

PRODUCTION MOVES AHEAD

6th

REPORT

TO THE PRESIDENT, THE SENATE
& THE HOUSE OF REPRESENTATIVES

By the Director of

WAR MOBILIZATION
AND RECONVERSION

April 1, 1946

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U. S. GOVERNMENT PRINTING OFFICE • WASHINGTON • 1946

LETTER OF TRANSMITTAL

OFFICE OF WAR MOBILIZATION AND RECONVERSION,

Washington, D. C., March 31, 1946.

The President.

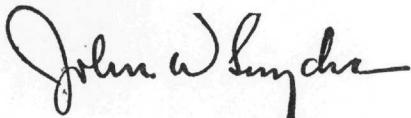
The Honorable the President of the Senate.

The Honorable the Speaker of the House of Representatives.

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

This, the sixth of the quarterly reports of this Office, I have called "Production Moves Ahead."

Respectfully,



John W. Blayden
Director.

LETTER OF TRANSMITTAL

Memorandum for Chairman of the Board
Board of Governors of the Federal Reserve System

Washington, D. C., December 10, 1933.

Dear Sir:—I have the honor to transmit herewith a copy of the letter of December 10, 1933, addressed to the Board of Governors of the Federal Reserve System, by the Secretary of the Treasury, transmitting the report of the Committee on the Reconstruction Finance Corporation, which is herewith enclosed.

Very truly yours,

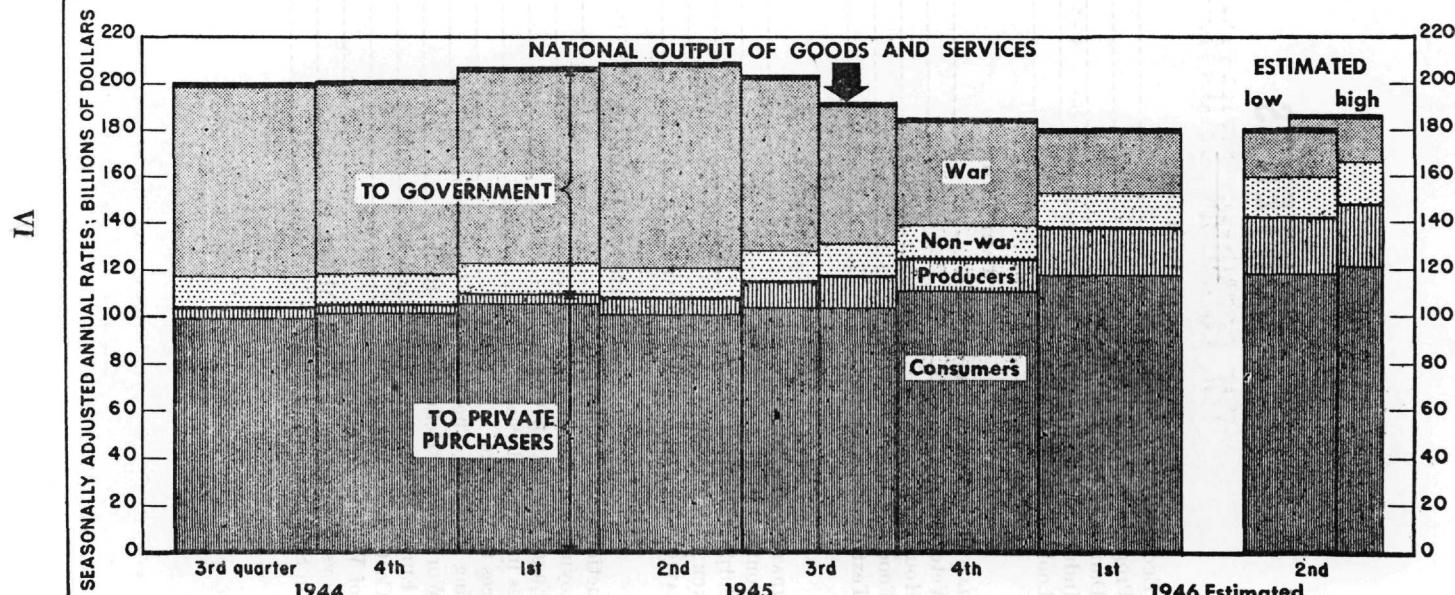
Franklin D. Roosevelt

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PRODUCTION GOES CIVILIAN

Government war buying shrinks by three quarters in less than a year;
civilian share of national output is now over 85%.



PART ONE

THE ECONOMIC SITUATION

PROGRESS IN PRODUCTION

In the first 3 months of 1946 the Nation met and surmounted many difficult obstacles on its road to full civilian production. The quarter ends with industry producing at a volume unprecedented in our peacetime history.

As the year began, Phase I of reconversion—the physical change-over of plants to peacetime use—had been virtually completed. The more complex adjustments of Phase II—the period in which men, materials and components must be brought into harmonious balance for full production—were just beginning to be felt.

In meeting the turbulent economic problems inevitable in any such period of major readjustment, the Nation made solid gains:

Major issues of wage and price adjustment have been met in a way to stimulate production without losing vital ground to the force of inflation.

Labor-management contracts established in many major industries under collective bargaining should assure uninterrupted production.

Vigorous programs have been formulated to meet the most critical shortages, most notably in textiles and housing.

The measure of the Nation's success is that, while it has been meeting these problems—even while it has been beset with temporary stoppages of production in vital areas—production for the civilian market continued steadily to increase.

Total civilian production now stands at the highest level ever reached by the Nation, in war or in peace: an annual rate of more than \$150 billion.

Nonagricultural employment is higher now than before VJ-day: Total employment, exclusive of those employed on farms, was 44,700,000 in February.

Private wage and salary payments, which dropped to an annual rate of \$75 billion after VJ-day, have now returned almost to the pre-VJ-day level of \$82 billion.

But the difficulties of the quarter have also taken their toll. While production has been good, it would have been even better if labor-management disputes had not put out the fires in steel furnaces, stopped some automobile assembly lines, curtailed production of electric equipment and other vital components. These losses slowed down the flow of consumer goods to the market and increased the inflationary pressures which stem from shortages in the face of huge demand.

The quarter has been sobering and difficult, but tremendous gains have been made and, as a result, we are moving steadily and swiftly toward our goal of an ever rising standard of living, creating hundreds of thousands of new jobs as we move. (See frontispiece chart, Production Goes Civilian.)

FOURTH QUARTER, 1945

During the last 6 months of 1945, Government purchases of goods and services for war use, including the pay rolls of the armed services and war agencies, were reduced by three-fifths—\$50 billion. Almost 5 million veterans were demobilized during the fourth quarter alone.

As war production fell and demobilization poured men and women into civilian life, it was feared that unemployment would rise sharply. Perhaps the most striking development of the fast-moving events of the fourth quarter was that this sharp rise in unemployment did not occur.

There were two reasons. One was the withdrawal of some 3 million women and youths from the labor force during the last 6 months of 1945, together with the temporary withdrawal of some 2 million veterans, who were resting, reestablishing homes, or attending to personal affairs before looking for jobs.

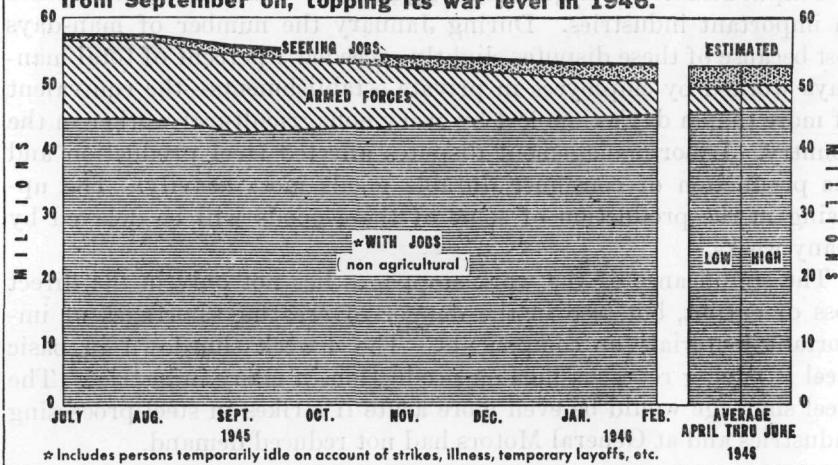
The second reason was the extremely rapid upturn in industrial employment. Nonagricultural employment had fallen by only about 2 million after VJ-day. During the fourth quarter it rose so rapidly that early in January it was above the VJ-day level. (See chart, Employment in Transition.)

FIRST QUARTER, 1946

By the first quarter, the shift out of war production was largely completed. War pay rolls and Federal purchases were down more than one-third from the already sharply curtailed fourth quarter, to a rate of \$26 billion or less. Rapid demobilization continued. Most of the newly discharged veterans, and some of those formerly discharged,

EMPLOYMENT IN TRANSITION

Labor force fell rapidly after VJ; employment rose from September on, topping its war level in 1946.



joined the civilian labor force. This inflow of more than 3 million veterans from the fourth quarter to the first was balanced only in part by the withdrawal of 800,000 wartime workers. As a result, about 2,500,000 were added to the civilian labor force.

But civilian output and employment also rose rapidly. The size of the civilian market, the need for increased inventories and added equipment, and the need of foreign countries for our products all stimulated output. Ordinarily, the rate of consumer and business purchases together would have fallen by \$10 to \$12 billion after a Christmas boom as large as that of 1945. But this year the upsurge in demand and in output was such that private expenditures in the first quarter actually equalled those of the Christmas boom, according to preliminary data now available. Consumer purchases fell, but those by business enterprises rose. Exports rose sharply; construction, though still very low, showed an important gain; and business purchases both of equipment and of goods for inventories increased.

This rise in nonwar production absorbed almost all of the readily available labor. Total nonagricultural employment increased by approximately 1,500,000 between the fourth quarter and the first—a bigger rise in employment than any we experienced even during the war in a comparable period. The number of persons without jobs and actively seeking them—although continuing to rise during the rapidly shifting conditions of the transition—was still below 3 million in

February. In addition, a substantial number of persons with jobs were temporarily idle, because of illness, layoffs, labor disputes, etc.

Output attained its high level in spite of labor-management disputes in important industries. During January the number of man-days lost because of these disputes slightly exceeded 3 percent of total man-days worked by employees in private establishments—the equivalent of more than a day's time lost by every nonagricultural worker in the country. Labor-management disputes affected steel production and the production of consumer durable goods most heavily. The up-swing in the production of some of these goods will be delayed by many weeks.

The significance of the work stoppages lies not only in the direct loss of output, but also in the danger of creating shortages of important materials or components. The 4-week shutdown in basic steel is having repercussions on production in many industries. The steel shortage would be even more acute if strikes in steel-processing industries and at General Motors had not reduced demand.

PROSPECTS FOR THE COMING QUARTER

During the coming quarter, Federal expenditures will continue to decline. Nonwar output and employment will continue to rise. And while the increase in supplies will somewhat relieve the pressures of excess demand, heavy inflationary pressures will continue.

Federal war pay rolls plus purchases of goods and services from private business for military use will probably fall by a fifth, to an annual rate of \$20 billion. Approximately 1,500,000 additional members of the armed forces will be demobilized during the quarter but the net decline of the armed forces will be somewhat less, since inductions are continuing.

No longer will demobilization be counterbalanced in large part by the withdrawal of war workers from the labor force and by the temporary withdrawal of veterans. Each decrease in the armed forces will be accompanied by a substantial increase in the civilian labor force.

Barring further serious work stoppages, however, production should rise rapidly during the second quarter of 1946, and jobs should be available for most of the added workers. There were 2,700,000 active jobseekers early in February; there may be 3,000,000 now. The number may increase within the next 3 months, but the average for the coming quarter will probably not be above 3,500,000.

The prospect of increased output has been greatly improved by the collective bargaining agreements reached in many industries during the first quarter of the year, and the special steps that have been

taken to put price policy on a flexible basis and remove or prevent bottlenecks in production and distribution.

The supply of goods and services available to consumers, therefore, should continue to increase during the coming quarter. Exports will continue, construction activity will increase, and so in all probability will business purchases of equipment and of goods for inventory. As a result, the total output of goods and services in the Nation, although it may fluctuate over short periods, will continue at a high level. It is quite possible that the increases in civilian output may more than offset reductions in Federal pay rolls and purchases, and result in a total national output several billion dollars above the level of the quarter just ended.

