in the same way. Some of these Executive Orders refer to specific statutory authority; others refer in general terms to the powers of the President under the Constitution and the statutes. Some of these Executive grants of power have been specifically ratified by subsequent legislation as an incident to granting more powers.

The OPA has perhaps the most definite statutory basis, having passed from the Executive-order status to that of an agency set up and given powers and standards by special legislative act. The Smaller War Plants Corporation also was created by statute, and the National War Labor Board now has statutory authority. The Alien Property Custodian survived from the First World War. The Executive Orders rest on a number of enabling acts granting wartime authority to the President, although without these acts he might claim authority under the general constitutional war power of the President, if he should choose to make an issue such as he made when he forced through the Stabilization Act of Oct. 2, 1942, stating that he would stabilize wages if Congress did not do so. The Executive Orders typically name no expiration date, in which case they would expire when their underlying authority expired, if the President should not terminate them earlier. But, as already noted, in many of the orders the underlying authority is not specifically stated.

The enabling legislation includes the emergency provisions of the Transportation Act of 1920, as amended; the (prewar) Reconstruction Finance Corporation Act, amended; the National Defense Act of June, 1940, amended on May 31, 1941; the Selective Service Act of Sept. 16, 1940; the Lend-

Lease Act; acts granting power to requisition in October, 1940 and 1941; the amended Trading-with-the-Enemy Act (originally passed in 1917); the First and Second War Powers Acts of December, 1941, and March, 1942; the Smaller War Plants Corporation Act; the Price Control Acts of January and October, 1942, and June, 1944; and the Smith-Connally Act (the War Labor Disputes Act of June 25, 1943). A revenue act also contains provisions for mandatory purchases, which add to the requisitioning power already granted. The durations of various provisions of these acts are differently defined.

Price control and Lend-Lease have expiration dates fixed in the statutes, but these dates have been extended from time to time. Price control is now authorized until June 30, 1945. Strictly speaking, it is only OPA's statutory powers, dating from January, 1942, which expire at that date unless renewed. OPA existed by Executive Order before Pearl Harbor and theoretically might revert to that status, but only theoretically. Its present program depends on a combination of legal powers, a large budget, and public support; and failure to renew its statutory authority would be a death sentence. Something similar is true of the WLB, which, according to the terms of the Smith-Connally Act, expires 6 months after the end of hostilities as proclaimed by the President, unless earlier terminated by concurrent resolution of both houses of Congress.

The power of priorities and allocation is now defined in a paragraph of the Second War Powers Act as running "during the national emergency declared by the President on September 8, 1939, to exist," this phraseology being carried over from the pre-Pearl Harbor acts which preceded it. But the power to allocate is predicated on a finding that shortage will result from the country's defense requirements; and there might be some doubt whether the power is granted with respect to shortages resulting from expanding civilian or UNRRA requirements, when defense requirements have shrunk to a small fraction of the total. Such doubt might exist even if legally a state of war still exists and the country is still in an economic emergency attendant on reconversion and traceable to the war.

Part of the powers of the ODT rest on the provisions for future war emergencies contained in the Transportation Act of 1920, plus the President's power granted by the First War Powers Act to redistribute powers among executive agencies. These powers in themselves will last through the emergency, and their assignment to ODT is valid for 6 months after the end of the war unless earlier terminated by Congress or the President. But the ODT's additional powers granted in the Second War Powers Act expire not later than Dec. 31, 1944. These powers and others in the same act will be needed longer than this. ODT also has powers granted by the Requisitioning Statute of Oct. 16, 1941, which expire June 30, 1945. This may be taken as an illustration of the variety of termination-provisions which exist, even in the authorizations of a single agency.

More important on the whole than the formal legal powers are the other considerations that go to make government orders enforceable. The fact that the government is the source of half the buying goes a long way toward securing compliance; it is also a means of financing differential price policies and price-control subsidies. The reluctance of the armed services to see early release of civilian production while the war is still at its height expresses a fear that civilian releases might detract from undivided pursuit of the war effort. Such fear presumably has a basis and argues that the imponderables are important. Congressional support is also necessary, even where the President has undisputed constitutional power to act, both because Congress controls the indispensable funds and because it bespeaks popular support or the lack of it. Finally, effective control can last no longer than the willingness of most of the people to comply most of the time. This is perhaps more important than any other fact and is likely to put an end to some of the controls long before their legal authority terminates.

CONCLUSION

The agencies should be canvassing the probable changes in the work that will be required of them in the foreseeable stages of the war and the return to peace, including various contingencies. In the light of this they should consider the need for legislation to: (1) extend the term of their authority, (2) modify the purposes for which they are authorized to act, or (3) alter the character of action permitted.

In view of the interdependence of the various agencies, this preparatory thinking should be cleared through the Office of War Mobilization, with due regard to the extent to which the effectiveness of one agency depends on action by others. In the presenting of proposals for legislative action, a factor making for delay is the chance that events may resolve uncertainties, reduce the contingencies that need to be provided for, or even make any action unnecessary. This should not be allowed to lead to presenting proposals too late to permit full discussion, including public education as to the needs envisaged. It is better to consider contingencies that may not arise than to encounter contingencies that have not been considered.

VI. ECONOMIC CONTROLS DURING FUTURE FIGHTING

MAIN FEATURES OF THE PERIOD: ITS TWO PROBABLE PHASES

As this study is written, we are in the stage of full war effort, with fighting on both European and Pacific fronts. Manpower is now the crucial bottleneck, and some materials are more plentiful than manpower. In this stage there will be the beginnings of resumption of civilian production on a very limited scale and in particular commodities. There will be a considerable amount of termination of particular war contracts but probably no very significant decrease in the total amount of war work. Already there are cutbacks in particular industries and areas, while others are short of manpower.[1] Throughout the period of the full war effort, there will be wounded service-men returning and others mustered out and needing to be fitted into civilian life, but under conditions in which demand for manpower exceeds supply. And there will be preparatory planning and organizing to be done against the time when reconversion will begin in earnest. In the latter part of this stage there may be a real tapering off of total war production as we shift from a basis of rapid expansion of war matériel toward a basis of maintenance and replacement. But replacement may still be very heavy, especially as combat experience is likely to reveal a constant need of changing types of equipment, and a call for further expansion is entirely possible.[2]

[1] Reports in September and October state that shortages affect some important branches of war production which are behind schedule. A 9 per cent decrease of employment in munitions industries has been reported between November, 1943, and July, 1944, but in view of the shortages it is not clear to what extent this represents a decrease in labor requirements.

[2] Since this sentence was written, there have been both cutbacks and increases

The most probable next stage, in harmony with officially announced programs and prevailing predictions, is the stage of warfare in the Pacific, following victory in Europe and lasting a year, or more, or less. In this period we might expect to be rendering first aid to Europe, mustering out 2 million or more service-men, and reducing war production substantially. Estimates range from 30 per cent reduction within a year after the end of European fighting to an immediate shrinkage of 50 per cent. As usual, the truth lies probably somewhere between the extremes.[1] The reduction following European victory will naturally be concentrated on ground-army munitions, while the naval and air programs will continue large.

This phase of the war will make enormous demands on shipping in two hemispheres; hence the merchant shipbuilding program will presumably continue on a substantial scale, regardless of the relation of supply to normal peacetime demand. It is true that the United Nations' supply of shipping passed its prewar level in November, 1943, and kept on growing at a rate of more than 1.5 million tons a month, net above losses. It is also true that the final removal of the submarine menace in the Atlantic will increase the efficiency with which shipping in that area can be used, thus constituting in effect a great increase in the available supply of transport service. For these reasons the merchant shipbuilding program will taper off, but for some time the decrease is likely to be offset by the building of special invasion-type craft.

Moreover, the possibility should always be contemplated that the war program itself may be revised upward in some

---

in different items of the program. When the first draft of this chapter was written, in February, 1944, it seemed that strong German resistance might occasion an over-all increase in the munitions program, following particular cutbacks. In July, it seemed that a similar result might follow from the discovery that, contrary to first expectations, large results can be gained in two hemispheres at once.

[1] [At time of second printing, an estimate of 20 per cent to 25 per cent shrinkage appears more realistic.]

directions. If it is evident that the existing program does not utilize all the resources that can be spared from essential civilian needs, this may lead to the further question: What are the bottlenecks which prevent this full utilization, and is it possible to expand these bottlenecks and thus shorten the conflict and reduce total casualties by bringing a genuinely overwhelming force to bear in the Pacific area? At the same time there will be large demands for feeding and clothing destitute areas in Europe and for rebuilding the absolutely essential services of transportation, water supply, and other vital community services on that continent. These last will replace part of the shrinkage in the munitions program. Thus, while the strain on our economy will be relaxed, it will remain large.

Shortages of manpower and materials will be eased, and industry will be able to spare many workers who have taken employment only on account of the war. It will also be possible to resume considerable amounts of civilian production but presumably not, for example, full production of civilian automobiles or full release of gasoline for them. Industry can use part of the released resources in preparing for later and fuller resumption. There will be considerable option as to how this easing of the pressure will be used.

This tapering-off period seems highly likely to occur, but of course it is not certain. One extreme possibility is that Germany might hold out longer than Japan, in which case there would be much less tapering off.[1] Or Japan might hold out so long after Germany that we should find ourselves carrying out a considerable part of the resumption of civilian production while hostilities were still going on, instead of letting most of this wait until after the final armistice. This seems unlikely but is one of the possibilities. These successive stages of the war effort will present reconversion problems on a growing scale as the war goes on, changing the data of policy

[1] At the time of going to press, September, 1944, this seemed considerably less likely than when it was originally written.

as to production, manpower, price, and most of the other forms of control.

GENERAL CONTROL POLICY

In general, it seems necessary that all varieties of control remain in full force while the main European fighting continues. While many of the more stringent specific controls may be taken off in particular instances, there can be no sweeping removals. Even after European victory, there will still be shortages and inflationary pressures, probably through most or all of the rest of the war.[1] Therefore, the general framework of controls will need to be retained, with the possibility of reimposing controls which have been provisionally suspended, if at any time the situation should require it. Civilian products and materials for them should be released to relieve hardships; but in this matter, as long as the war lasts, the ruling principle should be that no releases should be allowed to interfere in any way with the war effort. Next to this, perhaps the most important guiding principle should be: Preparation for prompt reconversion and reemployment after fighting ends is the most important civilian need next to the immediate basic necessities. This is more important, if a choice has to be made, than a few more consumer durables, released a little sooner, over and above amounts needed to meet really essential civilian needs, which seem certain to be released in any case.

TERMINATION OF CONTRACTS

Termination of particular war contracts goes on throughout the war. But at the height of the war effort, most of the terminated contracts are replaced by other war contracts, and the problems of termination settlement are merged in the new

[1] September estimates suggest qualification of this statement, but war requirements plus civilian demands will still exceed available resources and will necessitate restrictions.

arrangement. For the producer whose contract is terminated and not replaced, the war controls present difficulties. He must find a product he is allowed to produce and for which he will be allowed to get materials and keep manpower. In many cases, especially if he is making munitions, his peacetime product is likely to be subject to sharp restrictions in all these respects. All this may mean real hardship, in addition to the regular problems of contract termination. So far as the former contractor has to dispose of his inventory of war-production materials, he should have no serious difficulty. Though finding uses for partly fabricated parts of a discontinued product is sometimes a challenge to ingenuity, the contractor may pass this problem on to others. His compensation does not hinge on solving it himself.

As the volume of war production decreases, such terminations will multiply, but also the restrictions on alternative products, materials, and manpower will be progressively relaxed. The detail character of the problem will be continually changing. Toward the end of hostilities there may even arise a problem of temporary surpluses of some materials, and of holding these surpluses in reserve, both to meet future needs and to avoid a purely temporary and disturbing drop in market prices.

Needless to say, the precedents set when this problem first arises will need to be watched carefully, since they may act as entering wedges for much larger undertakings later on, when hostilities cease and contracts are terminated in a mass. Where the surplus problem arises, it will need to be handled with good judgment and with a will to resist the pressures of special interests which are likely to urge the permanent protection of prices not warranted by current prospects of supply and demand.

To sum up, the period of hostilities should witness a rehearsal for the problems of contract termination which will be faced on a much larger scale when the fighting in both major areas finally comes to an end.

RELEASE OF PRODUCTION CONTROLS

Controls of Materials

Policy as to materials is affected by the fact that, as long as the main combat goes on in Europe, manpower will continue to be the crucial limiting factor in our economy. Local pools of unemployment will create problems, but not problems of general surplus. The manpower will be needed, if it can be moved to where orders are or if orders can be moved to where it is. There have been releases of particular materials, notably aluminum, and there will be more, but they will be limited in amount. At first they should have more effect on the make-up of civilian goods than on the total output, total output being limited by manpower. Increased output of civilian goods will probably be confined mainly to essentials and will not be large enough to have much effect in relieving general inflationary pressures.[1]

If manpower is scarcer than some materials, this suggests that manpower should be shifted out of producing these materials and into manufacturing, where practicable, though some stockpiling will presumably be done first. But that is probably a counsel of perfection. The natural conclusion is that allocation of some materials will continue to be needed, while others may be plentiful.

Release of materials, when manpower is short, logically calls for revising some specifications which limit the use of essential materials or require use of substitutes. These specifications were originally drawn up for the purpose of economizing on scarce materials when materials were the crucial bottleneck. Under the new conditions some revisions are sure to be desirable in order to permit a limited amount of manpower to turn out more service value through a more

[1] Since the foregoing section was written, a notable step has been taken in WPB's announcement on Aug. 14, 1944, of the relaxing of 79 *L* and 7 *M* orders, subject to the approval of each producer's specific application in the light of local manpower conditions, etc., and with preference for more essential commodities (see *The New York Times*, Aug. 15, 1944).

liberal use of the critical materials. In this way released materials could be used to economize manpower, whereas, if they went into the production of more goods of less essential sorts, manpower would be wasted.

There is one further strong reason for permitting producers to resubstitute prewar materials before the war finally ends. Producers and dealers have inventories which would be heavily depreciated if they had to be sold in a buyers' market, after goods made on prewar specifications became available. They will suffer less loss if they are able to turn over these inventories and to replace them with standard goods during the wartime sellers' market.

Pig iron was the first material released from allocation, the release being announced on Dec. 21, 1943. This move was experimental, and the Board reserved the right of allocation in any specific cases which might require it. In general, it would seem that the War Production Board should retain full reporting of supplies, demands, and inventories, in order that it may be instantly informed of any developments which may call for resumption of the controls which have been provisionally taken off.

In the early cases, successful release of allocation controls seems likely to depend on the restraining of potential demand resulting from other controls or from bottleneck shortages of complementary materials or components. Demand will be limited by the aggregate effect of inventory controls, orders for conservation of materials, limitations on production of particular civilian products, and manpower controls. Demand will also be limited by such bottleneck shortages as those of fractional horsepower motors and thermostatic controls, which limit the resumption of production of electric refrigerators and thus affect the demand for aluminum. By virtue of such limiting factors, potential demand for some basic material may be restricted sufficiently to permit release from allocation, where otherwise demand might still exceed available supplies. In particular, it seems that priorities should generally be retained. They may prove sufficient if the situation of supply and demand is such that all of the really essential demands are assured of being met.

After victory in Europe, it will be possible to go much further in releasing materials from controls, but problems of control will not all be simplified; in fact, some will become more perplexing. It will also be possible and desirable to release materials for reconverting plants which are sure to be no longer needed for war production. Every facility and inducement should be given to industries to carry out such reconversion as early as possible, even where there is no assurance that some shortage or other may not prevent the reconverted plants from going into full production as soon as they are ready for it. They will gain by being ready to start without delay after the shortages clear up. This is likely to be the time when the country will have most need of plants, ready to absorb workers into civilian production.

The operators of plants still needed for war production have already been given very limited allowances of materials for the experimental development of new products to which they may wish to convert in the future, when their plants will be released. As the war program shrinks, these allowances may and should be made much more liberal. Such anticipatory development may be vitally important in speeding up reconversion at the critical stage when the fighting stops and when the promptest possible reconversion, on the largest possible scale, will be the crucial economic problem.

As the war effort tapers off, it should be possible to free more materials from allocation. Allocation of materials in this period will raise problems which may in one sense be more difficult than those of any other period because, while it will be possible to release materials for a considerable amount of civilian production which is not rated as definitely essential from a war standpoint, there will not be enough materials and manpower to permit unlimited resumption. Civilian buying power will still outrun the supplies that can be spared from the war effort. As a result, it will be necessary to make allocations which will satisfy some nonessential wants but not all and to choose among claimants, none of whom can claim that.his product is essential by present standards. New and difficult lines of demarcation will need to be drawn between products.[1]

In some cases, full resumption may be permitted for certain civilian products, though presumably subject to inventory control to see that the producers do not hoard materials. Full resumption is not likely to be possible, however, for the major products which use large amounts of materials and manpower. The natural preference for full resumption over partial resumption of any one product will be intensified by the special perplexities attending partial resumption in the later phases of the war effort.

Equity as between Competitors

The privilege of resuming civilian production will, naturally, be eagerly sought after, and if some producers or some areas seem to be favored, this will cause much discontent. Some producers may be rewarded merely because they were working on a model of tank, for example, that the War Department decided to discontinue. In the case of tanks, the loss of a war contract during the European phase of the fighting is hardly likely to be regarded as an advantage, because it is very unlikely that the volume of civilian production released will be anywhere near as large as the volume of tank production abandoned, with the result that the tank producer

[1] The Byrnes report of Sept. 7, 1944, proposes to leave these adjustments uncontrolled, abandoning the controlled materials plan and most of the *L* and *M* orders and substituting a simple priority system protecting only war work and possibly a little highly essential civilian production. Inventories would also be watched. It seems likely that there will be need for somewhat more than this minimum of control and that the rather extreme relaxation proposed would put undue pressure on the machinery of wage and price stabilization, since civilian producers would be too free to scramble for manpower and for some scarce materials.

would at best get only partial compensation for the loss of war business. There might be cases, however, in which producers who get a chance to take the lead in reconverting their plants would be regarded with jealous eyes by their competitors.

In settling this question, a number of criteria will have to be weighed where any real option exists. The plants available for resuming production of civilian durables will be those selected by the armed services for release from war work and are likely to be high-cost plants. This has advantages and disadvantages. The converted plant which shows high costs in war work is likely, though not certain, to be also a high-cost plant when producing the civilian product for which it was designed. The result would be a hardship to consumers and OPA. On the other hand, if certain plants must be given a headstart over others in reconversion, the industry would be less enduringly upset if the advantage were allowed to go where government procurement agencies would naturally like to have it, to the less formidable competitors, who are not likely to grow so strong with the help of this advantage as to prevent the revival of effective competition.[1]

In some industries the smaller, and presumably weaker, producers may properly get the benefit of early resumption of civilian production. There may be cases in which it will be practicable to combine this with releasing some plants of each of the larger multiple-plant producers, though this may imply larger amounts of civilian production than are likely to be released while the war is at its height. It seems a foregone conclusion, however, that no one method will fit all cases.

The naturally favored principle of allocating quotas of released civilian products to all prewar producers is workable

[1] This consideration appears to outweigh various drawbacks, including prolonging the struggles of some hopelessly inefficient concerns. Even this has its favorable side; they might retire with less loss of capital to themselves and their creditors. It may be noted that, under the plan of September, 1944, the Office of Civilian Requirements, under the WPB, has some voice in the selection of plants for cutbacks and cancellations.

in some kinds of cases but is open to various criticisms and should not be allowed to harden into an unalterable rule. Its one advantage lies in settling quite simply the claims of rival producers; but it will not do that when would-be new entrants into an industry begin to present claims. This may not be an issue now; but before the fighting ends there will be returned service-men seeking to establish small enterprises of their own, and probably some facilities built for war use will be released and in the market for civilian openings. Allocation systems will have to give them a chance.

Furthermore, quotas based on equal percentages of prewar output are not at all equitable where some producers have expanded little and others have expanded much, taking on multiplied responsibilities for manpower. Neither the prewar nor the wartime basis should be used alone. The figures for the domestic laundry equipment industry are very instructive on this point.

Perhaps the most serious defect of the system of quotas to everybody is its tendency to high-cost operation and uneconomical use of manpower. Very small quotas are virtually prohibitive in mass-production industries in which a plant operates in large units.[1] We cannot afford much waste of this sort at the height of the war effort. It was this which led England to adopt the device of *concentration* of civilian production. The case we are considering is somewhat different, but the need of economizing manpower is the same.

Under the method worked out for resuming production of electric irons, every former producer was to be allowed to sell a given quota, but if his labor or facilities could not be spared from war work he would have to farm out the production of the irons he was to sell. In the case of washing machines or other products in which the various producers' brands are highly differentiated, production could hardly be farmed out;

[1] Since this paragraph was originally written, announcement has been made of plans for resuming civilian automobile production at an uncertain future date, but not until conditions will permit the production of 2 million cars a year.

neither could all producers be allowed to resume civilian production, some being located in areas of labor shortage.

In such cases, a literal concentration of civilian production is inevitable, if any production is released during the war, whether or not it is accompanied by the kinds of interfirm arrangements which are associated with the term *concentration* in the literature of British war controls. If this happens while the war in Europe is still active and peace is still far off, the adoption of simplified war models might well be considered as a solution of the difficulty of equity among producers. If it does not seem wise to go this far, or if the issue arises later in the war, consideration should be given to a provision that, where some producers get an early start in resuming civilian production, they should continue to produce prewar models until their competitors are ready to introduce postwar models, and all can start even with those, at least.

These safeguards may not satisfy American industries. The same kind of resistance which checked our original concentration program of 1942–1943 might insist on the more wasteful method of quotas for all. But this resistance may not be so strong when it is not a matter of forcing the majority of producers to stop their civilian production, but rather of allocating the privilege of resuming it. If most of the producers of the civilian product have been forced to close down their civilian facilities, or perhaps are entirely out of production, the wastefulness of letting them all reopen on a tiny scale would be quite obvious. In many of the cases, as already suggested, there may be no real option. Some may get back into civilian production, while others cannot; and the only question left would be one of ways and means of seeing to it that the favored producer, or producers, did not get the opportunity to reestablish his brand and brand name in the market while his competitors were out of the field.

After victory in Europe, when the total war program tapers off substantially, the problem of fairness as among different producers of the same product will be encountered on a larger scale, and probably in even more troublesome forms, precisely because releases can be more liberal and will be more valuable to those who can get them, and there will be more producers getting these advantages. It may be harder than before to follow the principle of giving everyone a quota, where the quotas are large enough to interfere seriously with the war work which many of the producers will still be doing. The main factors in this situation have already been discussed.

Whatever changed forms the problem assumes in the final phase of the war will naturally be due to: (1) the larger scale on which limited reconversion occurs, (2) the probable easing of the pressure to secure the utmost economy of manpower, (3) the emergence of new producers claiming the right to enter an industry, and (4) the fact that the people will feel the war to be so near its end that they will have all the more reason for rejecting elaborate or cumbersome arrangements. Temporary makeshifts will be in order.

In some cases nothing can be done to cure particular inequities; yet the results will not be fatal. If there is a case in which a producer of an inferior grade of product, not engaged in war work, is scooping the markets of his competitors, who are wholly occupied with war orders, the superior producers suffer a hardship, but they might prefer to take their chances of getting their markets back after the war rather than to seek any other remedy. Their advertisers will have a good talking point. Naturally, if this sort of thing lasts for only a year or so, during the Pacific phase of the fighting, it is much less serious than where it has been going on during the entire war. Many such inequities are inescapable, but business will survive them.

