

THE WAR ADJUSTMENT PROBLEM

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As we enter the third year of our war effort, our military leaders are preparing for invasion of western Europe. Almost daily our newspapers report heavy bombing operations over Germany and her occupied territories to destroy strategic production areas and to prepare the way for mass invasion. The President has submitted his second hundred-billion-dollar war budget and has raised the question of the advisability of a universal service act to meet serious labor shortages in critical areas of our war production program.

After the conference between Stalin, Churchill, and Roosevelt, and their military, naval, and diplomatic representatives, we were warned that our most important effort still lies ahead of us. We have not yet driven the Nazis out of Italy or secured a foothold on the west coast of Europe, nor have we begun our heaviest operations against Japan. Our military leaders warn us against the dangers of wishful thinking that there will be a collapse in Germany or Japan in the immediate future and tell us that we must expect heavier casualty lists and occasional reverses as our military and naval forces increase the size and intensity of their attack. We must continue to increase our war production, for our forces and the forces of the United Nations are still short of needed equipment. Furthermore, in our attack, as already demonstrated in North Africa, tanks, trucks, planes, and guns worn out through use must be replaced just as surely as those hit by bomb or shell fire.

Immediate Transition Period

And yet in this third year of our war effort we are faced with the fact that some of our war factories are being closed. In some areas war workers are being thrown out of jobs and apparently are unable to find other jobs quickly. There are threats of strikes, not for more pay, but for more war work. Stockpiles of aluminum, brass, copper, and zinc are reported to be building up.

As early as October of last year, Under-Secretary of War Robert P. Patterson testified before a Congressional committee that, of 10,000 cases of cancellation or

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termination of war contracts, some 3,000 had not yet been settled. He stated that the procedure had not been so swift as it should be because the problem was new and it took time to train people in the operation of such procedures.¹

Early Postwar Planning

Realizing that they would have a serious unemployment problem if war contracts should suddenly cease at the close of hostilities, many cities have developed postwar committees, usually working in close cooperation with local chambers of commerce. In most of the states, postwar commissions have also been appointed by the governors to study the problem and to make plans to prevent postwar unemployment.² Much of this planning has been realistic, but it is only natural that, in the main, most of the publicity has been given to the major steps to be taken in the postwar period rather than to immediate problems of war adjustment.

Government officials in Washington have for the most part emphasized that there would be three major periods in which readjustment would take place: first, after the defeat of Germany, which it was hoped might take place in the summer or fall of 1944; second, after the defeat of Japan, which it was hoped might take place by the summer or fall of 1945; and third, after the Army of Occupation had been substantially reduced and the peoples of occupied countries would no longer require food, clothing, and other supplies as a gift or loan in order to exist.

By late summer of 1943, many branches of the Army and Navy had set up what amounted to planning sections to study the problems of demobilization. The civilian war agencies and Government departments likewise began to set up sections to work on this problem. Generally speaking, such activities were highly secret. The Army and Navy, as well as Government officials, trying to increase war production, feared that the talk of postwar planning would lead to overconfidence on the part of the public. It was feared that businessmen in planning a reconversion to peacetime production would slacken their war effort, and such slackening in turn might result in prolonging the war and costing more lives. It was recognized that postwar planning now was necessary, but it was believed it should be done quietly by small groups.

Fear of Axis Propaganda

Emphasis was placed on increased production of essential war materials, the drafting of fathers to meet the requirements of our Armed Services, the development of morale on the home front to induce the public to buy more bonds, the stamping out of black markets in rationed foods, and the acceptance with good grace of shortages of tires, electric flatirons, and various items of household equip-

¹ *Hearings before the Select Committee to Conduct a Study and Investigation of the National Defense Program in its relation to Small Business in the United States under House Resolution 18, 78th Cong., 1st Sess. (Oct. 21 and 22, 1943), Part 23.*

² See "Business Planning Now for V-Day," an outline prepared by Malcolm P. McNair and James W. Culliton as THE SECOND REPORT OF THE MASSACHUSETTS COMMITTEE ON POST-WAR READJUSTMENT, under the Chairmanship of Melvin T. Copeland.

ment that would continue for some time to come. This point of view was perhaps heightened by the manner in which Axis officials made effective propaganda out of the coal shortage resulting from the strike of the miners the threatened strike of the railroads which led temporarily to the taking over of the roads by the Government, and the public criticism of OPA, WPB, and other Government agencies.

We can perhaps visualize more clearly the effect of such propaganda if we consider what our own reactions would be if these situations had developed in Germany. What would be our own reaction if the German coal miners had struck during a critical period of the war effort; if the German railroads had threatened to go on strike; and if almost every German newspaper to a greater or lesser degree carried stories of black market operations and voiced opposition on the part of even loyal Nazis to food rationing laid down by the German equivalent of the OPA? If we would view with satisfaction such developments in Germany, we can imagine the delight with which Axis propagandists sieze on such stories from America.

When information of developments in this country have been used by skillful German propagandists to increase the morale of our enemies and to lower the morale of the underground sabotage activities of conquered peoples, and when even the men in our own Armed Forces facing the privations and casualties of fighting a war on worldwide fronts feel that at times the home front is not giving them the proper support, it is only natural that our military and Government officials have hesitated to give publicity to postwar planning or to do anything that might detract from our first job of winning the war. The very term "postwar planning" is to many people a dilatory phrase dealing with something that is in the distant future.

