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RECONVERSION



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A REPORT TO THE PRESIDENT
from
DIRECTOR OF WAR MOBILIZATION
JAMES F. BYRNES

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OFFICE OF WAR MOBILIZATION

WHITE HOUSE

WASHINGTON, D. C.

JAMES F. BYRNES, DIRECTOR

SEPTEMBER 7, 1944.

Dear Mr. President:

For many months Government agencies have been making plans for a return to civilian production when Germany surrenders. Recently we have held conferences as a result of which the representatives of the departments directly concerned with reconversion problems are closely cooperating and synchronizing their programs.

This is a report upon the status of some of these programs and some recommendations as to future action.

CUT-BACKS

More than a year ago at the request of the Office of War Mobilization, the Army, Navy, Maritime Commission, and Foreign Economic Administration appointed committees to review their procurement programs to determine whether or not there could, at this time, be some modification either of the rates of production or of the total objective for the major items of procurement. Subsequently, at my request, the Joint Chiefs of Staff appointed a committee of four officers of high rank, two from the Army and two from the Navy, to review constantly the action of the several procurement agencies in the curtailment of procurement programs. They have been in daily touch with the procurement officials, who since that time have canceled more than \$18,000,000,000 of authorized expenditures.

Of course, while these curtailments and cancelations have been taking place, necessity has arisen for the expenditure of many other millions for certain additional munitions and supplies resulting from the change from a defensive to an offensive warfare. But the figures show that the procurement agencies themselves have tried to prevent the accumulation of unnecessary supplies while, at the same time, furnishing the weapons and supplies that have made possible the victories of our armed forces.

General Somervell, commander of the Army Service Forces, with the approval of the Chief of Staff, General Marshall, has directed—

(a) That the strategic reserve be immediately studied in the light of current production and strategic situation without delay.

(b) That authority be given him to immediately suspend procurement on not to exceed 50 percent of the matériel provided in the current strategic reserve.

This strategic reserve embraces supplies of initial equipment for an additional million men. The decision of General Somervell will not result in

cut-backs of existing orders but it will result in reducing by 50 percent orders placed after this date for supplies for these strategic reserves.

At the supply depots stocks heretofore have been authorized at 90 days of anticipated issue. In the light of current procurement and strategic conditions, General Somervell has ordered that the depot stocks be reduced to 60 days of expected issue for items vital to combat and 45 days for expected issue of other items. This will also reduce future procurement orders.

The ample supply of some munitions and some supplies will not, however, lessen the emphasis all Government agencies have been placing upon the necessity for overcoming the shortages in certain other critical supplies. They continue short. Reports continue of the short supply of certain artillery ammunition requiring our officers to restrict the number of rounds fired per day. For the last week the conduct of the war, fortunately, has lessened the demand upon the supply of heavy artillery ammunition. But no one can tell when demands will again increase. The Army cannot gamble as to the day of surrender.

AGENCY COOPERATION IN CUT-BACKS

Recognizing the need for an orderly shifting of facilities to meet changing requirements during the period of maximum war production, I directed the War Production Board on June 5, 1944, to establish an appropriate division with representatives from the procurement services and the War Manpower Commission to develop cut-back procedures, having in view that these cut-back procedures will be available to facilitate reconversion upon the defeat of Germany.

The current procedures for the administration of cut-backs are designed to provide for interim revisions in war requirements. Under these procedures, the procurement agencies determine the allocation of cut-backs among contractors under broad policies developed by the War Production Board to secure maximum production. The procurement agencies furnish the War Production Board with advance notice of any cut-back for an item or related group of items in which the value of the cut-back equals or exceeds \$1,000,000 in the current month or any of the next succeeding months.

As detailed plans are developed, these plans are also reported to the War Production Board. They include information with respect to the facilities involved, the labor employed, the labor area in which the work is located, costs, past production, future requirements, plant capacities, and the selection of facilities for retention and release.

The staff of the War Production Board assigned to the study of cut-backs reviews the detailed proposal and gives clearance or recommends changes which appear desirable. This staff is composed of representatives of the war procurement agencies, the War Manpower Commission, the Smaller War Plants Corporation, and various divisions of the War Production Board.

