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**ECONOMIC POTENTIAL
of the
UNITED STATES FOR WAR**

Dr. William Y. Elliott

Gentlemen, the Admiral has said that I have been coming here for some time and that is quite true. This is a very long-suffering place, but I always come here with a sense of relief, particularly as I have come from Washington. It isn't only the climate that is different, but it is the intellectual climate that is quite different.

I am still a Staff Director for the Foreign Affairs Committee down there, and we worked until fairly late last night trying to see if we could stop the deliveries of reparations plants to satellite countries—which is still going on.

There is a danger of losing perspective on these things, I suppose, because there are so many worries in the world that, if you allow yourself, you can just worry yourself into the grave any time.

I used to lunch every week with General Clay, in the Production Executive Committee of the War Production Board, and I have high regard for him. What we have unwillingly, and perhaps unwittingly, assumed is a sort of an imperial position in the world. The experience of listening to General Clay talk about his problems as directly and simply as a good soldier should, with great conviction, was very interesting and very disturbing.

The question that I want to talk about this morning has some bearing on it. I'm going to try to develop in these two lectures the topic the Admiral has assigned to me—something of the economic potential of this country for war, emphasizing not only it's

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deficiencies and the remedial steps that might be taken about them, and not only the strategic materials on which I have lectured here for many years, but the facilities, the bottleneck in facilities, the bottleneck in the accessibility of stuff. I also want to talk in some measure this morning about what seems to me to be an even bigger unknown in the equation than any of the others; it comes down to this—we have to know the kind of war we are going to fight next time.

In this and the next lecture I thought I would try to set out the problem in terms that will encompass a little bit of what General Clay, the whole Marshall Plan, and all our economic steps to buttress Western Europe and China and to shore up the British Empire imply. These factors have a direct bearing on the kind of war we intend to fight, and, presumably, how we intend to fight it and hope to come out of it. Everybody, of course, keeps hoping that this isn't necessary, and won't be. I hope so too, but I wouldn't make any plans on it. An unknown in that equation of very great importance is the political attitude of this country and its willingness and ability to support an all-out war against an enemy who understands, far better than anything we have been up against, the use of cold war, fifth column, sabotage, and propaganda.

We are confronting in this national election an important party in the field which is completely under the control of Moscow. It is a most disturbing phenomenon. The arraignment (however dubious the evidence, though certainly with some plausibility) of a large number of people in positions of high trust, with the known record of some of them as Communists, taking orders from Moscow, is not an encouraging factor to public morale. Its impact, as so many of these things may be, is not simply to anger people and make them want to clean up, but to disturb them profoundly and perhaps to make them lash out in the wrong direction, and to make stupid mistakes of tactics in dealing with this kind of proposal. The result

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may be to force people into the Communist camp who are not yet in that camp; to allow the Communists to exploit situations that are certainly not exploitable if we handle them right. It ought to work the other way. All these things tend, I think, to set the problem of our war in terms that Naval, Military, and people of every walk of life must be thinking about.

Probably the most profound weapon that the Russians have at this time, is the reiterated story that is very well spread in academic circles, "We can't win the war against Russia no matter whether we win it tactically or not." It is being very sedulously cultivated that the destruction of civilization will be complete, the ruin of this country or of Britain, after the war. I think that is a very important matter. It is insidious. It goes down much below the level of all sorts of things. About certain kinds of war that would be quite true, and we may fight that kind of war and we may be lucky to emerge without direct enslavement. But if we do, it will prove that we are not fit for anything different, because we don't *have* to fight that kind of war.

If this democracy is capable of strong leadership it won't turn into a Caesarism. If it isn't it will, because we are going to have one or the other kind of strong leadership sooner or later to deal with the kind of world we are living in. We are up against a very tough breed of people and the explosive character of the situation may be demonstrated by just this simple observation. No matter whether or not the Russians intend to strike in the fall after the crop season, it nevertheless is a fact, that the inner tensions in the struggle for power in Russia; the discrediting of Zhdanov by his mishandling of the Yugoslav business; the setbacks that have occurred to Russia in the Finnish elections and the tough attitude the Finns have so far maintained at the risk of their whole national future and the life of their government—these are very serious factors that might tip off the kind of thing that any

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dictatorship in a totalitarian system with inner-divisions and pressures might do to save itself.

