

**FROM WAR TO PEACE WITH BANKS**

by

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before the

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## Introduction

### 1. We must know where we want to go

"The Cat only grinned when it saw Alice...

'Cheshire-Puss,' she began, rather timidly, 'would you tell me, please, which way I ought to go from here?'

'That depends a good deal on where you want to get to,' said the Cat.

'It doesn't much matter,' said Alice.

'Then it doesn't much matter which way you go,' said the Cat."

### 2. We must be prepared

#### a. Preparation must be proper

- (1) Maginot minds won't help
- (2) "He might as well have et."

#### b. Preparation must be in time

- (1) An incident at an outpost

Sentry: "Halt! Who goes there?"

Voice: "A foe."

Sentry: "You wait there a minute until I go see the Sergeant."

Sentry to Sergeant: "You know he is supposed to say he is a friend and then I say 'Pass'. But he

*right space*

said he is a foe. Now what am I going to do?"

Sergeant: "Let's look it up in the book."

After half an hour fumbling through the book -

Sergeant: "You go back and tell that man to return next month when we are better organized."

(2) What if Hitler surrendered tomorrow?

3. The unique position of banking

a. Enormous expansion during the war period

<u>U. S. member banks</u> (Billion \$)	<u>December 31</u>	
	<u>1939</u>	<u>1943</u>
Loans & investments.....	34	74
Governments.....	14	53
Demand deposits.....	26	53

Not as great as shipbuilding, aircraft, etc., but very large.

b. No prospect of serious post-war decline.

I. American war record

- A. The armed services
- B. Production

- 1. Early mention of sacrifices
- 2. Accomplishments

*"I see you are able to get leaf"  
" geo. and we find  
we liked it."*

Industrial production for war and for civilians

<u>Year</u>	<u>Total</u>	<u>Civilian</u>	<u>War</u>
1932	58	58	0
1935-1939	100	100	0
July 1939	106	--	--
July 1940	123	--	--
Dec. 1943	245	75	170

Despite 8-10 million in the armed forces.

C. Finance

Ownership of U. S. Government Securities

(Estimated holdings in billions of dollars)

	<u>Amount held</u>	<u>Increase in holdings in</u>		
	<u>Dec. 31, 1943</u>	<u>1943</u>	<u>1942</u>	<u>1941</u>
Banks.....	72.1	24.6	23.4	4.1
Nonbank...	<u>96.6</u>	<u>32.5</u>	<u>24.4</u>	<u>9.3</u>
Total...	168.7	57.1	47.8	13.4

## II. Problems of reconversion

- A. Demobilization
- B. Industrial reconversion

### 1. Nature of the problem

(a) In general a high level of productive employment

(b) In quantitative terms

<u>Year</u>	<u>Civilian labor force</u>	<u>Employed</u>	<u>Armed forces</u>	<u>Unemployed</u>
1932	50.9	37.3	.3	13.6
1939	54.6	44.2	.4	10.4
1942	54.5	51.9	4.2	2.6
1946?	57.5	55.5	1.9	2.0

### 2. A war versus a peace economy

A question of markets

In war: Government buys

In peace: Who will buy what?

### 3. Production creates markets

(a) General analysis

(b) The "hitch": the individual employer versus all employers

### 4. The challenge

### 5. Individual company approach

### 6. What can you do? - Buying a radio

7. Attitudes and approach to reconversion problems

(a) Management

(1) Henry J. Kaiser, industrialist

"...the principal responsibility for post-war planning must rest squarely on management.

"...in a machine age, a great mass of humanity must work for wages. This is not to say that the channels of opportunity for individual enterprise will be closed; but mass production under power driven machinery clearly delimits the types of business organization which can prevail.

"Let's go back into the risk business. Accept all the hazards of enterprise and do a heroic job of building. This was the spirit of America. Can it be any less so today?..."

(2) Eric A. Johnston, Pres., U.S. C. of C.

"Clear definitions of the rules of the economic game to enable business to make plans are needed." Government's part.

"...A competitive capitalistic society is found to be the most stimulating to the creative instincts of the individual. And the individual is the keynote to economic accomplishment.

"The problem is to remove artificial shackles on his creative energy, to rule out regulation that acts as a strait-jacket on ambition, on invention, on economic venture and technological pioneering; to restore normal human incentives of reward and accomplishments."

The goal is to restore workers to "steady, well paying jobs at the earliest possible moment."

(b) Labor

(i) Walter P. Reuther, V.P., United Auto Workers of America, CIO

...Government coordination and direction are essential. ... "Without Government initiative, the effect of mobilization of our national economic life and productive effort cannot be achieved."

Proposes creation of a Peace Production Board - Government, management, labor, farmers, consumers - with authority to plan, organize and direct reconversion ... "so as to achieve full and continuous employment."