For cut-backs of over \$200,000 but less than \$1,000,000 in the current month or any one of the succeeding 3 months, modified information is made available to the War Production Board prior to final determination of the facilities to be cut back.

As a result of these procedures, the War Production Board, the War Manpower Commission, and the Smaller War Plants Corporation are advised before final notification is given to the contractor so that appropriate arrangements may be made for the use of the facilities for other war purposes or for essential civilian production. This also permits the development of a program for the utilization of the manpower made available by the cut-back.

V-E DAY

With the defeat of Germany, the requirements of the procurement agencies for matériel and supplies will be reduced by approximately 40 percent. The primary objectives in the cut-back procedure will differ somewhat from those now in effect. The need will still remain to give full protection to the necessary war programs for the conduct of the war against Japan, but, in so doing, every opportunity will be provided to permit the resumption of maximum civilian production without delay, thus preventing extended unemployment.

The procurement agencies confronted with major readjustments following the defeat of Germany have prepared special procurement programs for the continuing war with Japan which are ready for implementation immediately upon the defeat of Germany.

These agencies are now engaged in notifying prime contractors of their tentative plans under policies prescribed by the War Production Board. Moreover, the proposed contractual changes in major items have been or are in process of being submitted to the War Production Board for review and for the consideration of such changes as may appear desirable in the interests of the national economy.

The staff which has obtained experience in analyzing current cut-backs is being utilized to examine the tentative cut-backs which will result with the defeat of Germany. The factors for the selection of facilities to be released at this time will differ, obviously, from those used with respect to current production, as speed in reconversion to desirable civilian production now becomes a major factor.

CRITERIA FOR SELECTION OF CUT-BACKS AFTER V-E DAY

The factors being evaluated in the selection of facilities for the second phase of the war follow:

(a) The procuring agency will retain until final victory those contractors which it has found from experience to be capable of producing required items of desirable quality at the desired scheduled rates. The contractors retained in war production until the end of the war must be

the best qualified, and all other rules of selection are applicable only among those so qualified. No contractor, however, will be disqualified simply because he is a small contractor.

(b) As between qualified contractors, the following factors will be considered in selecting facilities to accomplish the necessary readjustment and curtailment of production:

(1) Privately owned plants, not normally engaged in production of a military character, will be given first priority of release from war production in order to facilitate their reconversion to civilian production, due consideration being given to the wishes of the contractors.

(2) Government-owned plants will be kept in operation or reserve until their production is clearly no longer required for military needs. This is subject to modification in the case of a plant located in an isolated section with no opportunity for displaced workers where the exercise of wise administrative discretion may prompt other action.

(3) Insofar as practicable, the release to civilian production of competing units of the same industry should be simultaneous.

(4) In scheduling the release of plants and industries, due consideration is to be given to cushioning the shock of unemployment.

(5) In scheduling the release of plants or industries, due consideration is to be given to—

(a) Security considerations;

(b) Considerations affecting public transportation, such as accessibility to the sources of labor, raw materials, components, depots or storage facilities, and ultimate destination;

(c) The relative unit cost to the Government;

(d) The welfare of smaller business.

(6) Where practical considerations make it possible, companies responsible for the development and engineering of specialized products will be retained in their manufacture in preference to those companies which are merely licensed for their manufacture.

As a result of advanced planning, representatives of the procurement agencies are today conferring with contractors, agreeing in advance of termination as to methods of accounting and settling such questions as the allotment of overhead expenses as between war production and civilian production.

The agencies will also notify their contractors by telegram, when the defeat of Germany is announced, of the curtailment of war production in the contractor's plant so that the contractor may start immediately with converting to normal civilian production that portion of his plant no longer required for war production.

The War Department personnel engaged in contract termination work now exceeds 6,500. Plans developed for the speedy termination of the contracts will require more than 25,000 persons. Additional personnel for this

work is being trained in special schools, and training courses are being provided for procurement officers and for employees of contractors.