That is the eternal risk we run. As you know we have seriously exposed ourselves by our mistakes in the peace settlement. During the war I tried to point out the danger of our trustfulness and complete naivete and was treated almost as a traitor for my pains. Well, that is all down the drain; we start with that kind of deal as we always do.

The situation from the point of view of our own efforts is not discouraging, providing war is not always discouraging on any basis. By this I mean that a crippled Russia with a different government would not be a threat to the world. I would engage to say that the world would come back to a livable world rather quickly if that threat didn't hang over it. When these boys say, "Well we can't win," just ask them the simple question, "If Russia were friendly, or were nonexistent as a great world power, what would the world look like today? Would you be having the worries you have?" I don't think so. There is nobody else who would put enough schnorkel submarines into your path to make your life miserable for some time to come. There is nobody else in the atomic race as far as we know with prospects of really turning it loose. There is nobody else quite able or willing to undertake the risk of a showdown struggle. There is no one else whose philosophy basically demands the destruction of any power system outside itself.

"Oh," they say, "this Franco of Spain is a terrible fellow." He is small potatoes. He would be out of the picture tomorrow if he were any problem, but he isn't any problem. He is a bad boy; he is a very unpleasant party; but I don't lose any sleep over him and I don't think anybody else does either.

China fifty years from now may be a quite different picture and one hundred years from now, still different. There are those

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who think that China, India, and the yellow man and the brown man will take over the world. Again I'm not going to lose any sleep over that. I see no immediate prospect of anything but anarchy and very dubious prospects of any kind of real integration in those races at this time. Maybe they'll develop a Genghis Khan, but the Genghis Khan that I'm looking at wears a different kind of hat and is very obvious on the horizon today.

So you have to ask yourself that simple question, "If you could neutralize Russia what would the world be like?" The British would stagger on to something approaching a recovery without any question at all. Great as their burden is and great as their losses have been, they have recuperative powers and are not through in spite of everything that has been said to the contrary. The French, living in a state of perpetual fear, might get over the nightmare of Germany with a Germany such as they would then face—divided, perhaps split up for purposes of federation in a larger European unit.

I'm pointing this out to show you that our picking up the pieces of the world constitutes the framework of our problem in economic potentials in two ways—what do we get out of these areas and what do we have to put into them? During the last war we had to put in more than we took, but we took very important elements without which it would have been a much more difficult job.

At times people have said, "If you want to lose a war just get Italy on your side." That is brutal and a little untrue. You can hold Italy as an anchor in the Mediterranean but it certainly has been true in the past that Italy has been a somewhat dubious military asset. It was a country with no surpluses; it demanded support. In the early days of 1920, Lenin is supposed to have decried the Communists who were trying to get him to exert his maximum efforts in Italy. He said, "Who would give them their coal? Who

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would feed them? Not we." And without food or coal Italy isn't a going concern. She hasn't enough raw materials to keep the population alive.

So you do have liabilities as well as assets in your allies, but the power that the Marshall Plan attempted to mobilize and is promising to mobilize, comprises as you know, something in the neighborhood of over 260 million people in Western Europe—over 260 million people with a high degree of culture more like our own than any other in the world, except the British Dominions. If you want to pass up the balance sheet in minerals, they have the natural resources of the world to a far greater degree than we do. It is a simple point but one that has counted since the history of civilization. They've got them today. We *used to have* more than we have today.

There are some drastic and interesting changes that occur as you exhaust the cream of your natural resources, the tremendous natural advantages with which nature has endowed you; the things that give you easy superiority in world production. For example, the oil resources of this country would give anybody concern, particularly if he watched the alarming geometrical progression of oil consumption. If we had a dictator in this country, he would say, "There will be no further use of oil for anything except mobile power". There would be no more nice oil furnaces such as I now have. How much oil there is in this country nobody knows, and it is a pretty sensitive question. The easy oil is going rapidly. As you grow to a dependence on imported oil, as we soon will (if we haven't already) the picture is of dreadful significance to a Navy and an Air Force. You are having your procurement difficulties. The 100 Octane program runs afoul of a lot of things. It means clamping down on a civilian economy in a way that is going to be very difficult. I'd hate to try rationing control. It is tough business to make people live up to, and beyond a certain point it does not pay dividends. I am trying to suggest to you that the amount of the world

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you control, the degree of control that you exercise, the efficiency with which you can count on production and delivery all have a bearing.

