

December 31, 1944

[Budget Message]

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BUDGET MESSAGE OF THE PRESIDENT

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting the budget for the fiscal year 1946 as fighting all over the globe reaches a climax of fury. We on the home front must back our fighting men and women to the limit. That is our supreme duty. At the same time we must look ahead. We must be ready to throw our whole effort into the campaign against Japan as fast as the war in Europe permits. And finally, we must begin plans to transform an all-out war economy into a full-employment peace economy whenever demobilization becomes possible. Programs for all these developments must be considered in budget planning for a period that extends over 18 months.

We must make sure that our armed forces can plan their procurement programs for continuing global war. I shall transmit detailed recommendations for war appropriations by early spring, in time for the Congress to act on these requests before the beginning of the new fiscal year. I estimate now that 73 billion dollars of appropriations and authorizations will be needed for war purposes for the fiscal year 1946.

If the war develops favorably, unobligated balances of war appropriations no longer required for authorized purposes will be placed in reserve and reported to the Congress for repeal or other action under the provisions of present law.

Actual expenditures of the Federal Government depend largely on the course of the war. I have not made in the past, and I shall not now make, any prediction concerning the length of the war. My only prediction is that our enemies will be totally defeated before we lay down our arms. Depending on various assumptions which may reasonably be made with respect to the course of the war, estimates of war expenditures for the fiscal year 1946 range from less than 60 to more than 80 billion dollars. I propose to use 70 billion dollars as a tentative estimate of war expenditures for the fiscal year 1946. I repeat, however--the rate of actual spending must depend on developments on the battlefronts.

For purposes other than war, I am recommending specific appropriations, in general and special accounts, to cover estimated expenditures of 13 billion dollars.

Total appropriations and reappropriations for war and other purposes reached a peak of 120 billion dollars for the last complete fiscal year that ended June 30, 1944; 102 billion dollars have been appropriated for the current fiscal year; and I estimate now that 86 billion dollars will be recommended to the Congress for appropriations for the next fiscal year.

Total expenditures for war and other purposes (in general and special accounts and net outlays of Government corporations, excluding debt retirement) were 95 billion dollars during the fiscal year 1944; they are now estimated at 99 billion dollars for the current fiscal

year; and, on the basis of the above assumption for war expenditures, they will be 83 billion dollars during the next fiscal year 1946.

I propose no substantial change in tax legislation at this time. Revenues are expected to decline somewhat under the influence of the estimated decline in expenditures. The Federal debt is estimated to reach 251 billion dollars on June 30, 1945, and 292 billion dollars twelve months later.

The 1946 budget is summarized in charts and tables following this message. In the subsequent sections I comment on appropriations, expenditures, and revenues under existing legislation and make suggestions for future legislation.

The War Program

Expenditures for the war program

Early in the war we had the threefold task of building up a new munitions industry in this country, producing the equipment and means of transportation for our expanding armed forces, and aiding our Allies in their resistance against the aggressors. The record today shows that we have spent 28 billion dollars since July 1, 1940, to build munitions factories, cantonments, depots, hospitals, war housing, and for other war construction. Three times the total strength of our Army and Navy at the time of Pearl Harbor is now fighting or deployed overseas. Thirty-five billion dollars of lend-lease aid has been furnished in goods and services to our Allies, who in turn have aided us with approximately

5 billion dollars' worth of goods and services.

We have now substantially completed our war construction. Expenditures for war construction, which in the fiscal year 1943 reached a peak of 12.7 billion dollars, are now down to an annual rate of about 2.5 billion dollars. The development of new weapons and increased need for ammunition still require some new plant and equipment, but total outlays for war construction are declining, as shown in the following table:

Text Table 1
War Expenditures for Fiscal Years 1941-1945
Including Net Outlays of Government Corporations
(In billions)

Type of expenditure	1941	1942	1943	1944	1945 ^{1/}
Munitions, including ships	\$2.3	\$12.7	\$42.3	\$55.6	\$53.8
War construction and war plant:					
Industrial plant and equipment	.8	4.1	6.7	2.6	1.3
Non-industrial and military construction	1.4	3.5	6.0	2.0	.9
Total war construction and war plant	2.2	7.6	12.7	4.6	2.2
Pay, subsistence, and other nonmunitions ^{2/}	2.2	8.0	20.1	29.5	33.0
Total war expenditures	6.7	28.3	75.1	89.7	89.0

^{1/} Revised estimate

^{2/} Including agricultural lend-lease and other civilian war activities

We have also substantially completed the initial equipment of the Army and Navy and their Air Forces. Although we have now a Merchant

Marine several times its prewar size, the terrific strain of global war makes necessary some further addition to the cargo and tanker fleet.

