

3451-1550
12/21/36

Economics

1937

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staff presentation

ECONOMICS

[Capt. H.L. Ponce]

DECLASSIFIED IAW DOD MEMO OF 3 MAY 1972, SUBJ
DECLASSIFICATION OF WWII RECORDS

DEPARTMENT OF INTELLIGENCE
Naval War College
Newport, R.I.
5 January 1937

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ECONOMICS.

I think we must be all agreed that only in recent years has the study of Economics become the world-wide fetish it now seems to be. That it is so, is a reflection of changing times, a continually changing set-up in the varying spheres of international relations.

The current flurry of economic analyses in civil life can possibly be traced largely to the financial depression of 1929 and its aftermath. In any event, today one scarcely hears a lecturer or reads an article on international relations but what the economic effect is introduced into the picture. The world has become markedly economic conscious. This popular emphasis has its repercussions in the services. While we have long been appreciative of economic values, the wealth of general information made available has quickened our interest. The background of such interest lies in the practical application of economics to naval strategy.

SURVEY OF OPPOSING STRENGTHS

POLITICAL FACTORS	ECONOMIC FACTORS	PSYCHOLOGIC FACTORS	CHARACTER OF THEATER OF OPERATIONS	INFORMATION AND COUNTER- INFORMATION	ARMED FORCES	LOGISTIC SUPPORT
Internal Conditions External Relations Alliances	Finance Industry Trade Raw Materials	Morale Training and Experience Racial or National Characteristics Personal Characteristics of Commanders	Hydrography, Topography Weather Duration of Daylight and Darkness Phases of Moon Relative Positions, Distances Modification of national formations	Information available to either belligerent Means of ob- taining and denying in- formation Communication Facilities	Composition Type and Numerical Strength Material Char- acteristics Armament Life Mobility Condition Disposition	Availability and Adequacy Limitations imposed by Logistics

SUMMARY OF
STRENGTH AND WEAKNESS FACTORS

From Paragraph 2 of the Estimate such a background is found principally in the field of Finance, Industry, Trade and Raw Materials. All of these Factors are, to a great degree, inter-dependent and either together or individually, directly or indirectly influence certain phases of Strategy. To give you the complete details of these most pertinent factors would be a tremendous task. The most we can accomplish in our three presentations is to give an analysis of essential aspects, knowing that your broad concept of the subject will enable you to interpret such analyses to advantage.

Of the four subjects, with which we are concerned today, Finance will not be considered. Finance, as well as the shipping phase of United States trade is to be covered later in considerable detail by civilian lecturers.

Industry, Trade and Raw Materials remain, and as the Estimate itself evaluates factors involved in war situations, our chief interest will revolve around the use of these economic forces in war.

A logical beginning to a series of presentations of this sort is a general discussion of economics. I shall devote a short time to such an introduction and shall then turn to a more prescribed field, an analysis of a plan designed to control United States industry, trade, and the supply of raw materials in war. This discussion will be

supplemented in succeeding presentations by a detailed analysis of the economic status of the United States and Japan. Great Britain, the third of the great maritime powers capable of influencing the control of the seas (and thereby seriously affecting naval strategy), will not be considered at this time.

It may be helpful at the start to indicate very briefly the general character of economics.

The word "Economics" is derived from two Greek words meaning "House" and "Manage". Thus, Economics originally meant the science of household management. This definition prevailed until about the time of our Revolution, when Adam Smith introduced to the world a new interpretation which was in general, that Economics is a social science based on a study of two things - first, man and, secondly, what is generally known as wealth.

Economics, therefore, today concerns itself with the relationship between man and wealth. The study of economics in its essence is a study of human wants. Such wants, of course, are of infinite variety and may range from personal desires for the necessities of life, to military needs for munitions of war. Some authorities say that economics should be evaluated by four standards, namely:-

- A study of human consumption,
- A study of human production,
- A study of economic exchange, and
- A study of economic distribution.

By studying economically weak nations from these viewpoints we see at once the difficulties under which they labor. Economically strong nations have little basic difficulty because they are able to balance these factors.

When nations are driven to economic action it is invariably caused by economic unbalance and diversity of needs. Balance their wants, that is, in consumption, production, economic exchange and economic distribution, and normally they have prosperity and peace. This condition is highly to be desired and is often called "Business as Usual". On the other hand disturb an economic "Status Quo" and a lowered morale results.

From a military viewpoint, a well controlled maintenance of balanced wants is necessary if we are to be at maximum strength. If it is possible to impose a disturbed balance of wants on an enemy we have begun to make war unprofitable for him, and of course when war becomes totally unprofitable, he capitulates.

From an economic viewpoint, then, we should strive in war to maintain as far as possible economic stability in our

own nation and, conversely, to deprive an enemy nation of such stability. This concept which also has its peace-time commercial application is not easy to accomplish because it is based upon adjustments of supply and demand, and these are but a reflection of the world's varying distribution of resources. A balanced distribution of food resources and essential raw materials is so necessary in the industrial life of all nations that an unbalance, when found, often presages political action of some sort.

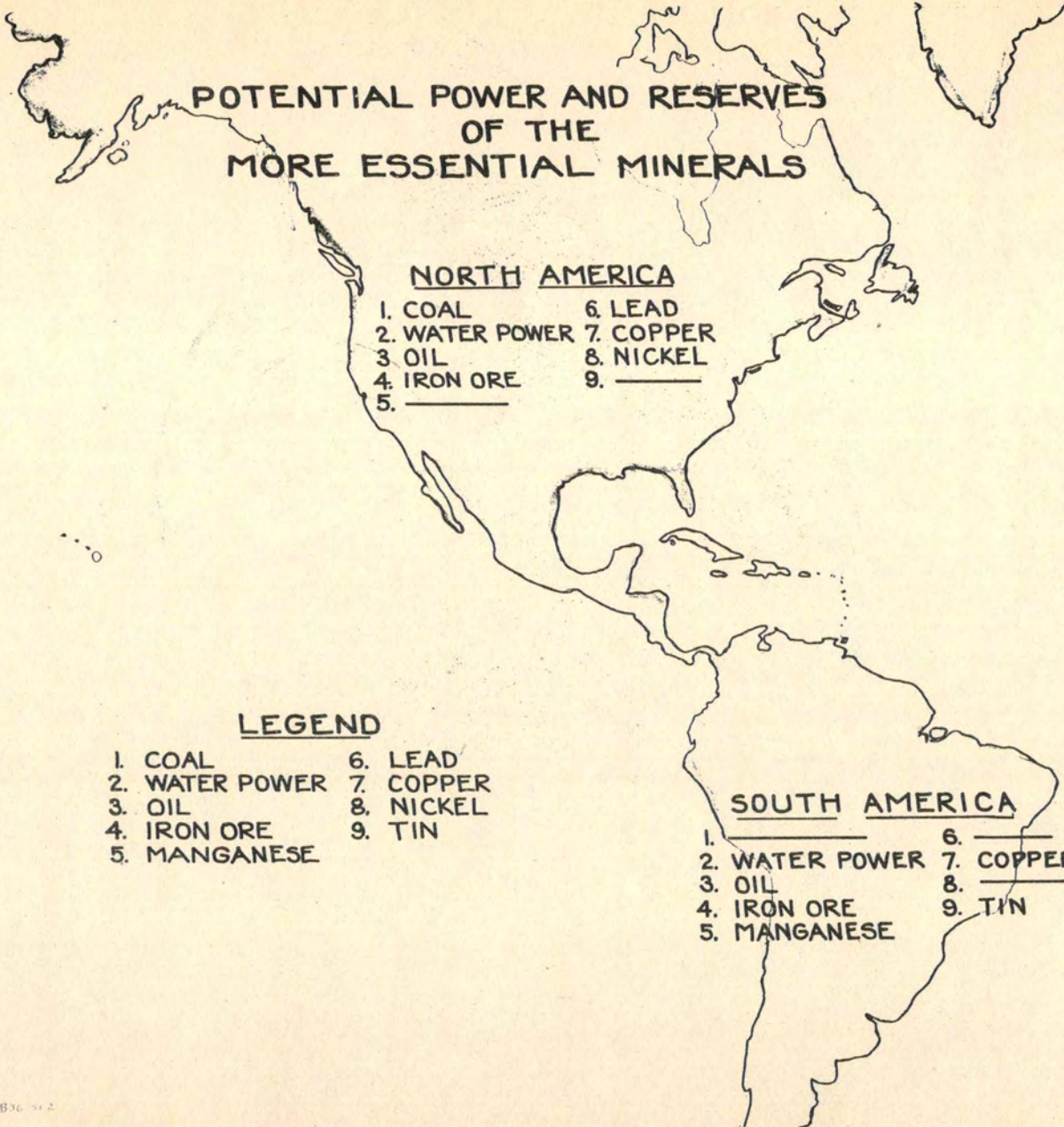
Not so long ago nations were self-sustaining. Today the unequal distribution of raw materials limits the number of nations capable of becoming strong industrially, and not even the strongest nations are entirely self-sustaining. The broadening industrial life of all nations is bringing on an increasingly intensive and vital struggle between the so-called "Haves" and "Have Nots". In many cases this is a struggle not for prosperity but for national entity. In some cases, too, great powers, already to a large degree economically independent, are found not only aligning themselves against their neighbors, but often bickering among themselves over items of raw materials which one or the other lacks in a small degree, or for the control of certain others which they possess in plenty.