Necessity for Transition Planning

But the time has come when, despite these objections, we must plan for the transition and postwar period. Many Government agencies have for some time been taking definite steps in this direction. Many of these transition problems are not waiting for V-Day. The public, as well as our enemies, are well aware of the termination or cancellation of thousands of contracts, the closing of some of our war plants, and the pressure for releasing excess materials for civilian needs. These are the problems that we face now and will continue to face in increasing numbers as the war progresses.

In fact, the more effective and far-sighted our military leaders, Government officials, and businessmen have been in building up sufficient stocks of ammunition, tanks, and other equipment to assure that there is no shortage of such essential items, the more rapidly we are faced with transition problems. Where the saving of human lives is the important yardstick of our endeavors, we must not only have enough but a surplus of the tools of war, so that, if there is a sudden

change in our requirements, our Armed Forces do not face the shortages that led to the heartbreaking termination of our struggle on Bataan and the delay of our advance in Italy because of the lack of proper landing equipment.

Other changes in military requirements are the result of new inventions and improved designs of equipment. Some of these changes have been forced on us by new methods of attack and defense developed by the Axis. Still other changes in the needs of our fighting men come from a change in geography—our requirements for the rugged country encountered in the Italian campaign are different from our requirements in North Africa. In war there is no second best; there is only victory or defeat. To assure that victory, constant change to meet new conditions is required, and constant change often means the termination or cancellation of contracts.

Important Problems of Transition

The termination or cancellation of contracts raises the question not only of prompt payment of a substantial portion of the contractors' claims, but of how the manpower and facilities that are released can be shifted to the manufacture of those items still necessary in the war effort, or to the manufacture of products necessary for civilian needs.

This problem resolves itself into a number of important questions. What factories can be released from war work? Which communities will be affected? Are large plants or small plants to be converted first? Should some plants, even though closed, stand by to take up production of the same war materials again in the event that additional reserves are needed? Can manpower be used in the manufacture of civilian goods while there is still a serious shortage in planes, landing barges, and other equipment? Will companies that can obtain sheet metal for the manufacture of sporting goods and automobile luncheon cases be allowed to make these items because they have available labor which can no longer be used on war work? What will be the public attitude when people can obtain luxuries but not necessities, and what will be the attitude of other manufacturers who find that their requests for the same materials to manufacture refrigerators or washing machines have been refused by Government agencies because they are in a critical labor area.

If Nylon, for example, is to be released for women's hosiery, is it to be held in a stockpile until all manufacturers of Nylon hosiery can start on an equal basis, or are certain plants to be allowed to manufacture Nylon hosiery as soon as even a small amount of the raw material is released from military purposes? Are brand names to be given any preference over unbranded merchandise? Is one manufacturer to have the advantage of building up a tremendous civilian business while his competitors are still engaged in war work? What is to be done with the manufacturers of rayon hosiery, with the wholesalers, and with department stores that have stocks of rayon hosiery on their shelves when the

women suddenly find or even hear rumors that they may be able to buy Nylon hosiery?

These problems of the transition are important, for the way in which they are decided now will set the pattern for much of our postwar development. In fact, it is to be hoped and expected that the solution of many of our problems and the method of operation will be blocked out and under way before V-Day arrives. Certainly if this can be done, much of the confusion will be avoided, the fears of a long, drawn-out postwar adjustment can be at least partially allayed, and the men who are discharged from the armed services may have at least some opportunity to obtain a civilian job.

Magnitude of the Job

The over-all size of this problem can be visualized if we bear in mind the following striking examples. The Government has expended \$13½ billions in additional military establishments and has acquired land for war purposes in excess of the total area of New England. Since the beginning of the war the Government has expended over \$16 billions in new industrial plants, and private companies have added \$6½ billions to new plant capacity. Think of these figures in terms of new facilities to be utilized in our peacetime program. The total investment in the entire American railroad system is reported to be about \$25 billions—in the automobile industry about \$4½ billions. What do these facts mean in relation to our future civilian economy?³

It is evident that our future civilian economy will be shaped materially for years to come by the soundness of our plans for industrial demobilization. Increasing recognition of the need for careful thought about the problems of industrial demobilization has developed in many quarters in recent months. In part at least, this recognition has been associated with realization of the extent to which industrial demobilization may occur before the formal end of the war. It is becoming more and more evident that the steps to be taken in industrial demobilization depend to a considerable extent on a clear understanding of the steps taken to put our industrial mobilization program into effect.

Development of Industrial Mobilization

For some years prior to 1940 the armed services, through the Office of the Assistant Secretary of War and the Army-Navy Munitions Board had been planning for industrial mobilization in the event of war. These plans outlined the process whereby in the event of war the industrial resources of the nation should be devoted to the utmost extent possible to the prosecution of the war, including not only the production of military end-items such as tanks, planes, guns, and ships, but also the production of those things essential to maintaining the health of the civilian population and keeping it functioning effectively in the war effort.

³ Speech "The Challenge to American Business" by Donald K. David at the Second New England War Conference, November 19, 1943.