NAVY CUT-BACKS

The plans of the Navy Department are necessarily different from those of the War Department. The Navy has a smaller number of contracts. The task of the Navy following the surrender of Germany will be just as great as before the surrender. A review of Navy plans indicates the same thoroughness as is evidenced by Army to do all possible to lessen the impact upon the civilian economy resulting from the curtailment or cancelation of contracts.

MARITIME CUT-BACKS

The Maritime Commission, like the Navy, has a tremendous task to perform in the war of the Pacific. The surrender of Germany will not lessen the necessity for the construction of certain types of ships, but it will make possible the cancelation of some ships. Plans have already been prepared to become effective upon the cessation of hostilities in Europe, listing the contracts to be canceled or curtailed.

WAR CONTROLS TO BE MODIFIED TO STIMULATE CIVILIAN PRODUCTION

There will be some time lag between the curtailment and cancelation of war contracts and the resumption of large civilian production. The length of that period may be lessened by the promptness with which wartime restraints are removed.

To insure the utmost speed in reconversion and to permit the prompt resumption of civilian production at least equal to the civilian production of the United States in 1939, controls now in existence will be released or modified to the fullest extent possible to permit manufacturers a freedom in planning for the resumption of civilian production and in ordering materials and components which will assure maximum speed.

The military needs for the war against Japan must be assured. Unquestionably there will remain areas of tight supply, which will necessitate war production receiving a preferential position. However, the Controlled Materials Plan, with its necessary but cumbersome paper work, will no longer be required, provided industry as a whole continues to recognize the importance of war and essential civilian production and the necessity for the protection of small business.

As the Acting Chairman of the War Production Board has announced, existing controls will be relaxed immediately after the defeat of Germany and the following controls substituted:

(a) The establishment of a new military preference rating to be assigned to the war procurement programs of the War Department, Navy Department, Maritime Commission, War Shipping Administration, and

military lend-lease. Contractors will be required to accept orders in this rating band and to fill these orders in preference to any other orders.

(b) The establishment of a new civilian production preference rating band subordinate to the military rating but superior to all other ratings to be used only if necessary to protect the more essential civilian programs. It is not anticipated that this rating band will be necessary, and it will be used only in the event programs in this category fail to meet schedules.

(c) The new rating structure will be placed in effect immediately following the defeat of Germany. It will automatically assign the new ratings to the prime contractors of the designated programs and these prime contractors will be directed to extend the ratings to their suppliers. After an appropriate period has elapsed to permit a rerating and rescheduling of orders, all other outstanding preference ratings will become void.

(d) The priority regulations now in effect will be amended to conform to these changes.

(e) The Controlled Materials Plan will be revoked immediately after the defeat of Germany, except that it will remain in effect for steel and copper during the remainder of the quarter in which the revocation is issued. In effect, orders under the Controlled Materials Plan become priority orders; however, suppliers will be permitted to receive and fill all orders placed after the defeat of Germany to the extent made possible by the cancelation of orders which they then hold under the Controlled Materials Plan.

(f) L and M orders will be revoked except for a few selected orders which must be retained as a mechanism for programming items which will continue in short supply, such as tires, batteries, motors, lumber, and some textiles and chemicals.

(g) The War Production Board will retain the authority which it now has to continue or to institute controlled mechanisms to cope with individual production and procurement problems, to include the authority to issue individual directives to manufacturers or suppliers to produce or deliver a product or products to a designated purpose. This will permit the War Production Board to take appropriate action to prevent or to correct hardship cases.

ADMINISTRATIVE MACHINERY FOR SECURING THE PROMPT CLEARING OF CONTRACTORS' PLANTS

An essential step to the prompt reconversion of a war facility to civilian production is the removal of war materials and equipment from the plant. This clearance is a part of the contract termination procedure which has been planned in detail by all of the procurement agencies in close cooperation with the Director of Contract Settlement and with the Surplus War Property Administrator.

Arrangements for prompt advance payments and for loans assure the war contractor of quick financing. There remains the inventory and disposal

of plant equipment and materials pertaining to the war contract which must be removed to prevent interference with reconversion.