Our forces engaged in battles in Europe and Asia expend munitions at a prodigious rate. The main job now is that of replenishing equipment and supplies and of providing our fighting men with the most up-to-date weapons which can be contrived. Some weapons of which we had sizable inventories only a few months ago must now be produced in increased quantities. More than one-fourth of present war production is in critical items. Untimely relaxation in war production spells greater sacrifice in human lives and delays victory.

Expenditures for pay and subsistence of the armed forces still are increasing because of the higher pay for a larger number of soldiers and sailors stationed overseas. Expenditures for mustering-out payments are also increasing as a result of the considerable turnover in our forces.

The war expenditure estimate for the fiscal year 1946 also provides for continuance of subsidies now paid out of funds of the Reconstruction Finance Corporation to assure war output and to stabilize the cost of living. It excludes payments of the Department of Agriculture for the farm price support and related agricultural programs which are discussed elsewhere in this budget. No allowance is made either for possible addition of new subsidy programs or for discontinuance or reduction of existing programs, although I hope that a reduction will become possible. In accordance with legislation enacted by the last Congress, I shall

submit detailed recommendations for these programs at a later date.

War expenditures are expected to decline in the fiscal year 1946; our war construction and initial military equipment are substantially complete, and our pipelines have been filled. The extent of that decline depends on the course of the war. The composition of war expenditures will change considerably in any case.

There has been ^{our optimistic} ~~unwarranted~~ speculation about the possible cut in war expenditures when major hostilities in Europe end and our main efforts are concentrated on the Japanese campaign. We should make a great mistake if, in our military and budgetary planning, we underestimate the task of defeating Japan. Japan now occupies twice the area which was held by the Nazis in Europe at the peak of their power, an area as large as the continental United States. The population now under Japanese control is more than three times the population of the United States.

Our supply lines to the Pacific and Asiatic theater are from two to three times the distance to Europe. To deliver one-third of our Army supplies to our soldiers in the far reaches of the Pacific has required approximately as many ships as to deliver the other two-thirds to our armies in Europe and elsewhere.

Our task in Europe will not end with the cessation of hostilities there. The war will not be won unless we accept our share of responsibility for the administration of conquered territories and for relief and rehabilitation in the liberated areas. Expenditures for these tasks are part of the war budget.

Appropriations for the war program

The uncertainties of war require that the budgets of the military agencies be sufficiently large and flexible to permit them to meet all demands that may arise. Adequate appropriations and contract authorizations enable the war agencies to make commitments and to place procurement contracts far enough ahead for industry to plan the necessary level of production. On the other hand, we should, of course, also be prepared to adjust our war programs downward if the development of the war allows.

The Congress has placed administrative controls in the Executive Office of the President by granting authority, under legislation expiring June 30, 1945, to limit personnel in the Federal agencies and has reinforced them by requesting reports on unobligated balances of war appropriations.

There is a considerable time lag between the legislative authorization or appropriation for war supply, the obligation or placement of orders with contractors, and the final payment on delivery of finished munitions. The huge authorizations and appropriations voted by the Congress in the early years of the war enabled the war agencies to place munitions contracts for later delivery. We are now paying for deliveries under these contracts. Unliquidated obligations for the war program totaled 100 billion dollars at the beginning of the fiscal year 1944; they have now been reduced to about 70 billion dollars by payment or, in some cases, by cancellation.

Appropriations for war purposes, in the general and special accounts, for the fiscal year 1944 were 103 billion dollars. For the

fiscal year 1945, they declined to 92 billion dollars, and for the fiscal year 1946 are now tentatively estimated at 73 billion dollars. These totals include reappropriations and contract authorizations. The total war program, measured by appropriations and authorizations for the fiscal years 1941 through 1946, amounts to 435 billion dollars.

The estimated appropriations and authorizations for war for the fiscal year 1946 are composed of 58 billion dollars of new appropriations and 15 billion dollars of reappropriations of funds previously appropriated for war but not yet obligated. Unobligated balances of prior year appropriations and authorizations to the Maritime Commission are adequate to carry out the merchant ship construction program as now approved. Detailed recommendations for most war activities will be transmitted in the spring.

These tentative estimates of appropriations include provisions for continuing lend-lease aid to our Allies. They are based on the assumption that the Lend-Lease Act will be re-enacted prior to its expiration on June 30, 1945. About one-sixth of present war outlays are for lend-lease and for relief and rehabilitation.