In actual operation, these plans were modified by the fact that by June, 1940, the nation was beginning to mobilize its resources of men, materials, and industrial plants well before the actual declaration of war was forced on us in December, 1941, and hence before war powers made possible necessary action to put the plan into effect in its entirety. The steps taken by industry and labor to develop our outstanding production of munitions have been innumerable and in a very real sense of overwhelming importance. On the Government side, two principal instruments have been used to accomplish industrial mobilization during the last three years. One instrument has been positive in its action, the other negative.

The positive instrument has been the placing of a tremendous number of contracts for the production of needed items, often on an entirely different basis from that on which the relatively small contracts were placed in time of peace. For military end-products and for raw materials the Government, often by negotiated price, provided an assured market of several times the total production of many of our industries. In other words, the Government assumed, for war purposes, what is ordinarily the major risk of industry, the risk involved in finding a market and holding it at least for a period. The Government, of course, also assumed other risks, normally borne by business, perhaps the most notable of which is the capital investment risk. Some 80% of the capital investment required for war production has involved the assumption of risk by the Government. In addition, working capital has often been provided by advance payments, loans and various other means.

The principal negative instrument for bringing about industrial mobilization has been the group of output and input controls administered by the War Production Board under the priority power. By these controls industry has been prevented from making many things and limited in its output of many other things, thus assuring in so far as possible a supply of raw materials for munitions and clearing the way for the acceptance of war contracts without fear of too great competitive disadvantage in the civilian field.

Results of Industrial Mobilization

These two principal devices, aided and supplemented by a host of others which may be disregarded for our main purpose, have brought about a very high degree of industrial mobilization. In his testimony before the Appropriations Committee of the House of Representatives on May 27, 1943, Mr. Donald Nelson presented the results of our industrial mobilization, stripped to their essentials, by introducing the following brief table.⁴

| <i>Calendar Year</i> | <i>BILLIONS OF DOLLARS</i> | | |
|----------------------|-------------------------------|------------|----------------|
| | <i>Gross National Product</i> | <i>War</i> | <i>Non-war</i> |
| 1940 | \$ 97 | \$ 2 | \$ 95 |
| 1941 | 119 | 14 | 105 |
| 1942 | 152 | 52 | 100 |
| 1943 (est.) | 180 | 90 | 90 |

⁴ *Hearings before the Subcommittee of the Committee on Appropriations on National War Agencies Appropriation Bill for 1944, 78th Cong., 1st Sess. (May 27, 1943) 1062.*

The dollar value of the gross national product nearly doubled from 1940 to 1943 while the proportion devoted to war purposes rose from slightly more than 2% in 1940 to 50% in 1943. To put it another way, while the gross national product devoted to non-war purposes remained nearly constant (\$90 billions compared with \$95 billions) we erected an entirely new war economy practically as large as our total in 1940.

Now let us move from internal comparisons as the measure of our industrial mobilization to comparisons with the achievements of our enemies in this field. In 1939 the Axis nations were producing about \$12 billions worth of combat munitions per year; the United Kingdom, Canada, and the United States were producing only about \$2 billions worth. By 1941 the balance had shifted; Axis production was probably slightly less than that in the Anti-Axis World. In 1942, the tide was in full flow; the United Nations outproduced the Axis two to one. In 1943 production by the Allies exceeded that of the Axis by three to one and in 1944 the forecast is for a margin of four to one.⁵ It is probable that the United States alone is producing in excess of half the entire world output of combat munitions, as compared with approximately 2% in 1939. These then are the results of industrial mobilization in the United States.

Conversion and Reconversion of Plants

One of the most dramatic aspects of industrial mobilization has been the "conversion" or physical changing of plant facilities to make some new item, as, for example, the shift from equipment to make refrigerators to equipment to make machine guns. Although "conversion" is an important and necessary step in obtaining effective production of munitions, it is often overstressed.

As the Committee for Economic Development has pointed out, many more of our workers are employed in activities where physical conversion has not taken place than in activities where it has taken place.⁶ Including agriculture, the utilities, wholesale and retail trade, a broad group of service industries, and a large part of manufacturing covering such items as food, clothing, fuel, steel, lumber, and cement, the C.E.D. estimates that 80% of all civilians now employed are not engaged in activities in which physical conversion has occurred, and consequently no problems of physical reconversion will be involved.

In the manufacturing field alone, of course, the employment in physically converted plants bulks larger in the total. But it is important to remember that the process of industrial mobilization has been much broader than the process of physical conversion, and that the process of industrial demobilization will be much broader than the process of physical reconversion. We should not concentrate our attention

⁵ Testifying before the Subcommittee on Contract Termination of the Senate Military Affairs Committee on Oct. 27, 1943, Mr. Randolph Paul of the Treasury Department put the gross national product for the 1944 fiscal year (June '43-June '44) at \$195 billion and war expenditures at \$95 billion.

⁶ S. MORRIS LIVINGSTON, *MARKETS AFTER THE WAR* (1943) 24, (prepared under direction of Bureau of Foreign and Domestic Commerce); also in reprint, SEN. DOC. No. 40, 78th Cong., 1st Sess. (1943) 20.

so strongly on the problems of those industries and companies which will be confronted with the task of physical reconversion that we neglect entirely the problems of those industries and companies which do not face important physical reconversion. The latter, by and large, are the "bread and butter" industries on which the bulk of employment depends.

