

AMERICAN WARTIME VALUES IN HISTORICAL PERSPECTIVE: FULL-EMPLOYMENT MOBILIZATION OR BUSINESS AS USUAL

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September 11th ushered in a period of existential doubt for many Americans, raising questions about why we are hated, what are our values, and what, if anything, should change. This paper explores the range of values implicated by war and compares today's dominant values with those that prevailed during previous American wars, with a particular emphasis on the World War Two and early Cold War period.

War is related to values, and as economists like to remind us, what we value becomes apparent in the movement of people and prices. While it is easy to talk the talk of promoting democracy and defending freedom, this inquiry is directed less at the rhetoric of political leadership, and more at the reality of policy and action. Part I of this Article considers the moral, ethical and monetary values that prevailed throughout the 1940's and early 1950's. This historical review suggests that the normative threads that kept the World War Two effort on track were those of mobilization and shared sacrifice. These dominant assumptions, which permeated at both strategic and tactical levels of

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politics and planning, represented a distinct “mobilization model” with big government serving as the central counter-force to private business interests.

The mobilization model empowered the federal government to achieve its most important public policy objectives while enforcing limits on the self-interested activities of private actors. Those limits are perhaps best reflected in the neutralization of monetary policy and the application of administrative and regulatory authority to maintain price stability while channeling credit to the public sector. The Congress appropriated and the Executive spent on a massive scale. Resources—financial, human, technological and industrial—were mobilized. Production and consumption patterns were redirected, first to the war effort, and later to reconstruction for a lasting peace in Western Europe and Japan. Meanwhile on the home front, the wartime mobilization fulfilled the New Deal promise of full employment, and thereby represented a break with the avarice of the 1920's and the widespread demoralization of the Great Depression.

War today reflects far different moral, ethical and monetary values. Today we see the imagery and rhetoric of war, but rarely do we see the ethic of shared sacrifice. Government power is routinely constrained by private interests. There has been no significant mobilization of resources. Instead, there is a high value placed on a “business as usual” ethic that tolerates gross disparities in the burdens and benefits of waging war. Meanwhile, without mobilization, the production and consumption patterns of American society remain largely unchanged by the war. Strategic objectives are never fulfilled, and the war goes from bad to worse.

Part II contrasts the World War Two mobilization with the relative complacency of America’s response to September 11th and the conduct of war ever since. In the initial shock of September 11th, Americans pulled together and seemed ready for service and sacrifice. But the nation’s political leadership instead called for private spending and private consumption as usual and a continuation of the economic policies of the past two decades that in many ways resembled the period of financial hedonism that led to the Great Depression and World War Two.

For all its lofty rhetoric, the Bush administration’s ambitious goals of spreading freedom and democracy are doomed to failure as long as the dominant value of American society remains business as usual. It is the failure to mobilize massive resources under conditions of shared sacrifice that has left the United States weakened at home and therefore with limited capabilities to exert its will abroad.

I. SHARED SACRIFICE AND DEMOCRACY MOBILIZED

Prior to World War Two, the U.S. economy languished. The Great Depression left one in four American workers jobless and swelled the ranks of the bread line and soup kitchen.¹ This was a period of weak and ineffective liberal democracies, social unrest and political extremism. Throughout Europe and Asia, the rise of Fascism and Communism would usher in one of the darkest periods in human history.

The early New Deal nurtured a tepid economic recovery through jobs programs and public works projects. But in 1937 the economic stimulus suddenly ended. Fiscal policy was tightened with the introduction of the Social Security tax, and monetary policy was tightened when the Federal Reserve doubled reserve requirements. The result was the Roosevelt Recession of 1938, one of the sharpest economic declines on record, which pushed unemployment back up from fourteen percent to nineteen percent.² On the eve of Pearl Harbor, the U.S. unemployment rate was still at double-digits.³

A. Fiscal Mobilization and Home Front Boom

After Pearl Harbor, the U.S. followed the first rule of warfare by mobilizing its financial, industrial and human resources to the war effort.⁴ The most comprehensive mobilization in history helped bring the war to an end in less than four years. The sacrifice was so widespread and the victory so complete that the World War Two generation is now routinely referred to as “the Greatest Generation.”⁵

Federal spending was the driving force behind the mobilization, from ordering munitions and building new factories to allocating resources and regulating the economy by command and control. In the first six months of the war, the government placed over \$100 billion in war contracts, thereby ordering more goods than the economy had ever produced in a single year.⁶

1. BROADUS MITCHELL, *DEPRESSION DECADE: FROM NEW ERA THROUGH NEW DEAL, 1929–1941* 271 (1947).

2. LYNN TURGEON, *BASTARD KEYNESIANISM: THE EVOLUTION OF ECONOMIC THINKING AND POLICYMAKING SINCE WORLD WAR II* 3 (1996).

3. HAROLD G. VATTER, *THE U.S. ECONOMY IN WORLD WAR II* 11 (1985).

4. SUN-TZU, *THE ART OF WARFARE* 103, 107 (Roger T. Ames trans., 1993) (Sun-Tzu considered the primacy of resource mobilization to be justified by the magnitude of war, which is “the most vital matter of state[.]” . . . “the field on which life or death is determined and the road that leads to either survival or ruin” *Id.* at 103.).

5. *See, e.g.*, TOM BROKAW, *THE GREATEST GENERATION* (1998).

6. NATHAN MILLER, *FDR: AN INTIMATE HISTORY* 486 (1983); *see also* JOHN M. BLUM, EDMUND S. MORGAN, WILLIE LEE ROSE, ARTHUR M. SCHLESINGER, JR., KENNETH M. STAMPP, & C. VANN WOODWARD, *THE NATIONAL EXPERIENCE: A HISTORY OF THE UNITED STATES SINCE 1965* 683 (4th ed.

This hyper-active fiscal stimulus required centralized controls and planning on a level unprecedented in American history. As Eliot Janeway recognized in his classic economic history of the mobilization model, any regime based on planning is naturally susceptible to abuse, corruption, incompetence and scandal. Without the diversion of the boom and the necessities of war, controls would die a quick death of a thousand cuts. Private interests would always organize to resist sacrifice. The politics of interest group pluralism would overwhelm bureaucrats and legislators alike. It was only the scale of the mobilization and the ethic of shared sacrifice that could provide the political cover required for controls and planning.

Franklin Roosevelt, as epic war president, was too practical to micro-manage such a vast mobilization. According to Janeway:

So long as the home front was big at the base, Roosevelt was willing to bet that he could afford to let it be confused at the top. . . . The participation of the people would push it forward faster than any leaders could lead it, and the spontaneous dramatics of democracy would organize it.⁷

The key to making the home front big at the base was the massive fiscal expansion, an achievement that was nothing short of a revolution in economics and public finance. In 1940, total U.S. government spending was \$6 billion. By 1944 it had risen more than fifteen-fold to \$95 billion. Total wartime spending was more than \$320 billion, twice as large as all previous federal spending combined.⁸

The unprecedented size of federal spending reflected the government's complete commitment to waging total war by mobilizing the home front as quickly as possible.⁹ The explosion in federal spending translated directly into

1977) ("In 1942 the proportion of the economy committed to war production grew from 15 to 33 percent. By the end of 1943 federal expenditures for goods and services constituted a sum larger than the total output of the economy when Roosevelt took office a decade earlier. The gross national product grew from \$99.7 billion in 1940 to \$211.9 billion in 1945 . . .").