That of course, may run into a rather simple delusion that all you have to do is buy up all the excess stocks of the world. Note "excess"; that's an interesting word. But that is what it amounts to because when you start competing in an open market you have to put the controls on to cut down the use of things. You have to keep ahead of normal commercial demands. You must avoid interfering with the market. You can't go into the market and break the price of copper by stockpiling it, if that is going to add two cents a pound to the price of copper. So you don't buy it. You can't develop marginal supplies as yet.

The E.C.A. law gives us a handle to insist on the development of strategic materials all over the world. The falling off of metallurgical chrome, the lack of an adequate railway line, labor troubles, and difficulties of that sort can force us back into a dependency on Russian chrome which we are actually importing in very large amounts at this time. We don't need it, we didn't use a ton of it to the best of my knowledge during the war. The British used some but they didn't need it, and could have done without it. As long as we had New Caledonia, we had metallurgical (not chemical) chrome. And there is chrome scattered around the rest of the world that ought to be used. The Philippines have some chrome of a metallurgical grade which we aren't doing much about.

But everyone of the countries that we are assisting at the expense of our own natural resources is supposed to let in our private trade. However, the British have just said they will have none of it. The Secretary of the Colonies has made a fighting speech about doing it the socialist way without any private capital, either British or American. Well, it isn't going to be developed that way. His scheme for developing what are called ground nuts in England (we call them peanuts) has turned out to be just peanuts.

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The British never come out second best in any conference. They always do very well whenever we get around a table and they will continue to do so. I hope we will develop the people who will at least deal with them on equal terms; that is all I ever wanted. There is nothing unfriendly in this attitude. I fought with them in the first World War, but I do like to keep my eyes open whenever I am in a trading position. Right now they are, as usual, out-trading us on this E.C.A. business.

From the point of view of the Empire's future, this development is of very great importance, and that phrase in the E.C.A. legislation relating to equal access, national treatment, and not most favored nation treatment, is of some interest and is only fair. If you are going to pour out everything one way you should get something back the other way. The British may scream, "It just isn't done; it's extremely bad form", and all that kind of thing.

Just recently they found that another little tag in the bilateral agreements was greatly disconcerting to them and the last issue of "London Economist" which reached me made a mild protest at the time. The British were just taking off the export duty on tin, 10 pounds a ton, to prevent smelting of tin outside the empire. This is a very reasonable attitude from their point of view but quite an unreasonable one from ours, particularly since the Malay States would not now be British States if certain things had not happened in the Pacific with which we were not unconnected. But as a codicil to that little deal they put in the phrase that we would have to scrap our tin smelter in Texas unless it is run along unsubsidized lines. Now a proposal like that and an acceptance of that proposal by this country reaches the height of influence in international relations.

Everything in England is subsidized by this country—everything! If you make up the trade-balances of people, including their representatives in Embassies, you will find they pay their

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people three times what we do. I would like to call to their attention another clause in the E.C.A. act which says no country receiving aid shall make any hindrance to the stockpiling of strategic materials by the United States. The "London Economist" regretfully concludes that this phrase in the act (and its acceptance in the bilateral conventions) has probably assured the retention of the tin smelter in Texas without question as to its commercial success or not. Well, that is just a little matter and I portray a little unnecessary irritation perhaps.

Just now we are in need of manganese and cobalt from Russia (to an appalling and unnecessary degree). That has been used as an argument that we must continue to ship Russia anything the Russians very much want. How *that* is the conclusion I don't know. *My* conclusion is that we had better get manganese, cobalt and chrome from somewhere else, because we are not going to get chrome and manganese from Russia, if it is not to Russia's advantage. Many circumstances show that dependence on such a source for manganese and chrome would be absolutely fatal. So I urge that you think of our system as part of the world system in which some elements can be counted on with greater certainty than others.

What becomes a serious matter is whether or not there are deficiencies that will cripple us. There are some that are very dangerous—mica, quartz crystals, industrial diamonds, and things of that sort. These are essential to our economy and must be imported. Not only are these materials scarce, but the losses in transit may be much greater than anybody would like to contemplate. If we can control the seas in the next war we may be able to maintain an adequate supply of these items.