Another criterion which should be taken into account in determining which plants should be first released from war work (where the choice is open) would be first to release plants which have been converted from peacetime production, and to keep in war work until the last the plants that were built new and specialized for war products. This would give precedence to those producers who are surest to reconvert promptly and to fit into an established market. In addition to the crucially important matter of prompter resumption of civilian production and employment, such a policy might bring about some advance retooling in excess of the immediate need for reemployment. Such anticipatory retooling, where possible, might iron out handicaps between competing producers whose conversion to war work has been handled differently, leaving some with a larger and longer task of retooling than others. In extreme cases, some have simply moved out of peacetime units into wholly new war-production units, while others have converted the equipment in their peacetime units and would need to reconvert. The latter need a chance to begin their reconversion some time before the return to peacetime production takes place, in order to start more nearly even with their competitors on actual production.

The wholly new plants, which would be left for later reconversion, are the ones most likely to be turned to the production of new commodities, or at least commodities which their operators have not produced before, and for which they will need to design and test new models. Such plants could not in any case be expected to start civilian production as promptly as the others, but their new products might come on the market in a reasonable time as compared with the postwar models from the other plants. This is assuming what seems to be generally agreed, that the plants formerly producing peacetime products will start production with no basic changes from 1942 models.

As far as this general scheme can be followed, it seems to offer the promptest way to the resumption of a large amount of civilian production and employment while the new models and new products would still be coming along within a year or two. This interval might correspond roughly to the time required to repatriate several millions of troops released from foreign service, so that there might be some sort of rough synchronizing of the return of ex-service-men with the opening or expansion of industries which might employ them.

One other criterion, which may fit in with the war program and may deserve more weight than is likely to be given to it, is to select for early reconversion industries in which price-control problems would be most difficult if a shortage should persist after the war. In a general way, the industries most likely to be needed in war work on a rather large scale for the whole duration would seem to include the automobile industry and possibly others of the list of major durables, which includes refrigerators, washing machines, and so forth. Over against these stand industries producing numerous minor products or including many small producers, or both. These would be peculiarly hard cases for price control to handle after the war, presumably with a depleted staff subject to a high turnover, facing a business community which may have lost its willingness to comply with formal orders. Therefore, from this standpoint it would be distinctly convenient if the deferred demand for these minor products could be filled during the war or soon after, so that scarcities necessitating price control would not be projected far beyond the final armistice.

From the standpoint of postwar employment, the minor industries (which are most troublesome for price control) are least important and the few major industries are most important. We are counting on deferred demands for consumers' durables to stimulate employment after the war; therefore we should not be too eager to see them all filled before the war ends. For the sake of this postwar stimulus, we should be ready to undertake the responsibility of seeing that the interim scarcity does not lead to exorbitant prices. These two desiderata can be best combined if the postwar period gets the benefit of the bulk of the resumption in those industries in which a limited number of large producers turn out a limited number of products in great quantities and where, therefore, the settlement of difficult price-control problems by negotiation has, on the whole, the best chance to work successfully. Therefore we should be glad to see much of the capacity of this kind of industry kept at war work until the end of the war or close to it.

There will also be a sectional phase of the problem. With the final war effort concentrated in the Pacific, it will be virtually inevitable that the Pacific Coast industries will be slower than those of other areas in being released for reconversion to civilian production. Perhaps all that can be said in general terms is that this difficulty should be given every possible consideration and that everything should be done that can be done to mitigate it or compensate for it, without actually hampering the war effort.

The closing phase of the war bids fair to be a peculiarly trying period for the WPB, as well as for the producers who are affected by its policies as to the release of civilian production. These policies cannot in the nature of the case be guided by clear and simple rules, and are bound in some cases to fall unequally upon competitors in the same industry. Various methods have been suggested to mitigate some of the inequities, but none will work perfectly, and none will be easy. What the country as a whole has at stake is the advance preparation of the economy for the promptest reemployment that is practicable when the fighting finally ends. And that is of the most vital importance.[1]

MANPOWER CONTROLS

While the war pressure is heavy, there can be no relaxing of manpower controls. Where there are local and temporary surpluses, the problem will be to bridge the gap between this unused labor and unfilled needs. When the surpluses come to exceed the shortages, the task of the War Manpower Com-

[1] A policy of continued allocation of materials and manpower among the general run of civilian producers would put a terrific strain on the WPB officials. The Byrnes report of Sept. 7, 1944, proposes to avoid this (with some exceptions), assuming that enough resources can be released to obviate the necessity for outright allocation or restriction of production. Yet there will not be enough to satisfy all demands. At present it appears that the chief danger will be that

mission will, in a sense, go into reverse, though continuing to be made up of familiar elements. Instead of moving workers into war production, it will have to move them out, bringing about an orderly movement back into homes, schools, and colleges or into expanding branches of civilian production.

Why does this movement need any public supervision? Because it is far less simple than this simple statement has made it appear. The people who make up the dispensable surplus are those who are in the labor market only because the jobs need them, not because they need the jobs. If they were all located in the particular industries and enterprises where production is stopped or curtailed, it would be simple; but they are not. Many of them are in jobs that must go on, and many of those who need jobs are in the jobs that will be curtailed. Left to itself, this situation will develop tremendous pressure to release restrictions on the production of civilian goods in order to offer jobs to the unemployed who need them, although the real surplus consists of people who do not need jobs and who would not be working if it were merely a question of supplying more civilian goods. In one sense, we should be producing goods not worth their cost.

If the process went very far, we might make the mistake of satisfying the major part of the deferred consumer demand prematurely, when we had an apparent labor surplus which was not real, after which we should wish that we still had that deferred demand to satisfy when there were some millions of workers really needing jobs. One of the important things the WMC can accomplish is to avoid this mistake in some measure by organizing the labor market so that, insofar as possible, people who are working from a sense of patriotic duty should not do work which might be done by workers who are in need

---

of laying too much stress on avoiding a depression (meaning in this case maintaining war-boom rates of production) after the defeat of Germany, with the result that the economy may be too well supplied and too nearly self-sufficient for its own good when final victory confronts it with a larger task of manpower absorption.

of jobs. It is good policy to replace as many as possible of the patriotic-duty workers and induce them to go home as soon as it can reasonably be done in the light of the over-all balance between labor supply and essential jobs. This may help to reduce unemployment later on.

Aside from this, the period of decreasing war production will mean increased work for the U.S. Employment Service, as well as for the reemployment service of the Selective Service Administration, which has charge of veterans' rights to reemployment at the equivalent of their original jobs. In many cases returning veterans and war workers shifting to new jobs will displace other workers, some of whom will have to be reemployed elsewhere. This process would involve mainly guidance and assistance to the workers. There will presumably be need of some restriction on the movement of workers out of more essential jobs and into less essential ones, until after final victory; otherwise workers will want to shift out of war work before it winds up, rather than staying and seeing it through. This impulse to "beat the gun" can be minimized by extra-liberal unemployment provisions for the immediate postwar change-over, and by assurance of prompt reemployment wherever this can be given.[1]

RATIONING

In general, the need for rationing may be expected to continue approximately as long as active hostilities, less in some instances and more in others. There is widespread agreement that general food rationing will need to be continued for at least one crop period following victory in Europe.[2] On this basis it might continue through the Pacific phase of the

[1] The Byrnes report proposes to let war work continue on an overtime basis, with the idea that the higher weekly "take-home" will help it to hold workers against the attractions of civilian work. The writer has doubts as to the desirability and efficacy of this as a policy and hopes it may be further considered before final adoption.

[2] As already noted, later estimates, reflected in the Byrnes report of Sept. 7, 1944, indicate larger food supplies and less probable need for rationing in this area.

war. It would outlast it only if the Pacific phase is shorter than generally expected. Meanwhile, some commodities may be taken off the ration lists, and others may be added.

A general mitigating factor will be the easing of the shipping shortage. This should relieve scarcities of numerous commodities, especially those imported from Latin America. Some South American and Australasian food supplies will presumably become available for European use, although Australasian supplies may be needed in the Far East. The derationing of sugar has long been predicted, to follow the derationing of coffee: sugar would presumably already be ration-free, but for its use in munitions.

As the supply situation improves for goods that are wholly or partly imported, it may further be possible for the government to ease its controls on import trade and to cease to be the sole buyer of various key commodities, permitting the private importers to resume handling the business. Presumably it should be possible to do this earlier than it is practicable to remove the price ceilings. Some uncertainties and irregularities of supply might result from imperfectly coordinated private buying or from possible delays in buying connected with delays in making desired adjustments of ceiling prices. Therefore the importing of essential supplies should not be completely turned over to private trade until the country has reserve stocks of these particular commodities large enough to take care of such possible irregularities.

As to gasoline rationing, this will be controlled by the huge demands the Pacific fighting will make on petroleum products. They will be needed to supply an unprecedented naval effort plus an equally unprecedented air effort involving long-range air transport on a great scale, as well as heavy long-range bombing operations.[1] Thus it is not safe to predict that

[1] A side light on the extent of these requirements is the recent announcement of an improvement in air-ferry techniques for carrying gasoline over the mountains to China, whereby it is necessary to burn only 2½ gallons to get 1 gallon to its destination instead of the 7 gallons formerly required.

gasoline rationing can be done away with or greatly eased before the end of hostilities.

As to the rationing of consumers' durables (new automobiles, refrigerators, typewriters, etc.), the need for such control may increase, paradoxically, with increasing supplies, as long as they are short of demand. There may be roughly three grades of the situation. The first is simple; there is no rationing if there is nothing to ration. In the second there is a very limited supply (from current output or from stock, like the stock of new automobiles which was held over when production stopped). Here it may be practicable to ration by individual certificates issued to individual users who establish essential need. In the third stage the supply, although still considerably short of demand, is much larger, making certificate-rationing unduly burdensome and making it possible to satisfy many needs that are relatively nonessential. The proposed 2 million automobiles a year might be an example. In such a case, fair results may be secured without complete formal rationing.

The possibilities include: (1) certificate-rationing for the essential needs only, with a central pool from which delivery to certificate holders could be assured, (2) informal action by dealers, under general instructions giving priority to specified types of use and leaving the dealer to make the priority effective, and (3) some intermediate method, such as giving the dealer a priority on delivery to fill a preferred order or designating one week in every month during which only preferred users could get deliveries.

Dealers might be trusted to administer the most informal system tolerably well, where there is a considerable supply above the amount required for the designated priority uses. It is presupposed that the dealers would also observe price ceilings, though an unrationed demand, in excess of supply, creates great pressure to evade them. Even if such an informal system might not be suitable for use over a long period of time, it might work well enough as a makeshift during a transitional period of a year, or possibly two. This condition may not arise until after the end of hostilities.

CONTROLS OF PRICES AND WAGES

It seems self-evident that if price and wage controls are ever needed, they will be needed throughout the period of European fighting. It might seem that they ought to have reached something like stability or maturity, with the result that no substantial change need be expected. This might be more nearly true were it not for the beginnings of resumption of suspended items of civilian production and the further fact that the program of price and wage stabilization is chronically under attack and attempted encroachment. Whatever alterations may take place in price control will presumably consist mainly of: (1) detailed improvement in methods, (2) adjustments due to increased costs in general, (3) adjustments on resumed civilian items, and (4) adjustments due to resubstitutions of materials and other changes in quality. In both price and wage control there may be changes of front, necessary to meet the active and powerful opposition.

As to the last matter, this study will assume that, no matter how the battle goes, the struggle against inflation will continue, even though it may be reduced to an orderly retreat with delaying actions. As we saw in the preceding chapter, the control of prices is caught between heavy increases in food prices plus increases in the wage cost of production of other things, and what appears to be an unalterable conviction on the part of organized labor that basic wage rates must always keep pace with the cost of living. More briefly, price control is squeezed between the conflicting claims of farm parity and the industrial wage earners' parity.

Wages have been kept in check under formulas which have some "give" to them and which afford labor increased real earnings on the average, but fall short of the claims of labor's "parity" (for those who have not already secured it). Labor is acutely aware of this shortage and keenly resents it. After the hold-the-line order of April, 1943, the cost of living was stabilized for a year with the help of food subsidies, and some reduction in food prices was made possible while other prices were creeping upward. Under the compromise reached in the summer of 1944, subsidies cannot be increased. If, as is indicated, the cost-of-living index resumes a slow upward climb, there will come a point at which the formulas to which wage stabilization is tethered, however elastically, will be broken through, and no one knows how close that point is.

Theoretically, the result would be an endless inflationary spiral. It would be unduly alarmist to predict this. If the break-through happened, other formulas would doubtless be found, marking other defense lines. Nevertheless, the new lines might be harder to hold because the old ones had been broken. If a break-through cannot be prevented, it is important at least to delay it until the end of the war is near enough so that an inflationary spiral, if started, will not have time to go far before being checked by the ending of war scarcities and other war-caused pressures.

For purposes of price policy, the conclusion is that this situation requires, at the present juncture, a strictness beyond what is explicitly called for by the main purposes of wartime price control. These purposes are to promote war production and to avoid runaway price inflation. They would be met by an elastic price structure and price level, rather than a rigid one. But we are uncomfortably close to the limits of elasticity set by this conflict of parities, and beyond this it is hard to give at all without giving too much. Until victory in Europe, and possibly longer, a price policy that will appear niggardly seems to be a national necessity. Price ceilings that can be reduced will need to be reduced, to make up partially for others that will have to be raised. Increased costs will be encountered particularly in the resumption of suspended civilian production. Where producers still have good earnings from profitable war contracts, they may be asked to average them with relatively slim margins on resumed civilian production, in order to hold existing price ceilings or to limit such upward revisions as may be unavoidable. But where some producers, or all, lack solid backlogs of war contracts, this method will not work; and in any case it is likely to encounter resistance.

In negotiations over such questions, industries and price authorities will find themselves engaged in a large-scale game of poker. The government's strongest card will be the real eagerness of industries to get back into civilian production. Industry's strong cards will be the government's corresponding desire to get civilian supplies back on the markets, the lack of the obvious kind of patriotic obligation which attaches to war production, and the possibility of bringing various confusing and embarrassing pressures to bear, through Congress and otherwise, to cramp the freedom of government representatives in the playing of their cards. Probably the government's hand is inherently the stronger; but industry representatives may prove, or may be able to appear, to be better poker players.

Resubstitution of prewar materials, in addition to improving quality, may reduce the cost of producing some commodities, but more often it is likely to increase it. Where resubstitution increases costs, and necessitates price increases, it may merely be bringing into the open what had been a hidden price increase in the shape of poorer quality, which the price index did not measure. The purchaser may get more value for his money, but the index will show the opposite, and the difficulties of wage-stabilization will be increased by just so much.

Restoration of prewar qualities will also necessitate some marking down of inventories of goods made to wartime specifications, thus occasioning inventory losses. These may add to the pressure brought to bear to force the OPA to adopt a liberal price policy for new goods which embody standard materials. This and the other reconversion problems will arise on a limited scale during the European phase of the war. Perplexing as some of them will be, they may serve as useful rehearsals for the phases of reduced war effort and final all-out reconversion.

As the war effort tapers off, price control will encounter some new situations. The need for liberal farm prices will remain. But it will probably be possible to dispense with the special premiums granted to stimulate the production of additional supplies of essential metals from high-cost sources;[1] some of these are, in fact, likely to have been discontinued even before the defeat of Germany. Before the end of the Pacific phase, prices of various basic materials may have fallen below ceiling levels; however, the retention of the ceilings might be prudent, together with a nucleus of the OPA's commodity sections who should watch the markets in case inflationary demand should revive. Inventory supervision should probably be retained for the same reason.

Resumptions of civilian production will increase and a vigorous expansion in this area will be increasingly important as a means of absorbing labor released after victory in Europe. This will strengthen the hand of business in the game of poker as to prices, between industries and OPA. The contest will focus on consumers' durables. OPA must conserve the consumers' buying power, while granting adequate incentive to producers to resume civilian production. Argument will be renewed as to whether adequacy of prices should be judged by earnings of whole enterprises or of the reconverted segments, and the situation may force the OPA to make concessions from the whole-enterprise principle.[2] In general, as the end of the war comes fairly in sight, OPA can afford to be more liberal, but there is no need to advocate this. It will have plenty of advocates. In fact, the difficulty will be to resist the urgings of those who will be telling us day after

[1] Exceptions may occur. For example, in the case of a small high-cost working which is near the point of exhaustion, it may be desirable for reasons of conservation to secure 100 per cent extraction before closing it down rather than lose the ore or incur the cost of reopening at some later date.

[2] This paragraph is an exception to the rule that substantial revisions of the text were not made after July.

tomorrow that the war is practically over, that great resumptions of civilian production are right around the corner, and that price policy should forthwith be greatly relaxed.

Industries will be tempted to take advantage of this to overreach the OPA if they are able, and some may injure their own long-run interests by doing so. If the prices secured prove highly profitable during the interval before the fighting ends, much of the profits will almost certainly be absorbed by wage increases, and the result may be a structure of wage costs and prices, in particular industries, too high to be consistent with large-scale expansion after the war.

It has been suggested that ceilings may be abandoned on some luxury goods and some other of the less essential products. It has also been suggested that some industries may welcome the retention of ceilings as prices tend to "soften," on the theory that the ceilings may tend to avert price cutting and so hold prices up. These questions cannot easily be settled by sweeping general statements. If ceilings act as a cover for collusive price pegging, there is much to be said for abandoning them, especially in cases where demand is falling below supply and some reduction in price would stimulate it without inflicting inventory losses so great as to weaken the producers' ability to respond with increased or sustained production.

It is a debatable question whether it is better to let such a salutary price movement take place without controls of any sort or to stabilize the price until the forces of supply and demand would bring about a fairly substantial change if allowed to do so, and then to let the price move, in response to current pressures, to a new level where it may once more be expected to remain fairly stable for some time. Each method has drawbacks. The semicontrolled method is hard to administer successfully, but, on the other hand, a considerable period of uncertain and unsettled prices, with a downward trend due to weakness on the demand side, is definitely unfavorable to a building up or keeping up of inventories, and thus may for some time intensify the weakness of demand instead of curing it.

Where demand remains greater than supply, the problems are different. There decontrol means increased prices, and selective decontrol favors the decontrolled trades or industries. Where over-all price control exists, it is hard to draw a line between ceilings that must be retained and others that can be abandoned, since the interrelations of commodities are so complex. Moreover, as long as the war lasts, it is not good war policy to permit civilian production to become too invitingly profitable, especially in luxury lines and in the less essential industries generally, since that would increase the difficulty of keeping producers wholeheartedly enlisted in the war effort. Care will need to be taken to avoid doing anything, through decontrolling some commodities, that would result in diverting manpower and materials in substantial amounts from war-essential uses or in creating inequalities that would put a strain on the ceiling prices of other commodities, which it is essential to hold.

As to controls at the retail level, demand will be strong, and sellers will be in a position to use the war as a pretext for unduly high prices as long as the war effort remains substantial. Therefore it seems necessary to use extreme caution in removing retail price controls. They should presumably be kept in force until the fighting ends and thereafter until conditions have to some extent been stabilized.

On the wage front, during the closing phase of the war, there will be automatic decreases in earnings. Overtime will be reduced, and some workers will be shifted from highly paid war jobs to less highly paid civilian jobs carrying little or no overtime. Producers of civilian goods, subject to price ceilings, will not want to incur increased unit costs through working their force more than 40 hours a week and incurring overtime pay, and there will be less reason for the WMC to require it of them, as it is doing in scarcity areas at present. If this should prove to be one of the factors limiting the increase of civilian output, it would expose the OPA to tremendous pressure. There may be cases in which it will not be the crucial factor and cases in which it will serve to spread work where there would otherwise be some localized unemployment. In such cases the overtime provision would, for the first time since the war began, be rendering the service for which it was originally designed.

To offset these reductions of earnings, there will almost certainly be pressures to raise wage rates. As peace comes nearer, employers will be less willing to agree to wage increases, but labor may take care to make its demands early, while its bargaining position is still strong. These demands are likely to be backed by the argument that increases will mitigate the decline in buying power resulting from the tapering-off of the war program and thus tend to prevent it from starting an actual depression. This argument will have little or no force until the tapering-off of the war effort has gone a long way. Until then, there will still be an excess of current money income, rather than a deficiency.[1]

Assuming, as seems warranted, that such increases in wages would necessitate corresponding price increases, at least at first, the balance of argument in this instance lies against any general policy of granting wage increases for the sake of sustaining purchasing power which would not be justified on other grounds. Real purchasing power will depend on the number of workers who have jobs much more than on high money wages (offset by high prices). If workers have assured jobs, they may be ready to spend some of their war savings, in addition to their current wages.

To represent real purchasing power, wages must correspond to productivity in such fashion that they do not increase costs and necessitate price increases. During the war, wages in war work have had an opportunity to lose touch with physical productivity, and to rise to levels which productivity in

[1] One of the crucial uncertainties is whether this point will be reached soon after victory in Europe, or not until the end of the war is definitely in sight.

civilian production might or might not support. If it would not support them, they would either be inflationary, or would price labor partly out of the market, or both. Then if they were rigidly pegged, as would be quite likely in strongly organized trades, the result might be a deadlock which would destroy great amounts of purchasing power through prolonged unemployment. The system of business enterprise would get the blame and might not be able to stand it.

The attempt to stimulate employment by raising wage rates is not so hopelessly absurd as it might seem, but it is risky and needs to be accompanied by other stimulative factors. Wages should be as liberal as productivity justifies, but should not go beyond this, on bootstrap theories.

To sum up, general inflationary pressures will probably continue as long as there is any major fighting, even though the increase of federal revenues and a progressive decrease in the war program may greatly reduce the excess of expendable income above available supplies of goods.[1] The greatest threat of price inflation is likely to come from the pressure to increase hourly wage rates proportionately with cost of living, the latter having already risen and being impossible to roll back. The fate of price control will hinge largely on the successful defense of the present standards of wage stabilization or of some others which will not have an endless-spiral effect. It seems doubtful whether increased use of cost-of-living subsidies, even if permitted, can permanently make up for failure to maintain such standards. If prices of foodstuffs should weaken, this might afford some slack. If all else fails, hope lies in delaying tactics and in a quick end to the war.

IF THE TIME TABLE DOES THE UNEXPECTED

The foregoing section has been written on the well-nigh universal assumption that fighting in the Pacific will last as

[1] This statement represents an estimate that the war effort will decline only moderately after victory in Europe. Very heavy shrinkage might cause deflationary pressures to predominate during this period.

much as a year after victory in Europe. In case this expectation should prove mistaken and Pacific fighting should end at very nearly the same time as the European, or even earlier, there would be much less tapering-off of the war effort, and most of what is said in this section would be beside the point. In that case, the succeeding phase—that of initial postwar change-over—will be much harder. Demobilization of service personnel and war workers will be more concentrated in time, and there will be less preparatory retooling of the industries that will have to receive them, with the result that the problem of resuming normal production and expanding it beyond previous peacetime levels and of reabsorbing the demobilized personnel will be much more difficult. As a partial offset, the backlog of deferred consumer demand as a source of rapid reemployment will be relatively undiminished by war-time reconversions.

Another possibility is that the European fighting will come to a prompt and clean-cut decision but that the Pacific fighting will drag on. In this case there will be more chance for preliminary reconversion while the fighting is going on. If this went on very long, most of the deferred demands might be filled before the final armistice. Then several million ex-service-men might come back to an economy in which supply and demand had reached an approximate balance in their absence, so that the economy was, in a sense, roughly self-sufficient without the service-men. In this case also, reabsorption would be harder but for a different reason.

INVESTIGATION AND PREPARATION FOR LATER ACTION

From the standpoint of demobilization of controls, some of the most important things to be done in this initial period consist of preparatory measures to guide or facilitate later action. One highly necessary thing is to familiarize the business community and the people at large with the importance of continuing those controls which will be needed in order to see the country through the reconversion period. The situation should be canvassed to see whether further legislation is required to provide for the continuance of necessary controls or to provide for altered forms of action suited to the reconversion period. If needed, such legislation should be prepared.[1]

To meet its economic responsibilities, the federal government needs: (1) an executive branch so organized as to be capable of a comprehensive economic program, (2) a Congress so organized as to be similarly capable of comprehensive consideration of interrelated matters rather than dealing with them as a series of disconnected measures, and (3) continuous and constructive liaison between the Executive and Congress, both as to comprehensive policy, which is a responsibility of Congress as a whole, and as to the ways and means to be adopted by particular departments or agencies, which come within the fields of particular Congressional committees. For purposes of the immediate future, we should work with the framework we already have, in which the special temporary agencies are correlated under the Offices of Economic Stabilization and of War Mobilization and should rely on existing agencies to cultivate constructive relations with Congress. Important steps in this general direction are being taken, one of the most conspicuous being Secretary Hull's precedent-making report to Congress on his negotiations in Moscow.