"Whether one does or does not believe that economic factors growing out of the struggle for existence, -- the desparate contention between those who have and those who have not, -- furnish

the basis for all armed conflict, one must admit that these factors tend to control the course of war and to decide its ultimate outcome."

It is interesting to speculate how tomorrow's demands for peace or economic independence may influence the availability of raw materials. Will such a demand eventually produce new economic alignments, or a re-moulding of nations into three or four major economic blocs based on the control and use of natural resources? If any grouping is to be possible, it would seem that one on the basis of supplies of raw materials is the most plausible. Some such plan, if successful, might help to eliminate some of the bitter struggles now developing.

To explore this idea a bit, we have prepared graphs which outline very roughly certain groupings of nations on the basis that adequacy of raw materials influences - by and large - the prosperity and stability of a people. The picture, purposely, is not a complete one. Food and clothing have not been considered and only a sufficient number of critical materials have been indicated to illustrate the point. The supply of Nickel and Tin in all groupings is of particular interest due to the limited number of available deposits. It should be made clear that the groupings to be shown are not the only practicable ones. Perhaps others will suggest themselves. Those to be shown, have the advantage that contiguous territory has been used, thereby permitting easy and ready access to supplies.



POTENTIAL POWER AND RESERVES
OF THE
MORE ESSENTIAL MINERALS

NORTH AMERICA

- | | |
|----------------|-----------|
| 1. COAL | 6. LEAD |
| 2. WATER POWER | 7. COPPER |
| 3. OIL | 8. NICKEL |
| 4. IRON ORE | 9. _____ |
| 5. _____ | |

LEGEND

- | | |
|----------------|-----------|
| 1. COAL | 6. LEAD |
| 2. WATER POWER | 7. COPPER |
| 3. OIL | 8. NICKEL |
| 4. IRON ORE | 9. TIN |
| 5. MANGANESE | |

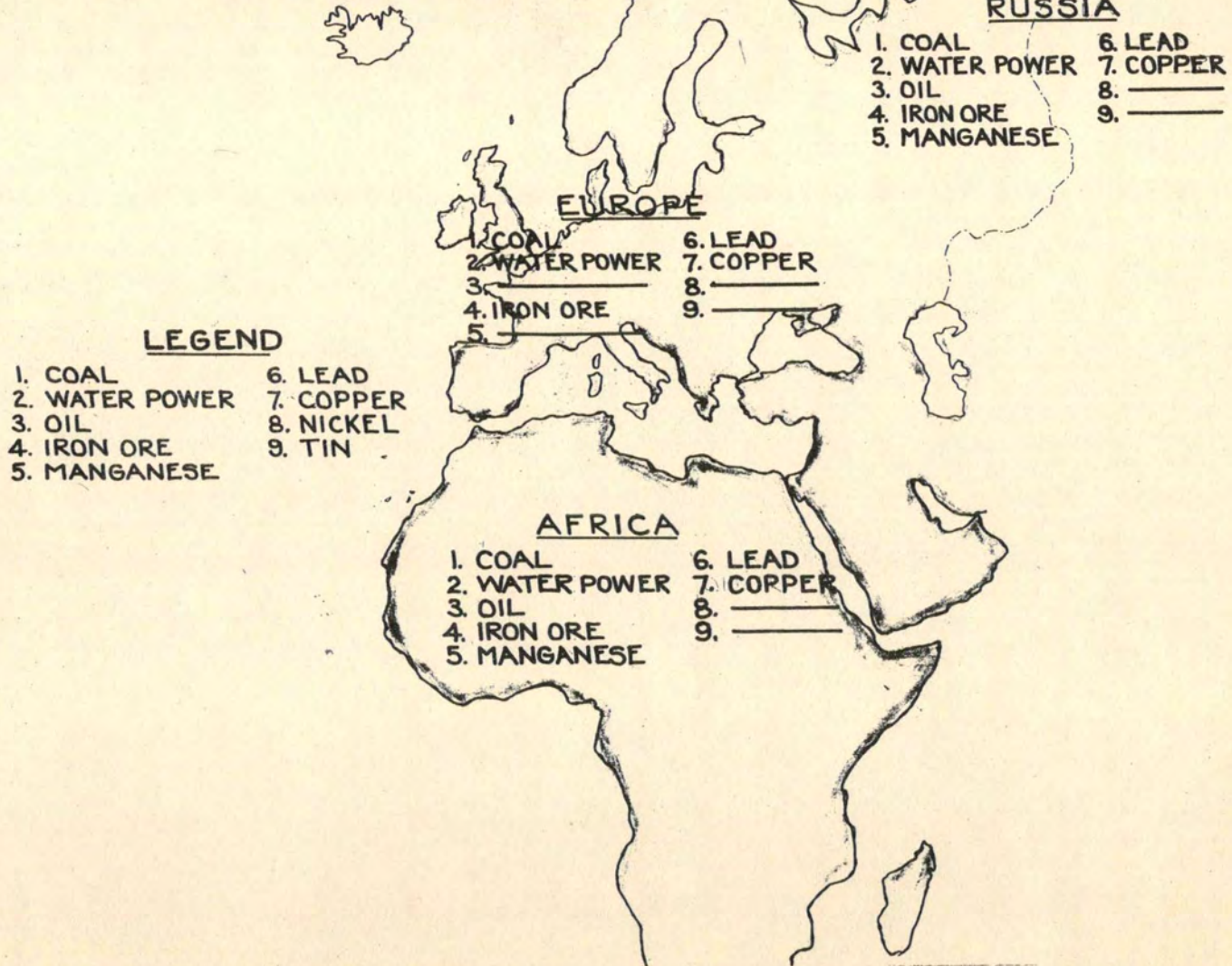
SOUTH AMERICA

- | | |
|----------------|-----------|
| 1. _____ | 6. _____ |
| 2. WATER POWER | 7. COPPER |
| 3. OIL | 8. _____ |
| 4. IRON ORE | 9. TIN |
| 5. MANGANESE | |

The first chart is a grouping of North and South America, and shows how the two continents supplement each other in the supply of materials. It is possible that the present Good Neighbor Policy and the recent trip of the President to South America may have been prompted to a certain extent by the favorable economic possibilities in this alignment.

