

Part Four ECONOMICS OF WAR

CHAPTER XIX

FROM THE "ECONOMY OF ABUNDANCE" TO THE ECONOMY OF WAR

THE bewilderment of successful businessmen struggling in Washington with the problems of transition to a war economy is something akin to that of Alice when she stepped through the looking-glass. Suddenly everything seems to be the opposite to what it was in the "natural" world, right is turned to left, and all the rules work in reverse. It is no wonder that many have retired with severe headaches. Nothing is quite so painful as a businessman being forced to think along new channels, unless it is a bureaucrat in a similar fix.

New channels of thought are inexorably demanded for the handling of a war economy. The chaos in Washington today is but the sign of that difficult change-over from one set of economic rules to another which is still imperfectly comprehended.

Our economic leaders learned their practice and theory in an economy in which abundance of money automatically commanded an abundance of goods, and the only visible limit to supply was the limit of effective demand, that is, a demand backed up by money.

The war is quickly changing all that. An absolute abundance of money for the war has been appropriated

by Congress. It is announced as having passed the 200 billion dollar mark. Thereby Congress has fortified its conscience, "done its bit" for the war, and can pass on to politics as usual. Actually, however, the Congressional appropriations mean only one thing—that Congress has handed over to the Executive the complete responsibility and authority for war production. The fetishism of the dollar sign, which sees in appropriations an act solving the economic problem of war, has already demonstrated its emptiness, and is on the way out. The war budget is merely an expression of the unlimited demand of the war for more and more production.

Now, according to the old rules, such an unlimited demand must immediately result in an unlimited supply. And United States' war plans were actually based upon such ideas. But the cold gray dawn of the morning after a period of such drunken thinking has already dawned. The old rules simply do not work. In fact, they often seem to work in reverse.

As our foremost economic thinkers wake up to this fact, they at once let out a howl about the danger of inflation. An unlimited demand, set over against a limited production, means the skyrocketing of prices and the beginning of the inflation spiral. Whereas previously the greater the demand the cheaper the production, suddenly the rule is reversed and the enormous expansion of demand is steadily pushing up production costs and prices. The economic experts of the *New York Times*, and the National Manufacturers Association, *et al*, see the imminent danger of inflation and see its remedy at the same moment; the remedy is, of course, to suspend the traditional rules in handling wages, the reward of labor in production. They indignantly reject any tampering with the rules of rent,

interest, and profit; these are holy, the mainspring of production, without which everything else would come to a halt. But wages do not come under the protection of those who insist on maintaining the rules of the game; that is the field they were always taught to turn to "to take up slack"; and it is out of wages they now propose to stave off inflation.

I have spent several weeks going over the current output of writings on the economic problems of the war. Nowhere have I found anything that begins to provide an over-all picture of the problem, with the exception of the two memoranda submitted by Mr. Bernard M. Baruch to the Joint Congressional and Cabinet Commission, March 6, 1931, and published by him under the title *Taking the Profit Out of War*; Mr. Baruch's recent discussions as reported in the newspapers; and the reports of the Tolan Committee on Migration of Labor which were heavily influenced by Mr. Baruch. The heart of the problem was stated in the Third Interim Report of the Tolan Committee thus:

"... There is no phase of our economic life which can be unessential in total war. Every phase must be planned, must be guided, must be brought under central administrative control. Total war requires that our vast economic system be operated along the organizational lines of a single industrial plant. Under conditions of maximum war production, everyday market relationships virtually disappear."

Present confusions, lags, bottlenecks, and breakdowns in the war production requirements are in the largest part a result of failure to realize this central truth and to draw the necessary conclusions. There has been an attempt to

arrive at some sort of a compromise between the old economy of limited demand and the necessary new war economy, which is an economy of unlimited demand and consequent relative scarcity that can be met only by administrative control of production under plan. The inevitable result of such an attempt to compromise between the two is that the country obtains all the defects of both and the virtues of neither.

The campaign against "business as usual" has missed this point entirely. Certainly everyone knows we cannot have business as usual, but the big lesson we have to learn now is that we cannot have "business fifty per cent as usual" nor even "business ten per cent as usual," since the entire economy operates under new conditions. In the words of the Tolan Committee Report, it is literally true that for maximum war production "every phase" of the national economy must be "planned, must be guided, must be brought under administrative control," that "everyday market relationships virtually disappear."

The system of priorities, by which it has been attempted to establish some initial central control of the nation's economy, has broken down just because it entirely fails to achieve the ends set forth; it relies entirely upon market relationships, over which it attempts to establish a higher direction. It thereby creates confusion in the marketing process, but introduces no new element of direction. Priorities systems *are not planning at all*, and they are *guiding* only in a negative way.

Maximum war production requires a central administration which will plan, direct, guide, and control *the entire economy of the nation*. Until we begin to build such a central administration the nation will be simply muddling

along, setting up one makeshift only to scrap it and put another in its place, *ad nauseam*.