Looking farther ahead, what is called for is an integrated policy-making or policy-ratifying organization among the permanent branches of the executive body. In Congress there is serious need for an overhauling of the committee system, probably including the setting up of a central policy committee, a simplification of the structure of particular committees, and the ending of the seniority rule for committee chairmanships. That is a large order and will not be carried

[1] See recommendations, pp. 6 and 76.

out unless there is more general realization of the seriousness of the need than is apparent at present. However, it is significant that more and more persons are giving expression to their recognition of the need for this kind of change.

One thing that seems clearly necessary is to build up and strengthen the U.S. Employment Service in advance of the great expansion in the work it will be called upon to do. The nature of this expansion can be clearly foreseen, the amount can be reasonably approximated, and, even as to the timing, assumptions can be made and limits set which should prove useful as a basis for planning. Meanwhile its operations should be conducted with reference to preparing the personnel for future enlargement of their numbers and responsibilities. The agency's personnel and salary situation appears to be so generally regarded as unsatisfactory, that there would be obvious usefulness in a competent nonpartisan inquiry which might diagnose the situation and make recommendations. These might well include the setting up of training courses for rapid expansion of personnel when the need becomes urgent.

The need of a postwar tax program, declared as far in advance of the end of the war as possible, is perhaps too obvious to need more than mention.[1] The main objective is to relieve business enterprise of an accumulation of burdens which are universally agreed to be prohibitive of vigorous peacetime expansion. Perfection is not to be expected.

Another important preparatory measure would be to clarify the ambiguities as to the general character of final settlements under Lend-Lease. Possibly it is too early now to expect this matter to be definitely cleared up; certainly it is too early to expect specific terms of settlement to be negotiated. But at present what we have is a general expression of purpose not to treat Lend-Lease as a loan calling for literal money repayment, while leaving open the question of some other form of

[1] See Harold M. Groves, *Production, Jobs and Taxes*, McGraw-Hill Book Company, Inc., New York, 1944, an earlier study in this series.

quid pro quo.[1] There is an obvious danger in leaving such an important matter in such a vague state, especially as there is a very appreciable chance that the final settlement may be negotiated by a different administration from the one which undertook the original arrangement.

Of course, it is obvious that policy planning for the reconversion period should be begun now by all the agencies that will be concerned and that the results should be brought together and interagency relationships harmonized. For example, stockpile purchasing and disposal of existing stocks need to be coordinated into one program, directed to the end that consumers, here and abroad, may get goods, producers may get materials needed for resumption of civilian production and employment, work opportunities may be preserved without wasting existing products, and money values may not be unnecessarily disturbed.

Effective policy planning will require, as a basis, special factual investigations and statistical forecasts. For example, the author is relying on a rough estimate that a shrinkage of 35 per cent or even 40 per cent in the war production program will not eliminate fairly general inflationary pressures or bring about a real aggregate surplus of manpower, on a basis of a general 40-hour week and the release of as many as practicable of the temporary war workers. This question of the impact of various amounts of shrinkage should be more formally investigated with the aid of the knowledge available in different war agencies as to the military products most likely to be curtailed and civilian products most likely to be expanded and the materials and manpower requirements involved. Statistical mechanisms that have been used to forecast civilian demand at given levels of income should be adapted to the new features of this problem. Expert conjecture would have to be relied on as to how many workers would leave the labor market, how much overtime could be eliminated, and how

[1] See Eugene Staley, "The Economic Implications of Lend-Lease," *American Economic Review Supplement*, March, 1943, pp. 362–376.

large the unemployed "float" could grow without signifying an unhealthy state of labor surplus or insufficient demand. Even though the answer could not be certain, the analysis would be very valuable in showing what adjustments of what factors it will take to handle various reductions satisfactorily.

As another example, the war has forced us to a close accounting of the supplies of basic materials, and this should be supplemented and amplified into a canvass indicating probable supply-and-demand relationships after the end of the fighting and also indicating possible shifts and relocations of supplies that may be needed. This should be at the service of both price policy and surplus disposal policy. Such estimates are subject to revision with the contingencies of war and changing military programs, but this does not destroy their value.

In this connection we would need to know roughly what fresh sources of supply will be opened up as the emergency comes to an end and shipping tonnage becomes really plentiful. Army and Navy surplus stocks should be included in the reckoning, to the extent that they may be usable, with or without reworking, and with due allowance for disposal abroad. Account should be taken of scrap which may be worth salvaging. Private inventories should be discounted for quality deterioration, allowing, however, for the likelihood that a good deal of improvement in quality may appear during the Pacific phase of the war, as it becomes possible to use critical materials more freely.

For guidance of future labor policy, there is need of a thorough canvass of changes brought about by the war in the status of labor. This should probably be done or sponsored by some impartial nongovernment body of the highest standing. The study should cover what the war has done to the wage structure: to customary differentials among industries, trades, and areas. It should also deal with the effects of wartime migrations of labor in terms of regional changes in labor supply relative to previous demand and to prospective or potential demand. It should review changes in the membership of unions and in labor's bargaining status and strength. In this it should not be limited to formal cataloguing of agreements setting up a closed shop or maintenance of membership or making other changes, but should go into the actual operation and effect of these changes on the whole character of the labor market, the location of the power to hire and fire, and so forth. It should shed light on the question whether the responsiveness of wages to forces of supply and demand has been radically altered.

Thinking should be going on as to what is a desirable postwar price level and a desirable postwar wage level, with due regard to the prima facie advantages of accepting a level which comes about through the forces actually prevailing in the markets. For example, if one takes as a starting point the undesirability of an acute deflation similar to that of 1920–1921, then it would seem to follow that there should not be an inflation so extreme or of such a character as to make a deflation necessary or inevitable. If prices in this country should rise to double the prewar level, prewar holders of rights to fixed incomes would suffer unduly, and also numerous prices would presumably be out of line with world levels. Then a deflation would be desirable and perhaps necessary. From this standpoint, it would seem certainly desirable that the cost of living should not rise beyond 50 per cent above the prewar level.

On the other hand, considering the 24 per cent increase we have had already and the fact that there are inequalities in the price and wage movement which has taken place, inequalities which can probably more easily be adjusted upward than downward, it would seem that there is little objection to an ultimate inflation of as much as 40 per cent, provided that the rise above the present 24 per cent goes where it is most needed. If it goes according to bargaining strength, it may make current inequities worse. If a 40 per cent inflation were stabilized after the war, it would be a hardship on many holders of fixed incomes, but this might be a lesser evil than the disturbances which would result from forcing a deflation back to the prewar level.

No possible solution is completely satisfactory; whatever happens will involve some choice of evils. Much the same is true of the question of a "desirable" postwar level and structure of wages. Here the best solution is the one under which the most workers are employed and at the most productive jobs. This will involve a high wage level and a structure of relative rates free from extreme rigidities and disparities.

SUMMARY OF PRINCIPAL RECOMMENDATIONS

All types of controls should be kept in force throughout active hostilities. Where particular regulations are relaxed or removed, the situation should be watched in case of need to reimpose control.

It will be impossible to release materials for civilian production as rapidly as the supply of the materials themselves would permit, because of a lack of manpower to work them up. Resubstitution of prewar materials should be made use of where possible, to permit the economizing of manpower through the turning out of more serviceable goods. Materials should be made available for advance retooling of plants released from war production (when the plants are certain not to be needed again for that purpose); and as the war effort tapers off, materials should be released with increasing liberality for experimenting with new products. Efforts should be made to avoid as far as practicable the anomaly of increasing civilian production prematurely in order to avoid unemployment, while war work is being done by persons who have entered the working force only for patriotic reasons.

When an industry is partially released for civilian production, equity as between producers must not be sought exclusively by granting quotas based on prewar output, since in many cases this would be both inequitable and inefficient. Various methods must be used, adapted to conditions and including concentration of production and use of war or pre-war models to reduce the advantage of those who get the earliest start. Other things being equal, it is proper to give preference to: (1) the government's natural desire to keep efficient plants at war work; (2) early release of small and moderate-sized producers; (3) early release of plants which have been converted from civilian production and can be converted back again, as against plants built for war work; (4) simultaneous release of all producers in small industries, where this can be done without interfering with the war effort; (5) early release of industries in which postwar price control would be peculiarly difficult during the interval while supply is catching up with demand.[1]

Until the war effort shrinks substantially, price control needs to "hold the line" as rigorously as increasing cost factors permit, until the end of the war is near. Later, as civilian production increases and as the end of the war comes near, a more liberal price policy may be permissible, on condition that efforts are made to set limits on any resulting inflationary spiral.

In the interest of maintaining labor's buying power in the wartime stages of reconversion, wages should be as high as possible without pushing up unit costs and thus necessitating price increases or making it harder for industry to expand civilian employment. Labor's total buying power will depend more on a wage which makes possible ample employment than on maintaining wartime "real" weekly earnings per employed worker on a shrunken volume of output. The same principle applies to profits.

Food rationing will presumably be needed for one full crop-season after the end of hostilities in Europe.[2]

From now on, preparation for reconversion should be pushed by factual investigations, policy planning, and

[1] The first four points in this list of considerations parallel a corresponding list in the Byrnes report of September 7, which includes several points not mentioned above and does not include point 5 of this list.

[2] As already noted, this prediction is qualified in the light of later estimates.

organization of government units, including legislation where necessary. In addition to obvious matters, this includes some clarification of policy as to Lend-Lease obligations, if possible, and strengthening of the U.S. Employment Service. As preparation for the longer future, there is urgent need for an overhauling of the executive arm of the federal government, the Congressional committee system, and the liaison between Congress and the executive.

VII. THE CHARACTERISTICS OF INITIAL POSTWAR RECONVERSION

THE GENERAL CHARACTER OF THE PERIOD

AFTER the end of regular organized fighting will come a period which may be called the "initial postwar reconversion." Unless, as just suggested, the Pacific phase of the fighting lasts very long and tapers off gradually, this period will be well marked. It begins with the abrupt termination of most remaining war contracts, and ends as reconverted industry moves into peacetime production.

Prerequisite to it all will be the settlement of the terminated war contracts, at least on an interim basis which will permit the change-over to go forward. Then comes the crucial task of retooling war industries for civilian production. Along with this would go the reconstituting of working forces and working inventories, rebuilding of selling organizations, and any refinancing that might be necessary. Meanwhile, the mustering out of the armed forces would be going forward at a rate of possibly 600,000 per month.[1]

There will, then, be a race between the mustering out of men and the reconversion and expansion of civilian industry to receive them. In view of all the steps involved in the change-over and all the chances for something to go wrong and cause delay, it seems decidedly optimistic to estimate that this period of initial reconversion will be over in 6 months for the economy as a whole, even though single industries can retool in less time than this. Humanly speaking, 9 months seems more likely, but it is not a satisfactory or safe goal to

[1] The report of the George Committee estimates the rate at 500,000 to 600,000 (reported in *The New York Times*, June 13, 1944, p. 36).

aim at. The George Committee, by implication, assumes 6 months.[1]

It is impossible to overstress the importance of speed in this critical stage of reconversion. Industry and employment will pause between war production and self-sustaining peace production, and if they pause too long they may stick on something like a "dead center." Speed in getting over this dead center will depend on the extent to which both industry and government agencies are prepared: knowing what each proposes to do, how to fit it with others' activities, and where the means are coming from. Such preparedness will pay big dividends; the lack of it can be very dangerous.

If the European and Pacific phases of the fighting should come to an end at about the same time, then nearly all the retooling of industry would be concentrated in this first post-armistice period. Actually, as already suggested, a good deal of it will probably have been done before the armistice, and much of the retooling for the making of new types of products may be postponed for a time while the products themselves are being tested and before it is decided to tool up for quantity production. The work of retooling may thus be spread or staggered over as much as three years, beginning with victory in Europe and lasting two years or more after final victory. Nevertheless, the first year after the final armistice is still likely to be, more than any other period, the one in which retooling for postwar production sets the key for industry.

It has been estimated that only 10 or 15 per cent of industry will require major retooling and that the time required will vary from plant to plant and will depend on the amount of advance planning and anticipatory retooling which may have been done before the end of hostilities. In addition to retooling that is necessary to convert plants to different kinds of products, there is a more general need for capital outlays

[1] "The Problem of Post-War Employment and the Role of Congress in Solving It," *78th Congress, 2d Session, U.S. Senate, Report* 539, Part 4, pp. 3–4.

which will not be confined to plants built for war work or converted to it. The plant of the textile industry has been overdriven and will need replacements as soon as materials and manpower are available. The same is true of railroads. S. H. Slichter has forecast cumulative corporate deferred maintenance and replacement at the end of 1945 at over 8 billion dollars, in addition to the (relatively small) costs of reconversion.[1]

This is the period in which there will be the greatest temptation for officials in charge of war-control agencies to "shut up the desk and go home." It will also be a period in which the spirit of compliance with regulations may be expected to fall to a new low. Nevertheless, there is unanimous agreement among all who have considered the question that the controls must not be abruptly and indiscriminately abandoned. It is peculiarly in point, then, to try to visualize the main events and the main contingencies of this critical period, in order to see for what purposes controls will need to be continued. Shall we have to deal with inflationary or deflationary forces, with boom or depression, or with a mixture?

The present chapter will also deal briefly with some areas of policy not commonly included under "war controls" in the limited sense, because what is done in these areas will affect the situation the controls will have to deal with, and vice versa. These areas of policy include contract termination and refinancing, disposal of war plants and surplus supplies, manpower demobilization and policy toward temporary reconversion-unemployment, factors affecting the spending of war savings, and fiscal policy. At points, no line can be drawn between these matters and "control" policies; for example, the disposal of inventories of raw materials cannot be separated from any remaining priorities, allocations, or inventory controls applying to these same materials.

[1] Sumner H. Slichter, "Present Savings and Postwar Markets," *Harvard Business Review*, Autumn, 1943, p. 52.

TERMINATING CONTRACTS AND REFINANCING INDUSTRIES

The termination of war contracts has been more fully dealt with by A. D. H. Kaplan, and the financing of reconversion, by Charles Cortez Abbot, in two studies in this series.[1] It will be assumed here that termination settlements are reasonably prompt and that war contractors receive advance payments sufficient to meet the needs of financing reconversion, or, if not, that funds will be otherwise available to meet these needs. This does not solve future financing problems; in fact, there may be long-run objections to using as a permanent policy the methods that will have to be used in this emergency.

The long-term problem is one of opening the right kind of channels between small individual savings and productive industrial investment. This will take time, though the problem should receive earnest and prompt attention. The immediate task is to furnish funds for industries retooling for a highly uncertain future. They will be facing unpredictable competition from new products and new materials, and some lines seem morally certain to be overbuilt. Such uncertainties the small individual investor is in no position to judge; and he can hardly be expected to assume them on a large scale in this dynamic period, however important it may be to bring him into the picture in the long run.

DISPOSAL OF PLANTS[2]

The Immediate Problem

It will further be assumed (though with some reservations) that ways will be found to settle the question of the prompt utilization of war plants built with government funds, as far as they are suitable for postwar use. It seems fair to assume that the 4 billion dollars put into privately financed facilities

[1] See Kaplan, *op. cit.;* and Charles Cortez Abbott, *Financing Industry during the Transition from War to Peace,* not yet published.

[2] See Kaplan, *op. cit.*

are investments in which their owners see a future. The active problem centers in something like 9 billion out of over 15 billion dollars financed by government, and Kaplan estimates that the usable portion will be the effective productive equivalent of about 5 billion dollars of normal investment. This is less than estimates of deferred maintenance and replacement in nonwar plants.

The alternatives which face the government may be very perplexing. It must try to make a quick disposal of the properties and at the same time to avoid entrenching monopoly and to do all it can to establish the conditions necessary to healthy competition. This last is a well-nigh universally accepted policy, and also is the only way to avoid the need for extensive postwar controls of just the sort we are trying to demobilize. Yet unrestricted disposal of huge war plants to existing operators might put so much productive capacity in the hands of existing great concerns that there would be no room in the markets for the products of newer and smaller concerns. A further dilemma is that the price of the plants must attract buyers but not handicap their competitors.

There are plenty of bones of contention here. In fact, if there should be a honeymoon in the relations between business and government immediately after the war, it could easily lose its first bloom over this single issue. Nevertheless, the necessity of prompt resumption of civilian production is so obvious and so universally recognized that it seems fair to assume that obstacles will be circumvented in one way or another, and that the plants and equipment required for full resumption of private production will find their way, by sale or lease, as wholes or broken up, into the hands of active users.

Postwar Location of Industry—Military Considerations

These questions go beyond the terms of sale or lease. Government will be urged to use protective policies or other measures on behalf of sectional interests, where war production has grown up in a locality in which it may be difficult successfully to maintain any appropriate industrial production in competition with other localities after the war. There may be conflicts of view within the government as to whether or not certain important industries should be maintained in inland locations because they would be less vulnerable to air attack in case of future war; or whether or not certain war-essential industries should be maintained in this country by subsidy or protection, for military reasons, at the expense of the trading interests of other parts of the world with which we shall be trying to establish active and friendly cooperation. It is in a framework of considerations such as these that we shall have to decide, for example, what to do about the synthetic rubber industry after the war.

Such questions involve one kind of postwar extension of wartime controls. It seems inevitable that military considerations will enter into the scheme of peacetime controls to which industry will return. The bombing plane has altered the economic requirements of military security, while the recognized necessity of international organization for protecting the world's peace will inevitably change the terms in which we decide whether to control trade and industry on old-fashioned protective principles or not. That is, it will change them unless there is a postwar reaction toward isolationism—in which case the only sound basis for our postwar economy would be the basis of controlled preparation for the next war.

Considerations of Conservation

In some cases, the permanent disposal of war plants leads into the question of conserving limited natural resources, which will become a more active and critical issue as a result of the extra-rapid depletion the war has forced on us. In the case of synthetic rubber, one powerful reason for not continuing the particular form of production we now have is the fact that it leans so heavily on petroleum. This appears much too precious to use in the making of synthetic rubber in peacetime.[1]

As to iron, it is worth while to plan for future radical changes in our sources of supply, since our best ore resources, adapted to our present processes, will not long outlast the war. For instance, should we plan to close down what remains of our best ore resources or to taper off our use of them while production is expanding from the much larger ore body just opened up in Minas Geraes, in Brazil; and should we meanwhile be engaging in pilot-plant exploitation of our less rich ore bodies in order to be prepared in case we should have to fall back on them? The writer is advocating no policy beyond vigorous examination of the problem, but it appears likely that a rational answer, in the national interest, would interfere with current free exploitation of what are at the moment the most profitable ores. Here is another opportunity to end a honeymoon between government and private business, if one starts, since this kind of public interference with current private exploitation, in the interest of future decades or generations, appears to arouse more implacable opposition than almost any other kind of governmental control.

DISPOSAL OF INVENTORIES

Finished Goods

Surplus inventories may be classified in various ways. Ships and planes are hardly thought of under this heading. Salable goods include finished products capable of direct use by consumers or businesses, and materials (including scrap or finished products usable only as scrap). There may be an intermediate class of article adaptable to civilian use with some alterations, and this might include some goods in process. While disposal goes on, it can be a powerful form of price control.

[1] Without discrediting the possibility of revolutionary new sources of power, present policies must run in terms of the sources on which we are now dependent.

Goods usable by consumers will probably be disposed of in large quantities in Europe. In fact, this is likely to be the chief market for them. Some types may be disposed of in this country during a period when there will be plenty of room for them in the market, owing to the pause in production during retooling. Other surpluses can be disposed of, given reasonable time and presumably using regular trading channels, without particularly disturbing our home markets or disrupting production because of unsold goods threatening the market.

Recognition will need to be given to any private businesses which may be still disposing, at a loss, of inventories of substandard wartime civilian goods, made under material-conserving restrictions. The amounts of such goods which will have to be placed in home markets need not be large enough to create a serious problem, especially if the material-conserving orders have been relaxed some time before final victory.

Raw Materials

In general, few raw materials are likely to be genuinely scarce in this country immediately following the war. There are more likely to be surpluses. Where there are neither shortages nor embarrassing surpluses, disposal is a straightforward matter. In other cases, it raises questions of stockpiling, controlled release, price supports, and temporary continuation of allocation of materials and components and of inventory controls, as aids to the orderly resumption of civilian production. These questions will be discussed in Chap. VIII.

TRANSITIONAL UNEMPLOYMENT[1]

There will, of course, inevitably be a very large amount of transitional unemployment in the retooling period. The federal government should unquestionably make liberal

[1] Fuller treatment will be found in Nathan, *op. cit.*

financial provision to carry unemployed persons through a period about equal to the expected duration of the initial reconversion, supplementing existing state provisions where necessary. The way in which this transitional unemployment is handled may have considerable effect upon the promptness and completeness of the revival in peacetime production. It should not be so handled as to breed a general state of fear, which would, among other things, cut down people's willingness to spend liberally enough to start a strong revival. On the other hand, they should be under plenty of incentive to seek jobs without holding out for exorbitant terms; otherwise the labor market might get into a condition in which no voluntary economic system could furnish a high level of employment.

Estimates of possible transitional unemployment run from 5 to 15 million, with 8 to 10 million as a fair intermediate figure.[1] The majority would be only transiently unemployed, but some would be laid off early and would not succeed in getting back into permanent employment until a real labor scarcity appeared once more. In the first wave of layoffs, the manufacturing industries will predominate, since there will probably be no net over-all decrease in jobs in the other categories, taken as a whole. The total shrinkage in war work in manufacturing, from the peak of the war effort, may be estimated at 10 to 11 million jobs, about half of them in direct munitions-making. Possibly 3 to 4 million of this shrinkage may take place before the final armistice. Most of the rest will come soon after, but some workers will be kept on through the retooling process, most of which will be concentrated in this group of industries. Allowing for these factors, there may be immediate loss of work for some 7 million, of whom 3½ or possibly 4 million may be taken

[1] This is a different kind of estimate from the one given by Kaplan, *op. cit.*, p. 18. This is an estimate of the lowest point in the race between layoffs and reemployment; Kaplan's is an estimate of the number of jobs dependent on production in excess of 1940, if reasonably full postwar employment is to be achieved.

back after retooling, when the industries begin working at better-than-normal pace to make up deferred demands for durables. This leaves a net decrease of about 3 to 3½ million, which may be considerably reduced if there has been enough anticipatory retooling.

If the armed forces are reduced to provisional postwar stability at, let us say, 1½ million in 18 months after the final armistice, this would be fast work. After the last war, the corresponding mustering out was done in a year, at an average rate of a third of a million a month. This time there will be nearly twice as many to be mustered out, and some of the needs for large-scale policing may last longer. During these 18 months, demobilization and reabsorption will go on side by side, and the total of unemployment at any one time will depend on the relative timing.

Places will be made in the first instance by the resumption of civilian production where there are clear shortages, by the rebuilding of inventories of normal peacetime grades of products, by the reequipping of plants, by the resumption of deferred construction—private and public, by the disappearance of most of the overtime in the making of civilian products, and by the voluntary withdrawal of several million temporary workers not normally members of the working force (the overaged, the underaged, housewives, some holders of duplicate jobs, and so forth). The temporary workers are estimated at some 5 to 6 million, not all of whom will want to withdraw. In fact a large part of those who do want to leave may remain technically members of the working force as long as they can receive unemployment benefits. On this basis there may be some millions counted as unemployed on the rolls during the first 6 months after the final armistice whose "unemployment" is purely nominal. This would make the situation appear worse than it is, if the statistics are taken at face value.

