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THE ROAD TO TOKYO & BEYOND

3rd REPORT

TO THE PRESIDENT, THE SENATE
& THE HOUSE OF REPRESENTATIVES

By the Director of
**WAR MOBILIZATION
AND RECONVERSION**

July 1, 1945

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RELEASE FOR RADIO COMMENTARY NOT EARLIER THAN 7 P.M. E.W.T.
SATURDAY JUNE 30.



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Additional copies of this report may be obtained from the Division of Public Inquiries, Office of War Information, 1400 Pennsylvania Avenue NW., Washington 25, D. C.

LETTER OF TRANSMITTAL

OFFICE OF WAR MOBILIZATION AND RECONVERSION,
Washington, D. C., June 30, 1945.

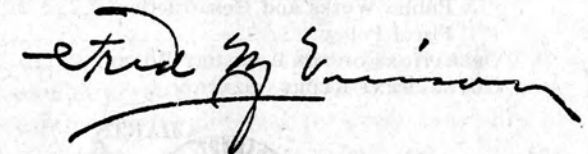
The President.

The Honorable The President of the Senate.

The Honorable The Speaker of the House of Representatives.

SIRS: As Director of War Mobilization and Reconversion I hereby submit my quarterly report in accordance with the requirements of the Congress as set forth in the War Mobilization and Reconversion Act.

Respectfully,



Director.

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FACES TURNED WEST

Three months ago, when Justice Byrnes submitted the OWMR second quarterly report to the President and the Congress, America was looking anxiously across two oceans.

We were looking eastward across the Atlantic, where war in Europe was rushing toward its climax; and westward across the Pacific where the pace of war was slower, but no less costly.

Now, with the fighting at an end in Europe, the face of America turns westward, and we look across the Pacific toward Japan. The objective has been clearly established by President Truman:

"The primary task facing the Nation today is to win the war in Japan—to win it completely and as quickly as possible."

That is the objective, that is the primary task. And it would seem that our problems would become simpler with the cessation of fighting on one front, and the ability to concentrate all our energies against a single enemy. Militarily, this is probably true. Economically, it is not. For VE-day brought with it some peculiar problems for our national economy.

With two major wars on our hands, against two of the world's most potent powers, national economy was geared to all-out war. It was a grim race to produce—desperately for defense, produce feverishly in order to catch up to our enemies, produce overwhelmingly for the knock-out blow in Europe.

Now the knock-out blow has been dealt, the war against Germany has receded into history, and World War II has been narrowed to one front. And this narrowing brings with it certain subtle changes to the inflexibility that had been imposed upon our industrial machine. This does not mean any relaxing of spirit or determination:

War production scheduled for the prosecution of the Pacific War must be met. No American forces have gone or will go into battle stinted of equipment, because of production failure.

That is the job ahead, a job of sobering magnitude, a job of indeterminate length. But even while that job is being done, we must

make our economy flexible enough to encompass other jobs, completely different in nature, yet comparable in magnitude.

While we plan and produce for the destruction of Japan, we must plan and produce for the rebuilding of Europe, the rebuilding necessary to help Europe get back on her feet, so her countries will be restored to economic health and stability. While we keep up pressure for sufficient manpower to produce the equipment needed to beat Japan, we must gear our economy to the absorption of the increasing number of workers who will be laid off as cut-backs gain momentum. While we must keep our sights and our energies firmly fixed on the primary objective of victory, we must work toward transition, the kind of well-timed transition that will prevent depression from coming to us as the guest of peace.

These things we have been planning for and must plan for even more vigorously. Now, with final victory in sight somewhere down the road, we must look ahead to a destination beyond victory, to the kind of America in which the victorious members of the armed forces, together with all citizens, may enjoy the fruits of their bitterly-fought, hard-won victory.

Our obligations include:

1. Making a durable peace so that the sons and daughters of our fighting men will not have to fight another war.
2. Building a vital, invigorated peacetime economy in which there will be goods and jobs for all.

Those obligations have been solemnly accepted. Work toward their fulfillment has been started, is well under way now, and will be carried on at accelerated pace. This work at present is travelling down five main highways, highways which promise to converge at the ultimate goals of a world of durable peace, and an America of unprecedented prosperity. They are:

1. **Meet all requirements of the all-out Pacific War.**
2. **Reconvert and expand civilian production as fast as possible, both to increase the supply of goods, and provide jobs for those who have been released from the armed forces and from war work.**
3. **Protect human resources as far as possible in the incapable shock of reconversion.**
4. **Provide food and aid that will help the liberated countries lift themselves to their feet and once more become self-sustaining.**
5. **Work toward a high-level economy so America can know, in peacetime, the twin blessings of abundant production and full employment.**

II FINISHING THE JOB

Laying the Road to Tokyo

Three years ago, while Great Britain and the United States were locked in a death struggle with Germany, Japan rolled victoriously across the great distances of the Pacific and Asia until she controlled 17 million square miles of land and ocean!

Today she has been squeezed back to 7 million square miles. But those last 7 million square miles are the hardest. They're closest to home base for the Japanese, farther from home base for us. They are defended by the strongest and best equipped of all Japanese forces. Engaging these troops and destroying them, forcing the capitulation of Japan, involves the greatest movement of men and matériel ever undertaken.

In this vast transfer of men and supplies, we shall move 3 million troops out of Europe and many of them half way around the world, together with the necessary matériel and supplies. Soon we shall have nearly 6 million men in all branches of the service in the actual theater of combat.

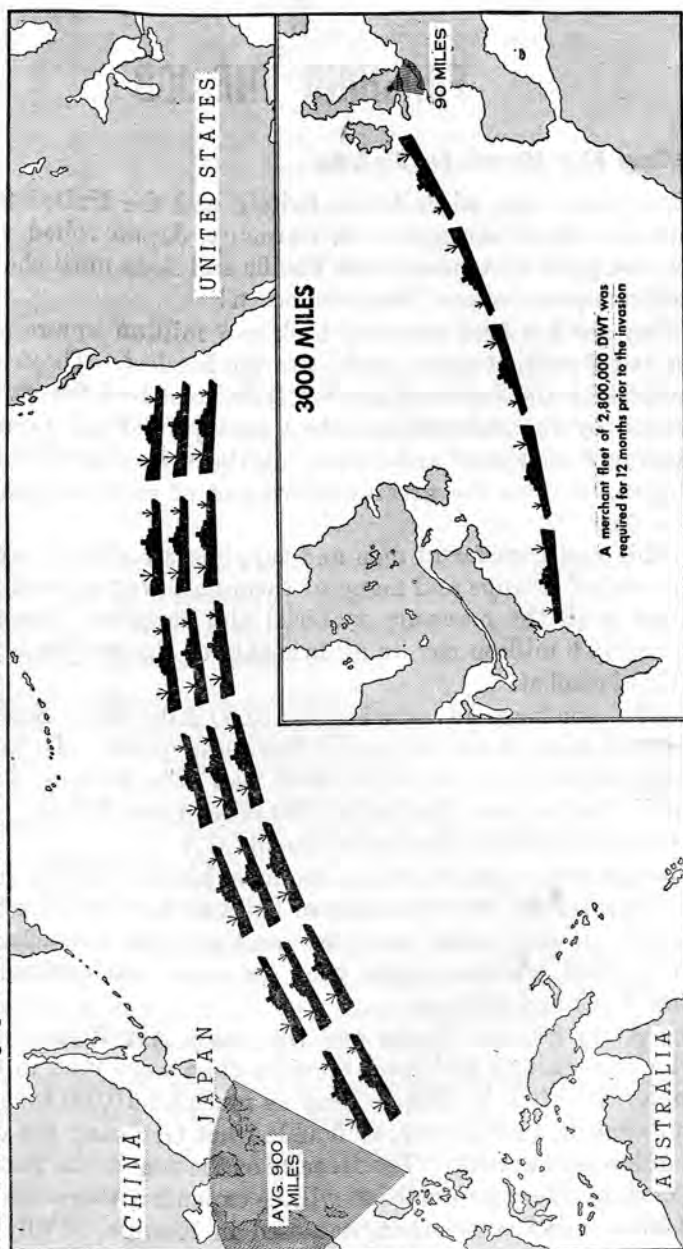
Manila, our large advance base, is 6,200 miles from San Francisco and 14,000 miles from the major European ports. To land on the European Continent, our main force had only to cross the English Channel; in contrast, Manila is 1,760 miles from Tokyo. (See map: The 6,000 Mile Bridge Across the Pacific . . .)

In waging war against Japan, we must build airfields, fuel depots, road and rail lines; we must clear or build harbors; we must construct power plants and power lines; we must provide barracks; we must build hospital facilities larger than the combined medical resources of New York and Chicago.

The Army Service Forces and the Army Air Forces will obtain heavier ammunition and bomb supplies than were used in the war in Europe. We shall be able to drop as much as 10,000 tons of bombs upon Japan in a single day, or double what Germany got during the days of heaviest assault. The ferocity of the war in the Pacific is such that more artillery ammunition will be expended there—as the battle for Okinawa indicates—than was used in Europe. Fully 3 million shells were fired in Okinawa. Some of the newer Japanese hide-out caves are built on two levels, and hence enormous firepower must be used to drive out or kill Japanese concealed in them.

THE 6,000 MILE BRIDGE ACROSS THE PACIFIC...

Requires several times as much shipping capacity, spanning twice as many miles, as the Bridge Across the Atlantic. And the average distance from the staging area to combat zones is ten times as great.



The Needs of the Armed Forces

Prior to the crossing of the Rhine, munitions production schedules called for total output of \$61 billion in 1945, about equal to the 1944 achievement. This total was distributed fairly evenly through the year. In a series of successive cuts, which began shortly before VE-day, the 1945 program was reduced to about \$50 billion. After a gradual decline in production during May and June, the schedules call for a faster drop, with production scheduled to stabilize in mid-1946 at a rate one-third below early 1945.

Combat operations by the Army Service Forces and Army Air Forces have been most directly affected by the end of European hostilities and they have cut their schedules accordingly. Planned procurement for the ground army (ASF) in 1945 has been reduced 30 percent since victory in Europe became imminent. Production in the quarter just begun will be 21 percent below the first quarter rate and continued declines will bring the drop to 33 percent by the middle of 1946.

Chiefly as a result of reductions throughout the Army Air Forces program, total procurement of aircraft and related equipment for Army and Navy in 1945 will be one-sixth below the plans based on two-front war. By the fourth quarter of this year, procurement under the Aircraft Resources Control Office, the agency responsible for programming this category of munitions, will be nearly down to the planned one-front war level—24 percent below the January–March rate. In December 1945, we shall be producing 4,800 planes—2,600 Army and 2,200 Navy—as compared with the 6,700 planes—4,600 Army and 2,100 Navy—last January.

The Navy

In 6 years, we have multiplied our Navy by 32 times. Today it has 46,130 ships, excluding smaller craft, more ships than there were in all the merchant fleets of the world in 1939. The Navy's stream of supplies is composed of over 5 million items, varying from barometers to floating dry docks.

To keep one tanker a day delivering fuel oil from the Netherlands West Indies to the Philippines requires 40 tankers en route, 40 tankers in return, and 20 tankers waiting to be loaded and unloaded.

Ships are being driven at a rate and under pressure that no fleet was ever driven before. Destroyers designed to be overhauled after 40,000 miles have been at sea for 250,000 miles. Ships normally under way 30 percent of the time have been under way 75 percent of the time. The problem of repair and maintenance thus becomes greater and more difficult.

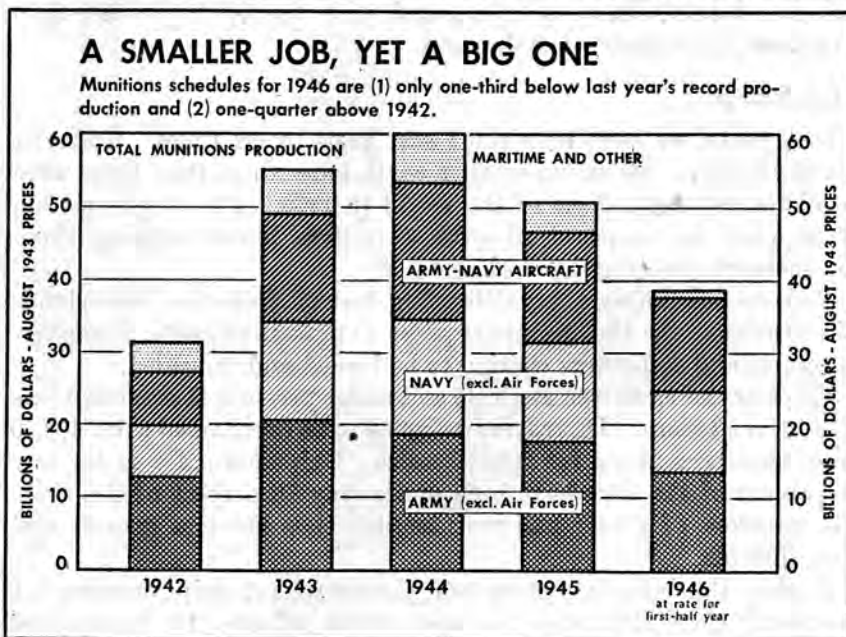
Neither the Navy program nor the merchant ship program of the Maritime Commission has been much affected by the end of

the European war. Navy production (excluding aircraft) is scheduled to continue the gradual taper planned before VE-day, declining only about 12 percent from the first to the fourth quarter of 1945 and falling another 10 percent in early 1946. One important component of the Navy program has a trend counter to the rest. Because of the Japanese suicide planes, and because our ships are operating closer to the Japanese mainland, ship maintenance and repair are rising fast.

Even before VE-day, the construction of merchant ships was slated to fall rapidly during 1945 and 1946. Dry-cargo vessels and tankers, available or scheduled for delivery soon, appear adequate to meet military and essential export requirements. Unless unforeseen difficulties develop in the Japanese war, the gigantic merchant ship-building program will cease entirely by mid-1946, after delivery of 55 million dead-weight tons of ships in 6 years.

Notwithstanding the declining contour of the munitions program, the production job is still big. Indeed, by the standard of any other nation of the world it would be impossible. A year from now, munitions production is still scheduled at a rate of nearly \$40 billion a year. That is nearly twice the estimated production of Germany at its peak. And it is far larger than the volume attained in this country in 1942—the year immediately after Pearl Harbor. (See chart: A Smaller Job, Yet a Big One.)

The Office of War Mobilization and Reconversion has made every effort to insure the translation of reduced military needs into reduced



requirements so that available resources may be released promptly for civilian production. I have frequently conferred on these matters with the Joint Chiefs of Staff and received their earnest cooperation. The Joint Production Survey Committee, designated by the Joint Chiefs of Staff, has rendered distinguished service in constantly reviewing all procurement programs. The Under Secretary of War has designated a special board to review all War Department programs in the light of the current military situation. In addition, of course, the services themselves maintain well-developed control procedures.

It is axiomatic that an army which does not have adequate supplies loses lives—and battles. Come what may, our armed forces have and will continue to have first claim upon the Nation's manpower, production, and resources. A declining volume of military procurement must not be confused with a declining urgency for military orders.

Problems of Supply and Production

There are four major classes of problems, which, if not effectively handled, could interfere with meeting of war production schedules:

1. Shortages of materials and components;
2. Labor shortages;
3. Technological problems: Production difficulties are an inevitable accompaniment of new products or design changes in old products, and it always takes time to get a newly-developed or newly-modified item up to the scheduled rate of output;
4. Changing military requirements: As long as the war goes on, battle experience will dictate sudden increases in requirements for some types of weapons or equipment at a time when requirements for other types are declining.

At the moment, there are a few top-urgency problems in munitions end-products. In radar and in jet engines, the big problems are primarily in design, but there are minor problems relating to the production of alloy metals. Basically, the problems of maintaining production at the rate required for the war against Japan lie primarily in the fields of manpower and specialized materials shortages.

Repairs for shipping are of top urgency. A ship out of action, until it rejoins the fleet is, for all practical purposes, a ship sunk. Battle damage during the first quarter of 1945 was substantial. At the present time, lack of shipyard labor is the principal cause for delay in returning battle-damaged ships to action.

Essentially, the tasks of the period ahead will be to assure priority for munition production, to prevent flight from war production, and to maintain a strategic margin for emergencies.

III HOW AND WHY OF RECONVERSION

The coming of VE-day did not change the American economic environment overnight, as many persons had erroneously expected.

The Army and Navy did not cancel contracts wholesale, plants did not shut down everywhere, mass unemployment did not develop, and store windows did not suddenly sprout new refrigerators and washing machines. So notwithstanding that VE-day occurred on May 8 and that some cut-backs had been instituted even before the German capitulation, curtailment in war production to date has been modest.