Industrial Demobilization

In industrial demobilization when industrial effort is being shifted away from war production to peace production, the great bulk of the task will rest on industry and labor. There will no longer be a wartime economy superimposed on a somewhat reduced civilian economy. The Government will no longer provide an assured market for the total production of many of our largest plants. Each company will more or less be forced to work out its future salvation under its own direction. In some instances the Government may furnish funds for reconversion,⁷ but in the main the task of Government will be to pay claims promptly and to remove wartime restrictions gradually and in an orderly fashion with whatever planning is necessary to assure at least some degree of fairness on the road back.

As compared with industrial mobilization, the instruments used by the Government to guide industrial demobilization will in the main be negative. The procurement agencies will stop placing all but small peacetime contracts and will terminate unfinished contracts as rapidly as possible. The War Production Board, or whatever agency is managing the controls over input and output under the priority power, will relax or remove the prohibitions against the production of various types of goods or the prohibitions against the use of materials for particular purposes. There will not be the positive instrument of Government contracts for the production of the civilian goods, the assured demand offered by the Government for war production.⁸

The essence of the management of industrial demobilization on the part of the Government lies in establishing sound procedures in contract cancellation and termination during the transition period. Prompt payment on old contracts and the withholding of new ones should coincide with the lifting of controls over materials and output of civilian products and be so balanced as to timing and as to the industries and companies affected that there will be a minimum of loss in the use of productive resources, men, machines, and materials. Frequently war production demands in other fields will prevent lifting restrictions or utilizing manpower in civilian production, but the extent to which we can achieve this goal in the transi-

⁷ For a discussion of the extension of instruments now used for financing war contractors to post-termination financing of those contractors, see CHARLES CORTEZ ABBOTT and WALTER G. O'NEIL, *THE V AND VT LOAN ARRANGEMENT AND TERMINATION FINANCING* (Harvard Business School, Division of Research, 1944).

⁸ There will, of course, be many important exceptions to this observation. Government contracts for non-war purposes (relief and rehabilitation, construction of needed public projects by Federal, State, and local governments, and deferred maintenance of public property, for example) will be important throughout the demobilization period.

tion period will govern to a large extent the success of demobilization during the period of industrial strain and stress at the end of the war.

Amount of Contract Terminations

We should have a clear perspective on the terminations of war production contracts which are currently taking place. The President in his budget message to Congress on January 13, 1944, announced that more than \$12 billions of war contracts had already been terminated.⁹ This is well in excess of the volume terminated at the end of the last war.

But such figures may be subject to misinterpretation for many War Department terminations were partial terminations only. In the great bulk of cases, the terminations were merely an incident to the placing of contracts for some other war item. Figures are not available showing directly how many terminations were tied to new contracts, but the fact that 70% of the terminations made by the War Department through July 31, 1943, resulted in no claim against the Government is significant.

The Effect of When the War Ends

We can usefully distinguish three stages in the possible termination of our war effort without any attempt to assume dates or time periods; the Global War Stage, extending from now to the end of the war in Europe; the Pacific War Stage, extending from the end of the war in Europe to the end of the war in the Pacific, and the Peace Stage, following the end of the war in the Pacific.

Global War Stage

During the Global War Stage, the national objective will continue to be the maximum production of needed weapons and supplies, but changes in the program will result from the obsolescence of particular weapons as better ones are developed by the enemy or ourselves, from changes in the basic strategy of the war (e.g., less emphasis on antiaircraft guns as we shift from the defensive to the offensive), from the filling up of depot stocks throughout the world and the "pipelines" of the transportation system to the fighting fronts, and from the fact that the basic equipment for our Army has been manufactured. As General Brehon Somervell, Commanding General, Army Service Forces, put it: "We have nearly finished our production of 'capital' equipment and are shifting to a maintenance and replacement basis."¹⁰

On the civilian side, there will also be changes in the program. With the passage of time, the stocks of many things essential to the health and productive efficiency of the civilian population have been reduced through constant use. The time is nearing when we must weigh the risks to the war effort involved in deferring further production of some essential civilian items.

⁹ The New York Times, Jan. 14, 1944, p. 10, col. 4.

¹⁰ Speech before the Annual Meeting of the United States Chamber of Commerce, Waldorf Astoria, New York City, April 27, 1943.

With these facts as to the program in mind, it can be clearly seen that throughout Stage I, the Global War Stage, materials and manpower will continue to be tight and there will be no real demobilization. The changes in the program, to be sure, will pose some problems. Some producers will not be convertible to either new military or essential civilian requirements; materials and labor shortages will prohibit their transfer to less essential civilian work; and there will, therefore, be some business casualties.

Pacific War Stage

If the Pacific War Stage develops as expected, it will give the first real opportunity to put the initial stages of industrial demobilization into operation. The character of the period will be determined by the relationship of the requirements for the prosecution of the Pacific War to the resources of men, materials, and machines available. If, for example, to take one extreme, the requirements are so high that they demand the use of as large a proportion of national resources as is now demanded, there will, of course, be no industrial demobilization. Stage II will then simply be a continuation of Stage I. If, on the other hand, the requirements are very low, it is possible that, in view of the released resources of materials, factory facilities, and manpower, resumption of full civilian production would be possible and would bring forward the events normally anticipated for Stage III into Stage II.

