

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The Budget transmitted herewith covers the period ending June 30, 1945. This is a period which I am certain will be crucial in the history of the United States and of mankind, a period which will see decisive action in this global war. While we move toward complete defeat of our enemies, we must lay the groundwork to return the Nation to peaceful pursuits. This double task is the essence of the Government's program and must be reflected in the Budget.

The Budget for the fiscal year 1945 anticipates a total of Federal expenditures (in general and special accounts and net outlays of Government corporations, excluding debt retirement) of 100 billion dollars—slightly more than the revised estimates for the fiscal year now under way.

In substantial measure these expenditures will be made under appropriations already enacted. I am transmitting herewith specific recommendations for appropriations of 17 billion dollars, of which 7 billion dollars are for war purposes. For most of the war appropriations I shall submit detailed recommendations in the spring. I estimate that these recommendations will amount to 53 billion dollars. The estimated total of 70 billion dollars of appropriations in the general and special accounts for the fiscal year 1945 compares with a total of 100 billion dollars of actual appropriations for the fiscal year 1944. Reappropriations, additional to the above totals for recommended new appropriations, are estimated to be 38 billion dollars for the fiscal year 1945 and 15 billion dollars for the fiscal year 1944. Since there is always—and particularly for war procurement—a lag between appropriations and the related obligations and subsequent expenditures, a large part of the recommended appropriations will not be translated into expenditures until later fiscal periods. We shall continue to adjust our war program promptly to changing strategic necessities, and I shall use all the authority available to the Executive branch to prevent needless expenditures.

THE WAR PROGRAM

FOUR PHASES IN THE WAR PROGRAM

As we win the battle of producing the instruments of modern war, we enter the period of decisive action on many battlefields throughout the world. We have attained superiority in war production. Production alone, however, does not assure victory. We must fight and fight hard.

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THE BUDGET FOR FISCAL YEAR 1945

In June 1940 when France fell, we recognized that we were in mortal danger and that only by building our strength to the utmost would we have a chance to maintain peace or to attain victory if we were attacked. We then embarked on a program of preparedness, converting our factories and constructing a new munitions industry of gigantic size. At the time of Pearl Harbor, we were in the first stages of training the Army, strengthening the Navy, and developing a munitions industry.

In the period of defensive war, we had to be satisfied with fighting a delaying action and with delivering munitions to our Allies while we gained precious time.

The anxious year of defensive warfare came to an end with the attack on Guadalcanal and the invasion of Africa in late 1942. Thus began the period of aggressive deployment of our forces. During that time we had to build up and fill up the pipe lines for military supplies of all kinds as well as establish material reserves for future aggressive operations. The munitions program was then limited only by our productive resources and shipping facilities.

With pride in the over-all achievements of American management and labor, I can say that we are now well equipped; with pride in the military leadership of the Allied forces, I can say that we are now in a strategic position to make full use of our equipment for decisive blows by land, by sea, and by air.

The size and composition of our war expenditures reflect these various phases of the preparedness and war program, as the following table indicates:

WAR EXPENDITURES

Including net outlays of Government corporations

Period	Average annual rate (in billions)	Estimated percent of total		
		Munitions, including ships	Pay, subsistence ¹	War construction
Preparedness: July 1940–November 1941.....	\$9.8	50	30	20
Defensive war: December 1941–October 1942.....	45.7	56	22	22
Aggressive deployment: November 1942–December 1943.....	83.5	59	28	13
Offensive war:				
January 1944–June 1944 ²	97.0	64	30	6
July 1944–June 1945 (fiscal year 1945).....	90.0	63	33	4

¹ Including also agricultural lend-lease and other civilian war activities.

² On basis of 92 billion dollars for fiscal year 1944.

