

8-1941

Economic Problems of National Defense, edited by George A. Steiner

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Recommended Citation

(1941) "Economic Problems of National Defense, edited by George A. Steiner," *Indiana Law Journal*: Vol. 16 : Iss. 6 , Article 12.

Available at: <https://www.repository.law.indiana.edu/ilj/vol16/iss6/12>

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ECONOMIC PROBLEMS OF NATIONAL DEFENSE, a Symposium, by members of the faculty of the School of Business and the Dep't of Economics of Indiana University, edited by George A. Steiner. Indiana University Bookstore, Bloomington, \$1.00. May, 1941.

"In bringing to the attention of the public, for its consideration, a number of basic economic issues created by the defense program, the publication of this symposium is a step forward in the furtherance of the national defense effort."¹ The symposium's twelve essays present an orderly review of the economic effects of the "defense program." These scholarly and unbiased discussions provide an orderly background, a well patterned foundation upon which to build a keener understanding of the epoch-making developments that are to come.

Albert Haring, in the first article, "The Consumer and National Defense," estimates that in spite of rising prices only a quarter of the nation's wage earners will receive substantially increased incomes during 1941, and probably fewer than half of them will gain in 1942. Those with relatively stable incomes will suffer a loss of "real" income when prices rise under the influence of heavy defense wage increases and abnormal war demands. Moreover, the output

⁴ p. 269.

⁵ The percentage of farm tenancy in Indiana in 1930 was 30.1%. By 1940 it had declined to 28.2%.

⁶ *The Farmer and the Land* (Editorial, The Des Moines Register, July 22, 1936).

¹ From the Foreword by Herman B Wells, President, Indiana University.

of consumer goods will lessen due to a diversion of skilled labor, capital, and materials to defense industries. Haring believes that the government will try to prevent high price levels by one or more of three methods: (1) "Free income" will be reduced by heavier taxes and increased sale of government bonds; (2) consumer purchasing may be retarded by reducing charge account credit periods, requiring higher down payments, and increased payments on installment purchases; by freezing models and limiting the number of styles, colors and grades; (3) fixed prices or price ceilings may be placed upon all necessary consumer goods, and quantities may be rationed.

"Marketing in a Period of Economic Stabilization," by Melven L. Anshen, discloses that problems of marketing are created by the same economic changes that affect consumers. Almost one-third of the nation's workers are normally employed in the distribution process, which absorbs about a third of the national income. This proportion inevitably must be reduced as increasing portions of our economic power is turned from consumer goods production to production of defense materials. As the supply of transportation and labor is utilized, wholesaling and retailing will be diverted to meet defense industry and military demands. The adjustment will not be an easy one.

"Transportation Requirements of National Defense," by George W. Starr, sounds a cheerful note of preparedness. Railroads can handle much more traffic than is now being handled and more than they could carry during World War I. Motor carrier transportation supplements substantially carriage by rail. Coastal shipping, however, will be sharply cut as it is absorbed into the trans-atlantic service and this will place a new long-haul burden upon railways. During this emergency the Interstate Commerce Commission has authority to make necessary adjustments without actual government operation. Planning, adjustment, and coordination of terminals, repair shops, car yards and round houses will be part of this program. "In handling our transportation facilities," the writer concludes, "as in our whole production program, the greatest problem will probably be neither materials nor machines, but management. The best management for our transportation plant is likely to be already engaged in the business of transportation, and consequently will continue, whether the railways are privately or publicly operated during the emergency."

"The Labor Market and National Defense" is a topic on which there has been much heated dispute. It is interesting, therefore, to read C. L. Christenson's cool study of the situation, and encouraging to read his fact-supported conclusions. As compared with the World War I period, we now have a more nearly adequate labor supply, although our five to eight million unemployed do not furnish sufficient skilled labor in many fields. The output per-man efficiency of labor is now on a much higher level than during the last war, when it dropped 11% between 1915 and 1918. The problem of maintenance of workers' loyalty to the national interest—so vital in a democracy—is much further on its way toward solution than it was

during World War I. At that time the issue of the eight-hour day, recognition of unions, and the procedure and methods of the United States Conciliation Service first had to be settled before problems unique to the defense program could be solved. With those issues now matters of history (60% of the causes of strikes during the first World War have been removed), and with a large and successful Conciliation Service in full operation (strikes are prevented in 9 out of 10 cases) the writer is optimistic concerning our labor problem. In spite of the recent highly publicized, and at times discouraging, defense strikes, he sees "no sound basis for believing that labor market difficulties will constitute insurmountable obstacles to the realization of the objectives of the defense program in the near future."

John R. Mee in "Personnel Problems Created by Industrial Mobilization" emphasizes the problem of employee procurement created by new demands for skilled labor. There is need for safety and health programs because employee services not only reduce accidents and increase efficiency, but improve employer-employee relations, which is called "the greatest single factor in obtaining maximum productivity."