Military Requirements

The facts and projections by which to estimate just where between these two extremes the most likely forecast lies are not now available, nor are they likely to be made publicly available soon. The needed facts are: (1) estimates of military end-product requirements by principal categories; (2) estimates of military end-product inventories transferable from European theaters of operation to use in the Pacific War; (3) net new production requirements of military end-products for the Pacific War; (4) net new production requirements translated into materials and manpower requirements.

The best estimate of our industrial and military leaders would indicate that the net new production requirements for military end-products after the end of the War in Europe will be such as to release substantial quantities of materials and substantial numbers of workers, although these releases will not permit anything like full resumption of civilian production. Such conditions impose on the government the task of selection, of releasing some producers from war work while others are kept on war work.

Companies to Make Civilian Goods

The selection of the producers to be first released from war production to return to the manufacture of civilian goods assumes great importance in many minds.

A head start in returning to civilian production and being in a position to fill civilian needs is commonly considered to be of very great advantage to companies as well as communities and even to regions.

Senator O'Mahoney has pointed out in his report to the Senate special committee on postwar economic planning that: "The people and the businesses of the three Pacific coast states—and what is true of them applies also to the whole area west of the Mississippi—foresee that the European war will be finished before the war in the Pacific is concluded. They foresee that as a result war industry in the west will be required to continue to operate at high speed while industry in the east and the north-central states will be free to reorganize and reconvert to peace. They ask us, therefore, what should be done to prevent a dislocation in the west following the European phase of the war which they fear will be far greater than that which has already been endured."¹¹

The considerations as to which producers should be released first from war production fall into four categories: (1) the relative efficiency of the particular concern in producing the war items; (2) efficiency in the use of national resources; (3) consistency with the desired economic pattern for the future; and (4) consistency with concepts of competitive "fairness."

Relative Efficiency of Concern

There are several possible measures of the relative efficiency of different producers which might be used, either separately or in combination. The first measure is the price at which the concern is willing to continue production of the war item. The second measure is the cost of production, while the third and fourth measures are the material use per unit of output and the manpower use per unit of output. Basing decisions on such measures as these would tend to hold down the cost of war production to the Government and would ordinarily provide for the maximum output of war goods in the least possible time. The procurement agencies naturally tend to emphasize these considerations.¹²

If our war production facilities were evenly distributed throughout the country in a manner paralleling the distribution of available manpower, or if there were complete mobility in manpower, basing decisions on the relative efficiency of the particular concern in the use of manpower would automatically result in the maximum efficiency in the use of our manpower resources as a whole. Unfortunately, however, neither of these conditions prevails. Our war production facilities are not scattered evenly throughout the country in accordance with available manpower, and manpower is not entirely mobile. Therefore, the second set of considerations is not always consistent with the first set.

¹¹ SEN. DOC. NO. 106, 78th Cong., 1st Sess. (1943) 4.

¹² See statements in Procurement Regulation 15 of the War Department, in which the considerations governing the selection of contracts to be terminated are set forth.

Efficiency in Use of National Resources

As has been repeatedly pointed out, our national manpower shortage problem is still essentially a local problem. Because of the concentration of war production facilities in particular regions and communities, those areas are faced with vexing difficulties and problems, while at the same time in many other areas there is under-employment or employment on relatively unessential activities beyond the basic need for them. Thus, the issue must frequently be raised with respect to decisions as to termination whether the release of a producer highly efficient in the use of manpower in an area of acute labor shortage will not result in an over-all gain in the program as compared with the release of a producer less efficient in the use of manpower in an area of labor surplus.

The same observation is applicable, though with somewhat less force because of the relative acuteness of the manpower situation, to the use of other national resources, notably transportation. In some cases selection of producers to be continued in war production must rest on the fact that their location imposes a lesser burden on strategic transportation facilities than does any other available location.

The first two considerations are essentially war problems. Their importance will continue to be very great so long as the maximum war production remains the single goal. They can, therefore, be expected to control decisions very largely throughout the Global War Stage and into the Pacific War Stage. But in the Pacific War Stage the last two considerations will assume more and more importance.

Consistency with Economic Pattern for the Future

During the early days of the defense program and while war production was getting its start toward its present overwhelming levels, there was a great deal of discussion of how and to what extent the defense and war programs could be made to contribute to various long-run economic objectives. Among the long-run economic objectives were the desire to decentralize industry from the industrial northeast into the south and west and the desire to develop industrial activity in relatively smaller communities, as compared with the metropolitan areas.

In the minds of some government officials and businessmen, the first objective was pointed toward industrial self-sufficiency for the several regions in the south and west. At the same time, other groups were most concerned that the defense and war programs should serve to eliminate stranded populations by replacing the dead or dying activity with other activities holding promise of vigorous life for these communities in the future. These groups, of course, were also concerned that the war programs should not in turn create other stranded communities.

These considerations can be counted upon to come to the front almost immediately and again during the Pacific War Stage of military operations. It will be strongly advocated that strenuous efforts be made to prevent large groups of people now assembled to work in specially constructed war plants in what once

were small and out-of-the-way communities from being left in those communities without the prospect for productive employment.