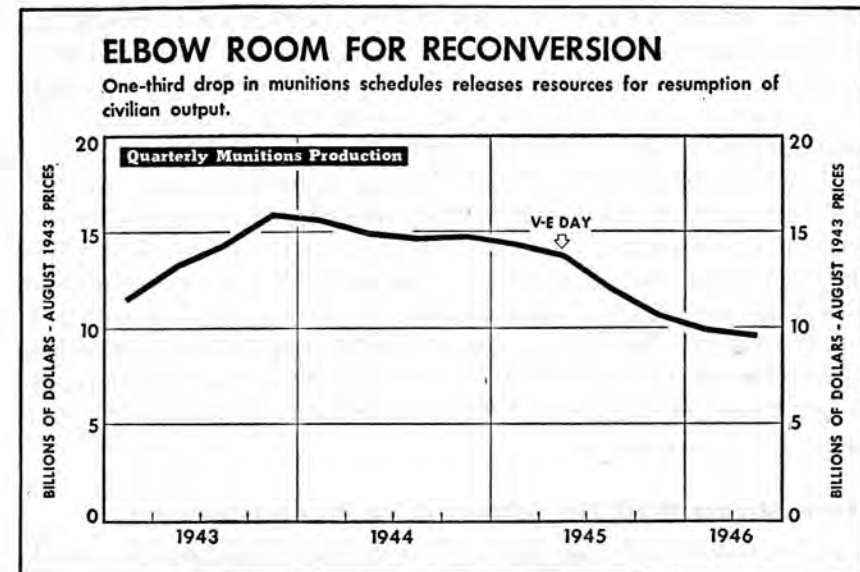
The reason for that is redeployment logistics. When tanks, heavy guns, engineers' supplies, and other equipment are moved from Europe to the Pacific, they first must be freighted to a European port of embarkation, then disassembled for shipping, then methodically loaded aboard ship so as to facilitate unloading, and then in many cases shipped back to the United States for reconditioning after which the freighting, disassembling, crating and loading process occurs all over again.

Drop Will Be Rapid

Such detailed operations are time consuming and explain why, in the early months of redeployment, most supplies have to go to the Pacific directly from U. S. factories. Once, however, European stocks begin to move in large volume to the Japanese front—once the pipeline is filled—the draft on the domestic production will decline rapidly. This is borne out by the official munitions schedules approved by the Joint Chiefs of Staff.

From now on, the drop in munitions schedules is rapid. In the 3 months since March (peak month of the year), munitions production dropped about 10 percent but for the current 3 months it will be down 20 percent from the March level and by the end of the year about one-third. As a result, productive capacity, materials and manpower will be released in virtually all durable goods industries right down the line through basic raw materials and components. This assures elbow room for reconversion. (See chart: Elbow Room for Reconversion.)

Unless insurmountable bottlenecks occur, it seems reasonable to expect that within the next 6 months the first automobiles, refrigerators, and washing machines will again appear on dealers' floors but



in such limited quantity that they won't stay there for long. But a year from now the rate of production of civilian hard goods—including both producers' and consumers' goods—probably will exceed the 1939 level, but will still be well below the 1941 high.

The process of resuming civilian output may be likened to getting the square pegs in the square holes and the round pegs in the round holes, applying to materials and machinery as well as manpower and management. Because it is a job of putting parts of the economy together in a series of successive adjustments, a perfectly synchronized change-over is too much to expect. The war production line that closes down today won't be set for civilian goods assembly tomorrow. Nor can each worker who gets his discharge slip from a gun factory on Thursday expect to have a new job in a refrigerator plant on Friday.

It will take time to unwind the complicated war production machine: to terminate contracts; acquire and build warehousing space for Government-owned inventories and equipment; clear plants; release production controls; rearrange tools, dies, and fixtures; shift the flow of materials and components from munitions industries to peacetime plants; reestablish sales offices and sales contacts; relocate workers, both geographically and industrially; take the necessary steps to establish the rights of returning veterans.

Size of the Job

The statistical magnitude of the task is imposing. Today the Federal Government is the biggest single customer in the greatest

national market in history. Out of total production of goods and services of more than \$200 billion the Government spends \$90 billion for war. But eventually most of that government buying will cease and private purchases by producers, wholesalers, retailers, and ultimate consumers must take up where the Government leaves off.

However, although Government buying amounts to nearly half of the total now, by no means will half the economy be disorganized when the Government curtails its expenditures. In the first place, the Government buys a great many items that are essential in peace as well as war: clothes, transportation, construction equipment, services of all kinds. Thus many of our industries which have been selling directly to the Army and Navy have kept in practice in their peacetime art; and workers in such plants may continue in the same plant under the same foreman.

How Many Will Be Affected by Reconversion

Furthermore, such occupations as farming, transportation, public utility work, printing and publishing, retail trade, mining, Government employment (except in war agencies) are not directly affected by physical reconversion. **If we are successful in maintaining a high volume of private production and consumption, most jobs should continue:**

Jobs Not Affected by Physical Reconversion

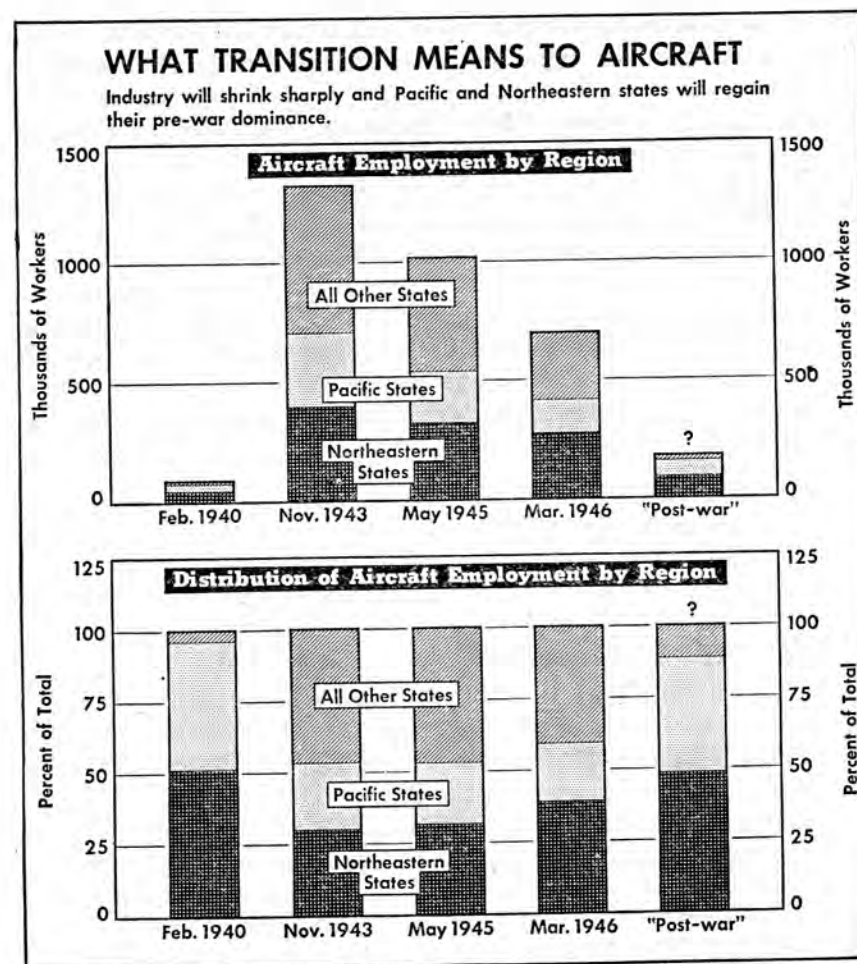
Agriculture.....	7,750,000
Transportation and utilities.....	3,800,000
Construction.....	600,000
Mining.....	800,000
Trade and service.....	11,400,000
Manufacturing:	
Iron and steel.....	800,000
Machinery.....	2,000,000
Other (mostly soft goods).....	7,700,000
Government (excluding war agencies, arsenals and navy yards).....	4,400,000
Miscellaneous.....	5,350,000
	44,600,000

Jobs Most Likely To Be Affected by Cutbacks

Aircraft.....	1,600,000
Ships.....	1,300,000
Ordnance and signal equipment.....	1,800,000
War chemicals.....	300,000
Federal war agencies.....	1,600,000
	6,600,000
Total employment.....	51,200,000

The size and the complexity of the problem of industrial reconversion should be neither exaggerated nor oversimplified. Manufacturers have cleared their plants before, they have tooled, retooled, and set up assembly lines many times.

When war contracts were originally let, it was the prime contractor who usually decided, on the basis of his knowledge of industry, where to place subcontracts, and his suppliers made the same decisions about their sources of supply. Now, as contracts are cut back, suppliers will also be cut back. This process gives some assurance of semiautomatic balance in the release of facilities. When the automobile company making tanks is released, it is likely that body builders, axle manufacturers, and so on will also be released. In other words, the very process of unwinding will be in accord with the general industrial pattern of the country.



Outstanding exceptions to this generalization are aircraft, shipbuilding, magnesium, aluminum, and other industries in which wartime expansion was enormous and conformed to no prewar industrial pattern. Aircraft illustrates the point. It is estimated that at most 10 percent of the existing airplane-building capacity and even a smaller portion of the new plants in the interior will be used to produce aircraft for peacetime markets. (See chart: What Transition Means to Aircraft.)

POLICY ON CONTROLS

The impacts of cut-backs will be decidedly uneven by industry and area. For example, shipyards engaged in ship repair for the Navy and plants making B-29 Superfortresses are certain to be kept busy longer than plants making products whose schedules go down sharply. Similarly, releases of steel, certain chemicals, and other materials will not be of the right types. Nor will released manpower be of the right skills in the right places to run the gamut of industrial requirements.

This is understandable. The cut-backs are determined by changes in Army-Navy requirements, not by what is best for reconversion. Therefore, though controls will be relaxed as promptly as possible, they cannot be relaxed all at once. As a broad policy, controls will be relaxed in advance of releases of manpower and materials in order to cut down the waiting period between a cut-back in war production and the start-up of civilian production. In this, the Government has a responsibility to make the best use of released resources in reconversion. To the extent that controls are useful to that end, the Government will exercise them. Within that frame of reference, controls will be retained where necessary:

1. To protect war production.
2. To promote the smooth flow of materials into civilian production.
3. To give small business equality of opportunity in the race for civilian markets.
4. To ward off inflation.

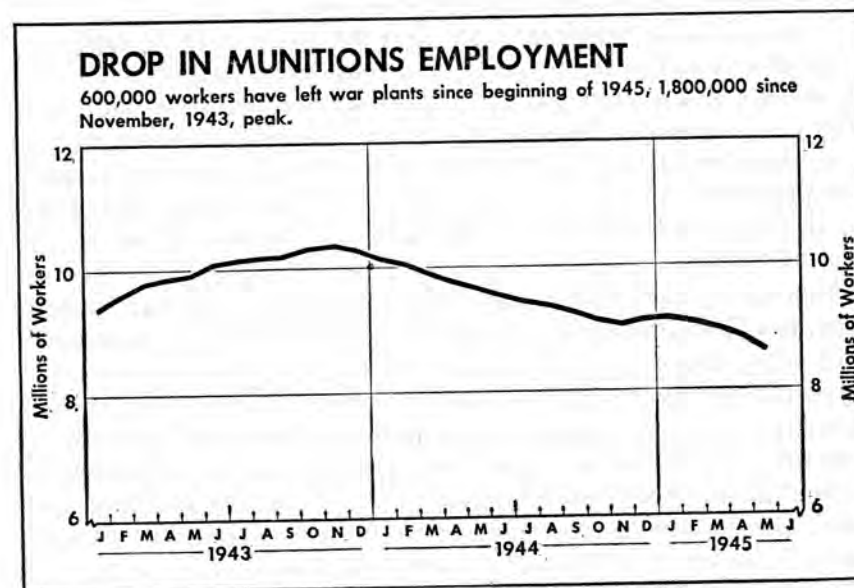
For example, the War Production Board will retain its triple A rating and its Industry Divisions to break major bottlenecks and expedite production and reemployment. If a whole industry is tied up because it cannot get a key part, the War Production Board will try to free capacity, or schedule distribution or issue a priority so as to break the bottleneck; or if a plant is unable to get moving because it lacks a small quantity of materials, again special measures may be taken to prevent unnecessary hardship. For another example, the Office of Price Administration has carefully worked out a price for-

mula on reconversion goods (automobiles, refrigerators, etc.) which will expedite the resumption of civilian production and at the same time will guard against runaway price advances.

Too Much May Mean Too Little

However, during reconversion most industries and plants will have to face hard-to-solve problems that only they, themselves, can solve through their own initiative, imagination and resourcefulness. Although the war agencies intend to give assistance to industry, labor, and geographical areas in which there is acute distress, the main reliance will be on management, workers and local organizations to overcome their particular problems.

The Federal Government does not have the personnel nor the experience to do detailed planning for individual businesses or communities. Moreover, I am sure that neither labor, management, nor local groups want such minute direction from Washington for the country as a whole—though I fear that in particular instances, when local difficulties seem especially severe, there will be protests that “this case is an exception.” We must be especially careful lest the exception become the rule, lest we try to expedite so much that we expedite too little, lest we have a repetition of the priorities inflation of 1942, when the Office of Production Management (predecessor to the War Production Board) tried to help everybody and dissipated its energies in diffusion.



MANPOWER IN RECONVERSION

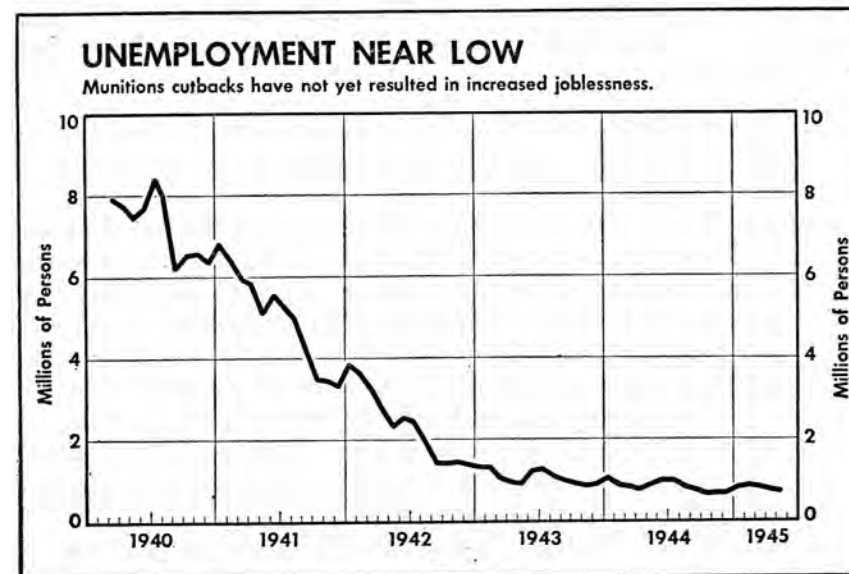
As recently as 3 months ago, manpower was a basic war production bottleneck; 75 war production centers were classified as tight and several critical Army and Navy programs such as heavy ammunition, radar, rockets were running behind schedule because of shortage in skilled and unskilled labor. Today 63 areas are still tight and such industries as ship repair, lumber and textiles cannot reach maximum proportions because of labor scarcity. Yet manpower can no longer be called a basic bottleneck.

As the result of cutbacks in munitions schedules, 500,000 workers have been released from war plants in the 3 months ended May 31, and the rate of lay-offs is accelerating. (See chart: Drop in Munitions Employment.) The impact has been uneven, and in such war production areas as Detroit, Buffalo, and San Francisco workers have lost jobs faster than they have been able to find them. Such local unemployment has given rise to fears of more general unemployment.

However, the declines in munitions employment have not been accompanied by increases in total unemployment. (See chart: Unemployment Near Low.) Unemployment compensation claims are just beginning to increase noticeably. During the war, many industries have been starved for workers—laundries, restaurants, bus lines, railroads, public utilities, retail trade, and so on, and they have been absorbing workers. True, the jobs offered are not always of the same character or at the same rate of pay as munitions work. Nevertheless, it is fair to say that at the moment the laid-off munitions worker does not lack, as a general rule, job opportunities.

Unquestionably, however, in the near future decreases in munitions employment will be accompanied by increases in unemployment. The immediate absorptive capacity of labor-starved industries is limited. The reconversion of industry will tend to lag behind the cutbacks in munitions production, due to the time involved in rearranging plant for peacetime operations. And those jobs which open up may not be in the right locality or of the right type or rate of pay for the laid-off workers.

Inevitably, there will be some distressed areas. Six months from now, the War Manpower Commission estimates that 10 communities will suffer from acute unemployment, largely because reconversion opportunities for closed-down plants in these communities are few. The areas are comparatively small, however, involving less than one percent of the industrial population. (Specific measures to meet this type of situation will be mentioned later.) Generally speaking, however, the supply-demand position in labor will continue in tight balance—as civilian production resumes on an expanding scale. The War Manpower Commission anticipates that 6 months from now



some 29 areas, involving 6 percent of the industrial population, will still be short workers for war production.

War Manpower Commission's Decontrol Program

The War Manpower Commission decontrol program must take these problem areas into account. Therefore, the War Manpower Commission will retain authority to exercise its four basic controls over the hiring and release of workers by (1) putting ceilings on the number of workers in individual plants; (2) giving certain plants priorities in labor referral and directing workers to the plants whose production is most urgent, (3) requiring workers to get statements of availability in shifting from one war job to another, and (4) maintenance of the 48-hour week in certain industries or areas.

Since shifts in war schedules will affect different areas differently and since there are wide variations in the looseness and tightness of areas to begin with, the authority to relax controls is being vested in the area and regional directors, based on criteria set forth in Washington and subject to central review. This is in keeping with the War Manpower Commission policy of decentralizing whenever possible.

