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Samarqand Davlat Tibbiyot Universiteti, Ijtimoiy va gumanitar fanlar kafedrasi, Tarix fanlari doktori (PhD), Tursunova Gavhar taqrizi ostida

Abdug'aniev Bekzod Abduvali o'g'li
Samarkand State Medical University,
Teacher of Social and Humanitarian Sciences Department
Email: abduganievbekzod2409@gmail.com
ORCID ID: 0009-0002-8597-3356

ECONOMIC AND INDUSTRIAL MOBILIZATION OF THE UNITED STATES DURING WORLD WAR II: POLICIES, CHALLENGES, AND OUTCOMES

Abstract: World War II required the most extensive resource mobilization in U.S. history. Unlike the Civil War, which demanded massive manpower deployment, World War II necessitated an unprecedented industrial expansion. While American casualties were lower than those of many other nations, the country paid a significant economic and social price. This study explores the economic policies, fiscal measures, and government interventions that shaped the U.S. war economy. It examines taxation strategies, including the excess profits tax, the role of monetary policy, and the establishment of federal agencies to regulate production, wages, and prices. The paper also analyzes the impact of war financing, inflation control, and the transition from the Great Depression to a wartime economy. By comparing policies from World War I and the New Deal, this study highlights the mechanisms that contributed to the successful mobilization of American industry and labor.

Keywords: World War II, U.S. War Economy, Industrial Mobilization, War Financing, Excess Profits Tax, New Deal, Federal Agencies, Price Controls, Roosevelt Administration, Monetary Policy

Introduction

World War II required the most extensive resource mobilization in U.S. history, surpassing even the Civil War in terms of industrial and economic expansion. Unlike previous conflicts, the war effort demanded unprecedented government intervention, financial restructuring, and industrial reorganization. This study examines the economic policies, fiscal measures, and regulatory actions that shaped the U.S. war economy. The research focuses on taxation strategies, the role of federal agencies, price controls, and monetary policies. Additionally, the paper highlights the transition from the Great Depression to a wartime economy and the long-term impact of these policies on post-war economic stability.

Methods: Historical analysis, Chronological.

Results and Discussion: The mobilization of the U.S. economy for World War II involved significant financial, industrial, and administrative measures. Industrial expansion was driven by federal investment in war production, leading to rapid increases in military hardware, shipbuilding, and aviation. The Roosevelt administration established key federal agencies, such as the War Production Board and the Office of Price Administration, to regulate production, wages, and inflation. The Selective Service System enabled large-scale manpower mobilization, while economic policies ensured resource allocation for the war effort. War financing relied on a combination of taxation and borrowing. The Revenue Act of 1942 introduced higher income tax

rates and an excess profits tax to prevent war profiteering. War bonds became a primary tool for raising funds, encouraging public participation in the financial burden of the war. Despite these measures, inflationary pressures persisted, prompting government-imposed wage and price controls to stabilize the economy. The transition from the Great Depression to a wartime economy was largely successful, with unemployment rates dropping to historic lows by 1941. However, post-war economic challenges emerged, including inflation control, the reintegration of soldiers into the workforce, and managing wartime debt. The study also compares these policies to those of World War I and the New Deal, analyzing their effectiveness in sustaining long-term economic growth.

We must be the great arsenal of democracy. This is a crisis as serious as war itself for us. We must approach our task with the same determination, urgency, patriotism, and spirit of sacrifice as in wartime.

President Franklin Roosevelt, Radio Address, December 29, 1940.

