Naval War College Review

Volume 10
Number 3 *March*

Article 2

1957

Economic Potential for War

Robert E. Kuenne

SPECIAL ATTENTION TO THE READER

The material contained herein is furnished to the individual addressee for his private information and education only. The frank remarks and personal opinions of many Naval War College guest lecturers are presented with the understanding that they will not be quoted; you are enjoined to respect their privacy. Under no circumstances will this material be republished or quoted publicly, as a whole or in part, without specific clearance in each instance with both the author and the Naval War College.

NAVAL WAR COLLEGE REVIEW was established in 1948 by the Chief of Naval Personnel in order that officers of the service might receive some of the educational benefits of the resident students at the Naval War College. Distribution is in accordance with BUPERS Instruction 1552.5 of 23 June 1954. It must be kept in the possession of the subscriber, or other officers eligible for subscription, and should be destroyed by burning when no longer required.

The thoughts and opinions expressed in this publication are those of the author, and are not necessarily those of the Navy Department or of the Naval War College.

NAVAL WAR COLLEGE
REVIEW

Issued Monthly
U. S. Naval War College
Newport, R. I.

ECONOMIC POTENTIAL FOR WAR

A lecture delivered
at the Naval War College
on 1 October 1956 by
Professor Robert E. Kuenne

1. *Introduction.* Almost 100 years ago, the London *Economist* wrote of what might be called the "theory of national external strategy":

> "Now, though nations must never perpetrate wrong, it by no means follows that they are bound or would be wise or right in all cases to interfere to prevent its perpetration. Each case must stand on its own merits. We are not charged with the general police of the universe. We cannot undertake knight-errantry throughout the whole world. We may interpose to protect our immediate friends, or special allies, or close connections, those to whom we are bound by affection, those to whom we are linked by interest — without entailing upon ourselves the obligation to defend also the distant and the unrelated. We may properly enough take up arms to resent one wrong or to beat back one encroachment, yet with equal propriety decline to punish analagous wrongs elsewhere, or to repel all similar encroachments.
>
> "We must do what we can — what most concerns us — what lies within our special power, our close cognizance, our easy reach. It is no accurate or cogent logic that would constrain us, because we have protected the weak and baffled the robber in Europe and at home, to pursue the same course at the antipodes and in another hemisphere. To do so would

be simply out of our power and beyond our scope. It is a policy which we could not carry out, and which therefore we should not be wise and are not called upon to undertake. In many cases we should not be able to pronounce a certain and authoritative judgment, and in many more we should not be able to enforce our sentence, or to enforce it without doing more harm than good. To announce that we disclaim the vocation of righting all wrongs and punishing all crimes all over the world, may possibly be an encouragment to the wrongdoer — but it is an encouragement which we cannot help affording." *1

In this theory of external strategy referred to earlier, the principle phrased so eloquently by the *Economist* might be called "The Theorum of the Negation of the Grand Mission Principle in External Strategy." Great stress should be placed upon this theorem as the very foundation of foreign policy, for the failure to acknowledge its validity is a sure sign of immaturity: one of the more important characteristics of growing up, for individuals and nations, is the recognition of limitations upon our ability to act which inhere in ourselves and in situations. A good case could be made for requiring those of our statesmen concerned primarily with the shaping of our foreign policy to repeat daily the prayer urged by Alcoholics Anonymous upon its members:

> "Give me this day the serenity to accept those things which cannot be changed; the courage to alter those things which can; and the wisdom to know the difference."

Foreign policy and strategy, like politics, is the Art of the Possible.