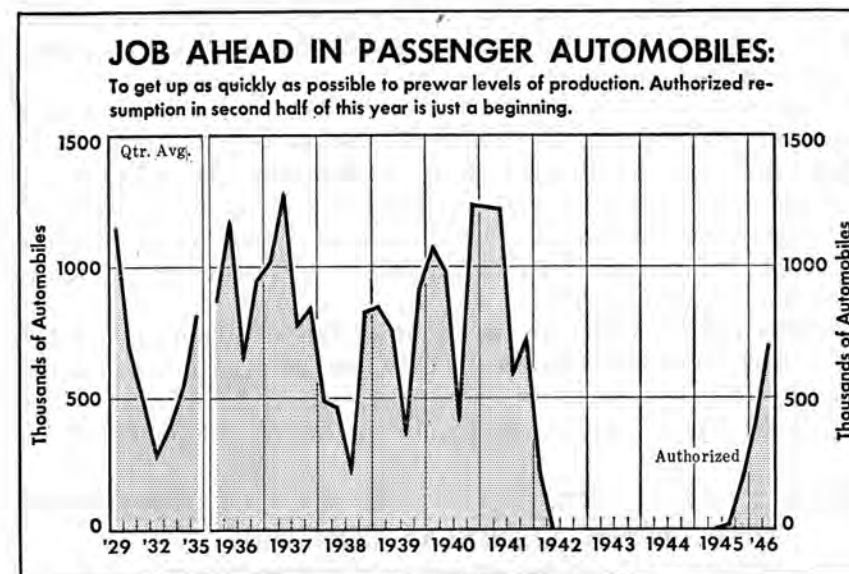
WAR PRODUCTION BOARD CONTROLS

The War Production Board has been gradually removing its controls so as to anticipate releases of manpower, materials, and machinery from war production. Already about 200 out of some 650 orders and schedules have been revoked, and many of the remaining have been simplified. At the same time, operation of the Controlled Materials Plan has been relaxed to permit open market purchases of aluminum

and brass mill products after priority orders have been filled. Beginning this month, the same procedure will apply to steel. The policy of the War Production Board is as follows:

1. War Production Board's primary goal continues to be the fulfillment of war production requirements for a speedy victory in the Pacific.
2. The War Production Board will also assure the maintenance of a sound war-supporting economy. Wherever possible, this should be done without special Government assistance. To the extent and time necessary the War Production Board will grant general priorities assistance to directly war-supporting activities and to production of essential civilian items in such short supply as to endanger the war-supporting economy. When generalized assistance has been eliminated, the Board will continue to assist such requirements, where necessary, through emergency spot assistance.
3. The War Production Board, working with the procurement services, will so guide the distribution of procurement cutbacks and new contracts as to spread the load equitably over the Nation and to avoid, where possible, the creation of areas of particularly acute local unemployment.
4. The War Production Board will facilitate rapid reconversion to peace-time production through prompt removal of restrictions which are no longer necessary, and, where required, through limited preferential assistance for production and acquisition of machine tools and other capital equipment, for bottleneck construction, and for components necessary in reconversion. The automobile industry, as a major employer of labor, is particularly important in this regard. (See chart: The Job Ahead in Passenger Automobiles.)
5. As long as resources are inadequate to permit unlimited construction, War Production Board will favor the most urgently needed nonwar projects, especially those contributing to large-scale future employment.
6. The War Production Board will seek to provide a fair opportunity for small manufacturers, for veterans, and for new producers, and will discourage the preemption or hoarding of scarce resources.
7. Consistent with these objectives, the War Production Board will simplify and eliminate controls as quickly as possible.

It is expected that by the first of next year the Controlled Materials Plan can be completely eliminated and that all urgent production can be kept on schedule by means of a simplified priorities system, with top priority given to military programs and, if necessary, a secondary



priority to the most urgent war-supporting products. WPB will continue to use its Industry Divisions and emergency ratings to relieve hardships and break important bottlenecks.

The number of limitation, conservation, and scheduling orders remaining in effect after January 1, 1946, will be drastically reduced and will probably not exceed 300. The rate at which construction activity can be accelerated will depend on the availability of lumber which is presently in extremely short supply, but it is anticipated that declining military requirements and increased manpower in the lumber industry will permit a considerable relaxation in lumber controls. It is not certain that all lumber and construction restrictions can be eliminated by the end of this year.

Many major industries will be reconverted by January 1, and the pipe lines of civilian items will be gradually filling sufficiently to permit a small flow to reach the hands of consumers, but full-scale production of such items as automobiles and refrigerators will not be reached before the latter part of 1946 and possibly not then if Japan has not been defeated.

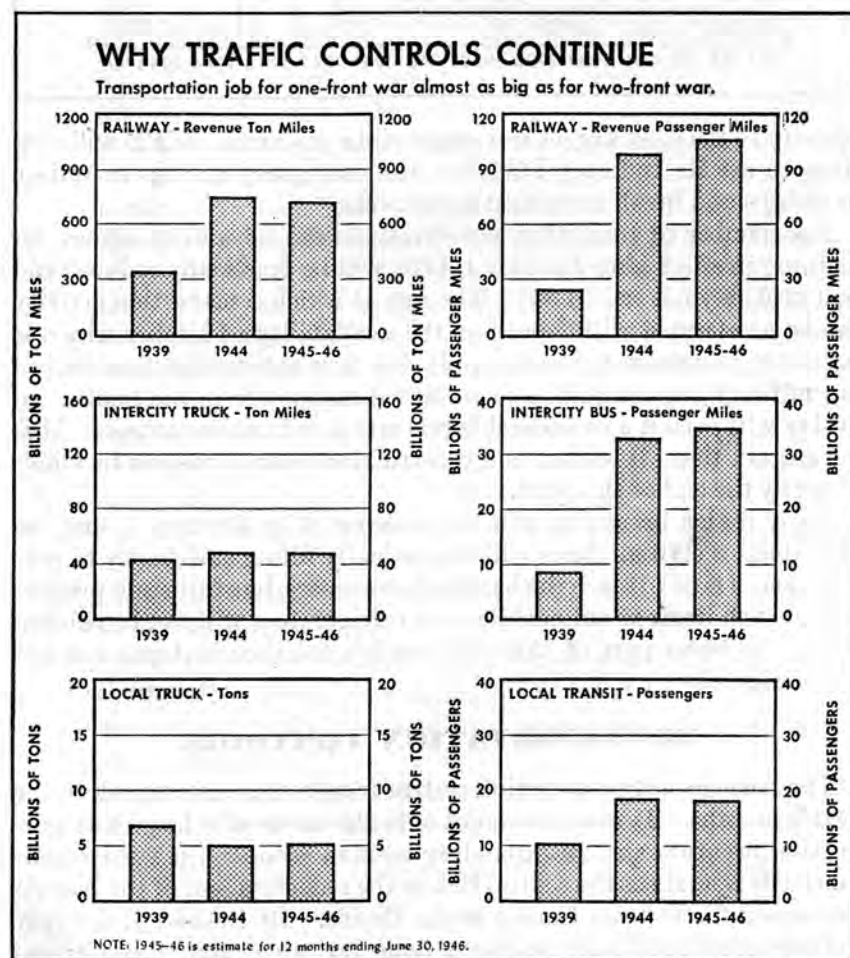
TRANSPORTATION CONTROLS

The American transportation system faces a tremendous task in the next 6 months. It must serve not only the needs of a large war production program and an expanding civilian economy, it must simultaneously operate as the central link in the redeployment of the American armed forces from Europe to the Pacific. By the end of the year military travel will have reached a point far higher than the previous

peak in early 1943. (See chart: Why Traffic Controls Continue.) Discomfort and inconvenience in domestic travel will persist until the war with Japan is over.

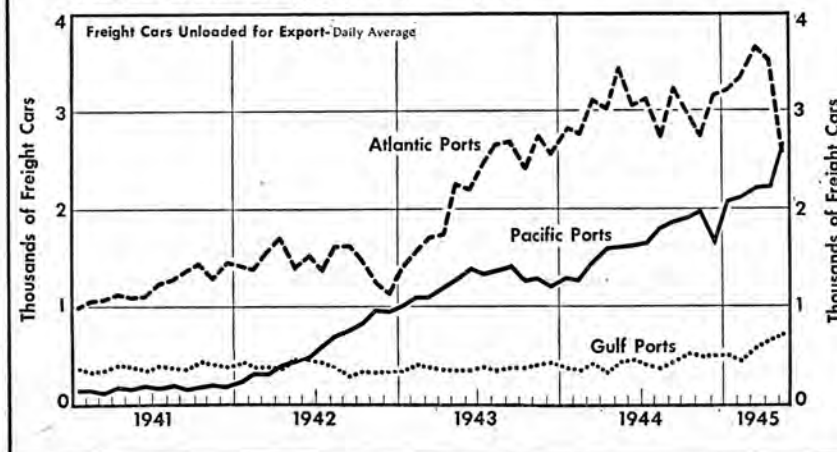
It is estimated that the railroads will have to carry 724 billion ton-miles of freight in the forthcoming year—only 3 percent below 1944, peak year in railroad history. In addition, the redeployment and training of troops, liberal furloughs and relocation of labor during the reconversion period added to essential civilian travel, will push passenger traffic up to 107 billion passenger-miles—10 percent above the record created in 1944.

Western roads will bear the brunt of the redeployment burden. (See chart: Shift to the Pacific.) There are few pipe lines and waterways in the west-coast areas. Therefore, railway facilities must haul petroleum products far beyond planned capacity. The western lines,



SHIFT TO THE PACIFIC

Prompt redeployment of troops and equipment is reflected in rise in freight cars unloaded on West Coast, decline at Atlantic ports.



unlike the eastern networks, are fairly widely dispersed and in many instances single-track.

State of Equipment

Despite increased deliveries of cars and motive power, railroad-carrying capacity is not likely to increase. Wear and tear and obsolescence are removing equipment from the rails at a rate almost equal to present replacement.

Increased availability of busses, motortrucks, tires, and gasoline in the latter months of 1945 should materially lighten the present maintenance problems in the highway transport field, and should provide from 5 to 10 percent more capacity in bus transportation. This will alleviate the passenger load of the railroads to some extent.

Relaxation of Controls

In the face of this transport task, it would be a fallacy for the public to think that normal traveling practices can be resumed any time in the next 6 to 12 months. Bans on conventions must continue. Further, the public is expected to refrain from unnecessary travel. This applies to attendance at races. The lifting of the ban on horse racing does not lift the ban on the use of special trains nor does it condone use of overtaxed transportation facilities to race tracks.

Many controls on freight traffic will have to remain up to VJ-day and even beyond, such as full loading of freight cars for carload freight, minimum loading of 10 tons per car for less than carload freight, and the loading of refrigerator cars on return trips with ordinary merchandise instead of sending them empty.

Other railroad controls such as direction of the movement of tank cars, port control, and additional scheduling of trains will be removed by the Office of Defense Transportation as soon as conditions warrant. Present restrictions on the trucking industry will be lifted as soon as production of tires and trucks reaches a point that will permit all commercial operators to rehabilitate their fleets.

FUEL CONTROLS

Petroleum Products

Military requirements for petroleum products for the war against Japan are almost as great as the requirements for the two-front war. The intensification of naval warfare and the ocean-borne transportation of troops and equipment over vast distances do not permit any great increase in allowances for civilians.

Increased use of shipping in the Pacific war has shifted the type of requirement from gasoline to fuel oil. As a result, fuel oil available for civilians for the 1945-46 heating season is not likely to be any greater than during the previous season.

Gasoline allowances have been increased slightly. The value of A coupons has been raised 50 percent and the B mileage ceiling has been lifted to 650 miles throughout the country—from 325 miles in the East, 400 miles on the Pacific coast, and 475 miles elsewhere. Gasoline deliveries for civilian consumption last year amounted to 478 million barrels while military and export requirements amounted to 259 million barrels. In 1941, civilian consumption was 649 million barrels, while military and export demand amounted to 46 million barrels.

Only further reductions in military and export requirements or an increase in the supply of petroleum products from foreign sources for military use will permit modification of present rationing controls on fuel oil or gasoline.

Coal and Coke

In view of the heavy requirements attending the war with Japan and the lack of manpower for producing and distributing fuel on an adequate basis, coal and coke may be seriously short next winter. The Solid Fuels Administrator for War has found it necessary to limit deliveries of eastern soft coal, most sizes of anthracite and byproduct coke for domestic use to not over 80 percent of a normal supply next winter.

These quotas reflect a severe reduction but they will be sufficient to keep the public healthy. No increase in the quota appears possible at this time without depriving industry of coal needed for war production and reconversion to the manufacture of civilian goods.

IV

TO SPEED THE SWITCHOVER AND CUSHION THE SHOCK

The Government's responsibility in reconversion goes beyond the relaxation, simplification, and elimination of wartime controls. The Government must use its administrative powers to create conditions which will enable industry to resume civilian production as rapidly as possible.

Inevitably, when the demands of the Army and Navy drop sharply, there will be some unemployment, business losses, and hardship. Such dislocations are unavoidable during the change-over—as plants shift out of war production, as workers are discharged from war jobs, as a plant in a particularly war-swollen community closes down altogether and the community has to deflate itself to postwar dimensions.

In the switchover, the Government cannot undertake to see that every plant stays in business, that every worker immediately finds a suitable job, that every company under all circumstances gets financial help; nevertheless, it can undertake specific measures to facilitate reconversion and reemployment and to cushion the shocks. These measures take two forms:

1. **Direct aids to business.**—Through distributing cut-backs evenly, settling contracts promptly, clearing plants, establishing flexible reconversion price and wage policies, disposing of surpluses and readjusting taxes and, as noted earlier, through accelerating retooling of plants and breaking bottlenecks.
2. **Direct aids to individuals.**—Through unemployment compensation, readjustment allowances to veterans, and reemployment, retraining, and vocational guidance to war workers and veterans.

Many Government agencies share the responsibility of facilitating reconversion—the War Production Board, Office of Contract Settlement, Surplus Property Board, Office of Price Administration, War Labor Board, War Manpower Commission, Retraining and Reemployment Administration, Veterans' Administration. The Congress also has a major responsibility in providing additional legislation.

DIRECT AIDS TO BUSINESS

Cut-Back Distribution

The first hurdle in adjusting to a one-front munitions program was cleared in good style. Prior to VE-day, it had been feared that the volume of VE-day cut-backs by the Army and Army Air Forces would swamp the War Production Board's Production Readjustment Committee and force the committee to halt its review of the proposals. But the terminations came through more gradually than expected and PRC was able to analyze the proposed cut-backs and fulfill its responsibility. For example, during the week between June 2 and 9, PRC reviewed cut-back proposals involving \$1.2 billion, shifting cut-backs among plants so as to avert unnecessary geographical and industrial dislocations, yet at the same time assure that remaining war production requirements would be met on schedule.

Contract Settlement

Contract cancellations have risen from \$700 million a month in the forepart of the year to \$5.1 billion in the month of May. But the impact on the machinery of contract settlement is yet to be felt. Terminations generally do not take effect immediately—there is a "run-out" period; further, filing of claims by contractors takes several months.

The contracting agencies are confident of their ability to meet the big load of settlements expected in the next several months. Regulations have been spelled out and procedures have been streamlined. Preparations have been made to develop agency staffs as rapidly as necessary. Similarly, contractors have been building up staffs to prepare settlement statements and conduct negotiations promptly.

To speed up settlements with subcontractors, the Office of Contract Settlement has worked out an agreement whereby all contractors have been authorized to settle claims up to \$1,000 when the subcontractor retains or disposes of all inventories. In addition, about 3,000 contractors have been specifically authorized to make final settlement of subcontractors' claims up to \$10,000. Furthermore, under the consolidated termination program company-wide settlements will be made with about 50 large companies who have many Government agencies as customers; in such cases one agency—such as the Army or the Navy—would undertake to settle for all agencies involved. Direct company-wide settlements also will be made with a limited number of large subcontractors each of whom has a large number of sub-subcontractors. Also pre-termination—the technique of advance settlement—has become increasingly useful.

Difficulties with cost-plus-a-fixed-fee contracts persist and their rate of settlement remains appreciably lower than that of fixed-price con-

tracts. Although the procurement agencies have statutory authority to make final settlements, they prefer to do so under a procedure which permits them to ascertain the General Accounting Office's position on claims previously paid but not yet reviewed by GAO. Experience will indicate whether the procedure is effective.

Plant Clearance

The problem of removing Government-owned property from contractors' plants in order to permit civilian production to go forward has not yet become serious. To date, the volume of property to be removed has been small and clearance prompt. For example, the War Department has been receiving about 3,400 requests a month to remove termination inventories from contractors' plants. At the end of May there were only 57 such requests outstanding which had not been handled within 60 days as required by the Contract Settlement Act.

The inter-agency Space Control Committee and the Reconstruction Finance Corporation have made progress in their continuing job of allocating, acquiring, and constructing storage space. However, as more and more contracts are settled, the amount of property to be moved will mount. The rate at which plants can be cleared depends upon the amount of storage space available and the rate of disposal of surpluses. If disposal is rapid, space is continuously opening up; if slow, surpluses accumulate in storage and consequently in plants.

Two regulations of the Surplus Property Board make it easier for contractors to buy Government-owned equipment and inventories, and are discussed in the Surpluses chapter. They will reduce the volume of property to be cleared from plants and hence the volume of storage space that will be needed.

Reconversion Prices

The fundamental characteristic of the Office of Price Administration reconversion pricing formula is that it is flexible. It is designed to prevent a runaway rise in the prices of automobiles, refrigerators, washing machines, and other consumer durable goods. Simultaneously, however, the formula permits rapid decision, so that haggling over prices and profits will not delay the resumption of civilian production and reemployment of released servicemen and war workers.