The maximum of transitional unemployment will probably occur toward the end of the retooling period, before the rate of reabsorption has grown larger than the rate of mustering out from the armed services, and perhaps while there is still much "nominal unemployment" of the sort just mentioned. Since there will be several million service-men still to be mustered out, the situation at that stage can easily look discouraging unless the temporary and "nominal" components are recognized and allowed for.

Furthermore, our present figure of 0.9 million unemployed represents too small a margin for a dynamic economy. It means virtually no qualified workers in the market where a new or growing industry could get them readily. This figure could be increased probably by from 1.6 to 2 million, without creating more than a healthy amount of turnover. Much of it would be voluntary on the workers' part. Workers themselves do not want to be tied down so tightly as is represented by 0.9 million unemployed. Such an increase in the "float" raises problems that this country has not yet dealt with adequately, but they are not the threatening problems of "mass unemployment."

To use illustrative figures, it is conceivable that there might be at one time 2½ million idle but assured of jobs at the end of retooling, 2½ million not normally employed in peacetime but remaining on the rolls to qualify for unemployment compensation benefits, 0.8 million ex-service-men taking a voluntary private furlough before seriously looking for work, and a "float" of 2.7 million in place of the present 0.9, all adding up to 8½ million, yet all either normal or transient. This may underestimate the success with which the temporary workers will be maneuvered off the rolls.

The conclusion is that some such large amount of reconversion-unemployment is in itself no cause for alarm. The danger is that it may generate fear and undue caution in both business planning and consumers' buying and thereby cumulate into a real and serious depression. The keys to avoiding this danger are speedy reconversion, realistic understanding as an antidote to undue alarm, and liberal financing of the unemployed, coupled with definite assurance of a future job in every case in which that can be given. For the longer future the conclusion is that workers, employers, and the public should examine the problem and adopt realistic standards of "full employment" rather than, as could well happen, ensuring failure by setting impossible goals.

UNEMPLOYMENT-COMPENSATION POLICY[1]

Unemployment-compensation reserves will be sufficient for a reasonably liberal compensation program. They amounted to about 6 billion dollars in mid-1944 and have been accumulating at the rate of 1½ billion dollars annually. Benefits may be liberalized, in which case the adequacy of reserves would need to be reappraised. Workers will also have war bonds totaling billions, though the average holding is small. Pay-roll deductions for this purpose, cumulated to mid-1944, averaged only about $250, and the average present holding may be a good deal less than this after cashed-in bonds are deducted. Accumulation would naturally be slower after victory in Europe. The average holding on Armistice Day might be nearer $300 than $350.

There will probably be strong support for making compensation more liberal than it has been, and this makes it important to consider the economic factors bearing on a desirable and practicable rate of compensation. Solely from the standpoint of avoiding the cumulative effects which turn unemployment in one industry into depression in others, the sustaining of purchasing power is the important aspect of compensation. From this standpoint, existing systems make a disappointing showing. Professor Slichter has estimated that compensation paid in 1940, when about 8½ million were unemployed, amounted to about 10 per cent of the shrinkage in income resulting from the unemployment. This percent-

[1] Fuller treatment will be found in R. A. Lester, *Providing for Unemployed Workers during the Postwar Transition Period* (not yet published).

age will undoubtedly be raised in the postwar period by liberalizing compensation provisions.[1]

However, the rate of compensation which a worker gets, while he gets it, is considerably higher than the over-all percentage, which covers persons who have not qualified for benefits and persons who have exhausted the benefits to which they are entitled. The over-all percentage might possibly be raised to 25 per cent, largely by increasing the duration of compensation rather than the rate, but, if it went beyond this, it would presumably mean that the rate of compensation, for those receiving it, would be high enough to reduce the differential between idleness and employment to a point which might encourage voluntary idleness. Then if there is a heavy shortage of jobs, it may be difficult to test the shirkers by offering them reasonable employment and terminating their benefits if they refuse the offer. This represents one of the basic difficulties involved in liberal compensation. Compensation liberal enough to sustain purchasing power strongly is too likely to mean that voluntary reabsorption of the workers is handicapped.

Federal action must recognize the widely differing scales of money incomes and money costs of necessary or customary standards of living in different parts of the country.[2] A reasonable dollar rate of compensation for one district might be so high as to be economically unsound in another. The

[1] Lester has estimated 15 per cent on the basis of present state benefit provisions and railway unemployment compensation funds. The "G. I. Bill of Rights" (Service Men's Adjustment Act of 1944) will add to this. The Colmer Committee of the House has recommended that the federal government assume the out-of-pocket cost of benefits for federal employees, and support the solvency of state funds as an aid to more liberal benefits. Some members of the Committee think more should be done. See "Economic Problems of the Reconversion Period," 78th Congress, 2d session, House Report 1855, pp. 27–28.

[2] This probably depends less on differences in prices for identical commodities than on other factors, most of them not accessible to statistical surveys. At present, the states set the rates, and to a considerable extent use the method of interstate agreement to deal with the problem of workers who move from one state to another. See Colmer Committee, *op. cit.*, pp. 25, 27–28.

conclusion is that unemployment compensation, taken by itself, will do well if it offsets one-fourth of the shrinkage in income resulting from unemployment. In view of this difficulty, it is worth considering supplementing compensation with special separation pay independent of duration of unemployment and granted for this single emergency, in order to sustain purchasing power without handicapping reemployment. This would require alteration of present state laws and therefore may be politically impracticable.

Other suggestions include advance engagement of as many workers as possible and public works in the form of "a large shelf of small projects," the purpose being to make sure that the program not only gets under way promptly but can be demobilized promptly as the retooling period comes to an end and normal construction work revives. There will, it goes without saying, be plenty of room for large public works projects of normal types, deferred during the war, but it would be a mistake to attempt to carry large projects to the lengths necessary to use them as relief for the temporary retooling-unemployment, or for that part of it which needs the kind of relief public employment can furnish.

Work relief, as distinct from normal public works, has so many drawbacks that it should be avoided, at least for the first postwar year, when the problem of unemployment will be of a transient sort if all goes well. Some kind of adaptation training is a more useful occupation than the general run of made work.

INFLATION OR DEFLATION: THE SPENDING OF WAR SAVINGS

The way in which this initial transition unemployment is handled may be one of the important factors deciding whether the predominant problem of the retooling period is to be one of expansion with inflationary pressure, or one of depression and deflation. If everyone were assured either of a job or of such ample and certain provision as to remove all anxiety, then war savings would be spent, and, despite shrunken money incomes, expenditures might exceed supplies of the kinds of goods the buyers would want to take. Then there would be postwar inflation. If we fall very far short of this, then there may be depression instead of boom, and the unemployment due to shrinking war demands may be increased by unemployment due to shrinking civilian demand. The mood of the people will decide how ready they are to spend their accumulated funds. In any case, the major consumers' durables will be scarce until after production has been under way for some time.

In estimating what will happen to war savings, the first thing to recognize is that various groups will be differently situated and will behave differently. Some will be assured of their jobs and will be willing to spend their war savings. Others will have lost their jobs and will be spending out of savings, unemployment benefits, or other allowances. This will mean spending funds not derived from current work of production and therefore will be expansionary or inflationary as far as it goes; but it will not be lavish spending and will be mostly for current necessities. Those who are sure of their jobs, on the other hand, will be buying new houses, new cars, or consumers' durables in general as soon as they can get them.

Many couples who have made war marriages will be setting up housekeeping for the first time after the war ends. Their savings may not average so large as those of civilian war workers; and they will have plenty of use for all they have, and for some credit besides. Then there will be people who still have jobs but are afraid of losing them; and they will, as a group, spend less than they earn. This will be likely to include some whose jobs will not disappear but may be claimed by returning ex-service-men. The relative sizes of these groups, and the treatment accorded the unemployed group, will obviously affect the total rate of spending.

What is a desirable goal to aim at in respect to the spending of war savings? From the standpoint of assimilating war workers into a revived and expanding civilian economy, the important thing is spending that can and will take effect in increased production, increased employment, and increased real national income. Trying to buy more of anything than can be produced does not meet this test. Neither does spending for existing supplies or property of any sort—government war supplies or any other. It may absorb part of the accumulated savings, reduce the public debt, and clear the decks for future production, but it does not directly employ people to make current goods.

The spending of savings (or increased spending due to the existence of savings) may take effect in stimulating physical production and employment or in price inflation or in a mixture of the two. In times of ordinary expansion, when total spending for consumption and investment is running ahead of income and causing income to expand, the effect is divided between physical expansion and an increase of prices. During the first half of 1941, when war production and civilian production were expanding side by side, a very rough estimate indicated that of the increase in income disbursed to individuals something like one-third was saved, one-third went into increased prices, and one-third into increased physical volume of goods and services purchased. No importance should be attached to this quantitative estimate except to suggest the general sort of combined effect that is likely to take place. If supplies are narrowly restricted, most of the effect of increased spending would be inflationary. To the extent that expanding supplies may be pushing to find a market or to the extent that effective anti-inflation controls may be in force, the chief effect of spending could be the enlargement of physical production and employment, rather than the forcing up of prices.

Spending is not likely to reduce the total of individual savings. When we speak of the spending of war savings, we probably mean that some people spend their savings, while others increase theirs by at least an equal amount, and total spending rises. Total spending of past savings would be very unlikely to exceed total savings currently made. Cashing in of war bonds means refinancing, shifting the debt to someone else, unless the government can redeem the bonds out of surplus.

S. Morris Livingston, of the Department of Commerce, has suggested that the chief effect of the existence of large amounts of accumulated savings may be to make people willing to spend more nearly all their current incomes, because they have already a backlog of savings on which to rely in case of emergency. On the other hand, others have often suggested that when some change rather suddenly places people in possession of a modest provision for the future, where they had had little or nothing before, it is likely to start them on the habit of saving and thus to increase the total of current savings, rather than reduce it. They may not have enough for a really big "rainy day" but enough so that, for the first time, they feel within reach of it, if they go on saving.

It seems probable that different people will react in these two different ways: some doing less saving than before and some more. Some, whose budgets always press against their resources and who find saving normally difficult, may be content with the savings they have accumulated and may spend their entire income rather than skimp themselves in the attempt to save more. Others, who are in a position to save more easily but who have never formed the habit, may form it as a result of the start they have been given.

One result of the spending of individual war savings would be a shifting of government bonds from people who cash them in to people who are making further savings. This has its good and its bad side. In general, it means that the war bonds, representing the common citizens' "stake in the country," will be less and less widely distributed among the common citizens and more and more concentrated in well-to-do or wealthy hands. That is a price we may expect to pay for the stimulus of extra buying which will be financed in this way. How far is it desirable for this process to go? Other things being equal, it would seem desirable that government bonds should remain widely held among the people.

Either fear or confidence is cumulative; and it may be that if we avoid a depression psychology, people in general will be so confident as to spend their savings freely and that this would open up a reservoir of potential spending exceeding the supplies available during the retooling period. It may be outright impossible to strike a happy medium.

Of the two, the inflationary alternative seems clearly preferable but calls for retention of controls strong enough to check a possible postwar inflation. If controls have been swept away, the choice is harder. If a depression is superimposed on the reconversion-unemployment, there is a probability that it will be short, that unemployment will be well enough financed to avoid really serious consequences, and that it will not prevent the backlogs of deferred consumer demand from starting a prompt revival when reconversion is accomplished. After this, confidence will revive and war savings will be ready to pour into the market and help finance expansion.

CONTROLS AFFECTING SPENDING

Direct control of consumer-spending is difficult. The general machinery of credit control does not seem to contain much in the way of usable weapons.[1] In the postwar transition, most consumers will need no help from bank loans to finance their spending. Over-all credit restrictions, taking effect in increased rates of interest, are not likely to be employed and might do more to retard industrial expansion of supply than to check inflationary demand.

Consumer credit is on a different basis. Here liberalized terms can speed up the expansion of spending, and continued

[1] This general subject is more fully discussed in another study in this series: J. K. Langum, *Monetary and Banking Policies in the Postwar Transition Period* (not yet published).

restrictions can slow down this expansion, though not prevent it. Furthermore, to a considerable extent it can be selective, stimulating purchase of the kinds of goods which can be produced as fast as they are bought, and checking purchases of things that cannot be produced fast enough to catch up with demand. Its restraining power, though real, is limited, because many consumers have bank accounts and bonds which they can use. And some who do not have enough of such resources (including ex-service-men setting up housekeeping) will have strong claims to relief from any restrictions that may be imposed, such as large down payments and limited repayment time on installment accounts.

It is important that the stimulative effect of releasing consumer credit restrictions should come at a time when it can do good instead of harm, speeding up production instead of merely increasing inflationary pressures. This may require different timing for different groups of products. Therefore consumer credit controls should be kept alive after the final armistice. Further (though this is a separate issue), the writer believes that the framework of such controls should be kept available as a long-run matter, in order to prevent consumer credit from acting as an unstabilizing force, intensifying economic fluctuations, and if possible to turn it into a stabilizing influence. Continuation beyond the "emergency" would require legislation, and even continuation beyond the final armistice will face strong opposition.

The federal government might attempt to affect spending by making redemption of war bonds easier or more difficult; but there are objections to manipulating these procedures, and in any case they would not affect the tremendous volume of savings in the form of checking accounts or easily convertible savings accounts. About the only really positive control of spending would be a spendings tax, but this would need to be promptly flexible at the discretion of the Executive, in order to adjust itself to the current state of the people's mood of spending or saving, as that develops. At some future date, such a flexible system may be feasible; but, for the present, this kind of discretion is unlikely to be granted and would be difficult to exercise. At best, the adjustment of the tax would be likely to be both tardy and unduly crude. If successful in checking inflationary tendencies, it might prove too successful and also check the revival of production.

As the League of Nations Delegation on Economic Depression has remarked, the unleashing of accumulated purchasing power may prove to be a "delicate operation."[1] We return to the idea that the best course, if practicable, is to err on the inflationary side, and to retain anti-inflationary controls sufficient to prevent a runaway boom. To err on the other side involves hardship, unrest, and a likelihood of delayed revival of production and employment, if nothing worse.

FISCAL POLICY AS AN ECONOMIC CONTROL

The boundaries of fiscal policy, like numerous others, are becoming more than a little indefinite; and some aspects of it were touched on in the preceding section. The first and most obvious question is whether there should be surplus or deficit financing or a balanced budget. In this respect the retooling period will be one of rapid transition from war deficits toward some more normal peacetime balance.

It is far too early to make even tentative forecasts of the amount of reduction in war taxes which will be practicable during the retooling period. The more important thing will be the character of changes in the tax system, as affecting: (1) burdens on consumer spending and (2) burdens on risk-taking capital and enterprise. The second is much the more urgent during this first, or preparatory, postwar period. Much earlier than this, provisions for the carry-over of business losses and unused exemptions should have been placed on a basis that would remove as much as possible of the great

[1] *The Transition from War to Peace Economy*, The League of Nations, 1943, pp. 50–51.

discrimination against risky ventures and investments, as compared to those with a moderate and assured yield.

This would be a logical time to go farther, and make a beginning toward getting rid of the practice of discriminating against income from corporate business by taxing it twice—once as corporate income and once as personal income when it is distributed as interest or dividends. This is not a simple matter; and the issue should have been studied and debated sufficiently to permit a policy to emerge. The strategic time to initiate a change would be the moment when business is at the point of committing itself to its initial postwar production programs, and when the tax structure will stand some reductions.[1]

Whatever tax relief is granted to business should at the same time be accompanied by relief for consumers and small personal incomes, for obvious reasons. As to excise taxes of the luxury type, there is no reason to be prompt about removing them. It may be done when they appear to be cramping the normal peacetime scale of the industries and trades involved.

With respect to the controversial question of using deficit financing as an economic stimulus to bring about high-level employment, it seems that, for the retooling period, fiscal policy may well be neutral in the sense of neither clinging to deficits nor going to great lengths to eliminate them.

MAIN CONCLUSIONS

In the initial reconversion period, the first need is for prompt settlement of contracts, adequate reconversion financing where private reserves are insufficient, and prompt disposal of such inventories of finished goods as can be readily absorbed and of raw materials where no special policy questions arise. Disposal of plants by sale or lease should be as speedy as is consistent with due deliberation, wrong disposal being a serious matter. The outstanding objective is to leave

[1] *Cf.* Groves, *op. cit.*

industries in a healthy competitive situation. In particular cases, conflicts of regional interests in this country, military considerations, international policy, and conservation of resources may need to be weighed in determining ultimate disposition of plants.

Transitional unemployment will be large and will appear larger than it is. Despite liberal unemployment compensation, it will mean a material shrinkage of income. The effect on demand for goods may be mitigated by measures affording confidence in early reemployment, including advance engagement of workers where practicable. Normally useful public works, deferred during the war, may be initiated, with emphasis on a "large shelf of small projects." Education and retraining are preferable to work relief. Such measures might increase willingness to spend war savings, though that will be determined mainly by the particular situations of different groups of persons: some will wish to spend them, some will be forced to spend them, some will add to them. Demand, if increased by much spending of savings, might exceed supplies where these are limited during industrial retooling.

There can be no certainty whether prevailing pressures will be inflationary or deflationary; we should be prepared to meet either. Control of consumer credit should be continued because it is selective and can be used either to stimulate or restrain. Its chief service in this transition is to see that the stimulus of expanding credit should come when it can do the most good and least harm. It can also serve as part of a long-run program of stabilization of economic fluctuations.

This period should witness a reform of the federal tax structure, removing burdens prohibitive to vigorous business enterprise. Some general reductions should be made. No attempt should be made in this period to force "full employment" by deficit spending, nor should taxes that burden enterprise and employment be continued for the sake of an early balancing of the budget.

VIII. WAR CONTROLS DURING INITIAL POSTWAR RECONVERSION

ADAPTABLE POLICY NEEDED

WE HAVE seen something of the elements that will go to make up the initial postarmistice reconversion. It will be a kaleidoscopic picture of many-sided change, predictable in its main outlines but unpredictable in its details, in the timing of different parts and even in some of the rather large features of the outcome. Business and government must be prepared to meet surpluses and shortages, dumping and hoarding, inflation and depression. The need is for a flexible policy, backed by preparatory thinking that reckons with widely different possibilities.

CONTROLS OF PRODUCTION AND KINDRED MEASURES

General

The work of the War Production Board will have been shifting its emphasis toward civilian requirements during the final phase of the war, and the shift will be abruptly completed when fighting comes to an end. Overnight the yardstick which formerly dominated its activities will disappear. In place of bending everything toward maximum war production, it will be left with the combined task of liquidating the special machinery of the war program and simultaneously doing the few things which it alone can best do to promote prompt and orderly reconversion to a civilian economy.

Supervision of production by procurement agencies will no longer affect most producers, as they cease to be working on war orders. There will be a quick scrapping of anything that may remain in the way of prohibitions or limitations on the making of civilian products, limitations on the use of critical materials in the making of permitted products, "war models," and the like. The chief exception may be the continuation of war or prewar models until all producers can start even on the postwar ones. Perhaps the only forms of standardization which will need to be continued will be the standards defining grades to which particular price ceilings are applicable. Something of this sort will be needed as long as price ceilings are necessary, because without it the price ceiling becomes meaningless. After this some wartime commodity standards may, so far as they prove themselves, be continued on a voluntary basis, but this is not essential to prompt and orderly resumption of civilian production. Therefore, it may be left as an open question, as far as this study is concerned.

Supply Conditions

In place of urgent shortages of nearly everything, there will be temporary surpluses of many things and perhaps of most basic materials in this country. It is true that the League of Nations Delegation on Economic Depression estimates that there will be world shortages in most raw materials, although some countries may be favorably situated.[1] This has, however, been disputed.[2] If it is correct, it suggests that any surpluses this country may have are likely to be easily disposed of if the problems involving the terms of foreign trade are satisfactorily solved. From the end of fighting in Europe, we shall be sending large supplies for European rehabilitation. The question of immediate postarmistice surplus or shortage in this country may hinge on whether these large shipments outlast the Pacific fighting.

[1] *The Transition from War to Peace Economy*, The League of Nations, 1943, pp. 78–81, and elsewhere.

[2] *Cf.* Julius Hirsch, "Facts and Fantasies Concerning Full Employment," *American Economic Review Supplement*, March, 1944, pp. 118 and 124–125; also *Barron's Weekly*, Feb. 21, 1944, p. 3.

Of the various imported materials which we shall increasingly need after the war, some may be hard to obtain because of unsettled world conditions. In this case allocations and inventory controls might be a temporary necessity until conditions are stabilized in the supplying areas. Or we may need amounts of materials, some part of which can be had only at much higher cost than the rest. The material may be a key factor in various lines of production, with the result that the high-cost portion is worth its cost to our economy, yet the economy might be handicapped if all purchasers of this material had to buy at a price representing the highest cost. In this case the principle of differential pricing might be applied, as it has been applied to the nonferrous metals during the war.

These are merely possibilities, not predictions. The exploratory surveys, already recommended, should indicate whether any such conditions are likely to be encountered.[1] If, in some instances, it should seem advisable to adopt differential pricing, it could be done without requiring the government to be the sole buyer and need not stand in the way of allowing imports to be handled by the regular commercial agencies.

On the whole, it seems likely that there will be some surpluses, a few real shortages, and perhaps numerous cases of temporary surplus followed by increasing demand and an uncertain balance. But it seems fairly certain that problems of surplus will dominate in the retooling period.

Policy Relative to Surpluses[2]

The question will be raised whether the government should not help to steady the market where a temporary surplus of a basic material threatens to bring about a slump. This can be simply accomplished where the government owns much of the supply, the only problem being one of economic judg-

[1] See above, p. 109.

[2] See Kaplan, *op. cit.*, pp. 54–55.

ment as to a wise carry-over. Where the supply is in private hands, the troublesome part is likely to be that held to fill government contracts, and this could be taken over by the government in settlement of the contracts, if desired. If done for the purpose of supporting prices, special authorizing legislation might be necessary or advisable.

There might be cases in which the demand for a domestically produced basic material has fallen off heavily but temporarily, owing to the pause for retooling, and, if matters take their normal course, production of this material would be stopped or nearly stopped. This would add to the temporary unemployment and lack of confidence which might bring on a depression psychology and tend to handicap the revival of demand. In such cases, the government might be justified in making temporary stockpile purchases, both to keep the producers of the material employed and to make sure that there will be ample materials to fill the inventory pipelines when retooling is over and quantity production is resumed. This would avoid the mistake made in 1919–1920, when there was a postarmistice pause of several months, involving curtailed production of materials which soon after were being violently bid up in the postarmistice inflation.

Such a temporary stockpiling policy would open the door to tremendous pressures from private interests and to many possible abuses. It would give us many potential pressure groups like the silver bloc. Therefore, it should be done only on a clear and compelling show of need, from the public standpoint. The need might possibly be avoided if large private fabricators had sufficiently firm production programs to place advance orders for their minimum requirements, and thus cushion the slump in production of the material (but not corner the market for future deliveries). Here is a case in which planning by industries might obviate the need for a dubious form of public control.

Another possibility consists of publicly sanctioned arrangements whereby private concerns may take measures to protect the supplies they hold from being dumped on a declining market by some of their number. This would be a reversion to the methods used under some of the NRA codes, notably the copper code. This code appears to have been fairly successful in bringing about the "orderly disposal" of an accumulated surplus supply. In such a case, there should be real government participation and supervision. Such measures should be used only to cut losses, not to maintain either profitable prices or full normal rates of operation for producers of the material, and certainly not to support inefficient producers.

This method would be appropriate to a domestically produced material of which there might be, for example, a one-year or two-year supply in excess of normal inventories. It would naturally be disastrous to shut down current production entirely in order to get rid of the excess supply as quickly as possible. In such a case, with a durable standard material, it would be better to take as much as five years to dispose of the surplus (presumably turning it over in the meantime if there is any question of deterioration) and to let production go on at something like three-fifths or two-thirds of a normal rate.

