THE ROAD TO TOKYO
& BEYOND

3rd
REPORT

TO THE PRESIDENT, THE SENATE
& THE HOUSE OF REPRESENTATIVES

By the Director of
WAR MOBILIZATION
AND RECONVERSION

July 1, 1945

WAR RECONVERSION BOARD RECORDS
THE ROAD TO TOKYO & BEYOND

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& THE HOUSE OF REPRESENTATIVES

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July 1, 1945

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LETTER OF TRANSMITTAL

OFFICE OF WAR MUNICIPATION AND RECONVERSION,
Washington, D.C., June 30, 1946.

The President,
The Honorable The President of the Senate,
The Honorable The Speaker of the House of Representations.

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

[Signature]

Director.
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FACES TURNED WEST

Three months ago, when Japan's entry into the war brought the OWMR second quarter report to the President and the Congress, America was looking simultaneously across two oceans. We were looking eastward across the Atlantic, where war in Europe was rushing toward its climax; and westward across the Pacific, where the pace of war was slower, but no less costly.

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

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

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

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

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

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

That is the job ahead, a job of shocking magnitude, a job of indeterminate length. But even while that job is being done, we must...
make our economy flexible enough to encompass other jobs, completely different in nature, yet comparable in magnitude.

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

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

Our obligations include:

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

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

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

II

FINISHING THE JOB

Laying the Road to Tokyo

Three years ago, while Great Britain and the United States were locked in a death struggle with Germany, Japan ruled victoriously over the vast distances of the Pacific and Asia until she controlled 27 million square miles of land and ocean.

Today she has been squeezed back to 7 million square miles. But these lost 7 million square miles are the hardest. They've closed to home base for the Japanese, farther from home base for us. They are defended by the strongest and best-equipped of all Japanese forces. Engaging these troops and destroying them, forcing the capitulation of Japan, involves the greatest measured and arduous undertaking.

In this vast transfer of men and supplies, we shall move 8 million troops out of Europe and many of them half way around the world, together with the necessary matériel and supplies. Soon we shall have nearly 8 million men in all branches of the service in the actual theater of combat.

Manila, our key advance base, is 6,200 miles from San Francisco and 14,000 miles from the major European ports. To land on the European Continent, our main forces had only to cross the English Channel. In contrast, Manila is 1,700 miles from Tokyo. (See map: The 6,200 Mile Bridge Across the Pacific.)

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

The Army Service Forces and the Army Air Forces will obtain heavier ammunition and bomb supplies than were used in the war in Europe. We shall be able to drop as much as 10,000 tons of bombs upon Japan in a single day or, double what Germany got during the days of laminated steel. The ferocity of the war in the Pacific is such that more artillery ammunition will be expended there— as the battle for Okinawa indicates— than was used in Europe. Fully 8 million shells were fired in Okinawa. Some of the newer Japanese hide-out caves are built on two levels, and hence enormous firepower must be used to drive out or kill Japanese concealed in them.
THE 6,000 MILE BRIDGE ACROSS THE PACIFIC...

Shipping period takes as much as seven days, instead of 70 days, as the Bridge Across the Atlantic. And the average distance from the shipping area to port of use is less than 300 miles.

A recent idea of 5,000,000,000 tons per year (14 months, gate to gate)
The Needs of the Armed Forces

Prior to the crossing of the Rhine, munitions production schedules called for total output of $41 billion in 1945, about equal to the 1944 achievement. This total was distributed fairly evenly through the year. In a series of successive cuts, which began shortly before VE-day, the 1945 program was reduced to about $30 billion. After a gradual decline in production during May and June, the schedules call for a faster drop, with production scheduled to stabilize in mid-1946 at a rate one-third below early 1945.

Colo, operations by the Army, Navy, Air Force and Army Air Forces have been most directly affected by the end of European hostilities and they have cut their schedules accordingly. Planned procurement for the ground army (ANG) in 1945 has been reduced 30 percent since victory in Europe became imminent. Production in the quarter just begun will be 61 percent below the first quarter rate and continued declines will bring the drop to 88 percent by the middle of 1946.

Chiefly as a result of reductions throughout the Army Air Forces program, the procurement of aircraft and related equipment for Army and Navy in 1945 will be one-sixth below the plans based on two-front wars. By the fourth quarter of this year, procurements under the Aircraft Resources Control Office, the agency responsible for programming this category of munitions, will be nearly down to the planned one-front war level—65 percent below the January-March rate. In December 1945, we will be producing 4,000 planes—4,000 Army and 2,000 Navy—as compared with the 6,600 planes—2,000 Army and 4,600 Navy—last January.

The Navy

In 6 years, we have multiplied our Navy by 22 times. Today it has 46,300 ships, including smaller craft, more than twice as large as the merchant fleet of the world in 1939. The Navy's stream of supplies is composed of over 8 million tons, varying from barrowers to floating dry docks.

To keep one tanker a day delivering fuel oil from the Netherlands West Indies to the Philippines requires 60 tankers on route, 40 tankers in return, and 20 tankers waiting to be loaded and unloaded.

Ships are being driven at a rate and under pressure that no fleet was ever driven before. Destroyers designed to be overhauled after 40,000 miles have been at sea for 90,000 miles. Ships normally under way 80 percent of the time have been under way 75 percent of the time. The problem of repair and maintenance thus becomes greater and more difficult.

Neither the Navy program nor the merchant ship program of the Maritime Commission has been much affected by the end of...
the European war. Navy production (excluding aircraft) is scheduled to continue the gradual taper planned before VE-day, declining only about 12 percent from the first to the fourth quarter of 1944 and falling another 10 percent in early 1945. One important component of the Navy program has a timed emergency to the rest. Because of the Japanese suicide planes, and because our ships are operating closer to the Japanese mainland, ship maintenance and repair are rising fast.

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

Notwithstanding the declining output of the munitions program, the production job is still big. Indeed, by the standard of any other nation of the world it would be impossible. A year from now, munitions production is still scheduled at a rate of nearly 690 billion a year. That is nearly twice the estimated production of Germany at its peak. And it is far larger than the volume attained in this country in 1918—the year immediately after Pearl Harbor. (See chart: A Smaller Job, Yet a Big One.)

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

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

Problems of Supply and Production

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

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

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

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

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

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

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

DROP WILL BE RAPID

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

From now on, the drop in munitions schedules is rapid. In the 3 months since March (peak month of the year), munitions production dropped about 20 percent but for the current 6 months it will be down 35 percent from the March level and by the end of the year about one-third. As a result, productive capacity, materials and manpower will be released in virtually all durable goods industries right down the line through basic raw materials and components. This assures elbow room for reconversion. (See chart: Elbow Room for Reconversion.)

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

in such limited quantity that they won't stay there for long. But a year from now the rate of production of civilian hard goods—excluding both producers' and consumers' goods—probably will exceed the 1940 level, but will still be well below the 1944 high.