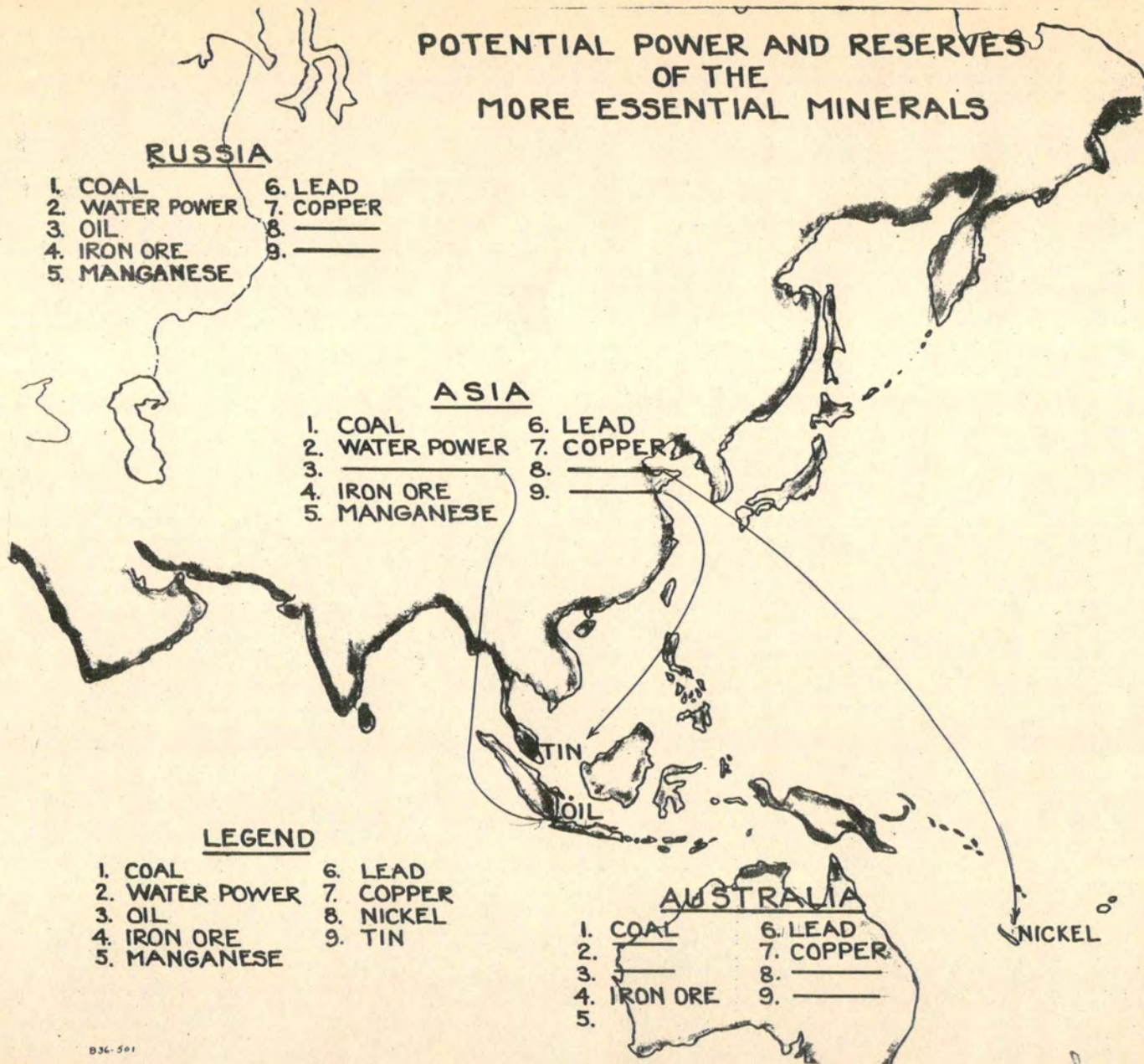
It is clear that in peace, such a bloc could be, to a great degree, independent of the rest of the world, as far as critical raw materials are concerned. In war, while excessive demands might upset the balance to a certain degree, such an upset would appear to be rather remote, due chiefly to the isolated position of North and South America with respect to the rest of the world. Of course, considered solely from a thoroughly economic viewpoint, and without any reference to geography, the ideal grouping would be a union of the United States and Great Britain. Each of these countries supplements the other to a remarkable extent and has the advantage that only two governments are concerned. The chief deterrent to such a grouping, however, is the world-wide and diverse sources of supply, involving many vulnerable trade routes.

POTENTIAL POWER AND RESERVES OF THE MORE ESSENTIAL MINERALS



If Africa contains the raw materials it is reported to contain, Europe with Russia and Africa could well form another bloc. With present unstable international relations, however, this grouping at the moment seems impossible. The political line-up of Europe today only re-emphasizes the desperate plight in which the "have nots" find themselves economically. This is particularly true in Germany and Italy. There are certain material discrepancies in this group of Europe and Africa, viz., Tin and Nickel, which would have to be obtained from outside sources unless stored in reserve. It is possible, of course, that new deposits of these materials may be discovered in the zone under consideration. It is reported, for instance, that Siberia is rich in Tin and Nickel. Russia also, it is believed, has control of immense coal deposits in Spitzbergen.

POTENTIAL POWER AND RESERVES OF THE MORE ESSENTIAL MINERALS



The alignment in Asia and the islands of the Far East may not be accomplished so easily and may be forced to await future political as well as commercial developments. The chart, however, shows the very fine inherent strength of this group. The economic balance here is very complete. Japan, as the potentially strongest Far Eastern nation, is quite appreciative of this set-up. Its early establishment may or may not be practicable. Possibly no one of these or similar schemes will be practicable or attempted, and the world will continue to use the cut-throat methods of today, hoping to find some other way of solving these conflicts in the law of supply and demand. In the end, however, it is clear, I believe, that these problems of raw materials and their supply dominate to no small extent the world picture of peace and prosperity. And with the fullest appreciation of the value of factors other than economics in the life of a people, I believe, there can be no denying the serious realities facing all countries having an unbalanced economic structure.

While alliances may be formed for political reasons it is significant, that few, if any, alliances result from economic pressure, except, possibly under the League of Nations in the form of Sanctions, and recent history has shown the weakness of Sanctions as an instrument of policy.

I have thus far indicated the general relationship between the study of economics and the study of warfare, with emphasis on the economic forces which may cause war. I will now turn to a more limited field, one which refers particularly to the economic factors in the conduct of a war.

As an introduction to the main part of this presentation, let me read you a short quotation:

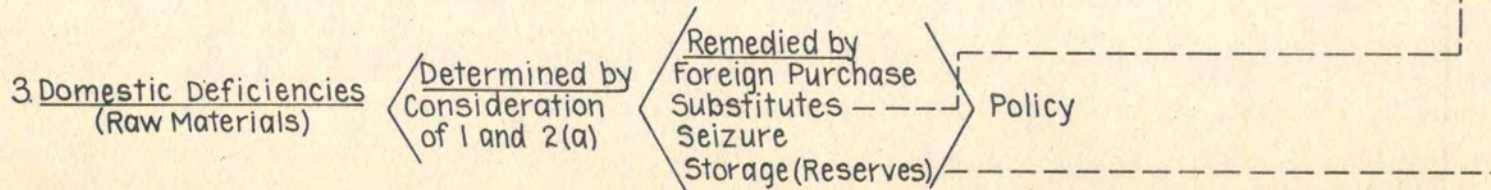
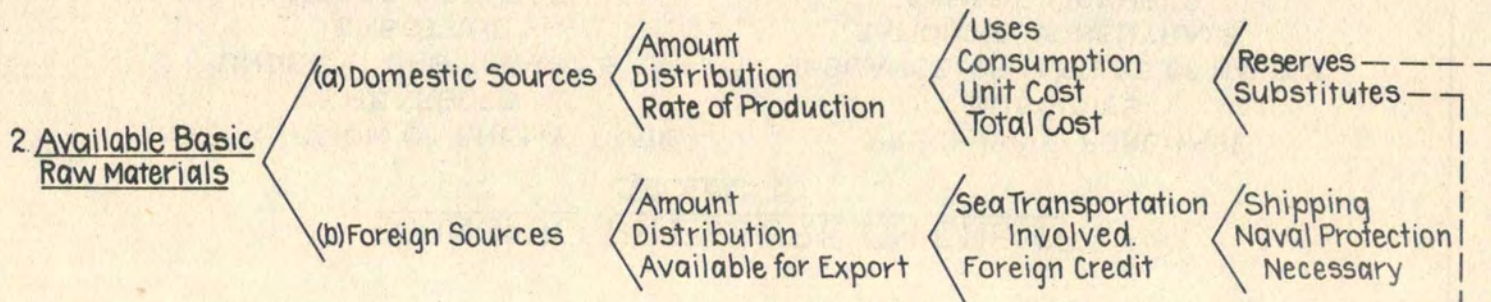
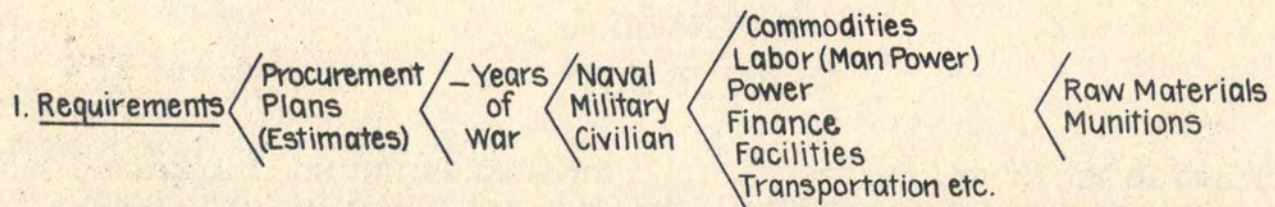
Quote - "A free people ought not only be armed but disciplined; to which end a uniform and well-digested plan is requisite; and then safety and interest require that they should promote such manufactories as tend to render them independent of others, for essential, particularly for military supplies". - Unquote.