The cases discussed so far should be distinguished from those in which the government wants to hold a stockpile of critical war materials originating abroad; the existence of a surplus of these materials on armistice day would be merely a convenience to that end. Examples might be chromium, tin, molybdenum, tungsten, industrial diamonds, and wolfram. This would be a straightforward matter of purchase for defense purposes, well warranted in principle. Of course, changes in techniques might take some materials off the original list or add others to it.

To sum up, where there is danger that surplus raw materials will be dumped on the market regardless of price in the retooling period, the government is warranted in undertaking to prevent this, either by temporary government stockpiling or by supervised private arrangements, but this policy should not be perverted into making permanent additions to the list of subsidized commodities.

Policy Relative to Shortages

As has already been hinted, an immediate surplus does not necessarily mean that controls of the scarcity type will not be needed any more. If things go at all as they did in 1919–1920, a temporary surplus may be followed by need of allocating the same commodity, when the retooling period is well under way and producers begin to put in orders to assure themselves of sufficient materials for their projected production schedules. This could easily lead to an inventory-grabbing boom, with a purely speculative superstructure piled on top of it, such as came to a head and burst in June, 1920. The War Production Board should prevent such a thing from happening next time.

Possibly the simplest method would be for the government to hold a stockpile large enough to enable it to supply producers who might be in real need. This would reduce the pressure on producers to hoard extra-large inventories. It might, however, need to be supplemented by temporary continuation, for a limited range of materials, of allocation and inventory controls of a more elastic sort than are used during the war. These would be used simply to tide industry over until its inventories are built up and the markets for its materials are reasonably stabilized.[1]

In other words, these controls would be limited to the initial reconversion period. It has already been pointed out that outright allocation of materials, such as is now being practiced, would be infinitely harder during reconversion, when the materials would have to be allocated not only to "non-essential" private industries, but to industries which are

[1] In the Byrnes report, this is boiled down to general watchfulness to prevent undue inventory accumulation, this boiling-down to take place after the defeat of Germany. The more formal methods here suggested are contingent, and should, of course, not be used unless there is prospect of need for them.

starting to make a new product, or a product which that industry has never made before, so that there is no past performance on which to base quotas. This difficulty ought to be much less troublesome after the final armistice, when the government no longer wants to curtail any production. It will undertake allocation only for the opposite purpose, of preventing any production from being held up for lack of materials.

This can be done in the kind of situation we may take as typical of reconversion-shortages, namely, one in which materials can be made available as fast as they will actually be used up in current production, but not as fast as producers, plus speculators, want to build up their inventories or to hold the materials for a rise in price. If the supply is as large as this, then no production need be actually curtailed. What needs to be prevented is a scramble to build up inventories faster than it can be done.

It might be necessary to take some time in filling up the inventory pipeline, and the process might need to start with a continuance of outright allocations. Presumably, any producer with a bona fide program might receive an allocation large enough to get his inventory pipeline started and then continue to buy without limit except that he might not overbuild his inventory to the detriment of others. If he succeeded in getting too large an initial allocation, it would be evened out by subsequent inventory control.

Where there are real material shortages of a temporary sort, allocation will be more necessary and also more difficult, since not all production programs can be provided for. The aim would be to make the limited supply of materials support as large an amount of civilian production as possible. When applications for allocations can all be granted, showing that the danger of shortage is over, the commodity can be turned over to the regular commercial machinery.

Inventory controls, in such a setting, would have a different purpose in one respect from wartime controls. It is presumed that under postwar conditions any shortages will be temporary and inventories will grow to normal size as soon as possible. It would certainly be contrary to policy if, through limitation of inventories, demand for materials were restricted to such an extent as to limit the expansion of current production of the materials. Presumably the producers of the materials would be asked to reserve enough production to meet the allocations, and could sell freely any amount they might produce in excess of this. Or other methods might be used. The purpose would be to see that every producer had enough for his production program, not to limit the total amount of inventories on hand.

Terminating Concentration Arrangements

Where production has been concentrated as a war measure in the hands of a few producers, these arrangements can be terminated by simply letting the other producers resume production, since this country has not thus far gone in for pooling arrangements or compensation by "nucleus plants" to the owners of closed plants. It has already been suggested that something amounting to automatic concentration may result from the releasing of some producers for civilian production while keeping others at war work. To protect the equitable interests of those who are delayed in resuming civilian production, the early starters might be required to delay introducing postwar models until their competitors could do so at the same time. Aside from this, normal production could simply be resumed.

Transportation Controls

The controls exercised by the Office of Defense Transportation can probably be demobilized fairly rapidly. One can assume that, during the Pacific phase of the fighting, sufficient materials and manpower will be released to make good the most urgent needs in the way of deferred maintenance on railroads, putting plants in fair operating condition, and perhaps enlarging their capacity somewhat. This, together with the reduction of the abnormal wartime load, might make it unnecessary, for example, for the government to exercise continuous control over the routing of freight or to enforce extremely high standards of car loading. Such economy measures as will still be needed might fairly soon be transferred to the Interstate Commerce Commission, with or without enlargement of the very considerable emergency powers which the Commission already possessed in 1939.

The trucking situation occupies a major part of ODT personnel, and this might take longer to stabilize. Even this might be done fairly soon, with some possible help from Army vehicles, when and as these can be released for the purpose. There would be something to be said for continuing central control over operating regulations long enough to afford state authorities a chance to simplify the complex of differing state regulations affecting truck operation.

WAGES AND WAGE CONTROLS

Probable Tendencies

Wages and wage controls, price controls, and rationing are all closely bound together. Wage controls will be considered first because what happens to wages may go far to decide what will be possible in the field of price control. Under the American system any attempt to control wages, even in time of war and still more in time of peace, faces peculiar difficulties. It is easier to set floors than ceilings on wages; but even floors cannot be set without regard to their effect on the volume of employment or the possibility of continued operation of the industry in question. In fact, Philip Murray and W. H. Davis would probably agree that it is peculiarly true of wage policy that what is ideally desirable must give way to what is feasible.

When the fighting ends, organized labor's anti-strike agreement will naturally end with it. This will reduce the power of the War Labor Board to enforce ceilings on wages during the next 6 months after the war, the limit of its present statutory authority. The wartime institutions of wage control might become ineffective and might be promptly disbanded. How revolutionary this would be would depend on market pressures prevailing at that time.

Wages would continue to be adjusted by collective bargaining, with conciliation and mediation in case of disputes and with public or quasi-public umpiring in case mediation fails. Moreover, there is already in existence a set of wage floors, formulated under the provisions of the Fair Labor Standards Act, which has raised the pay of many of the lowest-paid labor groups. Collective bargaining and the forces of supply and demand modify one another, and one important unsettled question is how far the war has changed this balance and increased the power of strong unions to disregard the forces of supply and demand in their wage bargains. This may decide whether wage rates, if freed of War Labor Board controls, would tend to move up or down.

On this whole question predictions differ, but some things are fairly clear, and as to others there would be fair agreement on the zone within which the results are likely to fall. The five dimensions of wages are basic rates, average hourly earnings, average weekly earnings, total pay rolls, and the wage cost of production per unit of product. Assuming that basic rates in the first instance are unchanged, average hourly earnings will be lowered by a reduction in overtime both before and after the armistice. Average weekly earnings will be reduced more, and total pay rolls still more, by the inevitable transitional reduction of employment. As to basic rates, it seems safe to predict that some of those most inflated by the war, in industries like shipbuilding or airplane building, will come down. They were special incentive rates to attract abnormally large numbers into these trades in a hurry, and to compensate for transportation difficulties in getting to the war job, inadequate living facilities and any other difficulties and disadvantages.

Further, it seems fairly certain that there will be a tendency, possibly prompt but more likely gradual, toward restoring something more like prewar relations among different trades and industries, where the war has violently disturbed these relationships. White-collar workers and others who have had no wage increases, or increases that were much less than the increase in the cost of living, will, over a span of five years or so, either make headway toward catching up with the war-inflated trades, or else will hold where they are while the war-inflated trades come down. This is a desirable tendency, but it is likely to be obstructed, especially since it implies that the position of comparatively unorganized occupations will be improved, relative to the position of organized trades. Nevertheless, it is likely to show considerable force in the long run.

But in which direction will the adjustment be made? As soon as the armistice is signed, there will undoubtedly be a strong move to scrap wage controls, including the Little Steel formula if it survives that long, and to make demands for basic rates that will come as near as possible to affording wartime real weekly earnings. Something more may be added on the ground that the official cost-of-living index does not show the full amount of the increase.[1]

The presence of many unemployed workers will, of course, not be favorable to success in pushing these demands; but experts disagree as to how substantial a difference this will make. One simple view is that wage rates will not rise when there is considerable unemployment, unless some authority steps in to push them up, as the government did under the National Industrial Recovery Act in 1933. Those who reason in this way, and who want wages sustained, naturally look toward a continuation of wage controls which would regulate upward rather than downward.

[1] Insofar as this rests on wartime deterioration of qualities, it will probably have lost a good deal of its force before the armistice, and will lose the rest soon after, but the index may have risen above the level at which it was stabilized after May, 1943.

Others discount the depressing effect of postwar unemployment on wage rates on the ground that the unprecedented strengthening of the bargaining position of organized labor, which has taken place in recent years, has tended to insulate wage rates fairly completely from the effect of an excess supply of labor. Where a tight contract exists, even if there are qualified workers willing to work for less than contract rates, the employer is not in a position to take advantage of their willingness as a lever to reduce the contract rates. How much effect this will have can naturally not be predicted surely in advance; but it seems clear that certain factors in the bargaining position of organized labor are stronger than ever before and that they tend toward protecting wages against the effect of an excessive supply.

Policy with Respect to Wage Tendencies

Perhaps the best surmise is that the prevailing general level of hourly wage rates will not go down, but that some of the more extremely inflated ones will. If corporate taxes are reduced, this may make room for some wage increases without necessitating higher prices. Within these limits, wage increases should be so distributed as to improve the equity of the wage structure. Mere yielding to the most powerful demands might have the opposite effect. It seems certain that there will be need for some strong influence working for a consistent and equitable national wage structure.

If the cost of living continues to rise for a time after the end of the fighting, then an inflationary wage-price spiral might continue or be speeded up by the relaxation of controls, and it is conceivable that this might happen even in the face of a certain amount of unemployment. This being the case, there would seem to be some need of wage-stabilizing controls after the war, available to prevent a possible wage-cost inflation. On the other hand, if a strong tendency to wage-deflation develops, the War Labor Board might well act to moderate it and prevent a serious collapse of buying power.

For all these purposes, there is need for continuance, both of the War Labor Board's formal powers and of its de facto influence.

There may be pressure to promote work-sharing, and some forms of it might be sound emergency measures. The most obvious form, and the one surest to be advocated, is to reduce the standard working week to thirty-five hours or less, charging time-and-a-half for anything beyond. There is little question that this would be a mistake, chiefly because experience indicates that it would not remain an emergency measure, but would persist as a limit on future productivity. This matter is discussed in Chap. IX, which follows.[1]

On the whole, unemployment may be more likely to lead to further output-limiting rules on the part of labor than to the acceptance of lower rates of wages; and this would contribute toward price inflation of the wage-cost variety. The best way to guard against a serious increase of output-limiting rules would be: (1) to plan for increased employment in a way that is definite enough to afford the workers fair assurance of jobs, once the brief transitional unemployment of the retooling period is over, and (2) to assure them of fair maintenance in the meantime.

PRICE CONTROLS AND RATIONING

General Policy and Purpose

General price controls will be needed as long as general inflationary pressures persist in the markets; and price controls will be needed in any particular area as long as there are special war-caused shortages in that area, relative to buying power in the market. If wage increases should go far enough to raise unit costs of production, this would make it impossible to hold any definite price line; but it would still be possible to restrain the movement and to retard inflationary tendencies, perhaps sufficiently to prevent runaway inflation.

[1] See pp. 183–184.

Rationing of food, and possibly some rationing in the clothing field, will be needed as long as this country's supplies are heavily drawn on for first aid in Europe; but the greater part of these special drains may be over by the time of the final armistice. As a consequence, the major cost-of-living items might be past the stage of inflationary shortages very soon after the armistice. The problem of particular scarcities would remain, and would cover the field of major consumers' durables. Shortages of minor durables may be eased sufficiently during the Pacific phase of the war, but shortage pressures will presumably remain in automobiles and housing and in other commodities on the scale of refrigerators and washing machines.

Postwar price controls must be consistent with rapid expansion of production. In that respect, more will depend on price incentives than during the war itself, since the government's quasi-compulsory orders and direct production controls, and the pressure of patriotism, will no longer dominate the situation. Some further liberalizing of price ceilings will probably be inevitable, particularly on low-priced grades, and the problem will be to keep it within bounds, especially if general inflationary pressures persist. But there is now the added likelihood of violent deflation to be taken account of and moderated, as far as can soundly be done.

The movements we must be prepared to meet are only partly predictable; and they are likely to be more violent than free markets are suited to handle without accentuating them by booms, panics, and speculative activities.[1] Temporary steadying forces are needed, but the aim is a transition to markets free of direct controls, and the proper aim of interim controls is to make this transition as smoothly as possible and also as promptly as possible. One thing to be avoided is any situation which would necessitate permanent price controls in order to prevent chronic progressive inflation. Equally undesirable is any measure which, in combating deflation,

[1] See p. 42.

would tend to perpetuate particular price structures too high for current national or world conditions, and thus to perpetuate areas of stagnation in the economy.

When to Remove Ceilings

There will be some pressure, possibly before the end of the fighting, to formulate rules in advance to determine when price controls will be removed. The pressure may come from business men, who want to know what they may expect; or it may come from price executives in the Office of Price Administration, seeking a formula that will do something toward removing the termination of controls from the realm of chance and the personal discretion of particular price executives. For example, it may be suggested that a given ceiling should be removed when the price has stood below the ceiling by a given percentage—say 10 per cent—for three or possibly four months, or when the industry has operated at a given percentage below capacity for a given number of months. The convenience of such formulas is self-evident.

Against this stands the argument that it would not be safe to rely on such formulas until the economy is past the point at which a big boom in purchasing is likely to flare up, fed by the spending of war savings, or until the particular commodity is past the danger of an inventory-building boom. There is also the argument that it is better to continue a ceiling in an inoperative state than to abolish it, and perhaps have difficulty in reimposing it if needed, after the experienced administrative force has been disbanded.

The writer's suggestion, for what it may be worth, is that there might be two kinds of action, complete removal of ceilings and conditional suspension. Complete removal would not take away the right to reimpose a ceiling, but would make it extremely unlikely. Ceilings would not be removed until the dangers of a recurring general inflation or specific scarcity were so remote that they could justifiably be disregarded. Conditional suspension might be applied according to some such formula as already suggested. It would carry the provision that the ceiling should be reimposed if the price should later rise to ceiling level, with a chance for an inquiry that might adjust the ceiling. An administrative unit would be charged with keeping itself informed as to the price.

The likelihood of reimposing a suspended ceiling would be reduced if allocation and inventory control were used as preventives to forestall a scramble to build up inventories. This would act directly on raw materials, and indirectly would prevent prices of finished goods from being forced up by rising prices of materials.

The Problem of Price Floors

At some stage or other, there will almost surely be pressure for the government to set up price floors in place of price ceilings. There is already statutory requirement of supports at 90 per cent of parity for some of the principal agricultural products, applying to any crop harvested "before the expiration of the two-year period beginning with the first day of January immediately following the date upon which the President . . . or Congress . . . declares that hostilities in the present war have terminated, if producers have not disapproved marketing quotas. . . . "[1]

If the supplies of basic materials used by war industry are sufficient for a full revival of civilian production, they will be more than sufficient during the interval when industry is slowed down for retooling. Such surpluses may warrant temporary action to prevent a threatened demoralization of the market. However, it seems that the best kind of action is carefully safeguarded stockpile buying and orderly disposal, rather than outright price floors.

The NRA experience indicated that the setting of floors under industrial prices was a good deal more complicated

[1] Stabilization Act of Oct. 12, 1942, amending the AAA of 1938. The commodities covered are cotton, corn, tobacco, wheat, rice and peanuts. The Secretary of Agriculture is directed, on finding of need, to extend this or other support to other commodities.

than it appeared at first sight, and that there were relatively few cases in which it served a genuinely useful purpose. Various forms of price floors were tried under the codes, including the individual producer's cost of production, and an average or representative cost of production, with or without allowance for overhead. Where the producer's individual cost was the rule, it was common to permit him to go below it in order to meet competition from some lower-cost competitor.

These NRA price-floor provisions were cautious affairs, subject to a provision barring monopolistic practices. Apparently, they sometimes had the effect of reducing prices—perhaps as often as they sustained them. There was some tendency for the minimum price to become the standard. There are numerous possibilities of conflicts of interest between different types of producers, under a scheme of price floors; and while some producers would undoubtedly favor them, it would not be safe to conclude that business as a whole would like them if it got them, and would support them in practice. In the light of the NRA experience, the government is not likely to set up a fresh array of code authorities for this purpose.

Equity between Producers

One problem that will persist into the retooling period is that of equity as between different producers. Considerations of equity urge against removing price controls at once from commodities in which certain producers are already in production, while others still have to reconvert. Those who reconvert first will probably be thought to have quite sufficient advantage, without adding to it the privilege of selling at uncontrolled prices in markets that are still served by only a fraction of the normal number of producers.

Forms of Control

The retooling period will presumably witness the change from comprehensive to selective price controls. The government in its capacity as buyer will become only a minor factor in influencing prices, assuming that it will do no more than a limited amount of stockpile buying to support prices. It may intervene more powerfully in certain parts of the market in its capacity as seller of stockpiles and inventories. Some of these will be usable consumers' goods, and may serve a purpose in easing temporary shortages; but they are not likely to play a dominant part in the markets.[1]

So far as price ceilings are kept, their particular forms may need adjusting to the change from war to postwar conditions. As already noted, most of the differential premium prices will presumably have disappeared before the final armistice, though there is a slight possibility that some might be retained, even permanently, in special cases. The occasion for the petroleum pool will have passed with the passing of the need for using tank cars to do work formerly done by seagoing tankers. Whether the competition between the tankers and the "big inch" pipelines will create special problems remains to be seen.

Basing-point price structures have gone through some curious vicissitudes during the war, including permission to the steel producers, when ordered to ship great quantities of ship plates to the Pacific coast, to do it without absorbing freight to meet the delivered prices of the Pacific coast producers. This permission, of course, means nothing in a normal market, where one producer cannot sell, delivered, at a higher price than another. In the meantime, the Federal Trade Commission's ruling in the cement case contains possibilities of rather drastic effects on basing-point price structures, if the ruling is sustained.[2] However, the principle of uniform f.o.b. mill pricing is not likely to become a general rule before the time when most of the ceilings will have disappeared.

[1] See above, p. 121 and Kaplan, *op. cit.*

[2] In the matter of Cement Institute, et al., Federal Trade Commission, Docket 3167, July 17, 1943.

Subsidies and Farm Prices

Differential subsidies to secure additional high-cost output will have disappeared with the special scarcities that occasioned them, though a case or two of differential pricing may persist.[1] The withdrawal of food subsidies granted to protect the cost of living must either raise the cost of living or reduce the income of the producer. During the first postarmistice period, many farm prices are likely to fall to their support levels, permitting subsidies to be removed without raising the cost of living. Farm prices would then be in process of returning to a peacetime status, which will presumably involve the same main elements as during the thirties. That is, there will be supporting crop loans and payments to induce farmers to follow production programs worked out under the Department of Agriculture. There may be food distribution programs which will increase the demand for foodstuffs. But it is to be hoped that some modern substitute may be found for "parity" now based on the obsolete relationships of 1909–1914.

Rent Control

Rentals, which make up about one-fifth of the cost of living, have been held to a very low percentage of increase. A marked shortage of housing accommodations will persist at the end of the war. As long as there is danger that a substantial increase in the cost of living would touch off an inflationary wage-price spiral, rental ceilings should be retained. On the other hand, nothing should be done to retard the work of making improvements in existing living quarters; therefore, the ceilings should provide fairly liberal allowances for such improvements.

The question of combining protection for the tenant with incentive for new construction is a long-term problem, but the decisive policies should be formulated as soon as possible

[1] *Cf.* above, p. 138.

after the armistice. During the First World War and postwar period, rent ceilings were a local matter, and the postwar experience varied from place to place. In New York City, wartime ceilings remained in effect as long as the wartime tenant stayed in his original quarters, while there was no control in other cases. Thus new construction was not interfered with, but maintenance of many prewar premises was starved. The proposed allowance of a return on improvements would ease this last difficulty, at the cost of an accounting problem which might grow more burdensome with time, while the value of the result became more questionable.

The best long-run check on high rentals would consist of long-needed improvements in the construction industry, which are generally regarded as necessary in order to open up a really plentiful demand for new housing by bringing it within the reach of large numbers of families with moderate incomes. The government should do all in its power to promote such improvements. This, coupled with retentions of ceilings in shortage areas for a few years, might be a sufficient policy.

INTERNATIONAL CONTROLS

One of the early and basic necessities of this first postwar period will be the setting up of whatever system may be decided on for managing the international exchanges and settling balances. But it would be putting an unfair burden on this machinery to charge it with the handling of commercial transactions when they are still hopelessly and grossly unbalanced by large movements of goods to build up war-impoverished areas. The danger is that the debtor countries' balances would be strained or exhausted before they had begun their normal work. A stabilization fund attempting to carry such burdens is at best a makeshift, bridging a possible gap after Lend-Lease and relief come to an end and before a working economy has been established in the recipient country, which may finance further rehabilitation in more permanent fashion.

SUMMARY

The end of special war shortages will warrant the relaxing of all or nearly all controls and the termination of most of them, during an initial postwar reconversion period of possibly six months to one year.

Disturbances warranting continued controls or policy efforts during this period include the following:

1. Immediate and temporary shortages of particular materials or finished products, demand being strengthened to an uncertain extent by spending of war savings.
2. Abnormal and temporary surpluses, sufficient to cause losses which would have serious effects on business and employment in general, involving in some cases prolonged and wasteful shutdowns of production, though the production must later be reestablished.
3. Later temporary shortages of materials and producers' goods, induced by the demand for inventory building and a desire to hold for price rises, over and above permanent demand representing rate of ultimate consumption.
4. Possible temporary excess demand for consumer goods as retooling ends and reviving employment increases incomes and induces confidence and increased spending of war savings, thus causing demand to expand ahead of supply.
5. Conflicts and inequities in the readjustment of wages, including the effort of strong groups to retain war gains, and resistance to long-run economic tendencies operating to revise abnormal wartime relations between occupations. Strikes may aggravate any tendencies to shortages that may exist.

Measures appropriate to deal with these transitional disturbances include the following:

1. Government surpluses of materials and finished goods may be used to ease some immediate shortages.
2. Military stockpiling may absorb surpluses of some critical war materials. Temporary stockpiling may aid orderly

disposal of some other surpluses which would otherwise cause uneconomic shutdowns of production.

3. Where there is danger of shortages of materials because of a scramble to build inventories, continued allocation and inventory controls in modified form might help to prevent price inflation and assure all producers of access to needed materials.

4. Comprehensive price-ceiling control will turn into selective control with ceilings liberal enough to stimulate production. This may take place via provisional suspension of ceilings when price has remained a given percentage below the ceiling for a given number of months, and complete removal of ceilings when future reappearance of scarcities seems out of the question. But the general administrative framework of control should be kept until the main industries are fully reconverted and turning out goods freely. Controls (formal or informal) over the major durables will be needed longer.

5. Wage increases are desirable to offset loss of overtime only so far as industry can absorb them without requiring price increases, and they should be equitably distributed among occupations. To this end the War Labor Board could render important service.

6. Rent controls should be continued during the initial reconversion period, with adequate return allowed on improvements.