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

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

SIZE OF THE JOB

The statistical magnitude of the task is imposing. Today the Federal Government is the biggest single customer in the greatest
national market in history. Out of total production of goods and services of more than $300 billion the Government spends $150 billion for war. But eventually most of that government buying will cease and private purchases by producers, wholesalers, retailers, and ultimate consumers must take up where the government leaves off.

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

**How Many Will Be Affected by Reconversion**

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

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>7,750,000</td>
</tr>
<tr>
<td>Transportation and utilities</td>
<td>8,400,000</td>
</tr>
<tr>
<td>Mining</td>
<td>800,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11,000,000</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>800,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>3,300,000</td>
</tr>
<tr>
<td>Other (mostly soft goods)</td>
<td>7,900,000</td>
</tr>
<tr>
<td>Government (excluding war agencies, overseas, and navy yards)</td>
<td>4,400,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5,500,000</td>
</tr>
</tbody>
</table>

**Jobs Most Likely To Be Affected by Closures**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Ships</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Ordnance and signal equipment</td>
<td>1,800,000</td>
</tr>
<tr>
<td>War plants</td>
<td>300,000</td>
</tr>
<tr>
<td>Federal war agencies</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

Total employment | 51,200,000 |

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

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

**WHAT TRANSITION MEANS TO AIRCRAFT**

Industry will shrink sharply and pools and Northeastern areas will regain their prewar activities.
Outstanding exceptions to this generalization are aircraft, shipbuilding, magnesium, aluminum, and other industries in which wartime expansion was enormous and conforming to no previous industrial pattern. Aircraft illustrates the point. It is estimated that at least 10 percent of the existing airplane-building capacity and even a smaller portion of the new plants in the interior will be best to produce aircraft for peacetime markets. (See chart: What Transition Means to Aircraft.)

POLICY ON CONTROLS

The impact of cut-backs will be decisively uneven by industry and area. For example, shipyards engaged in ship repair for the Navy and plants making B-10 Superfortresses are certain to be kept busy longer than plants making products whose schedules go down sharply. Similarly, release of steel, certain chemicals, and other materials will not be of the right type. Nor will released manpower be of the right skills in the right places to run the gauntlet of industrial requirements.

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

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

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

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

Too Much May Mean Too Little

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

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

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DROP IN MUNITIONS EMPLOYMENT

400,000 workers left war plants close beginning of 1943, 1,800,000 close November, 1943, peak.

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MANPOWER IN DECONVERSION

As recently as 3 months ago, manpower was a basic war production bottleneck. In war production centers were classified as tight and several critical Army and Navy programs such as heavy ammunition, radar, rockets were running behind schedules because of shortage in skilled and unskilled labor. Today 65 areas are still tight and such industries as ship repair, lumber and textiles cannot reach maximum proportions because of labor scarcity. Yet manpower can no longer be called a basic bottleneck.

As the result of embarks in munitions schedules, 500,000 workers have been released from war plants in the 6 months ended May 81, and the rate of layoffs is accelerating. (See chart: Drop in Munitions Employment.) The impact has been uneven, and in some war production areas as Detroit, Buffalo, and San Francisco workers have lost jobs faster than they have been able to find them. Each local unemployment has given rise to fears of more general unemployment.

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

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

Inevitably, there will be some distressed areas. Six months from now, the War Manpower Commission estimates that 16 communities will suffer from acute unemployment, largely because reconversion opportunities for closed-down plants in these communities are few. The areas are comparatively small, however, involving less than one percent of the industrial population. (Specific measure to meet this type of situation will be mentioned later.) Generally speaking, however, the supply-demand position in labor will continue in tight balance—on civilian production remains on an expanding scale. The War Manpower Commission anticipates that 6 months from now

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**UNEMPLOYMENT NEAR LOW**

Unemployment claims have not yet reached increased joblessness.

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

**War Manpower Commission’s Decontrol Program**

The War Manpower Commission decontrol program must take these problem areas into account. Therefore, the War Manpower Commission will retain authority to enforces its four basic controls over the hiring and release of workers by (1) putting ceilings on the number of workers in individual plants, (2) giving certain plants priorities in labor referral and directing workers to the plants whose production is most urgent, (3) requiring workers to get statements of availability in shifting from one war job to another and (4) maintaining of the 40-hour week in certain industries or areas.

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

**WAR PRODUCTION BOARD CONTROLS**

The War Production Board has been gradually removing its controls as so to anticipate releases of manpower, materials, and machinery from war production. About 2000 out of some 6000 orders and schedules have been revoked, and many of the remaining have been simplified. At the same time, operation of the Controlled Materials Plan has been relaxed to permit open market purchases of aluminum.
and these military production workers will be included in the priority order. The policy of the War Production Board is as follows:

1. The War Production Board's primary goal continues to be the fulfillment of our production requirements for a speedy victory in the Pacific.

2. The War Production Board will also secure the maintenance of a sound war-supporting economy. Wherever possible, this should be done without special Government assistance. To the extent and time necessary the War Production Board will grant general priority assistance to directly war-supporting activities and to production of essential civilian items in such short supply as to endanger the war-supporting economy. Where generalized assistance has been eliminated, the Board will continue to assist such requirements, where necessary, through emergency spot assistance.

3. The War Production Board, working with the procurement services, will guide the distribution of procurement contracts and new contracts so as to spread the load equitably over the Nation and to avoid, where possible, the creation of areas of particularly acute local unemployment.

4. The War Production Board will provide rapid reconstruction to peace-time production through prompt removal of restrictions which are no longer necessary, and, where required, through limited preferential assistance for production and acquisition of machine tools and other capital equipment, for housing construction, and for components necessary in reconstruction. The automobile industry, as a major employer of labor, is particularly important in this regard. (See chart: The Job Ahead in Passenger Automobiles.)

5. As long as resources are inadequate to permit unlimited construction, War Production Board will favor the most urgently needed industrial projects, especially those contributing to large-scale future employment.

6. The War Production Board will seek to provide a fair opportunity for small manufacturers, for universities, and for new producers, and will discourage the promotion of hoarding of scarce resources.

7. Consistent with these objectives, the War Production Board will simplify and eliminate controls as quickly as possible.

It is expected that by the first of next year the Controlled Materials Plan can be completely eliminated and that all urgent production can be kept on schedule by means of a simplified priority system, with top priority given to military programs and, if necessary, a secondary priority to the most urgent war-supporting products. WPB will continue to use its Industry Divisions and emergency ratings to relieve bottlenecks and break important holdups.

The number of limitations, conservation, and scheduling orders remaining in effect after January 1, 1946, will be drastically reduced and will probably not exceed 1000. The rate at which construction activity can be accelerated will depend on the availability of lumber which is presently in extremely short supply, but it is anticipated that declining military requirements and increased manpower in the lumber industry will permit a considerable relaxation in lumber controls. It is not certain that all lumber and construction restrictions can be eliminated by the end of this year.

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

**TRANSPORTATION CONTROLS**

The American transportation system faces a tremendous task in the next 6 months. It must serve not only the needs of a large war production program and an expanding civilian economy, but must simultaneously operate as the central link in the redeployment of the American armed forces from Europe to the Pacific. By the end of the year, military travel will have reached a point far higher than the previous
peak in early 1943. (See Chart: Why Traffic Controls Continue.) Discomfort and inconvenience in domestic travel will persist until the war with Japan is over.