To expedite prompt clearance, the following procedures have been developed:

(a) Whenever a war contractor is of the opinion that he no longer requires for the performance of any war contract Government-owned facilities covered by purchase or lease option, he will promptly notify the owning procurement agency of his desire to exercise or waive the option. If he desires to exercise the option, the facilities will be disposed of accordingly. The procurement agencies are prepared to waive or release, under terms and conditions deemed appropriate, any existing obligations of war contractors under facilities contracts.

(b) The war contractor will submit an inventory list of items which become excess with the curtailment of his contract and which are not under option classified for retention or for removal. He will indicate the space which he has available for storage under appropriate rental. Unsatisfactory inventory lists will be returned by the procurement agencies within 10 days. Within 20 days the procurement agencies will notify the war contractor of those items in his inventory which are—

- (1) Necessary for war production;
- (2) May be retained by the contractor;
- (3) May be stored by the contractor; and
- (4) Should be prepared for shipment to a designated place.

Within 60 days after receipt of a satisfactory inventory list, the procurement agencies—

- (1) Must dispose of any or all of the facilities to the war contractor which the Government is willing to release;
- (2) Complete arrangements with the war contractor for the storage of those inventory items which he is prepared to store; and
- (3) Remove the balance.

At any time in this period the war contractor may remove and store at his own expense and risk any materials or equipment no longer required for war production. After the elapse of 60 days from date of receipt of inventory, the contractor may remove and store such materials at the risk and expense of the Government.

In order to facilitate the removal of equipment and material, the procurement agencies are developing storage space requirements and reporting these requirements to the Space Control Committee of the Surplus War Property Administration.

This Space Control Committee has regional subcommittees located throughout the United States which maintain listings of all suitable storage space and allocate space to the procurement agencies to meet their requirements.

In addition large centrally located storage centers are being developed where prefabricated temporary storage shelters can be erected quickly to

protect stored equipment. These storage areas will be located in industrial centers and will be operated under Government contracts by commercial warehousemen.

All procurement agencies will be required to establish a reporting procedure which will show the progress being made in clearing plants.

To further facilitate reconversion the Surplus War Property Administrator has approved the immediate sale of machine tools and industrial equipment being used by manufacturers for war work to these manufacturers on a depreciation formula believed fair to both industry and to the Government.

Machine tools not desired by the manufacturer are reported as surplus and become available for sale to other contractors desiring the tools for the resumption of civilian production under the same general depreciation formula but with a somewhat more favorable price differential in view of the additional costs of installing such machinery as compared with machinery sold in place.

STEPS TO AID EMPLOYMENT DURING RECONVERSION

The effectiveness of any plans for the transition from war production to peace production will depend upon our ability to provide jobs for the workers who will be displaced by the reduction in war production.

The fear of prolonged unemployment following V-E Day has been exaggerated. The prosecution of the war against Japan will demand the continued production of great quantities of war materials. Basic industries, such as steel and textiles, will not be affected. We will speedily return to civilian production. The pent-up demand for goods will come from a people who have the money with which to buy them.

But it is inevitable that in some particular industries and in some communities there should temporarily be reduced employment. This is more likely to occur where the curtailment is in Government-owned plants engaged entirely in war production and having no plans for civilian production.

In order to meet this situation I have appointed a committee consisting of representatives of the War Production Board, the War Manpower Commission, the Defense Plant Corporation, and the Surplus War Property Administration. They are at work interviewing the contractors. Their objective is to ascertain whether or not the contractor will exercise his option to buy or lease the plants. If he is not interested, then the committee, having determined to what uses the plant can be put, will inquire whether local capital or some corporation or individual can be interested in purchasing or leasing the plant—of course, subject to the policies prescribed by law.

The primary purpose is to help the manpower situation. The presence of a representative of the War Manpower Commission on this committee will enable that agency to know what progress is being made in arranging for the

operation of these plants. If such operation does not seem probable, the War Manpower Commission, in advance, can make plans to secure jobs for the workers when their employment is terminated.

It is obvious that any restrictions upon the sale or leasing of these plants that will delay their conversion to civilian production will cause unemployment. In the Government-owned plants there are several million war workers. If they are not employed until other plants can be built or other machinery installed, they will be out of work for a long period. The plant equipment of these Government-owned plants must be put to work promptly if jobs are to be provided.

