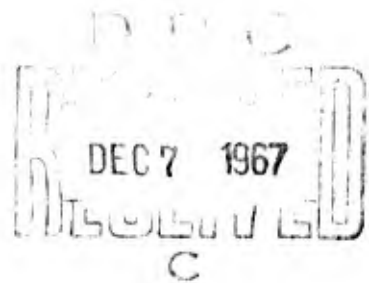


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THE FEDERAL ROLE IN POSTATTACK ECONOMIC ORGANIZATION

Sidney G. Winter, Jr.

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THE FEDERAL ROLE IN POSTATTACK ECONOMIC ORGANIZATION

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Introduction and Summary

In addition to killing and injuring a great many people, and destroying or damaging vast amounts of property, a nuclear attack on the United States would produce enormous confusion and chaos. Particularly in the realm of economic activity, the disruption produced by an attack would have effects as serious as those of the outright destruction.

If we ask why the American economic system as we know it today is not characterized by "confusion and chaos," the most important part of the answer is the simple continuity of events, the finiteness of the changes that occur over finite periods of time. Untold numbers of economic decisions are made every day which involve the implicit prediction that the future will closely resemble the present, and only occasionally is the decision regretted because the prediction was seriously in error. These predictions form a coordinated, mutually consistent pattern precisely because they have common roots in the present.

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More than Pearl Harbor, more than the most massive invasion by conventional armies, nuclear attack would break those threads of continuity. The survivors will not find it helpful in their decisionmaking to compare the first three months after a nuclear attack with "same quarter last year." Neither will they, in looking ahead, have any confidence in whatever picture of the future they are able to form.

Secondly, economic life is coordinated and regulated by the basic institutions of private property and voluntary exchange, the facilitating institutions dealing with money and credit, and the "invisible hand" of market forces. Within limits, it is clear who has control of particular resources, and relatively little effort is required to investigate the possible uses of those resources -- thanks to the information provided by money prices and to the communications industries and educational systems that distribute this information and much else besides. By and large, the economy offers material rewards to those who use resources in ways that contribute to the satisfaction of the material wants of others, and punishes the waste of scarce resources. In the aftermath of a nuclear attack, the legal ownership and control of a substantial fraction of the nation's surviving real wealth would be left uncertain by the destruction of records, the collapse of normal processes of estate settlement in the face of millions of deaths, and the chaos introduced into balance sheets by the massive and haphazard destruction of wealth. The elaborate system of organized commodity exchanges would be hard hit, and markets of all kinds would suddenly be fragmented by the breakdown of communications and transportation.

Equally fundamental are the legal and political institutions that make, modify and enforce the rules of the economic game. Contracts are usually performed and checks are usually redeemed, but when they are not the law and the courts are there. If a citizen feels that tax or condemnation proceedings by a governmental unit have violated his rights, he has orderly procedures for seeking redress. If a group feels itself unfairly disadvantaged in the economic competition, it can work through political channels to change the economic rules. Doubts are sometimes expressed as to the effectiveness and timeliness

of functioning of these social devices under normal conditions. It goes without saying that nuclear war would increase enormously the volume of problems of these kinds to be handled, at the same time increasing the urgency of solution, and destroy a substantial portion of the people, records and facilities normally involved in finding solutions.

Finally, the functioning of the economic system is shaped to some extent by a varied assortment of economic regulation and control mechanisms imposed by governmental units at all levels, and by taxation systems which serve partly as regulatory devices and partly to finance the government. Objects of regulation include the services and prices of transportation and utilities industries, methods and types of construction, the conduct of collective bargaining, the quality of food and drugs, and so on through a long list. Here, no less than in the other cases, a substantial nuclear attack would take a heavy toll. Expertise, records and facilities relevant to the old tasks would be casualties. Long standing procedures and precedents will suddenly be infeasible or hopelessly irrelevant. Much of the information and expertise that does survive will relate to the preattack world, and not at all to the postattack world. Old tasks will simply disappear and new ones spring up.

This is the problem of postattack economic organization. Institutions and mechanisms in each of these four categories would be severely shaken by a nuclear attack. What is the best solution to this problem, in terms of preparedness measures and concepts to guide postattack activities?