IX. IMMEDIATE PROBLEMS OF THE "CATCHING-UP" PERIOD

CHARACTERISTICS OF THE PERIOD

WHEN industry has completed its change-over, it will resume production, and the next period will be dominated by the filling of deferred demand for durables. It has been spoken of as the "catching-up," or the "replenishment," period. It will also be the period in which the first of the new postwar products will begin to make their effect felt, though later than the resumption in established products like automobiles and mechanical household equipment. The first and most buoyant phase of catching-up will naturally come to an end with the filling of deferred demand for automobiles, unless some great new products take a dominant place in the markets in the meantime. This probably means something like two years after the end of the retooling period—more, if there has been little or no resumption of automobile production before the final armistice; less, if there has been a very great amount of resumption.

During this time, private employment will be increasing, but if it expands as fast as 4 million per year it will be doing remarkably well. In the meantime, something more adequate than apple selling or leaf raking will need to be done about the unemployment that remains while the expansion is taking place. But unless this unemployment is unduly large, there should be no occasion for jumping to the conclusion that "private enterprise has failed" to handle the problem. If industry is going to achieve ample employment under its own steam, it should do so toward the end of this first buoyant phase.

These first years following retooling will be full of a number of different kinds of developments, coming at different times and lasting for different lengths of time, with the result that the uncertainties baffle prediction. The small hardgoods and minor durables will mostly come back into production quickly, and deferred demand will soon be made up. Much of this may have been done before the final armistice. The larger durables of familiar sorts will mostly come into production later, and may take several years to make good the deferred demand.

In the case of automobiles, the rush to buy new cars may be less sudden and unanimous than many are expecting. It is fair to assume that the first postwar car will not be changed basically from the 1942 model. Many will want such a model right away, but many others will wait for something better. When the first "cars of the future" appear, some buyers may still hold off one more season, waiting for new features to be freed of initial "bugs," and hoping for better workmanship as the reconstituted working force becomes more seasoned in its resumed job.

Outlays for plant reconversion also may not take place all at once. Producers of experimental products will not all be ready to tool for quantity production in the first six to twelve months after the final armistice. In the meantime, new producers of familiar types of products are likely to bring about overcrowding, particularly in the field of household appliances. Among other things, goods made of light metals, plywood, and plastics will be competing to see what fields each can hold.

Most uncertain are the effects of new goods, new materials, and the entry into existing branches of production of new producers inexperienced in these branches, using converted plants originally built for war work. Genuinely new products will take some time to develop and to test in the field before they are ready for quantity production. This may take from one to three years, which is just about the length of time required to make good the backlog of deferred demand for the familiar major durables. Thus, given ideal timing, the new goods might be ready to take over as the stimulus of the backlog wears off. However, this would be supposing that the consumers are educated up to wanting the new products a good deal faster than such education has occurred in the past. Perfect timing for all the many factors involved would be too much to expect.

It is inherently more probable that the end of the backlog stimulus, combined with the retirement of disappointed producers from overcrowded markets, would lead to a depression after two or three years of expansion. Mitigating factors would be the development of new goods, and the fact that highway and housing construction would still be going on at more than normal rates. Deferred demand in these fields may take ten years to fill.

To summarize, the catching-up period will be adventurous and will probably be marked by vicissitudes. Industry will be doing things that will have to be worked out by trial and error. But whereas ordinarily such things are done a few at a time, in this case industry will be doing a great many of them all at once, with the result that the errors can be much more seriously disturbing. The problem is one of expanding the civilian side of the economy much faster than it has ever expanded before, and perhaps faster than a system of private enterprise is capable of expanding without serious strains and possible revulsions.

MANPOWER CONTROLS

Those manpower policies that are properly described as "controls" will presumably have been pretty well demobilized before the catching-up period begins.[1] Limitations on free movement will, of course, vanish. Government will want workers to have jobs, but among jobs will play no favorites. It will be offering aid and guidance, not control. This should include a large and efficient federal employment service, flanked by services of vocational reeducation and rehabilita-

[1] Paul McNutt has proposed to abandon them after the defeat of Germany.

tion, special services for veterans, and the whole social security system. These general services, in some form, are necessary to the organization of a modern labor market. They may be expected to continue on a smaller scale as a stable peacetime feature of the economy.

The one feature smacking of control is a corollary of unemployment benefits. It is unreasonable for a worker to maintain a right to such a benefit if he has refused a reasonable offer of a job. Whatever "compulsion" is involved in giving effect to this principle is much milder than the compulsion of an unregulated market. The likelihood that unconditional unemployment benefits would make workers prefer idleness, and so lead to refusal of reasonable job offers, naturally increases with the size of the benefit.

PRODUCTION CONTROLS

Any production controls that may remain will be concerned mainly with supplies of raw materials. Most of these controls, if not all, can presumably be demobilized as soon as we have passed through the uncertainties and possible shortages of key factors of production attendant on resuming the production of durables on a large scale. In some few special cases, reestablishment of foreign supplies may take time, and some temporary allocations may be justified on this account; but permanent postwar scarcities will presumably be allocated by the market. There will still be inventory pipelines to be filled up, and in the meantime some loose and informal inventory controls, as discussed in Chap. VIII, may need to be continued. It is possible that some of the wartime reporting services may be found to have permanent usefulness as barometers of conditions and warnings of impending disturbances. In general, however, production controls will presumably be dropped as industrial production gets well under way with supplies of materials and components reasonably assured.

Another policy which has been proposed is that of restricting production of durable goods in order to avoid a too exaggerated boom while producers are racing to fill deferred demands, which would necessarily be followed by a slump. If such restriction prolonged the catching-up stimulus, it would also prolong the period during which there would be need for price control and probably some kind of rationing. Such a policy might also lead to more formal price control and rationing than would have appeared necessary if the government had not assumed responsibility by intervening to prolong a state of scarcity.[1]

When the issues are nearer and clearer, it seems unlikely that a public policy of restricting output of durables will be adopted. On balance, the writer believes it should not be. If demand is spread over several years, this will automatically spread production, perhaps sufficiently. Even without public restrictions, we are not likely to reach a satisfactory level of employment for some time after production of all durables is fully resumed; and for reasons already mentioned, the statistics are likely to look worse than the facts warrant. Feeling being what it is on this issue, any deliberate hindrances to increased employment will surely be swept away by irresistible pressures, and probably should be.

One reason for this attitude is the desirability of terminating price controls, and situations requiring them, as soon as practicable. But the dominant reason is the vital importance of developing all the self-sustaining employment we can, in the years immediately following the war. There will need to be, let us say, seven persons employed for every six employed in 1939; and we cannot tell in advance where the extra job may come from. A vigorous revival, even if based on temporary factors, is better than plunging at once into a state of prolonged semi-stagnation. Granted that it may be a breathing spell between emergencies, we need a breathing spell, and we are amply forewarned that we must meanwhile be working

[1] Another proposal is that demand should be limited, and profiteering simultaneously prevented, by a heavy selective excise tax. Reasons against this will be given on p. 169, in connection with price controls.

hard on general developments of consumption to take the place of a few years' concentrated demand for automobiles or houses. We know we do not now have a sound and sure basis for permanent, abundant employment. Four or five years from now we might at least be closer to it. "After us the deluge" is always a wrong policy; but playing for time may be sound, if the time is put to good use.

POSSIBLE INFLATIONARY OR DEFLATIONARY PRESSURES

The need for continuing price controls will, of course, depend on whether there are inflationary pressures, and, if so, of what kind, and how widespread. The question whether there will be a general "inflationary gap" will depend on whether there is a flood of spending of accumulated war savings, partially dammed up during the retooling period and let loose when industry resumes production of durables, and when employment and confidence revive. The result would be nothing like the gap created at the height of the war effort, when industry is not free to expand production of civilian goods. Nevertheless, for some time the funds which buyers will be seeking to spend might easily exceed the available supply of goods. However, by the time of which we are now speaking, the emergency feeding and clothing of Europe will probably be ended, and domestic supplies of food, clothing, and nondurables generally will probably be sufficient to meet the demand. Accumulated war savings, to the extent that they may be spent for nondurables, are not likely to be spent at an inflationary rate—that is, the spendings of some are not likely to exceed the simultaneous savings of others. The inflationary effect of accumulated war savings, on the whole, may be expected to center mainly upon durable goods.

There is another possibility of general inflationary pressure, but one that does not seem probable. If things work badly during the first six to twelve months after the armistice, resulting in a serious depression, and if then a policy is adopted of great public deficit spending, bearing the whole burden of actively expanding the civilian economy from this depression level to a level of full employment, then there would assuredly be inflationary pressure as a result. If this were accompanied by conflicting demands for income protection on the part of farmers and organized labor, inflationary pressures would take a more irresistible form.

This particular combination of conditions may be rather unlikely. However, if any general policy is adopted which insists upon public deficit spending up to a point of "full" or extremely high employment and without regard to the removal of monopolistic and other obstructions which may exist in the structure of the system, then general inflationary pressures are certain to result, and, if progressive inflation is to be avoided, indefinite continuance of direct control of prices and wages will probably be necessary.

Wage-cost inflation might occur if organized labor should prove strong enough to enforce postwar increases in hourly wage rates calculated to maintain real weekly earnings at wartime levels in the face of shortened hours and cessation of overtime. Certain factors would help industry to absorb wage increases, chiefly increased man-hour productivity since 1940 and reductions in business taxes. Wage demands might be mitigated by reduced food prices resulting from reduced farm prices, but this factor is not likely to be very important, since there will be farm-price supports at or near 90 per cent of parity. Whether the wage cost of goods would rise or not would depend on the balance between these two factors. If wage costs rose, thus raising the prices of things farmers buy, this would raise farm parity; this would react, via food costs, on the cost of living, and might occasion further wage demands in an endless series. However, the bargaining power of organized labor is unlikely to be strong enough to bring about inflation in this way, unless the demand for labor is artificially supported.

General deflationary pressures are a possibility if (1) there are surpluses of many or most raw materials in this country or in the world, and if (2) wage rates in the production of civilian goods in general (as distinct from work like munition making) suffer reductions.[1] If wage rates generally resist deflation, price reductions for finished products cannot go very far or very fast; but there might be a serious contraction of production. Then the war savings of many workers would be spent for necessities, but not in sufficient volume to offset the shrinkage of income due to cessation of overtime, transfer to lower paid jobs, and reduced employment, and therefore without increasing total spendings to an expansionary level. Then the confidence necessary to liberal spending of savings might not revive, and a really buoyant revival in the durable-goods field might fail to appear.

This would be a misfortune or a disaster, depending on how far it went. As to remedies, universal deflation of wage rates and prices would not help, and universal pegging would probably do more harm than good. Particular prices and wage rates which obstruct the revival of an elastic demand should be free to move downward. Far more helpful are early retooling, prompt resumption of production in retooled plants, and other measures calculated to sustain demand over a temporary slump and to create confidence that the slump will be temporary. In any case, there will be enough demand for the major durables to cause demand to exceed supply in that sector of the market for some time after production is resumed.

PRICE CONTROLS AND RATIONING

From the foregoing it does not seem likely that general price controls will be needed for long, if at all, during this period. There is merely enough possibility to make it unwise to disband the control machinery completely until the need is clearly ended. The same is true of rationing. In each case durables are an exception. Outside of this field, both price control and rationing should be for the most part terminated by the time the international movement of goods ceases to be

[1] *Cf.* the discussion of the probable course of wages, on p. 145*ff*, above.

on a basis of heavily unbalanced shipments for relief and rehabilitation. In general, price ceilings for most basic materials are likely to be suspended, if not removed, before the catching-up period begins.[1]

The only group of prices in which control at the consumer level can be expected to persist are the prices of consumers' durables, during the interval when supply is short of demand because producers have not had time to make good the accumulated backlog of deferred demand. It has been suggested that the consumer will be afforded sufficient protection by competition and by the desire of established and reputable producers to keep the customers' good will. If the producers should lose that, through temporary profiteering, they might lose more than they gained in the long run. This is possible (but not certain) in some industries in which the reputation of the product and the name of the producer carry great weight, and in which it is difficult for "fly-by-night" producers to set themselves up with any chance of success.

However, the force of "supply and demand" is very powerful, and it is still regarded by many industrialists as a sanctified and sanctifying formula. This formula would permit heavy profiteering during the period when supply is catching up with accumulated demand, subject only to the long-run judgment and discretion of the producers. They might honestly and conscientiously limit themselves to what they considered a fair return, but it is one of the universal principles of economics that it is not safe to allow any individual unchecked discretion to decide what recompense is fair for the services he himself sells.

What makes this problem of price control peculiarly difficult is the fact that there will soon be new models to be priced, including those made by producers who are new to the industry in question. Techniques would need to be developed for imposing ceilings on products which have been out of production through the height of the emergency, during which

[1] *Cf.* above, pp. 150–151, on procedure of provisional suspension of ceilings.

time conditions affecting costs will have changed, in some cases quite markedly. This will naturally be a more difficult adjustment than to keep price ceilings up to date for an industry in which production has gone on continuously. Many such price ceilings would necessarily be rather rough and ready makeshifts.

However, price control in the replenishment period would not need to be so "tough" or precise as when it bears the burden of resisting all the inflationary pressures of an all-out war. In the postwar period, supply will be free to catch up with demand; and, if there is a lag, a slight increase of price during the interval is not such a serious matter as it is when a wartime inflationary spiral is threatening to get out of control, and no one knows just what will contribute the final and deciding impulse.

Profiteering in such cases may be mitigated by some remnants of excess-profits taxes which may be continued during the period of war-caused shortages; but these should not be relied on exclusively. Still less should the attempt be made to equalize supply and demand during this period by heavy excise taxes on the key consumers' durables. These taxes might prevent inordinate private profiteering, but would not protect the consumer. There will be the ordinary worker who needs a car to get to his ordinary job. He will be in no position to pay a heavy excise tax. There will also be many returned service-men, setting up housekeeping for the first time with scanty resources. In short, the postwar demand for durables will not be a luxury demand of the sort that can suitably be asked to pay a heavy excise tax.

This is not merely a matter of kindness to the consumer. The whole economic system is depending on the consumers' spendings to bring about rapid expansion of the physical volume of civilian production and employment. For that purpose, every consumer's dollar needs to be able to buy as much as possible in terms of goods and hours of labor. If prices of durables are boosted by any of the methods suggested, then each consumer's dollar will buy less physical product, and will furnish fewer man-hours of employment.

Therefore, it appears that even a rather imperfect set of price ceilings, erring on the side of liberality, would be better than none during the period of temporary shortages. There might be exceptions in cases where the psychology of the producers is such that prices would be pushed up to the ceiling, even if, in the absence of any ceiling, some leaders of the industry would have set them lower, and caused others to follow. It has been suggested earlier that the price-control problem in the catching-up period would be much eased if early reconversion could take care of most of the scarcities of lesser products, thus narrowing the scarcity areas to major products, produced in large quantities by relatively few large industries. In this case, informal methods of control might be successful, both for prices and rationing.

The upshot is that this phase of price control requires a high grade of discretion. For that reason, it becomes peculiarly important that the quality of the personnel controlling prices should be maintained at a high level. If this cannot be done, we face the possibility that some cases of postwar price control, needed and justifiable in principle, might, in practice, do more harm than good, through failure to solve the extra-difficult problems of administration. The length of the scarcity period will vary for different products. One might estimate that the need for controls will last not more than three years after the armistice in the case of automobiles, and less in the case of other durables, except housing, which will require the longest period of all for supply to catch up with accumulated demand.

If price controls are effective, there will be the further question of determining who shall get supplies during the interval of shortage. The type of rationing suited to this kind of product is certificate rationing, in which each purchase requires a certification of individual need. This is the most burdensome kind of rationing, and pre-armistice reconversion will already have shown us that it is too burdensome to apply to all durables as the supply expands from scarcity to plenty. Probably all that could be undertaken, with likelihood of public support, would be the kind of system already suggested, under which rules are issued, giving priority to certain types of buyers or uses, and dealers are instructed to carry out these priority ratings.[1] Such a system would not afford price ceilings the support a good rationing system should furnish. This defect may be less serious when production is unrestricted, and the buyer who cannot get delivery today may get it next month. Inflationary pressures and the urgency of the battle against them will both have eased somewhat. Nevertheless, the informal methods should not be relied on too long.

MAINTAINING COMPETITION

The abandonment of direct controls of prices presupposes that competition is in reasonably effective working order. This implies that the structure of industry permits healthy competition and that the antitrust laws are fully enforced. There will be a backlog of antitrust cases, postponed during the war, which may create an appearance of unusually aggressive antitrust activity, without reflecting any real increase in the belligerence of the prevailing policy. Business should be prepared for this, and should discount it accordingly. The chief strengthening of policy already in prospect is in the area of international cartels.

Aside from this, probably the thing most needed is that antitrust policy should continue strong without making unfamiliar and unsettling new departures. Business is reasonably adjusted to the antitrust laws as they are; and probably the least disturbing thing is to continue them without much change, other than the normal development of case-law under them. They should not become ossified. In fact, there may

[1] *Cf.* above, p. 96.

be need for a change of policy involving increased emphasis on constructive control of trade practices, with a view to bringing about a healthier degree of competitive pressure. Such questions, however, can probably best be dealt with more deliberately as matters of long-run policy.

Conditions of healthy competition involve problems, some of which center in the inexperienced or high-cost producer. It is probable that industry will not, in the long run, be able to afford as high percentage returns on investment as have been considered fair and reasonable in the past. This is because invested capital per worker will grow progressively, and product per worker will probably increase more slowly than capital per worker, in terms of long trends, while the percentage of the total product going to the investor is more likely to shrink than to expand, by comparison with prewar conditions. If interest rates are low, a low profit percentage may still attract investment. The real difficulty seems to come in the fact that, if average profits are lowered and if the spread between high-cost and low-cost producers remains as it is, too many of the higher-cost competitors will make losses and not profits. Then business might get into so few hands that competition would suffer. The alternative would be prices high enough to protect inefficiency and award undeservedly large efficiency profits, the total of profits being more than is healthy for industry.

This raises the question whether, in the interest of the maintenance of healthy competition, ways may need to be found to reduce the spread in cost between high-cost and low-cost producers by furnishing services which may improve the efficiency of the high-cost producers or by pooling some elements of cost difference which do not register efficiency or inefficiency. Examples of the latter might be differences in ore deposits and possibly some kinds of transportation costs, where this does not represent unjustifiable wrong location of an industry. Needless to say, this kind of policy opens up endless possibilities of abuse.

Proposals will be made for some kind of guarantee of earnings during the transitional period, if not longer. With regard to many of these proposals, several questions need to be asked. Would they mean that investment generally would wait for a guaranty, and the guaranty would be hedged about with safeguarding conditions tending to exclude bold adventuring? Would the result be to cause investment to wait for an assured demand and be limited to the amount necessary to meet that demand in the most economical fashion, or would they tend to promote the kind of investment that pioneers ahead of demand? It is the latter kind which has been responsible for great American movements of industrial expansion in the past.

The issue of monopolistic tactics on the part of organized labor raises a different problem, and a more perplexing one. The first question is whether a democracy is capable even of attempting to control monopoly which involves the many instead of the few, thus antagonizing numerous voters instead of a few conveniently impersonal corporations. Assuming that something can be done, antitrust methods will not and should not be applied to wage bargaining, but deliberate practices of restricting output are a different matter. They are a burden on a sound economy—one which is capable of utilizing its full productive powers—and our ultimate aim should be to get rid of such restrictions. But in the transitional period after the war, moderate output restrictions may serve to spread work and may be as good a way of doing it as any other, provided that they do not become permanent and are not accompanied by wage rates so high that they could be justified and supported only by unrestricted output. In the latter case, they would raise costs, set up obstacles to the disposal of adequate output, and constitute a cumulative aggravation of the situation of under-employment.

These problems present a perplexing tangle. One redeeming possibility is that pressure toward monopolistic and output-restraining practices is partly a result of the fear of depression and unemployment, and may be reduced to more manageable proportions if that fear can once be reduced by a successful record of high-level employment, backed by measures which afford reasons for confidence that it can be maintained.[1] Application of antitrust laws to labor rouses intense resentment; and voluntary methods should be exhausted first. If legal action is resorted to, it should be confined to extreme cases, constituting handicaps to expansion not only of output but of employment.

Since the catching-up period is the critical time during which the performance of industry will be watched to judge whether it is showing itself capable of meeting this test, this is the period during which it is peculiarly important that the drive toward full employment should not be handicapped by any practices, whether of capital or labor, which are clearly monopolistic and restrictive.

WAGE POLICY

High wages are good, but how high?

A rough test of whether the combination of wage rates and output practices is unduly restrictive would be if it raises costs and thus necessitates an increase in price. (Such a test would, of course, be difficult to apply to construction contracts.) This is an argument for continuing, in modified form, the wartime practice whereby any wage increase that necessitates a price increase bears an especially heavy burden of proof. If the machinery of wage control should last as long as this, it could play a part in protecting the volume of employment against the harmful effects of unduly restrictive policies and unduly inflated wage costs.

[1] Since the foregoing section was written, a platform was announced (on Apr. 11, 1944) drafted by a committee of the American Federation of Labor, containing just such a conditional proposal for the relaxation of output-limiting restrictions. This appears to be a significant symptom. One obvious difficulty would be that of agreeing on attainable standards of employment.

If wages in a particular industry are so high as to increase costs unduly, the market for the product may be limited or the employer may be stimulated to introduce labor-saving devices. In either case, employment in this industry may suffer, and this may or may not be offset by increased employment in the equipment-producing industries. If increased costs are avoided by economies in production, in order to enable an industry to pay high wages, it regularly means less labor per unit of product, and may not increase total demand enough to counteract the effects on employment. Other problems include the setting of standard wage rates that do not sufficiently allow for the difference between the better and poorer workers, with the result that the poorer workers are unprofitable for the employer to hire.

It will never be too early—and, one hopes, never too late—to experiment with forms of wage payment more rationally calculated to promote full employment than the system we have now. While this is not a matter to be initiated by order of a public board, something might be done by way of initiating investigations. The principle of the annual salary, if universal, would make hiring a worker a serious matter—too serious in many cases. But it contains a sound element in that full-time employment does not increase the employer's wage cost over part time and therefore full time is more advantageous to him. Yet it seems one-sided, since the worker should also have an incentive and reward for working full time instead of part time. If workers and employers really got together in a single-minded search for ways of increasing employment, it seems certain that methods of paying wages could be devised which would maintain the workers' income, and at the same time reduce the additional cost to the employer of furnishing full-time rather than part-time employment. As already noted, a work-sharing system consisting of a sub-standard basic working week plus time and a half for overtime (intended as a penalty rate) does just the opposite.

INTERNATIONAL CONTROLS

The catching-up period in the domestic economy should witness the transition from international first aid to a more enduring basis for international economic relations. This is so full of unanswered problems that speculation is almost prohibitively difficult, and this discussion may be limited to some basic questions involving domestic impacts. It is one of the urgent needs of the world that trade should be as free as the paramount needs of defense permit. But in the postwar world the paramount needs of defense may operate in a setting of national groups, potentially hostile to one another or fearful of one another's growth in those economic resources which constitute the basis of potential military power. The force of these considerations may be reduced, but will not be automatically eliminated, by institutions for collective international security, necessary as these are.

The problem of this country's synthetic rubber industry has been mentioned, involving, as it does, our desire to be independent of imports for an essential war material. But if our synthetic rubber is made from oil, that does not free us from the necessity of imports; it merely increases our dependence on imported oil. The choice may be a political one in the largest sense. We must import if we are to be a good neighbor, and if we are not to force various countries into alliances with our potential enemies.[1] This is merely illustrative of the kind of problems which will be involved in the postwar settlement.

The United States will naturally wish to continue its customary export balance of trade, which implies a continued export of capital if it is to mean anything real. The process of importing the remainder of the world's gold, and locking it up in Fort Knox, is hardly a good substitute solution. As to this, two things seem to stand out. One is that the export of

Cf. J. B. Condliffe, "Economic Power as an Instrument of National Policy," *American Economic Review Supplement*, March, 1944, pp. 305–314.

capital cannot be on the old basis of "dollar imperialism." Plans have been discussed for the setting up of institutions which might remove the main grievances arising from international investment. If this could be successfully accomplished, it would prolong the period of net capital exports on the part of this country and give us time to adjust to the destiny of a creditor nation.

