(2) Steps should be taken to increase coverage of employees. The present system covers only those employers who employ 8 or more persons. Although some of the States have reduced this number, I believe that legislation should be enacted which would include every employee of the class now covered by the Act, irrespective of the number of employees employed in the particular plant or shop involved.

I am speaking of civilian war workers

(3) The number of weeks of coverage should be made uniform throughout the nation, the Federal Government paying for a portion of the extended period above that allowed in the respective states.

(4) Legislation should be enacted to include maritime workers, federal employees and other industrial workers not now covered. (domestic servants? farm labor?)

(5) The maximum rate of compensation should not be less than $25 per week and the so-called GI bill should be amended to raise the maximum rate therein provided for veterans from $20 to $25 per week.

(6) Provision should be made by the Federal government to pay the necessary cost of transporting war workers from their old jobs to their new work or their old homes. This is legitimately a cost of demobilization and reconversion.

I repeat, however, that the emphasis in all legislation and in all the activities of the Director of War Mobilization and Reconversion should be directed primarily at employment — rather than to unemployment needs.

Much of the groundwork has already been done, but it is now ~~up to~~ clearly the Task of the Congress to provide a broad base of legislation under which the objective of full employment can be attained. This will require bold and imaginative action on the part of the ~~Administrator~~ Director and his advisory board, which can rest only on a sound basis of well-considered legislation.

Insert (1) + (2)

I again urge on the Congress the necessity for speedy action along these lines.

. . . . . .

Insert H p 7

~~The coverage of civilian workers should be~~.

(2) ~~The provision~~ The existing federal statute covers plants or shops which employ ~~at least~~ eight persons or more. ~~Civilian workers who come within the classes covered by the unemployment insurance laws should receive allowances irrespective of the number of employees in the particular plant or shop involved.~~ ~~Although~~ Some of the states have reduced this number. I think that compensation should be payable ~~only~~ regardless of the number of employees in the plant or shop involved.

2nd DRAFT

TO THE CONGRESS OF THE UNITED STATES:

It is impossible for anyone with knowledge of the facts to attempt to predict when the war in Europe will be over. I, for one, shall try to make no such prediction. However, from newspaper reports we all know that, together with our Allies, we are closing in on Germany from at least three directions -- and from the sky. The end is not yet immediately in sight; and we know that much blood will be spilled and treasure spent before Germany is occupied by the United Nations, as it finally will be.

However, the goal is now so much closer than it was just a few months ago, that it would be foolhardy if we did not now push to conclusion our plans to take care of the dislocations in our domestic economy which will come when the European War ends. The time grows shorter and shorter -- and with each day the urgency of action becomes more and more acute.

Much of the planning and groundwork has already been laid by the Executive departments. Executive Orders have been in operation for months; but they are, of necessity, limited in scope and effectiveness. There is now need for comprehensive legislation by the Congress.

Speed is essential. Many bills have been pending for many months in both Houses of the Congress. The whole subject of

taking care of veterans and of war workers as they return to peacetime life has been thoroughly debated. The time has definitely come for action.

It seems to me that in much of the current discussion of the problem, the emphasis has been misplaced. I know that the Congress will take it in good part if I emphasize that the major need is for employment rather than for compensation for unemployment. That is the crux of my thinking. The principal problem of demobilization is not how to take emergency care of the unemployed, but to see that there will be a minimum of unemployed.

It goes without saying that unemployment compensation is very important. Recent Congresses have enacted and expanded a wide system of unemployment compensation with cooperation between the Federal Government and the several States. It is fortunate that we therefore have a system of peacetime social security on which we can build for post-wartime purposes.

But I hope that while improving and liberalizing the system of unemployment compensation for demobilization purposes we can lay the emphasis affirmatively on employment -- employment in private industry. Jobs must be there when people want to work. If there is the will to do this, I am sure that it can be done.

Back in the dark days when military defeats were the

order of the day for the Allies, I remember that when I announced a goal of 50,000 airplanes per year, there was not only sincere skepticism, but also plenty of derision about such "fantastic" figures. That goal was reached by the American people -- and surpassed -- because the American people had the will and the determination to do it.

I have the same confidence that the American people -- business and labor and agriculture -- have the will and determination to do for peace what they have done for war; and that they can establish a level of national income which will assure full production and employment. It can be done, if only we use the same courage and vision as we did in our war program.

Everything that we do now should be based on the assumption that such an objective is not only possible, but that it will be attained. This calls, first, for legislation setting up an Office of War Mobilization and Reconversion to be headed by a single Director with plenary powers to accomplish this goal -- under such principles and policies as the Congress deems appropriate. He should have the advice and assistance of an Advisory Board made up of persons experienced in different fields of private enterprise -- labor, agriculture, management. There should

be under the Director's control the functions of contract termination and settlement, the disposition of all surplus war property and the retraining and reemployment of veterans and workers. Indeed there should be included in his powers whatever the Congress thinks necessary to see that the job is done.

We must remember that the war is not yet won. We still have a very definite program of war production and war mobilization. For example, actual fighting experience within the past few months has taught us certain kinds of war materials, the production of which was actually cut six months or a year ago, have suddenly become of increased importance. Last year the best military opinion advised that our plants for the production of trucks and heavy gun ammunition could be curtailed. The past few months have changed the picture. The estimates have now been revised upward. Above all, we must remember that there is still a bloody and difficult job to finish in the Pacific. We are still a long way from Tokyo and cannot let down for a moment until we occupy it. That is why, as of today, I still include the words "War Mobilization" with that of "Reconversion". Every day every one of us should remind himself "The war is not won yet"

But even while the Director continues to mobilize and produce in some fields, he must demobilize and reconvert in others. When he reconverts, his primary goal should be to do it in such a way that every step taken will provide jobs.

For example, it seems to me that the Congress should definitely insist that the government-owned and government-financed plants and facilities should be leased only to corporations or individuals who guarantee to use them for production and to furnish therein a definite number of jobs as a minimum. The emphasis must be on how much employment can be provided by private business using these plants with reasonable profit. If jobs are not furnished as promised, then the plants or facilities should be leased to others who will furnish them. In the same way, all surplus war property and land should be disposed of with the chief objective of furnishing employment, and should, therefore, be sold or leased primarily to those who can furnish employment, or, in the case of land, to those who will work the land and not to those who will speculate with it.

It will become necessary after the war to meet the pent-up consumer demand of many years, and indeed to rebuild the plants of America for that purpose -- its peacetime industries in automobiles, iceboxes, air-conditioning and hundreds of others, its railroads, its agriculture, its private housing, its commercial aviation, its hospitals -- all of its resources. New civilian uses will be found for aluminum, magnesium, nylon, and countless other products; energy will be provided for farms and irrigation;

a whole new horizon has been opened in transportation by air. These are only a few of the things which a post-war America faces with confidence. The Congress should provide for the Office of War Mobilization and Reconversion all of the powers necessary to help and supervise the doing of this job with one primary object in view -- to provide employment.

I am sure that the Congress has in mind other fundamental principles of industrial democracy which should be included in such legislation:

Monopolies and monopolistic practices should be discouraged.

Small business and new business ventures must be encouraged and assisted.

The competitive system of free enterprise must be preserved, strengthened and expanded.

Family-type farming and farm ownership should continue to be the backbone of our agricultural system.

Returning veterans should be given assistance in ownership of homes, farms and small businesses.

Speculation and speculative profits in war surpluses should be outlawed.

Dumping of war surpluses in ruinous competition with private business should be discouraged.

Of course, the provisions with respect to unemployment are essential and should be embodied in the same bill or in contemporaneous legislation. But it seems clear that these provisions for unemployment compensation should not be the primary objective of the legislation. They should be included only to make sure that, until full employment and production are reestablished, there will be no undue suffering and no sharp curtailment of purchasing power which might send us into a tailspin of depression. We want no return to the bread lines of the 1930's. To avoid a drastic drop in purchasing power, the amounts payable as unemployment compensation should be large enough and should extend over a sufficient period of time, so that workers will not have to stop buying the necessities of life -- adequate food and shelter and clothing. We know that if they do, we are headed for trouble.

I do not propose to make recommendations with respect to the details of this legislation. I do think, however, that certain principles should be borne in mind:

(1) While it is not necessary that everybody in the United States receive the same amount of payment, it is necessary that everybody without a job receive enough to permit him to buy

necessities for a substantial number of weeks of unemployment. In some of our states, because of low taxable values and other reasons, the standards of unemployment compensation and the amounts payable are too low for this purpose. I believe that the Federal Government should pay some fixed percentage in excess of allowances in each state so that certain minima and maxima will be guaranteed. In that way the differences in the policy of each state will be recognized, but the Federal Government will pay for a certain fixed percentage above each state's allowance which in the opinion of Congress is necessary to maintain a fair amount of purchasing power. The State insurance systems should continue to administer the system in each state, but the Federal Government should fix certain standards so that its own contributions will be adequately safeguarded. This involves a Federal-State relationship which I think is not only feasible, but very desirable in this field. Conversion to war production was a national and state problem; so is conversion to peace.

(2) The existing federal statute covers plants or shops which employ eight persons or more. Some of the states have reduced this number. I think that compensation should be payable regardless of the number of employees in the plant or shop involved.

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throughout the nation, the Federal Government paying for a portion of the extended period above that allowed in the respective states.

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Much of the groundwork has already been done, but it is now clearly the task of the Congress to provide a broad base of legislation under which the objective of full employment can be attained. This will require bold and imaginative action on the part of the Director and his advisory board which can rest only

on a sound basis of well-considered legislation.

To convert America back to peace will be costly, very costly -- as it was costly to convert it originally to war. The price we shall have to pay is a part of the cost of the war; and, in the Nation's bookkeeping, it should be charged as a part of the cost of the war.

But no matter how many billions it may cost, it will still be cheap compared with the cost in reduced national income and in human suffering and misery, which would result if we were to allow our vast plants to remain idle and our tens of millions of war workers and service men to be demobilized into unemployment.

I again urge on the Congress the necessity for speedy action along these lines.

. . . . . .

THE WHITE HOUSE
WASHINGTON

August 25, 1944

MEMORANDUM FOR THE PRESIDENT.

This is a second draft of the proposed message to the Congress on "Reconversion".

It would be fine if this could go up on Saturday so as to get into the Sunday papers. To do this, it would be necessary to clear it with Justice Byrnes today.

I also strongly urge that it be shown to Bernie so that he can make a statement about it after it goes up to the Hill.

To do this in time, it will be necessary to ask Bernie to come down today for this purpose, or I, or anyone else, could fly up to show it to him.

I think it would be very advisable to ask Bernie to come down to spend a few weeks on the Hill putting through some decent legislation because from what I read in the papers, it looks as though we are going to get some pretty bad -- almost impossible -- legislation.

S. I. R.

2nd DRAFT

TO THE CONGRESS OF THE UNITED STATES:

It is impossible for anyone with knowledge of the facts to attempt to predict when the war in Europe will be over. I, for one, shall try to make no such prediction. However, from newspaper reports we all know that, together with our Allies, we are closing in on Germany from at least three directions -- and from the sky. The end is not yet immediately in sight; and we know that much blood will be spilled and treasure spent before Germany is occupied by the United Nations as it finally will be.

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2nd DRAFT

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(3439)

PSF: Byrnes

(Show to S/R Hassett)

THE WHITE HOUSE

WASHINGTON

September 1, 1944.

MEMORANDUM FOR

HON. JAMES F. BYRNES:

I heartily approve the relaxation of food rationing. Tell Marvin to go ahead. If we do it quickly, I can mention it when I speak on the twenty-third of September as an example of the long-range government policy taking a crack at those who would pretend that it is done purely for election purposes.

F.D.R.

Transmitting carbon of memorandum which the President received from Justice Byrnes, 8/30/44, as per the President's notation "O.K. FDR". Original of the memorandum retained for our files.

PSF: Byrnes folder 2-44

OFFICE OF WAR MOBILIZATION

WASHINGTON, D. C.

JAMES F. BYRNES
DIRECTOR

August 30, 1944

"O.K.
F.D.R."

MEMORANDUM FOR THE PRESIDENT:

I have been reviewing the general food situation with Marvin Jones. I have concluded that there can be much relaxation in food rationing. Marvin is now preparing a list of the foods — mostly canned foods — that can be taken immediately off the ration list and an announcement of these foods should be available in a few days.

This action is important, in my opinion, for two reasons:

(1) We are accumulating in stockpiles large quantities of food against contingencies that probably will not eventuate. The existence of food stockpiles in large quantities, without need for their use, will put such pressure on our support price programs in the post-war period that it will make a major farm problem more difficult to deal with than any in our history.

(2) We would clearly prove our purpose and our willingness to remove all war-time restrictions as rapidly as the exigencies of war will permit.

I think it should be done immediately even though Bowles is out of the city. Under your Executive Order, Jones determines when the supply of food requires rationing. Bowles determines only the method of rationing. Vinson agrees with me.

Another reason for prompt action is that if it is delayed, persons familiar with the food situation will demand action. If we act then, it will be under compulsion. Again, if we delay until the campaign is under way, it will be argued it is done for election purposes and without regard to the supply of food.

J.F.B.

Shipping - J. F. Byrnes BF Byrnes folder 2-44 All confidential

December 30, 1944.

About 125 EC-2 ships will be delivered in the first two quarters of 1945 under Maritime Commission contracts. In addition, 24 special Z-EC-2's have been authorized for delivery in the last half of 1945. Any discussion of the construction of additional EC-2 ships is necessarily premised on deliveries in the 3rd and 4th Quarters of 1945. While it might be physically possible, through contracts let now, to obtain additional completions from the Pacific Coast toward the end of the 2nd Quarter, such an effort would be accompanied by such disruption of present schedules and such injury to naval ship-repair and completions, that the net loss to the war effort precludes any serious consideration.

So, also, discussion of the adequacy of shipping for lifting UNRRA or other relief cargo is wise only if confined to the problem as it exists several months from now. Unfortunately, requirements of shipping for lifting relief cargo now, cannot be based on the needs, even the real needs, of liberated areas. Nor can such requirements even be based on the needs formulated in the various theaters and screened or coordinated by the Combined Civil Affairs Sub-committee, which are being used as a basis for procurement. They <u>must</u> be based for many months to come upon the <u>advices</u> from the several theater commanders. For valid military reasons,

all bids for shipments of relief supplies must be approved by the theater commander, whatever the source of procurement. The ceilings on such theater command approvals are not now, and will not in the near future, be occasioned by the adequacy of shipping. To load more ships at American ports with relief supplies, destined for Western Europe during this winter and spring, would only add to the number of floating warehouses at French or British ports. In the Mediterranean, even, the delivery of substantial additional cargo will create enormous port congestion, unless accompanied by trucks to distribute it, and these cannot now be spared from military use. It is extremely likely that as soon as port and inland clearance capacity is available in Europe, shipping will also be available.

The additional carrying capacity of the present fleet, which will result from release of convoy restrictions and decrease of detentions occasioned by port congestion and local operations, is not generally appreciated. It will be very large. When later there begins to be some reversal in the direction of military cargo, there will be a demand for east-bound cargo.

To construct additional EC-2 ships in the 3rd and 4th Quarters, not only would pretty certainly fail to increase the flow of relief to Europe, but would use labor needed for naval and merchant ship repair and for other purposes, to build ships that will make, at best, never more than a few voyages. Even for these,

the provision of crews may be extremely difficult. The Maritime Commission, like the Navy, faces a serious problem in providing personnel, particularly in certain categories, for the operation of the last 10% of its present ship program.

Liberty ships, post-war, are certain to be a "drug on the market," as the following figures will show:

Under present schedules, the United States will end the war with approximately 2,500 Liberty ships, in addition to which 500 of the 800 similar ships built in England and Canada will be under British control. There is, thus, great distortion of the composition of the post-war world fleet, as regards the size and speed of dry cargo vessels.

Excluding Axis-owned ships, the end of 1945 will find the world with about 7,600 dry cargo vessels of over 1,600 (U. S. 2,000) gross tons, compared with 7,700 such vessels in 1939.

Of these, however, ships of over 8,500 gross tons and under 12 knot speed, will amount to 3,160 vessels, as compared with 1,070 such ships in the total 1939 fleet. Of the 3,160 such undesirable ships, the U. S. will own about 2,500 and these will constitute the bulk of the 600% expansion of our pre-war dry cargo fleet. To replace the entire lost dry cargo tonnage of the English, Norwegians, Greeks, Netherlands, and other United Nations, would only require 1,000 of these 2,500 Liberties, even if the assumption

could be made that these nations would accept this type of ship for such replacement. Meantime, the Swedes have built some fine new diesel ships.

However, according to best estimates, only 700 tramp ships under the flags of the ten leading maritime nations (other than the U. S.) and having a size at all comparable to the Liberty ships, cleared U. S. ports in 1939. Twice as many tramp ships of substantially smaller tonnage cleared U. S. ports in that year. Only 145 dry cargo ships between 8,500 and 12,000 gross tons and under 12 knot speed were built in yards outside of the United States in the five years, 1935-1939 inclusive.

The United Kingdom and Canada will end 1945 with about 500 Liberty-type ships, in addition to those now operated by Britain but obtained by lend-lease from the United States. It is extremely doubtful that the British will purchase the latter after the pool agreement has terminated, unless at strictly nominal prices. It should be kept in mind that while Liberty ships under present conditions cost the United States about $1,600,000 each; comparable ships were built in the United Kingdom in 1938 for about $500,000.

Before the war, the United States had about 946 dry cargo ships flying the American flag, of which 805 were freighters and 141 were combination freight and passenger vessels. 146 of the

freighters and 134 of the combination vessels had a speed in excess of 12 knots. In contrast, after the war the United States will be in a fine position if it never sails a Liberty ship after the fall of Japan. It will own a fleet of new, fast, C-type and Victory dry cargo ships and coastal ships, aggregating at least 1,560 new vessels, with a gross tonnage of 14,400,000—more than twice the pre-war tonnage of all vessels—including 650 slow freighters. In addition, U. S. Owners will quite certainly continue to operate at least 100 of the 580 available pre-war vessels, totalling 4 million gross tons. This hundred vessels will have a gross tonnage in excess of a million tons. The United States will also own an enormous fleet of fast tankers, totalling some 10,500,000 gross tons.

It has been recently and confidentially reported to Chairman Bland that, as near as can be judged, the foreseeable post-war dry cargo requirements for American bottoms for overseas and coastwise non-military traffic are in the neighborhood of 7,500,000 gross tons—something like half of the above-outlined available tonnage of fast and modern ships. It is clear that we will not need the Liberty ships and it may be fairly stated that the opinion and conviction of those people in surplus property disposal and shipping circles, who have studied this situation, runs to the effect that something like 20% to 25% of our Liberty ship fleet can be sold post-war for tramp and temporary use to the other maritime

nations. Some additional percentage can be disposed of at nominal prices, and be thereafter used by nationals able to hire crews at low wages. Such use, however, will tend to increase the subsidies that will have to be paid to American operators owning fast ships.

At best, a considerable remainder of the Liberty fleet will probably occupy the pre-war positions of the Hog Island freighters.

JFB

PSF Byrnes folder 2-45

Ex Off

OFFICE OF WAR MOBILIZATION AND RECONVERSION
WASHINGTON, D. C.

TMP file

January 1, 1945

file confidential

Dear Mr. President:

As Director of War Mobilization and Reconversion, I hereby submit my first report, required under the War Mobilization and Reconversion Act of 1944, as of January 1,1945.

It is essential to an understanding of the problems confronting this country in all-out mobilization for war and in the later transition from war to peace to review the major accomplishments of our war effort in comparison with our achievements in normal times. Therefore, in this report I have tried to sum up these accomplishments and in this summing up, compare the accomplishments with our peacetime attainments. I believe that in this way we can see clearly the problems which still lie ahead.

I think also that such a summary might clear up some of our present doubts and uncertainties. Much has been said about confusing and conflicting war statements. This is inevitable in the pressure of accomplishment. Victories lead to optimism. Setbacks, which apparently prolong the war, lead to fear, anxiety over loved ones, and pessimism.

The truth is that our soldiers at the front today are not short of ammunition and supplies as a result of any production failures. However, they may be short a few weeks hence if we fail. If they are to freely use what they now have in order to save human lives, they must know that more, in abundance, is on the way.

This nation can be proud of what it has accomplished to date with the cooperation of industry, labor and agriculture--of all the people--under vigorous Government leadership.

We have reached a rate of munitions production in excess of $64,000,000,000 per year while maintaining a standard of living higher than that which we enjoyed in 1929. We have attained this rate of war production without any over-all reduction in the consumer supplies available to the public. To accomplish this, we have invested more than $20,000,000,000 in new or expanded industrial plants.

We have added 18,000,000 persons to war activities. We have armed and equipped the most powerful naval and air forces in the world. We have armed and equipped one of the largest and one of the best armies that the world has ever seen.

We have exported to our allies goods and services valued in excess of $24,000,000,000. This aid consisted not only of munitions but of materials and equipment to increase their industrial output and food to replace their losses in production or in other food sources.

We have had two years of almost unparalleled success in our military operations against strong and powerful adversaries. These adversaries are still dangerous. And thus, in spite of all that we have accomplished to date, we still have more to do. Our forces in the field need more guns, more ammunition, more trucks, more tires, more ships, more airplanes, more rockets, and more men to finish the job which they have done so well to date.

We cannot be complacent yet. We must man our war plants to the fullest extent necessary to meet the requirements of our military leaders. We must do this in the face of a further withdrawal from our available manpower supply to provide replacements for the army and to build the navy up to the strength which it requires to man its ships.

Recently, therefore, I have taken action to tighten Selective Service regulations, to deny priority and allocation rights when necessary to maintain manpower ceilings established by the War Manpower Commission for nonwar plants in order to fill the demands for manpower in war plants.

The War Production Board has deferred for a period of 90 days new spot authorizations in critical labor areas and has frozen civilian production at not to exceed the fourth quarter levels of 1944.

I have requested racing management to suspend all race meets, thus reducing that drain on manpower, transportation, communication facilities and other services.

I hope that these actions will suffice. However, it may be necessary for Congress to consider legislation to strengthen the authority of the War Manpower Commission.

I am convinced that consideration should be given by Congress to some control over those found physically disqualified for military service, so that they may render their war service in essential war activities.

Although labor and management have in most cases complied voluntarily with the orders of the War Labor Board, the authority of the Board should be strengthened to enable it to enforce its decisions in the courts without resort to seizure.

I will not predict how long the war will continue. However, as Director of War Mobilization and Reconversion, I must direct the Government effort at home to the maintenance of all-out war production. When one of our enemies is defeated, then and only then can we lessen our effort.

Even then we must remember that our primary goal is the defeat of the other enemy. We will still have millions of American boys living day in and day out under enemy fire, sleeping in rain and mud, eating out of tin cans, and never enjoying the comfort of home.