Considering our unsatisfactory state of preparedness on entry into the World War in 1917, it is a remarkable commentary on the far-sightedness of the author of this statement when we find that it was made in an address of the President of the United States before Congress - 8 January, 1790. It appears that George Washington would not find himself far behind the times in 1936.

In peace-time the military Services have very little to say as to the basic economic policies of the nation. In war, however, with more interests at stake, their counsel may well be heeded.

Armed action in war is sometimes delayed, but economic action is prompt, often beginning the day war is declared, if not before. It is logical for us to think of the necessity for a war plan, but it is difficult to visualize the urgency of an economic plan. A naval war plan is a special plan. An economic plan, even though only contributory to the basic war plan, touches every nerve of the country. The factors influencing such a plan can be reviewed and summarized somewhat as on the accompanying diagrams.

Outline
of
Procurement Factors
Affecting War (U.S.A.)



ECONOMIC PRESSURE ON ENEMY

POSSIBLE BY

INTERRUPTION OF ENEMY TRADE	PRECLUSIVE PURCHASE
EMBARGOES	SUBSIDIES
UNDERMINING FINANCES	ISSUANCE OF LETTERS OF MARQUE
SABOTAGE	RATIONING OF NEUTRALS
IMPORT LICENSES	EXPORT LICENSES
AGREEMENTS WITH NEUTRAL SHIPPING	SEQUESTRATION OF ENEMY PROPERTY
RESTRICTION IN USE OF MAILS	RESTRICTION IN USE OF CABLES

LINE OF ACTION

INDICATED BY

ECONOMIC ESTIMATE OF THE ENEMY

The concluding thought from such diagrams must be that industry with its contributing elements of trade and raw materials is a great reflector of economic stability and that a knowledge of the many factors involved in its control ^{is} ~~are~~ bound to be of assistance to us in the study of naval strategy.

The experiences of the last war are needed to understand fully any proposed industrial control of the United States, but it is not necessary at this time to go into detail concerning them. Briefly, we can say that early in that war, due to lack of planning and proper coordination, costs mounted and the entire economic balance of the nation was seriously disturbed. Eventually, the establishment of administrative machinery for controlling material requirements and industry became not only urgent, but mandatory. The result, as we all remember, was the War Industry Board. It was set up as a separate and independent government agency directly responsible to the President. Improved methods, however, did not prevent certain extravagances and delays in procuring munitions, nor did they prevent profit-eering and unnecessary suffering, the results of which are being felt to this day. All of this in 1918. Not until 1931 - 13 years later, - was the need of a mobilization plan brought before the country and emphasized by a Joint Resolution of Congress.

This Resolution created a War Policies Commission which was directed to "Study and consider amending the Constitution of the United States to provide that private property may be taken for

public use during war", and to consider "the methods of equalizing the burdens and to remove the profits of war".

This Commission consisted of

Four members from House of Representatives,

Four from the Senate, and

Six from the Cabinet.

The Commission convened and made a complete study of war-time organization, the experiences of the past, and the implications of the future. It evidenced a particular interest in the necessity for a war-time control of industry.

It is only just to state at this point that the first industrial plan and the one eventually presented to that Commission was prepared in the War Department through the initiative of General Moseley, who had been G-4 in France during the World War, and at the time was in the Office of the Assistant Secretary of War. Some may ask why the War Department initiated such a study. The legal Mandate is found in Article 5a of the National Defense Act of 1920.

This Article states that "the Assistant Secretary of War is charged with the supervision of the procurement of all military supplies and other business of the War Department pertaining thereto, and the assurance of adequate provision for the mobilization of material and industrial organizations essential to war-time needs".

It is noted that the War Department under this Act deals

with two fairly distinct problems. The first is definitely a War Department task. The second is less clear and has been responsible for some confusion. The weakness of this act would appear to be that it does not place an equal obligation for such plans on the Navy and other Government Departments, - all virtually concerned in plans for war and many partaking of a full measure of legal responsibility in providing for the national defense.

The chief fact of interest for us today, however, is that the Army did develop a tentative national industrial mobilization plan about one year prior to the convening of the War Policies Commission noted above, and that that plan was submitted to and eventually received the tacit approval of the Commission.

Since that time Committees in Congress have investigated the subject and there is every indication of future inquiries.

These inquiries are helpful up to a point. The inherent danger in them lies in the possibility of resultant legislation which will hamper more than help in a future emergency. The problem is similar to that facing neutrality legislation. Laws which may seem perfectly suited to the situation today may prove too restrictive, too narrow in concept to fit the situation arising tomorrow. It therefore seems preferable to have the legislation for industrial mobilization ready for enactment (if possible with the unofficial approval of committees in Congress); rather than to enact it before an emergency arises. Under such

conditions, legislation may be kept up to date through the years, thus assuring adequate and proper laws when the necessity arises.

As to the Industrial Plan, Congress fortunately, as yet, has not taken definite action and planning agencies are still free to revise and amend it.

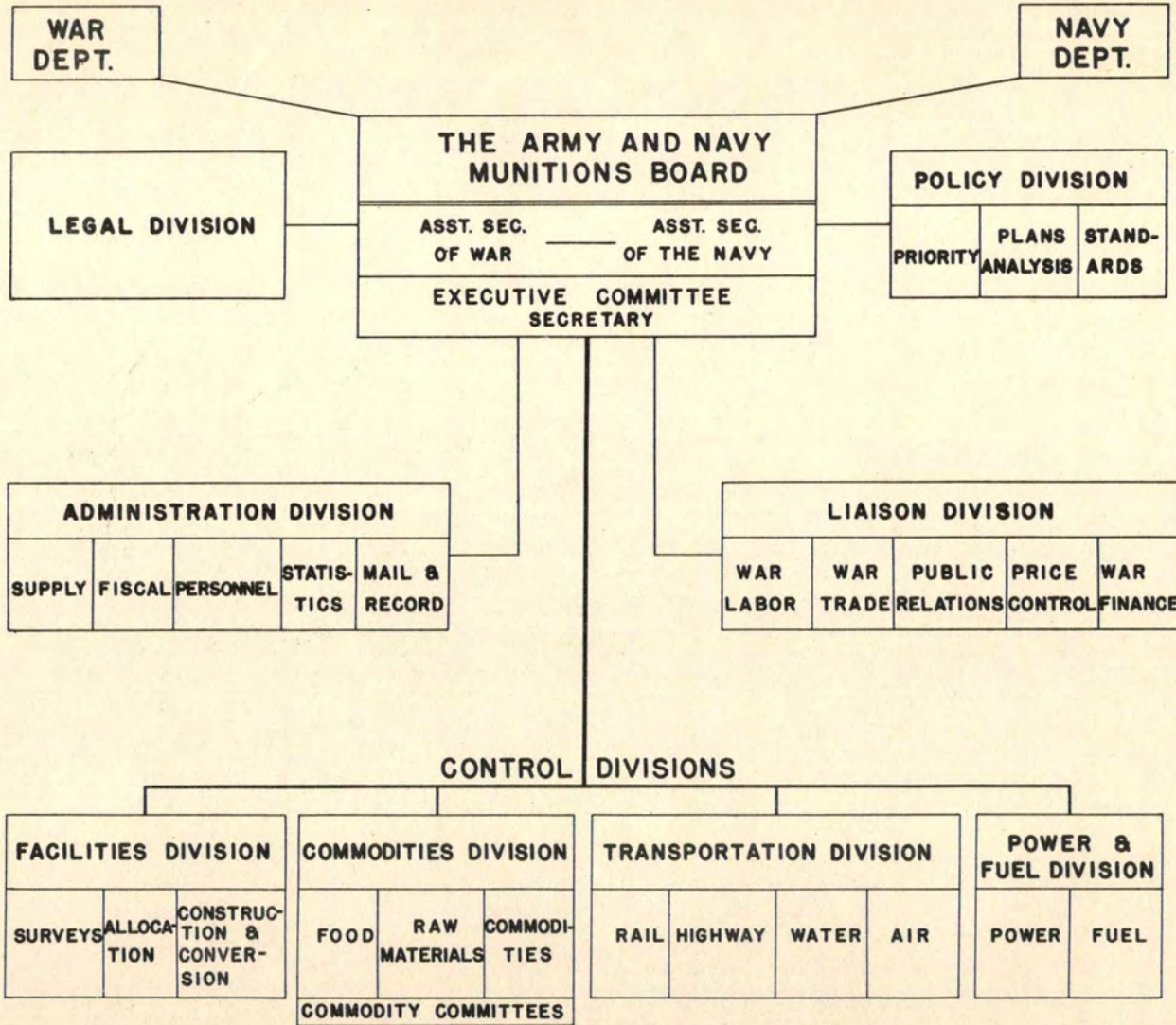
The plan under consideration today is that plan and is the only complete plan yet formulated. Its basic concept is the result of war experience and much expert thought since that time.