WARTIME MANPOWER CONTROLS TO BE LIFTED

It is apparent that with the defeat of Germany the necessity for existing manpower controls will largely cease. Hence, these controls will be abandoned to facilitate the transfer of manpower from the curtailed war programs to civilian production. The services available through the War Manpower Commission and the United States Employment Service will continue. The Production Urgency and Manpower Priorities Committees will also continue to function as at present although their functions will become advisory.

However, a loss of manpower in war production below the needs to meet the schedules established for the war against Japan would necessitate a prompt restoration of controls. It is anticipated that the voluntary establishment of ceilings will correct such conditions locally, if the need arises.

FIRST LINE OF DEFENSE AGAINST UNEMPLOYMENT

Unemployment compensation is our first line of defense against unemployment. In view of the failure of the Congress to provide for more liberal benefit payments by the unemployment compensation systems of the States through supplemental appropriations by the Federal Government, there will be some States in which the payments will be very inadequate, particularly in view of the increase in the cost of living since such payments were established by those States.

The weekly benefits were established several years prior to the war. If they were adequate then, they are inadequate now. The State systems have, during the war, as a result of increased contributions and reduced expenditures, accumulated reserves of five and one-half billion dollars. That is fortunate. But the objective of the system is to provide a defense against unemployment and not merely to accumulate money. The States should act now to liberalize the benefits and make the State systems serve their true purpose.

I still hope the Congress will reconsider its action in rejecting the plan suggested by me that the maximum weekly benefit should not be less than a stated percentage of the workers' previous wages or \$20, whichever is the lower; should be paid for as long as 26 weeks and the coverage be

extended to include workers where the number of employees is less than eight. Several influential Members of Congress expressed to me the view that they did not want to consider at this time a bill liberalizing the benefits because they feared if such a bill were considered at this time just prior to a Presidential election, there would be bidding for votes and the proposal would not be considered upon its merits. They thought that after the election legislation providing reasonable liberalization could be enacted. I earnestly hope this will be done.

RETURN TO 40-HOUR WEEK

It is evident to me that if on V-E Day we are to reduce war production 40 percent, it is necessary that the Government plan now to spread the work.

Only the necessities of war production and the shortage of workers caused the Government to increase the workweek to 48 hours. When V-E Day comes we should return to the 40-hour week. This will give jobs to those who are left without employment. The workers want jobs and not unemployment compensation.

On February 9, 1943, I recommended that the President issue an order authorizing the increased employment to 48 hours. As the reason for the order will not exist after V-E Day, I hope an order will be issued returning to the 40-hour week provided by law, except to take care of production necessary to the war effort and some specially tight labor areas.

This will help solve a problem which is already giving concern. Many employees have been leaving plants engaged in war production to seek employment where they believe civilian production will be quickly resumed. If a worker remains in war production and is allowed to work 48 hours with time and a half for the extra 8 hours, his weekly take-home will be larger than the weekly take-home of the worker engaged in civilian production and working only 40 hours. The financial incentive thus provided may induce workers to remain in war production.

RETRAINING AND REEMPLOYMENT ADMINISTRATION

The Retraining and Reemployment Administration has been at work for months upon the problems of employment and training. Central offices have been established in all important cities where there are concentrated the representatives of various agencies concerned with employment, vocational training, and other activities of Government agencies so that the unemployed may, in one place, secure information as to the assistance they can secure from the Government. The plans worked out by this agency will be of assistance to the unemployed veterans and war workers.

PUBLIC WORKS

The Federal Works Agency has obtained from States, counties, and cities much information as to work projects planned by such governments.

The demand for construction projects exists. As a rule those governments have the funds for the projects. In communities where there is no unemployment following V-E Day it would be unfortunate if large public works were undertaken. It would be more unfortunate if they were not undertaken in communities where there is unemployment.

It is not possible to exercise direct control over the time when expenditures will be made by local governments. But the Federal Government can time its expenditures of Federal funds for road construction and work projects to relieve unemployment.