During the last war a slow ship put into Madagascar and was loaded with a six months' supply of graphite and an eight months' supply of that special mica that you insisted on for the spark plugs of your flying boats in the Navy. Why you did, I didn't

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understand, but you had a story and stuck to it, that when planes hit the water with hot engines, other plugs wouldn't do because they cracked. So you had to have that special mica, and it had to come from Madagascar. We planned to trans-ship the mica to faster ships and spread it among several ships on account of the heavy rate of submarine sinkings. But the shortage of ships prevented that, and we had to start her out. I won't tell you of my fears for her safety and how the loss of an eight months' national supply of mica would have affected your plugs, but as luck would have it, the ship finally showed up safely in port.

We flew in bauxite at one time to keep ahead of the production schedule by four days. It was as close as that. And there are some other things that you don't like to think back over. No one likes to operate that way, and stockpiles are the logical way to stop it. But unless people are prepared to cut down their consumption we must develop new resources that are earmarked for stockpiles. That is what we are trying to do but in a commercial field with the inflated prices of everything, people just don't do it. Jesse Jones wouldn't buy rubber for quite a long time unless he could get it shading the market price by one-tenth of a cent. It took Will Clayton quite a long time to get used to the idea, but I will say this, that after he did get converted, he spent money like a drunken sailor.

Now I have a hearty appreciation that deficiency in stockpiling is less important perhaps than deficiency in some things that people are not thinking about at all. The electric power situation domestically may be a limiting factor in most of the important things that we have and domestic consumption of electric power is most difficult to cut down. You can take off the peak load, but it is a tough proposition and it isn't where you want it all the time. If the TVA had not been in existence, if the big development in Washington State had not been in existence, we would not have had the pow-

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er required for our atomic plants. The new generator for the TVA was knocked out after the boys cut the taxes. No doubt they found the budget wasn't going to balance when they had a lot of new demands on them—the E. C. A., aid to China, Greece, Turkey and all that. To increase the electric generator capacity of this country may be an exceedingly serious business. We have just stretched by in meeting the load of demand for the civilian economy, that is, an industrial economy which is primarily the bigger user. It isn't located so that you can turn it on and off to civilians in an easy way, and anyhow you can't do it beyond a certain amount. It is a tough proposition, and it would be much better to have an extra load factor.

The facilities we built up during the war were scrambled and disposed of after the war in a very unhappy way. You would have thought we never had any prospects of doing anything with those facilities again. We stopped that recently but it was pretty late, and a great deal went down the drain.

In the necessary balancing up now, everybody has said that the Army and Navy were caught in 1941 with whatever estimates were already made as to the size of the war, and that the defense effort at the outset was very nearly ruined by the extraordinarily low estimates that were put in by the services for their needs.

Well, let's consider that. The fault of the American Services is that they are too well disciplined in their assumption that they take power from somebody else. You have to *form* power in a tremendous number of cases. You have to *run* the economy more and more as time goes on. You are already in it up to your necks in most important areas of scientific research, and in procurement which plays a tremendous role. In the planning of any sort of system, it is not going to jump out in full bloom. Somebody has got to sweat and travail like industrial powers are doing, like your people are

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doing, and you must have people who understand enough about it not to ruin it.

So I am appealing to you that you will have to plan on a basis that you didn't think you had to in 1940. You were being very good, very disciplined; we didn't think that we would have to carry one-half the world on our backs. They said, "Get the United States ready for a war", and at that time the whole talk was of just defending ourselves. I will never forget old General Hasting when that happened to him. He had to have two or three drinks before he could steady himself. Imagine having \$10,000,000,000 thrown at him just like that and told to get rid of it—to do something about it. Well, it was a unique experience. And it was an almost shattering one. You can understand how a man who had been living from hand-to-mouth with an Army budget for years and years, suddenly became a little disconcerted with this.

And it wasn't to be wondered that under those circumstances the planning of the services should have been inadequate. Lend-Lease wasn't in the cards at that time and the thought was that the British Purchasing Mission and the French Purchasing Mission would keep the aircraft industry going when nobody else could. Every estimate I made (and I don't mind saying this because they were thought by others to be so excessive and outrageous in that first summer) turned out to be shockingly inadequate. I would have been court-martialled if I had been in uniform for the modesty of my proposals though they were generally 50 to 100 per cent above those of anybody else. But I couldn't take upon myself more than that.

I am trying to say that if we fight another war at all it is going to be a still bigger war, and must be, for that is the only way it can be fought. The maximum efforts of our system under all our controls will be needed if we have to fight again.

Note: This is the first of a series of two lectures by Dr. Elliott. He has not edited these remarks, and should not be identified with his statements.