The surest indication that the Grand Mission Principle is associated with callowness in the design of foreign policy is

*1 *The Economist*, June 14, 1856, as quoted in the June 16, 1956 issue, p. 1082.

gained from the fact that the very birth of the recognition of American responsibility in the peacetime world trailed clouds of such misconceived glory. The enunciation of the Truman Doctrine on March 12, 1947 is becoming a bench-mark date for this assumption of responsibility, and a close reading of the President's message to Congress reveals a broader principle than a mere need to aid Greece and Turkey:

> " . . . We shall not realize our objectives, however, unless we are willing to help free peoples to maintain their free institutions and their national integrity against aggressive movements that seek to impose on them totalitarian regimes . . .
>
> "I believe that it must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures.
>
> "I believe that we must assist free peoples to work out their own destinies in their own way. I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes.
>
> "The world is not static, and the status quo is not sacred. But we cannot allow changes in the status quo in violation of the charter of the United Nations by such methods as coercion or by such subterfuge as political infiltration. In helping free and independent nations to maintain their freedom, the United States will be giving effect to the principles of the charter of the United Nations." *2

After discounting these statements for the evident need to sugarcoat a novel program for spending money to get a conservative Congress to approve it, and for the desire to appear not by-

*2 *New York Times*, March 13, 1947, p. 2.

passing the United Nations, this series of statements comes perilously close to the Grand Mission Principle of foreign policy. Between 1947 and the present we have become much more sophisticated: indeed, the rapidity with which the United States, once emerged from its isolationist shell, assumed its global responsibilities and began to place them in proper perspective, is probably unequaled in history. Indeed we have advanced so far in a mere sixteen years that we find the extreme right wing of the Republican Party, still anchored firmly in the Middle West, attacking its own party's administration of foreign policy not because we are too deeply committed in Asia but because we are not committed deeply enough. So, great has been the change since the Great Debate of 1938-41. Still, I think a good case could be made for the hypothesis that we Americans still tend to define our objectives on ambitions, overly-principled lines: liberation of the satellites, the roll-back of Communist ideology, the world safe for Democracy, unconditional surrender, aid to nations fighting the Communist menace wherever located, and so forth are examples of such policies. On the other hand, a frank containment policy became an election issue on grounds that it was not a positive or ambitious enough program, and the dissatisfaction arising from fighting the Korean War for limited (if perhaps imperfectly understood) objectives is close enough to us to be vivid illustrations.

It is not an accident, I think, that the eloquent statement negating the Grand Mission Principle appeared in a journal whose title reveals a good deal of its content: it is, in short, the application of the kernel of nineteenth century economic reasoning to the designing of strategy. Though the statement is a century old, if we substitute a few words it seems surprisingly modern, and its message is still a valuable one. The ends of national strategy are limitless, the means are limited; therefore, we must meet a fundamental constraint upon our actions in the foreign policy sphere. We must allocate scarce means to the achievement of certain ends following some method of rational choice: we have, in short, an *economic problem.*

Human nature being what it is, a second theorem in the theory of external strategy can be subscribed to by the same administration that accepts the Grand Mission outlook. We might term this the Tender Flower Economy theorem: that is, that the economy available for the design and implementation of foreign policy is so fragile and subject to shocks to its confidence that ambitious foreign policy might seriously interfere with the national economic existence. And it is not at all beyond the realm of possibility that the same men who seek to avoid the pedestrian restrictions of a mere containment policy in order to develop a dynamic new foreign policy, subscribe to some variant of the Tender Flower theorem.

Both of these theorems stress negative constraints upon the strategist. Our interests lie in only one small sector of the foreign policy sphere — that marked by armed conflict. What specific problems arise in this restricted sphere of external strategy when we apply both the Negation of the Grand Mission theorem and the Tender Flower theorem to the waging of war? What determines the extent and number of military actions the nation can support? What are the interferences with and demands upon a national economy when war comes, and what elements determine the potential of an economy to wage war? To these questions we now turn.

2. *The Economic Need to Limit Objectives.* Although the major portion of this lecture will deal with the economic potential available for waging a war with given objectives, let me comment briefly upon the need to allow the scarce resources of an economy to dictate the objectives of foreign policy and of war itself. The fundamental problem of the existence of scarce means available to a society to achieve its goals, among which external strategy's objectives are merely a sub-set, immediately imposes the necessity of choice among objectives upon that society. If that

society is a rational one, some criterion for choosing among the ends that can be obtained, with these limited resources, will be adopted which is consistent with the goal of the society's maximizing its well-being.