It is estimated that the railroads will have to carry 751 billion ton-miles of freight in the forthcoming year—only 9 percent below 1941, peak year in railroad history. In addition, the redeployment and training of troops, liberal furloughs and reduction of labor during the reconversion period added to essential civilian travel, will push passenger traffic up to 107 billion passenger-miles—10 percent above the record created in 1941.

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

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<tr>
<th>WHY TRAFFIC CONTROLS CONTINUE</th>
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<td>Transportation jobs for one-ear war almost as big as for two-year war.</td>
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<th>State of Equipment</th>
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<td>Despite increased deliveries of cars and motive power, railroad-carrying capacity is not likely to increase. War and tour and absences are removing equipment from the rails at a rate almost equal to present replacement. Increased availability of losses, motorcars, tires, and gasoline in the latter months of 1946 should materially lighten the present maintenance problems in the highway transport field, and should provide from 6 to 10 percent more capacity in line transportation. This will alleviate the passenger load of the railroads to some extent.</td>
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<tr>
<th>Relaxation of Controls</th>
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<td>In the face of this transport task, it would be a fallacy for the public to think that normal traveling practices can be resumed any time in the next 6 to 18 months. Thus on conveniences must continue. Further, the public is expected to refrain from unnecessary travel. This applies to attendance at races. The lifting of the ban on horse racing does not lift the ban on the use of special trains nor does it convey use of extended transportation facilities to race tracks. Many controls on freight traffic will have to remain up to 12-day and even beyond, such as full loading of freight cars for carload freight, minimum loading of 10 tons per car for less than carload freight, and the loading of refrigerator cars on return trips with ordinary merchandise instead of sending them empty.</td>
</tr>
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</table>
Other railroad controls such as direction of the movement of tank cars, fuel control, and additional scheduling of trains will be resorted to by the Office of Defense Transportation as soon as conditions warrant. Present restrictions on the trucking industry will be lifted as soon as production of tires and trucks reaches a point that will permit all commercial operators to rehabilitate their fleets.

**FUEL CONTROLS**

**Petroleum Products**

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

Increased use of shipping in the Pacific war has shifted the type of requirement from gasoline to fuel oil. As a result, fuel oil available for civilians for the 1944-45 heating season is not likely to be any greater than during the previous season.

Gasoline allowances have been increased slightly. The value of a meager ration has been raised 80 percent and the 21 mileage ceiling has been lifted to 450 miles throughout the country—from 200 miles in the East, 200 miles on the Pacific coast, and 475 miles elsewhere. Gasoline deliveries for civilian consumption last year amounted to 475 million barrels while military and export requirements amounted to 250 million barrels. In 1944, civilian consumption was 640 million barrels, while military and export demand amounted to 30 million barrels.

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

**Coal and Coke**

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

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

**IV**

**TO SPEED THE SWITCHOVER AND CUSHION THE SHOCK**

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

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

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

1. **Direct aids to business.**—Through distributing cut-backs evenly, settling contracts promptly, clearing plants, establishing flexible reconversion prices and wage policies, disposing of surpluses and readjusting taxes and, as noted earlier, through accelerating retooling of plants and breaking bottlenecks.

2. **Direct aids to individuals.**—Through unemployment compensation, readjustment allowances to veterans, and reemployment, retraining, and vocational guidance to war workers and veterans.

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

Cut-Back Distribution

The first hurdle in adjusting to a cut-back munitions program was cleared in good style. Prior to VE-day, it had been feared that the volume of VE-day cut-backs by the Army and Navy Air Forces would swamp the War Production Board’s Production Readjustment Committee and force the committee to halt its review of the proposals. But the terminations came through more gradually than expected and PRC was able to analyze the proposed cut-backs and fulfill its responsibility. For example, during the month between June 8 and 9, PRC reviewed cut-back proposals involving $1.2 billion, shifting cut-backs among plants so as to avoid unnecessary geographical and industrial dislocations, yet at the same time assure that remaining war production requirements would be met on schedule.

Contract Settlement

Contracts cancellations have risen from $700 million a month in the first part of the year to $800 million in the month of May. But the impact on the machinery of contract settlement is yet to be felt. Terminations generally do not take effect immediately—that is a “four-week” period; further, filing of claims by contractors takes several months.

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

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

Difficulties with cost-plus-a-fixed-fee contracts persist and their rate of settlement remains appreciably lower than that of fixed-price contracts. Although the procurement agencies have statutory authority to make final settlements, they prefer to do so under a procedure which permits them to ascertain the General Accounting Office’s position on claims previously paid but not yet reviewed by GAO. Experience will indicate whether the procedure is effective.

Plant Clearance

The problem of removing Government-owned property from contractors’ plants in order to permit civilian production to go forward has not yet become serious. To date, the volume of property to be removed has been small and clearance prompt. For example, the War Department has been receiving about 3,000 requests a month to remove termination inventories from contractors’ plants. At the end of May there were only 57 such requests outstanding which had not been handled within 60 days as required by the Contract Settlement Act.

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

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

Reconversion Prices

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

The problem in pricing goods coming back to the market is clear. Production costs have changed since automobiles, refrigerators, and other goods were last manufactured on a mass-scale basis. Wages have increased generally; so have the cost of raw materials and components; on the other hand, new production techniques have been developed, workers are better trained, management know-how...
is improved, and new machinery has been installed. It is not clear whether increased productivity will offset the advance in wage and materials costs.

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

First, the manufacturer may use his 1942 selling prices.

Second, if the 1942 price schedule doesn't seem likely to offer a satisfactory profit to an industry, the Office of Price Administration will work out what is called an "increase factor" which such manufacturer can apply to his 1941 prices. This factor is obtained by taking 1941 industry-wide costs and adding (a) lawful price advances in materials and components (b) volumes in basic wage rates, and (c) the industry-wide profit margin in 1939-40 or some other appropriate period.

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

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

Reconversion Wage Adjustments

When a war plant converts to civilian production, wage rates will have to be established for types of jobs which have not existed for many years. The tank factory which begins automobile production will hire upholders and it will need wage rates for them. Or the company using precision workers on airplane propellers may have to set a new wage scale if they shift to less exacting precision operations. The War Labor Board has established a procedure to permit the wage rates on resumed civilian production to be determined without delay and without either raising or lowering the general level of wages. Jobs which are the same before and after reconversion will continue to carry the same wage rates. Collective bargaining will establish wage rates for new or changed jobs in relation to the continuing rates on the continuing jobs—that is, collective bargainers will determine the differentials. When a plant changes the nature of its operations radically there may not be enough carry-over jobs to serve as reference points for a whole wage structure. In such cases prevailing rates in the area will serve as the standard.

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

Reconversion Tax Assistance

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

1. Advance the payment of refunds to which the corporate taxpayer is entitled under existing laws, in order to provide business with additional working capital now.