7. ELIOT JANEWAY, *THE STRUGGLE FOR SURVIVAL: A CHRONICLE OF ECONOMIC MOBILIZATION IN WORLD WAR II* 12–13, 16 (1951) (Janeway saw compelling similarities between Roosevelt and Lincoln, another epic war president who recognized that a "victory small enough to be organized is too small to be decisive." Likewise, throughout the war Roosevelt "looked to democracy and not to leaders, to democracy's reservoir of mass energy and faith and not to the custodians of specialized wisdom.")

8. MILTON FRIEDMAN & ANNA JACOBSON SCHWARTZ, *A MONETARY HISTORY OF THE UNITED STATES, 1867–1960* 556 (1963); *see generally* BLUM ET AL., *supra* note 6, at 683–84.

9. The urgency and comprehensive nature of the mobilization reflected the value of shared sacrifice. As Roosevelt himself said in a fireside chat to the nation little more than two months after the Japanese attack on Pearl Harbor, "Never before have we had so little time in which to do so much." *On Progress of the War* (nationwide and worldwide broadcast Feb. 23, 1942), *available at* <http://www.fdrlibrary.marist.edu/022342.html> (last visited Sept. 10, 2006).

an enormous economic boom and according to Janeway, the release of “democracy’s reservoir of mass energy and faith.”¹⁰

By some estimates the country’s industrial output tripled during the war.¹¹ By any measure, World War Two was the most impressive economic expansion in American history, with real U.S. economic growth rates exceeding 15 percent a year during the war’s three peak years and averaging double digits throughout the war.¹² By way of comparison, in the five years since September 11th, the real U.S. economic growth rate has been less than one-fifth of the peak World War Two growth rates.¹³

The U.S. mobilization of technological, industrial and human resources exceeded the efforts of all other belligerents combined. The nation’s steel mills operated at 120 percent of their estimated pre-war capacity.¹⁴ Many U.S. factories operated in triple shifts, twenty-four hours a day. According to historian William O’Neill, people thought FDR was crazy when he called for the production of 50,000 aircraft. But by 1945 the U.S. had built 300,000 aircraft, 245,000 for the Army and Navy, the rest for the Allies.¹⁵ Likewise with other areas of American war production. The U.S. tanker fleet grew from a total capacity of 2.5 million tons in 1941 to 11.4 million tons in 1945, while the nation’s factories produced 8,243 warships, 64,000 landing vessels, and 86,000 tanks.¹⁶ For the first and only time in American history, full employment was a reality. There was no involuntary joblessness; anyone who wanted a job could find work quickly.¹⁷ Unemployment vanished. By the end of the

10. JANEWAY, *supra* note 7, at 13.

11. See generally AMERICA IN WORLD WAR II, in HOPE AND MEMORY, ADBUSTERS: JOURNAL OF THE MENTAL ENVIRONMENT, 53 (MAY/JUNE 2004).

12. ECONOMIC REPORT OF THE PRESIDENT 220, 223 (1984) (Table B-1, showing increase in U.S. gross national product from \$100 billion in 1940 to \$210 billion in 1944; Table B-2, showing real (inflation-adjusted) growth rates for those same years of 7.6, 16.3, 15.3, 15.1 and 7.1 percent), available at <http://fraser.stlouisfed.org/publications/ERP/issue/1387/> (last visited Sept. 10, 2006).

13. GROSS DOMESTIC PRODUCT AND RELATED PRICE MEASURES: INDEXES AND PERCENT CHANGES, ECONOMIC INDICATORS 3 (2006) (monthly compilation prepared for the Joint Economic Committee by the Council of Economic Advisors reporting real GDP growth rates of 0.8, 1.6, 2.5, 3.9, and 3.2 for the years 2001-2005), available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=economic_indicators&docid=03jy06.txt.pdf (last visited Sept. 10, 2006).

14. LYNN TURGEON, THE ADVANCED CAPITALIST SYSTEM: A REVISIONIST VIEW 47 (1980) (“In 1940 steel mills were running at 82 percent of capacity and pouring 67 million tons a year. In 1945 the mills poured 89 million tons, half the world’s total B with the same-size workforce.”); WILLIAM O’NEILL, THE OXFORD ESSENTIAL GUIDE TO WORLD WAR II 162 (2002).

15. *Id.*

16. *Id.*

17. TURGEON, *supra* note 2, at 5.

war, the civilian unemployment rate had fallen to 1.2 percent.¹⁸ With such a boom in the labor market, many citizens who were previously excluded, particularly many African-Americans and at least 6.5 million American women, entered the labor force for the first time.¹⁹ As O'Neill noted, by the war's end, black Americans "held 7.5 percent of all jobs in war industries; . . . less than their share of the overall population but a great improvement over 1940."²⁰

B. Military Mobilization: From Wartime Employment to Post-War Assimilation

Of course, it was not only the civilian side of the economy that boomed. The military draft was the centerpiece of the mobilization. To be sure, there were sons of the well-connected who were able to stay out of harm's way, but there were also many from such families who gave their lives, and their visibility reinforced the widespread feelings of shared sacrifice.

In September 1939, when World War Two broke out in Europe, the U.S. had fewer than 190,000 men in its armed forces. There were still only about 270,000 Americans in uniform when France fell to Hitler's armies in 1940.²¹ But public opinion finally galvanized behind a national military draft, and the draft changed everything. Some ten million American men were drafted, and another six million enlisted on their own. Local draft boards preferred to call up single men younger than forty.²² Unlike much of the Vietnam War, there were no student deferments.²³

As O'Neill concluded, "Selective Service was generally regarded as fair, in part because conscription was not as rigorously applied in the United States as in most other belligerent nations."²⁴ Thirty percent of all draftees—more

18. This 1.2 percent unemployment rate probably represented normal, frictional unemployment, when people left one job assured there would be a better one already waiting for them to fill. It was far lower than contemporary estimates of frictional unemployment. Ronald S. Warren, Jr., *The Estimation of Frictional Unemployment: A Stochastic Frontier Approach*, 73:2 REV. ECON. & STATS. 373-77 (1991) (estimating frictional unemployment at 3.7 percent).

19. O'NEILL, *supra* note 14 at 4.

20. *Id.*

21. *Id.* at 254.

22. *Id.* at 162, 323 (16 million American men served in the military during the war, in which 10 million were draftees).

23. Student exemptions, which were part of the original Selective Service Act of 1940, were dropped in 1941, when the draft was extended by a single vote in the House of Representatives. *Id.* at 254, 323; see also *How the Draft Has Changed Since Vietnam*, Selective Service System (2002), available at <http://www.sss.gov/viet.htm> (last visited Sept. 10, 2006).

24. In response to the military manpower shortage of 1944, the exemption for fatherhood was lifted; O'NEILL, *supra* note 14, at 323.

than five million men—were classified as 4-F, rejected for a wide range of physical conditions and mental ailments.²⁵

The Selective Service system recognized conscientious objectors—those who objected to combatant and sometimes even noncombatant training and service on religious grounds.²⁶ About 25,000 conscientious objectors served in the U.S. military in noncombatant roles during the war, including many unarmed medics who served in combat. Another 20,000 objectors served on the home front, building conservation projects in rural areas²⁷ and taking care of the mentally ill in hospitals.²⁸ Finally, about 6,000 men who refused to register for the draft were sent to jail for the war,²⁹ a rather remarkably low figure given the total size of the U.S. draft population.

There was a certain harshness in the military discipline of conservation camps for conscientious objectors, but such inequities seemed minor compared to the horrors of combat. While libertarians may object to the compulsory nature of the draft, there is no doubt that mobilization was needed to win the war and that mobilizing on a mass scale meant the war was ended quicker.