Let us apply this reasoning specifically to the use of military means to attain national objectives. The two most recent experiences in the minds of Americans before Korea with the use of military might to obtain national objectives were those of World Wars I and II, whose most impressive characteristic was the total nature of the objectives to be attained and the means used to obtain them. Before 1950, then, the concept of war in terms of the objectives to be reached by it and the means to be consumed in reaching those objectives, tended to be something of an absolute phenomenon: either a state of war existed with all the terrible carnage and consumption of resources it involved, or it did not exist; either the decision was made to overthrow certain major national powers in the struggle to change the balance, or it was not made. Once the stumble was made over the brink, the plunge to the bottom of the abyss was inevitable.

I would propose, then, that before Korea, the objectives which war was the proper means of achieving were conceived of as of near-infinite importance — threatening attacks upon the national existence, for example — in order to justify the total effort conceived of as necessary to support that war.

The Korean War found the United States unprepared to fight a war whose objectives were much more restricted than those of World Wars I and II. The traditional attitude that "there is no substitute for victory" clouded the thinking of policy-maker, military man, and man-in-the-street and produced a history of blunder, ill-defined objectives, and vituperation. The attitude that war itself carries within itself its own military objectives whose objective achievement was that glowing prize "victory" helped to lead to a careless neglect of the true objectives of the war. Was it to restore the armistice line? To overthrow the North Korean puppet government and replace it? To unite North and South Korea? One has the impression that the question was never decided, and in good part, because the historic approach to war as a total phenomenon veiled the need to consider it.

But the lesson should now be learned. Objectives can be achieved along a continuum of importance to the nation. To attain objectives requires a drain upon the economic potential, among other resources. These two considerations lead to conclusions which can be stated in terms of specifics in Korea in something like these terms:

1. The national objective of resisting the invasion of South Korea and pushing the invaders back to the 38th parallel possessed a given weight in terms of the welfare of this nation;

2. The national objective of forcibly reuniting the nation had another weight in the strategic scheme of things;

3. Both of these objectives had specified costs in terms of resources;

4. These national objectives were merely two alternatives in a whole range of national objectives whose existence and relative weights had to be kept in mind.

5. The decision to adopt objective 1 should have been made only if the importance of the national objective was such that the prospective resources committed to its attainment would have provided no greater benefit if used elsewhere; specifically, it should not have been taken in the spirit of a Grand Mission approach to national strategy on these grounds, as very well might have been done;

6. If the prospective costs of reuniting Korea were too great in terms of the welfare resulting from that reunion to our own nation, the objective should have been rejected;

7. Once stalemate had been reached militarily, the costs of achieving the Yalu by military defeat of the Chinese should have been coldly calculated against the importance of such a national objective. If such costs, plus the prospect in the probability of touching off total war, bore no reasonable relationship to the importance of the objective, we should have disengaged our efforts and achieved the more limited but rational objective. Specifically, the argument that "we are in this thing and we have got to finish it" should receive short shrift.

These are the conclusions that follow from the adoption of the viewpoint of the economist acting to use war potential in an optimum fashion to achieve national objectives while at the same time keeping this war potential in the broader framework of national efforts. They spring from the outlook which allows the objectives of war to vary from total to limited, and to calculate costs cooly and rationally. Moreover, it implies the ability to break off a war in the event it becomes too costly in terms of its objectives, and to accept the rational use of limited victory and the necessity for stalemate or even limited defeat in the use of armed force.

3. *The Role of Economic Resources.* Whether we accept the Tender Flower theorem about the nature of the free market economy or not, we can all agree that the waging of, or preparation for total and limited war today, creates a substantial demand upon any national economy and cannot fail to create challenges which in some instances, might threaten the existence of the conditions under which the free market operates. In monetary terms,

World War II probably cost this nation in excess of $300 billion in resources consumed; it required the most extensive system of controls ever imposed upon the free market mechanism; it led to the greatest degree of governmental interference with the satisfaction of consumers' desires ever experiencd; and it imposed upon the market mechanism, the need to meet ends which do not inhere in the operation of the mechanism. War, therefore, places such extraordinary demands upon the outputs of economy, and tends to transform the economy so greatly, that some consideration must be given to what lies behind a nation's ability to wage war.