It is an extremely interesting question, why, among all the government agencies concerned with the national economy, was it the Tolan Committee which came most directly to the heart of the whole national economic problem?

The answer undoubtedly is: that just because the Tolan Committee was basically charged with the study of the limited problem of *migration of labor*, it unerringly was directed by the nature of its special job to the heart of the general problem. For the problem of maximum war production is fundamentally and decisively a problem of the organization and distribution of labor. All the other government agencies which wrestle with the nation's economy have missed their central problem just because labor has been a peripheral factor in their thought and not the central one. The symbol of the dollar has overwhelmed their minds, which are grooved to the mechanism of control through finance, and the symbol of man-hours of labor has been dealt with only as a subordinate technical factor like kilowatt hours of electrical energy. That is why today, in the ninth month of our country's total war commitment, there is an alarming number of workers and machines *unemployed* in the country. More, many more, are producing for the war, but this has been achieved only at the cost of enormous and unnecessary dislocations of the total economy which already threatened dire political repercussions in the populations affected.

The disappearance of "everyday market relationships" is already taking place, but in a chaotic and disorganized manner, while the central administration of economy by plan is not taking its place. That is the reality of danger

behind the panic cries about inflation which arise from the traditionally minded economists.

There can be no inflation under a well-organized central administration of the nation's economy as a whole. And there can be no avoidance of inflation without such an administration. For inflation is merely the registration of the breakdown of an economy in which the market has disappeared as the regulating medium, and administration has not been set up to take its place.

The key mechanism for the central administrative control of economy is *rationing*. But this is not the rationing system already known to the American public, which is only the first step in the direction of a *rationed consumption*. It is the *ration system* in the field of production of which we now speak, a rationing of materials and labor according to plan, designed to allocate a production task to every available man and machine, without regard to market relationships.

There is nothing impossible about this. The technique is well known, and the technicians are available. As a technical problem it is merely the extension of the system, by which the great trusts were built, to cover the entire economy of the country. The difficulties in the way are not technical ones; they are the difficulties of obtaining the effective decision to do the job. Unwillingness boldly to tackle this job is what prevents it from being done. This unwillingness is so strong that it may possibly require a major disaster to push the nation into it. But exactly that job will be done, because it is the only path which will bring anything approaching maximum war production; it is the only way to have a continuously functioning economy at all for the whole war period.

Let us glance, for a moment, at the main outlines of

the course of war production under the existing system. Unfortunately we do not have the latest results of the Tolson Committee investigations, which have not been printed as yet; they would be more convincing because they cover the first months of the official war period. But we already know that there has been no change in the basic outline of facts as revealed in the Third Interim Report. That report showed that at the end of 1941 the distribution of war production contracts among the existing manufacturing establishments was as follows:

174,000 establishments have no contracts whatever;
 10,000 have prime or subcontracts, of which
 100 hold 83 per cent of all contracts, among which
 10 have almost half of the total.

The report says: "The evidence shows that as a result of inadequate production planning and procurement, many communities throughout the Nation are faced with economic deterioration and disintegration. Tens of thousands of small business firms are being forced to shut down. Pools of unemployed are gathering throughout the country. Haphazard migration of these unemployed has already begun."

The great majority of manufacturers and their workers are demanding the opportunity to engage in war production. They are denied the opportunity, and even denied the possibility to produce for civilian purposes. Meanwhile, the great corporations which hold the bulk of all contracts are spending much time and materials setting up new plants to fill those contracts, while existing plants stand idle.

Some emergency steps are already being forced upon Washington by political pressure to give some relief to this

intolerable situation. Such emergency measures are necessary, but for our basic argument they are unimportant since they in no way change the nature of the system which has produced the impossible situation revealed in the above quoted figures.

It is sometimes argued that this is the inevitable result of placing production contracts with the largest and most efficient production units, and that this is necessary no matter what harmful by-products it may bring in its train. No doubt the largest and most efficient units of production must first of all be set to work before production can be spread to the smaller units. But what we see is that, after more than a year of supposedly maximum transition to war production, this spreading to the smaller units is not taking place in any considerable degree. Instead, there is actually a dismantling and destruction of productive capacity.

In short, the process of transition to a war economy which is being followed is the most wasteful, the most chaotic, the slowest, the most destructive of civilian morale, that could well be imagined.