In 1931, the War and Navy Departments, realizing the great need of cooperative effort in the further development of such a plan, agreed to continue its study and improvement and to keep it up-to-date. The Army and Navy Munitions Board was designated by administrative directives as the joint agency charged with this responsibility. The development forced a reorganization of the Board. The reorganized Board has been found to be an exceptionally well-equipped body for effective planning.

This Board should not be confused with the recently formed National Munitions Board organized to administer certain features of Neutrality Legislation. The two have similar names, but are distinct in purpose and responsibility.

Prior to discussing the Mobilization Plan, it will be profitable to take a look at the reorganized Army and Navy Munitions Board and to examine its usefulness.

**ORGANIZATION OF
THE ARMY AND NAVY MUNITIONS BOARD**



This Board has no authority to exercise any control over civilian industry, but is basically a peace-time agency designed to coordinate the war-time demands of the Army and Navy upon industry. It initiates the balancing of requirements and resources through the procurement planning of the military services and, further, by providing for initial placing of orders for munitions on the outbreak of war.

Procurement planning in the War Department is on the basis of a maximum mobilization plan - four field armies of something over two million men. Navy plans are prepared for each emergency and are called color plans. The accuracy and adequacy of estimated naval requirements depend to a large degree upon the character, excellence and stability of the basic plan.

When the combined requirements of the Army and Navy can be assembled and then broken down into secondary requirements or summaries of component materials (strategic

and otherwise), we have a definite basis for the start of our own material economic plan.

With such computations made and analyzed, it is quite possible for the Munitions Board to determine what raw materials will be required in a war, what strategic materials will be necessary, where they are to be obtained and in what quantities, what substitutes will be available, trade routes to be used, alternate available routes, routes to be abandoned, protections afforded or required, basing facilities, shipping required, value of alliances and who those allies should be, neutral purchases, legal aspects, and the many other factors involved.

The outline of the organization of the Munitions Board purposely has been made a miniature War Resources Administration and the significance of this, I think, is appreciated by a comparison of the two organizations.

In war time the Munitions Board is designed to merge into the War Resources Administration. On M-day the President will supplant the two Assistant Secretaries with a Civil Administrator for the War Resources Administration. This Administrator will initiate control by using personnel trained in the Army and Navy Munitions Board. Such personnel will continue to be supplemented by selected civil personnel until the organization is adequately formed.

The President has authority under Article 120 of the National Defense Act, as well as in certain subsequent acts, to establish a War Resources Administration on M-day, and to appoint an Administrator.

The basic responsibility of the Munitions Board then becomes one of coordinating the industrial war demands of the services. Its organization and development fit in with the proposed War Resources Administration, and permit that Administration to start functioning effectively and expeditiously on the outbreak of war.

The War Resources Administration, from its inception and even in its early skeletonized form, will thus be able to clear requirements for the fighting forces, allocate facilities where necessary, assign priority of production and delivery to meet the military situation, and in general coordinate the procurement program preparatory to full control by the plenary War Resources Administration when organized. The Army and Navy Munitions Board in war, while transferring most of its personnel and records to the larger organization, will retain sufficient qualified personnel to permit its normal function of coordinating Army and

Navy demands.

It now remains to discuss very briefly the outstanding features of the proposed Mobilization Plan - the plan which, when fully developed and operating, will not only direct the war-time effort of the nation, but will provide for the most effective control of industry in war. I should like to reiterate the fact that the effective administration of this plan will provide the Navy with much data of value, data which will influence its strategy to no small degree, particularly the strategy of the trade routes. Such a fact is the basis for its consideration today.

This plan is revised yearly and is now the accepted Plan of the Services. It will be used in its present essential form in the next major emergency, except as it may be improved or modified by the Action of the Army and Navy Munitions Board, - the Commission formed year before last by President Roosevelt, - or by the deliberations of Congress. The organization around which this plan is built is essentially an outgrowth and development of the original Naval Consulting Board, Council of National Defense and the War Industry Board. Incidentally, it may be of interest to note that the Council of National Defense, so valuable in the early stages of the last war, is still a legal body, requiring only an appropriation of Congress to make it again effective, when and if its services are needed.

The War Organization of the United States, the proposed mobilization plan and the organization of the Executive Branch of the Government of the United States for war are shown on accompanying diagrams.

WAR ORGANIZATION THE UNITED STATES OF AMERICA

CONGRESS — PRESIDENT — JUDICIARY

STATUTORY
PEACE TIME
ESTABLISHMENT

CABINET

BOARDS AND
COMMISSIONS

EMERGENCY
ESTABLISHMENT

ADVISORY DEFENSE
COUNCIL

BOARDS AND
COMMISSIONS

NATIONAL RESOURCES

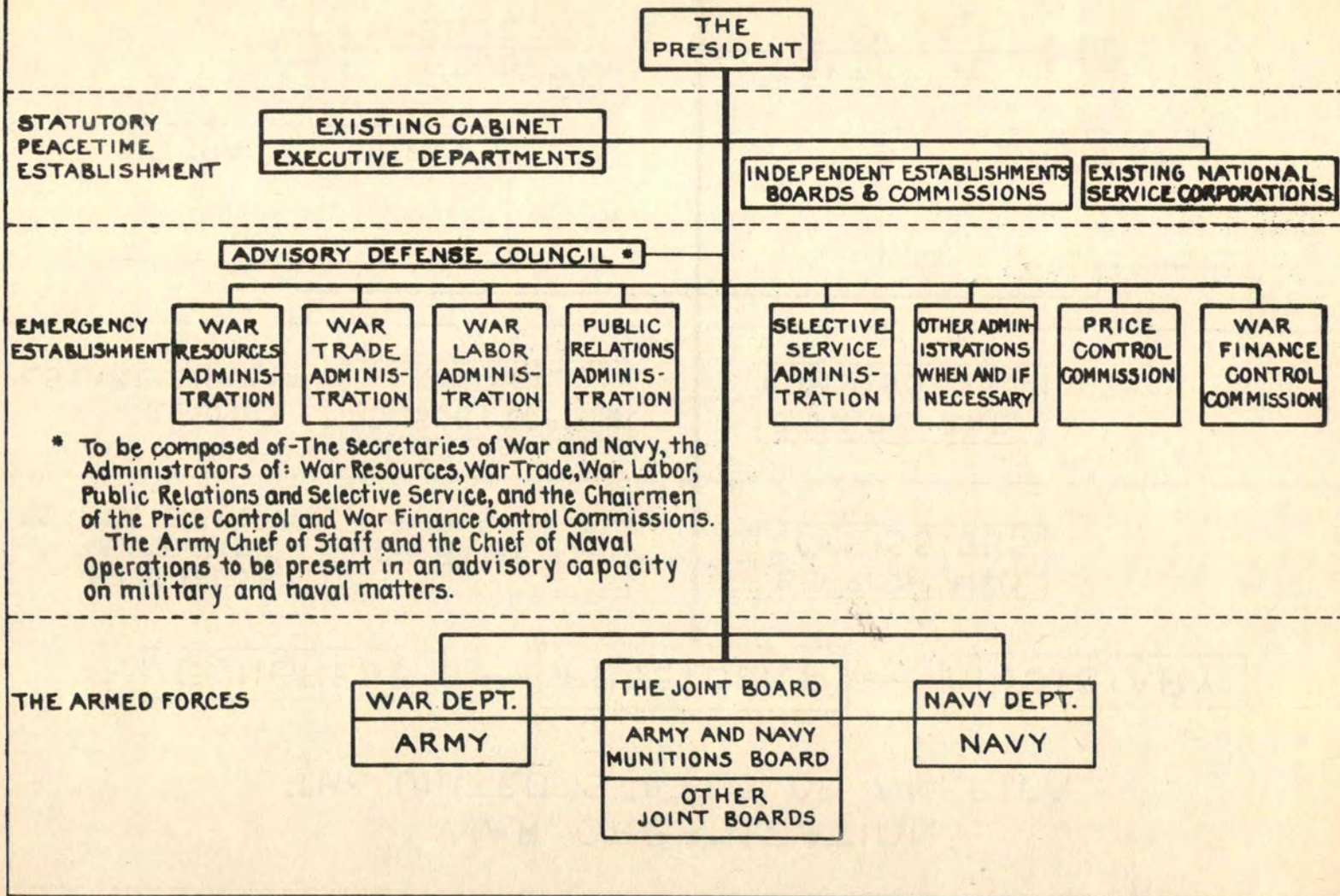
CITIZENS

INDUSTRIAL
MOBILIZATION

SELECTIVE
SERVICE

FIGHTING FORCES

ORGANIZATION OF THE EXECUTIVE BRANCH OF THE GOVERNMENT OF THE UNITED STATES



The President, through the agencies shown, exercises those functions which are peculiar to his office in War and which are considered essential to the successful prosecution of the war effort. Existing Executive Departments continue to function as in peace-time, cooperating with the war agencies. It is important and must be remembered and emphasized that prior to the exercise of certain functions outlined in this plan, legislative authority and executive action will be required. It is expected that such action will be forthcoming within a few hours after the declaration of an emergency.