The rapid increase in war expenditures mirrors a gigantic effort. We have converted and diverted approximately half of our resources to war purposes. In the production of munitions we now almost equal the rest of the world combined. Expenditures for industrial facilities and other war construction, which reached their peak in the fall of 1942, have declined since then and will decline further. The total 22-billion-dollar public and private expansion of industrial plant and equipment should suffice by and large for the foreseeable needs of the far-flung battle fronts, and in addition provide capacity for unexpected contingencies. Expenditures for pay and subsistence of the armed forces are still increasing because of the continuing growth of our military forces and increased allowances to the wives, children, and other dependents of our fighting men. Expenditures for subsistence and other purposes would have to be higher were it not for the fact that our field forces stationed abroad are receiving considerable supplies and services from our Allies under reciprocal lend-lease arrangements.

THE MUNITIONS PROGRAM

At the present time it is extremely difficult to estimate necessary expenditures for munitions. In the past, such estimates were based on maximum output in the light of available facilities, raw materials, and manpower. This maximum was always less than enough to fill the requirements established by our military leaders.

The situation is quite different now. We have excess supplies in some types of munitions, deficiencies in others. Whether at any time we have an excess or a deficiency depends on rapidly changing strategic conditions. Every effort is made to adapt production to these changing conditions as promptly as possible. A special committee under the Joint Chiefs of Staff is scrutinizing the military requirements item by item and cutting out or cutting back programs no longer justified in view of strategic developments. The lend-lease requirements of our Allies are subject to similar scrutiny by other agencies.

In most cases in which contracts have been canceled, the same contractor has received other more urgent orders; plants, raw materials, and labor could not be released for production for civilian use in these cases. We have canceled, for instance, orders for many escort vessels in order to push construction of landing vessels. In a number of cases, however, labor and material have been released for urgent domestic needs of indirect war importance. We shall release for civilian production any facilities, manpower, or raw material that are

no longer needed for war production, but only when we are sure that by doing so we will not impair the war effort. I know that none of us wants any cut in the production of munitions needed at the battle fronts simply to permit an increased production for civilian comforts.

RELIEF AND REHABILITATION IN LIBERATED AREAS

As we close in on the enemy we are confronted with the necessity of initiating the restoration of civilian life and productivity in the liberated areas. Both relief and the commencement of the process of rehabilitation will be necessary requirements of military occupation.

In liberated areas relief must, of necessity, be a military problem at the outset. This job will be turned over to civilian administration as soon as feasible. For this reason the United Nations Relief and Rehabilitation Administration recently has been created. Appropriate committees of Congress are now considering enabling legislation that will permit the United States to make its proportionate contribution.

SUMMARY OF WAR PROGRAM: ESTIMATES OF EXPENDITURES AND APPROPRIATIONS

It is now expected that war expenditures (including net outlays of Government corporations for war activities) for the current fiscal year will amount to 92 billion dollars, 8 billion dollars below the 100-billion-dollar estimate submitted in my Budget message of a year ago. In certain types of munitions we have fallen short of our objectives, but by and large the cut in the estimate of expenditures is due to changes in the war program.

For the fiscal year 1945—the year ending 18 months hence—war expenditures are estimated at 90 billion dollars. I emphasize, however, that this estimate is tentative; it is based on the assumption that the war will continue throughout the fiscal year 1945. In our military planning, in our production planning, and in our financial planning we cannot rely with safety on hopes of earlier victory. If the war should continue on all fronts throughout the fiscal year 1945 or longer, we shall be prepared. If an unfavorable turn in military events should result in an increased demand for munitions, we shall, with available facilities, pour out even more munitions than scheduled, and expenditures will be larger. If, on the other hand, victory should be achieved on one of the major fronts earlier than assumed, I assure the Congress and

the Nation that war production will be promptly adjusted to the changed requirements, and war expenditures in the fiscal year 1945 may be less than estimated at the present time. Because of termination payments, mustering-out pay, and similar demobilization expenditures, however, the reduction in cash expenditures will of necessity lag considerably behind any curtailment of war production.