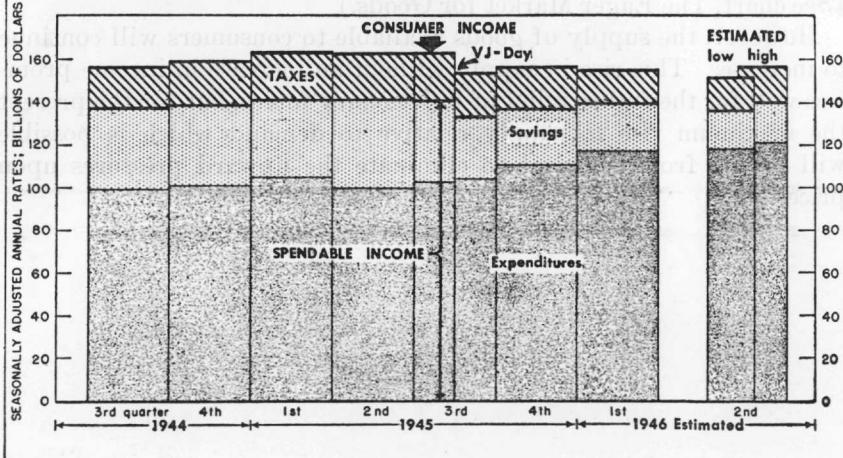
It is important not only that output rise, but that output of certain types of goods and services rise with especial speed. Most important, every feasible device must be used to accelerate housing construction.

The increase in supplies available to civilians will reduce inflationary pressures which now are very serious. Only the vigorous efforts of the Federal agencies concerned, and the cooperation of businessmen and consumers, have kept prices from rising rapidly.

The reduction in the Federal deficit is aiding in the campaign against inflationary pressures. The high level of national income and output is holding Federal tax receipts above expectations, and war expenditures are being cut faster than had been anticipated. As a result, the deficit for the fiscal year ending June 30, 1946, will be several billion dollars less

THE EAGER MARKET FOR GOODS

Consumer expenditures rise, savings drop, as more goods become available.



than was anticipated when the President delivered his budget message. During February and March, when heavy tax payments are made, revenues exceeded total expenditures. They will again fall below expenditures in later months; but as expenditures continue to decline, the amount of the current deficit will steadily shrink.

This will reduce inflationary pressures, since the excess of public expenditures over receipts augments private incomes and hence private demand. But even with the shrinking deficit, the heavy excess of private demand over available supplies will continue.

The largest component of private demand—consumer demand—depends mainly upon the level of consumer income. In spite of the reduction in the take-home pay of wage earners, total income of the individuals and families of the country, after they had paid their taxes, was only slightly lower in the first quarter of 1946 than before VJ-day. Reduction of Federal income-tax rates contributed to this high level of consumers' spendable income. Special Federal payments, notably mustering-out pay and to a lesser extent unemployment compensation payments and veterans' readjustment unemployment allowances, increased sharply. Before VJ-day the three types of payments together were running at a rate of only \$700 million per year. During the last quarter of last year and the first quarter of this year, that rate was up to \$6 billion per year. Mustering-out pay alone in the first quarter of 1946 was at a rate of over \$4 billion per year.

During the coming quarter, total consumer income will be no higher than the first quarter level and probably slightly below. For while production for private use, and therefore the income derived from it, will rise, the decline in mustering-out pay, Federal salary payments, and Federal purchases of goods and services will be at least as great. (See chart, *The Eager Market for Goods*.)

However, the supply of goods available to consumers will continue to increase. This rise in supply without an increase in income promises well for the future relief of inflationary forces, but for the present the maximum rise in supply relative to demand which is possible will be far from sufficient to eliminate the upward pressures upon prices.

DANGER OF INFLATION

The pressure toward inflation will remain for months to come the single most serious threat to successful completion of reconversion.

1. **The upward pressure against price ceilings** has not relaxed. During the first quarter of 1946, food and commodity prices continued to inch higher. The wholesale cost of food went up during the quarter so that on March 15 food prices were 1.6 percent higher than those on December 15, 1945, and 3.1 percent above those a year previously. The index of prices for all commodities other than farm products and food was higher on March 15 than on any preceding date this year, and was 2.5 percent above the corresponding period in 1945.

2. Huge deferred demands, added to normal demands, have created a market bigger than ever before. These include the needs of individuals who had to postpone buying essentials during the war and business needs for plant and equipment. With the removal of wartime restrictions and motives for "doing without", demand has jumped to a new high. Overseas, there are commercial markets and enormous requirements for relief and rehabilitation supplies.

3. Business and individuals have unprecedented purchasing power.—Income payments have held up well and at the year's end business held \$80 billion in liquid assets, and individuals \$145 billion, a total of \$225 billion in liquid assets (i. e., currency, demand deposits, time deposits, and U. S. Government securities). This compares with the total liquid assets held by business and individuals of \$35 billion at the end of 1939, and of \$81 billion at the end of 1941, and is the largest reserve ever accumulated in this country.

The element of speculative activity, apparent immediately after VJ-day, instead of months later as after World War I, must be recognized as having played a part in the continued up movement of such commodity markets as those in rye and cotton. The wholesale price of cotton has risen 4.1 cents per pound in the last year, 3.4 cents since VJ-day.

4. Consumer and business buying continues at a high level.—Consumer buying has continued high during the quarter and stands at the highest point in our history. Expenditures by business likewise remain high. While buying continues heavy, it has not so far been

unrestrained. With prices uncontrolled, it might become so. Business and consumers might use their reserves to outbid each other for scarce goods, and to beat rising costs. This is the danger inherent in the widespread shortages coupled with excessive demand and high available purchasing power. The Government must attack the problem with all available means, including fiscal measures, but continued price control must be a fundamental safeguard for consumers and business alike against inflation.

WEAPONS AGAINST INFLATION

To combat the inflationary pressures that lie ahead while production is increasing to meet demand, the first prerequisite is prompt renewal of the stabilization legislation itself. The necessity for promptness can hardly be overstressed. Delay promotes uncertainty. The mere possibility that the stabilization powers will be weakened can undermine the program in several ways. It gives every seller an incentive to hold his product off the market in order to take advantage of possible price increases and it gives every buyer a strong incentive to buy as far ahead as he can. Thus, anticipation of higher prices creates shortages that would not exist if people knew that stability would be maintained.

These artificially induced shortages, moreover, are likely to create such pressure to obtain materials as to break down compliance. If hoarders secure goods which ought to be flowing into normal trade channels, business firms deprived of goods which they wish to use for actual manufacture and sale may be tempted to pay more than ceiling prices rather than curtail their activities and operate at a loss.

Speedy action to renew stabilization authority will give business and the consumer the assurance they are entitled to have that conditions will be kept stable.

SUBSIDIES

In addition to the stabilization legislation itself, supplementary action by the Congress is required to continue the powers that were needed during hostilities and are still needed to reinforce the stabilization program. Authorization to pay subsidies during the fiscal year 1947, so as to make sure that high production can be sustained at stable prices, has been requested by the President. He has also requested that payment of food and non-food subsidies together be authorized up to a total of \$2,051 million for the fiscal year 1947, as compared to an authorization of \$2,416 million for the current fiscal year.

The subsidy program will be terminated as rapidly as possible, but it is important that this major weapon in the stabilization arsenal be kept standing by, ready for immediate use.

WAR POWERS ACT NEEDED

The Second War Powers Act is now due to expire on June 30, 1946. Its extension until June 30, 1947, has been requested by the Administration. The House has approved and sent to the Senate a bill which would extend the act until March 31, 1947. The Second War Powers Act is the statutory basis of present controls over inventories, exports and for the priority and allocation powers which permit the channeling of scarce materials into such basic and important consumer needs as low-cost clothing and housing.

The power to break bottlenecks by guiding scarce materials into essential uses so that lack of them need not impede production is solely dependent upon this law. Such authority is essential to rapid expansion of production in many important areas and to insuring that the goods thus produced will flow to the consumer markets instead of being hoarded. Thus it is vital to the relief of inflationary pressure.

Finally, the Agencies that administer these laws, primarily the Office of Price Administration, the Civilian Production Administration, and the National Wage Stabilization Board, must be given adequate funds to do their jobs. A control administered inefficiently because of lack of funds is hampered in carrying out its purpose. Delay in making decisions, laxity in enforcement, and all the other consequences of understaffing and overburdening the agencies can only threaten the success of our reconversion and relax these important barriers against inflation.

PRICES AND PRODUCTION

Since VJ-day, civilian production as a whole has increased by \$20 billion, annual rate, and now has reached the highest peacetime peak in our history. Total non-agricultural employment is higher than before VJ-day. If general price control were actually holding back production and stemming the flood of civilian goods which we have the potential capacity to produce, as some persons have argued, developments since VJ-day would have followed a far different pattern.

The expansion of production possible since VJ-day has, however, been limited by practical problems. Workers were not always available where needed; some materials were scarce. Tasks of organization and physical reconversion were time-consuming and necessary, not only where plants were changing over from war to peace output but also where substantially the same article was manufactured for peace as for

war. Many smaller companies, construction firms in particular, which were restricted in their business by the war economy, were preparing to start up in business again. Labor was being retrained and equipment rearranged in different assembly lines. Channels of distribution, more various in peacetime than in war when the Government provided a single vast market, were being filled again after weeks, often months, of effort.

Business concerns would be hindered rather than helped by uncontrolled prices. Rising prices have a disruptive effect on the economy. When all prices are rising, business is inevitably thrown into a competitive scramble for supplies; hoarding is general. It is important to the businessman, faced by such a situation, that he buy raw materials and inventories before prices advance further. On the other hand, if prices are rising, producers are inclined to hold back finished goods from the market in the expectation of higher and higher profits. Real shortages are thus aggravated by artificial shortages.

It is true that as conditions change, output of a particular commodity may be threatened unless its price ceiling is raised. In recognition of this, price increases have been granted specifically to break production bottlenecks that were holding back reconversion, and where price was the basic difficulty. The fact that price increases helped to step up output in these cases does not mean that a general price increase would increase all production.

How Soaring Prices Operate

The record of the past shows that soaring prices do not stimulate sustained, steadily increasing production—the only kind of production that will fill the present gap between supply and demand; the only production that can take us forward to the expanding economy we are beginning to build. Under inflationary conditions, uncontrolled prices rise far faster than production, and actually cause production to fall off.

The factors limiting the expansion of civilian production since VJ-day—physical reconversion, manpower and materials shortages, problems of organization and labor-management disputes—are beginning to diminish in importance. During the rest of the year, civilian production should be able to expand fast, for the job of physical reconversion is virtually completed, the manpower situation is improving and will continue to improve with the net release of 2 million more persons by the armed services, and many materials shortages have eased. Gradually, supply will begin to approach balance with demand. At that time, it will be possible to remove price controls, since runaway inflation no longer will threaten.

INDUSTRIAL RELATIONS AND WAGE-PRICE POLICY

Policies on wages, prices, and industrial relations are of major importance to reconversion. Whether we have extreme peaks and valleys of business, or move steadily toward higher levels of production and employment will be determined in large measure by their adequacy.

The three—wages, prices, and industrial relations—are intimately intertwined. Relations between management and labor develop within a wage-price framework and the results of collective bargaining ordinarily lead to changes in wages, or prices, or both.

The situation which confronted the Nation on VJ-day was a difficult one. Wages and prices had been closely controlled for more than 3 years. During the war period there had been no normal collective bargaining, and pressures were built up which ordinarily would have found expression through this channel. With VJ-day, dislocations occurred in the labor force. Many hundreds of thousands of war workers were displaced, millions of others found their weekly earnings sharply reduced. The readjustment to a peacetime life was bound to be difficult.

A large part of that readjustment is now behind us and it has been accomplished without a disastrous set-back for our economy. This is particularly gratifying when we consider the magnitude of the undertaking. There have been industrial disputes, as there always are under our American system. But, with a few exceptions, the major ones have been settled with surprising speed. We are in a position to square away now for a rapid expansion in production.

The broad objectives of the wage-price policies adopted since VJ-day are clear. We have sought to avoid price inflation while permitting, as far as possible, the operations of collective bargaining to determine wage rates that are consistent with stabilized prices. Such an undertaking was necessarily complex and difficult. But it had to be done, both to provide an adequate basis for industrial relations and to bring about a wage-price relationship that would stimulate and sustain high-level production.

Viewed more specifically, our wage and price policies have been directed to the accomplishment of three related objectives:

(1) To hold the price line and thus avoid a runaway price inflation.—This has been done. Price increases have been granted and are to be expected in a dynamic economy. But the line in general has been held.

(2) To permit increases in wage rates through the operations of collective bargaining.—This has been done. The extent of the accomplishment has been obscured by the concentration of public attention on the relatively few difficult and highly publicized cases. But upward revisions of wage scales have been voluntarily agreed upon by management and labor in literally thousands of cases since VJ-day. More than 9 million workers have received wage increases since VJ-day.

There are, to be sure, other wage adjustments yet to be made during the reconversion period. But in many industries and areas, management and labor working together have already developed new wage patterns more nearly consistent with a postwar high production economy. Wage rates are now being approved at these voluntarily established levels; and this adjustment, so difficult and yet so necessary for a successful transition, has been accomplished without serious dislocation of the economy.

(3) Within the framework thus established, to minimize the extent and duration of industrial disputes which inevitably follow in the wake of war.—Industrial unrest is inescapably associated with the vast dislocation of the labor force and the business uncertainty that accompany the return to a peacetime economy. In the present instance, this understandable ferment was increased by pressures which had been built up under the strict wage-price controls of the war years. (See chart, Strikes in War and Peace.)