Moral and ethical values of shared sacrifice were apparent in the mobilization. People were willing to sacrifice time, money and even their lives for the sake of future generations, in part because they felt the sacrifices were being shared, if not perfectly, at least with a rough justice.

Every sector and group in society was called on to do its part. The wealthy were taxed, business freedoms were constrained, consumer goods were rationed, wages and prices were managed, credit was channeled away from more frivolous investments, and every social class from rich to poor was conscripted into the war effort.³⁰

Throughout the war, at a time when the U.S. population was half the size of today, some sixteen million Americans served in uniform, twelve million at

25. *The 4-F Classification for the Draft During World War II*, Nebraska Studies, available at www.nebraskastudies.org/0800/stories/0801_0106.html (last visited Sept. 10, 2006).

26. *About the Agency-Classifications*, Selective Service System (2002), available at <http://www.sss.gov/classif.htm> (last visited Sept. 10, 2006).

27. Many conscientious objectors served by fighting forest fires, including the smoke jumpers in Oregon who parachuted down to fight fires started by the thousands of timed incendiary balloons released in Japan. "Thus ironically, the only direct attacks on the continental United States during World War Two were repulsed, in part, by conscientious objectors." *Perilous Fight: America's World War II in Color*, Public Broadcast System, available at www.pbs.org/perilousfight/social/objectors/ (last visited Sept. 12, 2006).

28. This mobilization of religious conscience, even as directed away from war and towards the care of the mentally ill, was not without its liberating effects as conscientious objectors were first to expose the systematic terrors and abuses in many of the nation's mental hospitals. *Id.*

29. These included many Jehovah's Witnesses not granted conscientious objector status on the grounds that while they opposed World War Two, they did not oppose all wars.

30. See generally VATTER, *supra* note 3, at 45–65.

the war's peak.³¹ Across the country, Army training centers and universities were educating Americans by the millions for intelligence and support roles, including as cryptographers and translators in strategically important languages such as German, Russian, Chinese, and Japanese.³²

In every theater of the war, the outcome turned on Allied capabilities in cracking enemy codes. Major Allied victories—from the Battle of Midway to D-Day—were made possible by the intelligence derived from massive armies of cryptographers monitoring German and Japanese communications.³³

War is a race against uncertain probabilities and unknown dangers. Without the vast Allied intelligence infrastructure, the war would have surely dragged on much longer. For instance, had the U.S. been blind going into Midway, our Pacific fleet may have been destroyed and sent into full retreat back towards the west coast of the continental United States. As with any number of major engagements, another outcome at Midway—considered “the most strategically important battle of the Pacific war”³⁴—would have meant a setback in time.

In war, time can be costly. This is perhaps easy to forget in today's war, where threats are privatized, hidden, and patient. In World War Two, the race was cruder, but also clearer. Had the U.S. and its allies mobilized more slowly, and had the Germans mobilized earlier,³⁵ the very outcome of the war could have been altered by German breakthroughs in missile and jet engine technology and the introduction of air-to-air and ground-to-air rockets.³⁶

31. By contrast, today, with twice the population, there are less than 140,000 Americans serving in Iraq, some 1.4 million on active duty in the Armed Forces, and perhaps another million in the Reserves and National Guard. JoAnne O'Bryant and Michael Waterhouse, *U.S. Forces in Iraq*, CRS Report for Congress, (June 14, 2006); Edward F. Bruner, *Military Forces: What is the Appropriate Size for the United States?*, CRS Report to Congress, (Jan. 24, 2006).

32. O'NEILL, *supra* note 14, at 162–66; U.S. Army Center of Military History, *available at* <http://www.army.mil/cmh-pg/books/Lineage/mi/ch5.htm>. (last visited Sep. 25, 2006).

33. See generally JOSEPH E. PERSICO, ROOSEVELT'S SECRET WAR: FDR AND WORLD WAR II ESPIONAGE (2001); see also O'NEILL, *supra* note 14, at 168–71 (Particularly crucial was the MAGIC program that broke the Japanese diplomatic, and eventually, military codes; and ULTRA, the program that cracked the German ENIGMA code “played an important part in the Battle of the Atlantic, enabling the Allies to divert convoys from areas to which U-boats had been ordered.”).

34. *Id.* at 346.

35. Hitler's delay in ordering total mobilization allowed him to keep his plans to invade Russia secret. See generally WILLIAM L. SHIRER, THE RISE AND FALL OF THE THIRD REICH (1990) (on file with author); O'NEILL, *supra* note 14, at 136 (Germany did not mobilize fully until after D-Day).

36. JOZEF GARLINSKI, HITLER'S LAST WEAPONS' 112–37 (1978); see also O'NEILL, *supra* note 14, at 137, 225–26 (discussing the German Messerschmitt 262 fighter plane, the world's first jet aircraft, and German rocket technology).

Mobilization opened a universe of possibilities not just in waging war, but also in the post-war occupations.³⁷ In addition to the massive U.S. military presence providing the necessary security on the ground, there were armies of U.S. civil administrators, many of whom were also taught German and Japanese to help ensure highly effective occupations and civil reconstructions in post-war Germany and Japan.³⁸ While Niall Ferguson suggests that the leaders of the American occupation “were almost completely ignorant of the language and culture of their new subjects,” it is also true that they governed through a military and administrative apparatus that was not lacking in numbers or language abilities, particularly when compared with today’s American occupation projects.³⁹

According to Stanley Katz, at the end of World War Two, there were one hundred U.S. soldiers in Germany for every thousand Germans, and it took two years for that number to fall to about ten. In Japan, there were five U.S. soldiers for every thousand Japanese. “By contrast, in Iraq and Afghanistan, where the population is anything but compliant, there are fewer than six soldiers for every thousand Iraqis, and about two-tenths of a soldier for every thousand Afghans.”⁴⁰

The post-war mobilization also included the Marshall Plan, by which the U.S. gave more than \$13 billion in goods and services to rebuild Western Europe and Japan. It is hard to imagine the success of the Marshall Plan and other U.S. foreign assistance in Western Europe and Japan without the mobilization of U.S. military and industrial resources.

37. See generally JOHN GIMBEL, *THE AMERICAN OCCUPATION OF GERMANY 1–25* (1968); see also John Gimbel, *Governing the American Zone of Germany*, in *AMERICANS AS PROCONSULS: UNITED STATES MILITARY GOVERNMENT IN GERMANY AND JAPAN, 1944–1952* 92–102 (Robert Wolfe ed., 1984).

38. Rhonda Evans, *A History of the Service of Ethnic Minorities in the U.S. Armed Forces*, eScholarship Repository, University of California, 31 n.73, 33 (2003), available at <http://repositories.cdlib.org/isber/cssmm/cssmm07> (last visited Sept. 10, 2003) (reporting that several thousand Japanese American soldiers were assigned to the Military Intelligence Service, where they “translated documents, interrogated Japanese prisoners, and monitored communications on the Pacific Front,” perhaps shortening the war by as much as two years).

39. NIALL FERGUSON, *COLOSSUS: THE RISE AND FALL OF THE AMERICAN EMPIRE* 71–72 (2004) (reporting that the U.S. army that occupied Japan was large, “four hundred thousand strong at first, and although that number soon halved, it did not fall below one hundred thousand until 1957”).