We shall continue to provide lend-lease, and our Allies to provide reciprocal aid, to the full extent necessary to win the war. Lend-lease has been and will be an instrument of war; it will be liquidated with the end of the war. But when the war draws to a close in any theater, it may become urgently necessary for us to assist in relieving distress in the liberated areas. Appropriations to the War Department

make some provision for civilian supply in territories occupied by the Army but only to the extent necessary in the interest of military operations. For relief and rehabilitation after the battle lifts, the Congress has already authorized 1,350 million dollars as the contribution of the United States to the United Nations Relief and Rehabilitation Administration. To date, appropriations of 450 million dollars and transfer authorizations from lend-lease of 350 million dollars have been made as our share for immediate needs under this program. If the appropriated amount proves inadequate, we must take additional measures, in cooperation with the other United Nations, to make sure that the people in the liberated countries have essential relief from the devastation of war.

Appropriations and Expenditures for Other
Than War Activities

Aftermath-of-war

In last year's Budget Message I indicated the inevitable increase of expenditures in the aftermath-of-war category, particularly payments to war veterans, interest on the public debt, and tax refunds. Total expenditures for these purposes are increasing from 1.6 billion dollars in 1939 to an estimated 6.5 billion dollars in the current fiscal year, and will probably amount to 9.8 billion dollars in the next fiscal year. This increase arises directly out of the war. The 1946 total is larger than the whole Federal budget five years ago.

Veterans' pensions and benefits. Although the full impact of the veterans' program will not be felt until the years following demobilisation, the total estimated requirements for 1946 of 2,623 million dollars represent about 20 percent of the total appropriations for other than direct war purposes.

Many uncertainties are involved in estimating requirements for the various programs of the Veterans Administration. It is likely that additional appropriations for the current fiscal year will become necessary to cover increased pension costs occasioned by losses in service; to conform with recent legislation increasing coverage and liberalizing payments to veterans of former wars and to their dependents; and to carry out the provisions of the Servicemen's Readjustment Act of 1944.

Pension costs during the fiscal year 1946 are expected to increase sharply to a total of 1,068 million dollars, and the costs of education, vocational rehabilitation, readjustment allowances, and loan guarantees to about 300 million dollars. In addition, 1,000 million dollars are provided for losses resulting from the hazard of the war among holders of National Service Life Insurance policies and 85 million dollars for construction and reconditioning of hospital facilities. This hospital construction program (shown in the budget under general public works), together with Army facilities later to be made available to the Veterans Administration, may ultimately provide 300,000 beds.

The time and rate of demobilization will greatly affect the expansion of education, readjustment allowance, loan guarantee, and rehabilitation activities of the Veterans Administration. The number of veterans of the present war will increase until at full tide these veterans will constitute one-tenth of the population and almost one-fourth of the labor force. The responsibility which we are assuming for their jobs, education, medical care, and financial assistance makes it increasingly essential that these programs for veterans be integrated with other programs of like nature affecting the whole Nation.

Interest. Interest on the public debt is estimated to rise next year by 750 million dollars to 4,500 million dollars. This rise reflects entirely the current increase in the outstanding debt. No change in interest rates is anticipated.

Tax refunds. Refunds of taxes are expected to require a total of 2,725 million dollars, an increase of 557 million dollars over the fiscal year 1945. About 1 billion dollars of this total will consist of repayments to wage and salary earners of withholdings in excess of tax liabilities. Another billion dollars reflects the issuance of postwar bonds which cover the refundable 10 percent of the excess profits tax. Other corporate tax refunds are due to the recomputation of the special amortization allowances for emergency facilities certified to be no longer necessary for war production. Refunds arising from the carryback provision of the excess profits tax law and other provisions for corporate tax relief will reach large amounts only in future years.

Agriculture

Agricultural production has continued at record levels for three successive war years. Farm income has been more than 135 percent of parity throughout the period. To assure continued production at a high level, I recommend appropriations for the Department of Agriculture, including the War Food Administration, of 502 million dollars. This, together with reappropriations and transfers, is substantially the same as the amount available for these purposes in the fiscal year 1945. The amount recommended includes provision for the Agricultural Adjustment Agency, the Soil Conservation Service, the Farm Security Administration, the Rural Electrification Administration, the exportation and domestic consumption of agricultural commodities, the administration of the Sugar Act, and research and other long-established functions of the Department of Agriculture. It does not include provisions for potential net expenditures of either the Commodity Credit Corporation or the Federal Crop Insurance Corporation.

Anticipating the needs of returning war veterans and the desirability of providing adequate assistance to small, low-income farmers, I recommend that the borrowing authority of the Farm Security Administration be increased from 67 to 125 million dollars for rural rehabilitation and from 15 to 50 million dollars for the tenant purchase program. I recommend that the borrowing authority of the Rural Electrification Administration be increased from 25 to 150 million dollars in order to permit the extension of electricity to at least part of the 6 million rural families now without such services. I have already recommended

an increase of 2 billion dollars in borrowing authority of the Commodity Credit Corporation, and I shall recommend appropriations for financing the revived program for crop insurance in the very near future.