I am convinced that even with the defeat of one of our enemies we will still require a tremendous national effort to bring full victory at an early date.

Until this task is completed and those fortunate enough to survive return home, we must continue our war effort as our primary national objective.

It is true that with the defeat of one of our enemies there will be many disruptions of local economy with some local unemployment. These conditions will be temporary. They cannot be neglected, but they do not require the detailed attention we must give other long range problems which will develop with peace.

The Government has, on the whole, been successful in maintaining a stabilized economy throughout the war period. Stabilization will be more difficult with victory. The Congress should give serious thought to a further extension of the Renegotiation Act which has been a successful factor in our fight for stabilization. I believe also that it is not too early for the Congress to consider the extension of the Stabilization Act.

I am not apprehensive over the ability of the Government to handle the mechanical problems involved in transition from war to peace. Congress has provided the tools in the act establishing this office. It has established an Office of Contract Settlement which has already accomplished much in coordinating and directing the procurement agencies in the establishment of a contract termination procedure which I am sure will be able to settle contracts promptly and satisfactorily when peace arrives.

Congress has established the policies to govern the disposal of surplus property under a Surplus Property Board. While there may be some administrative difficulties under this legislation, it provides the machinery for disposal. Much has already been accomplished under the Surplus War Property Administrator appointed prior to the passage of the act in assigning responsibility to disposal agencies, in developing sales policies, and in arranging for the prompt removal and storage of surplus property.

Congress has likewise provided machinery to assist in the reemployment and retraining of returned veterans. It has enacted the "G. I. bill of rights", which has made it possible for our returned veterans to plan ahead. Hospitalization for returned veterans is also receiving active consideration.

Congress has made a start in providing unemployment compensation for those workers who may be temporarily out of employment when the war ends. At that time I did not think the benefits provided were sufficient, and I now urge that Congress give further consideration to liberalizing the provisions of the Unemployment Compensation Law.

Congress has also provided for the continuance of support prices for farm products for a period of two years from the first day of the next year after the end of the war. This will do much to encourage farm production during the war and prevent a disastrous curtailment in farm income with the end of the war.

Congress has approved public roads, flood control and reclamation programs which provide a construction backlog. Further legislation of this type merits consideration so that authorized projects will be available to provide employment.

The foundation of American enterprise has always rested in small business. While adequate provision has been made for the prompt payment of claims to those small business enterprises engaged in the war effort, no adequate provision has been made to assist financially in the reestablishment of small business enterprises discontinued as a result of the war or for the establishment of new enterprises of this type. I urge the Congress to give consideration to legislation of this type.

We have built as a war measure a great merchant fleet. I believe that the Congress will consider at an early date legislative measures which will assure continued operation of an efficient merchant marine when the war ends.

No general tax revision is possible until the end of the war, but I urge that Congress give consideration now to several proposals outlined elsewhere in this report which will not materially reduce revenues but will greatly encourage new enterprises and the expansion of existing enterprises. Such proposals could be considered and drafted now in order to make possible immediate enactment at the end of the war in Europe.

We face the end of the war with a housing shortage, the relief of which should assist materially in providing immediate employment. I am sure that Congress will want to consider the extension and liberalization of the several measures in existence when war was declared to assist home builders in financing such construction.

I think reconsideration might well be given to the provisions of the Lanham Act prohibiting the sale of temporary housing for residential purposes at low cost, as it may be that such housing could well be used to greatly improve present conditions in city slum areas and in certain farm areas.

Our lend-lease activities have given us in wartime a record volume of export trade. Our demand for critical war materials, combined with preclusive buying of materials desired by our enemies, has also resulted in developing a high volume of imports. This increase in our foreign trade has played an important part in our war economy. It must play an important part in our peace economy.

We must export goods if we are to provide jobs for all of our workers. We cannot export goods unless others have the dollars required to pay. These dollars can be secured only through credit arrangements and through the import of goods into this country. When we raise barriers against imports we restrict our outlets and reduce job opportunities at home.

I am sure that Congress will desire to consider at an early date the extension of the Trade Agreements Act. I am equally sure that it will desire to consider the problems of international finance which must be solved before our own position in post-war trade can be determined. These problems were discussed at the International Conference held last year at Bretton Woods. They will undoubtedly be placed before the Congress at an early date. Our national policy should be developed now.

We have heard much of conflicting views and opinions during these war years. Minority interests have voiced continuing criticism of each war and peace measure. We could not have accomplished so much in so little time if we had not had an over all plan and purpose into which each of these measures fitted.

Respectfully submitted.

James F. Byrnes
Director.

The Honorable,
The President.

PSF
Byrnes

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MOBILIZATION AND RECONVERSION TO DATE

The United States has built the world's largest Navy, the world's largest merchant fleet, and one of the world's largest and best-equipped armies. It has become in the real sense of the term the world's arsenal of democracy. Although all of that has been accomplished in less than five years, starting almost from scratch with the fall of France in June 1940, nevertheless the mobilization of this country's resources--its materials, its machinery and, above all, its manpower--is not complete. The war is yet to be won.

Today American troops are engaged in what could prove to be the decisive battles of the war in Europe and the Pacific. They need particular types of equipment urgently; these are our critical war programs. The task immediately facing the country is to mobilize our resources to give the field commanders--the troops in the field--what they consider necessary for victory.

Comprehensive steps have been taken to utilize our resources efficiently, so as to increase our war production, particularly in critical items. As I point out in the section on "Manpower," ceilings have been placed on civilian production, Selective Service rules tightened, and manpower controls implemented. As a further step, the War Production Board has adapted its Controlled Materials Plan to the urgency of the times. Through the application of its controls, steel production will be held to a pre-determined amount to prevent the draining away of industrial energy, manufacturing facilities, and manpower from war production.

GAINS IN CRITICAL OUTPUT

Further, the War Production Board, the War Manpower Commission, the Army, the Navy and other Government agencies have set up committees of top personnel to review the monthly progress in each of the critical programs: to find out what is holding up production and provide the remedy. The results of these meetings, begun three months ago, have already become evident. In November, critical production was up 11 percent over October, and October had been up 6 percent over September. I expect another increase during the month of December.

However, these gains, though encouraging, are not enough. Serious deficits in schedules still exist. Even the meeting of present schedules is not enough. Critical production no longer feeds pipelines or goes into strategic reserves--it is going right into battle. Current requirements in these critical items are virtually unlimited. As soon as a war plant meets its schedule, it is a signal for an increase in that schedule.

We need more tanks, more Superfortresses, more heavy artillery ammunition, more mortars, more tents, more trucks, more communication wire, more ship repairs than we can possibly turn out in the immediate future.

These urgent demands will continue so long as the war lasts. When field commanders learn that light tanks are not powerful enough to blast through enemy lines, they demand heavier tanks. When truck tires are ripped to bits by muddy roads, pockmarked with flak, requirements for tires soar. When scientists and inventors develop new weapons--such as new types of radar or jet planes--we must quickly translate these developments into battlefield equipment. It is all part of winning the war more quickly--of saving lives. It is our job on the home front.

Production has come a long way since Germany invaded Poland in September 1939. Then, except for a few experimental orders, the United States had hardly started to prepare for war. What has been done since is a dramatic tribute to industry, labor, and agriculture. It is depicted in the chart, "Arms and America," which shows how war production climbed month by month from virtually nothing to a rate of more than $64,000,000,000 a year. No nation can touch this rate of production. It is almost equal to the total war production of the rest of the world.

Behind that dramatic upsurge in war production is the story of men and machines, of organization and training, of hard work and the will to win. We must not forget that this country did not buckle down in earnest to war production until the Germans and the Japanese had built up war machines over many years and were coiled to strike. Yet today we have overcome their early advantage.

It might be well to review with the Congress the many ramifications of our war effort, how it extended into every corner of our economic, social, and political life. To reach the point of mobilization we have achieved today, the United States had to do many things.

We had to build new plants and expand old ones, pass a special tax amortization law, extend Federal financing to war contractors.

We had to find contractors to take war work, teach them to produce new products, develop new forms of contracts, draw both big and small business into war production.

We had to curtail civilian production, convert industry from peacetime to wartime production.

We had to draw 7,000,000 extra youths, women, and older men into employment, pass and administer a Selective Service law, train workers for new jobs, provide housing for war workers.

We had to increase domestic sources and develop foreign sources of supply of critical materials.

We had to expand farm output to feed ourselves and our allies.

We had to develop a war program, determine the size of the Army and Navy, and spell out requirements in terms of men and equipment.

COMBINED OPERATIONS

We had to integrate, so far as possible, United States procurement with that of our allies on raw materials, semi-processed goods, and munitions. That was done through the Combined Boards and Combined Chiefs of Staff.

We had to encourage research and develop new weapons.

We had to direct the flow, first of materials, then of critical components, and, finally, of manpower.

We had to control prices and wages, ration scarce necessities--shoes, gasoline, fuel, some foods.

We had to settle differences between labor and management and do away with

strikes (chart, "Before and After No Strike Pledge")

We had to construct and man a merchant fleet to deliver our production of tanks, planes, guns, and ammunition to our own and allied forces on the fighting fronts.

We had to maintain the essential civilian economy.

Out of that tremendous mobilization of resources, energy, imagination, and work have come tangible results.

In 1944, we produced $64,000,000,000 of munitions--twice the production of 1942 (chart, "Munitions Production").

The 1944 total included 95,000 airplanes weighing 950,000,000 pounds, double the number and more than three times the weight of 1942's output. Among these planes were over 15,000 heavy bombers, six times the 1942 number, including a great many Superfortresses, which were produced only experimentally in 1942 (chart, "Airplane Production").

It also included ship construction and maintenance and repair--to the value of $14,000,000,000--about double the 1942 total (chart, "Ship Construction").

The major increases were in transports and landing vessels for carrying our armed strength to the enemy.

Production of guns and motor vehicles declined somewhat from the 1943 levels, but important items in these groups were pushed to new highs--heavy artillery, rocket launchers, heavy trucks, tractors, among others (chart, "Guns, Ammunition, Vehicles").

The $6,500,000,000 of ammunition produced in 1944 was more than double the 1942 output--with bombs and large caliber ammunition more than tripling 1942 production (chart, as above).

Today we have an Army at peak strength of 8,000,000 men, 5,000,000 of whom are overseas. In 1940, the Army consisted of some 300,000. We have a Navy of 3,800,000 men, of whom 2,200,000 are afloat or on foreign duty. In 1940, the Navy consisted of some 210,000.

TANGIBLE RESULTS ON THE BATTLEFRONTS

And there is a day-and-night contrast between American's military position today and on December 7, 1941, when the Japanese struck Pearl Harbor. Then our enemies dominated all of Europe, all of North Africa, much of Asia, and islands and bases of great strategic value in every corner of the world. The Axis nations were at the peak of their power, full of self-confidence. Their production was increasing, their cities were whole, the morale of their people was high.

Now Africa is ours. Sicily and Sardinia are won. Most of Italy has been occupied. France has been liberated. American troops are on German soil. We have captured New Guinea and the Solomons, Saipan, the Marianas, Guam, and gained powerful footholds in the Philippines. We have taken hundreds of thousands of prisoners and inflicted heavy casualties on both Germany and Japan. We have destroyed or captured vast amounts of their equipment and we have hit their vital centers of production from the air.

A great contribution to these achievements has been American production. Just as we have the greatest machine economy in the world, so have we planned and developed the greatest mechanized, the most powerfully equipped Army and Navy. We have traded steel, copper, and aluminum for human lives.

From the very beginning, the program called for a vast array of munitions. During 1942 and 1943, our chief task was to provide the armed services with the capital equipment necessary to place our armies in the field. Those intial guns, ammunition, tanks, trucks, planes, etc., correspond to the machinery that goes into an industrial plant. The next stage was to maintain that equipment--to see that the troops had sufficient replacements.

In addition, it is necessary to constantly improve equipment. War is not static. All equipment tends to become obsolete. Our own record of design changes indicates that. Today our battleships and carriers are far more powerful than at the beginning of the war. We have developed special transport and cargo ships for amphibious operations far superior to ordinary troop and cargo vessels.

Our new tanks are faster, more mobile, and manned with heavier guns than our old ones. The Superfortress is bigger, more powerful, and faster than either the Liberator and the Flying Fortress, and the Liberator and Flying Fortress are two of the best heavy bomber planes in the world. Our A-26 Invader attack bomber has supplanted the A-20 Boston. New and previously unknown weapons have been brought into production and used effectively in battle.

ORGANIZING FOR THE JOB

In mobilizing our economy for war, we have had to make many changes in our normal procedures. Almost overnight industry had a new customer. It had to learn to do business with Government on a scale previously unknown. The Government also had many new problems. The Army and Navy had to build up quickly a staff of procurement offices. The Office of Production Management and later the War Production Board had to develop a system of priorities.

At the same time the Office of Price Administration had to establish controlled prices. We could not afford to permit machine tools or materials to flow to the highest bidder. We had to see that steel, aluminum, copper, lead, zinc, rubber, tin, wool, lumber, nylon, rayon were channeled into war production.

Later, it became equally important to see that components--valves, fractional horsepower motors, antifriction bearings--went into the most urgent programs. In effect, the entire economy was put on a rating system--in order of importance to the conduct of the war.

Simultaneous with the organization of controls, the country had to tool up--build new plant. In all, construction of new plants, including equipment, rose to the record high level of some $800,000,000 per month. All types of facilities had to be brought to the task: Steel, aluminum, synthetic rubber, artillery, ammunition, shell-loading, small arms, aircraft and accessories, high cetane gasoline, chemical, and many others. New shipyards were built. Iron ore shipments from the Mesabi range reached new peaks. Subsidies were paid to increase copper, lead, and zinc mining, and agricultural output.

Some of the increases are striking: Steel production increased 50 percent over the 1929 level; aluminum 600 percent; petroleum 60 percent, and a neglibible peacetime production of magnesium has been expanded many times, as the chart, "Materials for War," shows. But now, with the maturity of the war program, and with changing requirements peak output is not always required. Aluminum and magnesium production has declined from the peak.

MATURITY IN WAR PRODUCTION

The maturity of the war program is indicated by the schedules. No longer are the requirements for all types of weapons increasing. This is in decided contrast to 1942 and 1943 when the Army and the Navy had too little of everything. About 55 percent of our war programs are not rising; a few are declining. The net result is that the forecast for munitions production as a whole does not indicate any great increase in the first six months of 1945. But a good part of that production--45 percent of it in fact--is in the expanding, critical items; the items which are in direct demand by troops in the field, the items in which production bottlenecks have developed. For that reason we must continue to press for production.

The development of industrial knowhow on the part of management and labor has made it possible to increase output per worker. As a consequence, we have been able to maintain production on a plateau, even though the number of workers in munitions industries has declined (chart, "Munitions Production vs. Employment"). Increase in productivity will probably continue but at a slower rate bringing with it some further reductions in employment in certain types of munitions plants.

That is a natural economic phenomenon. We can use it to our purposes; but we can also misuse it. That is a danger that I must lay before the Congress. Whenever workers are laid off because they are not needed in this shipyard or that aircraft plant, demands immediately spring up to provide them with peacetime employment, to permit manufacture of civilian goods. These demands are hard to resist. Yet until we get the critical programs under control, until we can assure General Eisenhower, General MacArthur, Admiral Nimitz, and Admiral Halsey of the critical supplies they need, I feel we must resist these demands, reasonable as they appear on the surface.

We must direct our efforts to channeling this released manpower into critical war programs and to industries and services needed to support them. It is not as if the civilian economy has been starved. Some items are short. But on the whole the volume of consumption has risen. The chart, "War and the Civilian Economy," indicates our level of living is higher than in 1929.

We have already made one too early start toward reconversion. During the spring and summer, a wave of optimism swept not only the United States but our allies. We had hopes on an early victory--possibly in the fall. With the hope of victory in Europe this fall, we went ahead with plans to prepare the country for early reconversion of industry. At the time it seemed the prudent course. Events have proved it otherwise.

Some schedules were cut back; plans for increasing others were delayed to await war developments. In the meantime, the output of munitions remained level. Then it became necessary to reverse our course -- to speed up. It took time and effort to overcome the inertia. We had to undo what had been done on reconversion; we had to curtail the spot authorization plan, place ceilings on civilian production. We had to hope for a change in the national psychology. That has occurred. The German counterattack through the First Army positions has convinced us that we can win this war only by the all-out efforts of the American people.

TWO THINGS AT ONCE

That too-early trend to reconversion demonstrated moreover that we could not do two divergent things at once, that we could not pursue an all-out war

production effort while simultaneously releasing materials, facilities, and manpower for civilian production. In the first place, the mere resumption of civilian output convinced some workers and some industrialists that victory was just around the corner, that therefore they had better prepare for peacetime security.

In the second place, it affected even those who continued to feel that the war was our first and main job. They felt that if their friends or competitors were converting to civilian production, they could safely do so.

As Director of War Mobilization and Reconversion, I am convinced that we must give our undivided attention to war production until we can be absolutely confident that victory is within grasp, until our military leaders tell us that they have enough supplies and that we can afford to reduce production.

However, I am deeply conscious of the responsibility to plan an orderly, gradual transition from all-out war production to a peace-time economy. Already, much work has been done.

PROSPECTIVE DEVELOPMENTS

Today, in the middle of a two-front war, this country is much farther advanced with plans for reconversion than it was at the termination of the last war. When the Armistice came in November 1918, procurement officers had neither program nor policy guidance. Today we have a law providing for the uniform termination of contracts; the prompt clearance of government-owned equipment and inventories from our industrial plants; the interim financing of industry; the disposition of surplus property; and a program for retraining and reemploying workers. The decks have been cleared. The legal and mechanical difficulties which might have tied up manufacturers' capital and prevented the employment of workers have been anticipated and, in large part, solved.

The work on reconversion started more than a year ago. At that time, I set up a unit for War and Postwar Adjustment Policies with Mr. B. M. Baruch as director. The report of this unit defined clearly the problems of reconversion. Subsequently, Congress established the Office of Contract Settlement, the Surplus Property Board and the Retraining and Reemployment Administration. Under the act of October 3, these organizations were brought under the jurisdiction of this office. They have formulated plans, policies and procedures to cope with demobilization problems. (Steps taken on property disposal and contract termination are discussed separately in this report).

The Retraining and Reemployment Administration has established centers in 8,000 communities at which returning veterans are given rehibilitation guidance. There they are advised as to their rights under the law -- their right to their old jobs, their right to be trained for new jobs. The RRA cooperates closely with the Veterans' Administration, the Selective Service System, and the United States Employment Service to provide veterans with vocational guidance. Postwar hospitalization requirements for veterans have been determined. General Hines is prepared to report directly to the Congress on these needs.

The Servicemen's Readjustment Act of 1944, commonly referred to as the "G.I. Bill of Rights," constitutes a landmark in the field of veterans' legislation. It provides for (1) education and training, (2) loans for the purchase of homes, farms or business property; and (3) readjustment (unemployment) allowances. These benefits which have been so well earned were not available to veterans of World War I or prior wars.

*Regardless of service disability

SMALL BUSINESS FINANCING

Small business has been the backbone of American prosperity. Its future requires the establishment of a readily available source of credit. The Wagner-Spence bill has this purpose in view. In revoking the present authority of the Federal Reserve Banks to make loans direct to industry, it substitutes authority for them to guarantee the principal and interest of loans by commercial banks to business enterprise. It, or other forms of legislation to this end, deserves the immediate consideration of the Congress.

I believe that all administrative actions which pave the way to orderly transition from war to peace and which are feasible at this time have been taken. The War Production Board is prepared to release production controls--L, M, and other restrictive orders--as soon as the reductions in war production schedules permit a substantial cutback. This is the so-called V-E Day plan. At the time it was developed, proposed Army cutbacks and the programmed reduction in construction of naval and merchant vessels indicated a drop of about 40 percent in the year following the defeat of Germany. Since then, a reconsideration of needs for the war against Japan indicate that the V-E Day production drop may not be so great. I have asked the War Production Board to develop an alternate plan on the new basis. This is now being done.

PREPARATIONS FOR V-E DAY

The War Production Board has analyzed the probable impacts of cutbacks, both geographically and industrially. These analyses will permit the cushioning of the shock in particular areas and the expedition of reconversion of entire industries. For this purpose, WPB has established a Program Readjustment Committee composed of representatives of the War Manpower Commission, the Army, the Navy, Army Air Forces, the Navy's Bureau of Aeronautics, the Maritime Commission, and the Samller War Plants Corporation. I propose to keep in close touch with the work of this committee in handling cutbacks. The composition of this committee was selected in order to bring civilian as well as military considerations to bear on cutback proposals. For instance, it may prove to be desirable to reduce production in Plant A instead of Plant B to avoid the concentration of layoffs in one area; or, it may prove to be desirable to release a company from war work in a particular industry to stimulate reemployment.

In addition to the work under way in the War Production Board, the War Manpower Commission is prepared to revise its regulations on manpower controls. The Office of Price Administration has announced its reconversion pricing policy. We have progressed far in getting ready for V-E Day.

TWO-FOLD TASK

After V-E Day, the problem facing us will be two-fold: to maintain war production at scheduled levels while clearing the way for rapid resumption of civilian production. We must accelerate the reemployment of released munitions workers and returning servicemen. We are in a position to move quickly. We are ready to put into effect the policies, procedures and plans that have already been formulated.