40. STANLEY N. KATZ, *DEMOCRATIC CONSTITUTIONALISM AFTER MILITARY OCCUPATION: REFLECTIONS ON THE UNITED STATES EXPERIENCE IN JAPAN, GERMANY, AFGHANISTAN AND IRAQ* 181–96 (2006). Former Defense Secretary Donald Rumsfeld argued that withdrawing from Iraq “would be the modern equivalent of handing post-war Germany back to the Nazis.”; David E. Sanger and Thom Shanker, *On Anniversary, Bush and Cheney See Iraq Success*, N.Y. TIMES, March 20, 2006, at A1, A10. But without sufficient troop strength in Iraq, the U.S. military was never able to close off Iraq’s borders with Iran, Syria and Saudi Arabia. The historical comparisons in U.S. troop strength suggest that Mr. Rumsfeld’s quagmire in Iraq may be the equivalent of never completely defeating the Nazis prior to occupying Germany.

The wartime mobilization also helped to assimilate racial and ethnic minorities and new immigrant groups into the mainstream of American society.⁴¹ Americans of German, Italian and Japanese ancestry in particular proved their loyalty by joining the U.S. war effort. Before the war, Italian and Sicilian immigrants and their children often suffered discrimination and even violence.⁴² Many were the migrant workers and manual laborers of the day, digging the ditches and building the sewers and subways of cities like New York.⁴³ Then during World War Two, more than a million Italian-Americans served in the U.S. armed forces, the largest ethnic group to serve,⁴⁴ and suffered the highest U.S. casualties of any ethnic group.⁴⁵ The war and its aftermath catapulted many of them into the mainstream of the American middle class.

Service in the armed forces, the average length of which was thirty-three months during the war,⁴⁶ forced new immigrant groups to mix with English-speaking populations. Institutions that depended upon foreign languages began to disappear, and the foreign-language press declined as the descendants of immigrants were increasingly assimilated through military service and in the workplace.⁴⁷ Perhaps assimilation could have been achieved for these immigrant groups without the decline of their languages of origin. But their participation in the U.S. war effort helped to free their ancestral homelands from totalitarian oppression and thereby did much to ensure the future survival of the democratic tradition in their cultures of origin.

41. PHILIP GLEASON, *AMERICANS ALL: WORLD WAR II AND THE SHAPING OF AMERICAN IDENTITY*, REVIEW OF POLITICS 483–518 (1981).

42. LEONARD DINNERSTEIN AND DAVID M. REIMERS, *ETHNIC AMERICANS: A HISTORY OF IMMIGRATION AND ASSIMILATION* 64 (1975); 3–1 C. WEBB, *THE LYNCHING OF SICILIAN AMERICANS IN THE AMERICAN SOUTH, 1886–1910: AMERICAN NINETEENTH CENTURY HISTORY* 45–76 (Spring 2002).

43. See generally DAVID A.J. RICHARDS, *ITALIAN AMERICAN: THE RACIALIZING OF AN ETHNIC IDENTITY* 5 (1999).

44. An estimated 1.2 million Italian-American men served in the war, making up about 7.5 percent of the total U.S. armed forces. See generally SALVATORE J. LAGUMINA, ET AL., *THE ITALIAN AMERICAN EXPERIENCE: AN ENCYCLOPEDIA* (2000); *Italian Culture: Defense of our Country*, ORDER SONS OF ITALY IN AMERICA, Oct. 2005, at 2 (providing estimate that Italian-Americans made up about ten percent of U.S. armed forces during the war).

45. *Prisoners Among Us: Italian-American Identity and World War II, Teacher's Guide*, Prisoners Among Us, at 4, available at <http://www.prisonersamongus.com/StudyGuide.pdf> (last visited on September 26, 2006) (“Although many Italian Americans were uneasy about going to war against Italy, they supported the United States once war came. Even those segments of the Italian-American press that had praised Mussolini and Fascism in Italy proclaimed their loyalty to America and endorsed the American war effort.”); see DINNERSTEIN AND REIMERS, *supra* note 42, at 142.

46. O'NEILL, *supra* note 14, at 323.

47. The First World War was particularly unkind to the German-American press. It undermined the standing of the German language and drove it out of the schools. DINNERSTEIN AND REIMERS, *supra* note 42, at 143.

Even for African-American soldiers who were largely relegated to second class status throughout the war, military service provided a big boost for more than half a million of them. As O'Neill has pointed out, "[f]or whites each year of military service was worth as much to their earning power as an additional year of education. But for blacks each year of service was worth up to three years of education."⁴⁸

As the end of World War Two approached, Congress passed the Servicemen's Readjustment Act of 1944, the so-called G.I. Bill of Rights, to assist veterans in job training and higher education, health care, employment and business. Some seventeen million veterans received federally-subsidized low-interest loans for home mortgages,⁴⁹ and between 1945 and 1952, veterans received \$13.5 billion for education and training alone.⁵⁰

The G.I. Bill was a massive education and jobs program, a domestic Marshall Plan that ensured the continuing strength and greatness of the Greatest Generation. Without the war and its mobilization, for an entire generation of Americans the benefits of the booming economy and the social tonic of assimilation would have been delayed at best.⁵¹ Assimilation may eventually have come for America's minorities and newer immigrant groups, but the road no doubt would have been harder.

Since World War Two, there have been no opportunities comparable in size and scope to assimilate the nation's minority and newer immigrant groups, such as Mexican-Americans, Arab-Americans and Islamic-Americans.⁵² While there are some educational and economic benefits for those who do enlist in the all-volunteer military, there is not the same kind of assimilation associated with a full-employment economy and armed forces drawing from all segments of society.

Many liberals will be put off by the suggestion that war be used to assimilate the mosaic of ethnic diversity back into an American melting pot. Some will argue against the very goal of assimilation and against the idea of war. Perhaps the best that can be hoped for is a broader consensus that military mobilization may deter conflict while spreading the benefits of Marshall Plan

48. *Id.* at 3.

49. ROBERT J. SHILLER, *IRRATIONAL EXUBERANCE* 16 (2d ed. 2005) (In passing the G.I. Bill, Congress was determined not to repeat its past neglect of war veterans. In 1932, after denying relief to World War One veterans, President Herbert Hoover called in the Army, under the command of General Douglas MacArthur, to violently evict the so-called "Bonus Army" of thousands of World War One veterans from the streets of Washington); MITCHELL, *supra* note 1, at 109-10.

50. BLUM ET AL., *supra* note 6, at 722.

51. Evans, *supra* note 38, at 20-22.

52. See DINNERSTEIN AND REIMERS, *supra* note 42, at 142.

and G.I. Bill programs to segments of society that have long been marginalized and excluded from the American Dream.

C. The Mobilization of Administration and Finance: From Agency Capture to Political Accountability

The total cost of the U.S. effort in World War Two was about \$320 billion—twice as large as all previous federal spending combined.⁵³ How did Uncle Sam raise such vast sums of money to pay for the war? Certainly, higher taxes paid for a portion of the war costs. The tax structure was broadened and deepened, and the marginal tax rate was raised to ninety-four percent for the top tax bracket. But taxes covered only about forty-one percent of the total war effort. The rest came from government borrowing.⁵⁴

In 1944 alone, the federal deficit was \$50 billion, twice the size of the accumulated federal debt in 1941. During the war, the national debt grew six-fold to \$280 billion. To provide some historical comparison, today the federal deficit is less than three percent of U.S. gross domestic product (GDP). In World War Two, the deficit was easily ten times larger than today, at more than thirty percent of GDP. Likewise, today the total federal debt is about sixty-five percent of GDP. By the end of World War Two, the national debt was nearly twice as large, more than 120 percent of GDP.⁵⁵

How did the U.S. meet such enormous borrowing needs? According to today's conventional wisdom, if the federal government were to once again run deficits of such magnitude, interest rates would rise to extraordinarily high levels. The public sector would have to compete with private borrowers for limited funds, thereby bidding up interest rates. In addition, the higher deficits would translate into expectations of rising inflation and therefore higher long-term interest rates in the long-term bond market.⁵⁶

Not surprisingly, when asked about the level of interest rates during the World War Two period of massive federal borrowing, most people are likely to estimate that the federal government must have paid five, ten or even fifteen percent interest.⁵⁷ They could not be more wrong.