Curiously enough, exactly opposite policies will be advocated by people having the objective of preventing general unemployment for the country as a whole. It will be argued that production in such plants should be terminated early so that the employees will have a head start in seeking employment elsewhere, and so that the managements of plants converting to non-war production can put their programs into operation more quickly. This will be countered by the argument that these specialized war plants should be the last released from war production to provide the maximum employment while permitting the plants which can most easily resume civilian production to do so.

There is the danger of course that certain groups will bring pressure to keep war plants in production longer than is necessary from a military point of view in order to prevent unemployment. Strikes to protest cutting down Government orders are an indication of this viewpoint. No doubt arguments for continued production will be based on the alleged need for large reserves of newest equipment but any production of munitions based on anything but military necessity as determined by our General Staff sections must be discarded.

Considerations Regarding Competitive Position

During the period of industrial mobilization, while the shift from full peacetime production to a maximum war production effort was in process, there was continuous concern about the "fairness" of the treatment accorded different competitors. There was much talk about "taking time out for the war." There was a general belief that every effort should be made to preserve the relative competitive position of each company in an industry, and that the war should not be used to change the competitive relationships.

In spite of efforts to do so, these desires could not be fully met. As the war has gone on, it has become clearer and clearer that all sorts of changes have and are taking place in the relative position of firms within industries and of one industry relative to another. In some measure at least it is recognition of these facts that gives the force to the concern about the "head start" in the return to the civilian market. It is therefore not difficult to predict that during the industrial demobilization period there will be even more concentration on the problems of "fairness" than there was during the period of industrial mobilization.

Mr. Donald M. Nelson, Chairman of the War Production Board, has said repeatedly that American industry and the American people will do anything if they are convinced that it is necessary and if they are convinced that it is fairly handled. During the Pacific War Stage, American industry and the American people will look with acute attention at the actions taken in the light of their "fairness."

In his report to the Senate committee on postwar economic policy and planning,

Senator O'Mahoney said: "When the War Production Board and its predecessors were first established, efforts were made to devise a system whereby appeals could be taken from the priority and allocation orders of the Government managers. None of these efforts succeeded because it was believed that it would be better to run the risk of injustice than to permit the flow of materials to war industry to be interrupted. The people accepted for the most part regimentation by the war managers because they knew that victory in the war was the essential objective without which nothing else would be of value. But in the reconversion period we cannot be so acquiescent. The War Production Board cannot be permitted to enforce its system of quotas and priorities and limitation orders without the establishment of an over-all appeals board which shall prevent the exercise of this vast power to deprive any business, any State, any community of the materials it needs for the civilian economy."

The observations in this quotation in regard to the importance of "fairness" in the administration of the priority power apply with equal force to the other instruments for governmental guiding of demobilization, such as the administration of the contract power, the manner of conducting contract termination or cancellation, and the speed with which claims are paid in whole or at least in part.

Problems of Competitive Position

Now let us examine some of the questions which will arise under the major heading "Competitive Position."

(1) Should large concerns or small concerns in an industry be released first? The Congress has set forth a national policy that small enterprises in this country shall be encouraged to the utmost extent possible. There have been repeated and substantial efforts to bring the smaller concerns more fully into the war production program. The Smaller War Plants Corporation has made notable attempts to bring this about. In demobilization an obvious way to accord a preference to smaller enterprises during the transition period would be to make sure that if any enterprises are given a head start in the production of civilian goods they are the smaller enterprises.

(2) Should the firm converted to the production of a new item or the regular producer be released first? In a number of cases the needs of the war program have caused manufacturers to be converted to the production of items which they have never made before. Should the regular producers of those items be preferred, as far as time of release is concerned, to these converted producers, many of whom with new equipment can produce the product cheaper than the old line companies which have obsolete and worn equipment?

(3) Should newcomers to an industry with a greatly improved product be released before or as soon as the regular producers in the industry? There are already a number of cases where greatly improved products have resulted from the technical research work during the last two or three years. In many of these

cases the newcomers will demand at least equal treatment with the established producers so far as the allocation of materials and the release from war production are concerned. There is also the desirability from the standpoint of consumers that improved products be permitted to reach them as rapidly as possible. Immediate introduction of these improved products, however, might create uncertainty in the market for all producers of similar items and might thereby so affect sales possibilities that production and therefore employment would be reduced during the most critical part of the transition period.

As a result of the scarcity of materials there has been a great deal of substitution of less desirable materials and reduction in quality in the products manufactured for the civilian market. These substitute products are accepted reluctantly by the American people only because there is no prospect of securing anything better. Manufacturers and distributors are much alarmed at the losses which they will face on existing stocks of these products as soon as even small quantities of standard products are available.

(4) Should producers specializing in high quality and price or those specializing in low quality and price be released first? In many industries there are clearly defined divisions, with some manufacturers making a relatively high-quality product and selling at relatively high prices and others concentrating on the lower quality and price fields. Frequently the high-priced quality manufacturers are further distinguished from the others in that they sell under well-established trademarks and use extensive national advertising to promote their products, while the others sell through large volume retailers, often under the brand names of the retailers.

A substantial headstart for either group would have important repercussions, not only to the manufacturers but also throughout the trade channels. It would be, for instance, a highly significant competitive development if the manufacturers of refrigerators to be sold under the Sears Roebuck and Montgomery Ward names were released before those manufactured for sale under well-known trade names, and similarly if the reverse action were taken.