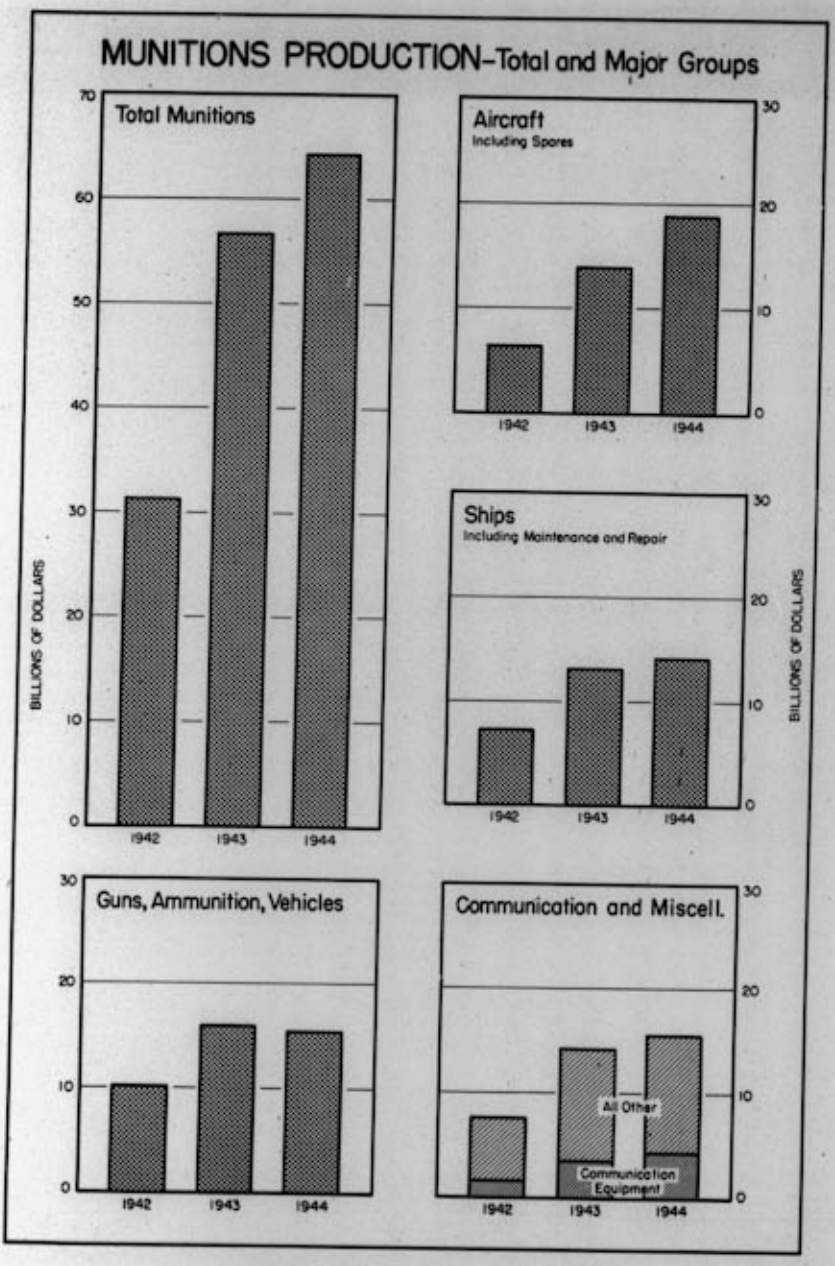
During the period of a one-front war, the drop in war production will be offset after a brief interval, by the reestablishment of peacetime manufacturing. In addition, the transportation, retail trade, public utilities, and other industries, which are today suffering from a shortage of labor, will absorb many released workers.

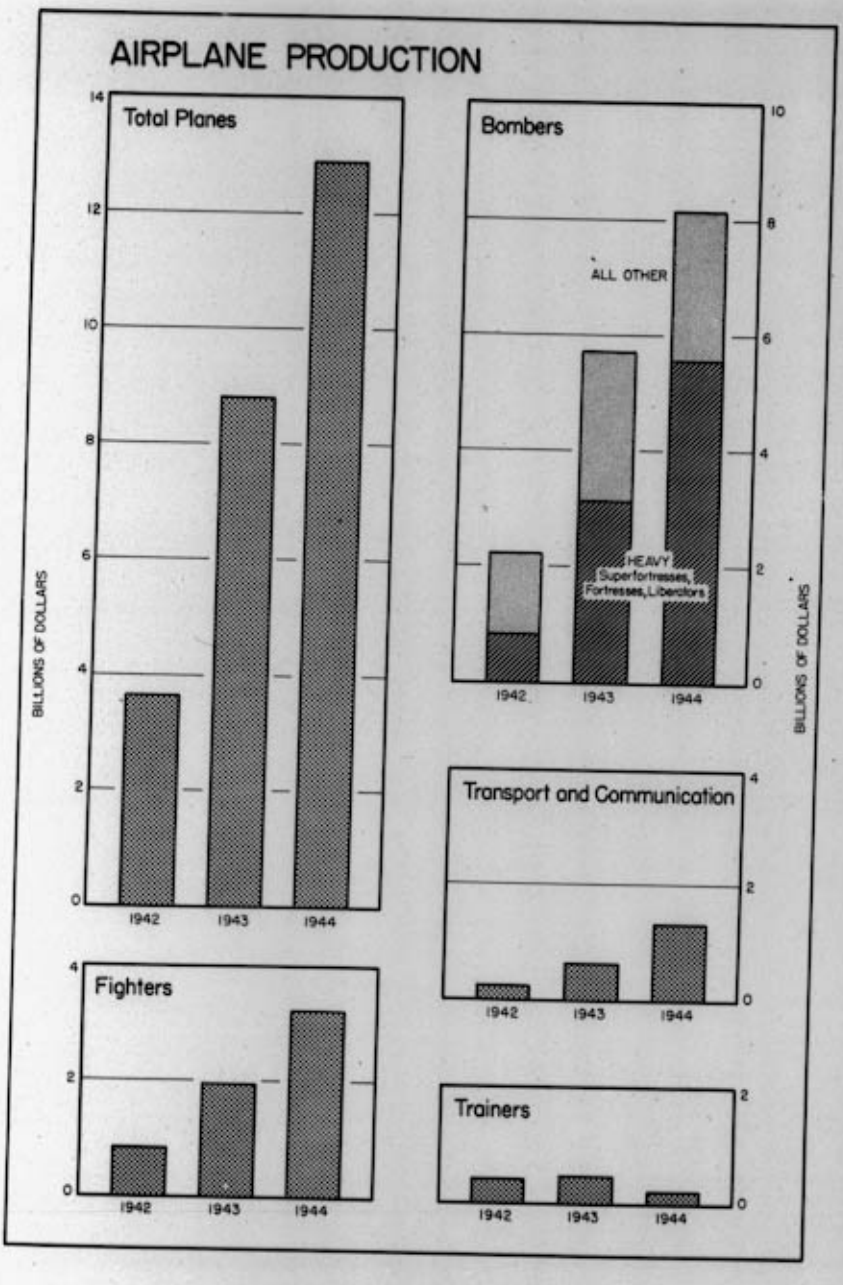
Conversion to war work developed a new major customer for business. Reconversion requires a return to the old customer. Civilians--employers and employees alike--must take up where the government's purchasing drops.

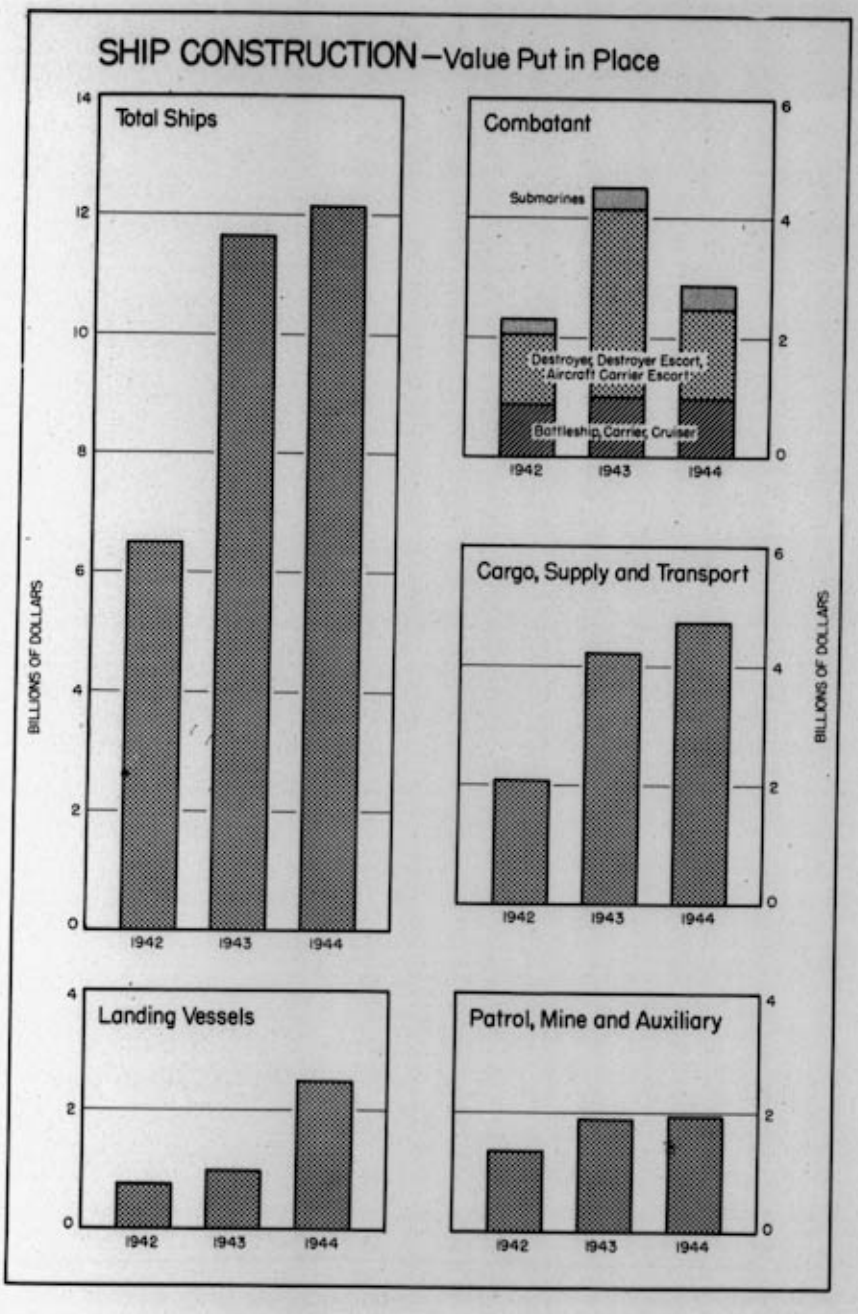
We must be prepared for the day when the government, as the purchaser of a record volume of munitions and military supplies, leaves the market. We must build up during the transition period a sufficient demand for civilian production to fill the gap.

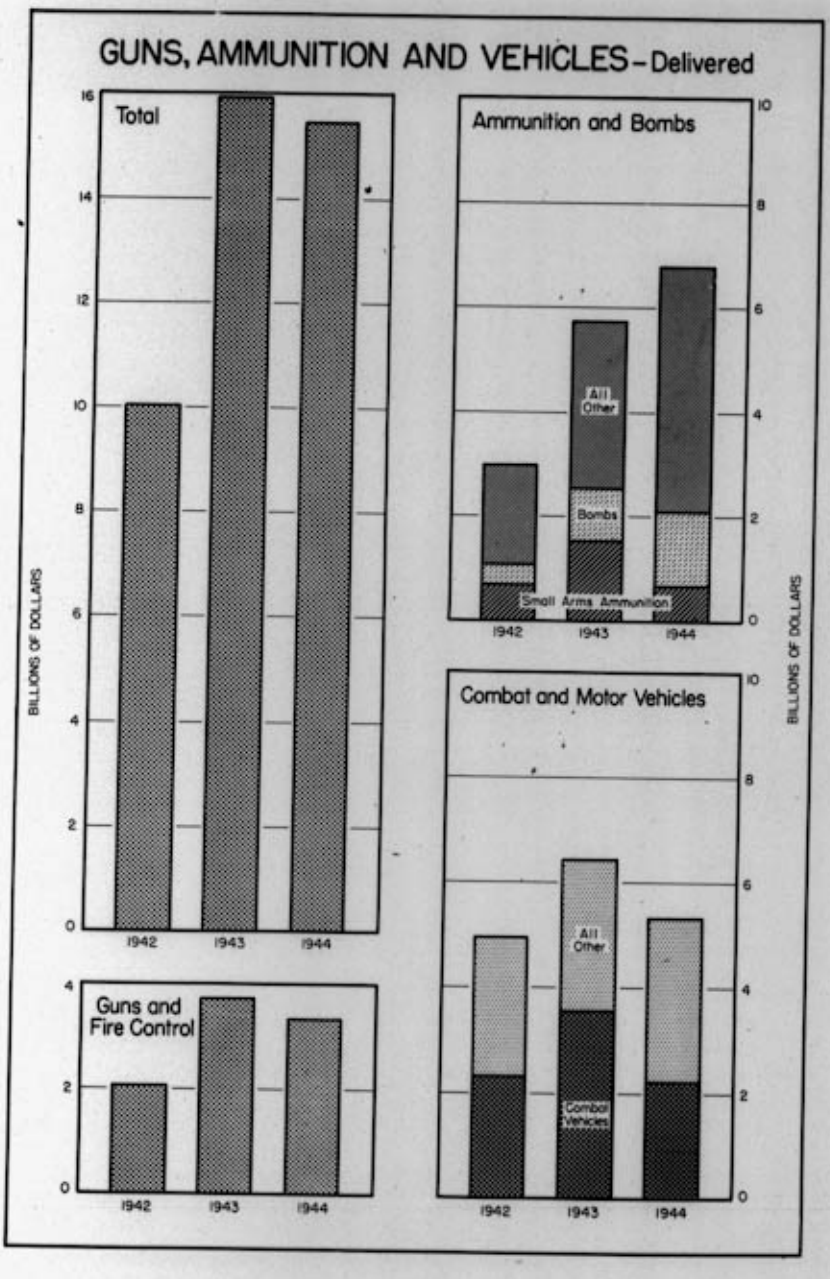
That is the reconversion task as I see it. It is discussed in some detail in subsequent sections of this report. It will be discussed at greater detail in future reports. It is a big task but not one beyond our capacity.

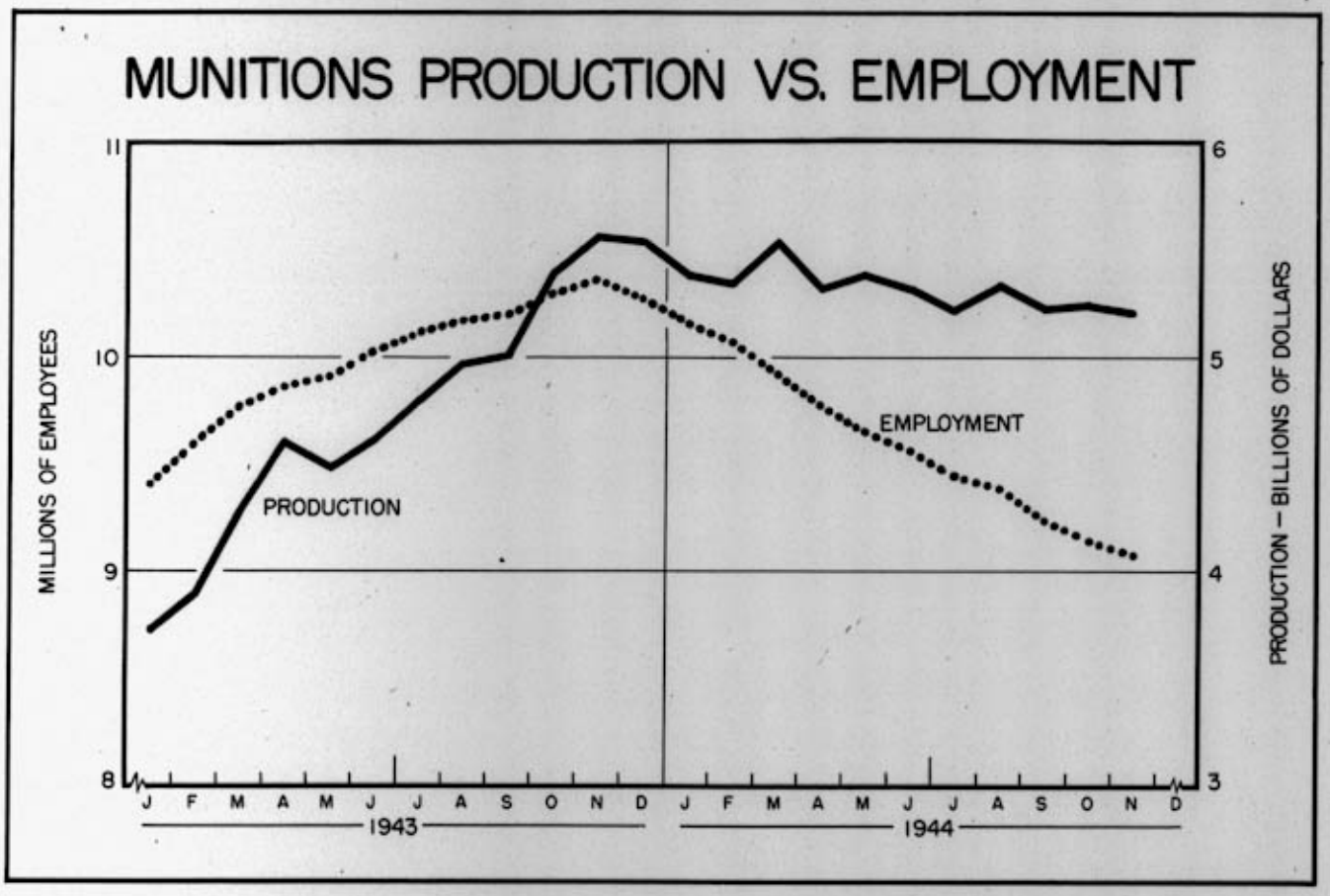
In the meantime, our immediate task is to meet war requirements.


MUNITIONS PRODUCTION–Total and Major Groups
Total Munitions
Aircraft
Including Spares
Ships
Including Maintenance and Repair
Guns, Ammunition, Vehicles
Communication and Miscell.
All Other
Communication Equipment
BILLIONS OF DOLLARS
1942
1943
1944
0
10
20
30
40
50
60
70

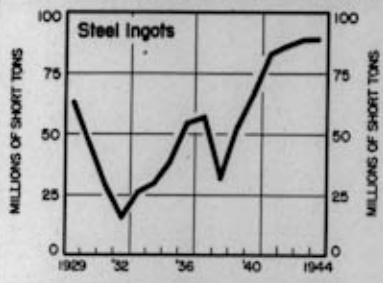

AIRPLANE PRODUCTION
Total Planes
BILLIONS OF DOLLARS
14
12
10
8
6
4
2
0
1942
1943
1944
Bombers
ALL OTHER
HEAVY
Superfortresses,
Fortresses, Liberators
10
8
6
4
2
0
1942
1943
1944
BILLIONS OF DOLLARS
Transport and Communication
4
2
0
1942
1943
1944
Fighters
4
2
0
1942
1943
1944
Trainers
2
0
1942
1943
1944

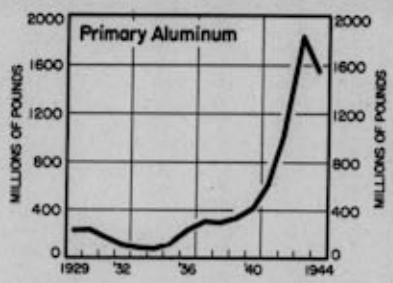

SHIP CONSTRUCTION—Value Put in Place
Total Ships
Combatant
Submarines
Destroyer, Destroyer Escort, Aircraft Carrier Escort
Battleship, Carrier, Cruiser
Cargo, Supply and Transport
Landing Vessels
Patrol, Mine and Auxiliary
BILLIONS OF DOLLARS
1942
1943
1944

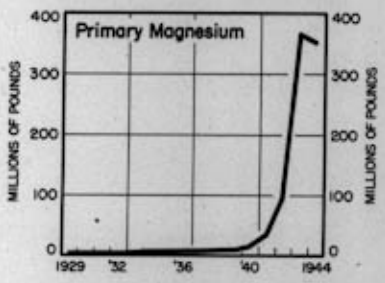

GUNS, AMMUNITION AND VEHICLES - Delivered
Total
Ammunition and Bombs
All Other
Bombs
Small Arms Ammunition
Combat and Motor Vehicles
All Other
Combat Vehicles
Guns and Fire Control
BILLIONS OF DOLLARS
1942
1943
1944

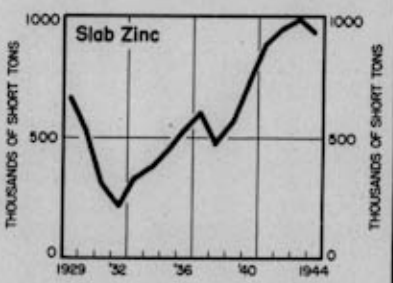

MUNITIONS PRODUCTION VS. EMPLOYMENT
MILLIONS OF EMPLOYEES
PRODUCTION – BILLIONS OF DOLLARS
11
10
9
8
6
5
4
3
PRODUCTION
EMPLOYMENT
J F M A M J J A S O N D
1943
J F M A M J J A S O N D
1944