53. FRIEDMAN AND SCHWARTZ, *supra* note 8, at 556; BLUM ET AL., *supra* note 6, at 683–84.

54. O'NEILL, *supra* note 14, at 112–13.

55. ECONOMIC REPORT OF THE PRESIDENT 304 (Feb. 2005); Timothy A. Canova, *The Transformation of U.S. Banking and Finance: From Regulated Competition to Free-Market Receivership*, 60 BROOK. L. REV. 1295, 1301 (1995).

56. THE FEDERAL RESERVE SYSTEM: PURPOSES AND FUNCTIONS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM 25 (1994) (discussing the impact of fiscal policy actions on “forward-looking financial markets” and “the level and structure of interest rates”); *id.* at 30 (discussing the Federal Reserve's abdication of long-term interest rates to the inflationary expectations of the long-term bond market).

57. These are the results of informal surveys conducted by the author over the past five years.

From about 1941 to 1952, interest rates on U.S. government borrowing were “pegged” at low levels, during the war years at 0.375 percent for short-term ninety-day Treasury bills and 2.5 percent for long-term (ten-year) Treasury bonds.⁵⁸ The Federal Reserve was required to purchase government securities at any price necessary to keep interest rates at these pegs. The Federal Reserve’s conduct of monetary policy was essentially controlled by the Treasury Department, a phenomenon quite startling and repugnant to today’s economic orthodoxy that preaches central bank independence.⁵⁹

Ironically, those with more education in finance and economics have little knowledge about this period of financial history, and they are more likely to overestimate the level of U.S. interest rates. The results of such informal surveys should not be surprising since leading texts in economics and public finance, and the Federal Reserve’s own publications no longer mention this period of Federal Reserve history.⁶⁰

Throughout the 1941 to 1952 “pegged period,” the Federal Reserve’s subservient position was enforced not by statute, but by political convention and necessity. As recounted in Lester Chandler’s seminal text, *The Economics of Money and Banking*, the Federal Reserve “stood ready to buy without limitation” the range of government securities to maintain the pegged interest rates.⁶¹ Roosevelt’s Treasury Department simply did what today would be the unthinkable: it forced the Federal Reserve to keep short-term and long-term interest rates at near zero percent. The real (inflation-adjusted) yield on government debt was kept in negative territory for a dozen years.⁶² Finance capital had to bend to the needs of industrial capital; old wealth had to accommodate the needs of the present and the hopes for the future.

Fewer than five percent of respondents are able to accurately estimate the level of interest rates for U.S. borrowing during World War Two.

58. The pegs on short-term rates were relaxed in response to the peak in post-war inflation, with the peg on Treasury bills rising from 3/8 of 1 percent to 7/8 of 1 percent in July 1947, and the rate on newly issued certificates rising from 7/8 to 1.25 percent by late 1948. FRIEDMAN AND SCHWARTZ, *supra* note 8, at 578–79.

59. Likewise, when Lincoln had trouble financing the Civil War, he turned to Congress, which passed legislation creating the Greenback, a direct issuance of \$450 million in currency by the Treasury Department. WILLIAM F. HIXSON, *TRIUMPH OF THE BANKERS: MONEY AND BANKING IN THE EIGHTEENTH AND NINETEENTH CENTURIES* 131 (1993); GRETCHEN RITTER, *GOLDBUGS AND GREENBACKS: THE ANTIMONOPOLY TRADITION AND THE POLITICS OF FINANCE IN AMERICA* 29–30 (1997) (the Legal Tender Act of 1862 and two similar subsequent acts were passed “to save the national economy and provide financing for the war” by creating the Greenback, a new government-issued currency).

60. *THE FEDERAL RESERVE SYSTEM: PURPOSES AND FUNCTIONS*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM 105–10 (1947). There is an entire chapter on “War Service of the Federal Reserve.” No such discussion exists in later editions.

61. LESTER V. CHANDLER, *THE ECONOMICS OF MONEY AND BANKING* 482–93 (5th ed. 1969).

62. FRIEDMAN AND SCHWARTZ, *supra* note 8, at 562–63; CHANDLER, *supra* note 61, at 482–93.

The suspension of the Federal Reserve's independence was made possible because of the politics of shared sacrifice and the practical demands of the mobilization model. The Fed's 1947 description of its wartime role is telling: "In time of war the duty of the Federal Reserve, as of everyone, is to support the country's war effort."⁶³ The amount of government wartime spending was properly determined by Congress, and it was the Treasury Department's responsibility to determine the character of the government's borrowing obligations, including the distribution of long-term versus short-term borrowing and "the rate of interest it will pay to investors."⁶⁴ Only after those policy decisions have been made by the politically accountable branches of government, "it is the duty of the Federal Reserve to see to it that the banking system is in a position to absorb any public debt essential for war expenses that is not purchased by investors other than banks."⁶⁵

With the Federal Reserve subservient to Congress and Executive branches, and with monetary policy neutralized, the mobilization model was able to quickly emerge as a distinct paradigm. With credit freely available at near-zero interest rates to the federal government, fiscal policy was not just active—it became hyperactive. Federal spending did not just double or even triple; it increased fifteen-fold in only four years.

The mobilization model necessarily raised other important challenges to administration and control. For central bankers, the "[p]revention of inflation had to become secondary" to the demands of mobilization, and the Federal Reserve was forced to "rely in part on selective rather than general methods of control."⁶⁶ Without an active monetary policy, other policy tools and other institutions would have to be found to maintain price stability in such a dynamic economy.

D. Democratic Accountability and the Pursuit of Price Stability

With the federal government demanding massive resources, spending and borrowing on a far grander scale in relative terms than today, the Federal Reserve was forced to channel credit away from consumer borrowing, away from homebuilding, and away from speculative stock market purchases.⁶⁷ This paradigm should be seen as the polar opposite of today's Federal Reserve which

63. THE FEDERAL RESERVE SYSTEM: PURPOSES AND FUNCTIONS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM 105 (1947).

64. *Id.*

65. *Id.*

66. *Id.* at 107, 110.

67. ALLAN H. MELTZER, A HISTORY OF THE FEDERAL RESERVE, VOL. I, 1913–1951 602–05 (2003) (recounting the Federal Reserve's use of selective credit controls); ARTHUR SMITHIES, USES OF SELECTIVE CREDIT CONTROLS 94–105 (Neil H. Jacoby ed., 1964) (lamenting the surrender of selective credit controls).

uses only one policy instrument—short-term interest rates—to slow the economy, without any selective credit controls to prevent speculative bubbles from developing in the housing and stock markets.

During World War Two, with monetary policy neutralized, the administration had to find other methods to keep prices stable. Instead of raising interest rates to stem inflation by slowing the economy, the federal government turned to wage and price controls, as well as high taxes and massive bond sales to dampen consumer purchasing power.⁶⁸

In 1942, Congress created an Office of Price Administration (OPA) under the direction of a Price Administrator appointed by the President and empowered under the Emergency Price Control Act to set up a comprehensive scheme for the setting of maximum prices and rents.⁶⁹ Perhaps no other regulatory program during the war exacted as much sacrifice from so many Americans.