2. Raise the specific excess-profits tax exemption from $10,000 to $25,000 beginning in 1940 to encourage new and small businesses.

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

DIRECT AIDS TO INDIVIDUALS

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

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

One of the most important Government functions during this period—when the demand for labor will be high but uneven—will be to provide job-seekers with up-to-date information of what kind of help is needed and where. This is primarily a task for the United States Employment Service. During the war the USES recruited more than 2 million persons for war jobs away from their home towns. Reconversion will bring a reversal of that process. Through its 1,250 offices, the USES has built up Nation-wide contacts with employers, labor unions, and individual workers. Employers in right labor markets will be advised where labor is available; similarly workers in distress areas will be told where out-of-town jobs still can be found. And, of course, the USES will continue intra-area job-placement.

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

Assistance to Veterans

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

In addition to job-placement guidance from the United States Employment Service, the veteran can get help from his local Selective Service board, Veterans’ Administration offices, and 850 community information centers sponsored by the Reconversion and Reemployment Administration. At these various offices, the veteran will be advised of his rights under the GI bill, the Selective Service Act, and other laws, and will be assisted in utilizing them. The Army has established separation centers where specially trained personnel help to orient discharged soldiers.

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

1. Musterling out pay-up to $800.
2. Unemployment allowances of $30 a week for a minimum of 26 and a maximum of 92 weeks. About 150,000 veterans (about 1 out of every 18 returned to defer) have received readjustment allowances and about 15,000 unemployed veterans are now receiving such allowances. But these allowances are not adequate for the difficult period ahead. I urge Congress to raise the amount to $50 for veterans without dependents and to $80 to veterans with dependents. Also the payments should be for a minimum of 26 weeks regardless of length of service.
3. The Veterans’ Administration will guarantee the first $4,000 of home to purchase a house, farm, or land—about 15,000 homes have been made to date. The loans are made by private banks or other lending institutions and terms of repayment are agreed to by borrower and lender.
4. Under the GI bill educational grants will be made to veterans who wish to return to school. About 20,000 veterans have taken such grants; the number may reach 100,000 one year after V-E day.

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

1. Such veterans are entitled to vocational rehabilitation to help them train for jobs; about 10,000 are now in rehabilitation courses.
2. Pensions are now being paid to about 541,000 veterans of World War II or their survivors. By June 1946, the number of pensioners will have risen to over 1 million.
3. About 25,000 veterans are in veterans’ hospitals—20,000 at the result of this war. Construction is being rushed to increase the number of beds in hospitals from 85,000 to 120,000. This will meet needs through 1946; further expansion will be necessary.

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

Unemployment Compensation for Civilians

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

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

President Truman in his message of May 28 proposed that the Federal Government supplement payments under the State laws so
that (1) the weekly payments can run as high as $45 a week and (2) payments continue for 26 weeks duration and (3) that the coverage be extended to a wider segment of the population.

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

V

SURPLUSES

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

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

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

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

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

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

During the year ended May 31, 1945, property which cost $1,536,000,000 has been declared surplus. It consists of contract termination inventories, plants no longer needed in war production and obsolete war supplies.

Of this $1,200,000,000, fully $1,024,000,000 is aircraft, of which $70 million has been sold for $17 million; the rest of this aircraft is largely unsalable.

Some $267 million of all other property has been sold for $170 million, or an average price of 62 cents on the dollar. The amount of generally salable property still on hand (June 1), excluding aircraft, is about $514 million at cost.
Over the past few months, surplus disposals have increased. But declarations—sight might be expected at this stage—of proposed disposals, at the time to come. The shift from a two-front to a one-front war will accelerate the movement of supplies into surplus. Despite present efforts to accelerate operations, the bulk of declarations—and hence the main problem of disposal—must be deferred until after the defeat of Japan.

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

Approximately $30 billion of our war production, exclusive of construction and industrial equipment, is estimated to be in existence at the present time. Of this total, $20 billion is in guns, tanks, planes, warships, ammunition and other combat items which are not generally usable by civilians, and about $25 billion is in civilian-type goods such as trucks, tractors, communication equipment, merchant ships, food, clothing, and housing.

Civilian-Type Goods

After allowing for what will probably be consumed or remain overseas and for what has no direct civilian use, it is suggested that some $40 billion of civilian-type goods (exclusive of construction and merchant ships) will remain to be disposed of in the market.

The total is roughly equivalent to 8 or 4 months’ expenditures by consumers at the 1944 rate, but will vary widely by type. There might be only 1 month’s supply of some items, many years’ supply of others.

Industrial Facilities

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

Not all of this $16 billion of plant is disposable. About $6 billion is in facilities probably useful only for war production—smelting powder and ammunition-loading plants, for example. But the remaining $10 billion could be (1) used directly in wartime output (steel, chemical, rubber, machine-tool plants); (2) converted to peace-time activity after some alteration (aircraft, tank, gun-manufacturing plants, etc.).

The rapidity with which plants are put to use will have an important bearing on reconversion and postwar employment. Idle plants do not provide jobs. Moreover, the policies followed can have striking effects on the Nation’s economic structure. What happens to airframe, steel, and aluminum metal plants will affect the economy of the Pacific coast; how the Government disposes of aluminum properties will have an influence on the dominant position held by Alcoa. A number of large aluminum plants such as (Sanova Steel, Provo, Utah (net $300 million), Balsa Magnesium, Las Vegas, Nev. ($55 million), and the Chrysler aircraft-engine plant, Chicago, Ill. ($100 million), will affect the concentration of industry.

Merchant Ships

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

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

Disposal Agencies

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

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

Recently, responsibility for the disposal of consumer goods was transferred from the Treasury Department to the Department of Commerce. In addition, the Office of the Army-Navy Liquidation
Commissioner was created, this office has been delegated authority to dispose of all goods in foreign countries except merchant ships.

Other Surplus Property Board regulations provide for:

- Granting of priorities to Government agencies and State or local governments;
- Assurances of a flow of surplus goods to farmers and rural areas;
- Disposal of surplus aircraft at nominal prices to educational institutions for rapid use;
- Arrangements whereby veterans can obtain surplus goods through the Smaller War Plants Corporation;

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

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

To Avoid Delays

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

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

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

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

- To avoid glutting civilian markets and to prevent speculators from selling goods out of normal disposal channels;
- To scrap largely uneetable property promptly so as to clear plants, prevent the pyramiding of storage and maintenance costs, and reduce paper work,
- To speed surplus deliveries and to obtain advance notice so that unwinding, handling methods, and sales can be planned even before property actually comes up for disposal,
- To make the best use of existing stocks—both at home and abroad—so that Army, Navy, and other governmental agencies inadvertently do not purchase what is already on hand.

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

ECONOMIC STABILIZATION

"Price, wage, and rationing controls must be continued after V-E Day... inflation, despite the reduction of munitions output, will be a continuing threat."

That statement is even more applicable today than when Justice Byrnes made it in his April 1 report. For in the last 8 months, inventories of civilian goods in the hands of manufacturers, wholesalers, retailers, and consumers, themselves, have generally declined, and the housewife has been having an increasingly difficult time finding what she wants in the stores.