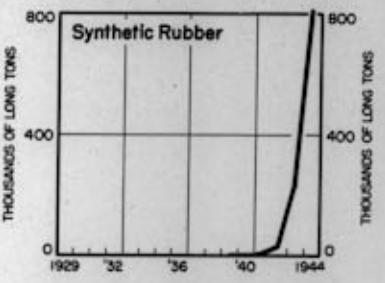
MATERIALS FOR WAR

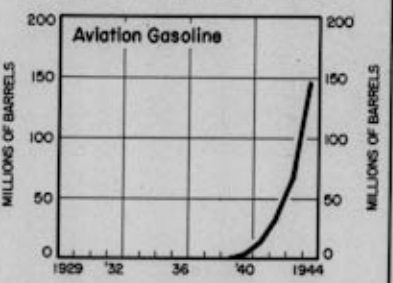


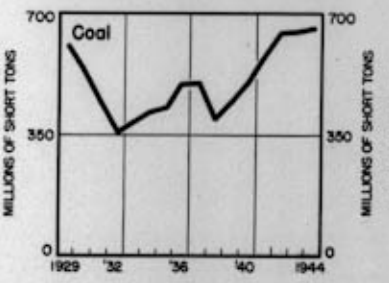


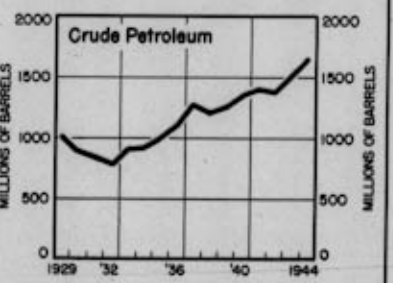


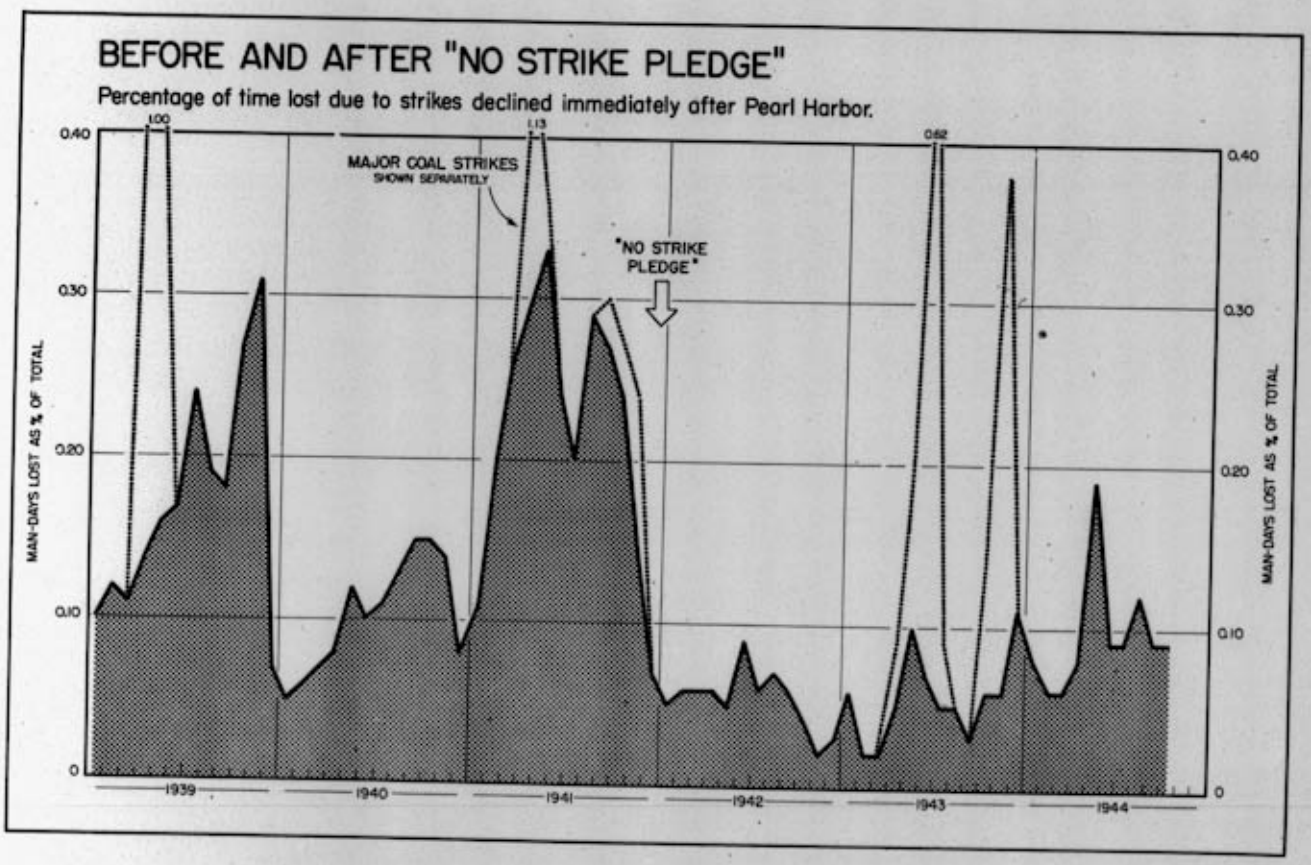






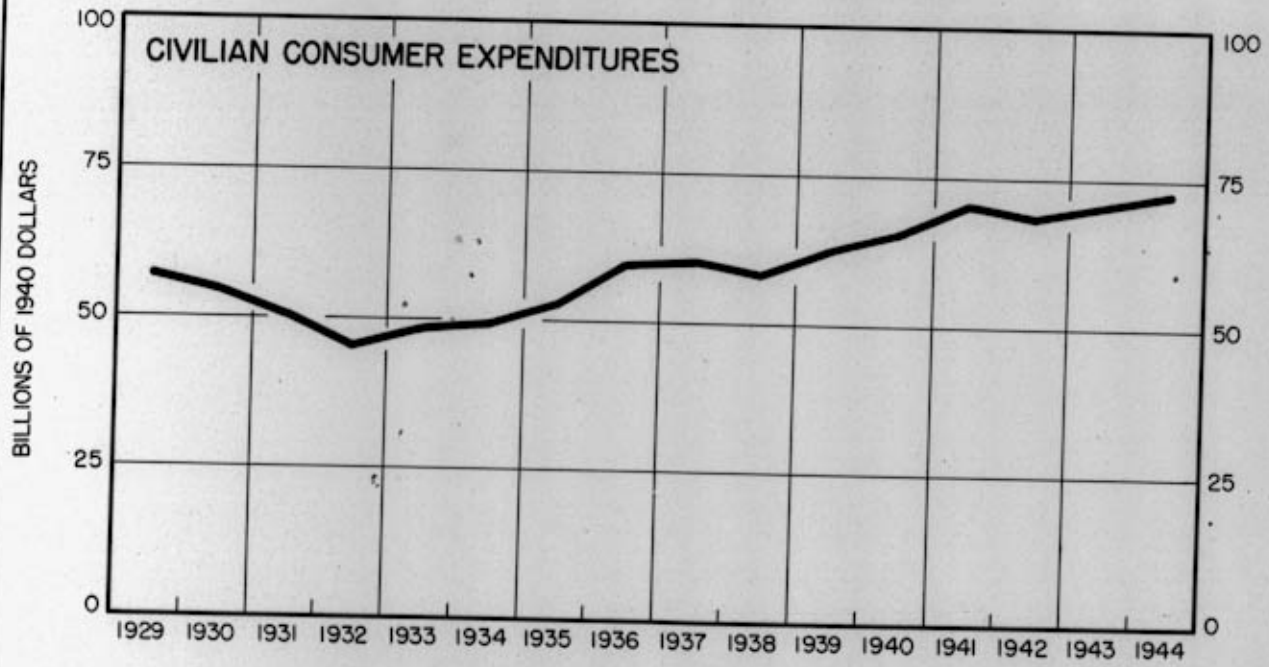





BEFORE AND AFTER "NO STRIKE PLEDGE"
Percentage of time lost due to strikes declined immediately after Pearl Harbor.
1.00
1.13
0.62
MAJOR COAL STRIKES
SHOWN SEPARATELY
"NO STRIKE
PLEDGE"
0.40
0.30
0.20
0.10
0
MAN-DAYS LOST AS % OF TOTAL
1939
1940
1941
1942
1943
1944

WAR AND THE CIVILIAN ECONOMY

Consumption today is above levels of 1929 and 1940.



By setting price ceilings, establishing wage controls, increasing tax rates, broadening the tax base, limiting corporation profits, and encouraging savings, the government has been able to repel the inflationary forces resulting from the increase in war expenditures from $2,800,000,000 in 1940 to $91,000,000,000 in 1944.

That increase in the nation's war output had the effect of doubling the incomes of individuals--from $76,000,000,000 to $155,000,000,000. Yet the output of goods and services for the consumer remained substantially unchanged. Thus for every $2 of income there was little more than $1 of production. That shift in the supply-demand balance in the economy might well have exploded the price structure. That it did not do so is due to the effective program of economic stabilization which has been hammered out in successive stages by Congressional, Executive, and administrative action.

The benchmark of the stabilization program is the last war. From July 1914 to the armistice in November 1918 (52 months) living costs rose 62 percent. Over a longer period in this war, from August 1939 to December 1944 (64 months) the increase has been only 28 percent.

The stabilization program began back in February 1941, when ceiling prices were placed on second-hand machine tools. This was even before the Office of Price Administration and Civilian Supply was set up (in April 1941). In January 1942, Congress passed the Emergency Price Control Act, ending the period of "voluntary cooperation" in prices. That Act provided general authority to fix maximum prices. With a view to increasing farm income relative to other incomes, Congress specified that in the case of farm products ceiling prices must be considerably above those then prevailing.

In May 1942, the General Maximum Price Regulation placed a lid upon the prices of the vast majority of nonfarm products. In the same month, rent ceilings were first established--in 20 major urban areas. On October 2, 1942, Congress created the Office of Economic Stabilization. Five months later, point rationing of processed foods started. A month later, in April 1943, the President issued his "hold the line" order.

Subsequent establishment of dollars and cents price ceilings and enlargement of the use of subsidies completed the major steps in the development of price control policies. These successive actions steadily improved control over the price structure. By May 1943, living costs had risen 27 percent; they have gone up only about 1 percent since.

Wage and price controls were companion pieces. It was necessary to keep prices steady so that workers would not demand boosts in wage rates which in turn would force production costs and prices up, thus bringing another round of demands for wage boosts. First, the National Defense Mediation Board, then the National War Labor Board (January 1942) were established to settle labor-management disputes.

In July 1942, in the "Little Steel" decision, the War Labor Board announced its intention of holding general wage increases to 15 percent above the January 1941 level, except in cases involving substandard conditions or inequalities. And in the Stabilization Act of October 1942, Congress granted the President authority to control wages even when employer and employees agree upon increases.

Wage stabilization would not have been possible without the cooperation of labor and management through the War Labor Board. With a few notable exceptions both labor and management have accepted the decisions of the War Labor Board. The machinery for peaceful adjustment of disputes provided by the War Labor Board was and is necessary to enable labor and management to carry out their no-strike, no-lockout pledge. Government seizure and operation to avoid interference with the war effort has been necessary in only a few cases where employers or workers failed to live up to their wartime responsibilities.

In some cases, seizure is not the best way of enforcing the decisions of the War Labor Board. It imposes on the government onerous responsibilities of running private business. I recommend that the Congress should provide in addition to seizure other means of enforcement. The War Labor Board should have the right, whenever it considers it necessary, in the public interest, to make its decisions mandatory and legally enforceable in the courts without resort to seizure.

During the 22 months between Jan. 1941, and October 1942, when the War Labor Board was given complete control of wage rates, basic wage rates in manufacturing went up slightly more than 15 percent. During the next 22 months, another 4 percent was added, bringing the total to 19.5 percent. In addition, as a result of incentive payments; merit raises to individual workers, and job upgrading, hourly earnings advanced another 10 percent, or a total of 30 percent; this more than offset the rise in the cost of living. (As a result of longer hours, overtime premium pay, and shifts from lower-pay to higher-pay industries, weekly earnings have risen by much more--by some 75 percent.)

Corporate profits were restrained through price ceilings, renegotiation, profits taxes. Although profits rose from $5,800,000,000 in 1940 to $8,800,000,000 in 1944, production rose even more. The ratio of profits to the value of non-agricultural private output actually dropped from 7.3 percent in 1940 to 5.7 percent in 1944.

Renegotiation has limited profits in two ways:

1. Through refunds, Renegotiations begun during the fiscal years 1942 and 1943 and have brought in $4,355,268,000 to date. (These figures do not reflect tax credits allowable against the refunds.)

2. Through price reductions, Statutory renegotiation and other procurement activities have resulted in cuts on existing contracts of $3,887,597,000 in addition to lower prices secured on reorders.

The Renegotiation Act, as amended, will terminate on June 30, 1945, and it is my recommendation that it be extended at least to December 31, 1945, with authority in the President to extend it for another six months.

The story of how inflation was checked--despite the sharp rise in all types of income: wages and salaries, farm income, income of other unincorporated businesses, corporate profits, interest and rents--can be told statistically. The $79,000,000,000 increase in individual income receipts from 1941 to 1944 was siphoned off as follows:

$16,700,000,000 in taxes, which rose from $3,300,000,000 to an estimated $20,000,000,000;

$15,500,000,000 in war bond purchases, which rose from $500,000,000 to $16,000,000,000;

$15,500,000,000 in other savings, which rose from $7,300,000,000 to $22,800,000,000.

Thus of individual incomes of $155,300,000,000 in 1944, only $96,500,000,000 was spent.

PROSPECTIVE DEVELOPMENTS

The battle for economic stabilization will not end with victory in Europe, perhaps not even with victory in the Pacific. The last war provides a warning. For a few months prices sagged--as workers were laid off by munitions plants, as soldiers were demobilized, and as government orders dropped off. But inventories had been depleted. Businesses were building up stocks. At the same time foreign demand--especially for U. S. Foodstuffs--was brisk.

Then in March 1919, prices again started upward. In the spring of 1920, living costs were 28 percent and wholesale prices almost 25 percent above their inflated level at the war's end. Those high prices choked off construction activity, which had begun to rise. At the same time foreign buyers turned to less high-priced sources of supply, and consumers rebelled at the inflated living costs. Result: the inventory boom ended abruptly.

By the middle of 1921 wholesale prices had fallen 45 percent and farm prices 53 percent. Between 1919 and 1921, factory payrolls dropped 44 percent; new income of farmers 61 percent; and profits of all corporations from $6,500,000,000 in 1919 to a deficit of $55,000,000 in 1921. It was one of the sharpest economic collapses in history.

Again this time there will be powerful inflationary and deflationary forces at work. First as to deflation.

Let us assume that the war in Europe ends before the war with Japan. When V-E Day comes, munitions requirements of the armed forces will decline. That will automatically result in reduced war production and reduced payrolls. Some temporary unemployment will be unavoidable. However this will release manpower and materials for reconversion. At the same time continuing war orders for the fight against Japan will make the transition from all-out war to all-out peach gradual--a two-stage process. The letdown will not come all at once, as it did after the last war.

When the war ends on both fronts, the full force of deflation will be felt. Government expenditures, which today amount to about $100,000,000,000 a year, will decline to perhaps one-fourth that amount. The resulting declines in employment and payrolls, as war orders are canceled, could have far-reaching effect. Consumers, for example, might hesitate to use their savings to buy goods if a depression and prolonged unemployment seemed likely.

Hours worked per week will also decline. Though this will have the effect of spreading the work, it will also deflate the earnings of workers--particularly since they will lose part if not all of premium overtime pay. These consequences are being carefully studied by the War Labor Board. The possibility of reduced earnings will have a direct bearing on the relationship of workers income and their living costs.

It is essential that we facilitate reconversion as rapidly as possible so that peacetime industries can move into the breach. At the same time we must have ready plans for Federal, State, and Local public works projects--for highways, schools, land reclamation, etc.--which can be promptly dovetailed into the employment requirements of the post V-E Day and postwar economy.

Now, as to inflationary pressures.

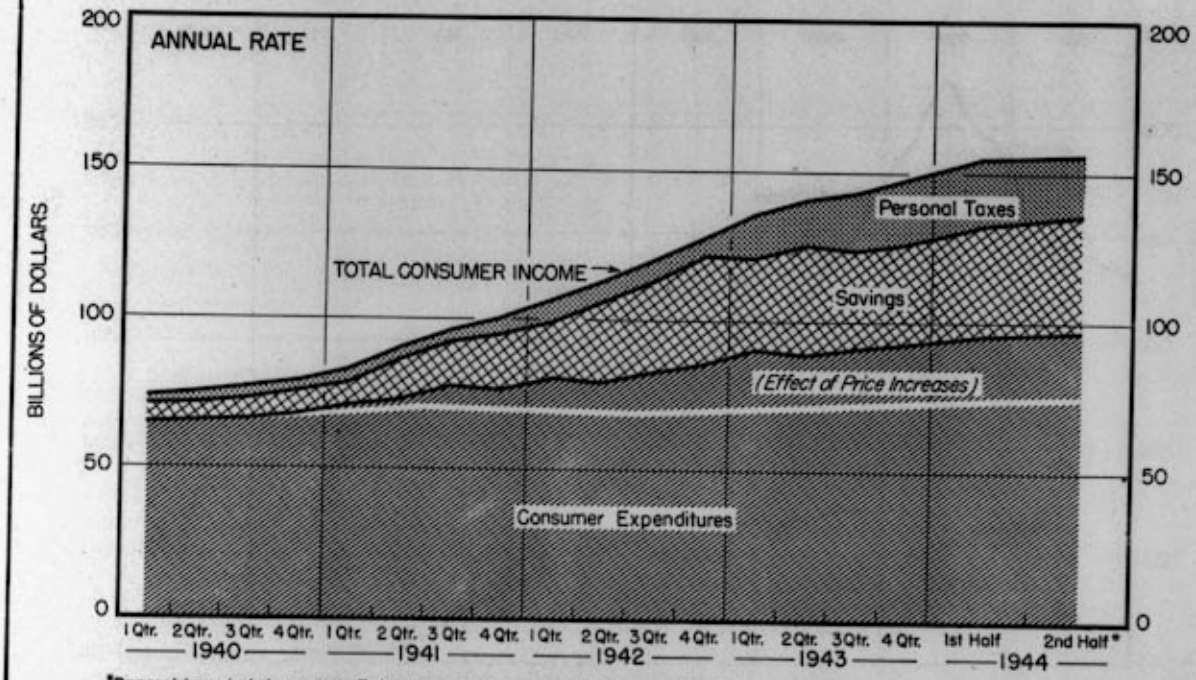
During the four years 1941 through 1944, consumers have accumulated a record volume of savings--$90,000,000,000. Some $45,000,000,000 of war bonds have been bought. Another $45,000,000,000 has been stored up in bank deposits and in currency. And that $90,000,000,000 is superimposed on pre-Pearl Harbor cash assets of $50,000,000,000. In part, these holdings will remain a financial nest-egg, but in part they represent potential demand for new houses, automobiles, refrigerators, furniture and other consumer goods--both durable and nondurable. But whether they are used depends on whether there will be jobs.

Also, inventories of consumer goods will be low--as after the last war. Wholesalers and retailers alike will try to build up stocks. This could force up prices, for which we must be prepared. It is not too early, in my opinion, for the Congress to consider extending until June 30, 1946, the Stabilization Act.

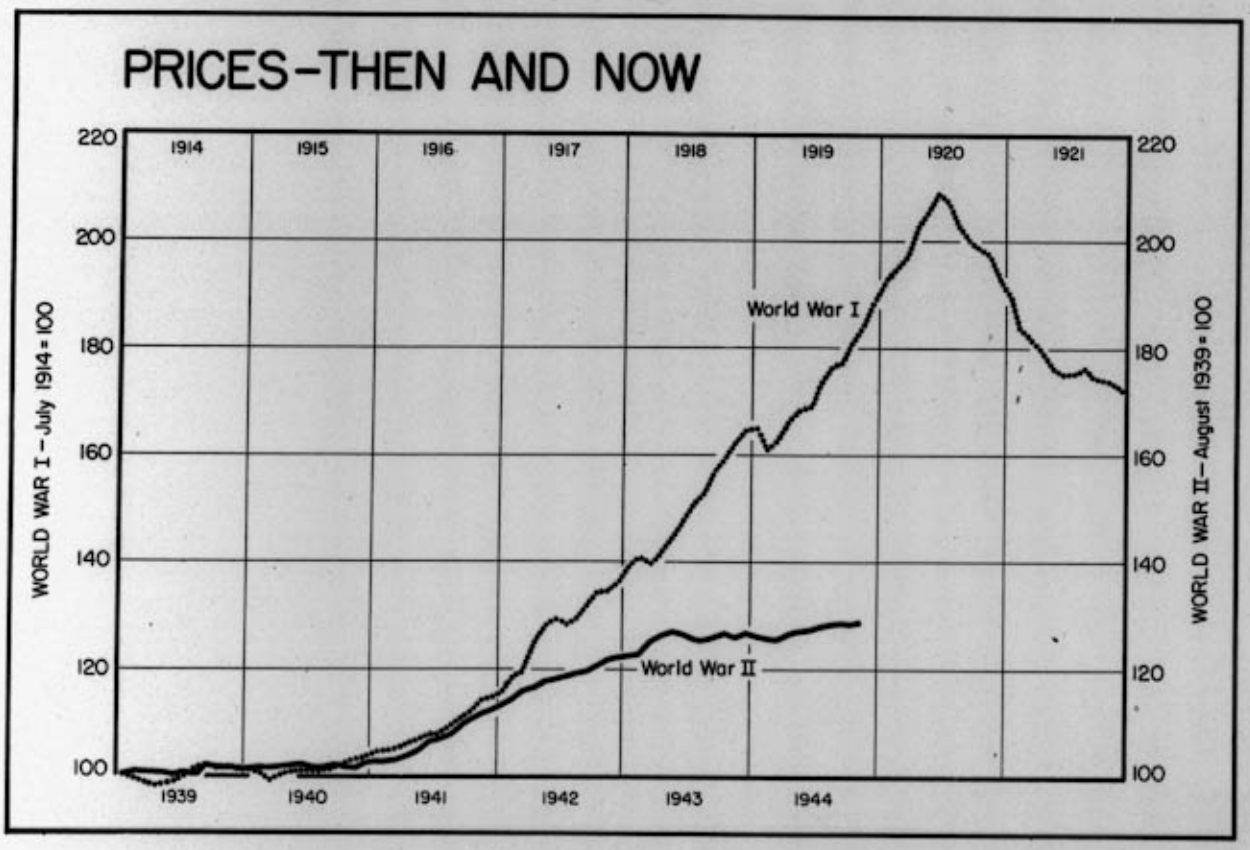
The problem in the transition period is to hold to a middle course--to stop a runaway market in the prices of goods which may be in high demand as a result of pent-up, unfilled wartime requirements, yet without checking the forces working toward expansion. At the same time deflationary forces, as a result of the drop in munitions production, must be combatted. Toward this end, the Congress has already provided in the "G. I. Bill" for the maintenance of minimum levels of income of $20 to $23 per week for demobilized soldiers.

I renew my recommendation that the Congress liberalize unemployment benefits for civilian workers. Such legislation would perform the double duty of alleviating distress among lower-income workers who become unemployed and of maintaining a level of consumer expenditure necessary to facilitate a speedy transition to high-level output of peacetime goods.

HOW PEOPLE SPENT (SAVED) THEIR MONEY



*Personal taxes include quarterly Federal income tax payment due January 15, 1945.


PRICES-THEN AND NOW
1914
1915
1916
1917
1918
1919
1920
1921
1939
1940
1941
1942
1943
1944
220
200
180
160
140
120
100
WORLD WAR I – July 1914 = 100
WORLD WAR II – August 1939 = 100
World War I
World War II

MANPOWER

Even though the manpower mobilization problem is not so large as in 1942 and 1943, when virtually all munitions programs were expanding and needed workers, nevertheless, the task of providing manpower still required for the armed services and for some war industries is more acute and more difficult than ever. There is no longer ready manpower to be drawn on. In 1942 and 1943, large numbers were being released from civilian production, thus becoming available for war work. Also there was a pool of unemployed.

Today the need for labor in war industries is tied in directly with battlefield requirements. Programs calling for additional production and manpower include ammunition, machine tools, tires, textiles, dry-cell batteries, ship repair and maintenance, field and assault wire, and special types of combat airplanes.

MOBILIZATION ACHIEVEMENT.

A remarkable job in mobilization has been accomplished. From 1940 through 1944 we have added about 18,100,000 workers to the war effort, as follows:

1. The armed forces were increased from 700,000 to 11,900,000.

2. Employment in the munitions industries increased from 4,500,000 to 10,300,000, in November 1943, and then receded to 9,200,000--a net increase of 4,700,000 to date.

3. We have added to Federal war agencies, primarily to the War Department and the Navy Department civilian forces, 1,500,000 workers.

4. We have added to the transportation system and public utilities about 700,000 workers.

Where have these people come from?

First, at the beginning of the country's defense program there were 7,000,000 unemployed.

Second, we drew upon the underemployed--those working below their normal skills or part time.

Third, women left their homes for war jobs, students postponed their education and training, older workers deferred retirement. In all, there was an increase of about 10,000,000 in the labor force, of which 7,000,000 was "abnormal growth."