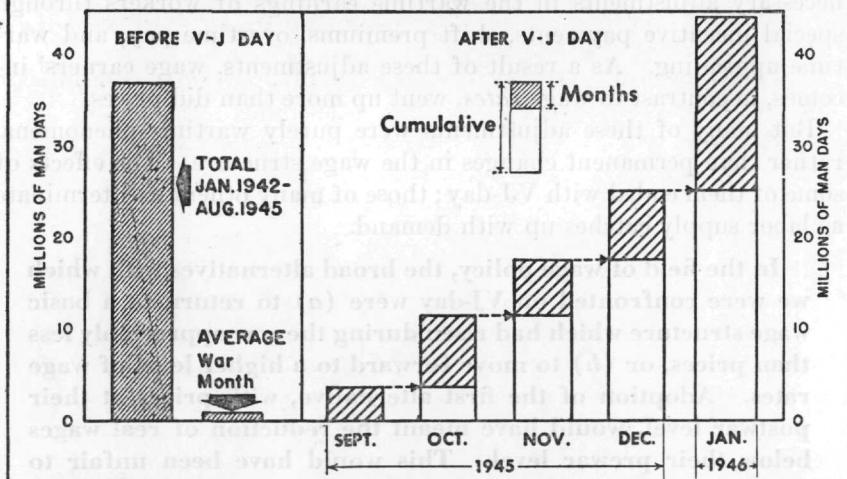
It is difficult to measure the degree to which we have succeeded in minimizing the economic consequences of industrial unrest. Major disputes in such basic industries as oil, steel and meat packing have been settled with reasonable promptness on terms recommended by fact-finding boards, or by the President. Hundreds of others have been resolved through the efforts of the Conciliation Service of the Department of Labor. Most major industries have now completed bargaining and are in production. During January, more than half as many man-days were lost as a result of labor-management disputes as were lost throughout the entire war, but in March the losses had declined and were almost negligible.

Without doubt, work stoppages have delayed our reconversion program. In a few instances, parties to wage-price disputes have revealed a shocking disregard for the public interest. These

STRIKES IN WAR AND PEACE

Industrial disputes have cost more man hours since V-J Day than in all the war years.

MAN DAYS LOST BECAUSE OF STRIKES AND LOCKOUTS



have, however, been the exceptions. Improved labor-management cooperation is essential if we are to achieve the high level of prosperity almost within our grasp, and there is every reason to believe we shall have it.

BEHIND THE WAGE AND PRICE POLICIES

Wage-price relationships have a primary influence upon the behavior of our whole economic system. If prices are too high in relation to wages, consumers cannot buy the products turned out by our farms and factories; the economic machine stalls for want of customers. If wages are too high in relation to prices, employers cannot realize a fair return upon their investments and the economic machine stalls for want of active enterprisers.

The particular relationship between wages and prices that will stimulate maximum output and employment changes constantly as improved techniques increase productivity. As productivity increases, the gains in terms of goods and services can be passed on to the consumer either through lower prices or through higher incomes or by a combination of the two.

Because it directly affects policy determination, it is important to note what happened to these wage-price relationships during the war. Throughout the war years, both wages and prices moved slowly upward under strict control by the Government. It is a fundamental fact, however, that wage *rates* did not advance during the war as

rapidly as did prices. This was due essentially to the operation of the Government Wage Stabilization program.

The War Labor Board, during its existence, permitted relatively few upward revisions in general wage rates. Instead, it encouraged necessary adjustments in the wartime earnings of workers through special incentive payments, shift premiums, overtime pay, and wartime upgrading. As a result of these adjustments, wage earners' incomes, in contrast to wage *rates*, went up more than did prices.

But many of these adjustments were purely wartime phenomena, rather than permanent changes in the wage structure. The effects of some of them ended with VJ-day; those of many others will terminate as labor supply catches up with demand.

In the field of wage policy, the broad alternatives with which we were confronted on VJ-day were (a) to return to a basic wage structure which had risen during the war appreciably less than prices, or (b) to move forward to a higher level of wage rates. Adoption of the first alternative, with prices at their postwar level, would have meant the reduction of real wages below their prewar level. This would have been unfair to workers and dangerously disruptive to peaceful industrial relations. It would also have perpetrated a wage-price relationship which would have impeded the operation of the whole economy in the future.

A new wage level more nearly in keeping with the new price level obviously had to be established. Moreover, the profit position of industry as a whole was, with some exceptions, sufficiently high to permit wage increases during the transition period with the least possible economic dislocation.

In view of this general situation, the post-VJ-day wage-price policy, enunciated in Executive Orders 9599 and 9651, undertook to hold prices relatively stable and to permit collective bargaining to determine a level of wages consistent with them. Since there were wide variations in the financial positions of various industries and companies, as well as in the historic wage patterns of various communities, the Government clearly could not establish a uniform wage pattern for the country as a whole. What it could do and what it did do in the period from VJ-day to February 14, was to control the rise in the level of prices while freeing wages of control so long as wage increases had no price consequences. By this means, a more normal balance between prices and wage rates was achieved through collective bargaining.

An adjustment of this magnitude and importance could not be accomplished without some difficulty. Not all companies, nor all industries, were in the same financial position. Wage-price relation-

ships also varied. It was therefore inevitable that in some instances the establishment of a new wage pattern would put serious pressure upon some prices. In a few cases, notably in that of steel, price increases had to be granted.

It is clear that the decision to hold the price line placed a ceiling upon the new level to which wages could rise. However, it was an open question how long the price line could be held without more direct wage controls. Once a more satisfactory wage-price relationship had been achieved, it was necessary to stabilize the new situation.

PRESENT WAGE-PRICE POLICIES

The present wage and price policies, as outlined in Executive Order 9697 on February 14, are designed to deal with a situation in which collective bargaining in important sections of the economy has established wage levels appropriate to current prices. The policies are, therefore, based upon the principle of accepting as a pattern for guidance in approving wage adjustments in a given industry or locality, those which have already been voluntarily worked out. There are parallel provisions dealing with inequities.

More specifically, the policy provides that the National Wage Stabilization Board shall approve any future wage increase which conforms with these established patterns, and that OPA shall grant price relief when approved wage increases cause hardship to an employer.

To expedite the administration of this policy, the Office of Economic Stabilization has been reestablished and both the National Wage Stabilization Board and the Office of Price Administration have adopted streamlined procedures. The Wage Stabilization Board will give pre-approval of wage adjustments to the maximum extent possible. As the Board is able to identify industries and areas where wage patterns have been established, it will issue orders giving prior approval to any wage increase conforming to the indicated pattern. By this means, both management and labor will be informed in advance of the limits to which their wage bargaining can go and the number of individual cases that come to the Board will be reduced.

The Office of Price Administration has also streamlined its procedures in line with the new policy. Priority is given to industry-wide adjustments, this being the most efficient and expeditious way of handling large numbers of individual cases at once. Similar priority is being given to acute supply emergencies, both industry-wide and in individual firms, and to actions to stimulate larger output of low priced goods. Methods have been developed for quickly adjusting data already on hand to reflect current operating conditions, and simplified forms for telegraphic response have been designed for use where additional data are indispensable.

In the case of some products of lesser importance in the economy, simple formulas have been adopted for interim price action covering industries or groups of firms where adequate information for final action is lacking.

As a means of concentrating its limited manpower on the more important cases, OPA is also endeavoring to work out a program to exempt from price control additional commodities which are not significant in the cost of living or in business costs, and to provide for some extension of automatic self-pricing by business in commodity fields where uniform pricing was not the rule and where looser pricing methods would not substantially threaten general economic stability.

The results of such streamlining were illustrated by the rapid handling of price adjustments in basic steel and the steel processing and fabricating industries. Price increases covering the whole field of basic steel products were issued within 2 weeks after adoption of the new wage-price policy and the settlement of the steel wage issue. By the third week in March, additional price adjustments had been made for 10 major branches of steel processing and fabrication and for miscellaneous machinery products in which steel was a large element of cost.

This wage-price policy is designed to meet the needs of the country while inflationary pressures continue. The adoption of the "pattern" standard for wage adjustments should provide sufficient flexibility to enable employers and employees to bargain more effectively over wages. Granting price relief to industries and firms who are experiencing hardship will enable them to produce needed goods at a reasonable profit. The effect of the revised policy on living costs as a whole should be small. If work stoppages and plant shut-downs are at a minimum in the months ahead, supply will gradually begin to approach demand in industry after industry. As this occurs, controls can be removed.

IV

LOOKING AHEAD

In meeting the crucial problems of the quarter just past, the Government has held firmly to its two chief goals of the transition period, (1) to increase and sustain production, (2) to restrain inflationary pressures until as a result of rising output supply begins to approach balance with demand.

Definite progress has been made under the wage-price policies which are the key to the program. We have provided a flexible framework within which labor and management can resolve their differences and can work together to achieve that increased output which alone can place our economy on a basis of sound expansion.

We have reason to be optimistic about the future. The stresses and strains to which our economy has been subjected since VJ-day have proved it is healthy and resilient. Behind the headlines about the more dramatic work stoppages, steady progress has been made; mass production of many peacetime goods has been attained. As we continue to go forward we must keep our goals firmly in mind and settle our future problems, as we have those of the past quarter, in the light of the objectives the Nation has set—high production, a sustained high level of employment, and increased opportunity for business, workers, and farmers to derive the benefits of a steadily rising standard of living.

We have some of the tools we need. On February 20 the President signed the Employment Act of 1946, which establishes a long-range national policy of promoting maximum employment, production, and purchasing power. Before this policy became law, it was discussed thoroughly in committee and on the floor of the Senate and the House of Representatives, as well as by industry, labor, agriculture, State and local governments, and individual citizens. Under this act, the Nation now has an effective implement to foster the free and efficient functioning of our competitive system.

The Employment Act directs the establishment in the Executive Office of the President of a Council of three economic advisers whose responsibility it will be to analyze and interpret economic develop-

ments, to appraise programs and activities of the Government in the light of the declared national policy, and to formulate and recommend national economic policy. The President will make an annual economic report to the Congress. A Joint Committee of both Houses will consider the recommendations of the report.

In this way, the Executive and Legislative branches of our Government will have at their joint disposal timely and authoritative information on economic developments and economic trends, on the basis of which careful plans can be laid to meet changing needs of production and employment.

The Employment Act of 1946 will be of great help in the long run, but for the short run we need other tools. The previous portions of the report have discussed the powers we need to prevent inflation and stimulate total production. There are certain special problems which must be dealt with individually. Given the tools, we shall obtain the production necessary to meet such grave shortages as houses for returning veterans and an increasing flow of reasonably priced textile products. We shall export the food necessary to lessen starvation in Europe and Asia. We shall continue the programs aiding veterans as they re-enter civilian life.

In the succeeding sections of the report, the policies and programs with which we are attacking these special problems are outlined.

PART TWO

SPECIAL PROBLEMS OF TRANSITION

VETERANS

Between VJ-day and March 31, 1946, about 8.5 million persons were released from the armed forces—nearly 5.5 million in 1945 after VJ-day and almost 3 million during the first quarter of 1946. During the first half of 1946, the problems of readjustment for veterans will be most acute.

Veterans are faced by the same problems that confront all citizens—finding a job, finding a place to live and the attainment of reasonable security. Their welfare depends basically upon the general health of the economy.

These veterans, together with those demobilized earlier and those still to return, are one of our most valuable national assets. They are young, active, and self-reliant. As a group, they will be the core of the work force which we need to attain high levels of production.

During the period of demobilization—and particularly during the next few months—a major task facing the country is to turn this potential asset into an actual one. If jobs are available for all of the veterans who want to work, the task will be well done. The Federal Government is doing its share by setting policies designed to stimulate the rapid expansion of production and employment in private industry, but it is up to the community to help the veterans find the right niche.

But readjustment of veterans means more than creation of job opportunities. Many of them have never had a job and need advice; others had their education interrupted. Many have handicaps that make the entire process of readjustment difficult. Some veterans need hospital care to heal physical and mental wounds incurred in service. Hundreds of thousands of veterans cannot find a place to live. Federal, State, and local governments have therefore established an array

SERVICES TO VETERANS

Here is the percentage increase in the number of veterans since VJ Day (to March 1).

Here is the increase, during the same period, in the number of veterans receiving:

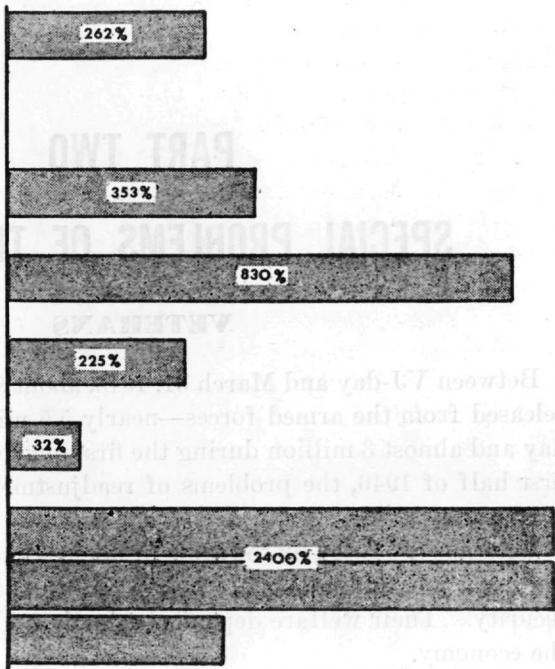
Loans with Federal guarantee,

Education and training with Federal aid,

Vocational rehabilitation,

Care in Veterans' Hospitals

Readjustment (Unemployment) allowances.



of services, rights and benefits designed to help veterans in the readjustment process. (See chart, Services to Veterans.)