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

Textiles

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

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

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

Shoes

The problem in footwear is similar to that of textiles. Larger pipe lines and new climatic conditions have located military consumption, though again the services have cooperated in slimming down their requirements. But declining hide supplies, primarily the result of a drop in imports, have limited shoe output. The shortage is most acute in work and children's shoes, and steps have been taken to increase production of these lines. Extraordinary progress has been made during the past year in manufacturing shoes from nubuck materials, and the textiles needed for this purpose have been specifically earmarked. (See chart: Shoes: A Case of War-time Ingenuity.)

Housing

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

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

**Food, Clothing, Shelter**

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

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

Price control has served the people of the United States well during this war. From the outbreak of World War I to the Armistice (19 months), prices advanced 62 percent, or more than 1 percent per month. During the 30 months since August 1939, just before Germany invaded Poland, the cost of living has increased 26 percent, or an average of forty-ninth of 1 percent per month; moreover, in the 12 months since the hold-the-line order went into effect in May 1943, the rise in the cost of living has been only 1.7 percent, or less than onethirtieth of 1 percent per month.

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

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

**Fiscal Policy**

The fiscal program of the Government will be to maintain the high level of consumer and industrial taxes as so as to drain off surplus purchasing power. This means no general tax reductions until V-J-day. (However, specific changes in the tax laws to facilitate reconversion are in order, as is noted on p. 5.) Continuation of the Reconversion Act to prevent unreasonable corporation profits and reduce government expenditures is an integral part of an anti-inflation program. Sales of Government bonds to individuals have also served to siphon away consumer purchasing power and should be pushed. Payroll deduction plans are especially effective.

**Price Ceilings**

The General Maximum Price Regulation, which established ceilings on all prices, has been in effect since the middle of 1942. The system has generally been successful. The Office of Price Administration has managed to maintain ceilings by a careful check-up of markets, by
subsidies, by adjustment of prices whenever it seemed urgent to increase supply or to protect manufacturers, wholesalers, and retailers against loss.

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

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

The textile experience has been a foreshadowing of what might happen to reconversion products, such as automobiles and refrigerators. To guard against oversupply on the highest-priced, high-profit models, the Office of Price Administration and the War Production Board will meet jointly with representatives of industry to set a pattern of production which follows price proportions.

Wage Controls

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

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

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

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

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

Nevertheless, as part of the program to prevent insufficiency and hardship, I recommend that Congress raise the minimum wage under the Fair Labor Standards Act from 30 cents to at least 40 cents an hour, with provision for further permissive increases to a higher level by the industry committees provided for in the act. This is not so great a change as the figure makes it seem. Most industries covered by the Fair Labor Standards Act have raised their rates voluntarily during the war—to attract new or hold old workers. And the War Labor Board has generally approved proposals to boost substandard rates to 35 cents an hour.

Rationing

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

Over-All Economic Stability

Although the price line in consumer goods has been held, by specific measures designed to hold it, the general character of the war period has been inflationary. The expansion in the production of goods and services has increased corporate profits as well as consumer income. Liquid assets in the hands of individuals and businesses, at $210 billion are 200 percent higher than in 1929. Such a volume of funds cannot be counted on to lie fallow indefinitely. Indeed, the rise in the cost of urban and farm real estate and in the prices of stocks over recent months suggests that they had been seeking outlets.
Such advances as far have been moderate. However, this Office and the Office of Economic Stabilization are well aware that a movement of funds into investment today can result in a speculative spiral tomorrow which might upset the entire economy and hurt war production. Studies are being made of ways to check such a development in its incipient stages—through credit measures.

**All Agencies Must Help**

Economic stabilization, in its truest sense, goes beyond dollar and cents. It refers to the stability in the entire economic structure. And in the period ahead it will be necessary to use all agencies of the Government to keep the economy stable and sound. After all, the development of the war program has been a product of many agencies, the policies of which were emphasized with one another. The Office of Price Administration's price ceilings helped to prevent manufacturers of minor products from building away steel or copper from a nation's defense industries. And in turn the War Production Board's ceiling on the price of a car helped to buy steel for the war plane. Similarly, the War Production Board's fuel allocations and inventory controls, by preventing new war manufacturers from competing for supplies, kept them reeling but insisting the Office of Price Administration. And, of course, the efforts of the War Food Administration, Petroleum Administration for War, and War Manpower Commission all form inseparable parts of this economic structure.

The inter-dependency of the war agencies cannot be solved under the weeks immediately before and after VE-Day, when the Office of War Mobilization and Reconversion was called on each war agency to assess a specific one-from-war control program. It was the responsibility of the Office of War Mobilization and Reconversion to establish the policies and decisions, so that the lifting of a control by one agency did not put an important strain on another. The whole process of revising costs called for a community of understanding.

However, the programs have now been worked out, comprehensive reached on what seemed insurmountable problems, and the entire framework of controls has been improved as the idea of one agency has been used to show up the knowledge and operation of another agency. I cannot refrain from commenting on the spirit of cooperation that prevailed during the entire period. It was a tribute to the American way of handling large and central issues through the give-and-take of open discussion and honest, across-the-board criticisms. In fact, we are all better administrators as the result of it. Each man has a sounder understanding not only of his own problems but also of the others.

**VII**

**FOOD**

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

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

In general, the United States has eaten well during the war. That is largely because of the magnificent performance of domestic agriculture. Food output rose to one new high record after another, and, in 1944, was 59 percent above the prewar average (1935-39), and as over-all production increased, farmers shifted from a peacetime to wartime pattern so as to produce the foods most needed.

This high volume of production was traceable to some increase in acreage, sharply expanded use of commercial fertilizers, increased mechanization of farm operations, and more intensive cultivation. Also, there was a run of unusually good weather. As a result, in spite of record food requirements for the Army, Navy, and Local-Lease last year, per capita food consumption by civilians increased during the war. (See chart: Perspective on Food.) It is true that supplies of particular products—such as butter and top-grade beef—have been short from time to time and that consumers, because of increased incomes, have not been able to buy all they wanted at all times. But last year's increase was enough to put per capita food consumption at a new peak—15 percent above the prewar average.

This year, though the per capita supply of food for civilians will fall from 5 to 7 percent below last year, the available total will be 2 to 4 percent above the prewar average. But because we ate a disproportionate share of our total supply in the first 6 months of 1946,
the quantity available in the second 6 months will be below the pre-
war average. And we face severe shortages in such important basic
foods as meat, sugar, and fats and oils. (See chart: Lean Year for
Some Foods.)

Meat

The United States meat supply this year is expected to amount to
220 billion pounds, more than 6 billion pounds above the prewar,
average, but 10 percent below the record-breaking total of 230 billion
pounds last year. Output of beef and veal is expected to rise to
another new high; pork production, however, will be down 10 per-
cent, largely because feed shortages led to a drop in last year's spring
farrowings.