The problem in pricing goods coming back on the market is clear. Production costs have changed since automobiles, refrigerators, and other hard goods were last manufactured on a mass-scale basis. Wages have increased generally; so have the cost of raw materials and components; on the other hand, new production techniques have been developed, workers are better trained, management know-how

is improved, and new machinery has been installed. It is not clear whether increased productivity will offset the advance in wage and materials costs.

Under those circumstances, a pricing formula must be applicable to a wide variety of cases. Our basic objective is to hold retail prices at 1942 levels. The Office of Price Administration formula affords manufacturers a choice of pricing procedures and leaves room for exceptions:

First, the manufacturer may use his 1942 ceiling prices.

Second, if the 1942 price schedule doesn't seem likely to offer a satisfactory profit to an industry, the Office of Price Administration will work out what is called an "increase factor" which each manufacturer can apply to his 1941 prices. This factor is obtained by taking 1941 industry-wide costs and adding (a) lawful price advances in materials and components; (b) advances in basic wage rates, and (c) the industry-wide profit margin in 1936-39 or some other appropriate period.

Third, the Office of Price Administration will make adjustments for special cases and for new firms on request.

Small business and producers of new models will be permitted to compute their own ceilings by formula—subject to later review. As much of the work as possible will be delegated to the Office of Price Administration's field offices. The whole objective has been to attain administrative flexibility, avoid hardship, and accelerate reconversion and reemployment. The Office of Price Administration is now trying to work out another formula whereby wholesalers and retailers will be able to absorb manufacturers' increases so that prices to consumers may be held at 1942 levels.

Reconversion Wage Adjustments

When a war plant converts to civilian production, wage rates will have to be established for types of jobs which have not existed for many years. The tank factory which begins automobile production will hire upholsterers and it will need wage rates for them. Or the company using precision workers on airplane propellers may have to set a new wage scale if they shift to less exacting peacetime operations. The War Labor Board has established a procedure to permit the wage rates on resumed civilian production to be determined without delay and without either raising or lowering the general level of wages. Jobs which are the same before and after reconversion will continue to carry the same wage rate. Collective bargaining will establish wage rates for new or changed jobs in relation to the continuing rates on the continuing jobs—that is, collective bar-

gaining will determine the differentials. When a plant changes the nature of its operations radically there may not be enough carry-over jobs to serve as reference-points for a whole wage structure. In such cases prevailing rates in the area will serve as the standard.

Wage schedules determined in this manner must be reviewed by the War Labor Board for consistency with the Economic Stabilization Act, but reconversion need not be held up pending the outcome of this review. Workers and management may proceed under the wage schedules they have reached and the War Labor Board, if it makes changes, will not make them retroactive.

Reconversion Tax Assistance

We cannot afford a general tax revision at this time any more than we can afford a general elimination of price ceilings. But in taxation, as in pricing, revisions have been developed to stimulate reconversion within the framework of the stabilization program. The Congressional Joint Committee on Internal Revenue Taxation and the Treasury have proposed these specific changes:

1. Advance the payment of refunds to which the corporate taxpayer is entitled under existing laws, in order to provide businesses with additional working capital now.
2. Raise the specific excess-profits tax exemption from \$10,000 to \$25,000 beginning in 1946 to encourage new and small businesses.

I endorse, as did my predecessor, the immediate adoption of these proposals as reconversion aids.

DIRECT AIDS TO INDIVIDUALS

We can minimize the dislocations in peoples' lives most effectively by providing an abundance of jobs. If jobs are found promptly, people will readjust promptly. It is only when a man can't find a job, when he feels economically unwanted, that readjustment becomes an acute and often a psychological problem. That is why it is so urgent to do everything possible to speed the reconversion process.

Regardless of how smoothly we manage the transition, some workers are going to be in the wrong places for jobs; and some plants won't be able to start up because equipment or materials do not arrive or tooling-up takes long. Result: Some unemployment. Furthermore, soldiers, sailors, and marines will be returning from overseas. They will want to get back into a normal peacetime life; they will be looking for jobs; and they will require vocational guidance and perhaps retraining.

Location of Jobs

One of the most important Government functions during this period—when the demand for labor will be high but uneven—will be to provide job-seekers with up-to-date information of what kind of help is needed and where. This is primarily a task for the United States Unemployment Service. During the war the USES recruited more than 2 million persons for war jobs away from their home towns. Reconversion will bring a reversal of that process. Through its 1,500 offices, the USES has built up Nation-wide contacts with employers, labor unions, and individual workers. Employers in tight labor markets will be advised where labor is available; similarly workers in distress areas will be told where out-of-town jobs still can be found. And, of course, the USES will continue intra-area job-placement.

The success of the USES operation depends largely on adequate funds and efficient administration. The continuance of the USES on a national basis is as necessary in the preparation for peace as it was in the mobilization for war.

Assistance to Veterans

We have a special responsibility to the millions of veterans who will return looking for jobs. Therefore the Congress quite properly has made special provisions for them.

In addition to job-placement guidance from the United States Employment Service, the veteran can get help from his local Selective Service board, Veterans' Administration offices, and 950 community information centers sponsored by the Retraining and Reemployment Administration. At these various offices, the veteran will be apprised of his rights under the GI bill, the Selective Service Act, and other laws, and will be assisted in realizing them. The Army has established separation centers where specially trained personnel help to orient discharged soldiers.

Various types of financial assistance have been provided to help the veteran in his readjustment:

1. Mustering out pay up to \$300.
2. Unemployment allowances of \$20 a week for a minimum of 24 and a maximum of 52 weeks. About 120,000 veterans (about 1 out of every 16 returned to date) have received readjustment allowances and about 35,000 unemployed veterans are now receiving such allowances. But these allowances are not adequate for the difficult period ahead. I urge Congress to raise the amount to \$25 for veterans without dependents and to \$30 to veterans with dependents. Also the payments should be for a minimum of 26 weeks regardless of length of service.

3. The Veterans' Administration will guarantee the first \$2,000 of loans to purchase a home, farm, or business; about 15,000 loans have been made to date. The loans are made by private banks or other lending institutions and terms of repayment are agreed to by borrower and lender.
4. Under the GI bill educational grants will be made to veterans who wish to return to school. About 25,000 veterans have taken such grants; the number may reach 300,000 one year after VE-day.

Additional provisions have been made for veterans with service-connected disabilities:

1. Such veterans are entitled to vocational rehabilitation to help them train for jobs; about 15,000 are now in rehabilitation courses.
2. Pensions are now being paid to about 541,000 veterans of World War II or their survivors. By June 1946, the number of pensions will have risen to over 1 million.
3. About 70,000 veterans are in veterans' hospitals—20,000 as the result of this war. Construction is being rushed to increase the number of beds in hospitals from 93,000 to 126,000. This will meet needs through 1946; further expansion will be necessary.

One important piece of business remains unfinished. We should not enter the reconversion period with uncertainties surrounding the re-employment rights of veterans. The provisions of the Selective Training and Service Act leave a number of questions unanswered. A committee appointed by General Hines has been studying these questions but has not yet reported. Legislation clarifying the terms of the statute may be necessary.

Unemployment Compensation for Civilians

The existing unemployment compensation system is not adequate to meet the needs of the reconversion period. Weekly payments, particularly for those workers with dependents, are not sufficient to prevent drastic declines in living standards. The duration of payments in many States is so short that many workers will exhaust their benefits before they find another job.

Finally, large groups are excluded from the program—agricultural workers, domestic servants, Federal employees (including workers in Government arsenals), employees of small firms, and others.

President Truman in his message of May 26 proposed that the Federal Government supplement payments under the State laws so

that (1) the weekly payments can run as high as \$25 a week and (2) payments continue for 26 weeks duration and (3) that the coverage be extended to a wider segment of the population.

I cannot emphasize too strongly that if we are to meet the human needs of reconversion the Congress must make necessary provisions. An adequate unemployment compensation law is our number one legislative requirement for reconversion.

V

SURPLUSES

Purchases of the Army, Navy, Maritime Commission, and other agencies since 1940 already exceed \$200,000,000,000. Before hostilities cease additional billions will have been purchased. Inevitably there will be large surpluses—of weapons, raw materials, ships, plants, and many civilian-type goods such as shoes, clothing, furniture, trucks, and communication equipment.

How and when these surpluses are disposed of bears directly on the speed and orderliness with which the United States reconverts and will have lasting effects on important segments of the domestic economy.

The Congress deliberated for an extended period on the development of surplus-disposal organization and policies. Those deliberations will pay dividends in the long run. Out of them came a set of broad principles to guide the Surplus Property Board. Those principles are:

- To dispose of surpluses promptly at a fair price and as far as possible through normal trade channels, and assure fair prices to the consumer.

- To prevent the creation of monopolies, encourage the development of free competitive enterprise and small business, and stimulate production and employment.

- To foster mutually advantageous economic relations between the United States and foreign countries by the orderly disposition of surplus property abroad.

During the year ended May 31, 1945, property which cost \$1,936,000,000 has been declared surplus. It consists of contract termination inventories, plants no longer needed in war production and obsolete war supplies.

Of this \$1,936,000,000, fully \$1,224,000,000 is aircraft, of which \$70 million has been sold for \$17 million; the rest of this aircraft is largely unsalable.

Some \$287 million of all other property has been sold for \$179 million, or an average price of 62 cents on the dollar.

The amount of generally salable property still on hand (June 1), excluding aircraft, is about \$511 million at cost.

Over the past few months, surplus disposals have increased. But declarations—as might be expected at this stage—still exceed disposals.

Surplus declarations and sales to date are only a modest indication of the volume to come. The shift from a two-front to a one-front war will accelerate the movement of supplies into surplus. Despite present efforts to accelerate operations, the bulk of declarations—and hence the main problem of disposal—must be deferred until after the defeat of Japan.

Because there is no way of knowing how much of our purchases will finally be needed by the services, and because goods are distributed throughout the world—in Army and Navy depots, in camps, in bases overseas, and in stores with commanders in the field—reliable figures on eventual surpluses are not to be had. However, the Department of Commerce recently made an estimate which helps to provide some perspective; yet the fact that it is only an estimate must be underscored.

Approximately \$90 billion of our war production, exclusive of construction and industrial equipment, is estimated to be in existence at the present time. Of this total, \$65 billion is in guns, tanks, planes, warships, ammunition and other combat items which are not generally useable by civilians, and about \$25 billion is in civilian-type goods such as trucks, tractors, communication equipment, merchant ships, food, clothing, and housing.

Civilian-Type Goods

After allowing for what will probably be consumed or remain overseas and for what has no direct civilian use, it is suggested that some \$10 billion of civilian-type goods (exclusive of construction and merchant ships) will remain to be disposed of in the domestic market. The total is roughly equivalent to 3 or 4 months' expenditures by consumers at the 1944 rate, but will vary widely by types. There might be only 1 month's supply of some items, many years' supply of others.

Industrial Facilities

Plant disposal is perhaps the most complex of all surplus problems. The Government has invested approximately \$16 billion to expand our industrial facilities and now owns about one-fifth of the Nation's manufacturing capacity. This includes almost all magnesium, aircraft, and synthetic-rubber capacity, and a large portion of steel, chemical, machine-tool, aluminum, and shipbuilding facilities.

Not all of this \$16 billion of plant is disposable. About \$6 billion is in facilities probably useful only for war production—smokeless powder and ammunition-loading plants, for example. But the remaining \$10 billion could be (1) used directly in peacetime output (steel, chemical, rubber, machine-tool plants); or (2) converted to

peacetime activity after some alteration (aircraft, tank, gun-machining plants, etc.).

The rapidity with which plants are put to use will have an important bearing on reconversion and postwar employment. Idle plants do not provide jobs. Moreover, the policies followed can have striking effects on the Nation's economic structure. What happens to airframe, steel, and nonferrous metal plants will affect the economy of the Pacific coast; how the Government disposes of aluminum properties will have an influence on the dominant position held by Aluminum Co. of America; what is done with mammoth plants such as Geneva Steel, Provo, Utah (cost \$200 million), Basic Magnesium, Las Vegas, Nev. (\$135 million), and the Chrysler aircraft-engine plant, Chicago, Ill. (\$180 million), will affect the concentration of industry.

Merchant Ships

During the war, the United States built up its merchant-ship tonnage and now has the largest merchant marine in the world. Other countries, such as France, Norway, England, and the Netherlands, lost tonnage. This has major implications for this country's international trade position and international relations.

Congress now has under consideration special legislation to regulate the disposal of our potential large surplus of merchant ships after the war. This legislation should give full weight to the desirability of helping our allies to participate in world trade and world shipping while they are rebuilding their merchant marine.

Disposal Agencies

The Surplus Property Board which was set up last January to succeed the Surplus War Property Administration, has been rapidly building up personnel and procedures to cope with the problems it will face. Over the past 3 months, it has issued a dozen special orders and nine major regulations establishing basic operating procedures. The Board lays down broad policies, delegates actual disposal to other agencies, and supervises their progress.

For property in continental United States, the disposal agencies are: the Department of Commerce (consumer goods), Reconstruction Finance Corporation (aircraft, plants, capital, and producers' goods), Maritime Commission (ships and maritime property), War Food Administration (agricultural commodities and food), National Housing Agency (housing).

Recently, responsibility for the disposal of consumer goods was transferred from the Treasury Department to the Department of Commerce. In addition, the Office of the Army-Navy Liquidation

Commissioner was created; this Office has been delegated authority to dispose of all goods in foreign countries except merchant ships.

Other Surplus Property Board regulations provide for:

Granting of priorities to Government agencies and State or local governments;

Assurances of a flow of surplus goods to farmers and rural areas;

Disposal of surplus aircraft at nominal prices to educational institutions for nonflight use;

Arrangements whereby veterans can obtain surplus goods through the Smaller War Plants Corporation;

Implementation of the priorities system established in the Surplus Property Act for disposing of nonindustrial real property.

Two other regulations recently issued are designed specifically to put surpluses to work in reconversion. One of these regulations enables contractors to purchase promptly Government-owned inventories in contractors' plants; the other enables contractors to purchase Government-owned machine tools and equipment located in their plants. The orderly execution of both these regulations will speed industry's transition to peacetime production and employment.

To Avoid Delays

In taking this action, the Board had in mind the delays that would result if a sizeable portion of Government-owned inventories, machine tools, and plant equipment had to be taken out of contractors' plants and offered in the open market. The Board felt that the need for expediting reconversion outweighed the possibility that granting a preference to contractors in possession would give them an advantage in reconversion. Such inventories and equipment are presumably diffused among large and small companies throughout industry. It is therefore believed that no industry or company will get a monopolistic advantage and that small business will not be hurt. Nevertheless, the Board is watching the operation of these two measures closely and is prepared to institute such safeguards as may be necessary.

Disposal agencies have tried various sales procedures. Farm equipment and supplies have been sold by auction; materials and light planes by sealed bid; general-purpose tools at a specified price; transport planes and certain plants by negotiation. The Reconstruction Finance Corporation has advertised surplus plants, and has circulated brief descriptions among firms and individuals who might be interested. The Reconstruction Finance Corporation now plans to make available comprehensive engineering surveys covering war plants and equipment owned by its Defense Plant Corporation subsidiary; these

will be placed in all Federal Loan Agency offices, Reconstruction Finance Corporation disposal centers, etc.

The Surplus Property Act, when passed, presented many difficult questions of interpretation. Many of these have been resolved by the orders and regulations that have been issued during the last 3 months. By and large, it is becoming increasingly evident that adherence to the spirit—and even the letter—of the Surplus Property Act does not present insurmountable obstacles.

Although considerable progress has been made, especially in recent weeks, the Surplus Property Board has merely approached the tremendous task of surplus disposal. Many problems remain to be solved, many new ones will be coming up. But as the personnel of the Board and its disposal agencies expand, as more studies are made, as further experience is gained, techniques will be developed which will reduce the task to manageable proportions. In the meantime, the Board is studying ways and means:

To avoid glutting civilian markets and to prevent speculators from siphoning goods out of normal disposal channels;

To scrap largely unsaleable property promptly so as to clear plants, prevent the pyramiding of storage and maintenance costs, and reduce paper work.

To speed surplus declarations and to obtain advance notice so that warehousing, handling methods, and sales can be planned even before property actually comes up for disposal.

To make the best use of existing stocks—both at home and abroad—so that the Army, Navy, and other governmental agencies inadvertently do not purchase anew what is already on hand.

These are not all of our major problems, but they do suggest the magnitude and complexity of the task we face.

VI ECONOMIC STABILIZATION

"Price, wage, and rationing controls must be continued after VE-day . . . Inflation, despite the reduction of munitions output, will be a continuing threat."

That statement is even more applicable today than when Justice Byrnes made it in his April 1 report. For in the last 3 months, inventories of civilian goods in the hands of manufacturers, wholesalers, retailers, and consumers, themselves, have generally declined, and the housewife has been having an increasingly difficult time finding what she wants in the stores.

The Office of Economic Stabilization emphasizes that the best antidote for inflation is increased civilian supplies. We are pushing production of scarce items for civilians as hard as is consistent with the maintenance of war production. However, no near-term shift in the supply-demand position is to be looked for; the facts are these:

Textiles

Military requirements for textiles in the months immediately ahead are greater than for a two-front war, partly because tropical environments are hard on clothing, partly because of the need for multiple supplies for men who move back and forth between the tropics and colder climates, partly because of the long pipe lines across the Pacific. At the same time, production of textiles has gone down. One reason has been the shift from civilian-type to the slower-woven, more durable, military-type fabrics. The principal reason, however, has been the inability of textile plants to obtain manpower. (See chart: Main Reason for Textile Shortages.)