This agricultural budget is a wartime budget. It does not fully reflect desirable long-time objectives. In the future we must develop a program to eliminate malnutrition and rural poverty. The Government is committed to support agricultural prices to farmers at a fair level for two years after the war. Farmers and the Nation as a whole must be protected from heavy fluctuations in agricultural prices and income, and this must be accomplished without the accumulation of unmanageable surpluses. So long as a large number of people have an inadequate diet, we do not have a true surplus of agricultural production. We can have only too much of the wrong things.

Social security, retirement, and education

Social security. Appropriations for social security programs are estimated at 515 (?) million dollars for the fiscal year 1946, an increase of 17 (?) million dollars over the fiscal year 1945. This increase is largely for higher grants to match payments of the states under the Social Security Act.

I hope that the Congress will give early consideration to extension and improvement of our social security system and will re-examine the financial basis of the program.

Retirement funds. Appropriations for the Government employees' retirement funds are estimated at 220 (?) million dollars for the fiscal

year 1946, an increase of 24 (?) million dollars over the current fiscal year. This increase reflects previously accrued obligations.

Education. As a part of the budget for the fiscal year 1946, I am recommending reorganization of the basic structure of the Office of Education. This reorganization will facilitate service to the states in the development of more adequate educational programs with proper emphasis on all the various aspects of education.

The training and educational programs of the Army, the Navy, and of civilian agencies during this war have broadened our conception of the role that education should play in our national life. The records of Selective Service reveal that we have fallen far short of a suitable standard of elementary and secondary education. If a suitable standard is to be maintained in all parts of the country, the Federal Government must render aid where it is needed—but only where it is needed. Such financial aid should involve no interference with state and local control and administration of educational programs. It should simply make good our national obligation to all our children. This country is great enough to guarantee the right to education adequate for full citizenship.

Public works

Recommended appropriations under the general public works program in the fiscal year 1946 total 279 million dollars, 93 million dollars more than appropriated for the current year. Actual construction will be restricted to those projects which contribute directly to the war effort. I recommend, however, appropriations for the planning of public

works which the Congress has already authorized. We must continue to stock up a shelf of meritorious construction and development projects to be undertaken as manpower and material become available.

By the end of the current fiscal year, detailed plans will be ready for about 1.5 billion dollars of Federal public works, and also for about 1 billion dollars for Federal-aid highways, half to be financed with state funds. We need a larger shelf of detailed plans in order to be prepared for the postwar period. Hence, appropriations for 1946 are recommended to make possible the completion of additional plans for highways, flood control, river development, stream pollution control, power transmission, reclamation, hospital and other construction, as authorized by law. Further requests for funds for detailed planning of Federal projects will be made on Congressional authorization.

Plans have been completed or are in the design stage for about 3 billion dollars of state and local public works, excluding Federal-aid highways. The War Mobilization and Reconversion Act authorizes funds for Federal loans and advances which would make it possible to place further projects on the shelf of planned public works. The extent to which Federal funds are needed to enable states and localities to plan adequately for useful public works is now being re-examined, and I shall soon transmit a new recommendation concerning funds for these purposes.

In addition, programs are being developed for Federal loans and guarantees to stimulate private construction after the war. Guarantees and loans already available under the Servicemen's Readjustment Act will

encourage residential, commercial, and farm building.

General Government

The civil departments and agencies of the Federal Government have been fully geared to the war effort. Appropriations for other than direct war or war-related activities have been reduced to rock-bottom. When the war situation permits a reduction in the war program, it will also be possible to reduce war activities of the civil departments. Such activities should be curtailed wherever possible. The Bureau of the Budget has been instructed to review currently the activities of the various Government agencies and to recommend such changes as become necessary in light of changing war requirements.

Agencies which will play a leading role in the peace effort must begin preparations for a progressively larger job. I recommend, for instance, an increase in the appropriations for the Department of State in order that it may be more adequately staffed at home and abroad. To prepare for the expected increase in work load, small increases in appropriations are recommended for the Bureau of Foreign and Domestic Commerce, the Tariff Commission, the Federal Trade Commission, the Office of the Administrator of Civil Aeronautics, the Federal Communications Commission, and certain other agencies.

Recommended appropriations for General Government for the fiscal year 1946 are 10 percent more than the corresponding appropriations enacted by the Congress for the current fiscal year. The increase will eventually be somewhat larger if supplemental appropriations for overtime pay are adopted.

Government corporations—other than war activities

Receipts of Government corporations (excluding war activities of the Reconstruction Finance Corporation) will exceed expenditures by 28 million dollars in the fiscal year 1946, compared with 223 million dollars for the current fiscal year.