At the same time, requirements for the armed services (which in-
clude relief feeding) are up from 6 billion pounds last year to 3.4
billion pounds, which is partially offset by a drop in exports. The
civilian share of the total will be down from 198 billion pounds to
192 billion pounds in 1945. And that comes to 120 pounds per
person. This is only 2 percent below prewar.

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

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

The problem in meat is twofold:

1. To increase production and slaughter. This is being done through an integrated program to boost price guarantees to producers, payments to widen operating margins to cattle feeders, and additional subsidies for processors.

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

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

Sugar

Because of a severe drought in Cuba, less-than-expected supplies from Puerto Rico, and wartime disruptions in European countries which normally supply a major part of their own needs, the world sugar situation is very tight. In fact, total sugar available to United Nations' countries is about a half-million tons short of last year's consumption. This leaves a smaller supply for the United States, yet military and export demand is 60 percent higher this year than last.

In April, food officials of the United States, Canada, and Great Britain met in Washington to decide on a fair distribution among all claimants, including newly liberated areas. A total of 1,360,000 tons were allowed for the Army, Navy, relief, and food-zone, and 8,390,000 tons for United States civilians—about 18 pounds per capita (the same rate as in the United Kingdom and Canada), as against 40 pounds last year. But we ate more than half of our 1940 sugar supply in the first 4 months, so consumption for the rest of the year must run at an annual rate of about 65 pounds.

That, briefly, is why the value of sugar-ration stamps for ordinary home use had to be reduced 25 percent to a yearly rate of 15 pounds per ration-book holder, and why the maximum allowance for home canning was reduced by an equal percentage to 15 pounds a person, with a limit of 250 pounds for any one family. It has likewise been necessary to reduce allotments for institutional and industrial users.

The sugar shortage is likely to extend into 1941—until the Philippine sugar industry is restored and the liberated countries can lift sugar-beet production and processing to normal levels. In the meantime, a special sugar loan, including the purchase of war and national sugar countries, has been made available to continental United States sugar producers. Steps are also being taken to assure full production of sugar in the Caribbean area as important to our supplies Cuba, Puerto Rico, and the Caribbean area in general.

Fats and Oils

Because of simplifying hog slaughter and consequently diminished hog production, United States supply of edible fats and oils is likely to be down 15 percent this year to 16,500,000,000 pounds. At the same time, shipments to liberated countries will be up—fats and oils are a "must" in the human diet.

For capita consumption of edible fats and oils is widely seen as a major problem, and at present this is about 48 pounds a person in the United States. But for 1941 as a whole, the expected average per capita use will be in the neighborhood of 49 pounds, a drop of more than 18 percent from the present standard. Because of large consumption in the first half, the annual rate over the rest of the year will decline to 57 pounds per person. (This, however, is largely by recent European standards. Under German occupation, such countries as France, Belgium, and Holland consumed as little as 20 pounds per capita.)

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

Production of a number of important foods will be up this year as compared with 1944, namely, milk, fresh and frozen fish, and some fresh vegetables; wheat will approximate last year's record crop. Wheat is the one basic food that has been, and should continue to be, in ample supply throughout the war; and it will go far to make up various food deficits abroad. But the prospect here is not entirely free of problems. Railroads are for shipment to overseas ports are insufficient; port facilities in Europe have been damaged; the quantity of ships and shipping available in North America is not enough to handle the large volume of shipments involved. In spite of these difficulties, substantial shipments of wheat and flour have already been sent abroad, and the rate is increasing. However, liberated Europe cannot live by wheat alone. Shipments of wheat must be supplemented by at least moderate quantities of sugar, dairy products, fats and oils, and peas and beans.

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

Food goals for 1945 will be set at continued high levels.

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

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

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

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

VIII

AID TO LIBERATED EUROPE

The United Nations have freed Europe from the Nazi yoke—

Agriculture has been disorganized;
Transportation facilities have been wrecked;
Plants have been destroyed;
Coal mines have been damaged;
Power plants have been sabotaged;
More than 20 million people have been uprooted from their homes.

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

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

Food is a prime requirement in liberated Europe. Generally speaking, a grown person needs about 2,000 calories a day to subsist and considerably more—some 2,500—if he is to do active work. But Greece can produce only enough food to supply 700 calories for its people, Albania 500, Norway 1,100, the Netherlands 1,000, and Belgium, 1,700. To provide even a bare subsistence diet, those and other liberated countries must supplement their domestic food supplies with imports. (See chart: The European Food Supply.)

Computing our entire supply by the same methods used for Europe, each person in the United States will have an average of 8,000 calories a day this year, about the same as before the war. And a relatively small amount of food from us can mean a great deal to Europe. For
### The European Food Supply

<table>
<thead>
<tr>
<th>Country</th>
<th>United Nations Relief Administration (U.N.R.R.A.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czechoslovakia</td>
<td>30,000 (1944-1945)</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>40,000 (1945)</td>
</tr>
<tr>
<td>Poland</td>
<td>20,000 (1944-1945)</td>
</tr>
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<td>France</td>
<td>15,000 (1944-1945)</td>
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<td>Belgium</td>
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<td>5,000 (1944-1945)</td>
</tr>
<tr>
<td>Norway</td>
<td>2,000 (1944-1945)</td>
</tr>
<tr>
<td>Greece</td>
<td>1,000 (1944-1945)</td>
</tr>
</tbody>
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**SELECTED CONQUERED AREAS**

<table>
<thead>
<tr>
<th>Country</th>
<th>United Nations Relief Administration (U.N.R.R.A.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>50,000 (1944-1945)</td>
</tr>
<tr>
<td>Italy</td>
<td>30,000 (1944-1945)</td>
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</tbody>
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**NOTE:** Figures represent in thousands per year.

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**Transition Period**

Relief for Europe is now in a transition period. As the liberation of countries continues and the post-war order is established, the responsibility for supplying these countries becomes a matter of national concern. In the countries that were recently occupied, the United Nations Relief and Rehabilitation Administration (U.N.R.R.A.) is playing a key role in coordinating relief efforts. U.N.R.R.A. has been operating in countries such as Greece, Yugoslavia, Czechoslovakia, Poland, and in parts of Italy.

U.N.R.R.A. is not only providing immediate relief but also planning for the long-term reconstruction of these countries. The agency is working to ensure that basic needs such as food, clothing, and medical supplies are met. In countries like Greece and Yugoslavia, where the need is greatest, U.N.R.R.A. is working closely with local governments and international organizations to ensure that relief efforts are effective and sustainable.

The agency is also focusing on the long-term needs of these countries. In addition to immediate relief, U.N.R.R.A. is working to establish international agreements to ensure that these countries have access to the resources they need to rebuild and recover.

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Example: If the United States were to cut down its calorie supply by only 8 percent, it would be enough to increase the daily supply of the above five food-poor countries by more than 80 percent and give them the 2,500 calories a day needed for an active population.