Curiously, it is a widely accepted axiom that reliance must be placed upon a rapid recovery of the capabilities in category four -- the governmental regulatory and control capabilities. Indeed, what is envisioned is not merely a recovery of these capabilities, but a rapid surpassing of preattack levels, to the point where the Government would engage in detailed control of the directions of economic activity on an unprecedented scale. The reasons for the wide acceptance of this axiom are many, and some of them will be examined below.

What mainly is involved seems to be simple horror at the complexity of the problems and the immensity of the stakes, a simple reaction that "something should be done about it," and the simple observation that, in past national crises, it has been up to the Federal Government to "do something about it."

There is a flaw in this simple logic: What is fundamentally at issue in planning for a nuclear emergency is not the desirability of coping with the problems, or the desirability of trying to cope, but the feasibility of coping effectively. Neither historical precedents nor the incapacities of other institutions will confer upon the surviving elements of the Federal Government the needed capabilities. These propositions are widely accepted -- but mainly among opponents of civil defense and economic preparedness. In the absence of a closely argued case that the Federal Government could do the job, they naturally assume that it, like the rest of the society, would be incapable of performing even its normal peacetime functions. If it is replied that preparedness measures could assure the existence of the required capabilities, the questions will come back: For what range of attack levels? With what confidence? And at what price?

A few quotations from the National Plan for Emergency Preparedness will establish the point that the basic axiom identified above is fundamental to the plan, and the subsidiary point that overemphasis upon the requirements for governmental action, as opposed to the capabilities, lies behind the axiom.

From Chapter 1, "Basic Principles:"

If the United States were attacked, or gravely threatened with attack, the Federal Government by virtue of its war powers must exercise pervasive direction and control in the interest of national survival.<sup>1</sup>

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<sup>1</sup>National Plan for Emergency Preparedness, Office of Emergency Planning (Washington: Government Printing Office, December 1964), p. 5. Emphasis supplied.

"War powers" refers to constitutional authority, and that authority certainly does not imply a commitment to the operating concept, "pervasive direction and control."

From Chapter 12, "Resource Management:"

The Federal Government would direct and control production, distribution, acquisition, and use of critical resources to meet essential civilian, military atomic energy, civil defense, emergency government and foreign requirements when warranted by emergency conditions."<sup>1</sup>

One might add "except when made infeasible by emergency conditions."

Civil authorities at all levels of government would have to act immediately, and in accordance with the resource chapters of this Plan, to control all available resources and to assign them to priority activities."<sup>2</sup>

Mandatory direct control measures to be used include priority and allocation systems, production directives, conservation measures, consumer rationing orders, inventory control and antihoarding orders, construction regulations, import and export controls, and requisitioning orders.<sup>3</sup>

The Plan does recognize that there may be some doubt as to the ability of the Federal Government to discharge all of these responsibilities soon after the attack. This point and the Plan's response to it are well summarized in Chapter 13, "Economic Stabilization:"

The Federal Government probably could not direct centrally all of the emergency economic control measures immediately required. In that event, Local, State, and certain Federal field authorities would have to direct many of these measures postattack until the Federal Government could effectively consolidate operations into a cohesive national stabilization program.<sup>4</sup>

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<sup>1</sup> Ibid., p. 96.

<sup>2</sup> Ibid., p. 97. Emphasis supplied.

<sup>3</sup> Ibid., p. 99.

<sup>4</sup> Ibid., p. 104. Emphasis supplied.

Is it absolutely clear that these Federal capabilities would come into being before the need for them had passed?

This paper challenges the basic axiom that direct governmental control of economic activity is a sound policy for the postattack situation:

(1) The necessity of such control is disputed on the grounds that the normally operative economic incentives would be reasonably compatible with national needs in most of the plausible postattack situations -- much more so than in World War II, for example.

(2) In the absence of extensive and expensive preparations, the required resource management capabilities at the Federal level could only be brought into existence so long after the attack that the crucial question of economic viability vs. economic collapse would already have been decided.

(3) The most illuminating question to ask about preparedness planning is not "What needs to be done," but "What useful things can be done at a given budget level?" When this question is asked, it appears that the relative urgency of preparations for direct control is low -- unless the budget levels investigated are at least two orders of magnitude larger than the present ones.