The Advisory Defense Council is the special War Ministry of the President. It aids and advises him in all matters concerning the prosecution of the war. "It cooperates under the general supervision of the President to control and direct the combatant, economic and moral efforts of the Nation in waging the War".

The War Resources Administration (see previous diagram) is the agency through which the President converts the industries into war uses. "It is the meeting point of the military services and industry."

Several divisions of this Administration are pertinent to our study.

The Control Divisions of this Administration as well as

the Army and Navy Munitions Board administer established industrial control policies.

They also supervise appropriate research in connection with:

Conservation of critical and strategic raw materials.

The development of substitutes for critical and strategic raw materials.

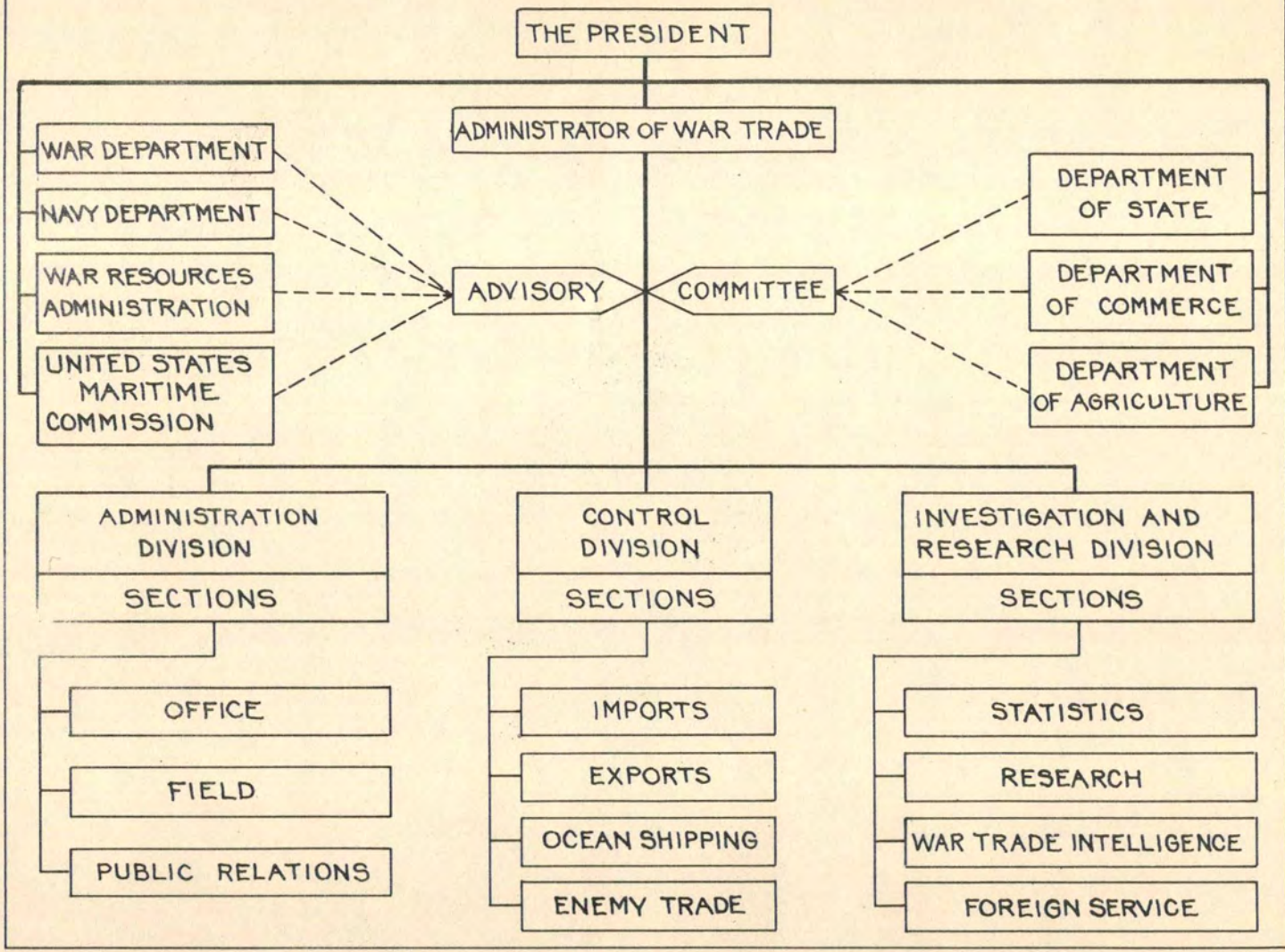
Improvement in industrial policies and processes.

Technical aspects of enemy industry.

An important problem under the Commodity Division is the development of substitutes for strategic materials. Much has been accomplished along this line since the World War. You are familiar with present day efforts to develop substitutes in certain European countries, particularly in Russia and Germany. Where the development of substitutes ~~have~~^{has} been difficult or retarded abroad, large reserves have frequently been established.

The question of reserves of strategic materials in this country has never, until very recently, received serious attention. The matter was proposed in Congress a year or so ago with some prospect of success, but nothing came of it. The need for substantial reserves is still a vital and pressing problem. With adequate reserves, the demands of industry could be served and shipping so necessary in war could be diverted to more important service.

ORGANIZATION
WAR TRADE ADMINISTRATION



The accompanying diagram represents the organization for the War Trade Administration. The personnel for this agency will be drawn largely from the Department of Commerce. You will note, at once, the great importance of this Administration to the Navy.

The major functions of this Administration are:

- "1. Exercise control of all exports and imports and for such purpose, to issue licenses under such terms and conditions as are not inconsistent with law, or refuse licenses for the exportation or importation of all articles except coin, bullion, or currency.
2. Apply economic pressure on the enemy by preclusive purchase and by trade negotiations.
3. Administer established price control policies relating to war trade.
4. Provide for the conservation of ocean tonnage by import restrictions and priority control of export shipments.
5. Make effective a policy of reciprocity with other countries whose exports and imports may be influenced by the war.
6. In cooperation with the Administrator of War Resources, to provide for the conservation and augmentation of