Throughout the entire mobilization and pegged period, the bankers stood on the sidelines as inflation and interest rates were controlled by OPA bureaucrats; and the bureaucrats were elevated on a pedestal of patriotic support and expectations to provide stability in consumer prices.

The bureaucracy's vast power was tempered by its accountability. Regulatory failure was punishable at the polls. Rising consumer prices could cost an election. Wartime U.S. consumer price inflation (CPI) peaked at 9.2 percent in 1942. Not surprisingly, the 1942 congressional elections left FDR with the most conservative Congress in decades.⁷⁰

As Eliot Janeway recognized, democracy eventually provided its "spontaneous dramatics." Congress held its hearings and there were purges of top OPA officials, but in the end Congress kept the OPA strong and funded, and the Supreme Court upheld the price regulations.⁷¹ In *Yakus v. United States*, the Supreme Court upheld the federal government's power to impose wage and price controls.⁷² The Court held that the congressional delegation of regulatory power to the OPA did not violate the non-delegation doctrine since Congress provided sufficiently definite and precise standards to guide the regulators, including that prices be set at "fair and equitable" levels and to effectuate numerous other purposes of the Emergency Price Control Act.⁷³ While the delegation was broad and somewhat vague, the Court's ruling implicitly

68. WILLIAM J. BARBER, *DESIGNS WITHIN DISORDER: FRANKLIN D. ROOSEVELT, THE ECONOMISTS, AND THE SHAPING OF AMERICAN ECONOMIC POLICY, 1933–1945* 142–51 (1996); see generally JANEWAY, *supra* note 7.

69. See generally *Yakus v. United States*, 321 U.S. 414 (1944).

70. BLUM ET AL., *supra* note 6, at 698.

71. JANEWAY, *supra* note 7, at 13.

72. *Yakus*, 321 U.S. at 420.

73. *Id.*

recognized that the voters would get the last word, and that ineffective OPA appointees would have a way of killing off incumbents at the polls.⁷⁴

The *Yakus* court contrasted the OPA with the industry councils that had set minimum prices under the National Recovery Administration (NRA), the centerpiece of the first New Deal which was so concerned with stopping a deflationary spiral in 1933.⁷⁵ But those industry councils were in private hands, completely unaccountable to voters. For such reasons, a unanimous Supreme Court in *Schechter Poultry v. United States* (the “sick chicken case”) struck down the NRA as an unconstitutional delegation of lawmaking power. In his concurrence, Justice Cardozo concluded that such a delegation to a private group was a case of “delegation running riot.”⁷⁶

While the OPA had broad authority, it also had to get the job done. Annual CPI rates were brought down to 6.3 percent in 1943 and 2.6 percent for each of the next two years. From Oct. 1942 to Sept. 1945 at the war’s end, the CPI rose only 8.7 percent, less than three percent a year for three years. Historian has generally concluded that “the OPA was one of the war’s brilliant successes.”⁷⁷

The World War Two mobilization—and its linchpin, the pegged period of public finance—lasted for about a dozen years, during which time the U.S. built postwar prosperity at home and a bulwark of alliances abroad to contain the expansion of Communism in Europe and Asia. The federal government spent more than \$13 billion (ten percent of the entire federal budget) on the Marshall Plan to rebuild war-torn Europe, and it spent greater sums under the G.I. Bill to help assimilate World War Two veterans back into a productive society.

The initial post-war period was less a demobilization than a re-mobilization of resources. Throughout the war, the Federal Reserve never attempted to exert independent authority and did not raise interest rates on federal borrowing even once.

By the early 1950’s, the U.S. was at war in Korea. With the beginning of the Cold War and the strategy of global containment, U.S. military spending was increased three-fold, all while allowing for increases in private consumption at home. But the Federal Reserve showed its first signs of resistance.⁷⁸ Then in 1951 with inflation at 7.8 percent, and with the help of

74. *Id.* at 424.

75. *Id.*

76. *Schechter Poultry Corp. v. United States*, 295 U.S. 495 (1935).

77. BLUM ET AL., *supra* note 6, at 685. FDR bounced back in 1944. He was reelected by a less comfortable margin, but comfortable nonetheless. The Democrats lost one seat in the Senate but gained twenty in the House. The Democrats also captured five governorships. *Id.* at 699.

78. Truman and the Congress fought over the OPA’s authority, which was weakened, vetoed, lapsed, and then renewed. Not surprisingly, inflation returned to over 10 percent in 1946 and Truman took

some key allies in Congress, the Federal Reserve prevailed in its campaign for independence. The result was the Treasury-Federal Reserve Accord of March 1951, the Fed's Magna Carta.⁷⁹ The pegged system of finance soon came to an end, monetary policy was re-activated, and once again became the primary tool against inflation. Fiscal policy was pinched and the U.S. promptly went into a recession, its first of three recessions that would plague the eight years of Eisenhower's presidency.⁸⁰

There is arguably no more compelling and important period in U.S. economic history than the World War Two Era, and yet this so-called "pegged period" of finance is least remembered and all but airbrushed from our modern texts. The neutralization of the Federal Reserve and monetary policy provided vast financial resources to government and industry, creating an economic boom like none other in history. A great democracy that had stood idle in depression was suddenly awakened. It sprinted at fifteen percent growth rates,⁸¹ and then sustained that blistering pace for three of the bloodiest years in American history.

While democracies may find it difficult to mobilize and to remain mobilized for long, there are times when it is an urgent necessity. For a dozen years, American democracy stayed mobilized. Its discipline and greatness was reflected in its ability to mobilize its financial, industrial, and human resources more fully, more quickly, and more effectively than the fascist regimes in Germany or Japan during World War Two.⁸²

The period spanning World War Two, the G.I. Bill and the Marshall Plan was America's finest moment, the mystical moment gone global. The cause of freedom and equality swept up an entire generation. Whether or not the world was ultimately saved *for* democracy, it was certainly saved *by* democracy, or more precisely, by democracy mobilized. The U.S. became the arsenal of

a shellacking in the 1946 congressional elections, with the Republicans carrying both houses of Congress for the first time since 1928. BLUM ET AL., *supra* note 6, at 722.

79. See generally FRIEDMAN AND SCHWARTZ, *supra* note 8.

80. TURGEON, *supra* note 2, at 55, 72, 83.

81. Economists now consider sustained growth rates of three to five percent a year as healthy boom times. During World War Two, the U.S. economy grew nearly five times faster.

82. Neither Germany nor Japan was able to reduce their interest rates for government wartime borrowing to the low U.S. levels. Both fascist regimes had to contend with private financial interests that were unrestrained by the countervailing demands of an informed and free public opinion. Germany had "moderate, but not really low, interest rates," far above the American and British levels. "The lowest average [interest] rates for Japan reached during World War II were not very low" and never reached the low U.S. levels. SIDNEY HOMER, A HISTORY OF INTEREST RATES 469-476-77, 535 (1963); MICHAEL SCHALLER, THE AMERICAN OCCUPATION OF JAPAN 5 (1985) (recounting how Japan's traditional conservatives resented wartime economic controls as threatening the old order).

democracy and a compelling model of social democracy at a time when democracy was most in peril.

II. BUSINESS AS USUAL IN THE GLOBAL WAR ON TERROR

Does the full-employment mobilization model of the Greatest Generation provide a path for us today? Would conscription help address our most pressing problems, from security of seaports, borders and the homeland to the assimilation of minorities and newer immigrant groups? Does the history of financial mobilization provide a lodestar to imagine alternative futures, to empower democracy on a global scale?