(4) The relatively urgent tasks involve the repair of the regulating mechanisms in the first three categories noted above:

- (a) Guide expectations -- attempt to promote a consensus about the shape of the future.
- (b) Restore basic economic institutions -- especially private property, the monetary system.
- (c) Restore the legal and political framework -- especially preservation of national unity and of federal authority in matters of central importance to the nation's future, and restoration of the legal framework of economic activity.

(5) The central problem in the area of governmental regulation and control of the economy is not the extension of controls into new spheres of responsibility, but the adaptation of existing control devices and policies to the drastically changed requirements of the post-attack situation.

Time does not permit me to make a detailed case for these propositions, or to explore the complications, qualifications and nuances. Needless to say, the strength of the case depends on the assumptions made as to attack weight and pattern, and as to preparedness measures. I think of the case as being strong for low preparedness budget levels (the present entire civil defense budget would still be a low budget for economic preparedness even if it were all devoted to that purpose), and for the heavier of the two attacks considered at this Symposium (UNCLEX). I am also assuming that significant postattack production for military purposes is either unnecessary or manifestly impossible, and that the U.S. receives no significant aid from other countries. Lastly, the case is stronger if Washington is hit, and especially if it is hit with little warning.

In the remainder of my time, I want to do five things: (1) Sketch the postattack economic problem, and note the implications for economic organization, (2) Sketch what seems to me to be an appropriate federal role in the postattack economy, (3) Argue that this role is actually an alternative, and not a complement, to the direct control functions mentioned in the National Plan, (4) Mention the main drawbacks of reliance on controls, (5) Put forward some research suggestions in line with this view.

#### The Postattack Economic Problem

In the early days and weeks after a nuclear attack, the primary task facing the nation would be to save as many people as possible from immediate threats to survival. The goods needed for this task -- food, medical supplies, clothing, etc. -- would be drawn almost entirely from inventories, including emergency stocks. Partial restoration of production of basic services (transportation, communications,

power, gas and water) would be necessary at an early date, but the material inputs to these industries (fuel, tools and materials for repair and patchup) would be drawn from inventory.

The central problems of economic organization during this time period would relate, of course, to the restoration of utilities and transportation, and the control and distribution of stocks of essentials. There is probably little disagreement as to the character of the organizational devices required (e.g., rationing), or as to the desirability (and difficulty) of establishing in state and local governments the capability to deal with these emergency tasks. In any case, I will pass over these problems and concentrate on the economic problems of a later time period -- perhaps two months to a year or two postattack.

During this period, which I call the reorganization phase, the basic economic problem is posed by the declining inventories of essentials. Production must be restarted, and it must be restarted in time to meet the subsistence needs of the population when those needs can no longer be met from inventory. Production of some foods must be resumed at quite an early date if the average diet is to be nutritionally adequate, and even in the case of feed grains there will have to be some production in the second postattack growing season. Inventories of refined petroleum products are likely to be a focus of concern, given the vulnerability of the refineries and the essentiality of fuel for agriculture and transportation. The effort to reestablish a functioning, viable economic organization must meet deadlines determined by the levels of surviving inventories and the rates at which they are used up.

It is worth commenting briefly on the alternative to viability -- on the meaning of failure in this situation. If one focuses on physiological subsistence requirements, postulates a very effective rationing system, and assumes that the physical destruction resulting from the attack is the main source of production losses, then it is easy to convince oneself that a situation in which economic viability would be threatened is quite implausible. But a much more plausible view of

a viability crisis can be described, one which combines the factors of hungry populations, social and political breakdown, and failures of economic organization. Such a crisis would involve decisions on the part of individuals to withdraw from social productive employments and procedures in favor of alternative offering larger private rewards -- which might involve anything from black market activities to joining a roving mob looking for food. Political subdivisions, or regional groupings, might similarly withdraw from the question for national solutions to national problems, with disastrous consequences for populations in other regions. Voluntary compliance with systems of economic control, especially those aiming at equitable distribution of necessities, is likely to be an early casualty if those systems appear to be incapable of solving the problem. Attempts at strict enforcement would consume resources and risk political difficulties. To weigh the dangers of a catastrophic collapse, do not inquire as to how long the food will last, ask when the cry "Every man for himself!" gets persuasive. If enough people respond to that cry, the division of labor will break down and starvation will eventually come.