The operations of the Commodity Credit Corporation in connection with the farm and food programs require net outlays of 1 billion dollars during the current fiscal year. The estimate for the fiscal year 1946 provides for net expenditures of 500 million dollars which will absorb practically all of the funds available under its present maximum borrowing authority of 3 billion dollars. There has been presented to the Congress, with my approval, a recommendation for a further increase in the Corporation's borrowing authority. If the Congress approves this authorization, increased operations of the Corporation may result in additional net expenditures in the fiscal year 1946.

Activities of other Government corporations are expected to show smaller net receipts than during the fiscal year 1945. Liquidation of prewar loans and other assets will probably taper off. Some expansion in the nondefense lending activities of the Reconstruction Finance Corporation is also anticipated. The substantial net receipts, in both the fiscal years 1945 and 1946, of the Federal Land Banks and the Federal Farm Mortgage Corporation reflect transfers of funds necessary to retire outstanding obligations.

Federal personnel

Most of the Federal civilian employees are engaged in essential war work and must stay on the job as long as the war lasts. Government war services have suffered in recent months by departure of personnel, partly because of over-optimism about early victory, partly because of concern about employment opportunities after the war.

The total number of paid Federal employees in the continental United States in November 1944 was slightly under 2,900,000, of whom 2,040,000 were in the War and Navy Departments and other war agencies and 836,000 in the Post Office and other peacetime establishments. The total has declined 126,000 below the peak of June 1943. There will be further reductions as the course of the war permits, but our main concern at the present moment is to keep essential Government personnel on the job.

Anticipated supplemental appropriations for the fiscal year 1946 include 500 million dollars for overtime pay and other additional compensation, assuming enactment of such pay adjustments as the Congress may authorize after expiration of the present Act, June 30, 1945. This allowance has not been allocated to the detailed war and other appropriation estimates. The budget estimates of personnel needs, expressed in "man years," do, however, assume continuance of the present work week, generally 48 hours. Under the War Overtime Pay Act of 1943, salaried employees are compensated for hours worked in excess of 40 a week. With but minor exceptions, basic salary rates have not been increased during the war.

In contrast to salaried employees, the skilled and unskilled workers in Navy yards, arsenals, and the like have had wage adjustments which have approximately kept pace with wage rates for comparable work in private industry. They have also received overtime pay at true time-and-one-half rates. The third large category of Federal employees—the postal workers—has been granted a wartime bonus and, in addition, overtime compensation at straight-time rates.

Prior to the expiration of the overtime pay law, the Congress should re-examine the entire subject of hours of work and pay. Regardless of the progress of the war in Europe, many Federal employees will continue to be needed on a 48-hour work schedule per week, and provision must be made to continue their overtime compensation. I recommend that the Congress enact permanent overtime pay legislation which would authorize overtime compensation at true time-and-one-half rates.

When at some future date it becomes possible for most Federal employees to go on a forty-hour work week, their earnings will be materially reduced. A situation of hardship and unfairness will then exist unless an increase in basic salary rates has been granted in recognition of the rise in the cost of living. I recommend a prompt re-examination of Federal salary rates with a view to making adjustments consistent with the national stabilization policy.

Budget Totals

The discussion of expenditures for the war and for all other purposes lays the basis for presenting the budget totals and for an analysis of the impact of the Federal budget on the national economy as a whole.

Expenditures

Of the total estimated expenditures, including net outlays of Government corporations, of 83 billion dollars for the fiscal year 1946, 84 percent are for direct war purposes; 12 percent are for veterans, interest on the public debt and tax refunds; and only 4 percent for all other activities of the Federal Government. Expenditures in this last group of "other activities" are estimated at 3.2 billion dollars, approximately the same as for the current fiscal year; they are only about one-half of what they were in the years before the start of the defense program—largely because of the reduction in work relief and general public works.

Net receipts in the fiscal year 1946 under existing legislation

Net receipts in general and special accounts under existing legislation are expected to decline from 45.4 billion dollars in the current fiscal year to 40.6 billion dollars in the fiscal year 1946. This development reflects, in large part, the 16-billion-dollar decrease in expenditures estimated in this budget. Such a decrease in expenditures before full reconversion to civilian production will mean smaller individual incomes and corporate profits. This, in turn, will bring a

decrease in receipts from individual income taxes and from corporate taxes. Because the present law will expire June 30, 1945, receipts from recovery of excessive profits from renegotiated war contracts will virtually disappear by the end of the fiscal year 1946. I recommend that the Congress extend the authority to renegotiate war contracts.

Receipts from excises and customs are expected to continue at about the same level in the fiscal year 1946 as in the current fiscal year. Sale of surplus Government-owned war supplies and property will begin to yield substantial amounts. These receipts will be still larger in later fiscal years.