Perhaps our willingness to consider the World War Two mobilization model depends in part on how we answer the question in this conference title, *Are We at War?* Many Americans believe this is a war. President George W. Bush and other leading administration officials have repeatedly invoked the image of the nuclear mushroom cloud.⁸³ September 11th, after all, was a failure of our imagination. As the 9/11 Commission concluded, prior to September 11th few Americans could imagine enemies hijacking our own airplanes and crashing them into skyscrapers. Are we now asked to imagine the mushroom cloud, perhaps multiple mushroom clouds, a nuclear September 11th with synchronized suicide bombers?⁸⁴

Such a dire perspective—that this is a war we could lose—while often dismissed by academics,⁸⁵ was apparently the dominant view at the time of the 2004 presidential election. Voters seemed to have no trouble recognizing the extreme hatred, frustration and resentment that is increasingly directed at Americans. Perhaps the pressing questions deal less with enemy motivation than with their technological and logistical capabilities to wage war and engage in terrorist attacks. And yet these dark concerns have not spurred any serious mobilization of resources for homeland security and foreign intelligence.

Another perspective, not necessarily incompatible with the first, focuses on the social and political causes of violent conflict. In his Inaugural Address, President John F. Kennedy referred to a “long twilight struggle” against the common enemies of man: “tyranny, poverty, disease, and war itself.” According to this line of thinking, the war we face is complex and requires a wide range of economic and political strategies. Although full-employment and economic opportunity for all would seem necessary to drain the swamp where

83. David E. Sanger, *A Doctrine Under Pressure: Pre-Emption is Redefined*, N.Y. TIMES, Oct. 11, 2004, at A10 (quoting President Bush as warning that “we cannot wait for the final proof, the smoking gun that could come in the form of a mushroom cloud.”).

84. The FOX-TV show “24” has built a large audience by imagining just such nightmare scenarios. See “24” Season 6: 10:00 – 11:00 AM, available at: <http://www.fox.com/24/episodes/>.

85. See generally Bruce Ackerman, *This is Not a War*, 113 YALE L.J. 1871 (2004).

Al-Qaeda and other extremist groups swim, there is little support among those on the left for any serious mobilization of resources for Marshall Plans abroad and G.I. Bills at home.

Barely a week after the September 11th terrorist attacks on the World Trade Center and the Pentagon, a Gallup Poll survey showed that nearly eighty percent of Americans supported a national military draft.⁸⁶ This was actually a higher level of support than existed at the time of the 1940 conscription act.⁸⁷ But the war in Iraq has dramatically shifted public opinion, and eighty percent of Americans now oppose any national military draft.⁸⁸ In the closing days of the 2004 Presidential election, both parties overwhelmingly rejected a proposal in the House of Representatives to reinstate mandatory military service by a vote of 402 to two.⁸⁹

After September 11th it was common to hear that everything had changed, that nothing would ever be the same. Yet President Bush made no initial call for any shared sacrifice, whether in the form of national military service or even for any significant increase in fuel efficiency standards on vehicles sold in the U.S.⁹⁰ Instead, Americans were told that their patriotic duty was to shop. Five years later, the same private consumption patterns continue, with the same dependence on foreign oil imported from the Middle East and the same growing trade and current account deficits.⁹¹ By September 2003, the Federal Reserve estimated that forty-six percent of federal debt was held by foreign investors, including a significant amount by the People's Republic of China.⁹² Meanwhile, U.S. housing prices reached new heights, while economists have worried about a possibly unsustainable real estate bubble that is increasingly financed by unreliable foreign capital flows.⁹³

This laissez faire, business as usual approach is in sharp contrast to the Bush Administration's rhetoric about the dangers of mass terrorism. Yet U.S. borders and ports remain porous, and countless priorities related to national and

86. Jeffrey M. Jones, *Support Remains High Even if Military Action is Prolonged, Involves Casualties*, GALLUP POLL NEWS SERVICE, Oct. 4, 2001, at 1 (reporting results of Gallup poll survey conducted Sept. 21–22, 2001).

87. O'NEILL, *supra* note 14, at 320–25.

88. Darren K. Carlson, *Public Support for Military Draft Low*, GALLUP POLL NEWS SERVICE, Nov. 18, 2003, at 1.

89. Carl Hulse, *Bill to Restore the Draft is Defeated in the House*, N.Y. TIMES, Oct. 6, 2004, at A5.

90. It took more than three years after September 11th for President Bush to first call for energy conservation. David Leonhardt, Jad Mouawad, and David Sanger, *To Conserve Gas, President Calls for Less Driving*, N.Y. TIMES, Sept. 27, 2005, at A1.

91. FERGUSON, *supra* note 39, at 268–69, 280–85.

92. *Id.* at 280.

93. *See generally* SHILLER, *supra* note 49.

homeland security are ignored and neglected.⁹⁴ In March 2006, undercover Congressional investigators smuggled into the U.S., across both the Canadian and Mexican borders, enough radioactive material to make two dirty nuclear bombs.⁹⁵ The lack of investment in the levees surrounding New Orleans, and the painfully slow federal response to Hurricane Katrina highlight the lack of investment in critical infrastructure and an alarming shortage in first responders for any natural or man-made disaster.⁹⁶

Likewise, a number of high level U.S. military officers were apparently forced into retirement for calling for more “boots on the ground” in Afghanistan and Iraq.⁹⁷ Our inability to close off borders and provide sufficient numbers of ground forces and foreign language translators undermined military objectives from the outset. In Afghanistan, the result has hardly been satisfying. Osama Bin Laden remains out of reach, perhaps in the tribal heart of Pakistan, a country with dozens of nuclear weapons. In Iraq, the shortage of troops and translators contributed to the breakdown of security, the rise of an insurgency, the onset of civil war, and a political vacuum that is increasingly filled by neighboring Iran.⁹⁸

The Bush Administration has tried to keep the National Security Agency’s *domestic* surveillance program out of the reach of the Foreign Intelligence Surveillance Act courts instead of expending political capital to mobilize the resources required for effective *overseas* surveillance of foreign foes. During

94. Damien Cave, *Vital Military Jobs Go Unfilled, Study Says*, N.Y. TIMES, Nov. 18, 2005, at A16; James Risen, *C.I.A. Unit on bin Laden Is Understaffed, a Senior Official Tells Lawmakers*, N.Y. TIMES, Sept. 15, 2004, at A18; Rachel L. Swarns, *Officers Lack Skills to Vet Saudis Seeking U.S. Visas, Report Says*, N.Y. TIMES, Sept. 10, 2004, at A20; Dan Eggen, *FBI Agents Still Lacking Arabic Skills*, WASH. POST, Oct. 11, 2006, at A01 (reporting that “only 33 FBI agents have even a limited proficiency in Arabic, and none of them work in the sections of the bureau that coordinate investigations of international terrorism, according to new FBI statistics.”).

95. Eric Lipton, *Testers Slip Radioactive Materials Over Borders*, N.Y. TIMES, Mar. 28, 2006, at A14.

96. See generally STEPHEN FLYNN, *AMERICA THE VULNERABLE* (2004); Edward Alden, *Commission hits at ‘shocking’ post-9/11 failures*, FINANCIAL TIMES, Dec. 6, 2005, at 14 (reporting the September 11th Commission’s follow-up report giving the U.S. failing grades on homeland security and intelligence reform).