LABOR IN THE WAR

	October 1940	October 1944	Change
	Millions	Millions	Millions
Total labor force, including armed forces	54.5	64.8	+ 10.3
Male	41.3	46.0	+ 4.7
Female	13.2	18.8	+ 5.6
Armed Forces	.7	11.9	+ 11.2
Male	.7	11.6	+ 10.9
Female	0	.3	+ .3
Civilian labor force	53.8	52.9	- .9
Male	40.6	34.4	- 6.2
Female	13.2	18.5	+ 5.3
Unemployment	6.5	.6	- 5.9
Employment	47.3	52.3	+ 5.0
Agricultural	9.6	8.8	- .8
Nonagricultural	37.7	43.5	+ 5.8
Manufacturing	11.5	16.2	+ 4.7
Metals and chemicals[1]	4.5	9.2	+ 4.7
Other manufacturing	7.0	7.0	0
All other	26.2	27.3	+ 1.1
	Years	Years	Years
Average age of civilian labor force	37.0	40.2	+ 3.2
Average weekly hours worked in manufacturing	39.4	45.6	+ 6.2
Average weekly earnings in manufacturing	$26.20	$46.98	+ $20.78

[1] Now often called munitions industries.

SOURCES OF LABOR SUPPLY.

Today the picture is quite different from 1940. Some 300,000 workers are needed fully to man war plants, but there is no longer an unemployed group available for recruiting purposes. Our main sources of labor for critical programs must be:

1. New workers just entering the civilian labor market. In view of Selective Service requirements, these are largely women. The entry of women into the labor force, though still above normal, has slowed down. In the past year the increase was 700,000, approximately one-third of the increase in 1943.

2. Workers in relatively less essential occupations who must be induced to transfer to war industries.

3. Workers leaving munitions industries. In the last year some 1,100,000 workers were released from or quit war plants. About half of these joined the armed forces. Some retired from the labor force—for example, housewives who went back to the home. And some took nonwar jobs. The waitress who became a welder and loses her war job may return to restaurant work.

War production has become less attractive than it was a year or two ago. The earnings differential on war jobs relative to nonwar jobs has been reduced as overtime has become general. Living conditions in war centers are trying.

Also, concern over personal job security has perhaps created an urge to find employment in peacetime industries.

CRITICAL NEEDS NOW.

Several hundred thousand workers would fulfill the requirements of critical war production. But because the war economy has matured, because the labor supply is tight and relatively inflexible, moving enough workers to the right plants at the right time takes intensive effort on the part of all agencies.

The Office of War Mobilization and Reconversion has recently requested the Director of Selective Service to tighten Selective Service System classifications. The Director of Selective Service has reported that the new regulations have already succeeded in holding workers in critical war plants. The War Production Board has suspended the "spot authorization" plan for civilian production in tight labor areas. The War Production Board has also limited the production of civilian goods to the level reached in the fourth quarter of 1944.

The War Manpower Commission has been asked to tighten manpower ceilings, particularly in the less-essential industries, and the War Production Board has been authorized to deny priority and allocation privileges to plants which fail to comply with WMC regulations. Race tracks have been asked to close to reduce the drain on manpower, transportation, and other services. Notwithstanding the financial loss involved, the favorable response of owners of race tracks and race horses has been virtually unanimous.

However, even these measures may not be sufficient. It may be necessary to request the Congress for legislation designed to strengthen the authority of the War Manpower Commission.

Further, we must anticipate the possibility of increased calls under the Selective Service System. We must recognize the necessity of reconsidering the standards governing the deferment of agricultural workers, since this group represents the largest remaining source of young men for military service.

The Office of War Mobilization and Reconversion, together with all Government agencies concerned, recognizes that its first problem is to meet the demands of manpower for all-out war. However, it is not overlooking the manpower and employment problems which will certainly develop with the end of the war.

PROSPECTIVE DEVELOPMENTS.

The character and composition of the American labor force and of our labor market have undergone a drastic transformation. Manufacturing industries now absorb one-third of the civilian labor force, as compared with one-fourth in 1940. The average age of workers has increased from 37 in 1940 to about 40 years in 1944. The proportion of women workers in the civilian labor force has gone up from 25 percent 4 years ago to 35 percent.

Further, the wartime labor force is concentrated geographically. Though efforts were made to move industry to the workers, the necessity of speed in war production made it impossible to avoid a substantial concentration in areas where a nucleus of skilled labor, managerial know-how, and facilities

were available. Thus, the aircraft and shipbuilding regions on both coasts and the industrial areas in the Great Lakes region have expanded greatly, drawing population away from agricultural areas and States (map, Civilians on the March). Even within States, there has been a movement from small areas to manufacturing centers.

However, the growth of the labor force itself constitutes the main post-war problem. Peak employment prior to the war was reached in 1929, when an aggregate of approximately 47,000,000 persons were at work. During the depression, employment shrank to 38,000,000 in 1932, then recovered to 45,000,000 by 1939. Since then, both total employment and the average number of hours worked have increased greatly. Our working force, including those in the armed forces, is now approximately 65,000,000 persons—an increase of nearly 20,000,000 over 1939. This expansion poses the basic post-war problem.

Some of the additional workers will be absorbed through a return to pre-war working hours.

Some will retire.

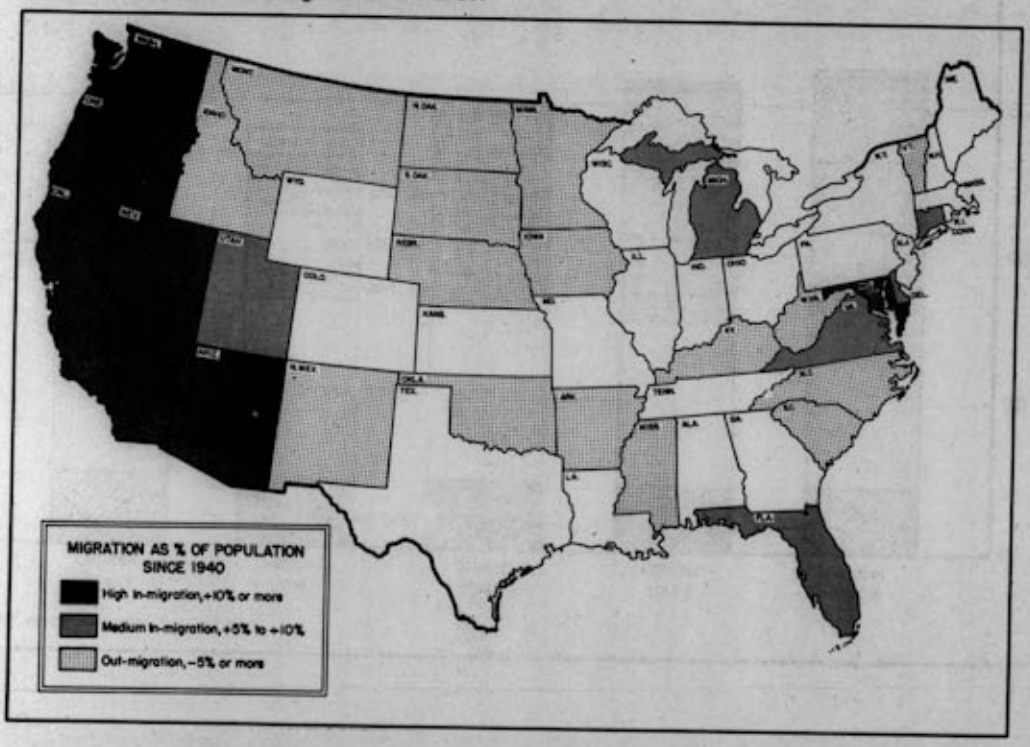
Some will return to school.

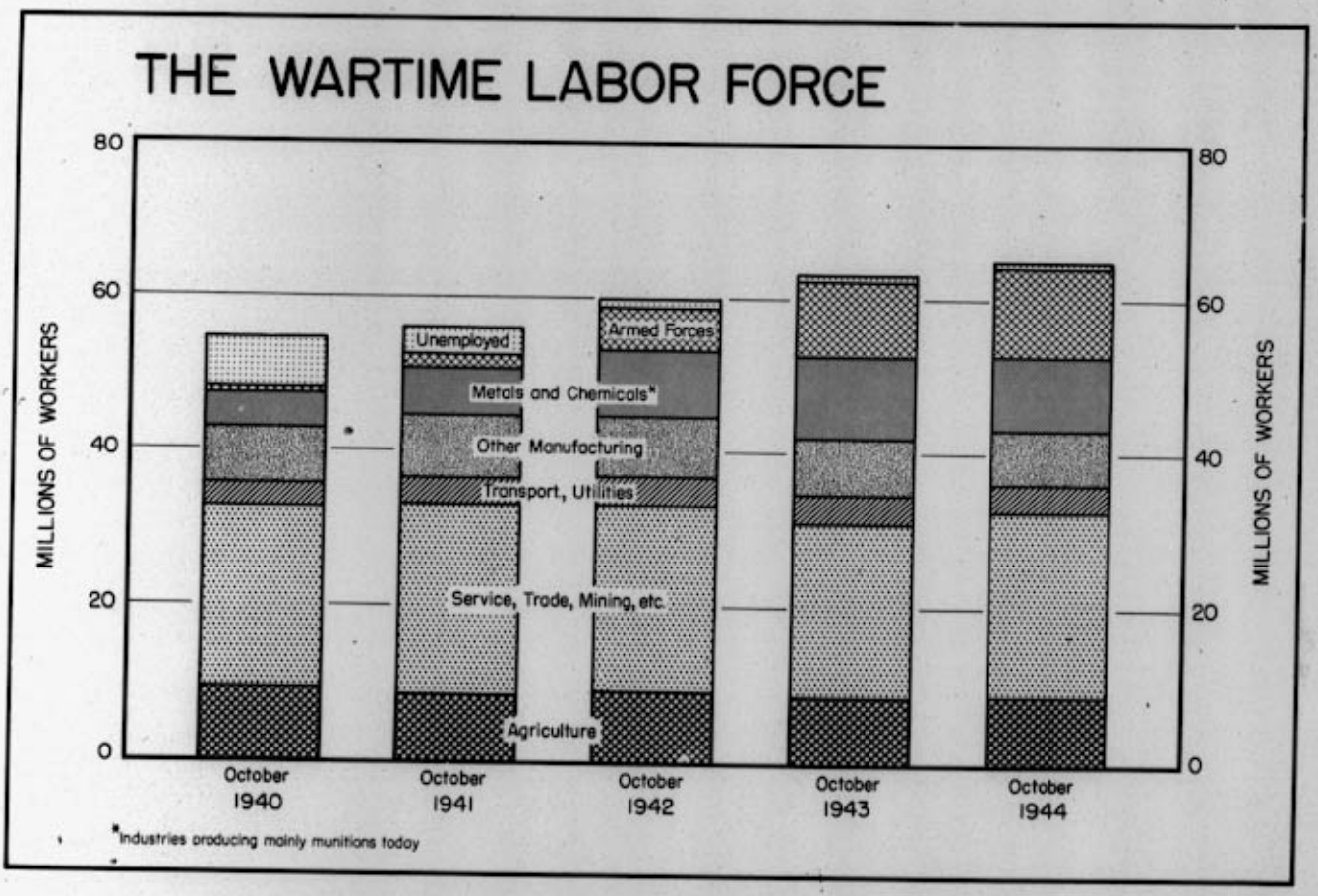
Some will remain in the armed forces.

However, many will be out of work unless we succeed in building up a volume of production and distribution far beyond anything heretofore realized. That is the fundamental economic problem of the post-war period to which our thinking must be directed. It is a problem which this Office will discuss at greater length in subsequent reports.

CIVILIANS ON THE MARCH

Workers in search of war jobs gravitate toward coastal aircraft and shipbuilding centers. Out-migration heaviest from agricultural states.




THE WARTIME LABOR FORCE
MILLIONS OF WORKERS
80
60
40
20
0
Unemployed
Armed Forces
Metals and Chemicals*
Other Manufacturing
Transport, Utilities
Service, Trade, Mining, etc.
Agriculture
October 1940
October 1941
October 1942
October 1943
October 1944
*Industries producing mainly munitions today

AGRICULTURE

The Nation's achievement in agriculture can be summarized thus: In 1944, almost one-quarter of the country's farm output went directly to our armed forces and allies, yet total food available to civilians slightly exceeded the 1935-39 average, and on a per capita basis was up 7 percent above that level.

Clearly, the American standard of eating-quantitatively-did not suffer. This was because total farm output, which by 1940 had risen one-tenth above 1935-39 average, increased by 21 per cent more between 1940 and 1944. Total food supplies increased 23 percent.

Here are some specific examples of big gains over 1940; eggs, up 46 percent; wheat, 33 percent; peanuts, 24 percent; corn, 31 percent; beef and veal, 32 percent; pork, 28 percent. In each of these items except pork, with its unprecedented 1943 volume of almost 13,400,000,000 pounds, 1944 set all-time records.

Unlike the increase in the production of munitions, this increase was not attained through a vast inpouring of additional resources. The total farm population dropped 16 percent (chart, "Civilians on the March," p.00). Farm employment fell 5 percent between 1940 and 1944, and the decline would have been much greater had not many farm workers been granted occupational deferments from military service, and had not many farm women and youths, normally not in the working force, stepped into the breach.

Acreage devoted to crops went up only 5 percent, and even this was mainly at the expense of rotation pasturage and summer fallow, rather than through the breaking of new ground. But the use of commercial fertilizer increased 45 percent over 1940. Moreover, the setting of voluntary production goals, farm by farm, stimulated each farmer to maximum effort. And prices, directly supported by the Government, advanced sufficiently to provide incentives for intensified operation.

MEETING WARTIME GOALS

Mechanization also increased. Immediately after Pearl Harbor, production of farm machinery was curtailed sharply as munitions production made exacting demands upon our steel capacity. Farmers, aiming at high production goals in 1942 and 1943, wished to purchase added machinery and equipment to offset the drop in the labor force. Many were unable to do so. However, in 1943-44 allotments of materials to farm equipment increased, and output in 1944 exceeded the record year of 1941.

To keep farm machines operating, production of spare parts was boosted year after year. As a consequence, though the demand for farm machinery is still great, farms generally have become increasingly mechanized. There are 29 percent more mechanical corn pickers on farms today than in December, 1941; 23 percent more combine harvesters; 49 percent more milking machines. There is still a serious shortage of farm trucks and farmers need more of some other types of farm equipment than is yet available.

As another factor, a decade of soil conservation had built up plant energy within the soil and hence contributed to larger yields. Improved varieties of seed-notably hybrid corn-also increased production. And there was good weather throughout most of 1944. It all added up to a high level of production per worker-28 percent better than in 1940, and 45 percent above the 1935-39 average.

Legislation played its part. To stimulate farm production, Congress provided price supports for specific classes of agricultural products. Prices received by farmers rose by 82 percent from 1935-39, and were 14 percent above parity in 1944. Realized net income of farm operators went up 170 percent from $4,600,000,000 in 1940 to about $12,400,000,000 in 1944. Some of this increase was due to the higher volume of production, and some to the advance in farm prices as compared with farm costs. Prices paid, and cost rates other than wages to hired workers, increased less than half as much as the prices received for farm products. Farm wages, however, increased 150 percent from 1940 to 1944. Not only did support prices help raise farm income, but, more important, they helped direct agricultural energy into products most urgently needed, whether crops or livestock. Thus output of pork, milk, eggs, canning crops, corn, wheat, soybeans, and peanuts rose sharply, while the output of cotton dropped (chart, "Wartime Peaks in Agriculture"). In a sense, agriculture was put on an incentive-pay basis, and support prices were to farmers what specific munitions contracts were to industry and higher wage rates to labor.

The object was highly practical-to provide an adequate supply of food for the armed services, the civilian population, and our allies, and to maintain reserve stocks to guard against a bad crop year or shipping exigencies. Thus stocks have been stored here, in the United Kingdom, and in the European theater. These stocks are still needed. If weather should be below average in 1945, shortages might develop. When the war ends, however, these stocks may become surplus to the extent that they are not absorbed by foreign markets or by relief and rehabilitation requirements.

PROSPECTIVE DEVELOPMENTS

The Congress apparently foresaw this and provided for the continuance of support prices for 2 years after the first day of January following the termination of the war. This guards against an immediate collapse of prices if military and lend-lease food procurement should drop off sharply. At the same time it assures a high level of production since it relieves the farmers of the apprehension that crops which had been planted in anticipation of a given price might have to be sold in an unsupported market. Although we may enter the postwar period with farm product deficits, the continuance of support prices after the war may impel farmers to raise some products above the then current consumption requirements.

During and after the last war-from 1914 to 1920-farm land prices rose 65 percent. Those were the days of $400 per acre for farm land in Iowa. Farm mortgage indebtedness in the United States rose from less than $5,000,000,000 in 1914 to $8,500,000,000 in 1920 and to $10,800,000,000 in 1923.

So far during this war, farm land values have gone up 43 percent. But mortgage indebtedness has declined from $6,600,000,000 in January 1940 to less than $5,400,000,000-the lowest level since 1916.

The inference is that farm land prices, though they have gone up, have not risen because of an overfree use of credit. However, the speculative situation bears watching. During 1944, the number of farm mortgages increased. It appears that established owners of land are reducing their indebtedness, but that a new group of farm owners is buying on credit.

The capacity of the agricultural plant will present a fundamental postwar problem. Improved practices, increased mechanization, and more intensive use of fertilizer have boosted output per farmer and per acre to record high levels.

Therefore, in the postwar period the same number of farmers could easily turn out more than the prewar volume of crops and livestock products.

In spite of this, farm workers drawn into munitions plants will return to the farms unless the level of industrial production is such as to hold them in other undertakings. Many soldiers drawn from farms will return. Supplies of some products will be available again from war-torn areas. Hence, important readjustments in agriculture seem necessary if we are to maintain a high farm standard of living. How important and how serious these readjustments are will depend on the level of industrial prosperity in this country and on the extent to which farm products can be exported.

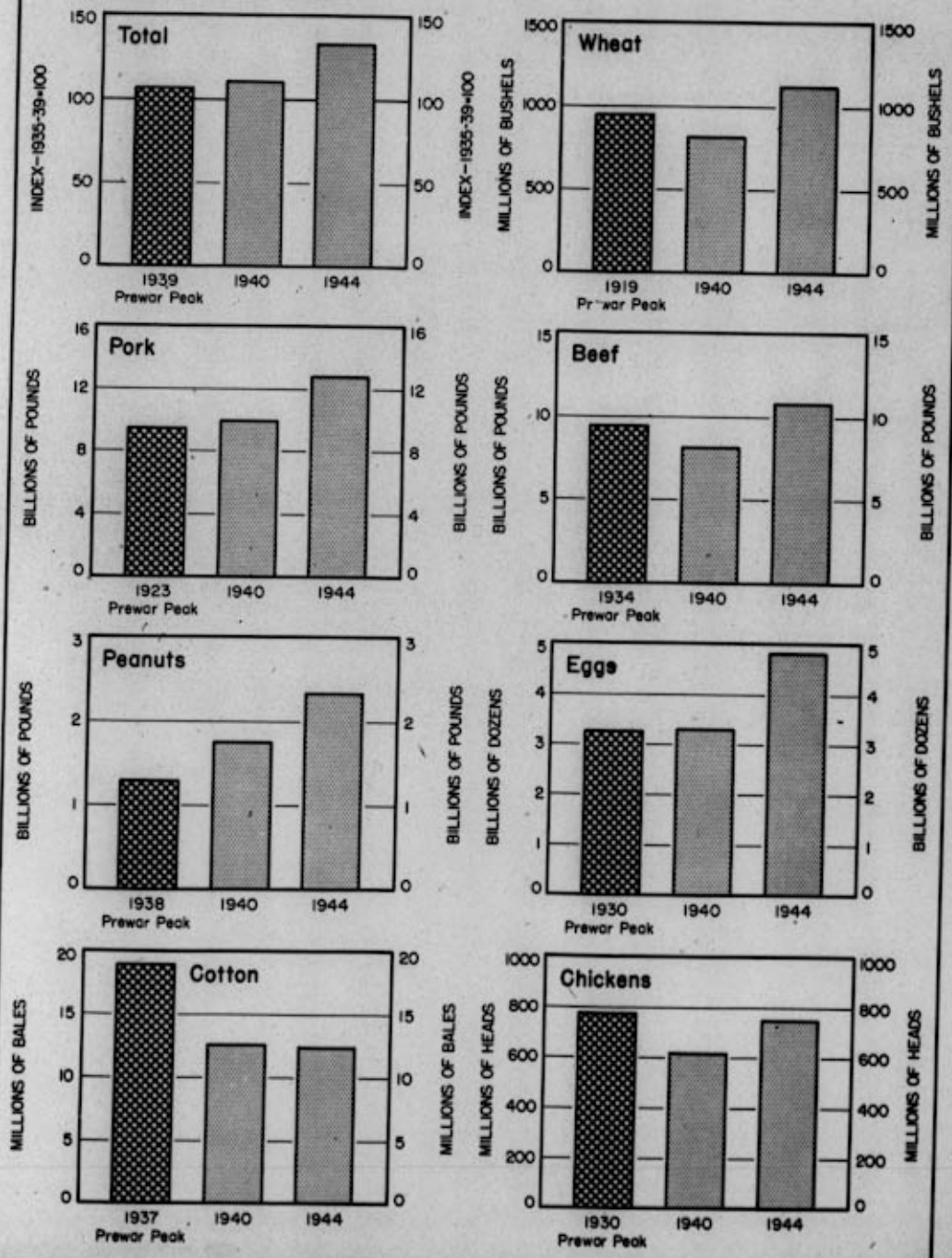
In the meantime, the task facing American farmers in 1945 is to make history repeat itself by once again producing the high volume of foodstuffs and other products needed to feed and equip the fighting and working populations of the United States and her allies.