The rate of United States relief shipments to liberated areas has increased sharply since the beginning of the year. In some areas, such as meat and fats, the amount that can be sent abroad is limited by shortages at home; in others, such as wheat and cotton, the limiting factor is shipping tonnage and unloading facilities. In other words, because of domestic food shortages and the tightness in merchant tonnage, we are not in a position to ship all the food that liberated areas need; however, many other countries are making their contributions.
The European countries want to help themselves. Hence, in cooperation with the United States and the United Kingdom, there have been set up (1) the European Economic Committee for Europe, (2) the European Coal Organization, and (3) the European Central Coal Transport Organization. Each of these has representatives of most of the liberated countries as well as the United States and the United Kingdom. The primary task of these bodies is to make the maximum use of Europe's resources to explore ways and means of filling the Continent's requirements at home before calling on the United States or the United Kingdom for aid.

The United States is not supplying Europe single-handed.

Through the Combined Food Board, Combined Production and Resources Board, and the Combined Raw Materials Board, the United Kingdom is sending coal, clothing, transportation equipment, and food; Canada is sending trucks, tractors, and industrial machinery; and the United States is sending textiles, leather, India ink, and much of these nation—cooperating with Australia, Argentina, Brazil, Cuba, British Empire countries, and the French and Belgian colonies—is sending foods, wheat, flour, fats and oils, beans, rice, meat, sugar, canned and frozen fish.

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

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

Recently, a special mission headed by Judge Boies, who heads a survey of the supply system for liberated Europe. The result was a recommendation to explore ways and means of improving our supply procedure. Such a study is now being made by the Office of War Mobilization and Reconversion with the aid of the Bureau of the War Budget.
directed from war production and, therefore, to maintain many restrictive orders on production, distribution, and prices. After V-J day, the job before us will be to move resources out of war production into civilian production. Thus after V-J day, many War Production Board controls will be a hindrance rather than a help.

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

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

The controls after V-J day will have one common purpose—to smooth the transition between a war and peace-time economy. Whether controls are necessary and for how long will be determined by when V-J day comes. Stimulation of Japanese production to surmount a year from now. For that time, none of the links will have worked out of the reconversion process, and if not all of the bottlenecks in peace-time production will have been broken, the chain of supply will have been established from producers of raw materials to manufacturers of end products to wholesalers and retailers. Under such circumstances, relaxation of bottleneck-breaking and scheduling functions would be superfluous.

But if V-J day were to come two or three months from now, before industrial supply-chains had been reestablished, those functions would be temporarily useful to keep the links flowing smoothly and maximally production.

Price Controls

Again, in price control, the timing—the state of reconversion—will determine how many exceptions must be made to a general policy of removing ceilings. Today specific shortages persist in many segments of the standard of living—food, textiles, shoes, and in all durable goods, housing, automobiles, electrical appliances. None of these shortages is likely to be corrected in the next three months. Therefore a quick defeat of Japan would not immediately alter the need for some price controls; nor would it do away with the necessity to ration shoes, certain foods, and other items. Automobiles might have to be rationed for a brief period until such essential users as the police force, doctors, nurses get taken care of, also refrigerators in hospitals and homes in big areas.

Danger of Deflation

V-J day will bring a sharp contraction in munitions employment. Workers will be discharged from plants making planes, shells, tanks, guns, and ships. Also overtime will drop and shifts from high to low wage industries will be speeded up. This will result in a drop in the income and hence in the purchases of these workers. To be sure, many workers have built up savings during the war; also unemployment compensation benefits will tide them over the unemployment period. But even liberal unemployment benefits are few compared with wages, and families whose incomes drop will cut their expenditures—they will not buy quite so much groceries, they will put off getting shoes or clothes, they will reduce expenditures into their scale of living. Such curtailment of expenditures would bring about secondary unemployment—in retail stores, in textile production, and so on. As one group of workers is laid off, others are inevitably affected.

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

Inflation Danger

But there is another possibility: economic history may still repeat. During and after every war, prices have risen sharply then declined sharply. (Sec Chart: Prices—Before and After the Wars.) So far during this war we have managed to hold prices in check. We cannot afford to give up the fight just yet; it seems won. The point is that cash and cash demands are at record levels (p. 50), and that most people after V-J day will still have good incomes. Expenditure of this group could offset contraction in purchases of the unemployed and instill an inflationary price spiral. Moreover, once production did get started, manufacturers, wholesalers, and retailers, might lay in inventories, fearing prices would rise. This would lead to a repetition of the 1919-20 boom and collapse. Therefore, we must be prepared for inflation and deflation, or for a delayed inflation after an immediate devaluation following V-J day.
PRICES—BEFORE AND AFTER THE WARS

Over 100 years of American history, major conflicts have resulted in sharp price rises, followed by sharp declines.
The key cure is the same: to step up production, which increases supply on the one hand and reemployment on the other. Toward this end, we must get rid of controls that are not needed and from controls that help. However, if reemployment is slow, if a deflation spiral threatens, then the government must be prepared to take positive action to bolster income and create jobs through public works.

During the war, many federal, state, and local government projects—highways, post offices, schools, hospitals, police stations—have been postponed because the materials and manpower were more urgently required in war work. V-J day will offer the first opportunity to cut into the piled-up backlog of public construction on a large scale.

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

In connection, private business should advance its plans to the blueprint stage now.

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

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

Up To All of Us

Inevitably V-J day will bring dislocations and unemployment. And government agencies have to be ready whenever V-J day comes—to clear the decks for all-out reconversion—to cancel contracts, render
financial assistance to contractors, help returning servicemen and
 discharged war workers find jobs, remove controls, guard against infla-
tion, and be prepared to check inflation.

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

THE BRIDGE BETWEEN TODAY
AND TOMORROW

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

"Formulate or have formulated such plans as are necessary

to meet the problems arising out of the transition from
war to peace."

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

In 1939, our national output hit its highest peacetime level, higher
than in 1929, higher than in any previous year of our history—$48
billion. Five years later that record figure was dwarfed by a new
record output of $600 billion. Prices were higher, but the quantity
of goods and services produced in 1944 was over three-fourths again
as high as in 1939. We succeeded in piling our new wartime economy
on top of a peacetime economy; in achieving feats of production no one
believed possible. In so doing, we opened a totally new vista of what
the future can hold. (See chart: Postwar Challenge.)

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

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

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

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

The vast reservoir of liquid assets—currently estimated at $300 billion or almost three times the 1939 total—stands a completely new factor in our economy. These financial resources, plus the great need for goods which has been built up during the war, can be a self-starter for our postwar economy, and if installed right, a "fly-wheel" for years to come. How high businessmen aim, how resolutely they act will be an important factor in building a bridge from the present wartime peak to steady high levels of employment and production, with substantial profit to all hands.

**The Role of Government**

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

**POSTWAR CHALLENGE:**

To achieve a production-consumption level almost twice pre-war.

![Graph showing production and consumption levels](image)

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

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

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

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

**THE POSTWAR TAX BILL**

I regard the modernization of our tax structure as the foundation of our entire program to reach and maintain full employment after the war.
In our complicated economy it is not easy to see the ultimate effects of taxes on which they fall nor what they mean to the prosperity of the people. After the war, government revenue needs will be three times what they have ever been in peacetime. The federal tax structure will, therefore, be a far bigger factor in the economic health and stability of our Nation than ever before.