The total war program as measured by appropriations, contract authorizations, and Government corporation commitments from June 1940 through December 1943 totals 344 billion dollars. Of this amount, 264 billion dollars have been obligated already, and it is estimated that 307 billion dollars will have been obligated by the end of the current fiscal year. Unobligated balances total 80 billion dollars now and will be reduced to about 38 billion dollars by June 30, 1944, assuming that additional supplemental appropriations of 1.5 billion dollars will be provided before the end of the current fiscal year.

Through December 1943, we have spent 153 billion dollars for war and it is estimated that 202 billion dollars will have been spent by the end of the current fiscal year, leaving 105 billion dollars in outstanding obligations to be liquidated in later fiscal years.

It will be necessary to request additional appropriations for obligations to be incurred in the fiscal year 1945. Detailed recommendations for most of the war appropriations will be made in the spring, as last year. The tentative estimate for the fiscal year 1945 is 60 billion dollars of new war appropriations and 10 billion dollars of new contract authorizations. I also intend to recommend that an estimated 38 billion dollars of unobligated appropriations be reappropriated for the coming fiscal year. The new appropriations include 18 billion dollars to liquidate prior contract authorizations. The additions to the war program therefore will amount to 42 billion dollars new appropriations (excluding appropriations for the liquidation of prior contract authorizations), 10 billion dollars new contract authorizations, and 1.5 billion dollars estimated supplementals for this year. These additions will bring the total war program to 397 billion dollars for the fiscal year 1945.

Enactment of these requests will permit the Government to incur new obligations totaling 90 billion dollars in the fiscal year 1945. This, together with the unliquidated obligations on June 30, 1944, would permit the expenditure of 195 billion dollars in the fiscal year 1945 and subsequent years, when appropriations have been made to liquidate contract authorizations. As stated earlier, it is estimated

that 90 billion dollars will be spent for war purposes in the fiscal year 1945. Assuming that it will be necessary to obligate all appropriations and contract authorizations, we shall finish the fiscal year 1945 with about 105 billion dollars of unliquidated obligations—the same amount as the unliquidated obligations existing at the beginning of the fiscal year.

I hope that this total war program will never be fully obligated and spent. Congressional approval of the estimated new appropriations and contract authorizations will be necessary, however, to permit our military leaders and our procurement agencies the flexibility they must have in planning and executing the job ahead.

WARTIME READJUSTMENTS AND PREPARATION FOR PEACE

Demobilization begins long before hostilities end. While we are still expanding war production, we have already terminated more than 12 billion dollars of war contracts; while we are still increasing the size of the armed forces, we have already discharged a million men and women. If hostilities end on one major front before they end on other fronts, large-scale demobilization adjustments will be possible and necessary while we are still fighting a major war.

The problems of adjustment cover a wide range—contract termination, reconversion of war plant, disposal of Government-owned property, shifting of men to peacetime employment, and many others. Our approach to these problems must be positive, not negative. Our objective must be a permanently high level of national income and a correspondingly high standard of living. To achieve this end there must be concerted efforts by industry, labor, and Government and a well-planned demobilization program. As men, materials, and facilities are released from war service and production, such resources must be channeled into civilian production on a basis that will assure a high and stable level of production, consumption, and employment. The soldier, the worker, the businessman, and the farmer must have assurance against economic chaos.

Just as economic mobilization for total war required many interrelated measures, so adequate reconversion to civilian production will require many interrelated adjustments of fiscal policy, production policy, price policy, and labor policy. At this time I shall discuss, but briefly, certain aspects of a demobilization program.

CONTRACT TERMINATION, DISPOSAL OF SURPLUS PROPERTY, AND
INDUSTRIAL RECONVERSION

The problems pertaining to the termination of contracts, the disposal of war surpluses, and the reconversion of industry, already before us, will take on increased significance during the war and after.