If it is granted that this is a reasonable characterization of the postattack problem,<sup>1</sup> certain implications for economic organization may be noted -- particularly, implications which distinguish the postattack economic viability problem from the more familiar problem of economic mobilization in wartime. First, viability is largely a matter of the adequacy of current and near-future consumption. Hence, there is a broad consistency between the private goals of individuals and the national interest: As individuals, the members of the population want to survive, and it is in the national interest that the population survive. The organizational requirements are to provide a framework in which the private pursuit of private interests will not be socially counterproductive, and to provide some degree of equity in the distribution of necessities. This degree of consistency between private and national goals is not found when the government is trying to extract large amounts of production from the economy for war or economic development.

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<sup>1</sup>Or at least of a postattack problem, one that could arise under some plausible circumstances.

Secondly, in contrast to the wartime situation, the Government's policy objectives do not directly imply an attempt to determine details of the output mix. In World War II, the Government necessarily concerned itself with the allocation of resources among aircraft, rifles, ships, tanks and landing craft. Postattack, it would not have a comparably direct interest in the allocation of corn stocks between corn meal production and chicken feed. In war mobilization, information on military requirements and strategic plans is largely monopolized by the Government. Postattack, information on (for example) consumer acceptance of different foods would be scattered and diffused. Thus, both the incentives for detailed economic control and the information base to support it would be much weaker in the postattack situation.

Finally, the timetable for the achievement of viability must be considered in relation to the leadtimes for the construction of the institutional apparatus of detailed economic control. The course of postattack economic events is likely to be determined to a large degree but what happens in the period from three to nine months after the attack. If the control organizations have to be formed postattack, they are not likely to be well staffed by that time, let alone "shaken down" and functioning with workable procedures.

#### A Proposed Federal Role

Turning now to my sketch of a more realistic view of the federal role than that which envisages comprehensive central planning, let me first propose a basic perspective: Rather than constructing lists of the multitudinous "requirements" for federal action in the post-attack emergency, it will be helpful to ask what the Government should do if what it can do is very limited. Envisage a situation in which, as a result of very low preparedness budgets and a heavy attack on Washington and other cities, federal capabilities are almost nonexistent. The economy, if it recovers at all, will recover pretty much on its own. But given that there are some surviving federal capabilities, how should they be employed? Presumably, they should be used to facilitate

spontaneous recovery processes and to influence the decisions with the largest implications for the nation's future. Certainly, they should not be used in an attempt to override spontaneous processes, or to influence decisions of less than crucial importance. While I cannot take the time to inquire into the existence, character and effectiveness spontaneous recovery processes, I believe that the prescription to follow is broadly consistent with the perspective just set forth.

First, the government should guide the expectations of the public by acquiring, analyzing and distributing information on current and prospective economic conditions. Although the government will lack the information base for detailed control, it should be capable of learning the overall picture and using that knowledge as a basis for some predictions about the future -- for example, of supply and demand conditions for basic commodities. By its predictions, and simply by authoritative descriptions of the situation, the government could not only restore some coherence to the economic decisions of individuals and firms, but could probably influence the main directions of these decisions. For example, a governmental pronouncement that a particular region will have to be evacuated and its rebuilding deferred might well be self-enforcing. In some cases, the government would lend weight to its predictions by committing itself to act if necessary to make the prediction come true.

Second, the recovery of basic economic institutions should be a major concern. Speedy, decentralized systems for achieving a quick clarification of property rights and freeing the economy from the tangle of preattack commitments should be developed preattack and implemented postattack. In developing concepts for these emergency procedures, a minimum of attention should be to the similarity to normal procedures, and the dominating concerns should be speed and applicability at the local level, on a massive scale, by people relatively unschooled in the intricacies of the normal procedures. Similarly, in designing measures to assure the acceptability of the currency or the solvency of the banking system, the focus must be on the functional

requirements of the postattack situation. Such ideas as using Government owned food stocks as backing for the currency deserve serious consideration.

The restoration of the legal and political framework of economic activity is another problem area requiring emphasis in preparedness planning and postattack operations. While a good deal of attention has been given to the problem of "continuity of government," almost none of it seems to have been focused on the specific aspects relevant to economic activity. Perhaps the assumption that the economy would be run by comprehensive direct controls explains the lack of interest in these matters.