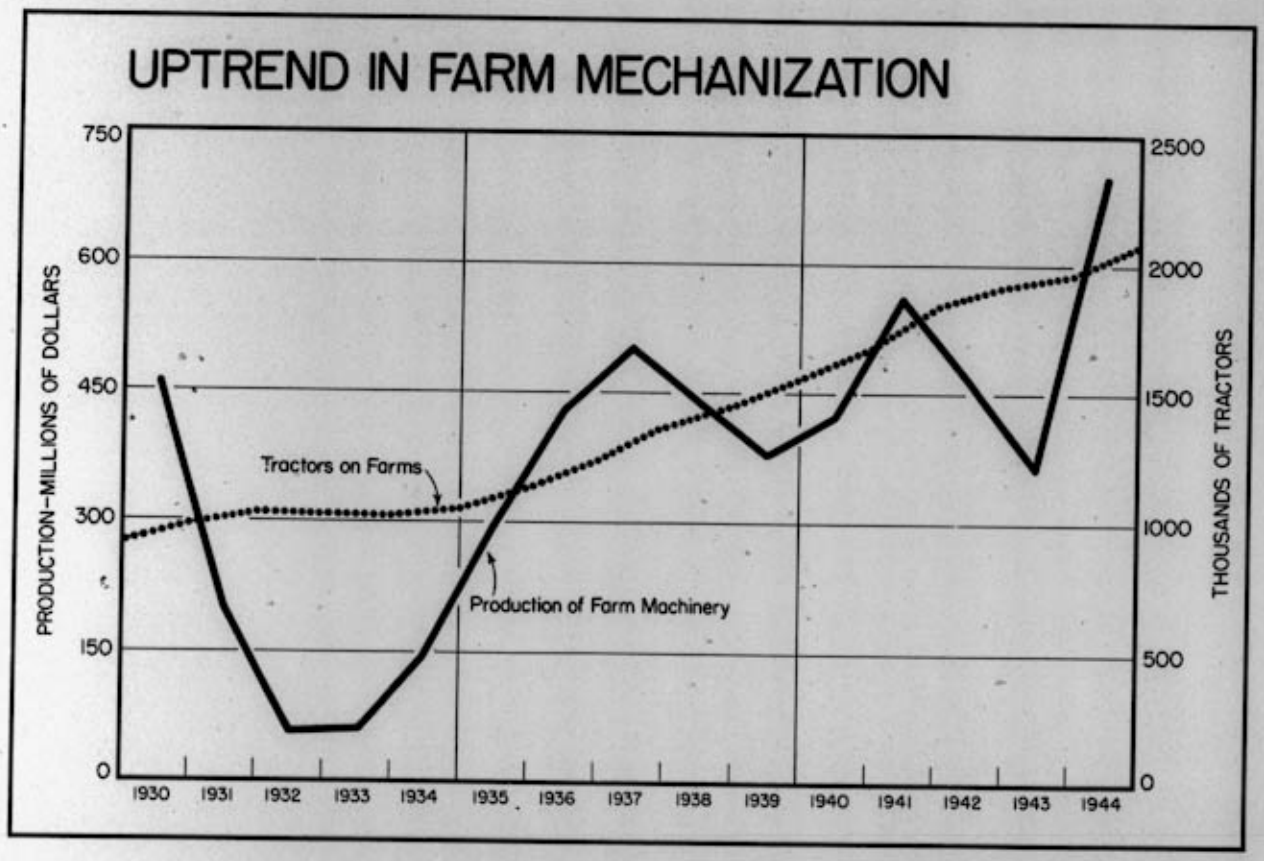
WARTIME AGRICULTURE: 1940-1944

	Percent Change 1940-44
Total output	+ 21
Foods output	+ 23
Acreage in crops	+ 5
Farm population	+ 16
Farm employment	- 5
Use of commercial fertilizer	+ 45
Tractors on farms	+ 25
Crop yield per acre	+ 10
Output per worker	+ 28
Net realized income, farm operators	+ 170
Wage rates	+ 150
Mortgage debt	- 14
Land prices	+ 36

WARTIME PEAKS IN AGRICULTURE

Output of wheat, pork, beef, peanuts, eggs set new highs in 1944. Cotton, chickens are exceptions.




UPTREND IN FARM MECHANIZATION
PRODUCTION—MILLIONS OF DOLLARS
750
600
450
300
150
0
THOUSANDS OF TRACTORS
2500
2000
1500
1000
500
0
Tractors on Farms
Production of Farm Machinery
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
1941
1942
1943
1944

FOREIGN ECONOMIC OPERATIONS

The story of foreign trade during the war period is largely the story of lend-lease on the export side and the procurement of critical war materials on the import side.

Shortly after Germany invaded Poland, both Great Britain and France sent purchasing missions to the United States to buy airplanes and other war products. These missions placed orders aggregating $4,000,000,000 which started American industry to tool up for munitions production.

As the war mounted in scale it soon became evident that neither of these countries had the financial resources--the dollar balances--necessary to buy the munitions they would need from this country. The United States had become a creditor nation.

In March 1941, the Lend-Lease Act was adopted. This Act with subsequent modifications made it possible for our government to buy munitions and other supplies from industry and agriculture for transfer to Great Britain, Russia and other countries, whose defense was necessary to the defense of the United States, without definite arrangements for repayment. Since January 1942, there have been transferred about $18,000,000,000 of combat munitions to our allies, or 16 percent of total U. S. output. Of this amount, $16,000,000,000, or 14 percent, was under lend-lease:

of the total output

Percentage of Output Transferred

	Total	Lend-Lease Transfers
Aircraft----------	16%	14%
Ships----------	10%	9%
Guns----------	12%	11%
Ammunition----------	17%	16%
Combat and Motor Vehicles--------	37%	32%
Communication & Electronic Equip.	9%	8%
Total Combat Munitions----------	16%	14%

Since March 1941, the U. S. has lend-leased 34,500 airplanes, 30,000 tanks and 700,000 motor vehicles. While both the British and Russians have produced the greater proportion of their own requirements, our contribution has been substantial, particularly in motor vehicle equipment.

Lend-lease has not been restricted to munitions. It has also helped our Allies to maintain their own industrial output. Exports of industrial products, many in unfinished form, have amounted to approximately $6,400,000,000. Agricultural products, representing about 10 percent of our total food supply, have aggregated approximately $4,450,000,000.

Lend-lease exports, which have exceeded $24,000,000,000 are divided as follows:

March 11, 1941 - September 30, 1944
(000,000 Omitted)

	Total	United Kingdom	Other British	USSR	Other
Ordnance	$ 3,560	$ 1,620	$ 940	$ 750	$ 250
Aircraft	5,010	1,760	1,660	1,330	260
Tanks and other vehicles	4,460	1,470	1,230	1,300	460
Watercraft	520	230	100	170	010
Agricultural Products	4,450	2,850	270	1,190	140
Industrial Products	6,380	2,630	1,400	2,150	200
Total	$24,380	$10,560	$ 5,600	$ 6,880	$1,340

REVERSE LEND-LEASE

During the period in which the United States has been assisting its Allies through lend-lease, it has also received substantial assistance from these Allies in the form of reciprocal aid. The United Kingdom has provided barracks, airfields, clothing, military bridges, ship repairs and many other items. Australia and New Zealand have provided substantial food supplies. British raw materials have been made available for U. S. production. Other countries have also provided reciprocal aid.

The reciprocal aid or reverse lend-lease obtained by the U. S. from the British empire is estimated by the British Government as follows:

	January-June 1944	Total from June, 1942 to June, 1944
United Kingdom	$873,400,000	$2,437,000,000
Australia, New Zealand, India	350,100,000	911,100,000
	$1,223,500,000	$3,348,100,000

Since the invasion of North Africa, the U. S. has also cooperated with other United Nations in providing the minimum essential requirements for the populations liberated by the Allied forces. This program to date has been largely a military operation, administered by the Army and Navy, to prevent disease and unrest along military lines of communication and to permit local populations to assist Allied forces. However, the Congress has authorized U. S. participation in the United Nations Relief and Rehabilitation Administration. The Foreign Economic Administration has allotted $350,000,000 to date to procure supplies for UNRRA which include food, agricultural materials and equipment, clothing, medical supplies and some transportation and public utilities equipment. The export of these supplies must be governed by the availability of shipping beyond military necessity and by the military situation.

Lend-lease shipments have resulted in U. S. exports reaching the highest levels in history. In 1944 total exports will exceed $14,000,000,000 which is three times the level of 1940, and almost twice the peak level of 1920 when this country exported goods valued at $8,000,000,000 for the reconstruction and rehabilitation of Europe after World War I.

3-Foreign Trade-12/28/44

Despite shipping restrictions, imports have also risen as a result of the war, from $2,600,000,000 in 1940 to an estimated $4,000,000,000 for 1944.

During the early periods of the war, the United States engaged in preclusive buying of materials and products which would aid the Axis powers. However, our import program has been directed largely to the procurement of basic materials needed for war production. In 1943, almost all of our tin, 85 percent of our wool, all of our nickel, 85 percent of our chromite, 85 percent of our manganese ore, and 60 percent of our tungsten were imported.

We have provided financial, technical and material aid to foreign governments and producers to assist in the development of foreign sources of supply of critical materials.

The attainment of adequate stockpiles and the shift in war requirements are permitting the reduction of some government programs for procurement abroad. Trade in several commodities has already been returned to private hands and studies are now under way to determine when and how licensing restrictions on foreign trade can be modified.

PROSPECTIVE DEVELOPMENTS

Congress, in passing the Lend-Lease Act, made a major contribution to early victory. It developed a munitions industry in the United States. It also made it possible to extend maximum aid in the war to our Allies; it did this in a way to avoid draining such countries of all their gold and dollar balances.

As will be seen from the chart "Foreign Trade Goes to War", the cash imports into this country in 1943 and 1944 exceeded the cash exports, thereby increasing the supply of dollars abroad and the potential buying power for U. S. goods after the war.

The fact remain, however, that the world as a whole will need far more of the post war production of the U. S. than it can immediately pay for. United States, on the other hand, will have a productive capacity far in excess of domestic consumption.

Obviously, if our productive facilities are to be kept employed, we must buy not only in foreign markets but also credit must and doubtless will be provided to those countries requiring our goods which are unable to make immediate payment.

The financial problems involved have been the subject of an international conference held at Bretton Woods. They remain major problems to be solved before our own position in postwar trade can be determined.

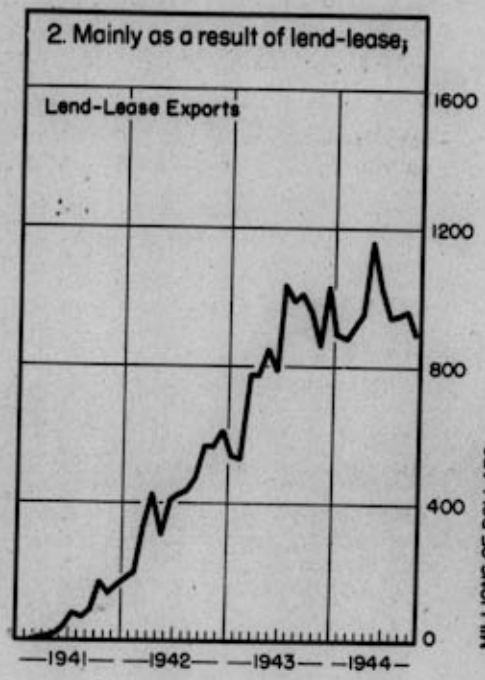
It is important that we do not repeat the mistakes that we made at the end of the last war. Foreign countries are in the end only able to pay their debts and to continue buying our goods by selling their goods and services to us.

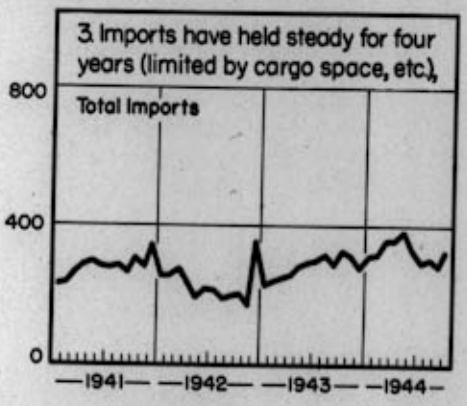
4-Foreign Trade-12/28/44

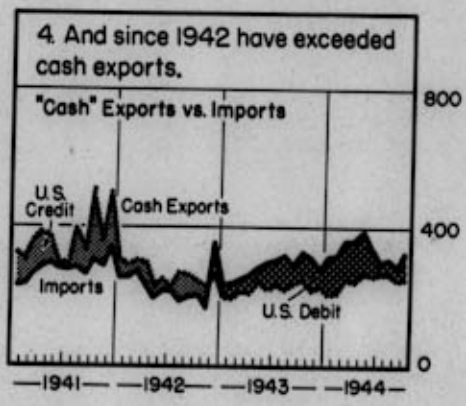
It cannot too often be said that if we are to get back the money which we lend abroad, and if we are to continue to sell our goods abroad, we must be prepared to import goods on a large scale. When we raise barriers against imports we restrict the outlets for American goods in foreign markets and reduce job opportunities at home. Trade breeds trade and trade restrictions breed unemployment.

A full utilization of the increased resources developed in this country during the war and a satisfactory condition of employment require a great expansion in international trade.

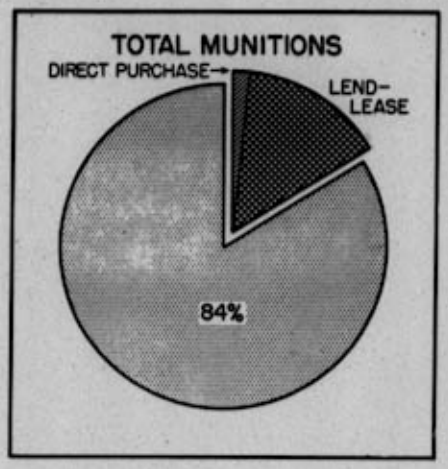
FOREIGN TRADE GOES TO WAR

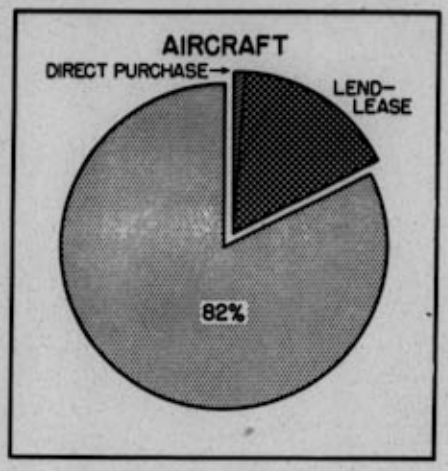


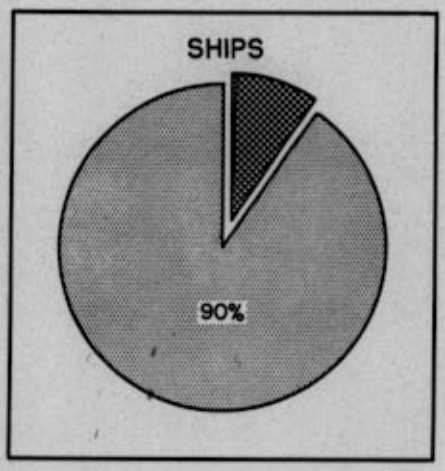


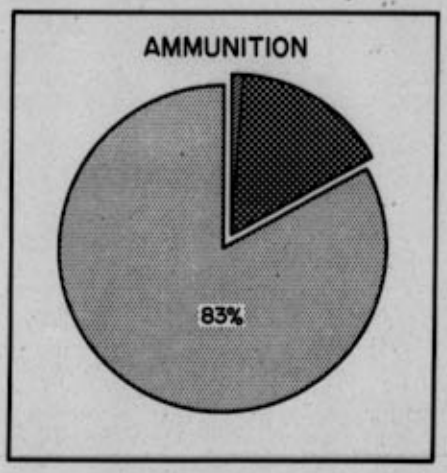


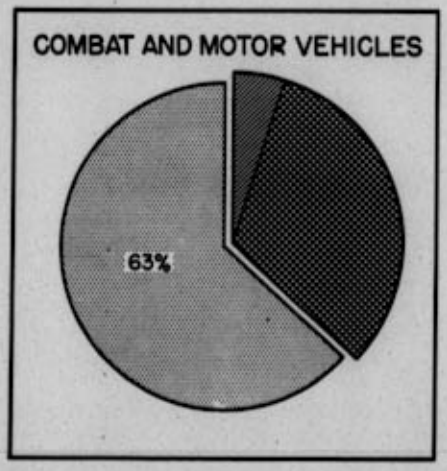
ALLIES GET 16% OF U.S. MUNITIONS











Total volume of freight moved by United States railroads, trucks, pipelines, commercial air transports and over inland waterways has risen from some 600,000,000,000 ton miles in 1940 to more than 1,000,000,000,000 ton miles in each of the last two years. This added volume has been handled without an appreciable increase in facilities other than pipelines.

The railroads have borne the brunt of the burden. They handled about 70 percent of the total freight volume in 1944, as compared with only 62 percent of the much smaller total in 1940. Railroad passenger traffic almost quadrupled, rising from some 25,000,000,000 passenger traffic miles in 1940 to 98,000,000,000 last year.

Three factors were mainly responsible for imposing extra loads upon the railroads:

1. Closing of the Panama Canal to commercial shipping and diversion of inter-coastal ships to military assignment forced upon the railroads additional transcontinental burdens. Some 7,500,000 commercial tons were shipped through the Canal in 1940. After Pearl Harbor, commercial shipments stopped altogether.

2. Submarine warfare for a time curtailed coastal shipping and tanker transportation of petroleum and petroleum products to the east Coast. At the beginning of 1941, the railroads carried less than 1 percent of such traffic; tankers carried 95 percent.

In December 1942, there was a serious shortage of petroleum products on the east Coast. The presidents of eight railroad companies were requested to meet with the Director of War Mobilization. As a result of plans then suggested by the railroad executives and later put into operation, by the middle of 1943, railroads were carrying 71 percent, tankers only 8 percent. Last year, however, new pipelines were in operation and moved 38.7 percent of east Coast petroleum and petroleum products; tankers returned to transport 16.1 percent of the volume. The load on the railroads dropped to 37.8 percent of the total.

Developments in the last month, however, indicate that a number of tankers now in service may have to be recalled for overseas military operations! Since pipelines have been operating at capacity, this means that railroads may have to resume a major proportion of east Coast petroleum transport. (Since 1940, approximately 13,600 miles of pipelines have been constructed, converted, or reversed as to direction of flow. More than $275,000,000 has been expended for new trunkline facilities.)

3. Since new motor carrier equipment, trucks, buses, tires, fuel - could not be provided except at the expense of munitions, commercial highway transport and private passenger cars could not assume their proportionate share of wartime expansion in traffic. The railroads were forced to meet the unprecedented rise in passenger travel demands -- about 40 percent of which represented military travel - without any increase in civilian passenger train equipment. Imposition of travel rationing has been avoided because of difficult administrative problems although some nonessential travel has been curtailed as a result of educational campaigns conducted by the industry and government.

The achievement of the carriers was made possible by the ~~unofficial~~ efforts of railroad workers.

EMERGENCY MEASURES

Emergency wartime measures instituted by the Office of Defense Transportation with the full cooperation of the industry and its workers include:

1. Compulsory maximum loading of freight cars under ODT orders. This added the equivalent of 141,000 freight cars to the existing supply.
2. Higher demurrage charges which penalized shippers for holding cars.
3. Maximum utilization of equipment. The ratio of serviceable freight cars to total cars on line increased from 92.2 percent in 1940 to 97.5 percent in 1944; gross ton miles per serviceable freight locomotive increased from 59,000,000 miles in 1940 to 85,000,000 miles last year. Movement of cars on line and through terminals increased from 39 miles per day in 1940 to 52 miles in 1944. The average haul per ton of freight increased from 351 miles in 1940 to 471 miles in 1944.
4. An overall program of export control to prevent freight congestion in ports. The coordinating measures of the military services, the War Shipping Administration and the Office of Defense Transportation have prevented port tie-ups which in the last war sometimes backed up rail traffic from New York to Pittsburgh and immobilized freight cars for weeks.

HIGHWAY AND TRANSPORT OPERATIONS

The motor carrier industry has obtained only 195,000 new trucks and buses since March 1942. This is less than 10 percent of the number it would normally require for replacements and expansions. Nevertheless, loads have gone up year by year.

In response to ODT regulations, stores have curtailed deliveries, truckers have loaded to fuller capacity, special delivery "luxury" services have been reduced or eliminated. The result has been a more efficient use of the available trucks and buses. For example, last year intercity buses transported 275 percent more passengers than in 1941--but mileage increased only 78 percent. Similarly, local truck operators cut mileage 40 percent below that of 1940 while carrying approximately the same tonnage.

Twenty-three thousand industry committees with a local membership of 182,000 have cooperated with the Office of Defense Transportation to obtain fullest use of the industry's restricted equipment.

INLAND WATERWAY TRANSPORT

The volume of water-borne freight in 1944 was 145,000,000,000 ton miles as compared with 118,000,000,000 in 1940. Total tonnage moved on the Great Lakes last year was greater than in any previous season, although ore shipments, as a result of reduced quotas, were some 11,000,000 tons below the peak movement of 92,000,000 tons in 1942. Traffic in the Mississippi-Ohio River system and other inland waterways has increased since January 1942, particularly in the movement of petroleum and petroleum products to the East Coast. Barges moved 7.3 percent of total petroleum products to the Eastern seaboard last year.

PROSPECTIVE DEVELOPMENTS

The defeat of Germany will result in an accelerated East-West flow of transcontinental traffic which will most likely require the retention of major transport controls. The provision of additional equipment will then depend on War Production Requirements.

While postwar freight and passenger traffic may be expected to decline from current high levels, it should continue at a much higher level than prevailed before the war. This suggests a heavy postwar demand for trucks, buses, rail passenger and maintenance equipment to replace wornout facilities and to improve service.

SHIPPING

Under the Merchant Marine Act of 1936, Congress directed the Maritime Commission to maintain a merchant fleet adequate to meet the requirements of national defense and to carry a substantial portion of U. S. commerce. That Act laid the foundation for the largest merchant fleet in the world. It has made possible the transport and supply of vast U. S. and allied armies throughout the world.

U. S. SHIPBUILDING OFFSETS ALLIED LOSSES

From January 1942 through 1944, American shipyards have turned out approximately 4,500 new cargo ships--transports, tankers, miscellaneous merchant type ships and auxiliaries--aggregating about 43,700,000 deadweight tons. American construction alone has thus more than offset the losses of United Nations ships due to enemy action and other causes. The net gain has been continuous since December 1942. During the same period also, thousands of the ships of Allied Nations have been repaired after damage by enemy action and heavy weather or overhauled after hard usage.

As a result, the United States has become more than self-sufficient as a peacetime carrier of ocean cargo. Last year U. S. ships carried an estimated 59,000,000 long tons of cargo, or 76 percent of all U. S. ocean shipping. As contrasted with this total, U. S. ships carried only 8,000,000 long tons, or 23 percent of U. S. cargoes during the years 1930 to 1939.

How this was achieved is well known. The Maritime Commission, early in the war, constructed new shipyards, enlarged others, and supplemented facilities of still others. Mass-production methods were introduced. One of the production marvels of the war is the reduction in construction time on Liberty ships from more than 200 days to about 50 days. Now Victory and other type cargo ships--faster and more suited to peacetime traffic--are replacing them on the ways.

As part of its duties, the War Shipping Administration directs the allocation, operation, and maintenance and repair of the merchant fleet. All vessels not allocated or assigned to the Army and Navy are operated by American shipping firms on schedules controlled by the W. S. A. To keep this huge fleet operating, officer and crew personnel has had to be increased from 67,000 men in September 1941, to approximately 200,000 today. More seamen are needed each month as additional ships come off the ways.