Recently the War Labor Board ordered an increase in the rate of pay in some textile plants and the new scale has been spreading throughout the industry as manufacturers seek to attract workers. But some manufacturers at this point are unwilling to boost wages without a compensating rise in price ceilings. The price-wage problem is being threshed out by an interagency committee which includes representatives of the Office of Economic Stabilization, War Labor Board, War Manpower Commission, War Production Board, Office of Price Administration, and other agencies.



Meanwhile, the military services are making a constant effort to reduce their needs wherever possible; additional supplies are being sought from foreign production, either in liberated areas or in Germany. (The United States has ample supplies of raw cotton.) And textile manufacture is being directed by WPB and OPA into the products in which deficits are most acute, such as work clothes and children's garments. However, these actions won't be reflected over the retail counter for several months.

Shoes

The problem in footwear is similar to that of textiles. Longer pipelines and new climatic conditions have boosted military consumption, though again the services have cooperated in slimming down their requirements. But declining hide supplies, primarily the result of a drop in imports, have limited shoe output.

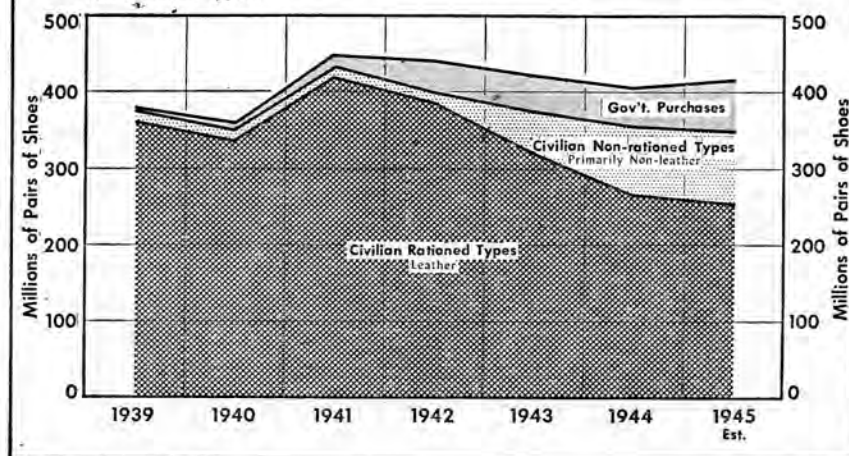
The shortage is most acute in work and children's shoes, and steps have been taken to increase production of these lines. Extraordinary progress has been made during the past year in manufacturing shoes from nonleather materials, and the textiles needed for this purpose have been specifically earmarked. (See chart: Shoes: A Case of War-time Ingenuity.)

Housing

Housing construction is going forward in the tightest areas and the War Production Board has recently relaxed its controls moderately. Nevertheless, as previously noted, materials are not in sufficient supply to permit widespread building, and therefore shortages will continue for some time.

SHOES: A CASE OF WARTIME INGENUITY

Manufacturers, helped by WPB, have stretched the leather shoe supply with non-rationed types.



Durable Goods

The one field in which civilian supplies will increase sharply is consumers' durable goods—automobiles, refrigerators, washing machines, and many electrical and metal products. But the flow of production will not start immediately, and when it does start will be only a trickle relative to pent-up demand.

Food, Clothing, Shelter

Since meat, sugar, fats, and oils are also short (as discussed later), it is proper to say that in all phases of the American standard of living—food, clothing, and shelter—demand exceeds supply.

This general excess demand is likely to persist for some months even though consumer income is already declining as a result of decreased war production and employment. Upward price pressures will continue much longer for most consumer durable goods and housing. Such diverse tendencies would not normally exist side by side, but this will not be a normal period. If war expenditures decline sharply before reconversion has gained full momentum, demand for some goods and services may become inadequate while that for others is still excessive. In this case, to insure a smooth transition to a full flow of peacetime output, we may need to sustain total income while, at the same time, we are resisting inflationary pressures in special fields. The fight against inflation—to safeguard war production against competing civilian demands at rising prices and to protect the American family against rising living costs—must be continued.

Price control has served the people of the United States well during this war. From the outbreak of World War I to the Armistice (52 months), prices advanced 62 percent, or more than 1 percent per month. During the 70 months since August 1939, just before Germany invaded Poland, the cost of living has increased 30 percent, or an average of four-tenths of 1 percent per month; moreover, in the 25 months since the hold-the-line order went into effect in May 1943, the rise in the cost of living has been only 1.7 percent, or less than one-tenth of 1 percent per month.

This superior performance is no accident. As far back as February 1941, when ceilings were put on machine tool prices, the United States started fashioning an integrated price control structure. The pillars of that structure were and are: Fiscal policy, price ceilings, wage control, and rationing. In contrast, during the last war there were no wage controls; rationing was confined to only a few products, such as sugar, and storekeepers were expected to limit customers voluntarily—there was no point or coupon system. Most important of all, although some prices were fixed, most were free.

It will be the policy of the Office of Price Administration to remove price ceilings whenever an abundance of supplies exists. The objective is to eliminate price and companion wage controls as quickly as possible—to permit the market to determine what should be charged for goods and to permit collective bargaining to establish wage rates. However, inflationary pressures are too strong as yet to permit any relaxation.

Fiscal Policy

The fiscal program of the Government will be to maintain the high level of consumer and corporation taxes so as to drain off surplus purchasing power. This means no general tax reductions until VJ-day. (However, specific changes in the tax law—to facilitate reconversion—are in order, as is noted on p. 25.) Continuation of the Renegotiation Act to prevent unreasonable corporation profits and reduce government expenditures is an integral part of an anti-inflation program. Sales of Government bonds to individuals have also served to siphon away consumer purchasing power and should be pushed. Pay-roll-deduction plans are especially effective.

Price Ceilings

The General Maximum Price Regulation, which established ceilings on all prices, has been in effect since the middle of 1942. The system has generally been successful. The Office of Price Administration has managed to maintain ceilings by a careful check-up of markets, by

subsidies, by adjustment of prices whenever it seemed urgent to increase supply or to protect manufacturers, wholesalers, and retailers against loss.

To be sure, intermittent difficulties have been encountered in black market dealings. But as steps were taken to punish violators, increase supply, and improve distribution, such difficulties have been brought under control—as was the case in gasoline and as will be the case in meat. Thus the price line has been held—by varied and flexible policies.

Under price control, dear goods tend to drive out cheap goods and it is hard to get production of low-priced, low-profit merchandise. This has applied particularly to textiles. Since cloth has been scarce, manufacturers have preferred to use it in the production of articles which yield them greatest return. The War Production Board and the Office of Price Administration have taken and will take direct measures to see that low and medium priced items are produced.

The textile experience has been a forewarning of what might happen on reconversion products, such as automobiles and refrigerators. To guard against concentration on the higher-priced, de luxe models, the Office of Price Administration and the War Production Board will meet jointly with representatives of industries to set a pattern of production which follows prewar proportions.

Wage Controls

Since wages and salaries are the largest single element in costs, wage controls must be maintained if the price line is to be held. However, wages and salaries are also the largest single element in consumer income, and we are entering a period in which munitions cut-backs will result in some unemployment and fewer hours of work per week. This means that wage-earner income will decline and raises an acute problem of national economic policy.

In some industries the wartime increases in wage rates have not kept pace with the cost of living, and consumption standards have been maintained by higher take-home pay due to overtime and other factors. But now, as overtime declines, the standard of living of such workers will fall below prewar, and possibly to hardship, levels.

This would not be in the public interest. We have asked workers voluntarily to give up the right to strike. We cannot afford to have interruptions of war production. But the no-strike pledge implies an obligation on our part to protect the worker's standard of living. Therefore, we must be prepared to make some upward adjustments to compensate for severe declines in take-home pay.

Such adjustments can be made within the hold-the-line price program. Reconversion will bring reductions in manufacturing costs on three counts: (1) elimination or reduction of overtime premiums, (2) down-grading of jobs which had previously been up-graded under pressure of wartime labor shortages, and (3) increased efficiency hence greater output per worker. These savings in costs would permit some rises in wages without a compensating rise in prices.

Upward wage adjustments cannot be granted without considering their effect on the price level. The period ahead is one in which inflationary pressures will persist. At the same time, deflationary forces, such as the decline in munitions employment and the work week, are developing. Therefore our task continues to be one of holding the line without, however, permitting a deflationary drop in purchasing power.

Nevertheless, as part of the program to prevent inequities and hardship, I recommend that Congress raise the minimum wage under the Fair Labor Standards Act from 40 cents to ~~50~~ ⁵² cents an hour, with provision for further permissive increase to a higher level by the industry committees provided for in the act. This is not so great a change as the figures make it seem. Most industries covered by the Fair Labor Standards Act have raised their rates voluntarily during the war—to attract new or hold old workers. And the War Labor Board has generally approved proposals to boost substandard rates to 55 cents an hour.

Rationing

Rationing of goods in short supply ought to be continued. It results in a more equitable distribution of supply than catch-as-catch-can purchasing and simultaneously is a means of keeping demand within the bounds of supply. Furthermore, rationing of certain types of articles, such as automobiles, refrigerators, etc., serves the war effort by giving priorities to war workers, doctors, nurses, and hospitals, police force, etc. In this, rationing of consumer goods is akin to the allocation of materials by the War Production Board; it helps to distribute the national resources efficiently.

Over-All Economic Stability

Although the price line in consumer goods has been held, by specific measures designed to hold it, the general character of the war period has been inflationary. The expansion in the production of goods and services has increased corporate profits as well as consumer income. Liquid assets in the hands of individuals and business, at \$230 billion are 200 percent higher than in 1939. Such a volume of funds cannot be counted on to lie fallow indefinitely. Indeed, the rise in the cost of urban and farm real estate and in the prices of stocks over recent months suggests that they had been seeking outlets.

Such advances so far have been moderate. However, this Office and the Office of Economic Stabilization are well aware that a movement of funds into investment today can result in a speculative spiral tomorrow which might upset the entire economy and hurt war production. Studies are being made of ways to check such a development in its incipient stages—through credit measures.

All Agencies Must Help

Economic stabilization, as its name implies, goes beyond dollars and cents. It refers to the stability in the entire economic structure. And in the period ahead it will be necessary to use all agencies of the Government to keep the economy stable and sound. After all, the development of the war program has been a product of many agencies, the policies of which intermeshed with one another. The Office of Price Administration's price ceilings helped to prevent manufacturers of nonwar products from bidding away steel or copper from a munitions company and thus helped the War Production Board in its job. Similarly, the War Production Board's materials allocations and inventory controls, by preventing nonwar manufacturers from accepting supplies, kept down demand thus assisting the Office of Price Administration. And, of course operations of the War Food Administration, Petroleum Administration for War, and War Manpower Commission all form inseparable parts of this economic structure.

The inter-dependency of the war agencies came out clearly during the weeks immediately before and after VE-day, when the Office of War Mobilization and Reconversion called on each war agency to present a specific one-front-war control program. It was the responsibility of this Office and of the Office of Economic Stabilization to coordinate the policies and proposals, so that the lifting of a control by one agency did not pull an important prop out from under another. The whole process of revising controls called for a community of understanding.

However, the programs have now been worked out, compromises reached on what seemed insoluble problems, and the entire framework of controls has been improved as the ideas of one agency have been used to shore up the knowledge and operation of another agency.

I cannot refrain from commenting on the spirit of co-operation that prevailed during the entire period. It was a tribute to the American way of handling large and central issues—through the give-and-take of open discussion and honest, across-the-table criticism. I feel we are all better administrators as the result of it. Each man has a sounder understanding not only of his own problems but also of the others.

VII FOOD

The tight situation that we face today in food is attributable to four major factors:

1. Total food production will decline this year for the first time since the war began.
2. Military demand is still rising, particularly because our supply lines to the Pacific are longer, thus calling for more food to fill the "pipe line."
3. Relief needs in Europe are expanding sharply.
4. The United States ate too much in 1944 and the first half of 1945; at one time it appeared that surpluses of some foods might develop, hence allocations to consumers were increased beyond what subsequent production justified.

In general, the United States has eaten well during the war. That is largely because of the magnificent performance of American agriculture. Food output rose to one new high record after another, and, in 1944, was 38 percent above the prewar average (1935-39); and as over-all production increased, farmers shifted from a peacetime to wartime pattern so as to produce the foods most needed.

This high volume of production was traceable to some increase in acreage, sharply expanded use of commercial fertilizer, increased mechanization of farm operations, and more intensive cultivation. Also, there was a run of unusually good weather. As a result, in spite of record food requirements for the Army, Navy, and Lend-Lease last year, per capita food consumption by civilians increased during the war. (See chart: Perspective on Food.) It is true that supplies of particular products—such as butter and top-grade beef—have been short from time to time and that consumers, because of increased incomes, have not been able to buy all they wanted at all times. But last year's increase was enough to put per capita food consumption at a new peak—10 percent above the prewar average.

This year, though the per capita supply of food for civilians will fall from 5 to 7 percent below last year, the available total will be 2 to 4 percent above the prewar average. But because we ate a disproportionate share of our total supply in the first 6 months of 1945,

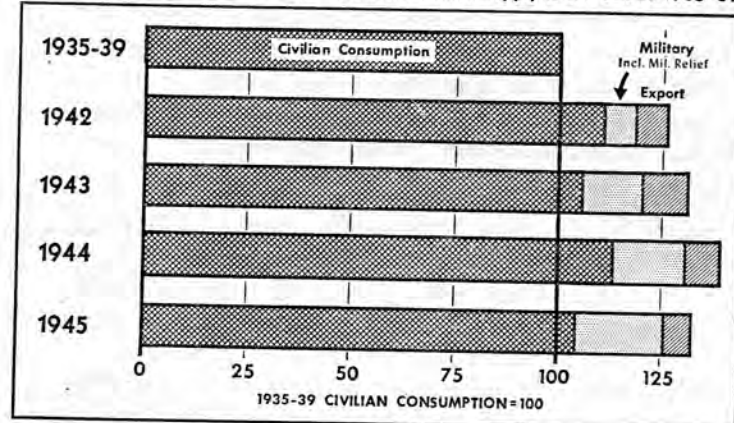
the quantity available in the second 6 months will be below the prewar average. And we face severe shortages in such important basic foods as meat, sugar, and fats and oils. (See chart: Lean Year for Some Foods.)

Meat

The United States meat supply this year is expected to amount to 22.6 billion pounds, more than 6 billion pounds above the prewar average, but 10 percent below the record-breaking total of 25.2 billion pounds last year. Output of beef and veal is expected to rise to another new high; pork production, however, will be down 20 per cent, largely because feed shortages led to a drop in last year's spring farrowings.

PERSPECTIVE ON FOOD

Despite high exports and military allocations, civilian supply is still above 1935-39.

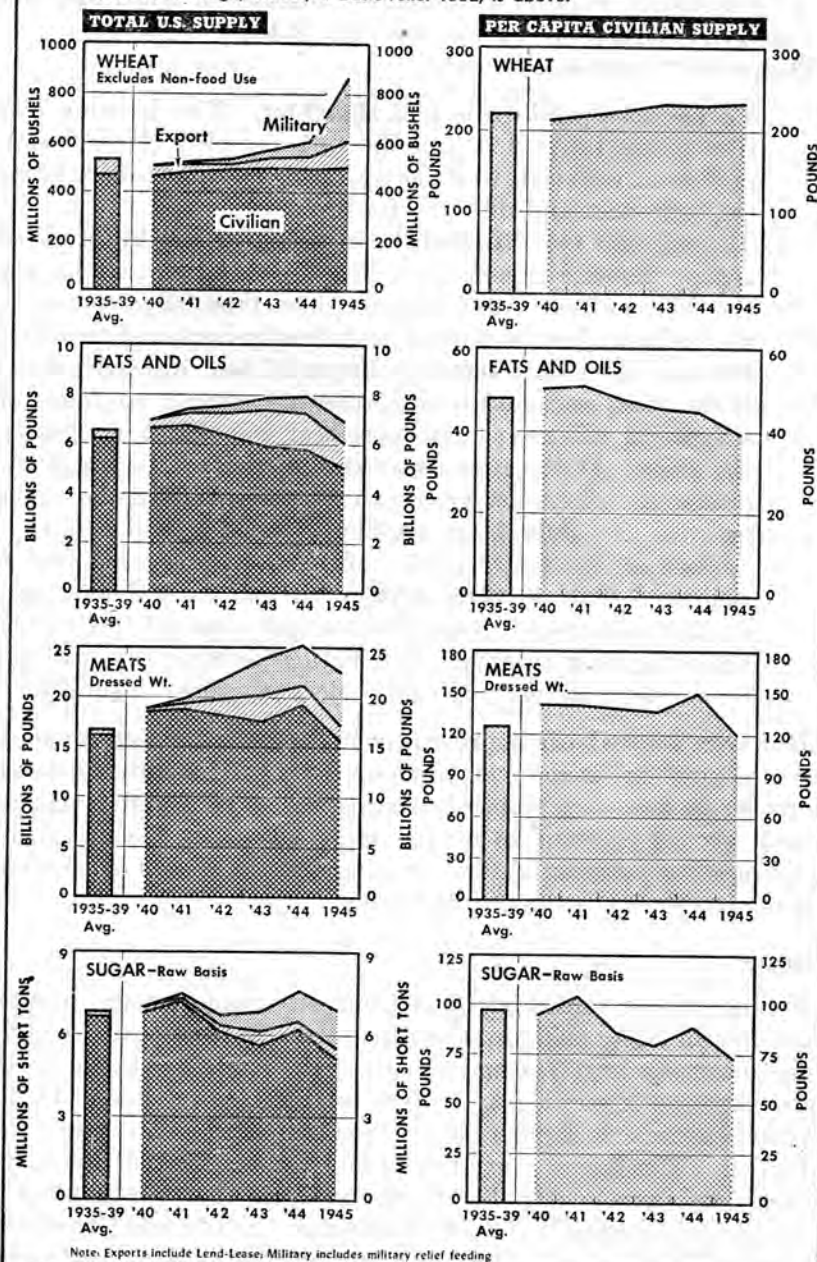


At the same time, requirements for the armed services (which include relief feeding) are up from 4 billion pounds last year to 5.4 billion pounds, which is partially offset by a drop in exports. The civilian share of the total will be down from 19.3 billion pounds to 15.6 billion pounds in 1945. And that comes to 120 pounds per person. This is only 3 percent below prewar.