In the limited time available, I should like to stress three economic factors which are of crucial importance in a nation's potential: (1) the absolute size of its output of goods, or what we might term its national product; (2) the rate at which this national product is growing; and (3) the method the nation has for organizing its economic activities, or the implications of the free market and planning organizations for fighting wars. A myriad of other economic considerations are important also in determining economic potential, but we shall do better in the time available to concentrate upon these three.

a. *The Level of National Product.* Perhaps of greatest importance economically is the total and per capita levels of national product when the attempt is made to gauge economic capabilities in the military sector. At the present time, the United States' gross national product is about $400 billion: that is, the amount of goods flowing to consumers, investors, and governments at all levels each year from the activities of that year's economy operations is about $400 billion worth. Dividing this by a population of 164 million, we obtain a per capita product of about $2,400. We can assert confidently, that historically, no nation has ever achieved such levels of output. Both the total and per capita levels are large multiples of such data for other national economies today. The Soviet Union, for example, has a total product of only about one-third that of the United States and a per capita product only one-fourth that of the United States.

Of course, an important question is the degree to which the national government in times of war can call upon this national product for its own uses. We shall later in this lecture discuss the important bearing, the method of organizing the economy has upon this question. But let us turn briefly to the study of what amounts of national product might be devoted to the waging of total and limited warfare.

In 1955, this national product was distributed in this manner among users of good and services:

Type of User of Goods	*Percentage of GNP*
Household consumers	65.2%
Investors (home and abroad)	15.2
Governments (all levels)	19.6

Government expenditures (all levels) may be broken in two ways as follows:

(a) Expenditure by type of government

Federal	12.0%
State and local	7.6%
Total government expenditure	19.6%

(b) Expenditure in regard to security and non-security

National security	10.5%
Non-Security (all types of government	9.1%
Total government expenditure	19.6%

We might typify this pattern of use of the national product in this fashion: in the cold war year 1955, households took about 65¢ of each dollar's worth of product, investors (or those who took part of the product of the United States to use for further production at home or abroad in future periods) took an average 15¢, and governments of all types took about 20¢ worth of product.

Of that 20¢, about 12¢ went to the federal government, and about 11¢ of it went for national security expenditures.

If, in a period of rather intensive cold war, the United States is spending 11¢ of its product dollar for national security, let us see how this bite of national product compares with the years of preparation for and actual waging of total war:

Federal National Security Expenditures
as Percentage of Gross National Product

Year	*Percentage of GNP*
1939	1.4¢
1940	2.2
1941	10.9
1942	30.7
1943	41.4
1944	41.5
1945	35.3

In a period of total war, the national security expenditures of the nation reached a peak annual rate of about 42¢ of every dollar's worth of product produced in the nation.

Next, let us turn to a period of limited war — from 1950 to 1953 — and see what happened to national security expenditures. From a level of 6.4¢ per product dollar in 1950 it rose to 11.3¢ in 1951, 14.1¢ in 1952, and 14.2¢ in 1953.

Let us then use the years 1955 as typical of cold war, 1953 as a peak limited war year, and 1944 as a peak total war year, and seek to find how the changes in the national security portion of the product dollar were derived from cutbacks in the amounts of the product dollar going to other destinations.

Type of Conflict	Consumption	Investment	Gov't. Security	Gov't. Non-Security
Cold War	65.2¢	15.2¢	10.5¢	9.1¢
Limited War	63.3	13.9	14.2	9.0
Total War	52.3	2.6	41.5	3.6

Because of the fact that we must ignore the chronological order of the years selected, our conclusions must be regarded as tentative. However, the historical stability of the amounts of the product dollar going to the various claimants has been quite great, and allows us to argue more confidently than if they fluctuated greatly.

Note that in total war, consumption is indeed restricted in terms of the amount of each dollar devoted to it — but also note that at the height of total war, the greater part of each dollar of product went to the household for consumption. The amount of compression shown above may be much larger than might be expected in the future, since we entered World War II with substantial unemployment. The absolute amount of consumption increased in World War II; however, the fact that in the immediate past levels were not high meant that the society, starting from lower experience levels, did not have to have large increases. Therefore, the *relative* reduction could be quite great. On the other hand, if we were to enter a total war from levels of full employment, we should not have this advantage.

