

Miss Egbert,

This is a revised copy of the memorandum

I sent the Chairman last night.

W. T.

PROGRAM FOR TERMINATION OF WAR CONTRACTS

As the war production program nears a peak and the end of the war approaches, there is growing need for the development of plans for reconversion of industry to civilian production. At present about 70 per cent of all industrial production is to provide war goods and practically all construction activity is directly related to the war effort. The scheduled war program calls for expenditures of close to 7 billion dollars monthly for munitions and supplies; the amount of uncompleted contracts ~~and commitments~~ now outstanding may be about 75 billion dollars.

Already some parts of the war program are being curtailed, while others are still expanding. These shifts present in a small way some of the problems of reconversion which will be greatly magnified when the war actually comes to an end. The objectives in handling these problems should be to assure prompt and smooth resumption of civilian activities without interfering with military needs and to prevent avoidable unemployment. Following are a number of suggestions for studying and handling these problems:

1. The first essential is the establishment of a central authority with broad and definite responsibility for developing a program and for coordinating the work in the various government agencies that are concerned with reconversion problems.

2. Immediate attention should be given to the effect of shifts currently being made in the war program. Facilities and resources released by the termination or completion of existing contracts should be utilized for the production of other war products or of essential civilian goods. Further expansion of plant facilities should be avoided and also the construction of permanent housing in war-expanded communities should cease. A system of priorities should be established for allocating any available resources and material to civilian activities.

3. Legislation should be obtained as soon as possible to provide machinery for handling termination of contracts with a minimum of delay and of complex procedure.

4. The following principles should be observed in the scheduling of contract termination when the time comes for drastic curtailment of military requirements:

- a. Contracts for civilian type products for which there is likely to be an immediate civilian demand should be terminated as quickly as possible.
- b. New contracts for goods that the Government may need for relief, lend-lease, or other purposes should be given where possible to former suppliers of war goods for which contracts have been terminated.

- c. In localities where the effects of rapid termination of contracts might not be offset by other demands, in order to avoid serious unemployment contracts should be terminated more slowly even though the products being made are not needed at the time.

5. A Surplus Supplies Corporation or some such organization should be established to handle disposition of surplus inventories. This organization should take over supplies of unneeded materials, semi-finished products, and finished goods from the services and from war plants and should dispose of them in a manner that would be least upsetting to the markets and to prices. Information should be assembled periodically during the war as to the inventories of materials and products held by the services and by war plants.

6. Plans should be evolved for the disposition of Government-owned plants and equipment and for removal of Government equipment from private plants. An inventory should be made of war plants, classifying them according to location, size, nature of products, and adaptability to peacetime uses. Such plants and equipment as can be immediately utilized or easily converted to civilian production should be made available to private operators as quickly as possible, and for this purpose tentative arrangements as to terms should be made at an early date. A schedule should be worked out for the disposition of Government-owned plants with due consideration to employment needs in different localities.

7. Plans should be made to take care of the financial requirements of business during the conversion period. To some extent this can be handled through existing Regulation "V" procedure, but new legislation of the type already proposed by the services is also needed. Loans to industries needing financing should be provided as much as possible by private financial institutions; provision for Government guarantees would facilitate such financing. The Federal Reserve System is giving careful study to this aspect of the problem.

8. Consideration should be given to revision of tax laws to readjust taxes paid on war profits, so as to allow reconversion costs to be offset against war-time incomes; this could be handled through refunds or credits against new taxes. This procedure is preferable to permitting the accumulation of tax-free reserves without reference to post-war needs.

9. Provision should be made for initiating and coordinating studies of these problems, with particular emphasis upon their regional aspects. There will be great variation in the manner in which different regions are affected by conversion. In addition to the military services, the War Production Board, and the Defense Plant Corporation, various Government and private agencies are studying the problems raised by termination of war contracts. Agencies particularly interested in the regional aspects are the Federal Reserve System, Departments of Agriculture, Commerce, and Labor, and the Committee on Economic Development. The coordination of their efforts should bring about a saving of time and labor and produce more effective and comprehensive results.

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