But for the millions who rely on the corner butcher for their meat, the per capita estimate of 120 pounds is overstated. An allowance must be made for above-average consumption by farmers and ranchers who produce it, for the poundage that goes for commercial canning and institutional use, for the quantity served in meals by hotels and

LEAN YEAR FOR SOME FOODS

Per capita civilian supplies of fats and oils, meats and sugar in 1945 are below 1935-39 average, wheat, a basic relief food, is above.



restaurants, and for the "shrinkage" from carcass weight once the meat is trimmed and boned for retail sale.

Shipments abroad are often over-emphasized as a cause of the domestic meat shortage. Although this country exports about 7 percent of its production, military procurement abroad—in Australia, New Zealand, and Argentina—offsets about half of this.

The problem in meat is twofold:

1. **To increase production and slaughter.** This is being done through an integrated program to boost price guarantees to producers, payments to widen operating margins to cattle feeders, and additional subsidies for processors.
2. **To improve the distribution of meat, especially in urban areas.** Toward this end, the War Food Administration and the Office of Price Administration have taken steps to increase the volume of cattle flowing to federally inspected slaughterhouses. Since only federally inspected beef can move across State lines, and since cities generally depend on interstate shipments, this means that more beef will flow to civilians in the cities. At the same time third-quarter military and governmental allotments are down 10 percent from the second quarter. By July 1 the civilian population will receive 70 percent of the better grades of federally inspected beef as compared with 40 percent in April and early May. As a further measure, all processors are now required to ship beef according to a "normal" distribution pattern; this will also tend to level the geographical peaks and valleys in supply.

However, a more basic improvement in the meat situation cannot be expected until late in the year, when marketings of livestock increase. Moreover, as long as consumer buying-power stays at high levels, the armed services continue to require large quantities from available supplies, and a program of relief-feeding must be carried on, civilians will not be able to buy the meat they want.

Sugar

Because of a severe drought in Cuba, less-than-expected supplies from Puerto Rico, and wartime disruptions in European countries which normally supply a major part of their own needs, the world sugar situation is very tight. In fact, total sugar available to United Nations' countries is about a half-million tons short of last year's consumption. This leaves a smaller supply for the United States, yet military and export demand is 29 percent higher this year than last.

In April, food officials of the United States, Canada, and Great Britain met in Washington to decide on a fair distribution among all claimants, including newly liberated areas. A total of 1,800,000 tons were

allowed for the Army, Navy, relief, and lend-lease, and 5,100,000 tons for United States civilians—about 73 pounds per capita (the same rate as in the United Kingdom and Canada), as against 89 pounds last year. But we ate more than half of our 1945 sugar supply in the first 6 months, so consumption for the rest of the year must run at an annual rate of about 68 pounds.

That, briefly, is why the value of sugar-ration stamps for ordinary household use had to be reduced 25 percent to a yearly rate of 15 pounds per ration-book holder, and why the maximum allowance for home canning was reduced by an equal percentage to 15 pounds a person, with a limit of 120 pounds for any one family. It has likewise been necessary to reduce allotments for institutional and industrial users.

The sugar shortage is likely to extend into 1946—until the Philippine sugar industry is restored and the liberated countries can lift sugar-beet production and processing to normal levels. In the meantime, a special labor force, including thousands of prisoners of war and nationals of neighboring countries, has been made available to continental United States sugar producers. Steps are also being taken to insure full production of sugar in the off-shore areas so important to our supplies: Cuba, Puerto Rico, and the Caribbean area in general.

Fats and Oils

Because of sharply reduced hog slaughter and consequently diminished lard production, United States supply of edible fats and oils is likely to be down 13 percent this year to an estimated 6,950,000,000 pounds. At the same time, shipments to liberated countries will be up—fats and oils are a "must" in the human diet.

Per capita consumption of edible fats and oils (including butter) dropped from a prewar average of 48 pounds to 45 pounds last year. And for 1945 as a whole, indications are that average per capita use will be in the neighborhood of 40 pounds, a drop of more than 16 percent from the prewar standard. Because of large consumption in the first half, the annual rate over the rest of the year will decline to 37 pounds per person. (This, however, is large by recent European standards. Under German occupation, such countries as France, Belgium, and Holland consumed as little as 20 pounds per capita.)

Measures are being taken to ease the tightness in fats and oils. Pig production will increase this fall; top limits have been removed on weights at which hogs are eligible for price support (this will encourage feeding to heavier weights), and quantity shipments of copra (dried coconut meat for coconut oil) from the Philippines will be started as soon as the military situation permits.

Wheat

Production of a number of important foods will be up this year as compared with 1944, namely, milk, fresh and frozen fish, and some fresh vegetables; wheat will approximate last year's record crop.

Wheat is the one basic food that has been, and should continue to be, in ample supply throughout the war; and it will go far to make up serious food deficits abroad. But the prospect here is not entirely free of problems. Railroad cars for shipment to seaports are insufficient; port facilities in Europe have been damaged; the quantity of bags and bagging available in North America is not enough to handle the large volume of shipments involved. In spite of these difficulties, substantial shipments of wheat and flour have already been sent abroad and the rate is increasing. However, liberated Europe cannot live by wheat alone. Shipments of wheat must be supplemented by at least moderate quantities of sugar, dairy products, fats and oils, and peas and beans.

In spite of all that can be—and is being—done, America must face the fact that the over-all supply of food for home consumption will continue to be less than demand for at least a year. Meanwhile, certain steps are being taken to relieve some of the worst difficulties:

Food goals for 1946 are being set at continued high levels.

The War Production Board is increasing the flow of steel and other critical materials for farm equipment and farm supplies.

Food handling facilities on the Pacific Coast are being enlarged and modernized to relieve civilian food distribution in that area from the pressure of heavy military shipments.

The Foreign Economic Administration is intensifying its efforts to locate and utilize available supplies in other parts of the world—beans from Mexico, vegetable oils from Africa, etc.

However, we must rely mainly on production to expand supply. And we must take every practical step to conserve the food we have.

VIII

AID TO LIBERATED EUROPE

The United Nations have freed Europe from the Nazis but—

Agriculture has been disorganized;

Transportation facilities have been wrecked;

Plants have been destroyed;

Coal mines have been damaged;

Power plants have been sabotaged;

More than 20 million people have been uprooted from their homes.

Liberated Europe is desperately short of food, clothing, fuel, medical supplies, and shelter—the basic items for human existence. In addition to that, it needs minimum quantities of materials, machinery, and equipment to get back on its feet as a “going concern.” A shipload of seed, fertilizer, repair parts, farm equipment, and coal-mining machinery now may save a dozen shiploads of food, fuel, and medicine later on.

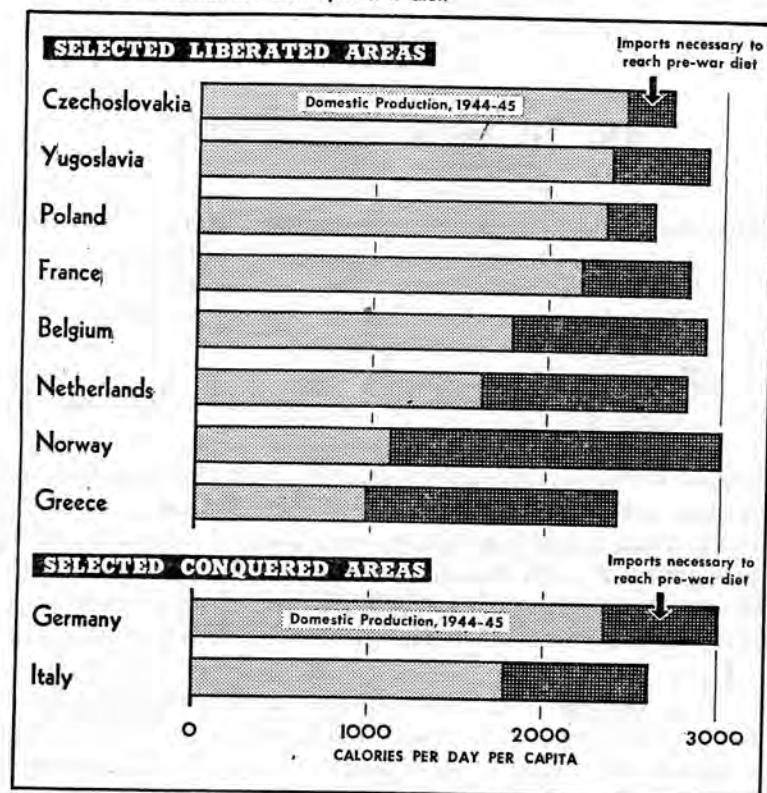
Aside from humanitarian considerations, the United States has reasons for helping liberated Europe. We have learned that we cannot ignore what is happening in other parts of the world. Economic distress in Europe is scarcely so far removed from this country as thousands of miles of ocean might suggest. Economic conditions are directly related to political stability. And without political stability in continental Europe there is little hope of realizing world peace and the progressive international relations we seek.

Food is a prime requirement in liberated Europe. Generally speaking, a grown person needs about 2,000 calories a day to subsist and considerably more—some 2,600—if he is to do active work. But Greece can produce only enough food to supply 970 calories for its people, Albania 1,015, Norway 1,115, the Netherlands, 1,630, and Belgium, 1,795. To provide even a bare subsistence diet, these and other liberated countries must supplement their domestic food supplies with imports. (See chart: The European Food Supply.)

Computing our calorie supply by the same methods used for Europe, each person in the United States will have an average of 3,050 calories a day this year, about the same as before the war. And a relatively small amount of food from us can mean a great deal to Europe. For

THE EUROPEAN FOOD SUPPLY

1944-45 output of many areas has to be eked out to reach subsistence requirements (2,000 calories) let alone pre-war diet.



example, if the United States were to cut down its calorie supply by only 8 percent it would be enough to increase the daily supply of the above five food-poor countries by more than 80 percent and give them the 2,600 calories a day needed for an active population.

The rate of United States relief shipments to liberated areas has increased sharply since the beginning of the year. In some items, such as meat and fats and oils, the amount that can be sent abroad is limited by shortages at home; in others, such as wheat and cotton, the limiting factors are shipping tonnage and unloading facilities. In other words, because of domestic food shortages and the tightness in merchant tonnage, we are not in a position to ship all the food that liberated areas need; however, many other countries are making their contributions.

Transition Period

Relief for Europe is now in a transition period. As each country was liberated, the Army—because of military necessity—assumed responsibility for supplying minimum needs. As planned, this responsibility is now being turned over directly to the governments themselves (as in France), or to the United Nations Relief and Rehabilitation Administration, in cooperation with the respective governments (as in Greece and Yugoslavia).

UNRRA consists of 44 member countries and is supported by a contribution based on the national income (for the year ended June 30, 1943), of each of the member countries which was not invaded.

It provides relief at the request of the Army or the government in need—and then only if that government has insufficient foreign exchange to pay for its supplies. Right now, UNRRA is operating in Greece, Yugoslavia, Czechoslovakia, Poland, Albania, and—to a limited extent—in Italy. Moreover, in cooperation with the military, UNRRA is helping millions of slave laborers and other displaced persons to return to their homes.

Last March, Justice Byrnes established the Inter-Agency Committee on Foreign Shipments, consisting of representatives of the Foreign Economic Administration (chairman), Army, Navy, War Food Administration, War Production Board, War Shipping Administration, and State Department. Its task is to coordinate the export of all civilian supplies including those for relief and rehabilitation.

The Committee is reviewing existing supplies, examining present commitments, and developing a unified program for the export of civilian supplies in the light of our capacity and the needs of our military forces and the domestic economy. It has prepared a series of "balance sheets" for commodities and goods in short supply; such as food, textiles, machinery, transportation equipment, materials, and farm equipment. These balance sheets (1) weigh the world availability of each scarce item against the total demand, and (2) the extent of that demand upon us in relation to our own supplies. These are the bases for determining just how far we can go in exporting civilian supplies—for whatever purpose—without endangering our requirements at home.

The Committee recently arranged through the Army-Navy Liquidation Commissioner, for the Army to turn over its surplus equipment and supplies in Europe to the Foreign Economic Administration where desired for transfer to liberated countries. Under the plan, 16,000 used trucks are being turned over to the Foreign Economic Administration; also some medical supplies. As a result of this policy, critically needed equipment is made available to Europe promptly; materials, manpower, and shipping space are saved at home; and our surplus property abroad is reduced.

The European countries want to help themselves. Hence, in co-operation with the United States and the United Kingdom, there have been set up (1) the Emergency Economic Committee for Europe, (2) the European Coal Organization, and (3) the European Central Inland Transport Organization. Each of these has representatives of most of the liberated countries as well as the United States and the United Kingdom. The primary task of these bodies is to make the maximum use of Europe's resources, to explore ways and means of filling the Continent's requirements at home before calling on the United States or the United Kingdom for aid.

The United States is not supplying Europe single-handed.

Through the Combined Food Board, Combined Production and Resources Board, and the Combined Raw Materials Board, the United Kingdom is sending coal, clothing, transportation equipment, shoes; Canada is sending trucks, tractors, industrial machinery, nonferrous metals; Brazil and Mexico are sending textiles; Argentina, leather; India, jute. And each of these nations—together with Australia, Uruguay, New Zealand, Cuba, British Empire countries, and the French and Belgian colonies—is sending food: wheat, flour, fats and oils, beans, peas, rice, meat, sugar, canned and frozen fish.

As conditions on the continent return to normal, more countries may be expected to participate in the job of helping Europe get on its feet. Sweden is already making locomotives for the Netherlands and should soon be shipping pulp and paper to Europe in general. Switzerland is manufacturing locomotives and mining equipment which will help to relieve transportation and coal shortages.

Nevertheless, there is no gainsaying the fact that the United States, as the biggest producing nation, has been—and must continue to be—the biggest single supplier of relief to Europe. And because United States military authorities are relinquishing their responsibility for supplying European civilians, because UNRRA's funds and operations are limited, and because the lend-lease appropriation now under consideration by Congress will provide only for war-supporting requirements, new legislation is necessary to assure adequate financing of our supply program for liberated countries. This financing will not take the place of long-term credits; it will be used for wake-of-war requirements only.

Recently, a special mission headed by Judge Rosenman made a survey of the supply system for liberated Europe. The result was a recommendation to explore ways and means of improving our supply procedures. Such a study is now being made by the Office of War Mobilization and Reconversion with the aid of the Bureau of the Budget.

IX

WHAT VJ-DAY MEANS

Just as the Federal war agencies were prepared for VE-day, so must they also be prepared for VJ-day. They must have on tap a variety of plans for a variety of contingencies—particularly they must have plans for an early defeat of Japan as well as a late one.

The timing makes a great difference. Today 45 percent of American energies are concentrated on war and war-supporting activities; a year from now, as military needs gradually decline, only about 30 percent will be required. Similarly, employment in the munitions production will taper off from about 8.6 million workers to less than 6 million. And whereas today the automobile, refrigerator, electrical equipment, and other consumer durable goods industries are only starting to reconvert, a year from now the reconversion process will have been well advanced, civilian production will be accelerating rapidly, and manufacturers will be prepared to take on workers. At the same time, many workers discharged from war plants will have found jobs. Hence the later VJ-day comes, the fewer war workers will have to be absorbed, the smoother will be the transition, and the shorter the lag between cut-back disemployment and reconversion reemployment. Conversely, the shorter the war, the greater will be the VJ-day dislocations. We are determined to achieve victory as soon as possible. That will save lives, and that's what counts. All agencies are concentrating on winning the war quickly. Simultaneously, they are getting ready to meet the problems which an early VJ-day will bring.

Most Controls Will Go

But regardless of when VJ-day comes, the problems will be much the same. Indeed, those problems are already with us: contract cancellations and terminations, plant clearance, handling of surpluses, mustering out veterans, handling unemployment claims, dropping controls. Thus getting ready for VJ-day is a continuing process. But when VJ-day comes the scale of operations will move up. The volume of terminations, of surpluses to be sold, of unemployment claims will increase sharply.

VJ-day will signal the removal of most wartime controls. Today it is necessary to see that manpower, materials, and machinery are not

diverted from war production and, therefore, to maintain many restrictive orders on production, distribution, and prices. After VJ-day, the job before us will be to move resources out of war production into civilian production. Thus after VJ-day, many War Production Board controls will be a hindrance rather than a help.