Recommendations for tax legislation

Wartime taxes must be maintained as long as large-scale war expenditures are necessary. When a favorable development of the war allows a major decline in war expenditures, minor tax adjustments will become possible and desirable. I am pleased that the Joint Committee on Internal Revenue Taxation is studying the tax problems of the transition and postwar period.

Borrowing in the fiscal year 1946

Borrowing requirements during the fiscal year 1946 will amount to an estimated 41 (?) billion dollars, compared with 50 (?) billion dollars in the current fiscal year. Federal trust funds, especially the social security and veterans' insurance trust funds, will have an additional 4 (?) billion dollars available for investment in Government securities, thus leaving 37 (?) billion dollars to be borrowed from individuals and

financial and other institutions. These estimates assume that the Treasury general fund balance, which amounted to 20 billion dollars at the end of the fiscal year 1944, will be reduced by 5 (?) billion dollars during the current fiscal year, and by 2 billion dollars during the fiscal year 1946. They also assume that retirement of guaranteed obligations of Government corporations held outside the Treasury, under a policy initiated in 1941, will be almost completed by June 30, 1945.

These large borrowing operations will require a further rise in the public debt to 292 (?) billion dollars on June 30, 1946. Before the debt reaches this figure, a further increase in the 260-billion-dollar debt limit will be necessary.

Management of the public debt has become one of the major financial operations of the Government. To assure effective discharge of these responsibilities and, in particular, to maintain the present low rates of interest, ample powers must be available to the monetary authorities. I shall later recommend legislation reducing the present unnecessarily high gold reserve requirements of the Federal Reserve banks and broadening controls over member bank reserves.

Economic Controls and Reconversion

Reconversion

As long as we are at war—at war against two powerful enemies or against only one of them—we will give unqualified priority to all war production and to all manpower needs of war. Nevertheless, some reconversion of war industries may become possible under the war program envisaged for the fiscal year 1946.

The foundation for dealing with the main reconversion problems has been laid by the Contract Settlement Act, the Surplus Property Act, and the War Mobilization and Reconversion Act; the machinery for the administration of these Acts is being put in operation. Still, a great many problems remain to be solved if we are to be ready for successful reconversion. We may have a scarcity of manpower in certain industries and regions, while temporary unemployment may develop in others. We may have surpluses of some commodities and a downward tendency in certain prices, particularly of raw materials, while scarcities cause a continuing upward pressure on other prices.

The human side of reconversion requires effective organization to aid each discharged war veteran and war worker to find his way back into productive peacetime employment. As far as veterans are concerned, the basis is laid by the Servicemen's Readjustment Act. I have already emphasized the need to strengthen our social security program. With respect to the reconversion period, I am particularly concerned over the fact that broad categories of workers are not covered by present legislation and that present standards for unemployment compensation are not adequate in many states. To promote employment opportunities and to assure the proper occupational adjustment of returning veterans and war workers, a strong integrated system of public employment offices is a basic necessity. We can best accomplish this objective by the establishment, through permanent legislation, of an effective national employment service with adequate coverage throughout the Nation. For

the reconversion period we should provide assistance for travel and retraining of war workers. We must also see to it that our administrative machinery for the adjustment of labor disputes is ready for the strains of the reconversion period. We must apply some of our wartime lessons in labor-management cooperation in working out a sound long-range labor policy implemented by permanent mediation machinery for the adjustment of labor disputes.

The material side of reconversion should also be conducted with a view toward the long-range objectives of economic policy. Surplus property disposal should contribute to filling the needs of production, domestic and foreign. It should be carried on with full recognition of the objectives of price stability.

Every effort should be made to achieve full civilian use of plants built for war purposes when they are no longer needed for war production and to facilitate their rapid transfer to private industry for productive use. If prompt transfers of ownership cannot be made, temporary lease arrangements may facilitate early productive use while permanent arrangements for transfer are being worked out.

Statistical information concerning business activities and markets, employment and unemployment, incomes, expenditures, and savings is urgently needed as a guide for economic policies during the remainder of the war and during the reconversion and postwar periods. I recommended appropriations for this purpose to the last Congress. I shall transmit recommendations in the near future for those essential parts of the program on which the Congress took no action. Business, agriculture,

labor, and the Government need to know the basic economic facts if each is to play its role with maximum effectiveness during the months and years ahead.

International financial programs

As the war progresses, we must hasten our plans to secure world-wide economic cooperation in both the transition period and the postwar period. We have learned that just as the United States cannot afford to be isolationist in its political philosophy, neither can it stand the malignant effects of economic isolationism.

Last July the United Nations Monetary and Financial Conference formulated Articles of Agreement for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development. These institutions will be integral parts of a broad program for cooperation among the United Nations in those areas of economic contact where failure to adopt common policies will result in economic "spite fences," economic waste, and economic warfare.