J OBS FOR VETERANS

Unemployment among veterans rose rapidly as men and women returned from service at the rate of over 1 million per month. While a large number of veterans took time out, many others began to look for work almost immediately. Not all of them were successful. About 500,000 veterans were paid a readjustment allowance for unemployment in the first week of 1946. By the middle of March, well over 1.6 million veterans were drawing these payments. Even though the average veteran has remained on the readjustment rolls for a relatively short period, the task of finding suitable civilian work has proved to be difficult for a large proportion of those released from service.

Veterans have been helped in finding work by Federal, State, and local agencies. The United States Employment Service has carried the heaviest part of the load. Between VJ-day and March 31, 1946, about 4.4 million applications for work were filed by World War II veterans at local employment offices. Jobs were found for 850,000 of them.

The war interfered with the educational plans of a large proportion of those in the armed forces. This was foreseen, and the "G. I. Bill of Rights"—the Servicemen's Readjustment Act—provides subsistence and other payments to veterans who wish to undertake courses of instruction. Special benefits are provided, under Public Law 16, to physically handicapped veterans who wish additional education or training. In December 1945, the educational provisions of the "G. I. Bill" were liberalized.

The number of veterans who are taking advantage of these educational opportunities has increased rapidly. On VJ-day, about 40,000 veterans—able-bodied and disabled—were in training either in schools or on the job. By the end of February, 167,000 veterans had returned to school and 39,000 more were in training on the job. In addition, 52,000 disabled veterans were receiving training assistance under Public Law 16—35,000 in schools and 17,000 on the job.

During the remainder of 1946, these numbers will continue to increase. Educational institutions will be crowded to capacity. The already acute shortages of teachers, equipment, and housing will seriously limit the number of students who can be admitted unless effective assistance is provided.

To ease the shortage of instructors, the Army and Navy are releasing a limited number of qualified university teachers ahead of schedule under the point system.

To meet the housing shortage, Congress has made about \$440 million available for the dismantling and transportation of temporary housing to new sites. Many colleges and universities have obtained additional housing under this program.

The Army and Navy have been requested to expedite the release of such items as laboratory equipment to colleges.

A directory of college and university vacancies is being drawn up for the use of all agencies concerned with educational counselling of veterans.

Steps to make on-the-job training programs of greater value to veterans have been taken. Many States lack the funds and personnel to establish effective methods for approving on-the-job training programs, a function assigned to them under the "G. I. Bill of Rights." Steps to assist the States are now under consideration. The Retraining and Reemployment Administration, in cooperation with all interested groups, is drawing up a set of standards, and the Veterans' Administration will, upon request, lend personnel to States to investigate the quality of on-the job training programs.

PENSIONS, INSURANCE, AND HOSPITALIZATION

Pension payments to disabled World War II veterans are mounting rapidly. On VJ-day, 640,000 World War II veterans were receiving pensions. By the end of February 1946, the number on the rolls had risen to 1,100,000.

National Service Life Insurance claims with a maturity value of over \$3 billion have been awarded to the beneficiaries named by deceased veterans.

Twenty-seven thousand World War II veterans were receiving treatment in Veterans' Administration hospitals at the end of February. Of these, about two-thirds were hospitalized for disabilities not incurred in service.

HOME, FARM, AND BUSINESS LOANS

During 1944 and 1945, few veterans made farm, home and business loans guaranteed under the "G. I. Bill." The number of guaranteed loans totalled only about 30,000 on VJ-day. In December 1945, however, the loan guarantee provisions of the "G. I. Bill" were liberalized. As a result, the rate at which loans are being guaranteed is rising rapidly. By the end of February, the number of loans guaranteed had risen to 88,000. About 90 percent of all loans guaranteed are home loans; 7 percent are business loans; only 3 percent are farm loans.

HOUSING

The Nation's housing shortage, already of a magnitude unparalleled in American history, is still growing. It will become more acute in the next few months.

In the last quarterly report of this Office, the housing emergency was described as one of the gravest problems, and the most acute shortage, affecting the economy during the reconversion period. The Administration recognized that a problem of such proportions must be dealt with as an emergency, with the same strength and daring that characterized the war production program.

During the first quarter of 1946, a program of the dimensions required by the emergency was drafted by the Housing Expediter and that part of the program which did not require new legislation was put into operation, and request was made of Congress for additional legislative authority. Until necessary legislation is enacted, it will be impossible to put the program into full operation.

The goal is for 2,700,000 homes by the end of 1947. (See chart, Housing Program.) The 1946 goal of 1,200,000 homes is five times as high as the 1945 production record, and represents nearly 300,000 more homes than were built in our greatest construction year. But the magnitudes are not disclosed in these statistics alone.

The achievement of the goal this year first requires the rebuilding of an industry disrupted by war; it requires the utilization of war-developed techniques in construction; and it means adaptation of war techniques to the production of materials. The aim is not merely to achieve the housing goals, but to achieve them under conditions of price stability that will leave the industry in a healthy condition, capable of supporting the national economy by maintaining uninterrupted high levels of construction.

THE TIME ELEMENT

The Housing Expediter has stated that each month's delay in getting the program started would cost 75,000 homes; each day's delay would mean a loss this year of 3,000 homes for veterans.

HOUSING PROGRAM: THE NEED, AND THE SIZE OF THE TASK

During the next two years 3,025,000 veterans and others will be seeking homes; Government program would provide maximum of 2,700,000

1 = 100,000 Home Seekers
1 = 100,000 Homes

HOME SEEKERS:

Veterans &
Non-vets. =

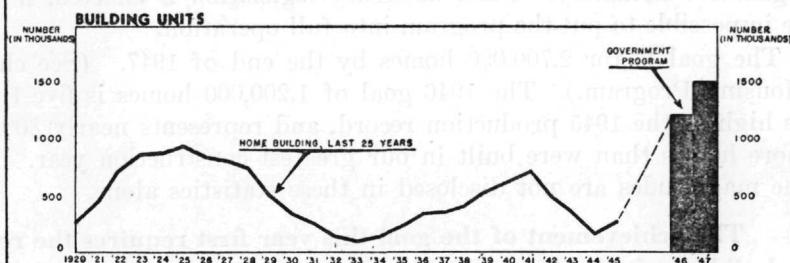


HOMES WE HOPE TO BUILD:

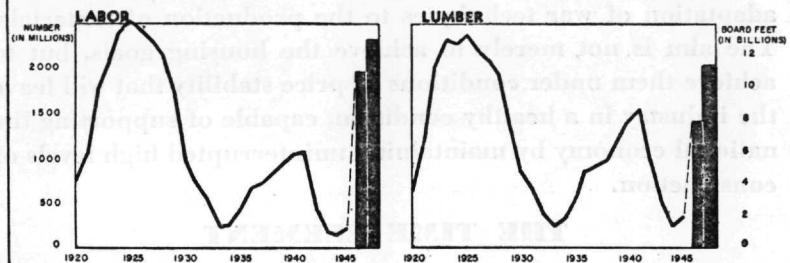
Programmed =



The program calls for more home building than we have ever done in our history,



but may use less labor and lumber than in previous years.



The National Housing Agency has coordinated its program throughout the country with the Veterans' Emergency Housing Program. Expeditors have been appointed for each NHA region; technical research is being undertaken on methods of prefabrication and production of new materials, on expediting construction methods; special emphasis is being given to labor recruitment, and field staffs are being enlarged throughout the country.

Building activity also is increasing. The Department of Commerce reports that in January residential construction started was five times as great in dollar volume as in January 1945; in February, residential construction started was eight times the dollar volume of the same month in 1945. Such an increase cannot be sustained, however, unless production of materials keeps pace; and such a rate of increase will be imperative if the housing goals are to be met.

BUILDING SUPPLIES

The first big task in launching the housing program is to achieve great expansion in the supply of building materials. Considerable progress has already been made but much remains to be done. Residential construction in 1946 under the emergency program will require five times as much in supplies as in 1945; in 1947 the residential building supplies needed to achieve the housing goal are eight times the supplies used in 1945. Nevertheless, the building materials required for the emergency program are less than was used in residential construction in the previous peak years. The same is true for the labor force, both on- and off-site. Both facts are realistic evidence of the feasibility of the emergency program. (See chart, Housing Program.)

The problem of translating a building program into needs for specific materials is as difficult as the problems connected, in wartime, with evaluating military programs in terms of specific materials. The houses to be built will be based on the choices of a multitude of purchasers, renters, builders; but to a large extent the types of houses will depend on the materials which are available. In prefabricating, the problems are immense, and the types of materials that will be used are subject to constant change until production ideas become actualities.

A few months back the supply outlook for common and face brick and for cast iron soil pipe—two prime essentials for home construction—looked rather discouraging. Various actions by Government and industry, however, have already stimulated a very substantial rise in the output of brick and soil pipe. A much greater rise is needed to meet the requirements of the housing program and other essential construction; but we possess the necessary capacity and the outlook is promising.

Clay sewer pipe is another basic item whose production has risen substantially since VJ-day but must rise much further to meet requirements in connection with the housing program. Cast iron radiation requirements are within the limits of existing plant capacity but far in excess of current production. Strenuous efforts must be made to expand this output rapidly and drastically.

The production of gypsum board is nearing capacity as a result of Government assistance in procuring paper liner; production of other wall board is likewise at high levels. But the housing program creates a tremendous demand for these materials and expansion of productive capacity will be necessary.

The Problem of Lumber

Lumber and lumber products currently present a most complex and difficult problem of supply. The production difficulties of the industry are being ironed out along with problems of channeling lumber to the most essential users. The outlook is improving, but at best the tremendous demand for lumber in 1946 will outstrip supply by a substantial margin.

Without premium payments and other Government assistance, production this year is not expected under the most favorable circumstances to exceed 30 billion board feet, of which 8 billion would be required for residential construction under the emergency program. CPA's goal is for 32 billion board feet, but all lumber requirements will call for more than 36 billion board feet. This would require an annual rate of lumber production 50 percent higher than that which has prevailed since VJ-day.

Every effort will be made to expand output and to insure adequate supply for housing and other most essential needs, including a small amount of highly important exports.

Exports Screened Down

A special inter-agency report issued by this Office on January 9 discussed in detail the lumber exports for 1945, which amounted to only a little more than 1 percent of total production in the United States. The exports of lumber last year had only a limited effect on supplies available for housing. Due to the continued shortage of all types of lumber, the careful screening being given to lumber export requirements today will further minimize the effect of these shipments on housing.

The total amount of lumber requested by foreign countries during 1946 is over 4 billion board feet. Civilian Production Administration and the Department of Commerce have reduced this to 1.3 billion board feet and further screening will be made during the year. Due to

the critical shortage of lumber, exports are currently far below the volume necessary to meet these screened needs. Whether exports can increase later will depend on supply. It is desirable to export a reasonable portion of supply. Such exports are necessary in exchange for a heavier volume of essential imports, not only of high grade construction lumber but of other scarce items, such as tin and sugar. In addition, exports to Europe help to restore bridges, build docks, and assist in other rehabilitation projects which will enable the war-torn countries to resume international trade. Only a fraction of the lumber exported is of the type used in residential construction, but some exports of this type are important in providing shelter for people in bombed-out areas of Europe.

GOVERNMENT ACTIONS TO INCREASE SUPPLY

Just as plant capacity was strained to produce the implements required for war, so now, in the interest of speed in meeting the housing goals, it will be necessary to strain all available capacity to produce adequate supplies of building materials. This will be true for conventional materials, as well as for substitute and new types.

This means that in addition to bringing all plants up to a capacity level of operation some plants must operate beyond the ordinary limits of efficiency. It also means resorting to relatively high-cost production in some cases. This will involve extra shifts, longer hours, and reactivation of idle high-cost capacity.

Operation of building materials industries under forced draft will mean the difference between success or failure of the program this year. Clearly these extra costs must be met if we are to get the increased output necessary for the success of the housing program. The Administration has proposed meeting these extra costs of extra production through premium payments.

The premium price plan is a device whereby the producers who incur higher costs would be reimbursed and thus be able to operate and sell their products at the prevailing market price. This device would make it unnecessary to raise the market price—a method which would involve giving an unnecessary bonus to the bulk of producers who have incurred no extra costs.

Holding Down Cost of Homes

Premium payments would be used sparingly, but without them the materials going into all homes would increase in price, and consequently the prices of the finished houses would be greater. One of the objectives of the housing program is to build houses at prices veterans can afford—whether they intend to purchase or to rent. The use of

premium payments will help to achieve this purpose. Through the use of premiums, also, submarginal producers who otherwise might not start up business would be enabled to operate profitably. Their aggregate output would make a sizeable and necessary contribution to the housing program and the rebuilding of a strong construction industry.