The conduct of World War II required the largest resource mobilization in the history of the United States. The Civil War had demanded a massive mobilization of manpower—resulting in more casualties overall (when combining both Union and Confederate losses)—but World War II required an unprecedented mobilization of industry. Although American losses were smaller than those of many other nations, they were still painful for the United States. Approximately 292,000 Americans were killed in combat or as a result of battlefield injuries, while another 114,000 died from disease and other causes, bringing total losses to 406,000. Additionally, around 672,000 Americans suffered non-fatal injuries. Considering that the U.S. population has doubled since 1945, such losses today would be equivalent to over 800,000 deaths and 1.4 million non-fatal injuries. Undoubtedly, this was an extremely high price for victory. World War II was the result of the imperialistic ambitions of Germany, Japan, and Italy. In each of these nations, military leaders believed that becoming a first-rate global power was a fundamental national objective—one that could only be achieved through empire-building. Hitler sought to restore Germany’s central position in Europe by uniting the German people, avenging the humiliation of November 1918 and the Treaty of Versailles by defeating France, and creating "Lebensraum" (living space) for the German people by conquering the Soviet Union and eliminating communism. Japanese military leaders, including Prime Minister Hideki Tojo, aimed to transform Japan into a dominant power in Asia through territorial expansion. Mussolini also had imperial ambitions, though his initial focus was primarily on Africa, where he sought to build an empire by conquering technologically less advanced nations. For some within these countries, territorial expansion and achieving great power status were goals in themselves. They were willing to make material sacrifices for the glory and prestige of a powerful state. For government officials, expansion meant the opportunity to administer new territories. For ordinary citizens, conquest was often justified by the promise of material benefits. Hitler, for instance, pledged to seize Eastern territories and expel or eliminate their populations to provide land for the German people. In simple terms, territorial conquest was meant to enrich Germans, particularly German farmers who were expected to replace the displaced Eastern European peasants. During the 1930s, Germany developed parts of its industrial base. By securing control over raw material suppliers and strengthening ties established during the Spanish Civil War, Germany forged a close relationship with Spain’s fascist dictator Francisco Franco. Furthermore, Germany made significant advances in producing synthetic rubber, synthetic fuel, and other "ersatz" materials. As a result, Germany entered World War II better prepared to withstand a British naval blockade than it had been in World War I. However, synthetic materials—such as artificial fuel and rubber—were expensive to produce, and Germany still faced serious resource

shortages during the war. Japan's situation was similar. Following the Meiji reforms, Japan's industrial sector developed, making it heavily reliant on raw material imports. However, due to rapid export growth, Japan had not previously struggled to secure these resources. Yet, its wars in China during the 1930s dramatically increased demand for raw materials, creating supply problems that had not existed before. "World War II ended the Great Depression." This widely held belief contains significant truth, but it sometimes leads to a misleading conclusion—that the attack on Pearl Harbor marked the end of the Depression. However, according to the National Bureau of Economic Research (NBER), the economic recovery had already begun in June 1938, well before the Pearl Harbor attack, bringing the U.S. out of the Depression. Unemployment had been steadily declining, particularly in 1940 and 1941. By December 7, 1941, when Japan attacked Pearl Harbor, the U.S. economy was already close to full employment. There were still pockets of joblessness and economic distress, allowing wartime mobilization to further boost employment. However, the idea that the Great Depression had persisted without interruption until Pearl Harbor is incorrect. For many American industries, including automobile and consumer goods manufacturing, 1941 was a highly successful year. By June 1941, unemployment had nearly returned to pre-Depression levels. When war erupted in Europe, three key factors contributed to ending the Great Depression:

1. Increased military spending – Once war broke out in Europe, the U.S. increased its defense budget, particularly for the navy. While the public was hesitant to support a large standing army, they were willing to invest in shipbuilding to protect American shores and commercial fleets.
2. Rising private investment – Expectations of substantial profits encouraged businesses to invest. Many corporate leaders anticipated that U.S. neutrality in World War II would be as lucrative as it had been during World War I. This belief spurred investments in factories and equipment, contributing to economic recovery.
3. Expansionary monetary policy – Many Europeans sought to secure their assets in the U.S., leading to an influx of gold. The Federal Reserve could have offset this by selling government bonds to absorb the excess money supply, but it chose not to. As a result, between September 1939 (when war began in Europe) and December 1941 (when Pearl Harbor was attacked), the U.S. money supply grew at an annual rate of approximately 11%.

As in World War I, moral considerations played a key role in justifying excess profits taxes. In a May 26, 1940, radio address, President Roosevelt openly expressed his disdain for wartime profiteering. Business leaders, as in World War I, focused less on whether such a tax should exist and more on its specific structure. Debates centered around whether the excess profits tax should be based on a profit margin threshold (e.g., limited to 8%) or whether it should be linked to prewar earnings. Additionally, discussions arose over whether the tax should apply to all businesses or only corporations. These issues were widely debated as the U.S. government sought to finance the war while preventing excessive wartime profits.Even the National Association of Manufacturers once supported a single 90% tax rate on excess profits. The key aspect of the excess profits tax was that, compared to raising corporate tax rates, it immediately eliminated accusations of war profiteering. Furthermore, if the Republicans returned to power, as they had after World War I, this tax could be repealed after the war. As in World War I, the excess profits tax played a crucial role in financing World War II. This tax generated significantly more revenue than customs duties, alcohol and tobacco taxes, and inheritance and gift taxes. Adjusted for inflation and compared to the "normal" revenues of 1940, the excess profits tax accounted for approximately 25% of total tax revenues. This was a remarkable outcome. Despite extensive preparations to increase taxes, the gap between federal government expenditures and revenues rapidly widened. Even at the beginning of the war, the budget was already in deficit: in 1939 and 1940, there was a small but persistent shortfall between spending and revenue. This shortfall led to serious debates. Republicans consistently criticized the Roosevelt administration for excessive spending. While political factors played a role, concerns