A concrete program for international monetary and financial cooperation at an early date is essential. In the first place, all countries agree that a solution must be found for the evils that stem from the unstable and destructive exchange practices which the Fund is designed to eliminate. Second, the need for international investment is already becoming acute. The liberated countries will require loans for the reconstruction of their industry, their transport, their cities, their agriculture, and their trade. The International Bank will make

direct long-term loans out of its capital or from borrowed funds, and particularly will guarantee private loans for these purposes. While the proceeds of these loans will be spent to procure equipment in the countries where it is available, the risks of lending will be spread equitably among all member countries.

It is therefore imperative that both the Fund and the Bank be established at once in order that they may be properly staffed and equipped to cope with problems which are already developing as the countries in Europe are liberated. Accordingly, I urge acceptance of the agreements and will shortly recommend the enactment of legislation to permit the United States to make its proportionate investment in the Fund and the Bank.

Our quota in the Fund will amount to 2,750 million dollars. Approximately 1,800 million dollars of this amount could be made available, with Congressional approval, out of the resources of our own stabilization fund. Of our total subscription of 3,175 million dollars to the Bank, it will be necessary to provide 635 million dollars at this time. The remainder is to be called only in case of default by borrowers on loans made or guaranteed by the Bank.

In addition to the operations of the International Bank, there will continue to be many types of foreign investment in which a national financial institution such as the Export-Import Bank should participate, especially during the next few years when the foreign demand for our products will be particularly heavy. The Export-Import Bank will provide

short- and medium-term credits to finance our exporters. It will also undertake long-term lending for reconstruction and development in cases where risks are not particularly great, where special American purposes are to be served, and where, therefore, other countries may not wish to participate. In collaboration with private banks, manufacturers, engineers, and exporters, the Export-Import Bank has accumulated ten years of successful experience in these fields. At present its resources available for new operations are very limited. In order that it may play its part in the reconstruction period, I recommend early extension of its lending power.

At present our foreign investment programs are impeded by legislation which restricts loans to those countries which are in default on loans arising out of the first World War. For both the International Bank and the Export-Import Bank to operate effectively, as well as to achieve an adequate flow of private investment, it is essential that these restrictions be removed.

National income, production, and economic controls

The American Nation has almost doubled its total output of goods and services under the impact of the war program. Slightly less than one-half of this total output is purchased by the Federal Government. What is left for civilian consumption has been sufficient to provide most of us with better living standards than prevailed before the war.

The national economy is operating at extremely high levels of income and expenditure. Despite wartime taxes and large wartime savings,

consumers and business have sought to buy more than the available supply of goods and services. Nevertheless, prices have been substantially stabilized through vigorous application of our stabilization program. Whereas the cost of living has increased by between 25 and 30 percent since 1939, it has risen only about 2 percent since the "hold-the-line" order of April 1943. Holding the line on prices and wages has prevented, and is still preventing, inflationary developments.

The reduction in war production which I hope will be possible during the next fiscal year will result in somewhat lower wartime incomes, even if wage ceilings are adjusted upward, as should be done when overtime is curtailed. Nevertheless, the demand for goods and services will undoubtedly still be great and we can be sure of eager buyers for whatever durable goods industry might produce in a reconversion period. We can also be sure of an abundant demand for new housing, for new commercial construction, for equipment required to convert war industry, and for replenishment of civilian inventories. In addition, the products of our industries will be urgently needed for reconstruction of liberated areas.

When war production is reduced some of the controls which were needed in an all-out war economy can be relaxed, although other controls must be continued to assure necessary war production and orderly reconversion. For example, we must avoid speculation in inventories such as contributed to the inflation after the last war. The fact that many

businesses and individuals have ample funds for a buying spree necessitates caution in relaxing controls. The balance between incomes, savings, and expenditures will still be precarious during the reconversion period. It will therefore be necessary to retain the machinery for allocation and price controls as long as certain materials and finished goods are in short supply. I therefore recommend extension of the Economic Stabilization Act before its expiration on June 30, 1945.

In general, it will be our policy to hold the over-all cost of living and to permit only such adjustments as are conducive to the full utilization of available resources and compatible with the general objective of economic stabilization. As long as we are engaged in a war with desperate and resourceful enemies, war controls are needed, but they must be readjusted to changing levels of war production and civilian production.

Demobilization and Postwar Full Employment

Large-scale demobilization can hardly be expected to begin during the period covered in this budget. Nevertheless, as we continue to mobilize for a long, hard war we must under no circumstances be caught unprepared for peace.