One of the most interesting but perplexing economic problems is that discussed by Samuel E. Braden, "Foreign Trade in a Period of Mobilization." The author first explains the characteristics of peace time trade in the past, which included individualism and laissez-faire-ism (except for protective tariffs), the incentive of profit, and the system of multiangular trade. In the past decade, however, governments have assumed the dominating position in foreign trade economics. Nationalistic and militaristic policies, coupled with the break down of the gold standard, have changed the incentive from one of profit to political and military power. Economics means little when governments begin policies of subsidization and direct purchases, using foreign trade as a weapon to acquire strategic materials, to cut off sources of supply from potential enemies, and to "establish economic and political goodwill with or dominance over other nations whose support may be needed." With disruption of foreign markets and sources of supply and loss of investment opportunities abroad we are forced to seek new markets. These have to be obtained largely in the Western hemisphere. Development of South American markets for our exports requires a corresponding increase of imports from them, for in the long run the exchange must be equal. This can be done by extending long term credits, reducing trade barriers and tariffs, coordinating agricultural programs, and by improving intra-hemisphere social and cultural relations.

That the defense program affects almost every aspect of business life is illustrated by J. E. Hedge's article on "The Role of Insurance in National Defense." War risk coverage in life insurance policies, as during the last war, is a major problem. The impact of war and the defense boom upon the Social Security program is a problem. Special treatment is given the topic of ocean marine insurance and the hazards of shipping through submarine and warplane infested zones. Available forms of insurance providing adequate coverage will include insurance against bombardment in declared or undeclared

wars and rebellions, strikes and riots, explosions, civil commotion, and vandalism and malicious mischief, including protection against acts of enemy agents. British experience with air-raid destruction has resulted in a bill providing for compulsory insurance on all immovable property threatened by bombing, with 50% of the cost of premiums paid out of the treasury.

Dean Arthur Weimer's article considers the "Potential Effects of the Defense Program on Housing." Population shifts to defense production centers creates in those areas correspondingly greater demand upon housing facilities, causing a rise in rentals, an increase in building and improvements, and doubling up of families in existing dwellings. The new building projects are an essential part of the defense picture, and above the point where private business and capital find the investments unprofitable they must be government financed and managed. This program, however, must not conflict with peacetime federal housing projects, and should, if possible, avoid government ghost towns after the defense boom is over.

A sketch of the fiscal structure serves as a background and introduces George A. Steiner's discussion of the "Federal Fiscal Policy in National Defense." "There are only three practical ways," he concludes, "by which the defense program may be financed, namely: (1) reducing non-defense expenditures of the federal government; (2) increasing taxes; and (3) borrowing. Some saving has been made on the first item. Taxation can serve a dual purpose of providing funds and retarding inflation. Borrowing by sale of bonds to absorb savings is a necessary addition to taxation as a revenue measure. Voluntary purchases may be supplemented by a system of "forced loans" which would be similar to an income tax except for the promise to repay at the end of the emergency. Repayment is calculated to help keep up the purchasing power of wage-earners and lessen the effects of the decline that seems likely to follow the end of the emergency.

The vital role that the banking system plays in the national defense program is portrayed by N. L. Silverstein's contribution, "The Banks and Defense." Banks have much of the burden of financing both government and industry. Fortunately, they are in a much better position now both as to excess-reserves and management experience than during the last war. If banks can perform the services expected of them, and yet exercise a wise restraint on the expansion of their total credit so as to prevent inflation—that is, a sharp rise in the general price level—they will have rendered an invaluable service. If they cannot do this voluntarily, if they are unwilling to sacrifice present profits for the national good, the Federal Reserve Board will have to guide the way "with increasing vigor and definiteness."

"Monetary Policies and Organization for Defense," by William C. Cleveland, explains the nature and causes of price level inflation, and examines the present ability of the monetary and banking system to provide funds. Prof. Cleveland says two conclusions become apparent: "First, the present volume of funds, if used at spending rates comparable to those prevailing during the 1920's, is more than sufficient

to finance any prospective expansion of production in connection with the defense effort on a normal expansion of business activity to full employment levels. Second, the present and prospective volume of excess reserves held by the commercial banks are more than sufficient to serve as the basis for the creation of an additional volume of funds which would more than double the present volume. Scarcity of funds will not prove a hindrance to the defense effort; on the contrary, fund excesses which facilitate price level inflation may prove to be the major obstacle to the execution of the program." To prevent inflation the author suggests giving the Federal Reserve Board and Federal Open Market Committee complete control of both the volume of money to be printed and volume of bank deposit currency to be created. Although it is admitted that monetary and credit controls cannot of themselves prevent inflation, it is hoped that these techniques aided by increased taxation and borrowing out of true savings will prove a satisfactory answer.

The symposium is closed by George A. Steiner's exposition of "Industrial Mobilization Planning in the United States." One is impressed by the tremendous size of the administrative structure which must be superimposed upon our normal governmental framework to handle the emergency defense problems. Learning from our World War I experience, civil and military administrators readily mobilized government, industry, and finance under the Office for Emergency Management, which is the "holding company" authorizing and directing the numerous other boards, commissions, and agencies in their assigned duties. Although there is some overlapping and the organization is still loose, increased centralized control, will, it is hoped, tighten the parts into a vast, smooth-running machine, providing expert administration for our national defense program.