Also, our total war experience reveals a drastic cutback in the real amounts of product going to the investment sector. This was cut back by about 12¢ of the roughly 15¢ or 16¢ normally going into investment. It can be argued forcefully that this represents much too great a reduction in the amount devoted from each product dollar to an extremely crucial sector. We shall return to this point when discussing the importance of the rate of growth in examining economic potential.

Lastly, governmental non-security expenditures seem drastically compressed, but it is doubtful if another total war could bring about this same degree of compression, for reasons analogous to those quoted to explain analagous qualifications for consumption.

Let us venture forth upon totally uncharted seas and attempt to answer this question: Suppose a total war of the World

War II type should once more face us? Under conditions when the entire nerve and fibre of the economy were strained to the limit but short of a real and present danger to our national existence, what limits might we set for the economic potential available to the military? I should propose that the following limits would be near-minimal for consumption, investment, and governmental non-security: for consumption, 35¢; investment, 8¢; government non-security, 5¢. This yields a total of 48¢, leaving a residual of about 52¢ of each product dollar available for the waging of the total war. I should not attempt to defend these figures as "correct" in some meaningful sense, but I should stress that they are of minimal order of magnitude. The lesson they teach — that even under conditions of total war just short of disaster, little more than 50 percent of the national product would be available for strategic expenditures — is an important one in the consideration of available economic potential.

Gauging the degree to which limited war draws upon economic potential is a more difficult problem, for if objectives are limited they, as well as the resources needed to obtain them, can vary continuously from cold war to the all-out demands of total war. The only example which has any current relevance, of course, is the Korean imbroglio, whose objectives were quite limited as compared to what limited war in the future might entail. In that action, however, consumption declined from about 69 percent of the national product in both 1949 and 1950 to the 63 percent recorded above, at the height of annual expenditures. This represents about an 8 percent reduction in the relative share of consumption, as compared with a 30 percent reduction in the year of greatest activity in World War II. Investment activity showed no compression, this fact constituting the greatest difference between the relative shares in total and limited war. We shall return to these points in connection with the discussion of the other two factors in economic potential.

Let me touch briefly upon the manner of financing these governmental national security goods and explicitly note that although what I have to say about these matters refers to hot wars, it has an equally important bearing upon cold war. The question is: How can the government obtain from consumers and investors, the goods necessary to compress these components of national product sufficiently to fight a war? Note, the important thing is to get the goods, or the resources; it is not the ultimate purpose to get the money.

Several ways exist to obtain these goods. One way is to tax it away from consumers and investors by taking portions of their income and wealth so that they cannot purchase goods. A second way is to sell bonds to individuals and non-bank institutions, in this way inducing investors and consumers to forego their command over goods and resources. A third way is to allow the government to create money to the extent necessary to buy up the goods and services: that is, to disallow all other purchasers to create money and by using the money-creating powers of the government and other institutions, to bid goods and services away from consumers and investors. All three methods have their place; all three have advantages and disadvantages. But one point is vital: the second two methods involve the flotations of government debt. In modern governments, flotation of debt is the manner in which they increase the money supply. It is *not* a method of passing part of the burdens of a war on to future generations: no mere manner of financing a war can alter that burden one iota. The level of the national debt is important primarily in terms of the inflationary or deflationary state of the economy: its good or evil cannot be judged independently of that state of affairs. Nor should the level of national security expenditures be dictated by the state of budget balance only, or even primarily.

b. *The Rate of Growth of National Output.* An extremely important variable in the gauging of an economy's war potential is the rate at which product is growing. One reason this is true, is that an extremely high growth rate indicates that an economy is dynamic and vital: the capital stock of the economy usually is growing fast, new products and new ways of doing things characterize it, an efficiency-minded entrepreneurial class is directing its destiny, and so forth. These characteristics of a society cannot help to add to its war-making potential. However, to concentrate only upon these features of a high growth rate would be to employ it merely in a symptomatic fashion: it has an importance in and of itself which will become increasingly understood as this nation moves into an age of limited and cold war.