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

1. Taxes should be levied in such a way that they have the least harmful effect on the expansion of business investment and the creation of jobs, hence productive employment is the source of our standard of living, of all income, and of the revenue which the government collects from taxes.

2. Taxes should be levied in such a way that they have the least harmful effect on the maintenance of mass markets and mass purchasing power because that is the basis of business, labor, and agricultural prosperity.

3. Taxes must be fair among people.

4. Tax policy should be integrated with a fiscal policy designed to prevent inflation and deflation.

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

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

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

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

There is an important benefit to an early adoption of a post-war tax program.

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

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

SMALL BUSINESS

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

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

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

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

COMPETITION

Competition has always been the heart of America’s economic vitality. It is also the center of our economic philosophy. In the transi-
tion and postwar period, we shall have an unparalleled opportunity to extend the area of effective competition. In this connection, the encouragement of new and small businesses is basic.

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

Obviously of major importance is the enforcement of the existing antitrust laws. During the war, enforcement has been suspended in some fields. The scale of operations was never very large. The maximum budget of the Anti-trust Division was $25,000—a far cry from what we spend on the Smithsonian Institute. As soon as the primary needs of the war permit, we should get on with the job of carrying out the intent of the antitrust laws. Many American businessmen recognize that the principles of free enterprise require vigilance in combating monopolistic practices. Businessmen cannot, as the late President Hoover pointed out, "term each antitrust prosecution as a persecution."

Congress has before it a number of proposals intended to make our patent system more consistent with the national policy for preserving competition. Some steps must be taken to assume that the right to derive profit from the use of an invention is not used as a means of dividing markets, restricting output, or setting prices. It is not enough to have an anti-trust policy. We must have a positive program to encourage competition. We must meld out the elements in our economy that are necessary to its survival and organize our institutions accordingly.

LABOR, MANAGEMENT, AND WAGES

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

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

American business is coming to realize that a high wage policy is in the long-run interest of everyone because it helps create the markets necessary to move goods from farm and factory—to store shelves—to the homes of America. And these high wages are necessary to achievement of the high standard of living which we can and must attain. Labor will continue to bargain for higher wages and management in recognizing the right of collective bargaining as a proper part of an economic democracy. This bargaining is most effective when conducted in a spirit of understanding and tolerance on both sides. Such understanding is evidenced in the growing realization within the ranks of labor, that a requisite of higher wages is higher production per man. To protect unorganized labor and to safeguard markets for business, the Government, as noted elsewhere in this report, should put a floor under wages.

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

FOREIGN TRADE

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

A. We want our producers and businessmen to have the right to buy and sell in markets without discrimination. Only in this way can we secure the most efficient use of division of labor among nations with the maximum advantages to our American standard of living.

B. We want to cooperate with other nations in promoting world peace and economic and financial stability. The United States cannot be an island of stability in a sea of instability nor can world stability be achieved without American prosperity and cooperation.

C. We want to promote the free international movement of capital as a means of channeling American investment into the uses which are most productive to us.

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

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

1. Renewal of the Trade Agreements Act, the 50 percent reduction limit to apply to the rates existing in 1935. Ratification of the Bretton Woods Agreement establishing an International Bank for Reconstruction and Development, and an International Stabilization Fund.

2. Strengthening of the Export-Import Bank to allow it a broader sphere of operation.

3. Repeat of legislation prohibiting loans to governments in default of their obligations to the United States.
Congress has taken favorable action on one of these measures. I sincerely hope it will approve all of them in the near future.

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

SOCIAL SECURITY

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

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

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

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

FARM PROGRAM

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

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

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

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

Nevertheless it is absolutely essential that the Government make good on its commitments given to farmers during wartime to encourage production. Justice Harlan stated in his report of April 1, 1941:

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

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

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

PUBLIC WORKS AND CONSTRUCTION

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

The prospect of achieving a high, stable level of total output depends in large part upon the timing and volume of construction activity.
In the late 20s, construction employed over 2 million men per year in the United States, and about an equal number in supporting industries. By 1933, this employment had fallen to 13 percent.

During the war, construction rose to an all-time high rate of $68 billion a year, but it has now dropped to about $4 billion. Postwar construction is expected to average 50 percent of that level, but if we are to fulfill our needs.

The construction industry was severely handicapped by lack of work in the war. It is now ready to produce another major output. The competitive stress of the war has given us a chance to improve the quality of our buildings and to learn new techniques.

FISCAL POLICY

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

The management of a budget of this size will have a tremendous influence on the level and stability of the whole economy. Whether or not to manage the budget is an issue. It must be managed. But a budget which is entirely the result of uncoordinated consideration of particular problems and policies can have perverse effects upon the economy as a whole. We need to consider and formulate a total budget in relation to the total economic situation. A fiscal policy developed on this basis can stimulate private expenditure and by reducing taxes, it can increase public spending whenever private spending appears inadequate to sustain full employment. It can raise taxes to reduce Government spending whenever the level of private spending threatens inflation. Further, such a type of tax and such type of expenditure must be appraised in terms of economic consequences.

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

Appropriate use of budgetary policy for economic stabilization will require improvement of existing technical procedures for fiscal planning. The Administration must be prepared to submit a government budget framed and analyzed in relation to the total national budget; the Congress must be equipped to consider and, if necessary, revise the budget on the same basis. The Full Employment Bill, which I have described in principle, establishes a mechanism for discharging this necessary function of government—budgetary planning—in a way which will help fulfill the necessary responsibility of government, full employment.
The informal discussions of the Board have provided an invaluable means through which I have been able to obtain the frank opinion and judgment of individual members and the advice and recommendations of the group on a wide range of detailed problems. In addition, the Board has formulated two major statements of objectives and principles. The first deals with objectives for the postwar economy of the Nation; the second sets forth a series of reorganization principles calculated to facilitate a smooth transition to a prosperous postwar economy. The two statements are here summarized:

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

That full employment can and will be attained here in the United States.
That it can be achieved under our system of competitive free enterprise. In the conversion period, bold ventures by all our citizens are necessary and the role of Government must be positive. This does not call for any compromise with traditional American institutions and relations of Government, labor, business, and agriculture.
That the full use of our resources and manpower can produce a national income which, properly distributed, will bring about sound and stable business and industrial activity, higher real wages, better health, housing, and education for all.
That the veterans returning when war is finally at an end will then find a respected and assured place in the economic life of the Nation.
That this Nation can and will in that way help the needy in devastated lands abroad to alleviate their misery and enable them again to provide for themselves.

2. Reconversion plans, while assuring all-out production for the defeat of Japan, must anticipate the impact on the domestic economy which will be felt when that production is terminated.
The following principles are suggested as useful guides for reconversion planning between VE and VJ-days:

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

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

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

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

GOVERNMENT REORGANIZATION

Two paragraphs in Title I of the War Mobilization and Reconversion Act deal with the importance of government reorganization. Section 101 (e) (6) charges the Director to:

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

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