Under the impact of a huge war program, we are employing 52 million men and women either in war production or in production and service for civilian purposes, while 12 million are serving in the armed forces. Many of them will retire or resume their schooling or devote themselves to their homes and families after the war. But such reduction in the

civilian labor force will be more than offset by demobilization of our armed forces and by the natural growth of the population of working age. Thus, before long there may be 60 million men and women to be employed. Huge war expenditures have brought full employment, more than full employment. What will be the outlook when Federal expenditures are 50 and 25 billion dollars in the period of demobilization and thereafter?

The following table shows the operations of our national economy—the Nation's budget—in the calendar year 1939 with considerable unemployment, and the same operations in the calendar year 1944 when we had moved to a much higher level of incomes, expenditures, and savings, involving more than full employment under the stress of war. Manifestly full employment in peacetime can be assured only when the reduction in war demand is approximately offset by additional peacetime demand from the millions of consumers, businesses, and farmers, and by Federal, state, and local governments. And that means that consumers' expenditures and business investments must increase by about 50 percent, measured in constant prices, above the level of the year 1939 if full employment is to be provided by private enterprise.

Text Table 2

THE GOVERNMENT'S BUDGET AND THE NATION'S BUDGET^{1/}
 (or: The Government's Accounts and the Nation's Accounts)
 Calendar years 1939 and 1944
 Current prices^{2/}
 (In billions)

Economic Group	Calendar 1939			Calendar 1944		
	Receipts	Expenditures	Excess (+) Deficit (-)	Receipts	Expenditures	Excess (+) Deficit (-)
CONSUMERS						
Income after taxes	\$67.3			\$133.1		
Expenditures		\$61.7			\$97.0	
Savings			\$5.6			\$36.1
BUSINESS						
Undistributed profits and reserves	8.3			13.3		
Gross capital formation		10.9			2.6	
Excess of receipts (+) capital formation (-)			-2.6			+ 10.7
STATE AND LOCAL GOVERNMENT						
Receipts from the public, other than borrowing	8.9			10.4		
Payments to the public		9.1			8.8	
Excess of receipts (+) payments (-)			-2			+1.6
FEDERAL GOVERNMENT						
Receipts from the public, other than borrowing	6.5			47.0		
Payments to the public		9.3			95.4	
Excess of receipts (+) payments (-)			-2.8			-48.4
Less: Adjustments ^{3/}	2.4	2.4		6.3	6.3	
TOTAL (GROSS NATIONAL PRODUCT)						
Receipts	88.6			197.5		
Expenditures		88.6			197.5	
Balance			0			0

^{1/} For details and explanation see Appendix 10 (?) p.

^{2/} Prices in 1944 were between 25 and 30 percent above 1939.

^{3/} Mainly Government expenditures for other than goods and services.

Consumers' purchases of durable goods, business nonwar investments, and capital outlays of the governments for nonwar purposes have been so low during recent years that a large backlog of demand will be carried over into the postwar period. Individuals, however, will buy the new car or build the new home only if they feel secure in their jobs; businessmen will expend plant and buy new machinery only if they feel confident of profitable markets for additional products.

The American people have learned the measure of their productive capacity during the war, and they will remember that experience in the peace to come. It is the responsibility of business enterprise to translate market opportunities into employment and production. It is the responsibility of the Government to hold open the door of opportunity and to assure sustained markets. Then and only then can free enterprise provide jobs.

Full employment after the war is not only a matter of immediate self-interest, but also part of our stake in world stability and prosperity. Other countries are anxiously awaiting the development of our policy and will be more willing to make international commitments if they are assured of high postwar employment in the United States. They are fully aware that international cooperation cannot succeed unless the United States is prosperous.

We must attack the employment problem on every front.

For instance, we must overhaul the wartime tax structure to stimulate consumers' demand and to promote business investment. Such a tax program should be developed now so that it can become effective after victory.

We must make sure that there are opportunities for new and growing business. The national and international policies which we adopt now-- affecting trade, credit, investment, and competition and monopoly-- largely determine future business and employment opportunities.

We must develop the human standards and material resources of the Nation, which in turn will tend to increase our productivity and most effectively support business expansion and employment. Our program should include provision for extended social security, including medical care; for better education, public health, and nutrition; for the improvement of our homes, cities, and farms; and for the development of transportation facilities and river valleys. We must plan now so that these programs can become effective when manpower and material are available.

I shall submit to the Congress recommendations for legislative measures to implement our demobilization program and to assure jobs for all returning war veterans and discharged war workers.

Our productive achievements during the war have demonstrated once and for all the progress which this Nation can support, the progress which will be required if all our resources are put to adequate peacetime use. The war, however, will also leave us deep distortions in our economic life which must be overcome. We owe it to those who give everything that we set our sights as high for peace as we set them for war.