Since September 27, 1941, when the first U. S. merchant vessel was sunk, 5,855 merchant seamen have been reported killed, missing, or prisoners of war.

POSTWAR FLEET

In 1939, there were approximately 1,100 sea-going vessels in active service under the American flag. At the end of the war, the fleet will exceed 5,700 vessels, as follows:

> Assuming that none are built after June 1945, nearly 2,500 will be Liberty ships, which will have served their essential purpose as a mass-production, wartime vessel. These will not be satisfactory for fast, competitive ocean-going service after the war, though undoubtedly foreign countries formerly engaged in tramp freight shipping will purchase a fraction of them at reduced prices.

There will be 700 old ships, largely prewar vessels, which in due course will be retired, as their operation costs become excessive.

There will remain 2,500 efficient C-type and Victory dry cargo ships and tankers. A few of these may have been so drastically altered for military use that reconversion to commercial service may prove to be uneconomical.

PROSPECTIVE DEVELOPMENTS

The use and disposition of the merchant fleet, with which the U. S. will end the war, is a problem with international implications. Prior to this war, the United States use of foreign ships, paid for in American dollars, helped to improve our foreign exchange position by providing other nations with the means of buying more American goods. However, if we use our war-built merchant fleet to its full capacity, then it is quite possible that instead of buying shipping service we will be selling service and thus cut down the world's international supply of dollars available for the purchase of American goods. Therefore, we will have to weigh carefully the effects that a great U. S. merchant fleet will have on our international trade.

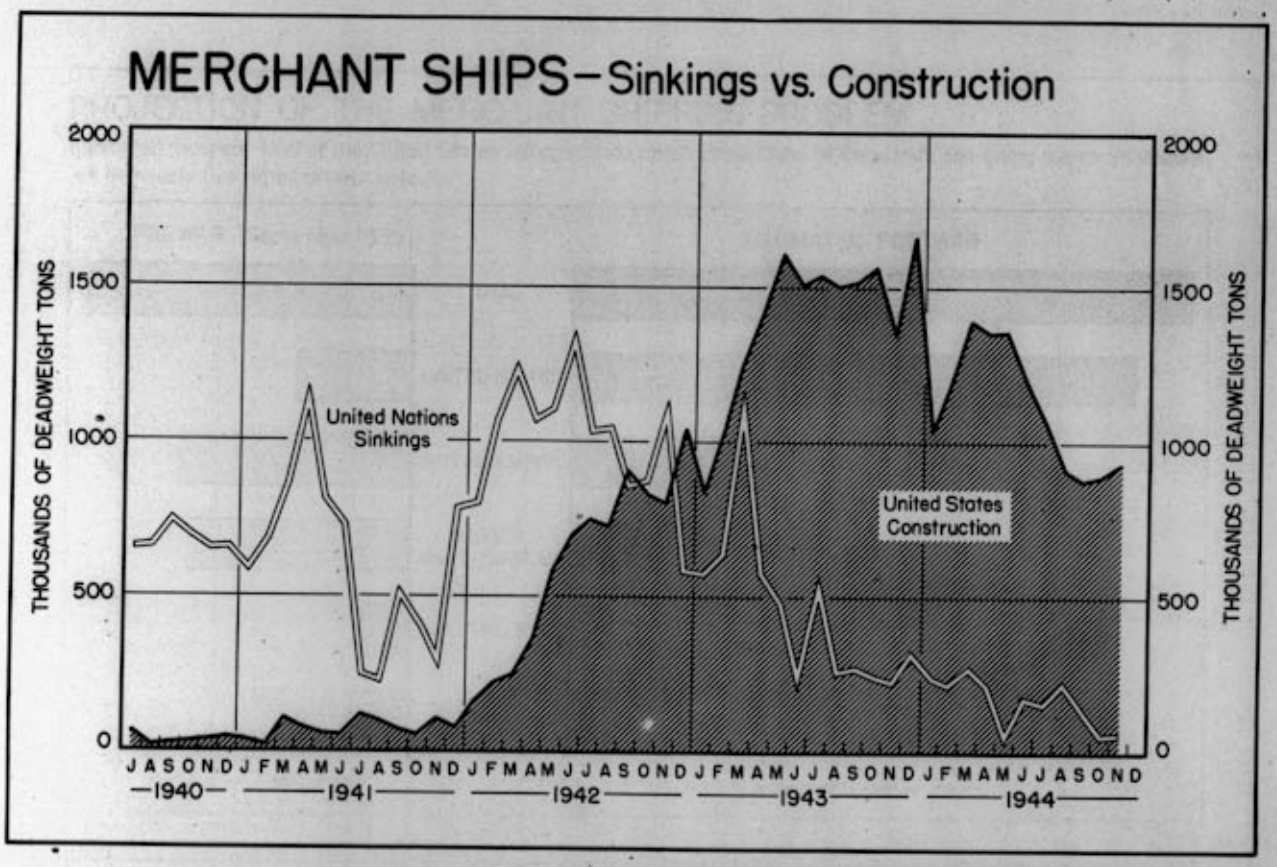
The chart, "Projection of the Merchant Shipping Problem" points up the problem. In September 1939, Great Britain was the world's great maritime power, with some 24,000,000 deadweight tons; the United States had about 12,000,000. It is estimated that at the end of the war, the United States may have three times the fleet of the British—nearly 60,000,000 tons as against 20,000,000.

The Maritime Commission's Postwar Planning Committee is now developing policies and procedures. Legislation is pending to govern the sale of war-built ships. Discussions are being carried on with American shipping companies to determine their postwar intentions. Anchorage sites and methods for preservation of laid-up ships are being explored. Studies are being made of postwar tonnage expectations, probably condition of the ships, and likely commercial needs. Problems of postwar wages for seamen, working and living conditions, and social security requirements also are being examined.

The war has resulted in standardization of merchant ships. Parts are interchangeable. It will be interesting to see what effect this has on the postwar ship construction and on commercial investments in shipping facilities.

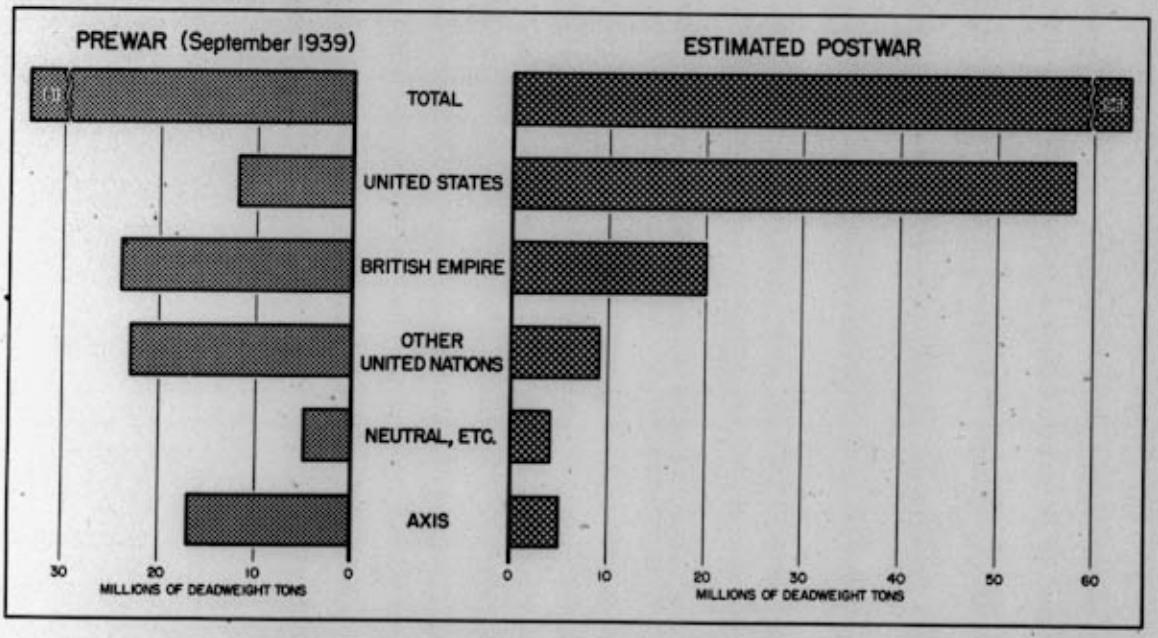
Even this expansion has not met the global requirements for shipping, but the situation will be greatly relieved by the full production of all types of ships in the first half of 1945. To provide for possible increased demands, I have authorized a limited extension of this program into the second half of 1945 for the Victory and C-type ships, which still will be badly needed for our war effort. It is hoped, however, that after next June construction of the slower Liberty ships can be avoided. It has served as the real pack-horse of water transport during the war years, but will not be of full postwar value to us, or to other nations, in the numbers that will be available.

In the meantime, the merchant fleet's wartime responsibilities will not cease with victory. Large numbers of troops presumably still will be overseas—in Europe and the Far East—as part of the armies of occupation. They will have to be supplied. And if a rotation of occupation armies is adopted, the transport fleet, largely converted from cargo ships, will be required to carry troops to and from Europe and the Far East. War employment of the merchant marine thus will continue for some time after the last guns are fired.


MERCHANT SHIPS—Sinkings vs. Construction
THOUSANDS OF DEADWEIGHT TONS
2000
1500
1000
500
0
United Nations Sinkings
United States Construction
J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1940
1941
1942
1943
1944

PROJECTION OF THE MERCHANT SHIPPING PROBLEM

Estimated postwar fleet of the United States will constitute about three-fifths of the world's sea-going merchant vessels; will be nearly five times prewar size.



HOUSING

The National Housing Agency has largely completed construction of housing for some 4,000,000 migrating workers and their families in more than 1,000 communities. Sufficient housing is available in most war production areas. However, shifts in production, plus a few expanding programs, continue to create new demands for additional housing. These demands may be expected to develop from time to time.

The National Housing Agency plans to meet these demands by the transfer of temporary and demountable housing into areas of need from placed where it is no longer required, and by new temporary construction.

Private industry and public agencies have completed more than 1,730,000 new or converted family units since the summer of 1940. On October 31, 1944, there were 81,800 units under construction and 59,800 others approved and awaiting construction, most of which were privately financed. In addition to these, approximately 25,000 units have been reported by the Army and Navy as necessary for workers in expanding munitions programs.

The housing program involved a total investment of about $6,000,000,000, two-thirds of which represented private capital, protected in large part by FHA mortgage insurance. Throughout most of the construction period, a ceiling sales price of $6,000 and maximum shelter rental of $50 a month were established to insure that the housing would be within reach of the worker and to forestall use of certain critical materials.

A "Share Your Home" campaign conducted by NHA's local War Housing Centers and Home Registration Offices received wide community support. It is estimated that, through their efforts, more than 2,000,000 workers were housed in structures already erected. This program, which has saved huge expenditures in materials, manpower, and money, must continue as long as war workers are being recruited.

POSTWAR HOUSING NEEDS

A great deal of new permanent housing will be needed after the war. The nation entered the war with a substantial deficit of decent housing. During the war, all housing has deteriorated because of intensified use and lack of adequate repair and maintenance. Moreover, war needs have prevented the unrestricted construction of civilian housing. There also is a large requirement for new housing to replace slum dwellings and other substandard houses.

PROSPECTIVE DEVELOPMENTS

The National Housing Agency estimates that during the first postwar decade an average yearly construction of 1,260,000 nonfarm dwellings will be required. Construction during the period 1920-29 averaged 700,000 units annually. In the peak year, 1925, a total of 937,000 units was built.

This estimate of annual postwar need is based on a requirement of 410,000 units per year for increased families, 140,000 units per year for returned married veterans, 80,000 units a year for those families now jointly occupying homes and to establish a normal vacancy reserve, and 630,000 units per year to replace substandard dwellings and those destroyed by fire, storm or other disaster.

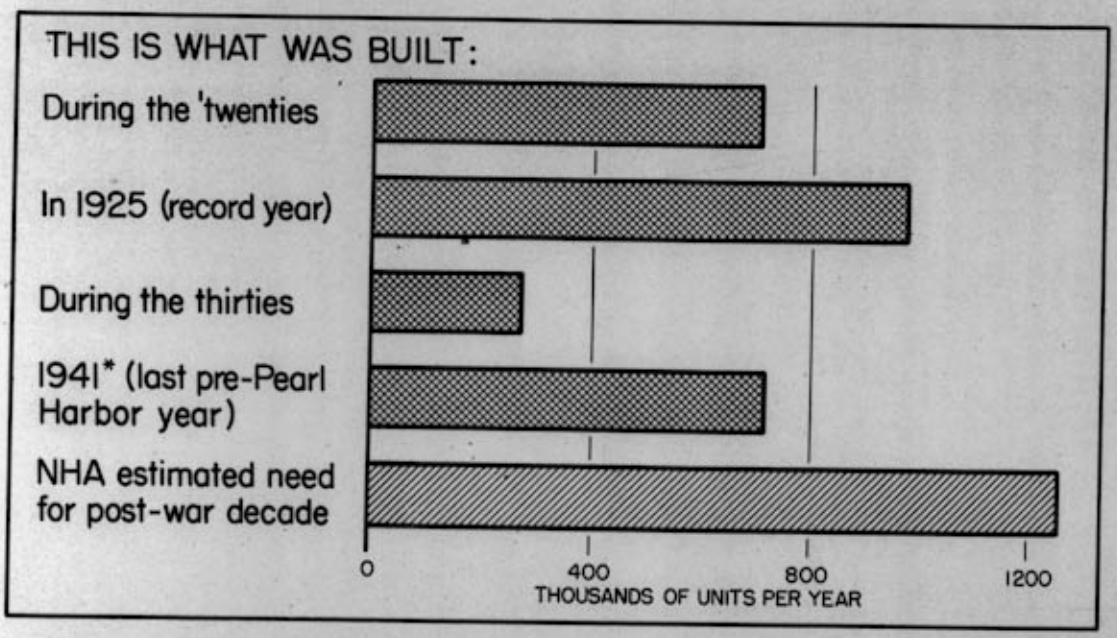
The pent-up demand for new housing and for repairs represents a substantial opportunity for postwar employment. However, a high level of residential construction cannot be reached overnight.

The amount of multiple-unit residential construction will depend largely on costs, since housing must be built at a price most persons can afford to pay. NHA is surveying the need for increased technical research to help private industry to build better housing at lower cost and to overcome the problem of high land prices which makes slum clearance a difficult financial undertaking.

NHA also is examining the type and scope of activity which will be required of private industry, local and state governments, and the Federal Government so as to make sure of an adequate postwar housing program. Included in this survey will be a review of the prewar programs for Federal assistance in housing production and finance. This will ascertain what revision of the program it may be necessary to recommend to the Congress. Special attention will be given to the problem of improved farm housing.

There is a need for better fact-finding in housing and in market analysis. It would help in this work if the communities would lead the way in making an inventory of their housing situation, in estimating their further needs, and in planning to meet these needs.

HOUSING – PAST, PRESENT, AND PROSPECTIVE



*Includes "Defense Housing."
Note: Data refer to family units only; exclude farm dwellings.

No single war program is closer to completion than that of industrial facilities (Chart, "Wartime Construction Nearly Finished"). Construction of new plants, including equipment, has declined from a monthly rate of $800,000,000 in the third quarter of 1942 to about $200,000,000. But even in this mature program, sudden demands can change expectations. Because of the urgent requirements of the Army and Navy for ammunition, tires, and certain types of guns, and other equipment, new industrial installations are necessary. These will not change the direction of the construction curve; it still continues down, but it does not go down as fast as it otherwise would.

Since July 1940, more than $20,000,000,000 has been invested in new or expanded industrial plant. About three-fourths of this expansion has been financed by the government. Government facilities, including about $1,000,000,000 of work still to be done, are distributed as follows:

Aircraft	$ 3,350,000,000
Shipways	2,195,000,000
Ordnance	5,159,000,000
Iron and Steel	1,352,000,000
Nonferrous metals	1,200,000,000
Chemicals	768,000,000
Synthetic rubber	692,000,000
100-Octane gasoline	203,000,000
Machinery and machine tools	803,000,000
Other industrial plants	356,000,000
Total	$16,078,000,000

Not all of this plant will be disposable.

About $1,400,000,000 is in expanded arsenals and Navy shipyards--directly operated by the government. Probably most of these facilities will be retained by the War and Navy Departments as part of their systems for permanent preparedness.

There is also about $4,500,000,000 of government-owned, privately-operated facilities so specialized as to have little peacetime value. This includes smokeless powder plants, shipyards, shell-loading facilities, etc. Some of these plants should be kept as stand-by munitions capacity.

That leaves about $10,000,000,000 of facilities, immediately or potentially usable for civilian production. These include nearly all of the nation's aircraft and synthetic rubber capacity, most of the aluminum and magnesium, and a good share of steel and machine tools.

PROSPECTIVE DEVELOPMENT

For most of these facilities it will be sound public policy to get them as quickly as possible into the hands of private parties who will operate them competitively. This policy is complicated by the large size of most of the government-owned plants.

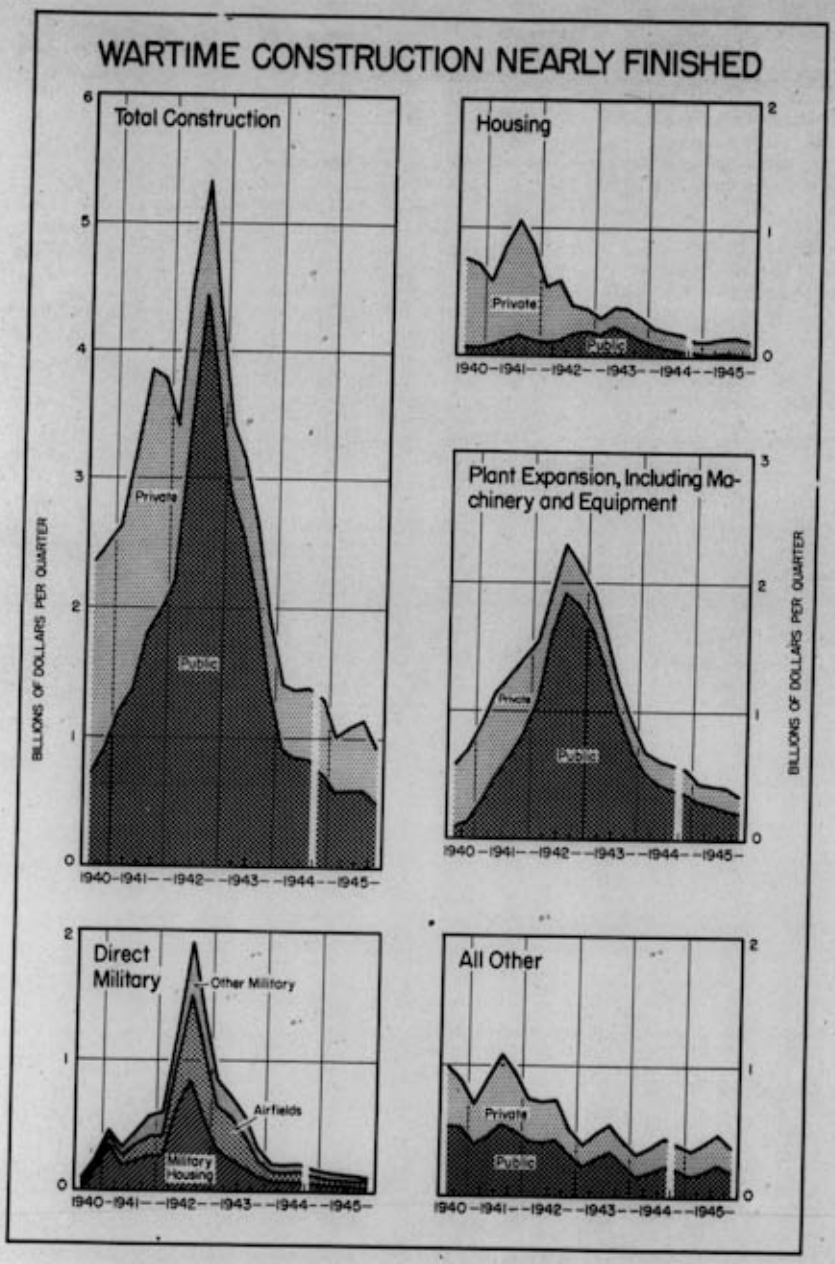
Seventy percent of the Government's investment is in units which cost over $10,000,000. Many of these plants are out of reach of what we ordinarily consider "small" business.

Nevertheless, competition will be stimulated and growth of small business encouraged if (a) the facilities in any industry are disposed of to the smaller

firms already in the industry or to firms newly entering the industry and (b) the facilities are disposed of in small units to as many independent purchasers as possible. This policy should govern to the extent it proves practicable. Procedures for disposing of the surplus plant, under the Surplus Property Act, are discussed separately.

The huge wartime expansion of facilities has been concentrated in heavy metals and chemicals. Facilities installations in the nonwar industries have been far below the level of ordinary years of good business. Furthermore, wear and tear on plants has been far above normal, while repairs and replacements have been below normal. We may therefore expect a substantial resumption of plant expansion after the war, despite the large accumulated capacity in war industries.

WARTIME CONSTRUCTION NEARLY FINISHED



SURPLUS PROPERTY

The first World War ended so abruptly that plans to dispose of surplus war goods had hardly reached the discussion stage. This time, an organization already has been set up.

The Surplus War Property Administration was established by executive order last February on my recommendation. Then Congress, in the Surplus Property Act of 1944, approved on October 3, established a three-man Surplus Property Board to carry on this work. The Act, among other things, directed the Board to give maximum aid in the re-establishment of a peacetime economy of free independent private enterprise, to encourage independent operators in trade, industry, and agriculture with special attention to war veterans, and to stimulate full employment.

Surplus property is inevitable in war. When peace comes surpluses will include everything from actual munitions which will have little or no civilian value, such as bombers, tanks, guns, and artillery shell, to shoes, socks, food, mosquito netting, plants, industrial equipment, ships, and large and small passenger airplanes. In short, from a $100,000,000 steel plant to a 10-for-a-penny pin.

Some portion of the surplus of civilian-type goods abroad can suitably be used for relief and reconstruction in Allied and liberated countries. Stocks of clothes and food on hand in the United States also can be used for relief and rehabilitation, either through the armed services, through United Nations Relief and Rehabilitation Administration, or by sale to other governments.

Some 1,300 industrial plants and other facilities, costing approximately $16,000,000,000, will become surplus after hostilities cease. Many of these plants are not easily convertible to peacetime production--powder and shell-loading plants, for example. Others may have to be revamped for civilian production. Others, however, may be useful in peacetime operations--steel mills, synthetic rubber, or aluminum plants.

Other industrial properties will be kept on a stand-by basis for national defense; still others may be needed for continued production of supplies for our standing Army and Navy. Also, stockpiles of certain critical materials may be maintained as a military reserve.