The payment of premiums would be required only during a temporary period, the period of the emergency when we have to satisfy the requirements by forced-draft operation. It is the price necessary to pay for speed. But this is a modest price—far cheaper than the alternatives.

Without authority to pay premiums considerable must be sacrificed from the program: (1) In the number of houses that can be built for veterans this year and next, and (2) in the cost of the homes that are built.

Another Government action indicated to eliminate materials bottlenecks is that of underwriting to an extent the cost of plant expansion for building materials. Some plants already are expanding, but in the case of others it may sometimes be necessary to obtain special assistance from the Government in reducing the risks involved. For this purpose, it is necessary to have at hand other implements of assistance that were so effective and necessary during the war.

It is to be expected that many of the new idle war plants can be converted to the manufacture of building materials, and of prefabricated parts for housing. Every encouragement should be given to this type of enterprise.

In addition to the proposed premium prices and financial aids for capacity expansion, the Government will continue to provide important assistance to private industry in such forms as priorities on equipment and raw materials, recruitment of manpower and release of surplus war property.

LIMITATIONS ON USE OF MATERIALS

Not only is it necessary to expand production of materials, but strict regulation of the use of the materials that are available will be necessary at least throughout 1946.

The Civilian Production Administration late in March announced a program for limiting use of building materials and is revising its regulation channeling materials into low cost homes and other essential construction.

The limitation order imposes certain restrictions on alterations and repairs to existing structures, and on commercial and industrial construction. Such a program, the Administration believes, not only will help to preserve supplies for construction activities judged to be appropriate under terms of the Veterans' Emergency Housing Pro-

gram but defines latitudes for essential repairs and upkeep of existing dwellings. At the same time it restricts use of materials in commercial and other construction. This means a postponement of deferrable or nonessential construction but will not eliminate the construction of necessary industrial facilities, schools, hospitals, and the like.

CPA Priorities Regulation 33, which went into effect on January 15, was designed to grant priorities assistance for the building of houses costing \$10,000 and less, or renting for \$80 per month or less, to which veterans of World War II are given preference. The regulation channels approximately 50 percent of existing building supplies into the houses built under these priorities. The acceptance of the program under PR 33 has been widespread, and through March 12, over 150,000 dwelling units have been granted priorities assistance. PR 33 is now being amended to place all housing under the jurisdiction of the Housing Expediter, permitting him to provide quotas in various price ranges, affecting various parts of the country, so that most houses will be in ranges below \$10,000.

TYPES OF HOMES IN EMERGENCY PROGRAM

Seven out of every twelve homes started under the emergency program this year will be conventional style homes. Three out of five built next year will be conventional types.

Greater reliance than ever before, however, must be placed on prefabricated mass-produced homes. This is the area of the industry in which the greatest expansion will be required this year, and in which lies the greatest need for temporary Government assistance. The Government must be prepared to give assistance in the development of materials that are based on resources in ample supply, expansion of capacity for production of prefabricated units, in the development of new types of mass-produced housing, and must be in a position to provide a guaranteed market for a temporary period. This will remove undue risks during the initial period of output.

The Housing Expediter contemplates that within a brief period we can create a mass-production industry comparable in size, in opportunity for investment and in employment, with the automobile industry of the 1920's.

This expansion, as well as the tremendous job of conventional type building which must get under way, is a job for private enterprise.

LEGISLATIVE PROPOSALS

To make the housing program effective and to permit the government to assist private enterprise in undertaking the biggest home building program in our history, legislation is required for several purposes:

To stop inflation in the prices of homes through control over speculative resales;

To provide funds for premium payments to obtain increases in the production of conventional and new types of building materials—\$600 million should be available for this purpose;

To make funds available to the extent necessary to stimulate technical research into new construction methods and materials;

To permit the construction of additional rental units and low-cost homes through insured mortgages up to 90 percent of value and recognizing the necessary current costs;

To extend through the period of the Veterans' Emergency Housing Program the authority for priorities and allocations.

Legislation covering these points is already pending in Congress. The House took adverse action on some vital phases of the program. The final form of the Administration's housing program, therefore, will not be known until the Congress has completed action.

I urge the Congress promptly to enact the legislation that is required to facilitate the building of moderate-priced homes for veterans, and to stop the rising inflation in the housing field. The proposals drawn up by the Housing Expediter and recommended by the President represent the *minimum* requirements for a program designed to start 3 million homes within the next 2 years.

III

FOOD AND FAMINE

During the war years the people of the United States ate more food, on a per capita basis, than ever before. Since VJ-day the demand for food in this country has continued at unprecedented levels and will stay high as long as consumers have adequate purchasing power.

In contrast, the world food situation is more critical than at any time since the first World War, and millions of people in devastated countries in Europe, as well as in many other parts of the world, today face starvation. (See chart, The World's Food Deficits.)

The President recently stated, "More people face starvation and even actual death for want of food today than in any war year, and perhaps more than in all the war years combined."

The situation has grown more critical in recent weeks. Harvests are months away.

There are several reasons for the darkening of the food situation:

- 1. Supplies in the destitute countries have declined throughout the war;**
- 2. Last year's crops were poor in southeastern Europe and in North Africa;**
- 3. There have been crop failures in South Africa, India, Japan, Formosa, Malaya, and elsewhere;**
- 4. Consumption during the past winter was too rapid in many countries in view of the limited supplies;**
- 5. Add to this a breakdown of transportation abroad, and it is not hard to understand why the international food situation has suddenly become more desperate.**

In the face of this situation, the Government during the past month has taken decisive steps to assure the meeting of commitments to export 1 million tons—35 million bushels—of wheat per month during the first half of the year. This will augment domestic supplies in the importing countries until their grain crops are harvested this summer and fall. Wheat and other grains are the foods most desperately

THE WORLD'S FOOD DEFICITS, 1945-46

Exportable supplies are short of import requirements for all important commodities.

 SUPPLY

World Import need

 DEFICIT

Wheat short
by $\frac{1}{4}$

 + 100 Million Bu.



Sugar short
by $\frac{1}{3}$

 + 1 Million Tons



Fats & Oils short
by $\frac{1}{3}$

 + 1 Billion Lb.



Rice short

by $\frac{3}{4}$

 + 1 Million Tons



needed—not only in Europe, but in China, India, Japan, and the Philippines. These are basic, inexpensive foods that can be easily shipped and distributed.

Wheat Surplus Has Vanished

American supplies of wheat were used to produce necessary food and livestock products. There is no longer any real wheat surplus. Only by drastically conserving at home, therefore, will the Government be able to meet its present export commitments, which are admittedly far below needs. Every effort should be made not only to meet present commitments, but to raise them if at all possible.

Some of the steps recently taken to step up wheat and flour shipments are:

1. A vigorous campaign to inform farmers, consumers, and food dealers of the urgency of the situation, and to ask their cooperation in conserving food—especially wheat and bread.
2. Prohibition of the use of wheat in making alcohol and beer.
3. Requirement that millers grind more flour from each bushel of wheat. This makes a slightly darker flour but will save 25 million bushels of wheat in the first half of 1946. This total, however, makes up only seven-tenths of 1 month's export commitments.
4. Reduction of feeding of wheat to farm animals, in order to save wheat for human food.

5. Perhaps the most important of all from the immediate standpoint, more railroad cars were made available promptly to move wheat.

It is very important that farmers and other holders of grain ship their supplies to market promptly. There must be no hoarding and no holding of inventories for a speculative rise in market prices. It is essential that all wheat supplies be made available during the next quarter both to fill our own domestic needs and to meet our export commitments.

The Famine Emergency Committee appointed by the President has assisted in developing the food conservation program and during the coming months will promote various measures necessary to achieve the objectives of providing food relief in starvation-ridden countries.

GOALS FOR 1946

If European crops are good this year, the worst of the crisis will pass by July or August. Yet it is now clear that the United States will have to continue a high production of food for at least another year. (See chart, Why Europe Needs Our Help.)

It had been feared there might be price-depressing food surpluses after VJ-day, but we now know that in 1946-47 there will be need for all the food that American farmers are likely to produce. Not only will there be continuing needs for food relief abroad; there will also be a big market at home.

The Department of Agriculture has recently announced several revisions in the 1946 farm production goals: increases of 1 million acres of wheat, 1 million acres of corn in the Corn Belt, and additional increases of corn and sorghums in other areas; over a million more acres of soybeans; and 100,000 more acres of dry edible peas.

Also, farmers are being asked to market their livestock promptly. This not only will furnish needed supplies of meat at home; it will conserve feed that would otherwise be used to bring hogs and steers up to heavier weights.

SUPPLIES OF IMPORTED FOODS

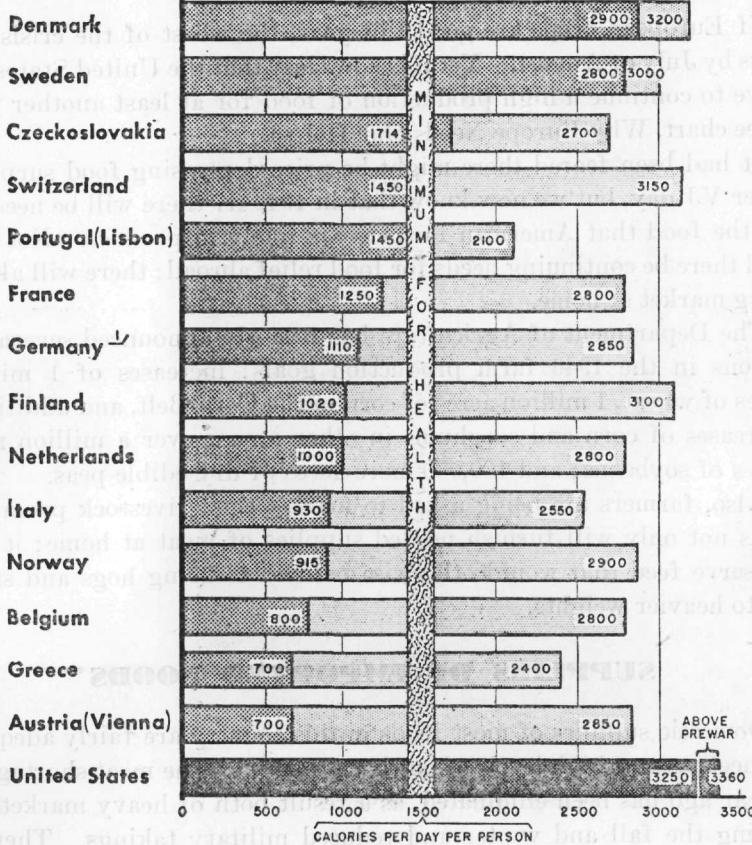
Domestic supplies of most foods in this country are fairly adequate to meet present high levels of market demands. The meat shortage of a year ago has been eliminated, as a result both of heavy marketings during the fall and winter and reduced military takings. There is still a need for all the dairy products, particularly butter, that can be produced.

In the case of imported foods the situation is more difficult. A threatened coffee shortage was averted last winter by the payment of a subsidy that made it possible for importers to obtain considerable supplies, and to maintain existing ceilings. The continuing shortages are in sugar, fats and oils. These present difficult problems.

WHY EUROPE NEEDS OUR HELP

While U.S. eats more than ever in history, Europe has less than half prewar supply. Without help only 3 countries have minimum for health; at least 5 would face starvation.

PREWAR CONSUMPTION —
COMPARED TO DOMESTIC SUPPLY NOW AVAILABLE



^{1/}Excluding USSR region

Domestic production of sugar in 1945 was one-fourth greater than in 1944, but total supplies (domestic and imported) for the first quarter of 1946 were one-third less than in the first quarter last year. This makes it necessary to continue the rationing of sugar to consumers and to continue the allocation of sugar to industrial users. As the new crop of sugar is made available from Cuba and other areas it is hoped that supplies will somewhat increase. But it is doubtful that controls over distribution can be dropped before some time next year.

Imports of fats and oils continue to be disappointingly small. The domestic output has been well maintained, and an increase of 15 percent in domestic production is expected during the first half of this year. However, imports have always been relied upon for a substantial part of American supplies of fats and oils—both for edible purposes and for such inedible uses as soap and paints.

Some of these fats and oils will be imported in larger quantities from Asia and the East Indies as trade is reestablished. In addition, strenuous efforts are being made to step up the imports of these items from South America and the Philippines. Some progress has already been made. One of the chief difficulties has been the lack of transportation in Argentina and in some other parts of South America. The United States is prepared to make trucks, tires, and gasoline available to these South American countries if there is assurance of reasonable increases in the imports of fats and oils.

FOOD PRICES AND SUBSIDIES

The control of food prices is an essential part of the reconversion program. There are two main objectives: Price supports to farmers to insure production, and price ceilings at wholesale and retail levels to prevent an inflationary rise in the cost of living.

To accomplish both of these objectives at once it has been necessary to pay subsidies to producers or to manufacturers of several important foods, including cattle, hogs, sheep, butter, cheese, milk, and flour. These subsidies will cost the Government about \$2 billion during the fiscal year ending June 30, 1946.