Advocates industrial councils in each major industry - management, labor and the consumer in the case of consumer industries.

The Government should operate plants in monopolistic or semi-monopolistic industries. Other plants should be leased to private industry. Yardstick. For expansion in housing.

## 8. Formal proposals

### (a) The George-Murray Bill (Hearings - Apr. 4)

- (1) Separate Office of Demobilization
- (2) Congress to be dominant

### (b) Truman Committee plan

- (1) Centralize responsibility
- (2) Resume civilian production quickly

### (c) The Baruch-Hancock master blueprint - broad outline of working principles

#### (1) Aim and answer

(A) Objective is to provide an answer to - "How am I going to make a living for myself and for those dear to me when the war is over in a manner of my own choosing?"

(B) Private enterprise is adequate to provide the basis for a firm and lasting peace. Source of jobs.

(I) No need for another system - Communism, etc.

(II) Private enterprise and competition - resourcefulness.

#### (2) Proposals

(A) Human side of demobilization  
Work Director in the Office of  
War Mobilization

(B) Settlement of terminated war  
contracts



Prime and subcontractors  
No "unemployment by audit"  
Negotiation with safeguards

(C) Disposal of property - materials  
and plants

The Surplus Property Director  
Sale of Gov't-owned plants

(D) "Financial Kit" - release of  
working capital

- (I) Prompt payments
- (II) Simplified system of loans
- (III) Small business - finance and  
management
- (IV) Post-war tax law

(3) Favorable conditions

(A) War controls: "We have not wanted  
to leave the Government after the  
war a jack-pot of controls which  
invite every pressure group to  
hit it."

(B) Favorable climate - "if we create  
the atmosphere in which private  
initiative and resourcefulness -  
the traditional American spirit -  
can again take hold."

9. Tripartite responsibility - coordinated efforts

(a) Governmental policy

- (1) Release of working funds and property  
disposal
- (2) War controls
- (3) Tax structure

(b) Business

- (1) Creative attitude in changeover
- (2) Increased output, markets, jobs
- (3) Concerted efforts - "Grass roots" approach

(c) Labor

- (1) Creative attitude to ease changeover
- (2) Absorption of costs - cost per unit
- (3) Good business - common objective

Eric A. Johnston - Boston Univ. Founders' Day 3/13/44

Management and labor must agree upon a program of mutual assistance.

"I say just two things to you of management and to you of labor: One - go ahead and turn this country into a continuous brawl and the Government will chain you both; two - make a better choice, work together and stay free."

"Right now you (labor) are just where we of management were 10 years ago."

He pointed out that from 1921 to 1930 management had everything its own way with a friendly administration in Washington, low taxes, and a friendly public.

"And what did we do with our power?" he asked.

"On the economic side we gave this country a balloon boom that had to burst. On the moral side we produced men like Insull and Hopson and Musica, who undermined confidence in business.

"So what did we get? Beginning with 1933 we got the biggest public beating that any group of

Americans ever took. The public wanted us socked, and socked we were.

"Gentlemen of labor, I must accuse you of not being very original...From 1933 to 1942 you rode high. A friendly administration in Washington; all sorts of favors fed to you daily from the Washington political table. Management weak and intimidated.

"So what did you do with your power? On the economic side you gave yourselves a labor boom... On the moral side you produced men like Browne and Bioff and Scalise, who gave all labor a black eye.

"You forgot the very thing we forgot. In the architecture of American society, it's just three jumps from the master bedroom to the dog-house.

"Now the dog-house is yawning for you. The Federal Government and many of the State governments are beginning to sock you with laws... If the public wants you socked, why, socked you will be.

"And don't think you can duck any of it by yelling 'anti-labor' and 'reactionary' and 'Fascist'. We didn't escape any blows coming our way by yelling 'anti-business' and 'bureaucrat' and 'Communist'."

C. Finance

1. Need for funds - maximum \$36 billion

- (a) "Reconversion" cost - old plant
- (b) Inventory
- (c) Equipment and plant purchases
- (d) Deferred maintenance
- (e) Wartime tax accruals

2. Estimated availability of funds

- (a) Net wartime accumulation - \$10-20 billion
- (b) Access to open market and banks
- (c) Individual savings
  - 1940-1943.....\$90 billion
  - By mid-1945.....150 "

III. The role of banks

- A. Do banks have a reconversion problem?
- B. The necessity of assuming risks

1. Earlier unfortunate experiences

Result of

- (a) Failure to realize risk was being taken (relied on outmoded credit standards)
- (b) Did not set up reserves

2. Solution

Know what risks you are taking - including the risk to the banking profession.

*Questions from absorption of exchange to  
Fed res. ratios.*