Many Variations of Competitive Issues

In actual practice many variations of these competitive questions will develop. Not all of them will apply in the case of any particular industry or product. In many industries and products there will be all sorts of combinations of these questions. During the total war stage these questions will not be of major importance, although they will pose vexing difficulties to those who have to decide which manufacturers will make the relatively small quantities of essential goods necessary for the health and productive efficiency of the civilian population.¹³

¹³ With the increase in marriages and the frequent shifts of servicemen and their wives to communities where the laundry problem is acute there has been a heavy demand for electric irons which have not been obtainable. When raw materials became available the WPB was willing to permit their manufacture. The large companies which made electric irons before the war insisted that it was their job and that they should not be penalized because they were devoting their facilities to war

In the Pacific War Stage these and similar questions will occupy a place of increasing importance. In some instances companies will decide that they do wish to continue to manufacture munitions as long as possible, and it may be that such decisions will so reduce the number of concerns which wish to engage in civilian production that all who desire to may be permitted to do so.

It is important that policies in regard to the questions in these various categories bearing on the release of particular concerns from war production should be formulated in advance and that administrative organizations and procedures should be developed to put the policies into effect. In particular, it is important that the policies developed to govern the release of companies by contract termination or cancellation should go hand in hand with the policies governing the lifting of the prohibitions on production of civilian items and the controls directing the flow of raw materials.

Establishing General Policies

The President has appointed Bernard Baruch to work out with James Byrnes, Director of the Office of War Mobilization, contract termination and reconversion policies looking eventually to demobilization. It appears likely that the work of actually putting these policies into effect will fall to the lot of the WPB. Perhaps the name of the agency and some of the personalities will change as has happened several times in the past, but the powers given Maury Maverick of the Smaller War Plants Corporation working under WPB with the Office of Civilian Requirements would indicate the strong probability of such future developments.

In shaping these policies and putting them into operation, other agencies will undoubtedly have an influence, particularly in regard to control of price.

Congress too will have its say, for there are no less than four committees in the House and four committees in the Senate concerned directly with the war adjustment problems of transition and demobilization. Numerous bills have been introduced and more will follow, but it is to be hoped that in the process of sifting out the wheat from the chaff, Congress will not wait to draw up one over-all bill that will be cumbersome, cause delay, and in fact be out of date almost before being passed, but will pass needed legislation in detail as the situation requires.

Recognition of the increasing importance of taxes and the need for permitting wartime reserves merits Congressional action to insure that companies which have made the transition to war production can make the second transition to civilian production. A tax program that can be carried in stabilized industry may prove a difficult stumbling block in a transition period.¹⁴

production. The small companies, many of which had been unable to participate in war production, demanded that the job be given to them. As a compromise the small companies were permitted to make the irons which were stamped with the trademarks of the large companies and distributed through regular retail channels.

¹⁴ See J. KEITH BUTTERS, *WAR PROFITS TAXATION AND SPECIAL WARTIME RESERVES* (Harvard Graduate School of Business Administration, Business Research Studies No. 30, January 1944).

In shaping policies various government agencies will have an influence. For example, Stabilization Director Fred M. Vinson issued a directive on November 16, 1943, establishing a price formula for low-priced essential consumer goods. This formula permitted an increase in prices of scarce articles, but limited the new ceiling for manufacturers whose profits were not more than double those of the 1936-1939 period to the cost of producing the item plus a profit not to exceed 2% before taxes. For manufacturers whose profits were more than double those of the base period, the new ceiling could not exceed the unit cost.

On January 29, 1943, Mr. Vinson stated that the directive was intended to apply only to manufacturers who produced essential civilian goods under mandatory orders of the WPB; also, that it would only apply to textiles and apparel. Problems arising in connection with other consumer goods where price adjustments were involved were to be submitted to the OES for treatment on an individual basis—which was consistent with that provided for textiles and apparel.

By February 1, 1944, industrial reconversion had raised the question as to what prices the OES would permit on durable goods when production was started. For example, the WPB¹⁵ released materials to manufacture 2,000,000 flat irons; industry, however, did not know how this output would be priced. Many concerns stressed that unit costs were higher, when only a limited production was permitted, because of higher fixed charges as well as material costs.

In a change affecting the entire nation every branch of the government will have a part and most certainly a spokesman who often will not be in accord with the methods advocated by other agencies. If we can keep in mind that we live in a democracy, not a dictatorship, and that free speech, especially in an election year, is one of our most prized rights, and that we have seldom had a shortage of spokesmen, we should not be too badly confused by the working of the democratic process.

Baruch Report

The report prepared by Bernard M. Baruch and his assistant, John Hancock, was released to the public on February 19, 1944. The Baruch staff with the assistance of the Joint Contract Termination Board with the representatives of six major procurement agencies developed the main points of a far-reaching program and will continue to work to perfect the plan and to help solve the problems that will arise in its operation. In announcing Government policies, on contract termination this report emphasizes five main points:

(1) The plan provides for prompt payment of 100% of the amount due on a claim as nearly as that figure can be ascertained. This includes 100% payment for all completed articles, immediate payment for factual items such as direct labor and materials on incompleting items, and immediate 100% payment of

¹⁵ The WPB favored the use of production quotas based upon past production records in a base period such as 1936-1940 in allocating an output of 123,000 trucks among 25 companies.

settlements with subcontractors. Where subcontractors are threatened with losses through the fault or insolvency of a higher contractor, direct settlements of contracts may be made by procurement agencies at their discretion. After 30 days interest will be paid at an annual rate of $2\frac{1}{2}\%$ on the unpaid part of claims until date of final settlement.