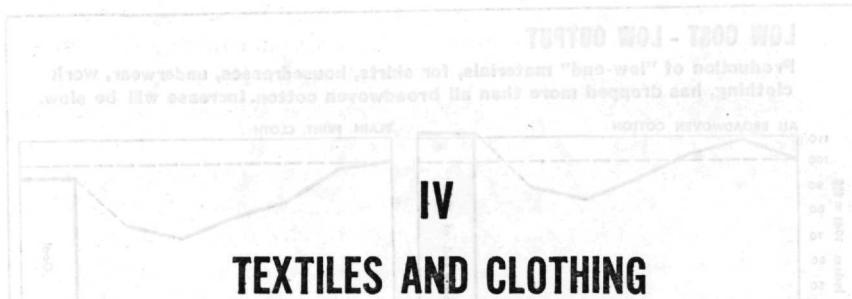
In normal times subsidies of this kind are undesirable. They are not only expensive, but they also interfere with the normal processes of supply and demand. Moreover, I appreciate and sympathize with the desire of farmers to get away from subsidies as rapidly as possible, so that they may receive their incomes from the market rather than partly from the Government. It was for these reasons that this Office in cooperation with the Office of Price Administration and the Department of Agriculture worked last fall to develop a schedule for dropping food subsidies.

This schedule provided for eliminating nearly all food subsidies

by June 30, 1946. By early this year, however, it became apparent that such a program could not be carried out without running the risk of an inflationary rise in living costs. Therefore, the Stabilization Director announced on January 23 that it would be necessary to continue several of the food subsidies beyond June 30.

It is, of course, desirable that all food subsidies be dropped at the proper time. If food prices in general were almost ready to drop below ceilings at this time—as many believed last fall would now be the case—it would be desirable to remove subsidies at once and to allow an increase in retail prices of these particular foods. Such action would not have meant any appreciable increase in the cost of living. But prices have not declined, and the demand for food has remained at extremely high levels.

When the danger of inflation is less and we have a closer approach to a balance between the supply of food and the demand for it, we will need to draw up a new schedule for eliminating subsidies. Pending that time, I strongly urge the Congress to authorize the payment of food subsidies as long as they are needed during the fiscal year 1947. It is extremely important that this matter be dealt with promptly and that sufficient appropriations be made to continue the subsidy program at least until we have full information concerning the 1946 crops.



IV TEXTILES AND CLOTHING

One of the most acute and paradoxical dislocations in the economy today is the shortage of low and moderately priced textile products. Although military procurement was held to a minimum and total textile production increased during the first quarter of 1946, civilian, industrial, and agricultural consumers found it more difficult than at any time during the war to buy the kinds of apparel and fabric they most urgently needed.

The shortage is concentrated in the fabrics which the textile industry normally produces in the greatest volume—in cloth for work clothing, men's shorts and shirts, and for house dresses, the unfinished material used by factories and farms and in the worsteds for men's moderately priced suits and overcoats. Supplies of these essential fabrics are in some cases less than half of normal minimum needs. (See chart, Low Cost—Low Output.)

Diversion to Higher Price Line

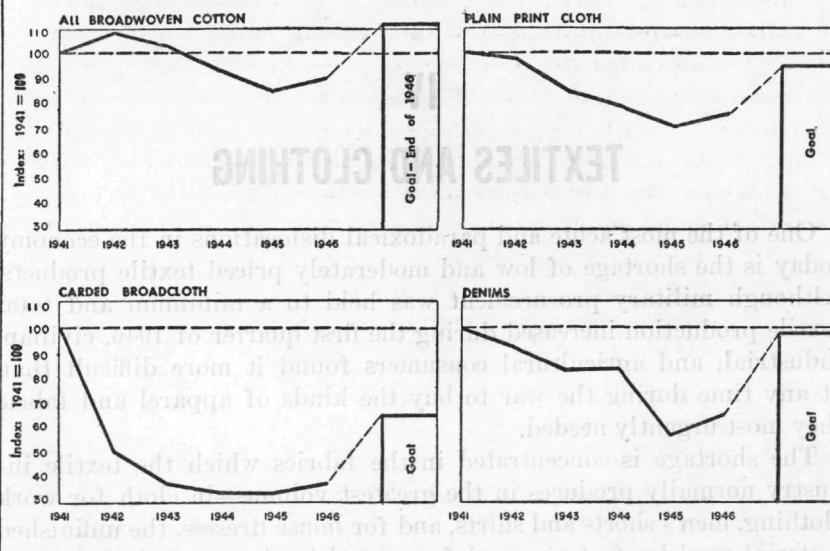
When, in the effort to do away with some of the wartime restrictions, some of the more rigid wartime controls over the textile industry were relaxed shortly after VJ-day, the shortage of low priced fabrics became aggravated. Looms which had been "frozen" to the production of essential cloth shifted, in many instances, to the production of higher priced fabrics. Many looms released from military production did not return to the staple low-priced lines from which they had been diverted originally; instead, they were switched to production of less essential but more profitable fabrics.

Efforts were made by the Civilian Production Administration to channel adequate supplies of fabrics to the low-end clothing program by means of priorities and "set-aside" orders, but only 71 percent of the clothing priority orders were filled in the fourth quarter of 1945.

The inability of end-product manufacturers to obtain low and medium priced fabrics from the mills made it difficult for them to expand output, and at the same time comply with OPA's Maximum Average Price (MAP) program. Large stocks of men's suits, shirts, and other urgently needed apparel backed up in warehouses while producers awaited price adjustments.

LOW COST - LOW OUTPUT

Production of "low-end" materials, for shirts, housedresses, underwear, work clothing, has dropped more than all broadwoven cotton. Increase will be slow.



The situation became more acute during January and February and was aggravated by the refusal of most cotton mills to sell goods in the unfinished form because of the additional profits available on bleached or printed cloth. Many industrial and agricultural users found it difficult to obtain fabric needed to maintain operations. Producers of friction tape, for example, were sometimes forced to use printed fabrics because unfinished goods were not available. Electric motor production was threatened because of the lack of fabric for insulation material. Tomato and tobacco farmers were threatened with serious losses because of inability to obtain cloth needed to cover seed beds.

GOVERNMENT ACTION

To meet these problems the Office of Price Administration, the Civilian Production Administration and the Office of Economic Stabilization formulated a joint program of action.

OPA radically revised its fabric and apparel pricing regulations to encourage greater production. Cotton fabric manufacturers were granted new and higher ceiling prices, reflecting the increased market price of raw cotton, wage increases, and other added costs. As a further incentive to high volume output, a 5 percent premium price increase was granted on the most urgently needed staple fabrics. Manufacturers of men's

suits were granted new cost-plus ceilings under a regulation designed to increase profits in low-priced garments. Provisions of the Maximum Average Price program governing men's shirts, shorts, and pajamas were liberalized to permit fullest possible utilization of the existing fabric supply.

CPA amended the loom freeze order, L-99, to require increased production of the most urgently needed types of cotton fabrics. Channeling regulations have been reinstated, effective in the second quarter, to establish set-asides of fabrics for industrial uses and require mills to sell a substantial portion of the set-asides goods in the gray, or unfinished, form. Further CPA action is contemplated to make sure that fabrics produced under the incentive pricing program are channeled to the most essential end-products. Inventory controls have been tightened to prevent disproportionate accumulation of finished goods and to force more rapid distribution of scarce clothing items.

OES moved to check speculation in raw cotton prices by ordering uniform and higher margin requirements for trading in cotton futures.

These steps had immediate beneficial effects. Dammed-up supplies of fabric and apparel began moving to consumers in larger volume than at any time during the quarter. Mills have started to switch back to production of the staple fabrics which are most urgently needed. But the textile shortage cannot be eliminated quickly. It will be eased as rapidly as production increases, but it will be more than a year before supply begins to overtake demand.

COTTON TEXTILES

The shortage of cotton broad-woven fabrics is the most acute in the whole textile field because they cover the widest range of essential end-products. Last year's production totaled 8.8 billion yards, 5 percent greater than in 1939, but 21 percent below 1942's peak output of 11.2 billion yards.

The wartime decline in production closely paralleled the decline in the working force at the fabric mills. In 1942 the mills had 506,000 workers, but by the last quarter of 1945 this force had shrunk to 400,000. By February, 1946, however, the working force had climbed back to 430,000. Many mills granted wage increases which generally involved a minimum wage of 65 cents an hour and OPA action in adjusting fabric ceilings to reflect such increases has accelerated the recruitment of additional cotton mill workers.

Production this year is expected to rise from the first quarter annual rate of about 9 billion yards to a rate of 11 billion

yards in the fourth quarter with total production for the year estimated at 10 billion yards.

Against this anticipated output CPA estimates that there is a domestic and export demand for at least 14 billion yards of cotton fabrics.

Behind the demand are terrific inflationary pressures. Mill owners have reported offers to their salesmen of cash payments of thousands of dollars merely to accept an order. Every yard of fabric, regardless of its construction, can be sold.

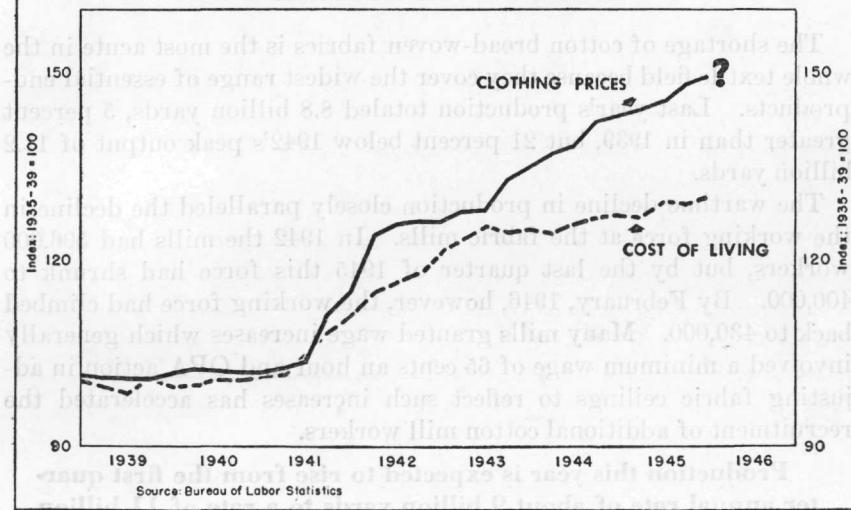
The Wartime Industrial Set-Up

Development of this "seller's market" had contributed to far-reaching changes in the cotton textile industrial set-up. In prewar years when production of virtually all cotton fabrics exceeded demand, the majority of fabric mills sold the bulk of their output as "gray" or unfinished goods. Competition forced low-unit profit margins.

Unfinished goods were sold to converters who bleached, dyed, or printed them. The converter then sold these fabrics to apparel manufacturers or other users, assuming all the market and credit risks involved. Unit profits were greater on highly finished or designed fabrics which sold in relatively small volume and upon which the market risks due to changing styles were greatest.

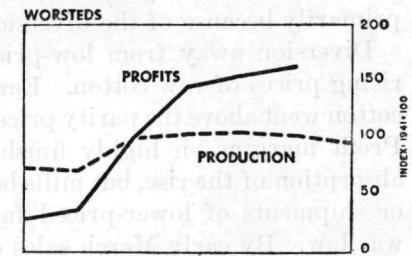
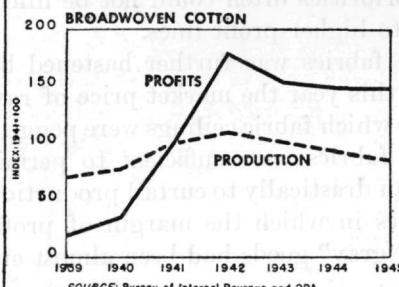
THE COST OF WEARING APPAREL

**Clothing prices have risen far more than general living costs.
New price adjustments may increase the spread.**



PROFITS VS. PRODUCTION IN TEXTILE MILLS

Gains in profits earned, wartime and postwar, have far outstripped gains in quantity of production.



SOURCE: Bureau of Internal Revenue and OPA.

OPA price ceilings, as initially imposed in 1942, in general retained existing price structures under which mark-ups were widest for high-priced, expensively finished goods.

During the war, as the seller's market became more pronounced, the normal market hazards involved in selling cloth disappeared almost entirely. As a result, many fabric mills found it more profitable to arrange for their own finishing operations and to sell cloth directly to apparel manufacturers and other users, bypassing the independent converter.

This had a twofold effect. It disrupted existing market channels and deprived many small garment manufacturers of their normal sources of supply. In addition, since integrated mills were able to obtain more profit on the sale of finished goods, industrial and agricultural users who needed unfinished fabrics, found it increasingly difficult to purchase them. By the beginning of 1946, sales of goods in the "gray" for industrial and agricultural purposes had fallen to an extremely low level.