Contract termination will become a problem of large magnitude. A considerable number of contracts has already been terminated. Should victory be achieved on one front, the volume of contract termination and related settlement problems will increase markedly even during the war. Raw materials, goods in process, and overhead costs incurred on the assumption that contracts will be completed, all involve settlement problems when contracts are terminated. The timing of future contract terminations is, of course, uncertain; but it is evident that the volume of such terminations and the amount of related claims and payments will be very large.

It will be necessary to dispose of a vast amount of Government property. Our war program has required the expenditure of approximately 15 billion dollars by the Government for new industrial plant and equipment and over 13 billion dollars for nonindustrial construction and land. In addition, the Government owns scores of billions of dollars of raw materials, merchant ships, aircraft, munitions, and a wide variety of other commodities. The value of Government property that will become surplus during and after the war is as uncertain as the vicissitudes of war. There can be no doubt, however, that a very large amount of public funds will be involved.

The policies followed in contract termination and the disposal of surplus property will have a major impact on the speed and effectiveness of the reconversion of industry and of the reemployment of those released from war service and war production. Such policies will also have a major bearing on the stability and pattern of the Nation's economy for many years to come. It is, therefore, imperative to develop a unified program to deal with the interrelated problems of contract termination, surplus property disposal, and industrial reconversion. To facilitate the development of coordinated policies pertaining to these fields, a war and post-war adjustment unit has been established in the Office of War Mobilization. A Joint Contract Termination Board, including representatives of the several contracting agencies, has also been established in that Office to develop

recommendations for a unified program relating to the settlement of terminated war contracts. Recommendations pertaining to contract termination and disposition of surplus war properties are now in preparation.

The disposition of war surpluses should be closely coordinated with the permanent management of Government property. To provide a foundation for such coordination, I hope that machinery for the permanent management of Government property can be established in the very near future.

MANPOWER DEMOBILIZATION AND REEMPLOYMENT

Demobilization of war workers and members of the armed forces also starts long before the war ends. Since January 1, 1942, we have discharged a million men and women from active military duty because of age, physical and mental disabilities, and other reasons.

Both servicemen and war workers will need active help in finding their way back into gainful and productive peacetime employment. Many have gained exceptional skills and shown managerial ability in wartime; they should have an opportunity to contribute these skills and aptitudes to civilian activities. Certain reemployment rights in private and Government employment have been assured to members of the armed forces and, in limited instances, to those who transferred to war jobs. Many of these will be able to resume their pre-war employment. This war, however, is causing substantial changes in the geographic, technological, and market structures of industry. Many employers will be recruiting employees in excess of their pre-war labor force. Many employees and ex-servicemen will be looking for new employment opportunities because they had no employment before the war or because their previous jobs no longer exist.

It is imperative that we be on guard against any weakening of the administrative agencies which have been established for the purpose of job placement, counseling, and training. To master this great task of reemployment we must maintain and strengthen during the demobilization period a unified national employment and counseling service. Adequate provisions for job re-training, education, and rehabilitation must supplement the placement service. Special measures are needed to increase the opportunities for the employment of ex-servicemen, particularly those disabled in war service.

PUBLIC WORKS PLANNING

Our reconversion policy should have as a major aim the stimulation of private investment and employment. There will, however, be an urgent need for certain public works in the post-war period. As a result of the war the normal construction work of Federal, State, and local governments has been curtailed. Many new facilities will be needed. Careful advance planning and evaluation are essential to assure that priority will be given those projects that fill the greatest need relative to their cost, as well as to assure that their construction will be timed in accordance with employment requirements.

It is my hope that adequate machinery for the general planning and evaluation of public works in relation to broader economic activities can be established at all levels of government and that there can be close coordination both in planning and in completing essential projects. Thus, public works activities of the various communities and areas would be effectively coordinated with broad national programs and interests.

I have directed the various Federal agencies to submit estimates of appropriations for making detailed plans for Federal public works and improvements. I have asked the Bureau of the Budget to assume a continuing responsibility for coordinating the advance preparation of Federal public works and improvement programs to be undertaken when the war is over.