This importance is based upon the fundamental proposition that it is easier to take something which they haven't got away from the consumer and the investor than it is to take something which they have got. In limited (and cold) war the patriotic incentive to sacrifice must be notably less than in total war, so that the compression of consumption and investment must generate much more friction in a society oriented about the free market. The problem can be much more easily solved in an economy with a large growth rate than in one with a small growth rate. In the latter type of economy — let us say one with a zero growth rate — the only way to get to a new plateau of security expenditure, is by reducing the absolute level of goods the consumer and investor are absorbing and using these goods to further national security purposes.

On the other hand, let us take as an example the United States, which has been enjoying a growth rate in national product of about 3.5 percent per year. Under these circumstances, a security build-up can occur without depressing consumers' and investors' *absolute* levels of well-being — or even allowing them to increase — by using the increment of product, accruing as growth year by year for security purposes. At the present time, the growth rate of the United States means that about $14 billion is added to national product year by year (and, incidentally, that unless we progress by this much from year to year we have failed to gain normal progress). Using a substantial part of this for building up our security program would give us a very quick build-up.

For example, let us contrast an economy with a $400 billion national product and a zero growth rate with an economy with the same national product but with a growth rate of 3.5 percent. Suppose that national security expenditures are 10 percent of GNP in both economies — 10¢ of each product dollar is going to security posture — but that a limited war breaks out, requiring the gradual approach to an expenditure of $60 billion per year. The stagnant economy will have to depress consumers and investors by $20 billion per year ultimately. But, assume that in the dynamic economy population is growing at 1.5 percent per year and that we decide to hold per capita consumption constant. Also, since we are leaning heavily upon growth, let us allow investment to grow by 3.5 percent per year so as not to kill the goose that lays the golden eggs. Using our 1955 relationships roughly, with consumption at 65 percent, investment at 15 percent, government non-security at 9 percent, our initial division of national product would appear as follows:

Dynamic Economy Build-Up
(Billions of Dollars)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Consumption	$260.0	$263.9	$267.9	$271.9	$276.0	$280.1
Investment	60.0	62.1	64.3	66.6	68.9	71.3
Government Non-Security	40.0	40.0	40.0	40.0	40.0	40.0
Security	40.0	48.0	56.3	65.0	74.1	83.7
Total	$400.0	$414.0	$428.5	$443.5	$459.0	$475.1

In a three-year period the dynamic economy has increased security expenditures by about 50 percent and in five years by about 100 percent, while per capita consumption has remained constant and investment has been allowed to grow as the economy itself. This rapid rate of security build-up could be slowed down by allowing consumption per capita to increase somewhat, or by allowing investment an even greater rate of growth. The illustration is sufficiently realistic, however, to indicate how extremely important is this rate of growth, particularly in circumstances where absolute restriction of consumption and investment is difficult or politically impossible.

c. *The Method of Organizing Economic Activities.* A last consideration has a peculiarly important bearing upon the ability of a society to wage war: this we can refer to, as the way in which that society organizes its economic activities. In the United States, this coordination of individual actions to meet society's economic goals is worked out on a trial and error basis in an extremely efficient way via the ministrations of an impersonal free market for the greatest number of such actions. Two world wars of the total variety, have taught us that under the spur of the need to organize totally, to attain objectives of defeating and imposing one's will upon large sovereign nations, is sufficient to overturn the essence of this market mechanism and yet allow it to function efficiently in a more restricted field.

Let us attempt to explain this further: the free market is an impersonal coordinator of the actions and desires of individuals, these persons acting under the motivation of attaining their selfish, individual ends; only the limitations in themselves and in the actions and desires of their fellows as revealed by market forces, act to hinder them in the attainment of their individualistic goals. From the time of Adam Smith, this has been the peculiar paradox that has fascinated thinkers: the best way of meeting the economic goals of society is to adopt a *laisser faire* attitude to the selfish motivations of individuals when these latter act through the discipline of the market, for this latter will harmonize the welfare of the society and the individual out of selfishness for the optimum attainment of societal welfare.