The Industry's Profit Position

The shift into higher profit lines was reflected in greatly increased profits. Even though total production last year was only 5 percent greater than in 1939, profits in the cotton textile industry were more than 900 percent above the 1936-39 average. (See chart, Profits vs. Production in the Textile Mills.) As low-priced end-items disappeared from the market, the consumer's clothing bill increased. (See chart, The Cost of Wearing Apparel.)

The War Production Board relaxed its loom controls following VJ-day, and priority assistance previously extended to industrial users was sharply curtailed, but channeling provisions were retained for bag manufacturers in order to ensure an adequate supply of food

bags. Priority assistance was continued for garment manufacturers engaged in the low-end program. Export set-asides were retained to help meet the most urgent foreign demands. But as the market became progressively tighter, the priorities often could not be filled, primarily because of the diversion to higher-profit lines.

Diversion away from low-priced fabrics was further hastened by rising prices of raw cotton. Early this year the market price of raw cotton went above the parity price to which fabric ceilings were pegged. Profit margins on highly finished fabrics were sufficient to permit absorption of the rise, but mills began drastically to curtail production or shipments of lower-priced fabrics in which the margin of profit was low. By early March sales of "gray" goods had been almost entirely suspended by the producers.

Joint Action on Lower Priced Articles

The incentive premium for low-end production which OPA added to the across-the-board fabric price increases narrowed the profit gap between the highly finished and the low and moderately finished fabrics. OPA also revised its regulations governing mark-ups for finishing fabrics in the integrated mills so as to lower profit margins which had been unduly high.

Concurrent with the OPA price adjustment, the Civilian Production Administration tightened its loom controls by requiring looms which had previously been engaged in the production of staple fabrics needed for low-end apparel, work clothing and industrial and agricultural uses, to return to the production of such fabrics. The list of fabrics subject to this tightened control was identical with that for which the OPA established the 5 percent incentive premium.

The CPA is also reinstating channeling regulations, effective for the second quarter, by establishing set-asides of fabrics for industrial uses and by requiring mills to sell a substantial part of these set-aside goods in the gray form.

Success of the new cotton textile program depends, in large measure, upon the control of speculation in raw cotton. The raw cotton prices which the current fabric ceilings reflect are the highest in 22 years. They have advanced 175 percent since 1939.

There is no real shortage of domestic raw cotton to justify the booming prices. Last fall when the new crop of almost 9 million bales started to market there was a carryover of about 11 million bales. When the new crop comes to market this fall it is estimated there will be a carryover of at least 7.5 million bales. A normal carryover, adequate for requirements while the new crop is being processed, would be about 4.5 million bales.

In the better grades of cotton, however, the carryover, although more than adequate for all foreseeable future needs, will be the smallest in recent years. This, coupled with the fact that market traders are withholding supplies as a hedge against speculation on future high prices, has created an artificially tight market.

The Stabilization Director has pointed out that higher raw cotton prices inevitably would result in demands for substantially higher textile prices which the stabilization program cannot withstand.

WOOLEN FABRICS

With the return of millions of veterans from the armed services, CPA estimates that there is a rock bottom *need* this year for 30 million men's suits, and that the overall *demand* exceeds 40 million suits. In February, only about 1.1 million winter-weight suits and about 500,000 tropical-weight suits were manufactured—an annual rate of between 18 million and 20 million. The suit shortage is being attacked by a coordinated CPA-OPA program.

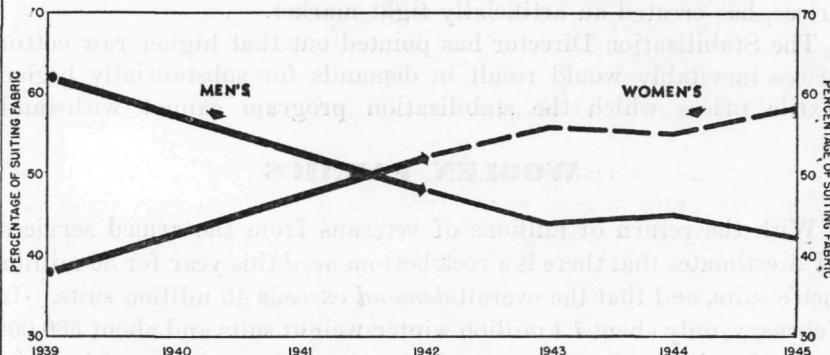
As in the case of cotton, the problem in wool is to channel available fabric supplies away from the sources of greatest profit into the areas of greatest need. The area of greatest profit is in women's apparel and high priced men's suits; the area of greatest need is for men's suits priced below \$35 at retail.

About 50 percent of wool apparel fabric now goes into women's woolen clothing as contrasted with 40 percent before the war. (See chart, Shift in Suit Production.) In the first quarter of 1942, 32 million yards of fabric went into civilian men's wear. In the first quarter of this year only about 42 million yards went into men's clothing although the demand for suits is twice as large.

CPA is attempting to channel sufficient supplies into the men's low-end suit program without invoking the strict loom controls found necessary for cotton. In the fourth quarter of last year, 24 million yards of cloth were "set aside" and priorities were issued sufficient for 2.2 million suits to retail at \$35 and under. Not more than 1.7 million of these suits were manufactured. Priority holders often found it impossible to place orders for delivery within the near future. In the first quarter of 1946 similar allocations were made, sufficient to produce 3.5 million low-cost suits, half of the desired goal of 7 million suits at all price ranges. For a variety of reasons, it now appears that not more than 3.5 million winter-weight suits will be obtained and perhaps another 1.5 million of tropical-weight suits. In the low-price range, the total will probably be between 2.5 and 2.8 million suits.

SHIFT IN SUIT PRODUCTION

In 1945 the men's share of suiting material production was only 42% as compared to 62% prewar; women were taking more than half.



And currently men's suit production is running less than half of 1946 minimum requirements.

Rate of production,
First Quarter 1946

13,000,000 SUITS PER YEAR

Minimum requirements
for Year 1946

30,000,000 SUITS

CPA ESTIMATES

Incentive in New Pricing Policy

OPA is attempting to increase the relative profitability of producing men's suits without greatly increasing prices. When prices were frozen in 1942 no adjustment was made to compensate for the fact that, while most standard essential fabrics such as men's suitings were normally priced with a very small profit margin, many of the fancier fabrics, such as women's suitings, were normally priced for a high level of profit to offset losses due to style changes. When the war-swollen demand virtually eliminated market risk, there was a shift of woolen looms to high-profit lines. Substantially the same thing happened in the garment manufacturing field.

A new price regulation has been announced which permits manufacturers of low-profit items to raise their profit margins to the average level of profits on all sales in 1943. Margins on high-profit items will be lowered by the new regulations.

The revised regulation permits the use of a cost-plus basis for figuring ceilings which will eliminate many of the price inequities between manufacturers of the same items which existed under the old base period pricing formula.

The new pricing regulations are designed to assure reasonable profits to garment makers in producing the quantities of suits that are needed at prices veterans can afford. Continued diversion of fabrics and facilities needed to meet the goals CPA has established in the low-end men's suit program may require imposition of stricter production controls. The situation is being watched carefully.

WOMEN'S HOSIERY

Sixty million women are in the market for hosiery. They bought 672 million pairs in 1940 when there was no shortage and about 500 million pairs last year when the War Production Board allocated rayon thread for their production. By January of this year, production had dropped to an annual rate of 408 million pairs and customer competition for the output was more vigorous than for any other product sold at retail.

When controls over production and distribution of rayon yarn were lifted after VJ-day, the more than 400 stocking manufacturers attempted to swing into full production of nylon stockings. Rayon yarn manufacturers shifted their sales to weaving mills, whose production went into apparel, house furnishings, and other end-products. Of the 34 million pairs of stockings produced in January, only about 7 million were rayon.

Ninety percent of the present full capacity production of nylon yarn is reported to be going to hosiery manufacturers. Additional productive capacity now under construction is not expected to be completed before the end of this year. It is estimated that not more than 360 million pairs of nylons—about 6 to every customer if they could be equitably distributed—will be produced in 1946.

The Civilian Production Administration has worked out with the industry a plan for avoiding a further diversion of rayon yarn from the hosiery industry.

EXPORT

Despite the shortages discussed earlier, the American people today are better clad and have more textiles for household and other needs than any other people in the world. The world shortage of textiles, particularly cotton textiles, is exceedingly acute. The United States has an inescapable obligation to assist friendly foreign countries to meet the minimum requirements which are essential to ward off disease and unrest.

In addition to our humanitarian obligations, we must export textiles to certain areas whose exports of such important raw materials as tin, rubber, cordage fibers, and hides and skins are vital to our own reconversion economy. The amounts of these urgently needed materials

which we receive can be measured, to a large extent, by the amounts of consumer goods we send to the people who produce them.

Textile exports are tightly controlled by CPA. Requirements are analyzed and screened in terms of the total domestic supply situation and our own shortages of specific types of fabric. Where foreign manufacturing facilities are available, raw cotton is shipped, rather than finished fabrics. In the first quarter of 1946 the export set-asides represent about 11 percent of total United States production of broad-woven cotton fabrics. For the second quarter, the export program will represent a somewhat smaller percentage.

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PART THREE

LIQUIDATING THE WAR

Government responsibility during the quarter centered increasingly on the special problems emerging as labor and materials were shifted to peace production. In another area of Government responsibility for reconversion—liquidation of the war—rapid progress continued. Gains here removed all but the last remnants of war entanglements from the economy, and freed industry to expand output for the peacetime market.

CONTRACT SETTLEMENT

Settlement of war contracts met deadlines in a tight schedule. Almost three-fifths of the canceled commitments were settled by the end of the quarter. The great bulk of settlements, those of smaller claimants, provided thousands of business concerns with funds to finance peacetime ventures. By June 1946, the larger contracts should also be settled, meeting the final deadline set for the contract settlement part of the Government's war liquidation job.

Canceled commitments totaling \$28 billion of the wartime total of \$64.3 billion awaited settlement after February 28. But 75 percent of this total was held by 40 large companies with complicated or very large claims to be settled. Claims of this type will test the machinery which so far has worked efficiently in settling a mass of smaller claims that were easier to prepare. Many of these were settled without cost to the Government.

However, despite the larger, complicated cases coming up for settlement, the rate of settlement did not diminish. The number of claims filed declined during the quarter, as did the number of settlements, but the value of the settlements increased, and the rate of settlement continued to accelerate.

During February there were only about 7,500 claims filed, compared to 14,000 at the peak last September. First quarter settlements totaled

about 15,000 a month as against 22,000 a month during the fourth quarter. But the January value of claims filed was four times higher than the September value. Settlements approached \$3 billion a month during the first quarter, as compared with a monthly average of \$1.65 billion during the fourth.

Entering the quarter with 69 percent of the VJ-day backlog of terminated prime contracts settled, the contracting agencies passed the 83 percent mark in settlement of these contracts by mid-quarter. For the remaining 17 percent of terminated contracts awaiting settlement, about 80 percent of the subclaims involved have been settled.

Clearance of plants has been moving satisfactorily. By the end of February, 75 percent of the plants had been cleared. So far, at least 93 percent of the requests for clearance have been met within 60 days. More clearances were completed during January than remained on the books at the end of the month, for the second successive month since VJ-day. The last part of the job will be the most difficult since storage space in specific localities may be increasingly hard to find.

The Reconstruction Finance Corporation and the various contracting agencies are to be commended for their effective job of plant clearance and warehousing.

SURPLUS DISPOSAL

Disposal of war surpluses here and overseas was accelerating, but war property still was coming into inventory faster than it was being merchandized. The heaviest part of the disposal job is ahead. Quick liquidation, to facilitate reconversion at home and to meet relief requirements overseas, is the primary aim of the owning and disposal agencies. Their policies and operations are directed toward that goal.

Responsibility for the disposal of overseas surplus is now vested mainly in the Office of the Foreign Liquidation Commissioner in the Department of State. Domestic disposal operations have been largely consolidated in the War Assets Administration.

The War Assets Administration is making a thorough survey of domestic disposal activities, including the difficult and complex problems arising from the consolidation of the domestic disposal agencies. Results of the study will be included in the forthcoming quarterly report of this agency, which will outline some of the problems and the steps that must be taken to solve them.

PLANT DISPOSAL POLICY

Disposal of war plants is one of the most important tasks facing the War Assets Administration. They provide immediate manufacturing space at a time when maximum production of almost all kinds of goods is of the utmost importance to the entire economy. Employment of existing structures also will reduce the industrial use of building materials which are vitally needed for home construction.

The overriding importance of putting surplus war plants to prompt civilian use was stressed by the President early in the reconversion period.

In his September 6 message to the Congress, he said, "The disposition of plants and equipment is of particular urgency. They should be disposed of promptly by sale or lease on a basis that is fair to the Government and to industry. Our objectives should be to provide early and continuous employment, and through private production to supply hungry markets and check inflationary tendencies."

Disposal of plants stepped up during the first quarter of the year. Use of war plants is varied. One propeller plant is being rearranged to produce pharmaceutical and biological products; aircraft engine plants to turn out Diesel engines and milk coolers; a huge plane factory to automobile production. There are numerous other possibilities—airframe plants with their high ceilings have excellent facilities for the manufacture of prefabricated housing.