A fourth area involves the control and regulatory functions now performed by government. For example, transportation and utilities services must somehow be priced and allocated in ways that are responsive to the realities of the postattack situation. Those realities are likely to be very different from one locality to another, and the existing agencies are likely to be unable to cope with the complex and rapidly changing situation.

We come now to an area of activity that is somewhat more demanding in terms of governmental capabilities -- but much less demanding than detailed planning and direct controls. This is the problem of making resources available for essential investment activity. There are many ways of accomplishing this; one of the simplest may be some sort of expenditure ration system. (E.g., a system in which earnings above a certain amount are placed in blocked accounts, or automatically invested in recovery bonds, and thus made unavailable for expenditure until after the emergency has passed.)

Finally, there are some possibilities under the heading "blunt uses of government power." Not much analytical subtlety should be required to draw up a list of things that should not be produced post-attack, and very simple control devices should suffice for enforcement. (E.g., turn off the electric power.)

Similarly, the government could force the evacuation of particular regions, or turn "have-not" areas into "have" areas by relocating food stocks. Rather than trying to chart the path to the achievement of the nation's goals, the government would simply try to block off routes that seemed particularly likely to lead away from the goals.

#### Institutional Recovery vs. Direct Controls

It might reasonably be asked why the proposed Federal role just sketched is an alternative to reliance on direct controls. Since most of these functions and tasks are at least mentioned in the National Plan, some must believe that they are complementary to the various direct control devices discussed.

The first argument against such complementarity is that the limited Federal role advocated here still leaves the Federal Government with enormous tasks, both in preparedness and in postattack operations. Indeed, actual accomplishment of this preparedness task will probably take many years unless Federal preparedness budgets are increased substantially. Hence, as mentioned earlier, the question is not what "should" be done to meet the "requirements" but what can be done with the available budget. The role described here can be defined in very austere versions, and useful progress toward the required capabilities is not out of the question with budgets on the present order of magnitude. On the other hand, the actual development of the capability for centralized planning and control, and its maintenance in a state of readiness that would permit it to go into operation in the relevant postattack time frame, would be expensive indeed. As an add-on to the program of institutional recovery, realistic preparations for direct control are a luxury that should not even be aspired to under present budgets.

If one could realistically expect the government to be capable of detailed planning and control, it is not at all clear that the institutional recovery program outlined would be desirable. Aside from the ideological values associated with private enterprise -- which accounts for the Plan's lip service to a "basically free economy and

private operation of industry"<sup>1</sup> -- the main point to private ownership and control is that private incentives are offered for sound decisions on how resources are to be used. But a manager's task when faced with a desk full of production directives is implementing decisions, not making them. Any private incentives to which he is subjected can only tend to distract him from the national interest (as interpreted by the paperwork on his desk). What the government wants from him is the behavior of a loyal employee, and that is precisely the status that should be conferred upon him.

Of course, no planning and control system ever treats all of the detailed resource management decisions that have to be made. Government directives can usefully be supplemented by private profitability calculations. But in planning for a postattack situation, the costs of achieving a quick clarification of property rights have to be considered, and these seem excessive if only incidental and peripheral reliance is to be placed on private incentives. It would be much simpler to nationalize any property that is subject to control ambiguities.

Thus, the program of direct controls is an expensive and low priority adjunct of a program of institutional recovery, while the program of institutional recovery is an expensive, inessential and perhaps counterproductive adjunct of a program of detailed planning and direct controls. A choice is called for.

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<sup>1</sup>Op. cit., p. 5.

Conventional Plans and Thermonuclear Realities

I have referred to the high cost of preparing for detailed direct controls, and to the probable delays in getting such a system in operation postattack. To provide systematic quantitative documentation for these assertions, or to make a cost-effectiveness analysis of alternative forms of organization, is clearly impossible. The alternatives are not sufficiently defined to allow their costs to be estimated, and the methods for assessing effectiveness do not exist. The best we can do is to rely on some crude comparisons. One comparison we might make is with the planning systems of Communist countries. It has been estimated that, in the Soviet Union, "over ten million specialized officials are engaged in collecting and processing economic data"<sup>1</sup> -- and still the amount of effective control over the economy afforded to top decisionmakers is quite small.