Obviously, industrial surplus disposal is a problem to be worked out--finding how to utilize war-built resources to the best advantage in the national economy in peacetime.

DISPOSAL AGENCIES

Actual disposal of surplus has been assigned to existing agencies, as follows:

PROCUREMENT DIVISION OF TREASURY DEPARTMENT--for consumers goods, such as furniture, clothing, motor vehicles, etc.;

RECONSTRUCTION FINANCE CORPORATION--aircraft, industrial plants, industrial real estate, industrial equipment and supplies;

SURPLUS PROPERTY

UNITED STATES MARITIME COMMISSION--merchant ships, marine equipment, and other marine property;

WAR FOOD ADMINISTRATION--food;

NATIONAL HOUSING AGENCY--housing property and projects;

FEDERAL WORKS AGENCY--community facilities and certain nonindustrial real estate;

ARMY, NAVY--their own surpluses located outside continental United States.

From June 1, 1944 to October 31, 1944, a total of $750,000,000 worth of goods had been declared surplus. Of surplus stocks then on hand, 58 percent was aircraft--obsolete and war-weary planes and equipment; 12 percent was plants and industrial real estate; 4 percent metal-working machinery; 3 percent ships and maritime machinery; 3 percent steel; 2 percent construction materials; and 18 percent miscellaneous.

About $84,000,000 worth of goods was sold in the period June-October. This included 35,383 trucks, many of which went to dealers for re-sale to farmers and truckers; $21,000,000 worth of metal-working machinery; $6,000,000 worth of aircraft suitable for civilian use; $5,000,000 worth of construction materials; $1,300,000 worth of construction equipment; and $1,300,000 worth of steel.

So far, the volume of surplus goods has been very small in relation to the huge demand for goods of all kinds. Clearly, the needs of war production and of the postwar economy can be served best by the immediate disposal of all available surpluses. It has been possible to sell these small surpluses through the normal commercial channels without effect on the level of employment or the structure of American industry.

Most sales to date have been made by the 11 regional offices of Treasury Procurement and the 23 regional offices of the RFC. Goods ordinarily are sold to manufacturers or distributors and not direct to the consuming public, because direct sales have been found almost prohibitive in cost. Catalogues are being prepared, which will inform prospective buyers what is available and how it may be obtained. The RFC is planning to establish huge regional warehouses, in which surplus goods will be displayed.

The sales of consumer goods, June through November 1944, totaled $53,517,000, or 84 percent of the appraised value of the goods sold.

Sales are at ceiling price, at highest bid, or where speed is essential, at negotiated prices. Surplus materials and equipment are, of course, subject to the same rationing and allocations controls as similar goods which are not surplus.

PROSPECTIVE DEVELOPMENTS

The Congress has set up special restrictions on the sale of dwellings. By law, the 400,000 temporary housing units built under the

Lanham Act cannot be sold for residential use at low cost to improve housing conditions. Some of these dwellings, when dismantled, may be sold for use ov overseas, or employed in relief and rehabilitation work. However, Congress may desire to consider the advisability of changing the law so as to allow such dwellings to be used to replace substandard dwellings in cities or in depressed farming areas.

About 63,000 permanent family units built with low-rent housing funds will become low-rent public housing after the war, under the jurisdiction of local housing authorities. The rest of the permanent units (about 129,000) and the demountable units (about 78,000) will be sold. Wherever possible preference will be given to current occupants, and next to prospective occupants, especially to veterans who will receive first consideration. Some 10,000 units built by the Defense Homes Corporation already have been offered for sale.

The Federal Works Agency is responsible for disposing of schools, hospitals, sewers, health centers, fire stations, power plants, garbage disposal plants and other community facilities built as Federal projects under the Lanham Act, which are declared surplus and which must be disposed of within six months after the emergency ends. The agency is already transferring titles of many of these Federal projects to local public bodies.

To facilitate the disposal of surplus war plants so as to permit their prompt utilization for other purposes, I appointed a special War Plant Utilization Committee to coordinate the work of the several government agencies having representatives in the field. Its chairman has reported to me that the Committee has enlisted from a community level the active cooperation of the U. S. Chamber of Commerce as well as state and local chambers, the Committee on Economic Development and its 1700 local Committees, the Association of American Railroads and its industrial agents, and the banks located throughout the nation. The chairman believes that the chief deterrents to quick sales lie in the provisions of the act requiring information to be submitted to Congress in eight classifications for facilities costing $5,000,000 or over, and submission to the Attorney General 90 days in advance of the consummation of the sale of any plant costing over $1,000,000. Congress should give further consideration to these satutory provisions. Certain option rights held by lessees also threaten to delay sales. However, about 250 lessees have indicated an interest in purchase or lease, and the RFC is now carrying on negotiations for the sale or lease of some thirty plants. Prompt action is necessary.

Recently, I have authorized the agencies owning surplus property abroad to proceed with its sale under policies to be established by the Surplus War Property Board. This will enable the Army and Navy to be prepared to sell facilities and installations no longer required in certain areas where military operations have closed, as in North Africa.

The Surplus Property Act of 1944, as drawn, presents several administrative difficulties. The limitations governing the sale of real property may retard such sales. However, experience under the legislation is a prerequisite to any specific recommendations for modifications.

CONTRACT TERMINATION

In the development of a war production program beset by changing requirements, contract terminations and the settlement of resulting claims have become relatively commonplace.

Already, during the war, 120,860 contracts have been terminated, cancelling commitments of some $25,000,000,000. A high percentage of these cancellations, 109,000 of them, have been written off the books entirely as settled. Through the fall of 1944, it has been necessary to cancel every month some 4,000 contracts, totalling $1,500,000,000.

In contrast to this experience, the last war saw only a few contracts cancelled until after the Armistice had been signed. Then, almost overnight, some $4,000,000,000 of commitments were terminated. As a consequence, procedures for settlement had not been worked out and considerable difficulty resulted.

Due to the knowledge gained in the last war and to the backlog of experience now being built up, the country should be able to handle the problem of mass cancellation at the end of this war with less financial and economic unsettlement.

Today the undelivered value of outstanding contracts is about $65,000,000,000. The full impact--and hence a detailed estimate--of the termination and settlement problem will not be realized until after final victory.

Up to now, most terminations of contracts have been followed by new orders. Firms whose contracts for making tanks have been cancelled have been given orders for locomotives; contracts for building destroyer escort vessels have been switched to landing craft, and so forth. As a result of this, and because inventory and equipment intended for the contracts which had been terminated were often usable to fill new war contracts, many terminations have resulted in no claims at all, or in extremely small claims. The 109,000 terminated contracts which have been settled have an aggregate face value of more than $10,000,000,000 but claim payments against these contracts amounted to less than $400,000,000. In nine out of ten contracts, no claims were filed.

After final victory, however, the situation may be expected to change. Terminations will be without benefit of new war orders and no-claim settlements will decrease. The settlement problem will become more difficult at the same time that the need for speedy settlements will increase. Prompt settlement of war contracts is essential to orderly reconversion and to full employment in peace. Without it many businesses, especially small companies, would be financially paralyzed because working capital was frozen in inventories.

ADVANCE PREPARATION NECESSARY

Solution of this problem is two-sided. The government must move promptly to clear the plants and books and industry's action must be prompt. Prime, sub and sub-subcontractors should familiarize themselves with the Contract Settlement Act and with the regulations of the Office of Contract Settlement, as well as with the procedures of the contracting agencies with which they deal, so as to facilitate the quickest possible reconversion to peacetime production.

The Army and Navy have set up schools to train their own contract termination personnel as well as those of other contracting agencies. Special courses for contractors and their employees have been established at a number of colleges

with the cooperation of contracting agencies. The Smaller War Plants Corporation is conducting an intensive educational program among small businesses. It is good business for every war contractor to plan in advance and to prepare for prompt submission of settlement claims.

The Office of Contract Settlement, under its mandate from Congress, has issued regulations requiring procurement agencies to clear unwanted war materials and machines from contractors' plants within 60 days. Other regulations provide that, within 30 days after presentation of proper claims, a contractor becomes eligible for advance payment or loans of up to 100 percent of the value of finished war materials, and up to 90 percent on other materials. But space cannot be cleared unless inventories are properly prepared by industry, and money cannot be advanced or loaned on claims without detailed accounting statements.

The Office of Contract Settlement has made progress toward simplifying the routine necessary for termination settlements. Uniform termination procedures and forms for the presentation of settlement proposals have been adopted.

Present procedure ordinarily calls for prime contractors to settle directly with their subcontractors. However, the act permits direct settlement by the Government with subcontractors in case of undue delay. Surveys now are being made to determine the practicability of routine direct settlement with subcontractors.

SETTLEMENT TIME REDUCED

After the first World War, the average time lag between termination and final settlement was eight months, but many claims dragged on for years and one was not settled until 1942.

The average time lag between termination and final settlement is now about four months. Small and uncomplicated contracts are settled more swiftly. Large contracts, involving many subcontracting ramifications require longer. But we have progressed far from the difficult pioneer stage, in which occurred some cases as the one in which 16 months were consumed in settling claims growing out of termination of the International Harvester tank contract at Bettendorf, Iowa.

The most serious delays in the current program have been encountered in settling the cost-plus-a-fixed-fee contracts. The cost-plus contractors and their subcontractors submit vouchers and are paid as their work progresses. These vouchers are subsequently audited by the General Accounting Office, which, in some cases, disallows payments already made. Therefore, prime contractors have desitated to pay off their subcontractors until final settlement. This holds up payments all the way down the line to sub-subs.

About 650 cost-plus-a-fixed-fee contracts have been terminated with a face value of $6,635,207,000. Final settlements have been reached on contracts totalling about 20 percent of this, with a face value of $1,300,000,000. In contrast, fixed price contracts which have been terminated have face values of $17,663,676,000 and more than 50 percent with a face value of $9,411,768,000, have been settled finally.

Many problems remain to be solved, but a good start has been made on setting up basic rules for fast, fair and final contract settlement. The next task is to perfect and use these tools of settlement, both in the contracting agencies and in the offices and plants of the contractors.

Wartime taxation should end with the war. However, there can be no general revision of taxation until the war is over on all fronts. Postwar levels of government expenditures will be several times higher than in prewar years. Interest on the debt alone will exceed total internal revenue receipts of 1937. The requirements of the Army and Navy will be much higher than prewar levels. The "G.I. Bill" and veterans' hospitalization will add to expenditures. These are only a few of the items that make it apparent we will need revenues greatly in excess of prewar levels.

REMOVAL OF IMPEDIMENTS

But there can be no intelligent planning to "meet the problems arising out of the transition from war to peace" as directed in the act creating this office without giving consideration to the removal of tax impediments to reconversion and business expansion. There are certain tax revisions which would not greatly reduce revenues, but would materially aid business recovery and expansion if adopted immediately following the close of the European War. Among them are:

Accelerated depreciation,
Immediate availability of postwar refund bonds,
Increasing the specific exemption for excess-profits tax purposes from $10,000 to $25,000.

1. Depreciation. The acceleration of depreciation allowances will enable taxpayers to take the earliest possible advantage of technological improvements, secure more quickly new equipment, and provide more readily for business expansion and employment. The depreciation policy of the present law, which provides for a depreciation allowance computed according to the physical life of the property acquired, has a tendency to discourage the acquisition of new equipment and the formation of new enterprises.

For example, if a businessman desires to start a new business and to purchase new equipment, under the present tax law he may have considerable difficulty in raising the funds to acquire plant or equipment because of the length of time required to recover the cost of the new plant or equipment through depreciation allowances.

It is clear that unless a taxpayer can recover his capital within a reasonable time, he will not embark upon new enterprises, or acquire new facilities, which are essential to the production of income and the stimulation of employment.

I suggest, therefore, that the Congress give serious consideration to the enactment of a provision to permit a larger deduction for depreciation in the earlier years of the life of the asset. In most cases, these are the years of the highest income. It may be advisable to limit this special allowance to the income computed for normal and surtax purposes, and not for excess-profits tax purposes. Such a provision would make it easier for the smaller business enterprises to borrow money for expansion facilities.

2. Many corporations, particularly the smaller type, will be handicapped through lack of capital to carry out their reconversion plans. Their financial condition may be eased somewhat by making immediately available after the end of the war in Europe a part of their post-war refund of excess-profits tax and by reducing correspondingly the compulsory savings provision in the excess-profits tax. A limitation could be placed on the amount to be made available.

3. While an excess-profits tax is justified in time of war, it is recognized that such a tax discourages small and new enterprises. I do not believe that Congress would be justified in removing this tax during the continuation of the war with Japan. However, its impact on the smaller corporations and new enterprises may be mitigated to some extent by an increase in the excess-profits tax specific exemption from the present $10,000 to $25,000. Such an increase will enable many small and new concerns to become established during the transition period.

Mr. Byrnes to FDR, 1-1-45

PSF: Byrnes folder 2-45

OFFICE OF WAR MOBILIZATION AND RECONVERSION
WASHINGTON, D. C.

OFFICE OF THE DIRECTOR

January 15, 1945.

MEMORANDUM FOR THE PRESIDENT:

I think that there is much merit in Lubin's suggestion that the functions which you originally planned to put in the Federal Security Agency such as the Social Security Board, the Office of Education, the Public Health Service, should be separated from the manpower and labor functions which are now also being administered by Mr. McNutt. Undoubtedly the urgency of some of the manpower and labor problems causes a certain neglect of the more long-range social security problems when all of these problems are within the province of a single administrative official.

I should doubt, however, the wisdom and expediency of separating the federal security functions from the manpower functions, unless at the same time the manpower functions are transferred to the Department of Labor. If, for example, you transferred Madam Perkins to the Federal Security Agency and left the Manpower Commission as a separate agency under Mr. McNutt, I am afraid that you would have difficulty getting a strong Secretary of Labor. If you separate the federal security functions from the manpower and labor functions, I think the manpower and labor functions should be assigned to a new enlarged and strengthened Labor Department.

You will recall that under the War Mobilization and Reconversion legislation I am directed 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 practicable."

While I am having some staff work done on the study, I think the major issues are fairly simple and I should be glad to expedite my report and to time it as to facilitate prompt action by you if you wish.

James F. Byrnes

JAMES F. BYRNES.

OFFICE

THE WHITE HOUSE

WASHINGTON

January 8, 1945.

MEMORANDUM FOR

HON. JAMES F. BYRNES:

Will you consider the suggestion for putting the Bureau of Education, the Public Health Bureau, the Social Security Board into the Federal Security Agency and separating Paul McNutt's work, so as to cover only manpower?

F.D.R.

THE WHITE HOUSE
WASHINGTON

December 22, 1944

MEMORANDUM

TO: THE PRESIDENT

FROM: MR. LUBIN

Of course, I have no idea as to what your plans are relative to the office of Secretary of Labor.

Miss Perkins has told me in confidence that she believes you will accept her resignation. We had a long discussion as to what she could do after she left office. She appears to be worried about her future and asked me what I thought about her trying to tie up with either the Rockefeller or Carnegie Foundations.

There is one job in the government that Miss Perkins could do remarkably well in the event that her resignation is accepted. The Federal Security Agency needs real leadership. There is no coordination between the activities of the various branches of the Agency. The Bureau of Education has nothing to do with the Social Security Board or with the Public Health Bureau. Under proper leadership and coordination, the various Bureaus could be brought together to aid each other. There is no reason on earth why the Bureau of Education should not be educating the American people on public health and social security matters. Similarly, the Social Security Board, through its contact with more than fifty million workers, could be very effective in building up public interest in the Public Health Service and our educational institutions.

I do not know what your plans are relative to Mr. McNutt. It might be possible to take the Federal Security Agency away from McNutt and have him concentrate solely on Manpower Commission work. There will be a lot to do in this field until the war in Germany is over. After that the War Manpower Commission could be used for reconversion and replacement activities. It still could continue to make use of the United States Employment Service.

I do not know whether this suggestion is politically feasible.

Under Miss Perkins leadership the various Bureaus of the Department of Labor have worked cooperatively and as one big family. I am convinced that if she could take over the Federal Security Agency, she would make it into a progressive organization that would contribute immeasurably to the welfare of the workers of the country.

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file Confidential

THE WHITE HOUSE

WASHINGTON

February 17, 1945.

MEMORANDUM FOR:

CHIP BOHLEN.

I suggest you send a copy of the attached memorandum to Ambassador Harriman.

F. D. R.

THE WHITE HOUSE
WASHINGTON

February 6, 1945

TO: THE PRESIDENT

FROM: MR. LUBIN

Forwarded from London.

THE WHITE HOUSE
WASHINGTON

Secret

Jan 31, 1945

Yesterday I ran across Stanczyk who was the head of the Polish Mine Workers Union before the war. I have known him for sometime. He was Minister of Labor in the London Polish Government until his recent resignation. He left the Cabinet when Mikolaczyk resigned. He has had good standing in the Polish Trade Union movement.

Stanczyk told me that the one thing that the Liberal Poles want is the assurance that Poland will not become a mere appendage of the USSR. At the same time he says that intelligent Poles realize that their Government must be friendly toward Russia because Russia cannot afford to have any potential enemies on her borders.

Stanczyk says that the question of boundaries is of no great concern to his group. He says that all of his liberal colleagues realize that certain parts of Poland will have to go back to Russia and that there should not be any difficulty in coming to agreement on boundaries. Appropos of the present London Government from which he resigned, he said: "It is easy to fight for Poland from a cozy flat in London."

From the reports he has received from the Underground in Poland Stanczyk concludes that the Socialist and Labor groups in Poland do not like the Lublin Committee. He says that the same is true of members of the Peasant Party to which Mikolaczyk belongs.

He further states that he fears there will be trouble if the present Lublin Committee stays in control. They will have to insist that all Poles, including those now fighting with American and British troops must be disarmed. With the present temper of the Underground he fears that such a command on the part of the Lublin Committee will lead to bloodshed. Under such circumstances he says Russia will have no alternative other than send in any army to stamp out opposition in Poland.

Stanczyk is realistic about this situation and does not show any animus against the USSR.

To eliminate the possibility of chaos Stanczyk suggests that the U.S., Great Britain and Russia agree to back a new Coalition Government. In this Government, he says, must be some members of the present Lublin Committee.

Secret

Secret

There are several people on this committee who would be acceptable to the Underground and to the Socialist and Peasant parties. He insists that the inclusion of some of the Lublin people in the new Government is essential to save the face of Moscow.

Other members of the Cabinet should represent the Peasant Party and the Socialist Party. Among the ~~present~~ Peasant party leaders now in Poland is a former Prime Minister who has a very large following and commands the respect of great masses of people. Mikolaczyk is also a member of this party. He suggests that the head of the Underground who before the war was the head of the Socialist Party should also be included.

Stanczyk states that if such a Cabinet were created and it was announced that the U.S. and Great Britain, and Russia recognizes it as the legitimate Government it would be accepted by the great masses of the Polish people. He added that if this were done the Polish Cabinet in London would have virtually no following left in Poland. He emphasized, however, that if this were done it would have to be done in a very quiet way. There should be no public discussions prior to any announcement by the three governments. In other words, the thing to be avoided is any opportunity for pulling and hauling for position by the crowd now in control of the London Cabinet.

Secret

PSF: Byrnes file
2-45

file

Personal

March 28, 1945.

Dear Jimmy:

I was, of course, knocked off my feet yesterday when you told me you felt you ought to resign this Spring instead of on V-E Day. I am distressed but I, in part, appreciate your reasons. It will be, of course, next to impossible to find anyone to substitute for you.

Give me a few days more to decide between Fred and the General -- and I will try to see the General, if you could bring him in, next Thursday morning. My inclinations are toward Fred, as he is such an old friend but if we shifted Fred at the present time, we would have to find somebody else to handle the loans.

You have certainly done a grand job under very great difficulties -- pulling your weight in the boat to the satisfaction of everybody. I just hate to have you go. I shall miss you and Maude more than I can tell you, but be sure before you take up anything else to get a real bit of rest.

As ever yours,

Honorable James F. Byrnes,
Director,
Office of War Mobilization and Reconversion,
Washington, D. C.

OFFICE OF WAR MOBILIZATION AND RECONVERSION
WASHINGTON, D. C.

OFFICE OF THE DIRECTOR

March 24, 1945

Dear Mr. President:

Last June when the Congress was considering the Bill to expand the Office of War Mobilization into the Office of War Mobilization and Reconversion, I advised the Committees of both Houses that I would not remain to administer the reconversion program.

In November when I again advised you of my reason for not wishing to remain, we agreed that I should accept the appointment as Director of the newly created office with the understanding that I would continue only until V-E Day. This announcement was made by you. I remind you of this only because I hope that having remained for nine months after expressing my desire to leave, you will view with sympathy what I now feel obliged to write.

I think V-E Day is not far distant. My knowledge of the nature of the work now confronting the office causes me to conclude I should not remain longer. The office has already embarked upon the development of a program of reconversion. I have organized committees composed of representatives of the various agencies which have been at work for some time developing the program. In the report I shall submit to you next week that program will be outlined.

I am convinced that the person who is to direct the reconversion program should take charge of this office now. He would then have an opportunity to familiarize himself with the plans we have made and can modify in such manner as he deems wise the plans he will be called upon to administer.

Therefore, I tender my resignation to become effective April 2. I fix that date because the law requires a report to be filed with you and with the Congress on April first and I think it my duty to file that report.

I sincerely appreciate the opportunity you gave me to participate in the war effort.

With assurances of my esteem, I am

Sincerely yours,

James F. Byrnes

JAMES F. BYRNES

The President
The White House
Washington

PSF: Byrnes file 2-45

OFFICE OF WAR MOBILIZATION AND RECONVERSION
WASHINGTON, D. C.

OFFICE OF THE DIRECTOR

File Personal

March 27, 1945

MEMORANDUM FOR THE PRESIDENT:

Referring to your note of Sunday, I think Vinson would be the best appointment. You would have no difficulty in getting a competent man for Vinson's post.

I repeat that General Clay is a most efficient, all-round man I have found in the departments. At the same time I realize that in the days ahead the main problem will be that of reconversion. There will be demands for increased materials for civilian production. Even if Clay should get out of the army, his decisions would be misrepresented as the decisions of the army. This would be particularly true in manpower decisions. He suggests these things himself. He has no ambition to be appointed. Nevertheless, I want you to let him shake hands with you on Thursday before he returns to the army next week.

There is one other suggestion, in case, as indicated in your letter, you hesitate to transfer Vinson at this time. Harold Smith has a knowledge of all departments. He wants to make the Budget a Planning Office. The Congress has made the Office of War Mobilization the Planning Office. Smith has kept advised of the reconversion programs of the agencies. He has been able to avoid making serious enemies in the executive or the legislative branch.

He has several able assistants from among whom you could select a competent successor.

J. F. B.

Jotted down the following memory! JFB
I will see you Thurs. morning
Clay
FDR
March 28