Emphasis on Community Development

It is more important that surplus war plants be used to provide employment in local communities and to produce goods than that the Government should realize the highest possible dollar return on its investment. Consequently, War Assets Administration is following the policy of selling or leasing plants to local enterprise whenever possible, even though disposal to larger concerns might give greater financial return. This also curbs trends toward monopoly.

The movement of war plants into surplus increased markedly during the quarter. By March 31, a total of 808 plants costing \$3.8 billion of the 1,540 plants costing \$8.6 billion expected eventually in surplus had been acquired for disposal by War Assets; 368 of the 808 total during the quarter.

Sales of surplus war plants also increased. During the quarter a total of 124 plants, costing \$341 million, was sold for \$182 million in contrast to the cumulative total of 84, costing \$125 million that had been sold for \$89 million up to the end of 1945. Among the plants sold during the quarter for different output than wartime was a \$9 million aviation plant at Evansville, Indiana, to be converted for production of freezers, refrigerators, and coolers. One of the larger sales of the quarter was a \$30 million aircraft engine plant at Ridgewood, N. J. This plant will employ about 6,500 workers for the production of aircraft parts and components.

To date 208 plants, costing \$466 million, have been sold for \$271 million; 90 plants, valued at \$600 million, have been leased; and a total of 212 interim leases, involving \$665 million in actual costs, have been arranged.

Rubber Plants a Special Problem

The disposal of Government-owned plants producing synthetic rubber presents a special problem directly relevant to the national security. The Inter-Agency Policy Committee on Rubber, created by this Office on September 7, 1945, in its first report on February 19, 1946, stated that private ownership and operation of the synthetic rubber industry should be a major objective.

In a supplementary report, the Committee will make proposals for a complete disposal program for the synthetic rubber facilities now owned by Government.

Bulk of Surplus Yet To Be Acquired

Domestic and overseas surpluses were moving out of inventory more rapidly at the end of the quarter than at the year's end. About one-fifth of all domestic acquisitions to date had been disposed of by March 31. About 40 percent of the property declared surplus overseas had been sold by mid-quarter, despite the fact that about one-third of the declarations had been made within a few weeks of that time.

Domestic acquisitions to date, however, topped foreign declarations, and in the long run will comprise the bulk of the surplus. By the end of the quarter less than a third of the entire surplus that eventually must be disposed of had been acquired by the disposal agencies; approximately 40 percent of the domestic surplus, excluding non-saleable aircraft; and approximately 15 percent abroad.

DOMESTIC OPERATIONS

A year ago surplus disposal was being handled in this country by five major agencies. By the end of the first quarter of 1946 it was largely consolidated into one—the War Assets Administration, which has succeeded the War Assets Corporation. Executive Order 9689, issued January 31, created on March 25 the War Assets Administration in the Office of Emergency Management of the Executive Office of the President. WAA is headed by an Administrator, who received by the terms of the Executive Order all the functions of the Surplus Property Administrator, and the surplus sales functions of the War Assets Corporation, a subsidiary of the Reconstruction Finance Corporation.

Attacking the sales problem even while in the process of reorganization, War Assets Administration began to provide for streamlining paper work; decentralizing and increasing sales outlets; serving veterans with priority certificates and negotiations for purchase in a single office. Field offices are now empowered to sell merchandise valued up to \$1 million instead of only \$25,000 as previously. Selective processing or "peeling off" items in great demand for disposal out of the order of their declaration as surplus, was instituted. To cope with acceleration in plant clearances, War Assets Administration increased the number of approved dealer agency agreements in effect so that disposal of surplus machine tools could be stepped up.

First quarter disposals of all domestic agencies, excluding non-saleable aircraft, totaled \$1.25 billion. In terms of re-

ported cost, sales totaled \$1.2 billion, and brought in about \$500 million. Total disposals to date are estimated at \$2.45 billion.

Surplus acquisitions for the quarter, however, again exclusive of unsaleable aircraft, totaled about \$5 billion. The total acquisitions to date is \$11.85 billion or about 40 percent of the ultimate total to come.

A Big Job Lies Ahead

Although first quarter disposals brought the total to more than one-fifth of acquisitions to date, this tremendous job actually was just starting. In terms of the whole domestic disposal job, only 8.5 percent of the total surplus already acquired, or to be acquired, by domestic disposal agencies had been merchandized. About 60 percent of the total surplus is still to be declared and acquired by disposal agencies.

First quarter disposals of consumer goods ran to about \$300 million, second only to plants and industrial real property, for which first quarter disposals totaled \$345 million. Among consumer goods, trucks moved rapidly, filling a portion of the motor vehicle shortage in the civilian economy. About 124,000 surplus trucks had been disposed of up to March; 22,735 of them during January and February, sales running at \$43,659,000 for the 2 months in term of procurement cost, of which there was a net recovery of about 45 percent to the Government.

Surplus textiles and apparel, including everything from broad-woven cotton goods, sheets, upholstery fabrics, and wool sweaters to men's shoes, that cost the Government \$95.4 million were disposed of during the quarter for an estimated \$44.3 million.

OVERSEAS SURPLUS

During a single month, January, some \$500 million in war goods overseas came into surplus. By February 1, the Office of the Foreign Liquidation Commissioner in the Department of State—a disposal agency separate from WAC and WAA—had acquired \$2 billion in surplus war goods.

Transfer of about \$100 million of surplus property to UNRRA is virtually completed in the European and Mediterranean areas; and cash reimbursable sales totaling \$128,500,000 to UNRRA are being negotiated in the Near East, Far East, the Balkans, and northwest Europe.

UNRRA has, in fact, become our best customer for overseas surplus goods. In addition, surpluses are moving to American private and voluntary relief agencies. Approximately 58 of these groups, joined in the American Council of Voluntary Agencies for Foreign Service, Inc., are purchasing relief supplies from FLC through a merged pro-

curement plan. The Council has contracted for \$563,000 in surplus war stocks from the Paris Office of FLC and has placed a request for an additional \$5 million to broaden the base of American relief operations in Europe. Sales of overseas surplus goods totaling \$1,100,000 have already been made to relief agencies all over the world by FLC, and more will be made.

The overseas surplus is being moved also by sales and credit agreements with 14 nations. About 34 percent of the original investment has been realized by disposals of property that cost \$806,800,000, and was sold in surplus for \$272,800,000.

FLC is negotiating surplus disposal credit agreements to provide dollar credit terms payable over varying periods, the maximum 30 years, with: The USSR and France, for \$100 million each; The Netherlands Indies, \$65 million; Poland and Czechoslovakia, \$50 million each; the Philippines, \$20 million; Finland, Hungary, Austria, Greece and Turkey, \$10 million each; Lebanon and Syria, \$5 million each; and Ethiopia, \$1 million.

SCIENCE

Technical and scientific information accumulated during the war by our own \$2 billion war research program and captured from former enemy nations now forms a huge reserve of valuable data, useful both in reconversion and to the peacetime economy of this country. The machinery for collecting and disseminating this information is now in full operation. During the first quarter of this year, 6,000 reports were released, bringing the total to 8,000.

To date, 185,000 copies of released reports have been supplied to American industries and business firms in response to specific requests. During the quarter just past there were many requests for reports dealing with Germany's wartime developments in manufacture of chemicals and plastics, and for newly available information concerning our own wartime developments in aviation.

Information from both domestic and overseas sources is placed in depository libraries about the country. To these libraries go the technical war data of the Axis, which is now being uncovered by the Technical Industrial Intelligence Branch of the Office of Declassification and Technical Services. This Office is operating part of the inter-departmental Publications Board, established by Executive Orders 9568 and 9604 in the Department of Commerce. The Board is responsible under authority delegated by OWMR, for reviewing information, estimating the cost of publication, and for securing the fullest and widest dissemination. The contents of reports, both domestic and foreign, are abstracted weekly, and published in a "Bibliography of Scientific and Industrial Reports." The bibliography, obtainable

from the Superintendent of Documents, lists the contents of the reports, tells where they may be obtained, and at what cost.

The Congress has been asked to appropriate further funds for the Board's work. Only by rapidly releasing this store of information to American commerce and agriculture can we realize on our own investment of public funds in wartime research.

FEDERAL RESEARCH AGENCY

It is highly desirable to establish a Federal research agency. In his message of last September the President urged the Congress to enact such legislation. A Federal research agency, such as the President envisaged, would coordinate Federal research activities, not interfering with the separate research programs of the several agencies, but securing their effective synchronization. The fruits of research financed by Federal funds must become the property of the United States and should be made fully, freely, and publicly available so that American science may be advanced. Establishment of an agency to serve this end is essential and should be the subject of early appropriate legislation by the Congress.

ATOMIC ENERGY LEGISLATION

Legislation on atomic energy is among the most difficult and important problems under consideration by the Congress. We have the responsibility of harnessing a formidable force so that it will serve the national security as well as peaceful and humanitarian international and domestic ends.

The President in a statement to the Senate Special Committee on Atomic Energy, February 1, urged that the Congress establish a commission, to be comprised exclusively of civilians, to deal with the question. It is most urgent that the law shall not stifle pure science nor genuine freedom of independent research; but it must safeguard military security insofar as necessary. Full hearings have been held on such legislation and I believe that it should receive early and favorable action by the Congress.

OPERATIONS OF THE ADVISORY BOARD

In making each of the major policy decisions discussed in this report, and in arriving at solutions of many special problems, my Office has benefited by the careful study, advice, and experience of the OWMR Advisory Board.

During the last quarter of 1945 and the first quarter of 1946, the Board gave detailed consideration to the relationship between wages and prices. The deliberations of the Board were of considerable assistance to the Government in formulating revisions in wage-price policy.

In addition, the Board gave attention to special problems concerned with employment, including the formulation of a national policy concerning production and employment, and legislative proposals leading up to the Employment Act of 1946; the question of maintenance of the United States Employment Service as a national employment system; and the settlement of jurisdictional labor disputes. Preliminary findings on the operations of guaranteed annual wage plans in specific industrial plants have been received for dovetailing into the larger study which the Board is conducting, at Presidential request, on the usefulness of guaranteed annual wage plans in stabilizing production and employment. On March 5 the Board was represented before the deficiency subcommittee of the House Appropriations Committee at a hearing to discuss the appropriation which will be needed to carry this important study forward next year.

Within a week of the arrival in Washington of the Housing Expediter, the Board met with him and discussed at length his proposed program for meeting the veterans' housing emergency. At later meetings, the Board again discussed the housing emergency with the Housing Expediter and members of his staff and commended him for his splendid organizational work in developing his program. The Board also studied pending legislation which would help translate the veterans' housing program into reality, especially S. 1592 (Wagner-Ellender-Taft bill) and H. R. 4761 (Patman bill).

A most valuable and constructive step was taken by the Board in stimulating a vigorous Nation-wide effort to induce veterans to enter apprenticeship training in the building trades under the benefits and assistance available to them under veterans' legislation. The Board also devoted time and study to the programs of the Veterans' Administration and to the coordination of Federal programs for veterans lying outside the jurisdiction of the Veterans' Administration.

The related problems of agricultural price control, of Government subsidies, and of the extension of price controls generally, were studied by the Board with the assistance of the Secretary of Agriculture, the Stabilization Director, and the Price Administrator. As a result of

these discussions, the Administration was able to arrive at a clear and coordinated policy, on the basis of which necessary legislation could be requested of the Congress. The question of the extension of the Second War Powers Act through 1946 also received study and favorable action by the Board.

The difficult problems connected with the disposal of surplus property abroad were examined in detail by the Board. As a result, steps were taken by the State, War, and Navy Departments, in cooperation with my Office, to investigate the feasibility of salvaging or disassembling for scrap surplus metal equipment in the Pacific.

Two recent important actions were taken by the Board to assist the implementation of the Government's foreign policy. After careful consideration of the world food situation, the Board conveyed to the President its whole-hearted approval of his courageous leadership in the world food crisis, and gave its full support to the emergency measures he has put into effect to conserve food so that this Nation can do its share to help prevent mass starvation in war-devastated areas. By a vote of eleven to one the Board also endorsed the United States' financial agreement with Britain, which calls for removal of barriers to trade between this country and the British Empire. Its statement said, "The Advisory Board sees in the British agreement a major opportunity, through expanded world trade, to stimulate the world-wide production, jobs and markets which are essential to stable and prosperous post-war economic conditions, and, thus, to world peace itself."

I wish again to express my warm gratitude to the Board for its wise counsel during a difficult period and to each of its members for his diligent and devoted service: Chairman O. Max Gardner, William Green, Philip Murray, T. C. Cashen, Eric Johnston, George H. Mead, Nathaniel Dyke, Jr., E. A. O'Neal, J. G. Patton, A. S. Goss, Mrs. Anna Rosenberg, and Chester C. Davis. Mr. Gardner became Under Secretary of the Treasury during the quarter, but the Advisory Board unanimously requested him to continue as Board chairman. This request I most heartily endorse.

Additional copies of this report may be obtained from the Bureau of Special Services, Bureau of the Budget, 1400 Pennsylvania Avenue NW., Washington 25, D. C.