But there are exceptions even to this generalization. Unless VJ-day is much longer delayed than expected, a few materials will still be too short to permit unrestricted bidding for them. Not only would prices rise, but also essential requirements might not be met; speculative hoarding might prevent the necessary flow of materials into the industrial economy. Crude rubber and tin, the supply of which comes largely from Japanese-held areas, are cases in point. Hence, continued allocation of a handful of commodities may be necessary after VJ-day.

Further, we may have to continue our efforts in directing the production of low- and medium-priced textiles and shoes—at least until supplies come much closer to demand than they now do. And to protect liberated areas and foreign economies which depend on the United States for supplies, manufacturers may have to continue to set aside certain proportions of their output for export. We may also have to control exports to protect domestic supplies of short items.

The controls after VJ-day will have one common purpose—to smooth the transition between a war and peacetime economy. Whether controls are necessary and for how long will be determined by when VJ-day comes. Suppose the Japanese were to surrender a year from now. By that time, most of the kinks will have worked out of the reconversion process, most if not all of the bottlenecks in peacetime production will have been broken, and a chain of supply will have been established from producers of raw materials to manufacturers of end products to wholesalers and retailers. Under such circumstances, retention of bottleneck-breaking and scheduling functions would be superfluous. But if VJ-day were to come two or three months from now, before industrial supply-chains had been reestablished, those functions would be temporarily useful to keep the pipe line flowing evenly and maximizing production.

Price Controls

Again in price control, the timing—the state of reconversion—will determine how many exceptions must be made to a general policy of removing ceilings. Today specific shortages persist in many segments of the standard of living—food, textiles, shoes, and in all durable goods, housing, automobiles, electrical appliances. None of these shortages is likely to be corrected in the next three months. Therefore a quick defeat of Japan would not immediately alter the need for some price controls; nor would it do away with the necessity to ration

shoes, certain foods, and other items. Automobiles might have to be rationed for a brief period until such essential users as the police force, doctors, nurses get taken care of; also refrigerators to hospitals and houses in tight areas.

Danger of Deflation

VJ-day will bring a sharp contraction in munitions employment. Workers will be discharged from plants making planes, shells, tanks, guns, and ships. Also overtime will drop and shifts from high to low wage industries will be speeded up. This will result in a drop in the income and hence in the purchases of these workers.

To be sure, many workers have built up savings during the war; also unemployment compensation benefits will tide them over the unemployment period. But even liberal unemployment benefits are low compared with wages, and families whose incomes drop will curtail their expenditures—they will not buy quite so much groceries, they will put off getting shoes or clothes; they will introduce economies into their scale of living. Such curtailment of expenditures could bring about secondary unemployment—in retail stores, in textile production, and so on. As one group of workers is laid off, others are inevitably affected.

This presents a real danger. The remembrance of the depression is clear to most of us. At the first development of widespread unemployment, even those who are not unemployed may feel economically insecure and will freeze on to their savings and spend less. This would be bound to deflate demand; manufacturers would be less anxious to expand; and instead of coming out of the war with an expanding economy and jobs for released veterans and war workers we will face another depression.

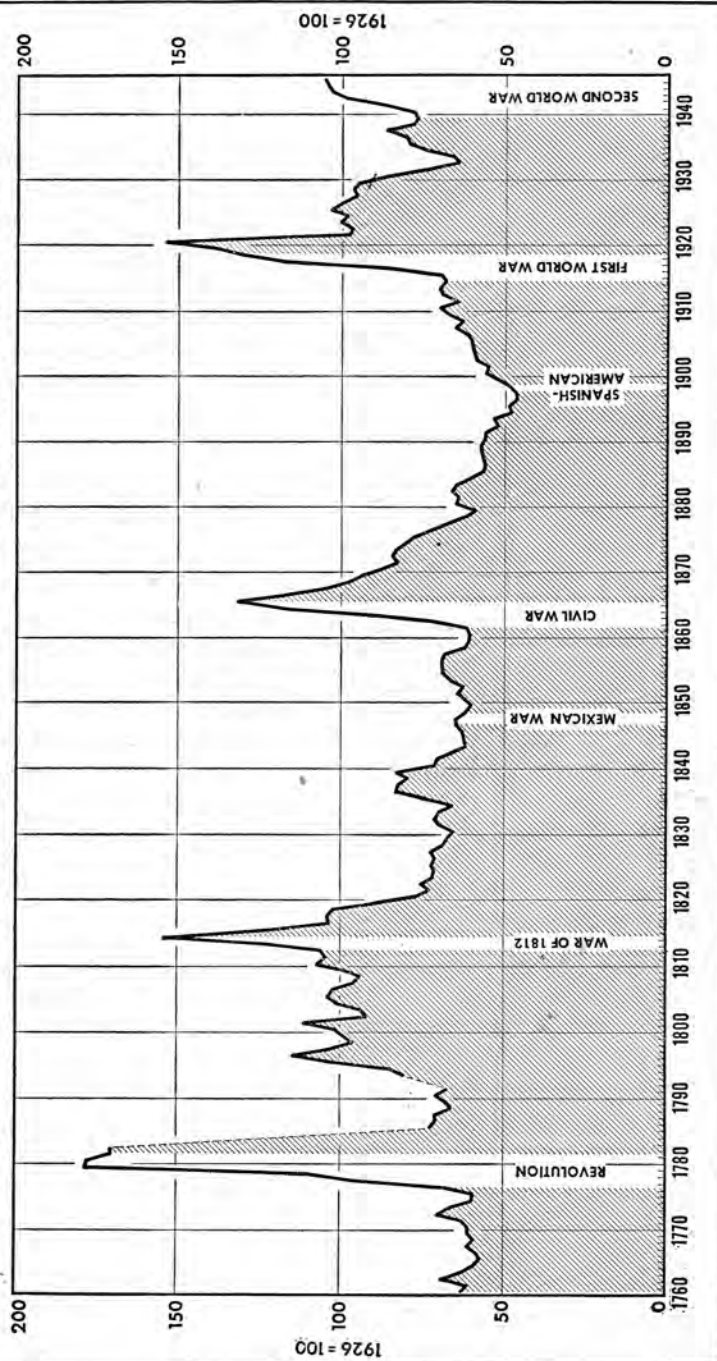
Inflation Danger

But there is another possibility; economic history may well repeat. During and after every war, prices have risen sharply then declined sharply. (See Chart: Prices—Before and After the Wars.) So far during this war we have managed to hold prices in check. We cannot afford to give up the fight just when it seems won. The point is that cash and cash-assets are at record levels (p. 39), and that most people after VJ-day will still have good incomes. Expanding expenditures of this group could offset contraction in purchases of the unemployed and induce an inflationary price spiral. Moreover, once production did get started, manufacturers, wholesalers, and retailers, might buy inventories, fearing prices would rise. This would lead to a repetition of the 1919–20 boom and collapse.

Thus, we must be prepared for inflation and deflation, or for a delayed inflation after an immediate deflation following VJ-day.

PRICES — BEFORE AND AFTER THE WARS

Over 185 years of American history, major conflicts have resulted in sharp price rises, followed by sharp declines.



The basic cure is the same; to step up production which increases supply on the one hand and reemployment on the other. Toward this end, we must get rid of controls that are not needed and retain controls that help. However, if reemployment is slow, if a deflation spiral threatens, then the Government must be prepared to take positive action to bolster income and create jobs through public works. During the war, many Federal, State, and local Government projects—highways, post offices, schools, hospitals, police stations—have been postponed because the materials and manpower were more urgently required in war work. VJ-day will offer the first opportunity to cut into the piled-up backlog of public construction on a large scale.

Already, some projects are planned, financed, and ready to go. But the total volume ought to be far larger, to permit a strategic selection of projects to fit into post-VJ-day conditions. Only if we have a large shelf of public works in the blueprint stage will we be able to quickly get a building program under way. Under such conditions speed would be of utmost importance to quickly provide interim employment to get our economy on the upgrade again, in the event that mass unemployment develops before business has had time to reconvert. In this connection, private business should advance its plans to the blueprint stage now.

The construction industry cannot jump into the breach right away. It has a reconversion job. Hardware, plumbing, and other equipment must be manufactured. Stocks of building supply dealers all over the country must be replenished, and contractors must rebuild their organizations. During this period of reconversion in the construction industry, the government must be particularly careful not to compete with private construction. Public projects should be timed to fill in the lulls when private construction falls off, when the industry is not operating at capacity, and when public construction will be most effective in cushioning a decline in employment.

I should like to point out again the need to increase unemployment benefits to cushion the shock of unemployment during the switchover period. If the end of the war comes abruptly and unemployment develops on a larger scale than we anticipate, adequate unemployment compensation will be that much more urgent.

Up To All of Us

Inevitably VJ-day will bring dislocations and unemployment. And Government agencies have to be ready whenever VJ-day comes—to clear the decks for all-out reconversion—to cancel contracts, render

financial assistance to contractors, help returning servicemen and discharged war workers find jobs, remove controls, guard against inflation, and be prepared to check deflation.

Yet, though the Government can and will do all those things, the real job in achieving a swift transition will fall upon industry, labor, and agriculture—on the businesses, farmers, and workers who comprise our economy. Though the Government can facilitate reconversion, though it can take positive measures to support income or prevent inflation, attainment of a high level of production and consumption depends on the initiative, resourcefulness, imagination, and know-how of all of us. Moreover, to withstand the economic shock after VJ-day, we shall need the tolerance, understanding, and good will that have served so well during the war.

X

THE BRIDGE BETWEEN TODAY AND TOMORROW

The Congress, in setting up the Office of War Mobilization and Reconversion, directed me, subject to the direction of the President, to

“formulate or have formulated such plans as are necessary to meet the problems arising out of the transition from war to peace.”

Keeping an eye to the future is a mandatory function in the work of this office.

In 1939, our national output hit its highest peacetime level, higher than in 1929, higher than in any previous year of our history—\$89 billion. Five years later that record figure was dwarfed by a new record output of \$200 billion. Prices were higher but the quantity of goods and services produced in 1944 was over three-fourths again as high as in 1939. We succeeded in piling our new wartime economy on top of a peacetime economy; in achieving feats of production no one believed possible. In so doing, we opened a totally new vista of what the future can hold. (See chart: Postwar Challenge.)

The word “reconversion” carries with it a sense of going back to what existed before. In many ways, we do want to go back to the comforts and pleasures of peacetime America. But as far as our national economy is concerned it would be disastrous to go back, for we would be going back to the misery of mass unemployment.

After the war, the American economy must be dynamic, with expanding business, expanding markets, expanding employment, and opportunity. The American people are in the pleasant predicament of having to learn to live 50 percent better than they have ever lived before. Only the defeatist can scoff at this inescapable fact that we must build our economy on that basis.

This expansion must be brought about by positive policies on the part of business, agriculture, labor, and local, State, and Federal Governments.

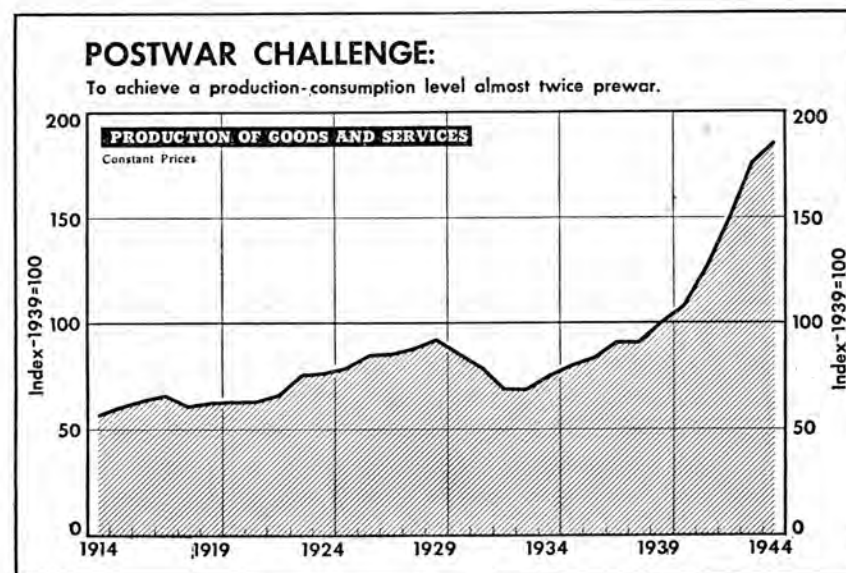
The time to start hammering out these policies is now, while the transition is still young.

Especially important are the plans which individual businessmen are now making for postwar activities. The stimulation of businessmen to plan for expansion after the war which is being carried on by organizations such as the Committee for Economic Development, local Chambers of Commerce, and by other national and local trade associations is of great significance and encouragement.

The vast reservoir of liquid assets—currently estimated at \$230 billion or almost three times the 1939 total—adds a completely new factor to our economy. These financial resources, plus the great need for goods which has been built up during the war, can be a self-starter for our postwar economy, and if handled right, a “fly-wheel” for years to come. How high businessmen aim, how resolutely they act will be an important factor in building a bridge from the present wartime peak to steady high levels of employment and production, with subsequent profit to all hands.

The Role of Government

We know that the efforts of business and labor, to reach and maintain this new level of activity, important as they are, will not be enough. Thoughtful persons realize that the Government must shoulder major responsibility in adopting constructive policies to help us reach and hold high levels of production. We can clearly see the areas in which Government must take action.



From the following nine-point agenda a postwar economic charter for a steadily rising American living standard must be built:

1. **Taxation.** A complete modernization of tax laws to help achieve stable high levels of employment and production.
2. **Small business.** A program to foster small business and encourage the birth of new business.
3. **Competition.** A fair, vigorous anti-monopoly program because competition is a keystone to our free society.
4. **Labor, Management, and Wages.** Measures to reduce industrial strife, the broadening of the minimum wage laws and the encouragement of a high wage policy by business.
5. **Foreign Trade.** The breaking down of artificial barriers to trade and positive measure to encourage world trade.
6. **Social Security.** The broadening and expansion of unemployment compensation, old-age pensions, health and education programs of Federal, State, and local governments.
7. **Farm Program.** Measures to assure the farm population an opportunity to enjoy the same standard of living, health, and educational facilities as the rest of the American people.
8. **Public Works and Construction.** A long-term program of public works tied in with the government's fiscal policy, and a program to encourage far greater volume of private construction for housing than we have ever had in the past.
9. **Fiscal Policy.** A fiscal policy aimed at maintaining the economy at or near full employment, and coordinating all government programs that have either an inflationary or deflationary effect.

The Congress and the various executive agencies of government have been working diligently in all these areas of economic policy. Privately supported agencies, including the labor unions and farm organizations, are also hard at work seeking answers to these problems.

The Office of War Mobilization and Reconversion, as directed by the Congress, is working with all these groups in seeking to determine policy and to make recommendations, where necessary, for action by the Congress. In this report, I shall not do more than to discuss very briefly the nature of some of the problems and the direction in which solutions must be found.

THE POSTWAR TAX BILL

I regard the modernization of our tax structure as the foundation of our entire program to reach and maintain full employment after the war.

In our complicated economy it is not easy to see the ultimate effects of taxes, on whom they fall nor what they mean to the prosperity of the people. After the war, Government revenue needs will be three times what they have ever been in peacetime. The federal tax structure will, therefore, be a far bigger factor in the economic health and stability of our Nation than ever before.

I believe the following principles should guide us in constructing our tax program:

1. Taxes should be levied in such a way that they have the least harmful effect on the expansion of business investment and the creation of jobs, because productive employment is the source of our standard of living, of all income, and of the revenue which the government collects from taxes.
2. Taxes should be levied in such a way that they have the least harmful effect on the maintenance of mass markets and mass purchasing power because that is the basis of business, labor, and agricultural prosperity.
3. Taxes must be fair among people.
4. Tax policy should be integrated with a fiscal policy designed to prevent inflation and deflation.

Acceptance of these principles means, in my opinion, that the personal income tax must be the chief source of tax revenue and the base must be broad.

It means that we should eliminate as far as possible the sales and excise taxes, because they not only put an unfair and hidden tax burden on those with low incomes, but they also restrict markets for business.

The excess-profits tax should be repealed after VJ-day. Taxes on business earnings should be modified, bearing in mind, on the one hand, the revenue needs of the Government and, on the other hand, the incentive for risk-taking and expansion to be gained by the modification.

The Congress, well aware of the vital importance of the post-war tax structure, has been working for some months through the Joint Committee on Internal Revenue Taxation on a postwar tax bill. The Treasury has been cooperating in this study and the Secretary of the Treasury set up an interdepartmental committee to assist in studying this problem.

There is an important benefit to an early adoption of a postwar tax program.

As the Advisory Board of this Office has pointed out, the sooner uncertainties in postwar tax structure are removed the sooner business management will be inclined to make firm commitments for expansion and the faster men can be put back to work following the wholesale cancelation of contracts that will occur with the unconditional surrender of Japan.

In this sphere, local and State Governments have an important responsibility too. The Treasury, the Bureau of the Budget, and the Council of State Governments, have taken steps to coordinate fiscal policies of local, State, and Federal Governments during the war. Means should be set up whereby as far as possible local, State, and Federal postwar fiscal policies can be jointly arrived at and jointly carried out.

SMALL BUSINESS

Basically, small business needs what all business needs—a market and an economic environment that will supply the incentives and the opportunity for expansion. However, small business does have some disadvantages, just as it has some advantages. Special needs of small business include (1) technical knowledge to improve the management factor; (2) adequate sources of financing.