Many liberals explain all this in part as the result of undue influence of the "dollar-a-year" men, the representatives of the industrialists who are working, in the first place, for their own concerns and, incidentally, for the government. I cannot go along with our liberal friends in their war cry against the "dollar-a-year" men in general. I do not doubt that many of the crimes that they charge are true, and such matters require stern handling. But to see nothing else means to miss the main problem. If every businessman and every executive who goes to Washington has a patriotism as pure as the driven snow and if he has left behind him every consideration of personal interest

he wouldn't be able to do a job much better than is now being done unless a system of direction, planning, and control were instituted; it is not possible to separate the sheep from the goats as long as the sheep produce the same harmful effect as the goats. And as long as there is no plan and no planned economy and no establishment of an administrative system which really takes control of the economy as a whole, then whether you have good men or bad men isn't going to make very much difference in the long run. They are all going to produce much the same kind of chaos that we have today. And therefore in considering economic questions I refuse to worry too much about the bad "dollar-a-year" man because, except for certain Fifth Columnist and defeatist elements who are opposing and obstructing the nation's war effort, I can't tell who is good and who is bad until we have a system with a direction to test them by. As long as they are left there with nothing except their own past experience to go on, they will inevitably go wrong because their past experience was no preparation for the solving of the problems of a war economy.

It is not a question of good managers or bad managers, of "dollar-a-year" men against career men or of patriots against profiteers. Those questions can become real only after we have a direction clearly set, an over-all plan laid down, and the men can be judged by the quality of their service to that plan. As long as they are left planless, the search for the bad men or the good men is going to be as aimless as the hunt for a needle in a haystack.

It is not the result of the "bickering and quarreling and jealousies and rivalries" among the various government agencies, as the newspaper columnists-pundits so sagely advise us, for these ugly manifestations of Washington life

are the result and not the cause of the breakdown of our makeshifts of war economy.

It is not the incipient inflation already showing itself which is choking our war production effort, but the lack of a real central administration of economy, based upon plans enforced by rationing and fixed prices (with the big stick in reserve), while inflation is the result of the breakdown, not the cause. (Of course, the further development of inflation will react to intensify the breakdown, but that must not be permitted to hide the real starting point.)

The truth must be faced that much of the governmental apparatus set up from Washington to handle economic questions is not only useless but much of it is positively harmful, because it has no organic connection with production and becomes more and more an obstructive parasite. It neither plans, nor guides, nor controls, but only imposes certain demands upon the course of production. It cannot develop into something better because there is no working concept of management and administration behind it. It can only collapse in a chaos of recriminations and clouds of bitterness and misunderstanding.

As a result of this drifting without rudder or compass, some new tendencies of development are showing themselves which threaten new complications of the central problem, without any solution. One of these is the tendency for the army more and more to move in and take charge of the whole production problem. This tendency was already foreseen and warned against in 1931 by Mr. Bernard M. Baruch, in the memorandum already quoted. Mr. Baruch warned: "We must neither militarize industry nor industrialize the army." "The job of the War Department is our armed forces. That is a big job. To pile on top of it the task of economic mobilization would insure the

failure of both." With this judgment of Mr. Baruch I most emphatically agree. The central administration of economy for which I argue has nothing in common with the militarization of industry, and nothing could be more certain to make it impossible than for the army to move into the center of the production problem. The military mind is absolutely incapable of solving this problem, but can only make confusion worse confounded.

One of the favorite arguments against a central economic administration is the question: "Where would the government find better managers than those now running our production plants?" The answer is that we need not find any better managers at all if we will simply give the present managers a full assignment of work and see that they do it. We could dispense with a hundred thousand useless functionaries in Washington if we only had a few hundred men, working as a team under strong leadership, with the single job of making such assignments of production tasks, and the men and materials, to every existing production manager with the willingness to carry out the tasks and the plant in which to do it. The nation had hoped that that was what Mr. Nelson was being set to do. But Mr. Nelson is proving to be not much more than a repetition of Mr. Knudsen, because our change was only of men when it should have been a change of policy.

It is useless to indulge in hectic recriminations against the industrialists and managers of production because of our troubles, at least not until a more sensible and practical plan of work has been proposed and they have rejected it. They are failing now because they are beset by a dozen conflicting bosses, none of whom has the slightest idea of what should be done, but each very anxious to demonstrate his authority to an admiring world and his sweetheart.

Under such conditions the most efficient and most patriotic manager in the world would probably end up in a mental sanitarium. I haven't the heart to scold any of them—not yet.

CHAPTER XX

LABOR IN A WAR ECONOMY

THE economic problems which are arising in our country as the result of the war needs are new for the United States, and, because they are new, the whole country is only feeling its way toward their solution. No one has yet given a clear and comprehensive lead for the answers to these problems. That is why it is especially necessary for the labor movement to be thinking deeply about the problems of a war economy, from the point of view of successful war, and to bring forward their contributions to the solution of these national problems.

There is a very pressing and immediate motive for the trade unions to be taking up the economic problem along new lines. The functioning of trade unions as guardians of the economic interests of the workers is becoming more important with every passing day, not only for labor but for the whole country, for production and for victory. Yet the nature of this problem is changing so rapidly that if the trade union movement lags behind in the full understanding of the changes there is grave danger that we will not only have rising economic strains within the country between labor and management, resulting in dangerous economic strife, but we will have political strains unneces-