PRICES FOR RECONVERSION

When a manufacturer has been advised of the curtailment of a war contract and that he can resume civilian production, he probably will not move until he ascertains what ceiling price will be placed upon his goods. The price of civilian goods which have been produced throughout the war has been fixed by OPA and takes into account increased production costs. But articles not now produced, such as automobiles, radios, refrigerators, may have to be priced somewhat above the prices prevailing in 1941 when civilian production of these articles was stopped.

It is entirely possible that on V-E Day, as a result of the curtailment of contracts, several hundred producers would at the same time ask OPA for a decision as to a ceiling price. Obviously, if a decision is delayed until investigation can be made of production costs of all such articles at that time, it would increase the ranks of the jobless.

One practical way would be to authorize a percentage increase over earlier prices for articles which have been out of production for some time, with the right and duty devolving upon OPA to adjust such prices upward or downward in the light of experience. Since January 1, 1941, when the production of civilian durable goods was drastically curtailed, industrial wholesale prices have increased. Often it is difficult to ascertain quickly the amount of such increase because the increase has not been uniform for all commodities. Some commodities have risen substantially while others have declined or not risen at all. For example, iron and steel prices have not risen and the price of aluminum actually has declined. There has been very considerable technological progress during the war which should serve in some cases to offset increase in labor and material costs.

However, it should be feasible for OPA to establish a general ceiling for articles out of civilian production for some time at a fixed percentage above the prices charged for such articles before civilian production ceased. This percentage can be quickly computed on the basis of increased material, labor, and other costs. Provision can be made to take care of hardship cases on appeal. As manufacturers return to production, competition should cause some prices to drop quickly and substantially below the fixed ceilings.

The Stabilization Director and the Price Administrator are engaged in determining the formula to be applied in arriving at the percentage increase to be allowed. The formula cannot now be announced. No hard-and-fast rule can be applied to all industries, but a price program

is being worked out that will make certain that the reconversion to civilian production in any industry will not be delayed by lack of information as to prices.

TAXES

Before the manufacturer returns to production he will want to know something more than the ceiling price. He will want some idea about taxes in order to determine whether there will be a profit in his business. Everybody cannot be an employee. There must be an employer if people are going to get jobs. Before a man puts his own money and asks his friends to put money in a business he wants to know that there is some prospect of his making a profit.

The excess-profit tax is a war tax. With the ending of the war there should be an end to excess-profit taxes. It cannot be done upon V-E Day because we will still have war production and war profits, but the administration and the leaders of the congressional committees might well announce an intention to urge the elimination of the excess-profits taxes when the war with Japan is at an end.

We should consider, also, the advisability of allowing manufacturers to depreciate new machinery substantially in the years in which such machinery is purchased. Great Britain has incorporated such a plan in its current budget. This action would induce many companies to hazard new ventures, thereby increasing employment. It would give a real incentive to companies to keep our industry ahead of the rest of the world technologically. It would provide a steady domestic market of substantial proportion for capital goods and would go far to provide a stable basis for employment in that field in the post-war readjustment.

CONTROLS

I have requested a survey to be made to determine what war controls can be modified after V-E Day. To enforce controls requires personnel. When the controls are released Government employees should be released. The scheduled reduction of procurement in the War Department, the removal of controls by the War Production Board and other agencies should make it possible for many Government workers to return to their homes when Germany surrenders.

The justification for rationing is the short supply of a commodity. When the supply is sufficient for normal demands rationing should cease. Many foods have already been removed from the ration list. Others will be removed as soon as supplies justify removal.

V-E Day will result in increasing the supply of gasoline available for the civilian population. It is impossible now to make a definite statement. My opinion is the increase will not permit the discontinuance of rationing, but the allowances can be increased in certain areas.

There are many commodities, however, that are still in short supply and must continue to be rationed.

FOOD PROGRAM

V-E Day requires a review of our plans for production on farms as well as in factories. In the near future War Food Administrator Jones must announce the goals for farm production in 1945. So far as food supplies are concerned here is the problem:

Food production in the areas under Allied control with the exception of Russia is approximately one-third above normal production. War reserves have been established. When peace comes the reserves in the military theaters will become surplus.