Studies show that the lack of managerial know-how, lack of such rudimentary tools of management as accounting, stock control and so forth, are big factors in small business failures. There is evident need for agencies of Government to put at the disposal of small businessmen information—an easy-to-understand set of management tools, with business itself helping to formulate the program.

Good precedent for this is found in the work of the Department of Agriculture. By placing information and knowledge at the disposal of farmers, the Department has helped raise the efficiency and productiveness of every type of American farm. The Government can perform a comparable service for American business, particularly small businesses which would want such service.

The problem of providing working capital for small business has received special attention during the war. Emergency legislation enacted early in the war, or carried over from the prewar period, authorized Federal agencies to make direct loans to business enterprises, to participate in loans made by private institutions, or to guarantee or insure such loans. Many small firms will be seriously affected if these emergency sources of working capital are withdrawn before the end of the reconversion period. These powers should be continued through the reconversion period and restrictions prohibiting their use in financing nonwar production must be removed. The difficulties small businesses face in acquiring long-term and equity funds call for additional measures, which are already under study by the Congress.

COMPETITION

Competition has always been the heart of America's economic vitality. It is also the center of our economic philosophy. In the transi-

tion and postwar period, we shall have an unparalleled opportunity to extend the area of effective competition. In this connection, the encouragement of new and small businesses is basic.

The Surplus Property Board has established the policy of plant and equipment disposal to avoid greater concentration of economic power and to foster competition wherever possible. This same policy will guide all government agencies in the reconversion period.

Obviously of major importance is the enforcement of the existing antitrust laws. During the war, enforcement has been suspended in some fields. The scale of operations was never very large. The maximum budget of the Antitrust Division was \$2,325,000—about what we spend on the Smithsonian Institute. As soon as the primary needs of the war permit, we should get on with the job of carrying out the intent of the antitrust laws. Many American businessmen recognize that the principles of free enterprise require vigilance in combating monopolistic practices. Businessmen cannot, as the late President Roosevelt stated “term each antitrust prosecution as a persecution.”

Congress has before it a number of proposals intended to make our patent system more consistent with the national policy for preserving competition. Some steps must be taken to assume that the right to derive profit from the use of an invention is not used as a means of dividing markets, restricting output, or setting prices.

It is not enough to have an anti-monopoly policy. We must have a positive program to encourage competition. We must seek out the elements in our economy that are necessary to its survival and organize our institutions accordingly.

LABOR, MANAGEMENT, AND WAGES

Just as the new conception of close, intelligent relations between management and labor was important in achieving the miracle of war production, so can it be important in a comparable miracle of peacetime production.

The Labor Charter, sponsored by the Chamber of Commerce of the United States, the American Federation of Labor, and the Congress of Industrial Organizations, is an indication of the new spirit of teamwork that was born of the war and which it is so vital to preserve as one of our postwar national assets.

American business is coming to realize that a high wage policy is in the long-run interest of everyone because it helps create the markets necessary to move goods from farm and factory—to store shelves—to the homes of America. And these high wages are necessary to achievement of the high standard of living which we can and must attain. Labor will continue to bargain for higher wages and management is recognizing the right of collective bargaining as a proper part of an economic democracy. This bargaining is most effective

when conducted in a spirit of understanding and tolerance on both sides. Such understanding is evidenced in the growing realization within the ranks of labor, that a requisite of higher wages is higher production per man. To protect unorganized labor and to safeguard markets for business, the Government, as noted elsewhere in this report, should put a floor under wages.

We must make a determined effort to substitute arbitration and other orderly procedures in the place of strikes and violence, with their inevitable hardship to the worker and great economic loss to the Nation.

FOREIGN TRADE

The fundamentals of the United States foreign economic policy are simple and clear:

- A. We want our consumers and businesses to have the right to buy and sell in markets without discrimination. Only in this way can we secure the most efficient use of division of labor among nations with the maximum advantages to our American standard of living.
- B. We want to cooperate with other nations in promoting world peace and economic and financial stability. The United States cannot be an island of stability in a sea of instability nor can world stability be achieved without American prosperity and cooperation.
- C. We want to promote the free international movement of capital as a means of channeling American investment into the uses which are most productive to us.

This is neither a “give-away” policy nor a “beggar-my-neighbor” policy. It is a policy for realizing the greatest advantages of mutually beneficial exchange and cooperation.

It is equally clear that there are a number of measures which must be taken to achieve the foregoing objectives.

1. **Renewal of the Trade Agreements Act, the 50 percent reduction limit to apply to the rates existing in 1945. Ratification of the Bretton Woods Agreement establishing an International Bank for Reconstruction and Development, and an International Stabilization Fund.**
2. **Strengthening of the Export-Import Bank to allow it a broader sphere of operation.**
3. **Repeal of legislation prohibiting loans to governments in default of their obligations to the United States.**

Congress has taken favorable action on one of these measures. I sincerely hope it will approve all of them in the near future.

I urge also a prompt clearing-up of all foreign government debt to the United States on a realistic basis. It is most important that we do not enter into the postwar period with the channels of international trade blocked by controversies over obligations growing out of either World War I or II.

SOCIAL SECURITY

The United States is a country of enormous physical resources. Yet its greatest asset—the ultimate source of all its vast wealth—is people. Unless we take proper measures to give every child the right start in life—through education and adequate medical facilities—we are guilty of wanton waste. Unless we guard the grown individual against the full shock of the inevitable dislocations of our highly mechanized civilization, we are unnecessarily callous.

It is most desirable that the States play their part in providing protection for their own citizens. Because concerted action of this nature takes time, it is not too early to consider the general structure of a more adequate social security system.

We need to consider broadening the coverage of unemployment compensation; old-age and survivors' insurance; the provision of sickness and disability benefits; provision of better medical care; the institution of more adequate grants-in-aid to the States for hospitals and health centers; and better equalization of educational opportunities.

Social Security is vital not merely as a humanitarian but as an economic policy. Adequate protection against the major hazards of modern society is a necessary factor in maintaining mass purchasing power, which in turn is the basis of full employment.

FARM PROGRAM

During the war, agricultural production has increased more than 30 percent and at the same time, the number of people living on farms has dropped 20 percent.

This is a record of which to be proud but it suggests that after the war there will be a problem of finding markets for farm produce or of making basic agricultural readjustments.

The basis of any sound prosperity for farmers must be the maintenance of our business economy at or near full employment. This is necessary to provide a demand for farm products and to avoid a disastrous dip in prices which even the supports which the present law provides would be hard put to prevent. Conditions of full employment will also be necessary to allow the excess farm population to find productive and profitable employment in towns and cities.

Present legislation provides for maintaining supports under farm prices. How successful these supports are will depend on general business conditions and the maintenance of purchasing power. It may well be that price supports might tend to encourage the production of some farm products at a time when this should no longer be encouraged. At the same time, price supports might discourage marketing of agriculture produce if prices were out of line with consumers' incomes.

Nevertheless it is absolutely essential that the Government make good on its commitments given to farmers during wartime to encourage production. Justice Byrnes stated in his report of April 1, 1945:

"Situations may arise . . . in which it would ultimately cost the Government less, and be to the long-time interest of the producers, to permit the prices to decline below the authorized support level, and make up the difference with direct Government payments."

I urge that this idea be given most thorough study. The maintenance of prices under the present system is in effect a payment which the government requires the consumer to make to the farmer to take care of a price situation that would put the farmer at a disadvantage with the rest of the population. However, if the Government makes this payment direct, it has the advantage of permitting the consumer to get more for his money, thus encouraging increased consumption. It allows farm prices to reach their natural level and thus puts the farmer in a better position to compete in the foreign market. And the surplus payments can be so adjusted that the farmer can be steered away from those crops which are not profitable to produce.

I am attempting to do no more in this report than to draw attention to the profound problems that will be upon us as soon as the rest of the world gets back into farm production. We must be prepared to think and act accordingly. Businessmen must realize that the farm problem is their problem, just as farmers must realize that unemployment in industry inevitably means hardship to them.

PUBLIC WORKS AND CONSTRUCTION

We have a tremendous building job ahead of us. After a decade of depression and five years of war there is a great accumulated demand for houses, streets and roads, community facilities and, in many industries, new productive capacity. It has been estimated that if we were to supply our population with adequate healthful housing in the post-war decade we should need 1,250,000 new nonfarm dwellings a year—one-third more than we ever built in the best year.

The prospect of achieving a high, stable level of total output depends in large part upon the timing and volume of construction activity.

In the late 20's, construction employed over 2 million men per year on site and about an equal number in supporting industries. By 1933 this employment had fallen 60 percent.

During the war, construction rose to an all-time high rate of \$13 billion a year, but it has now dropped to about \$4 billion. Postwar it should rise to an annual level of at least \$15 billion, if we are to fulfill our needs.

We need foresighted plans for construction—plans by private business, by local, State, and Federal Governments. These plans should include a program of useful Federal projects. They should include low-cost housing in areas which the private construction industry cannot be expected to provide. The timing and aggregate volume of public projects should be integrated with a fiscal policy whose object is to stabilize our economy at high levels of production and employment. Cooperation is needed with State and local authorities, providing them with information and helping them to time and adapt their programs to the total economic picture. Facts on population growth and movements, vacancies, costs, prices and other factors influencing the construction market should be made available by the Government to the construction industry and the public generally. The Government can make a great contribution in promoting the science of city planning, efficient construction methods, and the application of modern architecture to the small home.

The construction industry appears to have lagged behind American business as a whole in technological advances and in progressively reducing the cost of its product to the public, thus increasing markets. There is a great need for a thorough examination of this important area in our economy, especially with relation to restrictive practices, whether they apply to materials, labor, or financing. If ways can be found to free up this great industry the resulting benefits to the housing standards of the individual and to the stability of our whole economy would be incalculable.

FISCAL POLICY

The postwar Federal budget will be large. It is reasonable to expect that the Government will be spending, on the average, about \$25 billion a year, about three times the prewar budget. Tax receipts will be far larger than ever before. The legacy of the war—in debt, obligations to veterans, and maintenance needs of the armed forces—accounts for most of the increase. Also, we shall want to enjoy some of our increased national income in the form of increased public services.

The management of a budget of this size will have a tremendous influence on the level and stability of the whole economy. Whether or not to manage the budget is no issue. It *must* be managed. But a budget which is entirely the result of uncoordinated consideration of particular projects and policies can have perverse effects upon the economy as a whole. We need to consider and formulate a total budget in relation to the total economic situation. A fiscal policy developed on this basis can stimulate private expenditures either by reducing taxes or increasing public spending whenever private spending appears inadequate to sustain full employment. It can raise taxes or reduce Government spending whenever the level of private spending threatens inflation. Further, each type of tax and each type of expenditure must be appraised in terms of economic consequences.

On the expenditure side of the budget the item most susceptible to flexible planning is public works. Expenditures for most other Government functions cannot be varied greatly. But both the aggregate volume of useful public works over long periods and the year-to-year timing may be adjusted over a considerable range without sacrifice of efficiency or utility.

Appropriate use of budgetary policy for economic stabilization will require improvement of existing techniques for fiscal planning. The Administration must be prepared to submit a government budget framed and analyzed in relation to the total national budget; the Congress must be equipped to consider and, if necessary, revise the budget on the same basis. The Full Employment Bill, which I have endorsed in principle, establishes a mechanism for discharging this necessary function of government—budgetary planning—in a way which will help fulfill the necessary responsibility of government, full employment.

OPERATIONS OF THE ADVISORY BOARD

During the quarter covered by this report, the Advisory Board, created under the act establishing this Office, has continued its regular semimonthly meetings. It has been my pleasure to attend and participate in discussions at all of the meetings of the Board. My deputies, general counsel, and staff members have joined in these meetings as well. In the intervals between meetings of the Board, and especially during the critical period immediately before and after VE-day, I have had frequent informal conferences with the Board's Chairman, O. Max Gardner, and with individual members.

The agenda of Advisory Board meetings during this quarter have been devoted to discussion of the key problems of war mobilization and reconversion with which this Office has been currently dealing. Recent deliberations of the Board have dealt intensively with the changes in administrative policy and operations occasioned by the shift from a two-front to a one-front war. Thus, for example, the agenda of two meetings of the Board were given over to consideration of cut-backs in munitions procurement schedules and to requirements of the civilian economy during the reconversion period.

Plans for the continuation and modification of wage, price, manpower, and materials controls and the inter-relationship between these various controls have occupied the attention of the Board on the agenda of two other meetings. At a meeting early in the past quarter, the Board considered the relation between revision of the Federal tax structure and the expansion of the civilian economy in the reconversion and postwar periods.

Other subjects which have been explored by the Board include reports on current world food problems and the allocation of food reserves and output, the disposal of surplus property abroad and unemployment compensation. The Board has made initial inquiries into the many problems relevant to the attainment and maintenance of high levels of employment, production, and income in the reconversion and postwar periods.

Officials of the armed services and of civilian agencies of Government have met with the Advisory Board to discuss the agenda subjects enumerated above. Deputies and staff aids from my Office, while participating in these discussions, have also provided the Board with technical information and judgment on the subjects considered.

The informal discussions of the Board have provided an invaluable means through which I have been able to obtain the frank opinion and judgment of individual members and the advice and recommendations of the group on a wide range of detailed problems. In addition, the Board has formulated two major statements of objectives and principles. The first deals with objectives for the postwar economy of the Nation; the second sets forth a series of reconversion principles calculated to facilitate a smooth transition to a prosperous post-war economy. The two statements are here summarized:

1. Military victory over Japan and Germany will prove empty of meaning if we fail in rebuilding a peacetime economy far stronger and more productive than before the war. The magnificent cooperation of industry, labor, and farmers on the home front has resulted in unprecedentedly high levels of wartime production, income and employment. National solvency and a stable peace require the maintenance of those high levels into the peacetime economy. Pursuant to that objective, the following five convictions constitute our declaration of faith in the future of the Nation:

That full employment can and will be attained here in the United States.

That it can be achieved under our system of competitive free enterprise. In the conversion period, bold ventures by all our citizens are necessary and the role of Government must be positive. This does not call for any compromise with traditional American institutions and relations of Government, labor, business, and agriculture.

That the full use of our resources of materials and manpower can produce a national income which, properly distributed, will bring about sound and stable business and industrial activity, higher real wages, better health, housing, and education for all.

That the veterans returning when war is finally at an end will then find a respected and secured place in the economic life of the Nation.

That this Nation can and will in that way help the needy in devastated lands abroad to alleviate their misery and enable them again to provide for themselves.

2. Reconversion plans, while assuring all-out production for the defeat of Japan, must anticipate the impact on the domestic economy which will be felt when that production is terminated.

The following principles are suggested as useful guides for reconversion planning between VE- and VJ-days:

The full supply of the requirements of the armed services needed to defeat Japan is of first importance and not susceptible of compromise; the prudent use of our resources calls for careful determination of military requirements and their close scrutiny with reference to the needs of the civilian economy, the minimum requirements of which are essential to continued war production.

The production of civilian goods and services must be built up as rapidly as possible; the holding back of the pressures of inflation while carrying the load of continued war production clearly demands a maximum effort to increase civilian production; should military requirements continue at a high rate it would be preferable to increase total national production rather than accept further decreases or even moderate increases in civilian goods and services; the higher the volume of civilian production at the point when Japan falls the greater will be the opportunity to complete the reconversion without an economic upset.

Government expenditures must be brought more closely into line with Government receipts; our aim being a vigorous high level peacetime economy in which total production substantially equals present war and civilian production combined and in which money income constantly increases in relation to costs and prices—a smooth conversion to that type of peacetime economy requires reduction of Government expenditures as rapidly as possible by holding down the prices of war materials and reducing war production as rapidly as the real strategic requirements permit; during the reconversion period tax revenues must remain at high levels to reduce the gap between Government expenditures and receipts.

The Advisory Board's Chairman has appointed a committee consisting of Eric Johnston as Chairman, Mrs. Anna M. Rosenberg, Philip Murray, and Albert S. Goss to formulate and expedite the study of the guaranteed annual wage, in accordance with the request of the late President Roosevelt that the Advisory Board undertake such an inquiry. The Committee has developed the broad outlines of the study and a staff is being organized to conduct the necessary research and fact-gathering.

GOVERNMENT REORGANIZATION

Two paragraphs in Title I of the War Mobilization and Reconversion Act deal with the importance of government reorganization.

Section 101 (c) (5) charges the Director to

“cause studies and reports to be made for him by the various executive agencies which will enable him to determine the need for simplification, consolidation, or elimination of such executive agencies as have been established for the purpose of the war emergency, for the termination or establishment by statute, of executive agencies which exist under Executive Order only . . .”

Pursuant to this provision of law, I have requested the Bureau of the Budget to carry out a comprehensive survey of the war agencies so that I may submit to the President and the Congress appropriate recommendation.

The President has requested the Congress to authorize him to consolidate agencies, transfer and redistribute functions and generally reorganize the Executive Branch of the Government. Such power, however, would not be absolute: under the President's recommendation, action taken by him would be subject to suspension by a concurrent resolution of the Congress. I heartily recommend the enactment of this legislation requested by the President.

When the Bureau of the Budget has completed its survey, I shall make further recommendations to the President and the Congress.

Section 101 (c) (6) required the Director to

“institute a specific study, for submission to the President and the Congress, of the present functions of the various executive agencies in the field of manpower, and develop a program for reorganizing and consolidating such agencies to the fullest extent practical . . .”

I have instituted such a study, and it is nearly complete. However, before transmitting recommendations to the President and the Congress, I desire to confer with the newly designated Secretary of Labor upon his accession to office and get the benefit of his advice and counsel.