(2) There is provided a simple system of termination loans employing credit facilities of commercial banks. These loans will have partial Government guarantees and will be available to both prime and subcontractors. It is planned to merge V loans for war production and VT loans for war production and termination with the new T loans when the latter become available.

(3) Wherever private financing is not available, direct government loans may be made to contractors unable to obtain bank loans within thirty days. The procuring agency extending such loans will follow substantially the same procedure as in the case of a partially guaranteed loan of a commercial bank and the interest rate will also be similar.

(4) Final settlement of claims will be made by negotiations between the contractors and the contracting agencies. Safeguards developed in making contracts will be used in unmaking of contracts.

(5) The interest of the Government will be protected by continuing audits after settlement for detection of fraud and correction of mathematical mistakes. The Comptroller General and the Attorney General are to be added to the Joint Contract Termination Board but the review powers of the Comptroller General are to be limited to cases of fraud. Government negotiators will keep full records of the basis of settlement and contractors must keep their records for at least three years after the settlement date.

The Baruch report recommends disposal of surplus war property as rapidly as possible without upsetting normal trade in industry. A board will lay down the policies of the four agencies charged with the disposal of surplus property. (1) The Treasury Procurement Division will direct the disposal of all consumer goods. (2) The R. F. C. will dispose of capital and producer goods as well as all types of industrial property. (3) The Maritime Commission will have charge of the disposal of all ships, yards, and maritime property. (4) The Food Administrator will handle the disposition of all surplus food.

In the main, the disposal of plants will be handled on an industry-wide basis. Studies will be made for subdividing the largest units, leasing and establishing credit arrangements to assure that small companies are given opportunities which might otherwise not be available to them.

Like the report of Senator George's post-war planning committee, released a week earlier, the Baruch report follows the same general principles. Private initiative and resourcefulness, rather than Government regulations, are the surest road to a successful transition. Industry must have available capital which can be provided by prompt settlement of contract claims and the making of loans where

necessary. The disposal of surplus property must be handled in such a way as not to upset trade or industry, and the Government must not compete with private enterprise.

Putting Policies into Operation

Contracting officers of the Army, Navy, and Maritime Commission have been and will probably continue to be the individuals who terminate contracts and authorize settlements. One of the first steps necessary to insure prompt action is legislation to relieve contracting officers of personal liability in the absence of fraud or bad faith. If he is not given such protection from the General Accounting Office, and if accounts of any disbursing officer acting in good faith are held up months or even years after the event, we may rest assured that contracting officers will be slow to act regardless of how much injury to business and increased unemployment results from the delay. No contracting officer can be expected to act efficiently if payment for disallowed items paid in good faith are exacted from his salary while his wife and children go without the things they need and want.

Payment of just claims upon termination of a contract must be prompt if industry is to be in a position to return to civilian production. Immediate payment of subcontractors is particularly important, for although large companies such as General Electric Company may sometimes be subcontractors, in the main this class represents smaller companies which should not be placed in jeopardy by delays in payments when a war contract entered in good faith is terminated. The delays in the payments to Baldwin Locomotive Company and International Harvester Company, together with their several hundred subcontractors, for instance, damage not only the companies involved, but also the morale of managements and stockholders of other companies.

Prompt payment does not require that the full value of claims as submitted by the contractor must be paid without at least reasonable checking by contracting officers supported in their work by a necessary staff of assistants. Businessmen have sometimes submitted bids at a loss to obtain a contract but claims submitted when a contract is terminated have seldom been modest. Some examples are available that show businessmen have not been averse to putting in a larger claim than could be substantiated for trading purposes. An able contracting officer can usually detect such cases and reach an agreement on the amount of the real claim.

Where the contracting officer and the company are not in accord, machinery must be set up for boards of appeal for the prompt handling of cases. Similarly, an appeals organization, preferably local in character, should be instituted for the relief of subcontractors who fail to secure prompt and equitable treatment of their claims. Here again prompt decision and settlement are of paramount importance. The success of renegotiation boards in deciding cases should indicate a type of procedure that is effective. And finally courts are available in cases of fraud to protect the public interest; the many should not suffer for the possible derelictions of a few.

Importance of Business Leadership

Government planning, assistance, and leadership in the period of wartime transition is important, but the planning and positive action of business leaders individually and in groups are the decisive factors. It was this planning and positive action that produced the weapons that will enable the United Nations to break the onslaught and eventually to defeat the Axis hordes. It is this same planning that will determine the success of the return to peace.

Business and labor leaders must plan for their own concerns and communities, for in the flexibility of positive action by many individuals to meet local and regional conditions lies the real strength of transition and demobilization. Of even greater moral responsibility than the obligations to the widows, small businessmen, laborers, and few men of wealth who constitute the great body of stockholders is the obligation to the returning serviceman. Of far greater importance than the cheering crowds, the separation pay, and the victory medals of a grateful Government to the ex-soldier, sailor, or marine is the voice of the American businessman "Young man, you have got a job."