Because of the submarine activity, blitz bombing, and the irregularity of shipping, reserve stocks for the civilian population of the United Kingdom were increased from a normal of approximately 1,500,000 tons to 5,500,000 tons. These stocks were made up of supplies domestically produced, purchased in the market, lend-lease, and other sources. If after V-E Day this stock should be fixed at 3,500,000 tons, it will leave 2,000,000 tons available for relief. This will, of course, affect only the size of the reserve stocks and not the food available for current consumption in Britain.

It is estimated that in the year following V-E Day our military food procurement will decline about 50 percent or approximately 4,000,000 tons. In addition we know that the Army has accumulated considerable stocks of combat rations in the European theater which will be available for civilian use.

In order to meet lend-lease shipping schedules the War Food Administration has had to accumulate a stock of food commodities.

Thus, approximately 8,000,000 tons of food can be released from the wartime pipe line or reserve for other uses. This will include 6,000,000 tons of food other than wheat.

Excluding wheat the estimated requirements of the armed forces for food during the first 6 months of reoccupation are 1,200,000 tons. UNRRA estimates its requirements for the same period at approximately 2,700,000 tons.

This would make approximately 6,000,000 tons of food available against requirements of 3,900,000 tons for the first 6 months of 1945. It seems, therefore, that European requirements will be met without very large drafts on the United States production in 1945.

That means that we must decide what we will do about the commitment of the United States Government to support farm prices contained in what is known as the Steagall amendment. If, as a result of reduced demand, the market price drops below the support price, Government must buy the surplus if it is going to support prices.

Domestic consumption will increase with the removal of all ration controls. Prior to the war we disposed of surplus foods through the school lunch program, the stamp program, and direct relief program. These programs, however, cannot absorb enough to maintain prices in the domestic market.

We must increase our exports, but we must realize there are difficulties.

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Our price level is higher than for similar commodities in other producing areas. The United Kingdom will be asked to make contracts for food in Canada, Australia, New Zealand, and South America. Russia has indicated a desire for machinery and machine tools but for few consumer goods.

We know that the civilian population of other nations have not consumed anything like the consumption of our people. As other nations return to full production and full employment, there will be increased demand for food abroad as well as at home. I have abiding confidence that ways will be found to make certain that we do not return to a policy of scarcity.

But here is the immediate and concrete problem: Congress has committed the Government to support prices but has not appropriated funds to carry out the commitment. In the light of the situation above described it is estimated that compliance with this commitment may require an appropriation of as much as \$2,000,000,000 in 1945.

I therefore suggest that the Congress be asked to prescribe methods by which the support price commitment shall be carried out and appropriate adequate funds for the purpose. Action is necessary at this time in order that the Food Administrator can establish quotas for the various crops and fix the support prices.

COMMENDS BARUCH-HANCOCK REPORT

Last November I requested Mr. B. M. Baruch and Mr. John Hancock to investigate and report upon the problem of reconversion. In March of this year they filed a report which was submitted by me to the various Government agencies to establish a pattern for action by them on the suggestions therein discussed. The report has been of inestimable value and should continue to be the guide for reconversion policies.

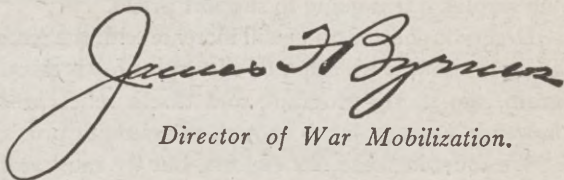
PRESENT INCOME AND EMPLOYMENT LEVELS SHOULD BE MAINTAINED

The fear of timid people may temporarily retard our return to full production and full employment. But it will be only for a short time.

Today America is stronger than ever before. We should make the maintenance of the present national income and high level of employment our goal—and achieve that goal.

I realize that in reporting at length upon plans for returning to civilian production there is danger of diverting the attention of the people from the tremendous tasks to which we must devote all of our efforts if we are going to contribute our part to the victory. But I have confidence in the common sense and sound judgment of the people and believe the knowledge that their Government has been preparing plans for peace will cause them to increase their efforts to bring about that peace.

Sincerely yours,


Director of War Mobilization.