This type of reasoning postulates that society's welfare is merely the sum of the individual welfare of the persons in the nation. There are, however, certain collectivistic goals in a society which cannot be met via the market which have always been accepted as exceptions to the general rule: governmental functions of police, administration of justice, building of highways, and defense, are examples of such goods which can be obtained only by arbitrarily interfering with peoples desires as they reveal themselves in the market and taxing away the wherewithal to provide for the collectivistic goals.

This upsetting of the market's goals has become very serious in times of war and deep depression. However, the transition to a newer basis for organizing an economy for lessening the role of the free market has been successful in World Wars I and II, as previously noted. In cold war and in the Korean War, I felt, success was much less marked. Indeed, the Korean War demonstrated such inability to call upon patriotic motives to accept the interferences with the market on the part of labor, management, and agriculture that a real question arises as to whether our type of society can wage successful limited wars. Practically speaking the only way in which this lifting of collective goals above individual goals can be sustained is by the striking of a balance of power between these three groups in our economy: only if all three accept the necessity for controls and self-control in the exercise of self-seeking through the market, we can use the free market in wartime. The Korean experience is disheartening as an index to the future.

The current conflicts raging around the longer-run cold war strategy of this nation give further illustration to the point. The present administration is dominated by a group of men who have been schooled in the lore of the free market — the need to minimize the role of seeking collective goals in order to keep it healthy, and to prevent the tender flower of confidence from suddenly wilting in the heat of the military blast. Meanwhile, the conditions of our national existence have changed, for good or for evil: the United States is confronted with the need to accept free world leadership, economic as well as moral. This cannot but have revolutionary effects upon the free market economy; it cannot but increase the importance of the collective goals of the economy relative to the individual goals. This must interfere with the free market by restricting anew individuals' abilities to dictate the amounts and kinds of goods to be attained. However, if the priorities of the collective goals are believed to be higher than those of the individual goals, the free market mechanism as we have known it, must give some more. Surely, it makes no sense to worship the sacred cow of a free market and force cold war and limited war strategy into a strait jacket because of the rigidities in the thinking of administration leaders.

4. *Summary and Conclusion.* As in any other form of human activity in which the means of attaining ends are limited, there is an economizing process which is implied, and war is no exception. In this hard-headed sense, then, the more pedestrian and less satisfying criterion of maximizing the nation's selfish, individual interests becomes a criterion which surpasses all others in selecting those objectives which are to be attained.

This need to economize is met not only in the manner of reaching objectives but in the need to limit objectives. As Professor Osgood of the University of Chicago argued so eloquently at the Naval War College last year, fundamental changes in the attitudes of Americans to the purpose of war — and specifically to an acceptance of the concept and limitations of limited war — will be an increasingly important need if our foreign policy is to be effective in the coming years, and if the economic drain of war is to be minimized.

Perhaps of greatest importance to the nation's ability to wage war economically, given the objective, are three factors: the absolute level of national product, the rate of growth of national product, and the manner of organizing economic activities in a nation. All three of these headings raise troublesome problems when limited and cold war are subjects of consideration for the American economy in the next twenty-five years. Some of the more troublesome of these problems we have attempted to raise today.

BIOGRAPHIC SKETCH

Professor Robert E. Kuenne

After serving with the United States Army from 1943 to 1946, Professor Kuenne attended the University of Missouri and received his B.J. degree in 1947. During the next two yars he attended Washington University at St. Louis, Missouri, where he received his B.A. and M.A. degrees in Economics. He was an instructor there during the summers from 1949 to 1952.

For the following three years he was a Teaching Fellow in the Department of Economics at Harvard University, where he received his A.M. and Ph.D. degrees. He served as an instructor of Economics at Harvard from 1953 to 1955. The following year he was Visiting Assistant Professor of Economics at the University of Virginia and is presently Assistant Professor of Economics at Princeton University.

Professor Kuenne has served as an academic consultant in Economics at the Naval War College during academic year 1955-1956 and also during the present academic year.