For the present audience, a comparison with World War II experience in the U.S. may be more helpful. I ask you to recall that experience -- the number of people involved, the false starts with impractical methods and the time that passed before the Controlled Materials Plan was in effective operation. Then, consider the more elaborate character of the controls apparently envisaged by the present National Plan, the impossibility of anticipating with high confidence which resources will be in short supply, and the much greater diversity of conditions from one locale or region to another that a nuclear attack would leave in its wake. Reflect finally on the difficulties of assembling the necessary personnel, getting the forms printed, making initial inventories of surviving resources, and communicating information and directives, all in a badly damaged economy -- and perhaps with many of those who today are relatively expert on such problems numbered among the injured, missing or dead. This adds up to a task which surpasses the World War II task in difficulty by a margin which is well proportioned to the difference in the explosive power of the weapons.

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<sup>1</sup>From a Soviet source, quoted by Leon Smolenski in "What Next in Soviet Planning," Foreign Affairs, Vol. XLII, No. 4 (July 1964), p. 607.

It may be true that this task could be accomplished "as soon as possible" postattack. But the preparations will have to be spectacularly more extensive than the present ones if "as soon as possible" is to be soon enough. And if these capabilities are to be acquired, the question of their vulnerability to attack (deliberate or otherwise) will have to be faced. At some price, a relatively invulnerable standby system for central control of the economy, capable of going into action in time to make an important difference, could probably be purchased. I hope it is clear that the price would be high.

#### Some Suggestions for Research

Let me recast some of the foregoing ideas into a list of research topics that have high priority. These mainly involve the related problems of assessing the difficulty of preparing the government to perform the suggested postattack role, and of finding ways to perform it.

A first project is to design the "speedy, decentralized systems" for clarifying property rights postattack. A range of situations should be considered, both in terms of local conditions and national attack impact, and a corresponding range of methods developed. Estimates of the amount of time and resources involved in postattack implementation should be made. The problems of clarifying property rights and those of dealing with insolvency are obviously interrelated, and the banking system should probably be the focus of preparedness measures in both cases.

Secondly, there is a class of problems having a common basis in the fact that the proposal made here envisages a form of economic organization more decentralized (in some respects) than the present one. Practical ways must be found of increasing the discretion of persons in direct contact with local economic conditions. Examples include the problem of providing autonomy of operation for particular plants of large private corporations, and that mentioned earlier of pricing and allocating utilities and transportation services. In the latter case, the possibilities of abuse of monopoly positions are an obvious objection to letting the profit motive guide the decisions. A rather complicated problem, deserving of careful study, is thus posed.

Considerable thought has already been given to postattack monetary problems. But here, as in the case of property rights, it would probably be desirable to explore a range of alternative policies that would be responsive to a range of possible situations. For example, it would probably be more useful to attempt to determine what post-attack circumstances would make an early currency reform desirable, and what circumstances would make it undesirable, than to try to decide about currency reforms without reference to the character of the attack and its economic aftermath.

In my brief description of what it would mean to fail in the attempt to achieve economic viability, I have suggested that a viability crisis is likely to be a social and organizational phenomenon. A better understanding of the conditions of failure of economic organization would contribute both to the assessment of our vulnerability to various levels of attack, and to the design of a failure-resistant form of organization. Comparative analysis of historical instances of severe economic stress, and the behavior that resulted from and contributed to the crisis, should be informative. Under what conditions do hunger riots occur? What circumstances make for voluntary compliance with price control and rationing schemes? What is the relationship between absenteeism and the food rationing system? To the best of my knowledge, even the World War II experiences of various countries have not been subjected to comparative analysis with these sorts of questions in mind.<sup>1</sup>

Let me conclude by reiterating in its general form a point that I have made in specific contexts above: There are probably very few answers to questions about postattack organization that can be shown to be invariant over the entire range of plausible assumptions as to attack levels and targeting, military demands upon the economy, and

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<sup>1</sup> A RAND study by Jack Hirshleifer, Disaster and Recovery: A Historical Survey, The RAND Corporation, RM-3079-PR (April 1963) is the closest thing to an example of the sort of study I have in mind.

postattack trade and aid relationships with other countries. We will progress much faster if we all admit that this is the case and if each attempts to be explicit in his assumptions about the situation he is discussing -- at least as explicit as I have been, and preferably a good deal more so.