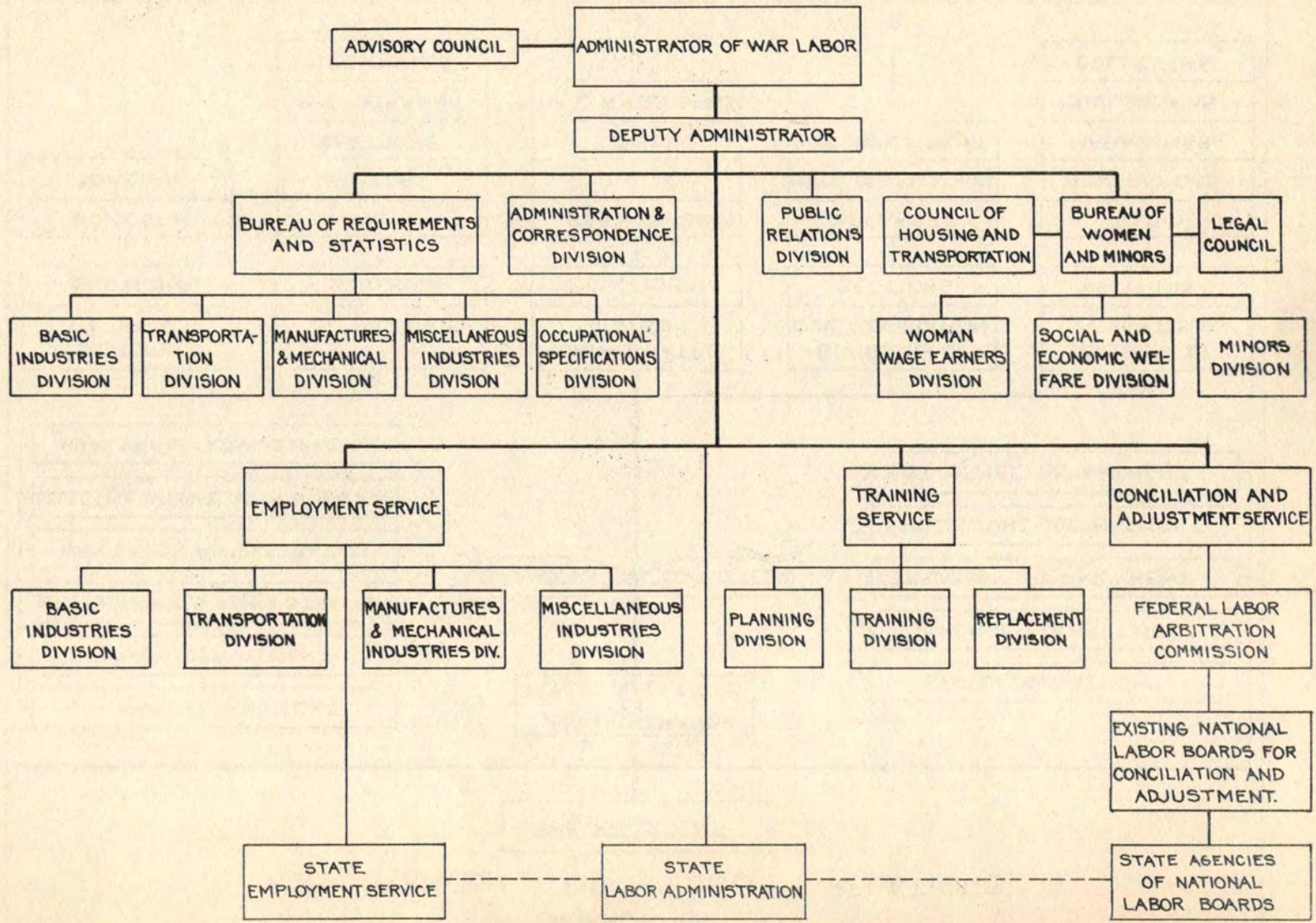
domestic supplies through export restrictions and by obtaining essential imports from foreign countries."

It can thus be seen that there should be the closest liaison between this Administration and the Navy Department. Recent discussions in International Law indicated some of the problems which will be encountered by this Administration in a future emergency.

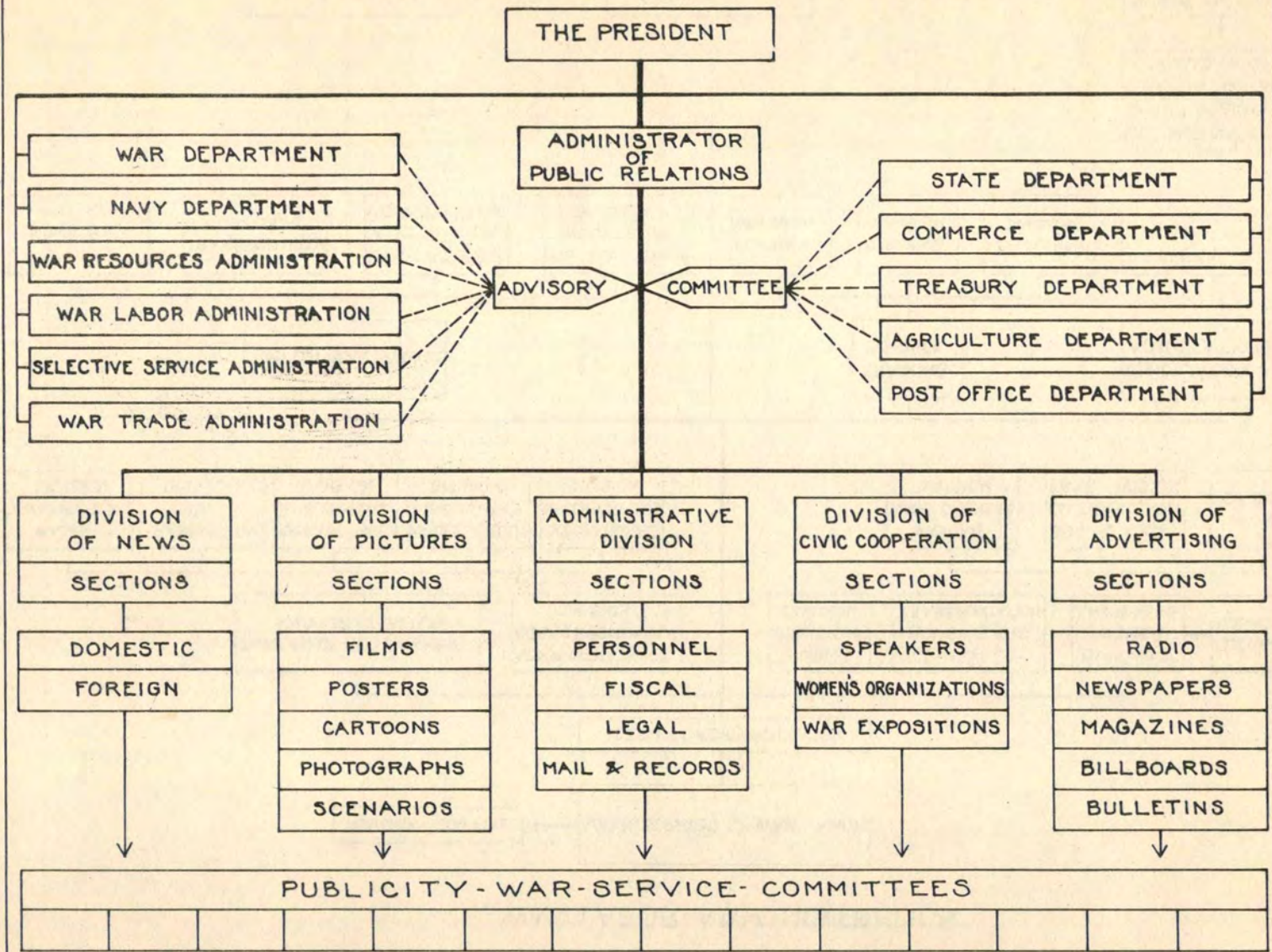
The data collected by the Administrator of War Trade will show the necessity for definite policies, tariff barriers, raids, blockade, presumptive purchase of strategic materials, boycotts, or other trade relationships. From its deliberations, necessary maritime trade operations will be visualized, required trade routes should be apparent, as well as the necessity for any changes due to trans-shipments or to political alignments. And through it all should run the principle that trade fostered in peace should be maintained in war, so that it will not be lost after war.

The next four diagrams are furnished only to balance in your minds the complete picture of the proposed mobilization plan.