The second basic fact is that the returns on such investments must some time overbalance the continuing flow of fresh investment and must take the form of imports to this country, over and above the increased imports of raw materials for which expanding postwar industry in America will call. In the long run, this country must adjust its domestic economy so that it is not afraid of imports, but can maintain adequate employment in the face of whatever competition and whatever increased supply of goods may result from a balancing of accounts in international trade. This will be accompanied by increasing industrialization of numerous foreign countries.

On the whole, we may expect to be less preponderantly exporters of any one particular type of product; and we shall probably be increasingly importers of basic raw materials, especially as some of our own natural resources have been considerably depleted during the war. The development of substitutes may help to protect us against exploitation by foreign sellers of materials, but should not serve as a pretext for excluding the foreign materials in order to give the entire field to our domestic production of substitutes. These adjustments, like the long-run adjustment of income, savings, and investment, are matters extending beyond the postwar transition and into the enduring changes with which the coming generation will have to deal.

FISCAL POLICY

There is no possibility of predicting, still less of guaranteeing, any precise rate of production and employment during the catching-up period. Forecasts may be useful as indicating the elements that will go to determine the outcome, but are likely to be dangerous if they lead people to rely on the forecast and fail to prepare for different contingencies. If we do the best that can be expected in the way of making the economic system fluid and competitive, a rapid expansion may follow. But there can be no guaranty that it will automatically reach a satisfactory level of production and employment, even if it goes ahead fast enough to generate inflationary forces in the price and wage structure.

The most obvious and direct supplementary measure is public spending, without corresponding increase in public revenues. This may be necessary at times, but it is altogether too simple a prescription. If there has to be spending of this sort, it is still important to decide what kinds of spending will do the most good, and how much of each kind is worth while. Similarly, the policy as to revenues is not merely a matter of the total amount of revenues and total amount of surplus or deficit. It may be more important to reduce taxes in the right way and in the right places than merely to reduce them, even by larger amounts.

For purposes of stimulating the economy, tax reduction should be such as will have the greatest effect in increasing spending. This includes both consumption and investment spending, and requires good judgment in balancing the two elements against one another. A revenue system looking to stimulate consumer spending alone will avoid excises, exempt the lower incomes, and fall so heavily on the larger entrepreneurial incomes as to remove much of the incentive to investment. But there is no room for increased taxes on the highest incomes; hence revenues will be reduced. A system looking solely to unburdening the returns from investment will necessarily burden consumption unduly, and thereby reduce the field in which sound investments can be made. Once more the alternative is reduced revenues.

In case of inflationary pressures, the simplest tax prescription is to postpone the raising of the low wartime exemptions in the personal income tax. If long-term inflationary pressures develop, they are likely to result from increases in costs rather than from excessive demand; and in this case, tax measures calculated to repress demand would make things worse rather than better, creating a market unable to pay the prices which increased costs would necessitate.

As to expenditures, a postwar federal budget in the general neighborhood of 20 billion dollars is forecast by competent observers. This includes debt charges possibly in the neighborhood of 7 billion dollars, continued expenditures for armed forces engaged in the postwar maintenance of international order, substantial public-works outlays, provision for veterans, and probably an increased scale of social-security benefits. There will be a large backlog of normal and justifiable major public-works projects, and these can probably be initiated promptly after the final armistice, with no danger of conflicting with private demands for labor and materials. They may take well over a year to reach the point of large employment, and there may be an interval after unemployment benefits and separation pay have, for many persons, been exhausted, during which the "large shelf of small projects" suggested by A. F. Hinrichs would be very useful, if they were ready for prompt initiation.

Putting two and two together, the conclusion is that a stimulative fiscal policy leans strongly toward deficits. This raises serious practical questions for an economy already loaded with a federal debt amounting to about twice the annual national income and with debt service alone roughly equal to the highest previous peacetime budget. The probable reaction of the economy to further deficits should be seriously considered.

This reaction will represent a postwar attitude toward deficits in general, with whatever enduring changes may result from the war experience. Some are saying: "The war has proved that sufficient spending will stimulate full employment, and that deficits are not fatal." There may be some doubt, however, whether many are saying this who did not already believe much the same thing before the war. A more common attitude seems to be: "We had to spend without thinking of ordinary limits, as long as our national safety was at stake. We did not like the accumulating debt, but could not stop to worry too much about it, having more urgent things to concern us. We realize, however, that it cannot go on increasing forever."

But the balance of public spending and public revenues, even with due regard to questions of place and kind, is still not enough to consider. The problem is like that of an irrigation system which fails to deliver enough water. Deficit spending alone is like pouring in more water without searching for obstructions and removing them or building up banks where they have been breached and let the water out. This analogy, like most others, is not perfect, and should not be overworked. Logically, an engineer would probably remove obstructions and repair the banks first, and then, if necessary, pour in more water. In the economic problem, the pouring in of added funds is the thing that can be done quickest, while some of the things corresponding to removing obstructions and building up banks will necessarily take longer. Even so, it is necessary to see to it that the increased flow of water does not jam the obstructions tighter than ever, and further erode the gaps in the banks. The "obstructions" in this case represent monopolistic restrictions of all sorts; the "gaps" represent funds leaking out of active circulation.

By way of example, one thing which is badly needed in connection with any large public-works program is to give the authorities administering it more effective bargaining power than they commonly have, in order to free them from the necessity of paying unreasonably high costs. Safeguards are needed to ensure that wages on public works should not be oppressively low. We have in the past erred in the opposite direction, requiring the government to pay "market rates" which are sometimes so high that they become purely nominal and are not actually paid by contractors working on private projects.

In the case of materials, the government should be freed from mechanical requirements for public bidding, which frequently oblige it to pay an openly quoted price which is higher than is commonly charged on private sales. This results where the producers are willing to shade their openly quoted price, but are unwilling to do so on a published bid, since that would be likely to force a reduction of the generally quoted price, which would then be a point of departure for further reductions on private sales. In short, public works should not be so handled as to set up an unduly inelastic demand, which can be taken advantage of by semi-monopolistic sellers.[1]

As to the effect of deficit spending in expanding the output of industry, one question to consider is whether the economy would respond to a permanent program of spending for the sake of spending (in order, that is, to make the total volume of spending as large as it needs to be) in the same way in which it responds to temporary spending on goods and services which are unquestionably and imperatively needed to save the nation in an emergency. A further aspect of the same question is the fact that in the war effort the government furnished the majority of the funds for increased investment in plant and equipment, while in any postwar stimulative-spending policy, the response of industrial investment to the artificially created demand would be left to private industry. Will private industry respond with the requisite boldness and readiness to pioneer ahead of demand, when it knows that the demand rests upon a policy of public deficit financing? A wise fiscal policy for the postwar period needs to find some sort of answer to these basic questions of attitude.

The immediate answer seems to be that, during perhaps the first three years after the final armistice, or somewhat longer

[1] See Wesley C. Ballaine, "How Government Purchasing Procedures Strengthen Monopoly Elements," *Journal of Political Economy*, December, 1943, pp. 538–546.

if necessary, we should be prepared to incur some further deficits if they naturally result from expenditures needed to sustain consumption, combined with removal of taxes tending too seriously to restrict either consumption or investment. This, however, should be regarded as a breathing spell during which it is imperative to canvass methods of balancing income and spendings at a high level in the economy as a whole, without relying on heavy and progressive public deficits. Chapter X will deal with this basic problem of the long pull, for which the period of catching up should serve as preparation.[1]

FOOD STAMPS, MONEY BENEFITS, MADE WORK, WORK SHARING

The end of the large flow of first aid to Europe, which is likely to coincide with a time of reduced incomes in this country, will result in a sharp drop in demand for American agricultural products and possibly soft goods in general. Some use of food-stamp plans, and possibly other forms of subsidized consumption, on a temporary basis, might be appropriate to fill in this decline in demand. The question of possible continuance of such policies could be left to be settled later. If approximately full employment should develop, these policies would no longer be needed.

In the meantime, there may be a choice of three types of policy, each open to objections, requiring wise judgment to determine which is, on the whole, preferable. One is the support of unemployed persons by money payments of one sort or another. If carried beyond a temporary period of months, this becomes demoralizing. Another is "made work" of little or no economic value in itself, and this also becomes demoralizing and raises great difficulties with regard to wage rates, total earnings, and the fitting of the work to the capacities of the unemployed. If resorted to on a large scale,

[1] *Cf.* also, more specifically, pp. 195–201.

this is likely to prove an even greater evil than cash distributions. A third possibility is work sharing, with a shortening of hours in ordinary production below what would otherwise be desirable. This is to be distinguished from the normal shortening of the working week which accompanies increased real income. The latter represents an increased standard of living, voluntarily divided between more goods and more leisure. The former represents a reduced standard of living, including compulsory leisure where the worker would have preferred more goods. Instead of avoiding unemployment, it spreads it.

Work sharing has the defect of laying the burden of unemployment on the unemployed wage earners, who are on the whole least able to bear it. Nevertheless, in view of the objections to other possible methods, it is worth investigating whether this could be so handled as to remove or minimize the objections to it. If it is combined with increased wage rates, as under the NRA, in order to maintain total earnings, it increases unit costs and thus is an obstacle to the revival of demand. Another mechanical difficulty is exemplified in the present provision for a 40-hour week with time and a half for overtime. This was adopted during NRA as a work-sharing provision with an automatic and elastic limit, to avoid the undue rigidity of more absolute limits. However, as was foreseen by some at the time, its origin was forgotten and it came to be regarded as a permanent part of the "American way of life." The penalty overtime then became an obstacle to longer hours, when longer hours became economically desirable, notably in civilian production during the present war.

The moral is that this kind of work-sharing provision should not be adopted except under conditions guaranteeing that it will not persist in such a way as to peg the working week below what is economically desirable when demand warrants a longer one. Productivity has perhaps increased by now enough to make the 40-hour week in general sufficient for a desirable working balance between product and leisure. But if we should, after the war, go down to a 35-hour week or less, with time and a half for overtime, in order to spread work during a transitional shortage of demand, this would probably turn into a permanent part of the "American standard," and an obstacle to desirable expansion later on.

Consideration might be given to shortened hours without increased wage rates but with supplemental benefits, set up as part of a scheme of standard hours that would automatically increase as unemployment diminished and wages were automatically substituted for the special benefits. If time and a half for overtime beyond an admittedly and intentionally subnormal work week is used as a penalty measure to induce work spreading, it should be part of a scheme by which the base week would be raised to a normal standard whenever demand revived to such a point that overtime became fairly general rather than exceptional. This presents so many difficulties that its practicability is doubtful. Various expedients should, however, be examined.

SUMMARY AND CONCLUSION

By the end of the retooling period, manpower controls should be changed into a system of guidance and assistance to the placement of labor, such as is necessary to a well-organized national labor market. Unemployment benefits should properly be conditioned on willingness to accept reasonable job offers.

It should be possible to terminate the allocation of materials and components in the early part of the catching-up period, if not before, barring cases of exceptional and temporary scarcities. Inventory controls may be needed a little longer, but not after the early part of this period, during which the orderly filling of the main inventory pipelines should be assured. Attempts to prolong this period by restricting output of durables will rouse great opposition, and probably should be abandoned.

There will be scarcities of the major durable goods, probable surpluses of most basic materials, and more probability of deflationary than of inflationary conditions in the field of general consumers' goods. Accordingly, while the framework of price control should be kept in case of need, actual ceilings can probably be limited to the major durables, and these may be informal, accompanied by an informal use-priority system in place of formal rationing.

Before all this happens, we should have faced the question whether the peacetime controls, centering in competition, are in a state of effectiveness sufficient to make it safe to disband the wartime controls. As a continuing check on prices, it is important to maintain a structure of industry consistent with healthy competition and to enforce the antitrust laws vigorously. Increased attention will properly be devoted to international cartels. Some restraint on extreme and burdensome output-limiting practices on the part of labor is also important.

The economic requirements of national defense must be adjusted to those of friendly international relations. For this country to maintain its customary export balance requires new methods of handling the export of capital. Ultimately the economy must adjust itself to accepting enlarged imports, preferably without suffering displacement of domestic production and consequent economic stagnation and unemployment.

Deficits may be incurred as a result of expenditures that are needed and of avoiding amounts and kinds of taxes which would unduly restrict economic expansion. Such deficits need not cause alarm, if we are making progress toward an economy which can maintain a high level of activity without continuous use of this kind of stimulus. A revenue system must strike a balance between easing burdens on consumption and on the incomes which furnish the incentive to investment. Those in charge of public-works projects should be freed from restrictions on their bargaining power which often cause them to present a completely inelastic demand for labor and materials, and sometimes force them to pay more than private purchasers pay in the same markets.

Temporary work sharing may be better than nothing, but it should not be brought about by reducing the 40-hour standard week to a work-sharing level, but only by measures so safeguarded as to make certain that they will be temporary.

In short, the catching-up period should witness the final demobilization of the temporary war controls. With this will go the decision (conscious or unconscious) as to whether some elements developed out of the war controls may find an enduring place in our economic system, either on an authoritative or a voluntary basis. But this period will be less important as an end than as a beginning: a preparation for the more enduring state in which the economy will have to get on without backlog demands and recent "hot" war savings to lean on. The transition is likely to mean a sharp depression, and could mean a long period of mass unemployment. To avoid this, we need to be learning how to make enduring use of the tremendous productive power we have shown that we possess. To take advantage of this will require more than a wave of replacements of automobiles, electric refrigerators, and such things, even with greatly improved new models; it will require far-reaching changes in consuming habits.

The great postwar question is the question whether private enterprise, with or without modifications in its own structure, and with or without supplementary collaborative or regulatory activity by government, will succeed in furnishing a sufficiently high level of employment during the next generation. During the few years of catching up, the answer to this question should be foreshadowed; but only in the subsequent decades will it fully emerge.

X. CONTROLS IN A LONGER PERSPECTIVE

CHANGING RELATIONS BETWEEN GOVERNMENT AND BUSINESS[1]

If we are to understand the state in which peacetime relations between government and business will find themselves as the present war controls are taken off, and to foresee what is likely to happen next, it is necessary to understand that in 1939 the peacetime scheme of relationships was in the early and crude stages of a basic change, the full effects of which have still to be matured. This change resulted from the fact that depression and mass unemployment had become dominant problems of public policy.

Through the whole of America's history up to the First World War, the government had been mainly a policeman, telling people what they might not do, and trusting to the automatic forces of self-interest to energize the employment of resources in the creation of marketable products. The most general control was competition, and specific controls consisted mainly of a patchwork of attempts to restrain or reform a lot of separate evils or abuses. Since 1929, national economic policy has been dominated by the one organic and all-pervasive problem of instability and inadequacy of the total volume of economic activity and employment. Meanwhile, policy toward competition has become decidedly mixed.

The upshot is that government is changing from a policeman to a positive economic agency. Its activities are changing from piecemeal measures to a policy which is, or needs to be, organically integrated; and they are changing from telling

[1] On pp. 47–49 it was indicated that prewar relationships involved many kinds of control.

people what they may not do, to taking responsibility for repairing deficiencies in the energizing of economic activity as a whole, or, failing that, for rescue work. This is an over-simplification, but it is hardly possible to exaggerate the completeness of the contrast, and of the change in the nature of the job of government. Its methods of tackling the job have not changed as much as the job requires them to change.

With the major exception of the tariff, most of our economic controls have come into being since 1870, backed by popular movements to protect nonbusiness interests, in ways that involved putting restraints or obligations on business. Public-utility controls, antitrust laws, conservation measures, "blue-sky" laws, pure food and drug acts, limits on hours of labor, the beginnings of minimum wage laws, all have this same general character. Broadly speaking, it seems fair to say that these measures were not framed with an eye to their effect in expanding or contracting the total volume of economic activity. Whatever such effect they may have had was a by-product of something else. It was assumed that the system of private enterprise contained ample energizing forces, and that the only thing needed was to confine them within salutary channels.

The period from the establishment of the Federal Reserve System (1913) to 1929 might be regarded as a transition. Established to deal with banking and financial crises, the Federal Reserve System developed in the period when the problem of depression was thought of in terms of fairly short cycles of business activity—something that would be cured if the ups and downs were averaged out. The view was widely held that the cure for depression was to restrain the preceding boom, a view which may well have been wishful thinking on behalf of a government which knew how to restrain, but did not know how to energize. There was a natural bias toward the view that the new job could be done by the old techniques. The implied view was that, if activity were stabilized, the laws of supply and demand would take care of the problem of idle resources and idle men. It was thought that credit was a sufficient stabilizer, and that the Federal Reserve System represented a sufficient solution of the problem. This solution was simply superimposed on the piecemeal structure of controls which already existed.

The great depression of the thirties quickly made itself the nation's paramount problem, and forced the government to assume responsibility for it as the government's dominant task. At the same time it rendered obsolete the formerly prevalent views of the problem, and revealed itself in the guise of something too vast and formidable to be cured by Federal Reserve credit controls.[1] The idea that this depression could have been avoided by whittling off the top of the preceding boom clearly did not fit the facts; and probably never again will this idea be generally accepted as a sufficient prescription for the problem of depression.

But diagnosis was not sure enough to afford the basis for an integrated and coherent policy, to match the integral nature of the problem. The government had not solved the dilemma, one phase of which was expressed as the effort to "push on a string." The measures taken were frankly experimental, and largely still of a piecemeal character, simply added to the earlier structure of piecemeal regulation.

They included price support for sick industries, industries which had been sick throughout the "prosperous" twenties. They also included the control of security issues—a piecemeal reform measure quite in harmony with previous liberal reforms, but with doubtful bearing on the underlying causes of the stock-market boom and crash of 1929, let alone the general stimulation of business.[2] The NRA combined

[1] The current annual report of the Federal Reserve Board states: "In the past quarter century it has been demonstrated that policies regulating the quantity and cost of money cannot by themselves produce economic stability or even exert a powerful influence in that direction." (*Money* as here used includes bank credit in the form of checking accounts.)

[2] This control has been charged with laying disproportionately heavy burdens on the smaller enterprises.

work sharing, minimum wages, and limitations on destructive price cutting, with a proclamation of the right of collective bargaining. The measure was aimed at the depression, but aside from the effect of inspiring confidence, any stimulative effect which the combination might have had depended on a rather delicate and uncertain matter of timing, in which employers were expected prevailingly to absorb the initial impact of increased hourly wage rates, and to get their money back later when increased buying power should lead to increased buying. Public works, relief work, relief, and the devaluation of the dollar were all tried; and there were signs that the administration was settling down to the conclusion that public deficit spending was the one most positive and dependable stimulus to general business activity. Economists were divided on this issue, and the man in the street did as might have been expected—generally approved when some of the money came his way.

This was still the state of the question, up to the time when the country started to arm, after the fall of France. Depression was our number one problem, and it was still unsettled. The war temporarily solved it. When the war ends, it is not safe to assume that we shall not find this same problem waiting for us after the obvious and immediate job of reemployment has been done.

What will the war have done to the problem? It will have increased the conviction of many people that the problem can be simply solved, if the government only spends enough; and it will have made people in general less tolerant of failure, and thus made it a more urgent matter for government to find a solution, if private industry does not. It will have made organized labor, and possibly organized agriculture, more nearly independent of the forces of supply and demand. Business men will have done much conferring on price, while many small enterprises will have been weakened and many will have disappeared; and the line of least resistance in the disposal of war plants will lie in the direction of increasing the advantage of the large producer. These are all anti-competitive tendencies. Some of them may be offset after the war by the competition of new materials and new producers, or combatted in other ways. If not, there may not be enough competition left in our system to do more than create sick spots, occupations which suffer from other people's monopolistic powers and tactics while they themselves lack protection from the rigors of competition in its more extreme forms. Internationally, there is the question whether we shall find ourselves facing a world organized in cartels.

To sum up, the peacetime controls will not take over where they left off in 1940, when the country began the intensive drive to arm itself. The dominant problem will have moved along and become more insistent, and the older competitive controls will have grown weaker, in power and in public confidence. Changes will have occurred, some of which at least cannot be reversed. Some "economic laws" will perhaps work differently, and there is no guarantee that they will work better than before. If modified forms of competitive pressure remain sufficiently general, they may prevent the freezing of the economic structure, and the problem will take one form; if not, it will take another.

The peacetime controls, as already noted, have grown up piecemeal and mostly without reference to their effect on the total amount of business activity. Some have been charged with having unfavorable effects. If that is the case, it is a much more serious matter than it was in the twenties, and should be given more weight in any postwar reappraisal that may be made. In the light of this alteration in our scale of values, it might be logical to make a systematic survey of the whole structure from the standpoint of its effect on the volume of business activity—something which has never been done. But while this might be good logic, it would surely be bad psychology. It would wake up too many sleeping dogs, and would be too likely to turn what should be a peace conference between business and government into a fresh field of battle.

It might remind too many business men of irritations to which they were in process of adjusting themselves if let alone. A more serious aspect is that proposals to relax existing controls would open the doors to some renewal of the kinds of abuses against which the controls were originally aimed; and this would rouse opposition which would have much right on its side, and which would be likely to win out. This issue would naturally arise after the termination and preliminary settlement of the war contracts. If this is handled with the speed and the cutting of red tape which seem imperative in the interest of prompt reconversion and reemployment, it will inevitably leave behind some scandals. These will presumably exhaust the tolerance of the watchdogs of public virtue, who will be convinced that the country has gone far enough in permitting abuses under the guise of giving business the green light for its essential and proper activities.

On the whole, rather than make a major issue of a general move toward relaxation of public regulation, it seems that it would probably be wiser to leave it in the main to the processes of administrative improvement, combined with the cure that comes from getting used to things, except in particular areas or instances where an obstruction is identified which cannot be dealt with in this way.[1]

Aside from taxation, perhaps the chief single obstacle is a general sense of hostile attitude and a feeling of apprehension and unsettlement. A feeling that the rules of the game could be counted on to remain approximately stable would in itself be very reassuring. Ample employment under a system of private enterprise requires that government and business shall come closer together than they have been; and the adjustment must be mutual. The diehard attitude on both sides must somehow be modified or subordinated. This is one of the most important requisites to the creation of a postwar climate favorable to plentiful private employment.

[1] *Cf.* pp. 48–49, which commented on the concept of laissez-faire as whatever controls one is used to, and therefore a movable concept.

One possibility, not pleasant to contemplate, is a situation in which government undertakes to guarantee "full employment" by public spending, while private capital remains apprehensive and an array of monopolistic groups lock horns in an unrestricted struggle to grab the dollar proceeds, thereby causing the spending to be dissipated in price and wage increases, and preventing it from taking effect in ample employment and production of needed goods. In that case, wartime controls of prices and wages would need to be continued indefinitely, as the only way of resolving the conflict. Regimentation would be the alternative to chaos.

Even if we avoid this unpleasant dilemma, we shall still have an economy of large interests and organized groups, which can block needed policies if they act with old-fashioned ruthlessness. This means that the most important kind of peacetime control we need to develop, raising it from something occasional and rudimentary to something general and powerful, is voluntary self-control in the adjusting of questions of joint concern. These might equally well be called "questions of conflicting interests"; the difference lies not in the nature of the question but in whether the participant adopts an attitude of irresponsible and short-sighted self-interest, or an attitude of responsible and far-sighted teamwork. Irresponsible self-interest in economic affairs is as obsolete as the Stegosaurus. The changes of the past 75 years have made it so. There are only two things we can do about this: recognize it and act accordingly, or refuse to recognize it and take the consequences.

In the latter case, the only way we can solve the problem of unemployment and still preserve the voluntary principle is to develop some ingenious gadget or gadgets of control which are so foolproof that they cannot be defeated even by pressure-group interests quarreling over the division of the benefits. The odds are that no such foolproof gadget can be found. It will not be so difficult to find gadgets that can be made to work if they are handled in a spirit of mutual accommodation and good will.