97. Prior to the Iraq War, General Eric Shinseki, then Army chief of staff, told Congress that the U.S.-led coalition would need “several hundred thousand” troops during any occupation of Iraq. Albert R. Hunt, *What Might Have Been*, WALL ST. J., Dec. 4, 2003, at A17; A Rand Corporation study estimated that 500,000 American and coalition forces would be needed to secure Iraq. Fred Kaplan, *The Army, Faced With Its Limits*, N.Y. TIMES, Jan. 1, 2006, at 4.

98. At the time of this writing, tens of thousands of Iraqis are fleeing from mixed Shiite-Sunni areas, “moving the country toward a de facto partitioning along sectarian and ethnic lines” between Shiites, Sunni and Kurds. Edward Wong and Kirk Semple, *Civilians in Iraq Flee Mixed Areas As Killings Rise*, N.Y. TIMES, April 2, 2006, at 1.

World War Two, the U.S. monitored a flood of communication traffic within the Axis block. Today, the administration clearly lacks the resources to effectively monitor communications even within the Bin Laden family, perhaps between Saudi Arabia and the far reaches of Pakistan.

In early 2006, President Bush proposed spending \$114 million on educational programs to expand the teaching of Arabic, Chinese, Farsi and other foreign languages.⁹⁹ In a country with 300 million citizens, with a gross domestic product of nearly \$13 trillion a year, such a program could easily be ten or even a hundred times larger.¹⁰⁰ With fears of mass terrorism and suicide nuclear bombers, perhaps it should be. But with an independent and unaccountable Federal Reserve, such a mobilization of resources is simply not an option.

The first rule of warfare is to mobilize resources, starting first with financial resources.¹⁰¹ In contrast to the pegged period of World War Two finance, today's Federal Reserve remains blissfully independent and aloof from the cares of war. Over the past five years of war and occupation in Iraq and Afghanistan, the Fed raised short-term interest rates in seventeen consecutive meetings.¹⁰² The key rate on short-term government borrowing is nearly five percentage points higher (that's more than fourteen times higher) than during the World War Two pegged period. The higher interest rate has meant hundreds of billions of dollars in additional federal, local and state expenditures on interest on newly-issued government debt.¹⁰³

Throughout World War Two, the Federal Reserve did not dare to raise interest rates once on federal borrowing. Today, however, its unaccountable position seems assured. In the 1970's and 1980's, there were a number of

99. Michael Janofsky, *Bush Proposes Broader Language Training*, N.Y. TIMES, Jan. 6, 2006, at A15.

100. The deficiencies in U.S. foreign language capabilities are jarring. Eric Lichtblau, *F.B.I. Said to Lag on Translations of Terror Tapes*, N.Y. TIMES, Sept. 28, 2004, at A1 (reporting that more than 120,000 hours of potentially terrorism-related surveillance recordings had not yet been translated by FBI linguists); Richard B. Schmitt, *Translation Capacity Still Spotty After 9/11*, L.A. TIMES, May 1, 2005, at A24; Douglas Jehl, *C.I.A. Reviews Security Policy for Translators*, N.Y. TIMES, June 8, 2005, at A1; Eric Lichtblau, *At F.B.I., Translation Lags, as Does the System Upgrade*, N.Y. TIMES, July 28, 2005, at A20.

101. Sun-Tzu's first rule is to marshal sufficient gold to pay for the physical mobilization of armies. SUN TZU, *supra* note 4, at 107. Likewise, former U.S. Secretary of State and NATO Commander Alexander M. Haig, Jr., recently suggested the need for greater mobilization: "Every asset of the nation must be applied to the conflict to bring about a quick and successful outcome, or don't do it." Scott Allen, *Vietnam-Era Aides Cite the Lessons of a US Defeat*, BOSTON GLOBE, Mar. 12, 2006, at B5.

102. Eduardo Porter, *Fed Panel Raises Rate to 4.75 percent*, N.Y. TIMES, March 29, 2006, at C1.

103. For instance, each \$1 billion of newly-issued state bonds costs the California treasury about \$65 million a year in principal and interest costs. The state will ultimately repay \$2 billion for every \$1 billion borrowed over a 30-year period. Erin Riches and Jean Ross, *Bonds or taxes: What is the cost of bonds?*, CALIFORNIA TEACHER, Feb./Mar. 2006, at 4, available at www.cb.org (last visited Sep. 26, 2006).

important constitutional challenges to the Federal Reserve's structure. The members of the Fed's Board of Governors enjoy fourteen-year terms, longer than any other federal officials, and do not rely on Congress for any budgetary appropriations.

Most troubling, however, is the structure of the Fed's Open Market Committee, which includes interested parties, namely the presidents of the twelve private regional Federal Reserve Banks. This arrangement clearly violates the rule laid down by the Supreme Court in the *Schechter Poultry* case against delegations to private groups.¹⁰⁴ It is certainly a case of "delegation running riot" that would not pass constitutional scrutiny on the substantive merits. Yet, every legal challenge has been dismissed on procedural grounds. The courts have either denied standing to private plaintiffs, or when members of Congress have brought suit, the courts have exercised their "equitable discretion" to dismiss the case without considering the substantive merits of the claims.¹⁰⁵

While the reluctance of unelected federal judges to strike down the Federal Reserve may be understandable, there are significant costs to our system of constitutional democracy from disposing of these cases on procedural grounds. Without a full discussion of the substantive constitutional issues, the public discourse is diminished. The result is a shameful silence in the legal academy and in our politics about the consequences of the Federal Reserve's departure from basic norms of democratic accountability.

The Federal Reserve's lack of accountability means a hyper-active role for central bankers in fighting inflation. It also means that our elected branches of government are constrained and neutralized in their capabilities, unable to effectively respond to pressing security concerns, social crises and foreign policy challenges through expansive fiscal policy and spending programs.

The outcome of neutralized fiscal policy may satisfy the "small government" preferences of those on the political right, but it does so by requiring them to turn a blind eye to national security and foreign policy dangers. The left seems equally satisfied to avoid talk of mobilizing financial or human resources. A larger military is something they fear in the hands of an administration that has been incompetent in its use of U.S. military power in both Afghanistan and Iraq.

It may be that Americans across the political spectrum will eventually come to see that mobilization is needed once again. Perhaps there is no more

104. See generally *Schechter Poultry Corp.*, 295 U.S. at 495.

105. *Melcher v. Fed. Open Market Comm.*, 836 F.2d 561, 564 (D.C. Cir. 1987); *Comm. for Monetary Reform v. Bd. of Governors of the Fed. Reserve Sys.*, 766 F.2d 538, 541 (D.C. Cir. 1985); *Riegle v. Fed. Open Market Comm.*, 656 F.2d 873, 878 (D.C. Cir. 1981); *Reuss v. Balles*, 584 F.2d 461 (D.C. Cir. 1978).

effective way to assimilate the nation's neglected populations, from young black men who are more likely to end up in prison than in the labor market,¹⁰⁶ to newer immigrant groups, such as those from Mexico, Latin America and Arab lands, and those of Islamic faith. Certainly, a G.I. Bill of Rights for such neglected and alienated populations, along with a Marshall Plan for our neighbors, starting south of the border with Mexico, would provide this generation with the skills and meaning that it is sadly lacking.

The war in Iraq, however, continues to undermine public support for any such mass mobilization of human and financial resources. But rather than wait either for events to overtake us in Iraq or for another September 11th, perhaps on a much larger and more deadly scale, it is imperative that we begin to rebuild our strength and unity at home and our respect and capabilities abroad. Our first step on that long road is to recognize how American democracy has mobilized its reservoir of mass energy and faith in the past.

106. Erik Eckholm, *Plight Deepens For Black Men, Studies Warn*, N.Y. TIMES, Mar. 20, 2006, at A1.