about rising debt burdening future generations were genuine and widely shared. The Roosevelt administration had to respond to these criticisms. The argument that "the debt belongs to us, so it is not a burden" was partially true but mostly satisfied only those who already supported the administration. However, once the U.S. entered the war, concerns about the deficit nearly disappeared: any level of debt was considered preferable to losing the war. As a result, the U.S. Treasury issued a variety of securities to raise as much financial support as possible. Approximately 50% of new debt consisted of traditional long-term bonds. About 30% comprised short-term securities—Treasury bills and notes. A significant portion, around 20%, was in the form of U.S. savings bonds, small-denomination bonds intended for ordinary Americans to contribute to war costs. Given the strong inflationary pressures created by expansionary monetary and fiscal policies, it is not surprising that prices began to rise even before Pearl Harbor. Afterward, the U.S. adopted wage, price, and production controls to curb inflation and allocate resources effectively. Such controls had been used during World War I and were also implemented by other warring nations. Additionally, their theoretical legitimacy had increased. The U.S. success in World War I seemed to confirm the effectiveness of wartime control mechanisms. In fact, some individuals who had actively participated in the price control system during World War I later became its strongest advocates. For example, economist Frank W. Taussig (1919) served on the Price Fixing Committee of the War Industries Board, while financier Bernard Baruch (1936) led the War Industries Board. Baruch's advocacy for wartime price control and allocation systems during the 1920s and 1930s helped lay the groundwork for their application in World War II. Furthermore, confidence in free markets and price mechanisms had significantly declined during the Great Depression. There was also a widespread but mistaken belief that the German and Japanese economies were efficiently planned and controlled. Consequently, many believed that if the U.S. adopted a similar system, it could achieve the same level of efficiency and secure victory due to its superior resources. However, if the U.S. had chosen a different approach to managing the economy, it might have been even more effective. At the same time, the possibility of failure could not be ruled out. Thus, out of caution, the U.S. decided to replicate the economic control system of its enemies. The *Phony War* ended in May and June 1940 with Germany's successful invasions of Belgium and France. Following these events, the Roosevelt administration began establishing numerous federal agencies to oversee the war economy. In doing so, it drew inspiration from both the *New Deal* and the experiences of World War I. Unlike in World War I, this time the U.S. acted before officially entering the war.

Key Agencies Established in 1940:

- April 11: Before Germany's invasion of France and Belgium, the Office of Price Administration and Civilian Supply was created to control inflation and regulate civilian needs.
- May 25: The Office of Emergency Management was established to provide the president with advice and information.
- May 28: The Petroleum Coordinator for National Defense was created to oversee oil production and distribution.
- June 28: The Rubber Reserve Company was formed to purchase natural, synthetic, and reclaimed rubber. The Metals Reserve Company was also established to buy metals and subsidize their production.
- August 29: The Defense Plant Corporation was created to finance war industries.
- September 16: The Selective Service System was established to implement military conscription.

Key Agencies Established in 1941:

August 28: Roosevelt reorganized the control system, creating two key agencies:

The Office of Price Administration to regulate prices.

The Supply Priorities and Allocation Board to establish production priorities. In August 1939, Roosevelt had created the War Resources Board. Its main task was to analyze available resources and develop a mobilization plan in case of war. Edward Stettinius from the U.S. Steel Corporation was appointed as chairman. The board consisted exclusively of businessmen, leading to criticism from liberal circles, the agricultural sector, and labor organizations, which also sought representation. This composition signaled Roosevelt's intention to rely on business leaders during the war. Thus, Roosevelt, once a social reformer during the *New Deal* era, gradually shifted toward a philosophy of "winning the war at any cost." The board secretly prepared a report for the president, concluding that America already possessed sufficient industrial capacity to win any military conflict. It found no need to expand steel or aluminum production. The report also recommended that, if the U.S. entered the war, mobilization should be entrusted to a bureaucratic organization with absolute authority, as suggested by Bernard Baruch. In November 1939, the board was disbanded, its members were thanked for their service, and the report was archived for public release only after the war ended.

Conclusion

World War II fundamentally reshaped the U.S. economy, demonstrating the power of industrial mobilization and government intervention in times of crisis. The success of war financing, taxation, and production strategies contributed to both military victory and economic expansion. While the war effort effectively ended the Great Depression, it also introduced new economic challenges that shaped post-war fiscal policies. This study concludes that the policies implemented during World War II played a crucial role in transforming the U.S. into a global economic leader in the post-war era.

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