This will be stigmatized as "idealism" because it considers the possibility of some real modification of the narrow pursuit of maximum gain by organized groups. Actually, this narrow pursuit already is more genuinely modified by ideas of what is customary or right than economic theorists often conceive. This does not solve all problems, since ideas of rights are often contested more irreconcilably than ideas of interest, and pressure-group leaders are professionally expert at justifying as right anything that will get more for their constituents. One could easily name labor leaders, farm-group leaders, and employers who are not going to turn into carbon copies of St. Francis of Assisi overnight. But there is a basic recognition of responsibility and of the claims of equity; and this can be built on and needs to be built on.

FULL EMPLOYMENT NOT ASSURED

Assuming a favorable general governmental "climate," business programs for postwar production may add up to an amount representing ample employment, or they may not. If not, then obviously something more needs to be done. But if the plans add up to a sufficient total, there is still the question whether, if these plans were actually put under way, the workers and others would spend their incomes in such a way as to furnish demand for all the products. As we have seen, this implies an increase in real per capita consumer spending of over 30 per cent if the working week remains at 1940 levels, or possibly something like 20 per cent if it is shortened.[1] If this increase materializes, well and good. If not, then production would not continue at the planned rate, wages and dividends would not be distributed in the

[1] See p. 46. This assumes that consumer spending must expand if total spending (including investment) does, and in roughly similar proportion, since consumer spending is much larger than investment and moves in the same direction.

planned amounts, and the productive machine would fail to keep going at the necessary rate.

ECONOMIC FLUCTUATIONS

Experience for well over a hundred years teaches us to expect fluctuations of prosperity and depression; hence, if full employment follows this war, we should expect it to be subject to interruptions. Some policy toward these fluctuations is a "must" for any modern industrial country.

In the past, this country has never reached its highest points of consumption and employment, except at times when it was "borrowing from the future," by crowding into one year the production of investment goods and durable products representing considerably more than one year's normal demand for these things. This has two results. First, it makes a recession inevitable. Second, it means that we have never developed the volume of current consumption which is necessary to a full and balanced use of our productive resources: one in which investment goes on at a rate that long-run consumption will justify, and consumption goes on at the rate that warrants the investment.

The first postwar peak will have precisely this unstable character, and the old-fashioned prescription of stabilization by whittling down the peak will be too obviously inappropriate to be seriously considered. More positive remedies may be sought by undertaking to fill in the hollows directly, or by the more indirect method of altering the character of the peaks so that, instead of representing an unbalance bound to be transient, they may represent a balance capable of sustaining itself. Treated in this way, the problem of stabilization merges with the general problem of how the economic system can be fully energized.

MORE PERSISTENT DIFFICULTIES

The experience of the thirties strengthened the theory of chronic depression, tending to relegate the theory of cyclical fluctuations to a secondary place. There seems to be no way of proving which is correct: the view that this depressed decade is a sign that the economy has reached a state in which chronic depression is normal; or the view that it was entirely the result of a combination of special conditions, chiefly unsound international relations left over from the First World War, and mistaken governmental policies which hampered private enterprise. There can be no doubt that international factors accounted for a great deal, that the tax system deterred risk-taking investment, and that other internal policies aroused friction and controversy and a general feeling of apprehension. But this does not prove that the removal of these factors would ensure stable and plentiful employment. Their removal may be necessary but not sufficient.

REQUISITES OF SUSTAINED ACTIVITY

Many things are requisite to sustained plentiful employment, but they can be brought to a focus and summed up under a few major heads. First, people must want the goods that the economy is capable of producing. Second, the people who want the goods must have money income which they are willing to spend for them. That is, there must be a total of money buying power, sufficient to buy the goods, in the hands of people who want to use it for that purpose. Third, this requires that prices must be so related to costs that the spending of the income can take effect in adequate production and employment rather than in profiteering and inflation. This requires some price flexibility, though not necessarily a high degree, and it requires competitive cost-price adjustments or adjustments generally similar to those competition brings about.

FAVORABLE AND UNFAVORABLE POSSIBILITIES

If these adjustments come about naturally, then high-level employment need raise no problems of public policy, and the demobilization of the war controls need have no sequel of public controls aimed at maintaining employment. There is a chance that changed conditions in the postwar period will be, on the whole, favorable. Not only will there be great accumulated savings, but many people will for years have had income they were itching to spend and could not. These factors will tend to help the rapid increase in standards of consumption which, we have seen, is called for. After an overhauling of the tax system, taxes may perhaps be so levied that they will support the large expenditures the government will have to make, without seriously limiting either consumer spending or the incentives to business investment. The effect of the social-security system in sustaining demand for goods may outweigh its effect in increasing costs. And the cost-price structure may be a good one. These are all the most favorable possible suppositions; and, if they come true, the market may come into balance at a sufficiently high level of employment.

But there are much more likely to be shortcomings, and there are certain to be cyclical declines to be weathered. This means that production will be effectively limited by demand at something short of the full amount which resources permit and which is economically worth producing. When this happens, government will do something about it.

EXPANDING CONSUMPTION VS. "OFFSETTING" SAVINGS

Insofar as public policy has the decision to make, should it work in the direction of demand furnished by a high level of private consumption, or a high level of saving balanced by a high total of investment and other expenditure, the "other expenditure" being public? In the latter case, public expenditures would be heavily relied on. Some of them will deserve to be called investment, some might fairly be reckoned as investment at a good deal less than cost value, and some could be considered only as public consumption (or possibly waste). It is also important whether the investments are financially self-liquidating or not, despite tendencies among some present-day economists to belittle this factor. Since "semantics" became popular, there has been a tendency to solve the problems of deficit spending linguistically by calling all these public expenditures "investments," but this does not change their character or economic effects.

On the whole, the dice are loaded in favor of a policy of public expenditure on works of varying degrees of usefulness, with a strong tendency to retreat to a policy of doles as the financial cost of publicly furnished employment mounts to alarming proportions. The high-consumption policy requires more imagination and more change in the customs of the people, not only in consumption but in the methods of making provision for future needs. Therefore it will take more time, thought, and experimenting to carry it out, but in the long run it is likely to be the sounder line of policy.

The logic of it is a natural outgrowth of the generally accepted point of view that we need a given amount of national income after the war in order to furnish 55 million jobs. This suggests that the jobs are more important than, let us say, the least important 10 billion dollars' worth of goods; and they undoubtedly are. Suppose people do not want that last 10 billion dollars' worth of goods? Is it their duty to buy them anyhow in order to furnish jobs? In practice, should the well-to-do consume more and save less, as a matter of public duty, in order to create jobs? Our democratic spirit seems to have outgrown this answer. If the country takes to making unneeded goods in order that some may have jobs, it probably will do it in a different way.

Another answer is that, in calling for an increased national income in order to create plenty of jobs, we would not be calling for the production of unneeded goods because, for example, many people are still undernourished and many dwellings still lack elementary and sanitary plumbing facilities. There is plenty of need. This is a relevant and valid argument for an income-expanding plan only if the plan would put the income in the hands of the people who need the added food and plumbing; that is, it relates only to a plan that includes altering the distribution of real income, facing all the difficulties and objections that such a proposal encounters. Otherwise, talk of unsatisfied needs in this connection is meaningless and misleading.

One of the policies which this suggests is, to put it bluntly, an increase in subsidized private consumption. Public education and public recreation facilities are expanding, and we have food stamps, school lunches, assisted housing, and free health services. It seems to be manifest destiny that the amount of such services should be increased. Whether this could go far enough to be a main factor in meeting the central problem of insufficient spending without having the same bad effect as a money dole is a debatable issue. Another possibility consists of an extension of social security to more groups of persons, affording them more adequate provision for their future needs with less preliminary "abstinence" in the way of taxes on present income to build up added reserves. Another policy which has been advocated is a system of penalty taxes on idle savings. Besides being amazingly complicated and difficult administratively, this is on the whole better calculated to stimulate little-needed investment than much-needed consumption, and does not fully meet the problem of those who have needs but lack income.

DEFICIT SPENDING IN THE LONG PULL

In the meantime, and as an occasional temporary makeshift if nothing more, some deficit spending aimed at supporting the economy in depressed times will be a necessity, but how far should the country be ready to go with it? Now that rigorous budget balancing over each yearly period has become obsolete as a test of fiscal virtue, it is extremely difficult to set up any definite alternative standard, short of the standards of "functional finance" advocated by A. P. Lerner, which set no limit at all.[1] Under his proposal, deficit spending would go on as long as there is under-employment, and surplus financing would be employed only when physical expansion of production turns into monetary inflation. Even this standard is robbed of definiteness by the certainty that inflation will begin long before under-employment disappears. This reduces the likelihood that there would ever be enough surplus financing to make much impression on the accumulated deficits, let alone to balance them.

More moderate proposals (moderate at least in intention) include the attempt to balance the budget over the average of prosperity and depression, and the somewhat more liberal policy of balancing the budget at a satisfactory level of active business and permitting deficits when business falls below this level. Beardsley Ruml's latest proposal is of this sort. These proposals as formulated differ widely from Lerner's, but the original formulation might not control the ultimate outcome of either plan once it is adopted and carried out. The real character of either policy, in action, would depend on how high a level of business activity is reached before budgets are actually balanced and surplus financing begins. And this will depend not so much on original intentions as on the pressures encountered in the actual carrying out of the policy. These pressures would be the same, no matter which formula might be taken as a starting point and declaration of intention.

This is especially true of proposals to balance the budget on the average of active and dull times. This might be the intention, but once it is recognized that deficit spending can be stimulative, it is hard to conceive of an administration and a Congress deliberately deciding that business and employment are active enough to do without this stimulus. So when it is proposed that we should incur deficits when stimulus is needed and accumulate surpluses when business is overactive, with the expectation that the surpluses will

[1] See A. P. Lerner, "Functional Finance and the Federal Debt," *Social Research*, February, 1943, pp. 38–51.

come somewhere near balancing the deficits, and the drift toward increased debt, if any, will be slow, it is not safe to take this expectation at its face value. The only realistic assumption is that, as long as deficit financing is the one main stimulus we really rely on and as long as we accept high-level employment as a national necessity, we should reckon as one of the possibilities the fact that the public debt might grow at the rate of a good many billions a year, unless things work out in the long run better than we have reason to count on with confidence. If one does not consider this a safe prospect (and the writer does not), the conclusion is that it is necessary to find some stimulus that will not depend on deficit spending.

This leads to the question of the ultimate limits on the growth of public debt. It is tied in with the question of power to control interest rates, possible bad effects if interest rates are kept artificially low, and the type of taxes (if any) by which debt charges would be financed. One further consideration is that if the difficulty arises because people in comfortable circumstances save more than the economy knows how to use, this unbalance is perpetuated and not cured if the government takes their savings and on them pays interest which is more than the use of the marginal savings is worth.

CONCLUSION: THE INTEREST OF BUSINESS

In these matters, government and business have not seen eye to eye; yet their most important interests are the same. To both, the maintenance of a high level of employment is a paramount concern, outweighing minor matters. Since this is a national problem, the interest of business lies in promoting effective remedies on a nationwide scale. It needs to advocate sound public policies, to follow policies of its own which may support these public policies, and to adopt measures of its own which may reduce or forestall the need for public intervention. To that end it must gain an understanding of the problem as a national economic problem, which is a very different kind of understanding from the kind a business man customarily gets of problems affecting the interest of his single business enterprise.

This difference is elementary, and needs all the emphasis that can be given it. The problem of the single business unit is: If demand for my product falls off, how may I minimize the reduction in my earnings, cut my losses if losses are inevitable and, at the worst, avoid bankruptcy? The national economic problem is: How may this reduction of demand, for businesses in general, be avoided or minimized? The single business starts with a dilemma to which the "correct" and often the only possible answer is to curtail operations and lay off workers. The business executive may, and often does, incur some financial sacrifice for the sake of maintaining employment, feeling a genuine responsibility and an interest in that matter. But what he can do is limited, and there comes a point at which he must curtail operations to avoid bankruptcy. The question for the national economy is how to manage so that the individual business unit will not be faced with this dilemma and be forced to give this answer.

In the past, the business man has tried to protect his individual business. Today he is not effectively safeguarding his individual business unless he is also working effectively to keep the system of which it is a part in good working order. This means keeping it in a state of evolutionary development, not of changeless "normalcy." The primary requisite is an adequate national employment program which relies on private and voluntary activity to do most of the employing, but does not gamble everything on the slim chance that cyclical fluctuations will be mild and that private enterprise, unaided, can do everything that needs to be done to maintain the long-run general level of employment.

When a country's industry is condemned to under-employment by the forces which take effect in limited demand, neither the causes nor the results are simple; yet both need to be understood in order to formulate a sound policy. As to results, this malady leads to economic situations and reactions which, to the imaginary man from Mars, must seem completely topsy-turvy, like Alice's Looking-glass Country. Normal common sense is inverted. Efficiency is an enemy to be resisted by rules restricting production; a country rejoices to see goods shipped away from its shores and fears to see them shipped in. An amazing complex of baffling problems arises, with which later studies in this series will deal.

Safety requires a working reconciliation, not only of conflicting bargaining interests, but of economic ideas which appear to come from opposite sides of Alice's looking-glass. This is often a painful as well as a difficult process. There is room for hope in that both labor and employer groups are facing these problems with a real attempt to find answers, rather than merely standing stiffly by customary attitudes. This implies a recognition that the old answers are not good enough. Of this we need to be constantly reminded. The companion truth is that good fresh answers do not have to wait for the discovery of some mysterious and hitherto unknown device or principle. They are generally reworkings and recombinations of material that is not wholly new. Even unworkable proposals may contain useful principles, needing to be dissociated from impracticable mechanisms and hammered into workable shape. Our economy is not in a condition in which it can afford to ignore unconventional ideas.

A NOTE ON THE COMMITTEE FOR ECONOMIC DEVELOPMENT AND ITS RESEARCH PROGRAM

The Committee for Economic Development was organized in August, 1942, by a group of business leaders who were convinced that the attainment and maintenance of high employment after the war dare not be left to chance. To seize the opportunities for unprecedented peacetime prosperity in the postwar era and to avoid the real perils of mass unemployment or mass government employment, they believed that individual employers, while in no degree relaxing their efforts toward military victory, must begin to plan promptly, realistically, and boldly for rapid reconversion and vigorous expansion after the war.

There is widespread agreement among economists that American prosperity after the war calls for the sustained employment of 7 to 10 million more workers than in 1940, our banner peacetime year hitherto. The only sound road to such increased employment is the enlargement of production and sales of goods and services to a level some 30 to 45 per cent higher than that of 1940. This means that businessmen must make their plans for postwar business on a greatly expanded basis as compared to any known peacetime year.

To assist them to make their maximum contribution toward this goal, the Committee for Economic Development—through its Field Development Division—has organized locally (as of November, 1944) in 2085 communities in all states of the union. More than 50,000 businessmen are working as members of these committees to persuade and aid as many as possible of the nation's 2 million private employers to begin the planning of their postwar production and employment.

No pattern or over-all program is imposed on these local committees. Each is autonomous, since each understands the peculiar problems of its community better than can any outsider. Yet the problems they meet and the tools they need are in basic respects the same.

Therefore, tested procedures for making both postwar production and employment plans are supplied to them by the national C.E.D. office. In addition, the country's outstanding specialists in industrial management, in product design, in advertising and selling, and in training of sales personnel have placed their skills freely at the service of all cooperating businessmen, through handbooks, films, training courses, business clinics, and forums for the local committees.

To plan for the future, the businessman needs particularly some measure for estimating postwar demand for his individual product. Another important service of C.E.D. is its postwar market analysis, which is being conducted with the cooperation of many trade associations and leading industrial firms and will cover more than 500 finished-goods products.

Even with the best of tools the businessman knows he cannot be wholly successful in carrying out plans for postwar expansion unless national policies prevail that make business expansion possible. To define what these national policies of government, business, and labor should be to encourage higher production and more jobs is the special task of the C.E.D. Research Division. This is the purpose of the research reports, of which this volume is the third.

To the long-range economic questions involved in this undertaking have been added the particular economic problems arising out of the war. Both areas are being studied. It is hoped that the reports, as a group, will provide the information that many have been seeking concerning problems intimately related to the life of each of us, as well as to the future of our society.

The authors of these reports have already won distinction in their own fields. Perhaps more important is the fact that their previous work has demonstrated not only the competence but the vigor of thought which these complex problems demand. Knowing, however, that the problems that would be scrutinized—demobilization of the war economy, taxation, monetary policy, international trade, agriculture, and the like—are not separate ones, but are integrated and must be studied in relationship one to the other, the C.E.D. sought to make possible an exchange of information and views by the experts and, equally important, between the scholars and businessmen.

What may be a unique scheme of conferences was established, the objective being to blend the practical experience and judgment of the business world with the scholars' knowledge of the action of economic forces. A Research Committee consisting of representative successful businessmen was set up; to this group was added a Research Advisory Board whose members are recognized as among our leading social scientists; and finally, the persons who would be responsible for the individual reports were named, to comprise the Research Staff.

The subject matter of each report is discussed by the members of these three groups, meeting together. "Discussed" is an inadequate term. "Earnestly argued, and for long hours" does more justice to the work. The author of the report therefore has the benefit of criticism and suggestion by many other competent minds. He is able to follow closely the development of the reports on other economic matters that affect his own study.

No effort has been made to arrive at absolute agreement. There is no single answer to the problems that are being studied. What is gained is agreement as to the determinative factors in each problem, and the possible results to be achieved by differing methods of handling the problem. The author of the report has full responsibility, and complete freedom, for proposing whatever action or solution seems advisable to him. There is only one rule—the approach must be from the standpoint of the general welfare and not from that of any special economic or political group; the objective must be high production and high employment in a democratic society.

Since the author is free to present his own conclusions and does not speak for the Research Committee or for the Research Advisory Board, the Research Committee will issue, for each study, where desirable, a separate C.E.D. *policy statement.* This may endorse all of the recommendations arrived at by the author, or it may disagree with some.

The research studies already under way divide roughly into two parts:

A. *The transition from war to peace:* the problems involved in the early *attainment* of high levels of employment and production when the war is over;

B. *The longer-term fundamental problems* involved in the *maintenance* of high levels of productive employment after the transition period has passed.

The subjects to be covered by the individual monographs in the two series are:

A. *The Transition from War to Peace:*

1. *The Liquidation of War Production,* by A. D. H. Kaplan, Professor of Economics, University of Denver (already published). The problems involved in the cancellation of war contracts and the disposal of government-owned surplus supplies, plants, and capital equipment are weighed quantitatively as well as qualitatively. How much war plant has the government financed, and what part of it could be put into civilian production? What criteria should prevail in selecting the producers to be released first from war manufactures, as the war production program is curtailed? How and when should surplus goods be sold? Rapid resumption of peace-

time production, with conditions favorable to high levels of employment, is the gauge by which the recommendations are measured.

2. *Demobilization of Wartime Economic Controls*, by John Maurice Clark, Professor of Economics, Columbia University (the present volume). When and how should the wartime controls be removed? The interdependency of the wartime controls of production, manpower, prices, wages, rationing, credit policies, and others is made clear. How relaxation of each control may affect the peacetime economy—in terms of demand and supply, and therefore in terms of job and production levels—is weighed. The conditions that can be expected to prevail at different stages of the transition from a wartime to a peacetime economy are outlined, with emphasis on the variables with which we must be prepared to deal. Professor Clark does not overlook the significance of attitudes and objectives.
3. *Manpower Demobilization and Reemployment*, by Robert R. Nathan, formerly Director of the Planning Committee, War Production Board. The relationship of demobilization policy to reemployment. Recommendations are made for a program that would avoid long-period joblessness among returning servicemen as well as war workers.
4. *Providing for Unemployed Workers during the Postwar Transition Period*, by Richard A. Lester, Associate Professor of Economics, Duke University. An estimate of the size and the duration of transition unemployment. The efficacy of public works employment, relief employment, the adequacy of unemployment compensation, wartime savings, dismissal pay and the like are appraised. A program is developed to provide for the maintenance of workers who will be out of jobs in the transition from war to peace.

5. *Financing Industry during the Transition from War to Peace*, by Charles C. Abbott, Associate Professor of Business Economics, Harvard University. The sources upon which business has relied for its capital are examined, along with the current financial condition of large and small corporations. These two are weighed against the likely needs of financing by industry for reconversion and expansion in the transition years following the war.
6. *Monetary and Banking Policies in the Postwar Transition Period*, by John K. Langum, Vice-president, Federal Reserve Bank of Chicago. What monetary and banking policies can do to encourage production and employment. Federal fiscal policy is analyzed in its relationship to the financial requirements of business in reconversion and expansion. The significance of monetary policies prior to the war and the money and banking conditions that will stem from war financing are reviewed. The relationship of business spending to other money flows and the resultant production pattern is discussed.

B. *The Longer-term Fundamental Problems.*

1. *Production, Jobs and Taxes*, by Harold M. Groves, Professor of Economics, University of Wisconsin (already published). A study of the federal tax structure as it affects the creation of jobs. This is to be followed by a comprehensive report now in preparation on the development of a constructive tax policy. The larger report will inquire into the problems of state and local, as well as federal, taxation.
2. *Agriculture in a Developing Economy*, by Theodore W. Schultz, Professor of Agricultural Economics, The University of Chicago. An investigation going to

the roots of the "farm problem." The significance of excess labor resources on farms, the failure of price mechanisms to induce shifts of resources out of agriculture, the differences between the farm and industrial sectors in responding to reduced demand. The importance to farmers of continued prosperity in business. A solution to the farm problem without resort to price floors or restrictions on output.

3. *International Trade and Domestic Employment*, by Calvin B. Hoover, Dean of the Graduate School of Arts and Sciences, Duke University. An examination of the kind of foreign trade policies and mechanisms we can adopt that will increase our gains from international trade and also contribute to world peace. A statement of the requirements in terms of the economies of other countries as well as our own.
4. *Business Arrangements in Foreign Trade*, by Edward S. Mason, Professor of Economics, Harvard University. A study of cartels and other forms of international business organizations.
5. *Minimizing Business Fluctuations and Unemployment*, a major series of studies which will be undertaken during the coming year, by John Maurice Clark, M. de Chazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, and others to be appointed.
6. *The Special Problems of Small Business*, by A. D. H. Kaplan, Professor of Economics, University of Denver, assisted by J. K. Wexman. An inquiry into the competitive position and the needs of small business.
7. *Providing Adequate Incentives for Enterprise*, by C. E. Griffin, Professor of Business Economics, University of Michigan.
8. *The "Billion Dollar Questions."* By Theodore O. Yntema, Gardiner C. Means, and Howard B. Myers. An economic primer posing the basic economic problems to be faced in a free enterprise system.

C. *Supplementary Papers:*

1. *The Economics of a Free Society*, by William Benton, Vice-president, the University of Chicago. (Published in October, 1944, issue of *Fortune* Magazine.)
2. *Personnel Problems of the Postwar Transition Period*, by Charles A. Myers, Assistant Professor of Industrial Relations, Massachusetts Institute of Technology (already published). An examination of the problems that will confront employers in connection with the rehiring of servicemen and war workers, and issues that will arise in the shift of the work force from wartime to peacetime production.
3. *Federal Tax Reform*, by Henry C. Simons, Associate Professor of Economics, The University of Chicago. The development of a basic philosophy of taxation to simplify the federal tax structure and distribute the tax burden among individuals in relation to their incomes.
4. *Incidence of Taxation*, by William Vickrey.
5. *World Politics, Employment and Free Private Enterprise*, by Harold Lasswell, Director of War Communications Research, Library of Congress.
6. *Changes in Substantive Law, Legal Processes and Government Organization to Maintain Conditions Favorable to Competition*, by Corwin Edwards, Professor of Economics, Northwestern University.

These are the subjects so far authorized by the Research Committee of C.E.D. Others may be undertaken at a later date. These subject titles will not necessarily be the same as the book titles when finally published.

INDEX

Q

R

W