WAR LABOR ADMINISTRATION

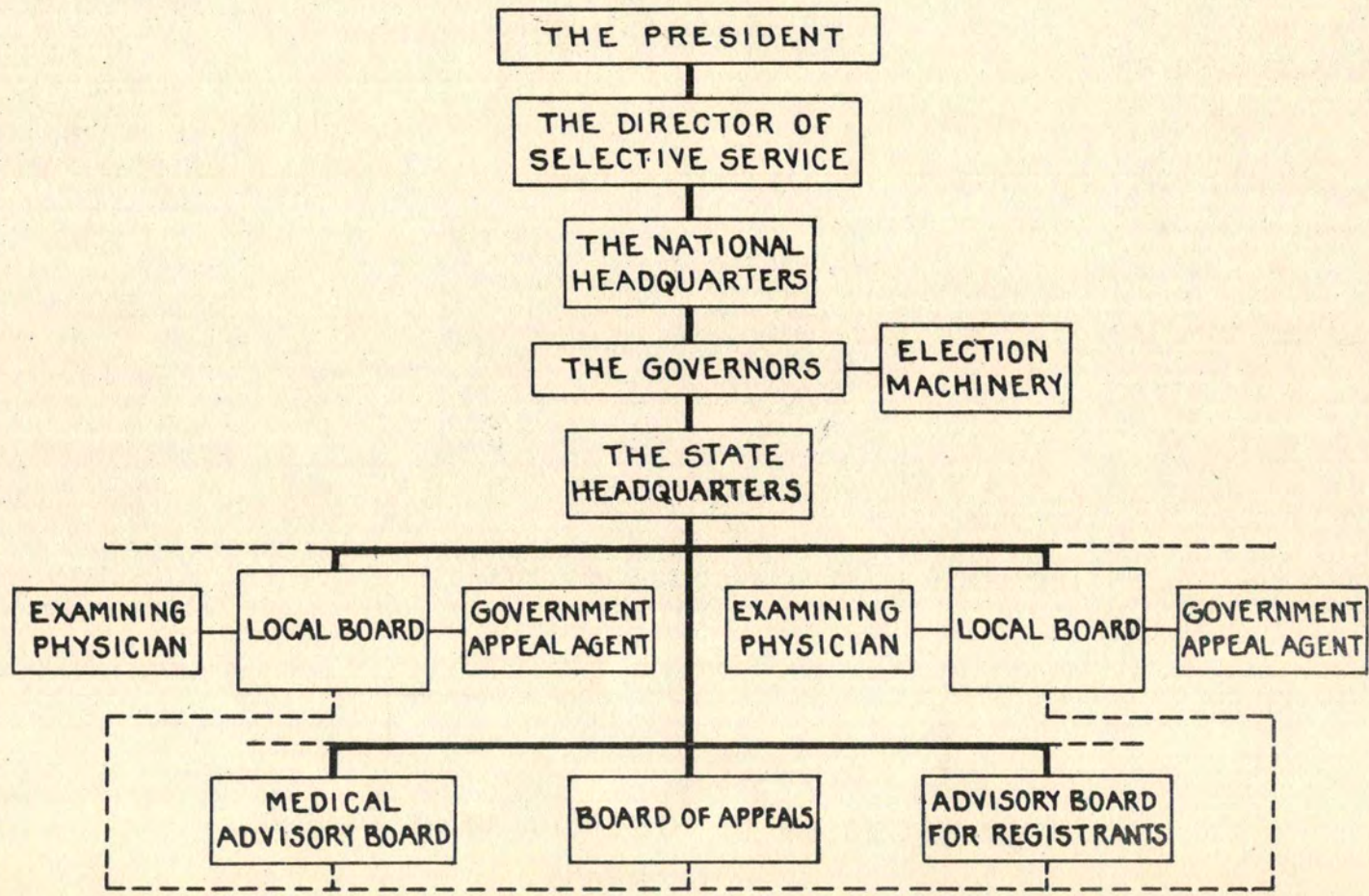


ORGANIZATION ADMINISTRATION OF PUBLIC RELATIONS



NOTE:-BROKEN LINES INDICATE REPRESENTATION UPON THE COMMITTEE.

ORGANIZATION CHART OF THE SELECTIVE SERVICE SYSTEM



ORGANIZATION

FUNCTIONAL CONTROL OF PRICES IN WAR

THE
PRESIDENT

RESEARCH AND FACT FINDING AGENCIES

ADMINISTRATIVE AND CONTROL AGENCIES

CHAIRMAN
PRICE CONTROL COMMISSION

SECRETARY

PRICE CONTROL COMMISSION

Quasi-judicial body for the formulation of policies and methods for the control of prices and profits, and for the stabilization of fair wages. Hears testimony of producers and consumers and determines fair and reasonable prices and rates of profit to be established. Recommends just compensation in cases relating to commandeering and requisitioning.

WAR AND NAVY DEPARTMENTS

Development of procedure and policies which will assure reasonable prices in the procurement of munitions, investigations and advice concerning prices being paid.

TREASURY DEPARTMENT

Follows methods in public finance which will minimize currency inflation.

WAR TRADE ADMINISTRATION

Control of war trade. Negotiates trade agreements. Controls distribution and prices of imports in conformity with established policies.

WAR LABOR ADMINISTRATION

Administrative agency for mediation, conciliation and adjustment of wage disputes.

WAR RESOURCES ADMINISTRATION

Administers price control policies affecting essential industries.

WAR FINANCE CONTROL COMMISSION

Approves sale of securities. Makes loans to essential industries.

GOVERNMENT RESEARCH AGENCIES

Statistical and research work in connection with production costs, especially Bureaus of Mines and Foreign & Domestic Commerce.

DEPARTMENT OF AGRICULTURE

Statistical and research work relating to prices to be established on farm products and farm implements.

INTERSTATE COMMERCE COMMISSION

Usual statutory authority over rates to be charged in Interstate Commerce.

UNITED STATES TARIFF COMMISSION

Studies and investigations relating to tariff duties and their effect on the domestic price structure.

FEDERAL TRADE COMMISSION

Collects data on production costs and makes usual investigations relating to trade practices.

WAR SERVICE COMMITTEES

			Information and testimony on matters affecting their respective industries.				

This completes the picture of the mobilization plan. You may be interested in knowing that the following principles govern this industrial planning for war needs. They are:

- "(1) American industry in war is to be depended upon to produce the major portion of munitions required.
- (2) Full cooperation of industry and labor in such an effort is expected.
- (3) Fair but not excessive profits will be permitted to industry.
- (4) Competition for products of industry by government agencies is not to be permitted. Facilities and products are to be allocated.
- (5) War and Navy Departments must be prepared with requirements based on accurate plans.
- (6) Civilian industry should produce an appreciable amount of munitions in time of peace.
- (7) Needs of civilian population must receive adequate consideration.
- (8) As the Army and Navy will require most of the products of industry in war, they must participate in industrial planning."

Having developed such a plan, you may now wonder how it is to be placed in effect in war.

It is to be established in a major emergency by three means --

- 1st - Use of existing legislation and Presidential authority.
- 2nd - New legislation to be presented to Congress.
- 3rd - Presidential Proclamations.

Rough drafts of legislative bills and proclamations covering these requirements have been prepared and, of course, will be made effective at once in a major emergency.

While such exact industrial control was never planned by any country prior to the World War, that war taught its lessons, which we in this country undoubtedly have been far too slow in appreciating. Other countries also are now very much alert to the necessity for such planning!

Today, we find Germany, Italy; Russia and Japan with nationalized industry. Stalin in his recent proposal for a new Russian Constitution urged a new War Board for Industry and Agriculture. This board is definitely designed to coordinate and speed up all military preparations in the field of industry and agriculture. That all the great powers are now making economic plans for a future war is apparent from items in the current news. Japan is finding it necessary to create reserves, particularly in fuel oil. Great Britain has

recently created a Food Defense Plans Department which is seriously considering a project for storing a year's supply of food reserves in the shafts of worked-out coal mines. In the United States industry is not being nationalized but it is permitted a certain freedom of control. How long this freedom will be preserved, you are as competent to judge as I.

The end in view, however, seems to be identical in all cases, viz. - the use of economic forces in peace and war for the furtherance of national objectives.

How these forces are to be used in war is largely a peacetime problem for the Army and Navy.

If we are to neglect the effective interplay of policy, diplomacy, commerce, finance and national defense, we should do so with our eyes open and a realization of the penalties involved in such neglect.

All factors in our Estimate -- the Political, Psychological, Economic and others -- have their place in peace and war. In war, however, the economic situation becomes one of particular significance. Its effective control in times of stress will depend, in no small degree, upon the effectiveness of the plan we evolve. That is our interest today and in the uncertain tomorrow. Such a plan must assure us adequate sinews of war and,

if possible, deprive the enemy of them. Such a plan must indicate the system of commerce protection and commerce destruction desired. This, in turn, requires an intimate knowledge of shipping, communications, trade routes and their focal points, prospective bases, rights of neutrals, and, above all, a knowledge of raw material needs, - enemy and our own - on which to base assumptions and operations. It is necessary to know not only the economic self-sufficiency of other powers but also the raw materials whose sources they possess or control, and which we might require in case of a major emergency.

War, thus, can not be a problem of the armed services alone. It is an economic problem as well. Economic studies show what tremendous problems are to be met. They clearly indicate that the war of tomorrow will be a vast undertaking, whose complexity seems unending. They point out the danger inherent in a lingering war, or an inconclusive war, and the tragedy inherent in defeat. Similar to extended military studies, they teach, finally, that each and every element of national strength -- the Army, the Navy, Industry, and intelligent Foreign Policy -- must be combined in war toward an expeditious and skilfully directed effort, if final success is to be attained. That is our objective - that is our problem - if the factors of economics are to be used to advantage.