VETERANS' LEGISLATION AND SOCIAL SECURITY

Last July I recommended to the Congress a minimum program to assist servicemen and servicewomen in meeting some of the problems they will face when discharged. This included mustering-out pay for every member of the armed forces sufficient to provide for a reasonable period after discharge. I also urged an educational and training program to enable those demobilized from the armed forces to further their education and training and to prepare for peacetime employment. I am confident that the Congress will take early action along these lines.

The permanent program of social security initially adopted in 1935 provides a framework within which many of the problems of demobilization can be met. This framework of unemployment insurance and retirement benefits must be reinforced and extended so that we shall

be better equipped for readjustment of the labor force and for the demobilization of the armed forces and civilian war workers.

Pressing economic need has forced many workers to continue in employment or seek work even when disability, old age, or care of young children would have made retirement from the labor force preferable. Extension at the present time of the coverage of the Federal old-age and survivors insurance system to many groups now denied protection, and expansion of the scope of the system to include disability benefits, would permit these workers to retire after the war. The old-age and survivors insurance system should also be amended to give those in the armed forces credit for the period of their military service.

The proposed changes in the social-security law would provide the necessary minimum protection for nearly all individuals and their families, including veterans of the present war. They would provide benefits additional to veterans' pensions, veterans' compensation, and national service life insurance in case of death or disability attributable to military service.

I repeat my recommendation that the present unemployment insurance system be strengthened so that we shall be able to provide the necessary protection to the millions of workers who may be affected by reconversion of industry. I prefer an extension of coverage and liberalization of unemployment benefits to any special legislation, such as that providing for dismissal payments through war contractors. I also recommend the adoption of a program of Federal unemployment allowances for members of the armed forces. Furthermore, I suggest Congress consider the establishment of unemployment insurance for maritime employees and a temporary system of unemployment allowances for those in Federal service who, because of their wartime employment, have been unable to build up rights under the existing system.

INTERNATIONAL PROBLEMS OF READJUSTMENT

In the international field, as in the domestic field, there is no sharp distinction between war and post-war policies. For example, the program under lend-lease and reciprocal lend-lease arrangements is designed to facilitate the effective prosecution of the war and at the same time to help lay the foundation for post-war settlement and international prosperity.

We are now engaged in discussion with other members of the United Nations to work out plans to expedite the international flow of capital

into worth-while long-term investments, to remove obstacles to international trade, and to stabilize currencies. The United Nations are working toward a permanent international organization for food and agriculture. We are also considering cooperative arrangements to facilitate maritime and air transportation.

The success of these international policies depends to a considerable extent on the success of our domestic demobilization policy, and vice versa. The more prosperous the United States, the more it will demand the products of other countries, both in the form of raw materials for its industries and in the form of manufactured goods to meet consumers' demands. Our purchases will, in turn, provide other countries with the means to buy more of our exports. More and more, our prosperity and world prosperity become interdependent.

THE FARM AND FOOD PROGRAM

Farm output in 1943 has been the largest in our Nation's history. This bountiful production has enabled us to maintain the best-fed Army in the world, to send much needed food to our Allies, and to eat better ourselves than civilians in any other country. Although some of us at home did not have all the particular foods we wanted, more of us were nutritionally well fed than ever before. Our farmers have accomplished this through hard work and intelligent use of their resources.

The year 1944 will be more critical on the food front in view of increasing food requirements for our armed forces, our Allies, and the starving populations in territories formerly occupied by the enemy. To meet these needs, farm production must be larger than in 1943. Barring unfavorable weather conditions, I believe this objective can and will be achieved through even better use of our farm labor, land, machinery, and other resources.

Farmers, spurred on by their desire to make the utmost contribution to the war effort, will do their level best to get the job done. It is the Government's responsibility to facilitate their efforts. The major emphasis of our 1944 program will be to develop and encourage balanced production, efficient farming practices, and the full use of all our agricultural resources.

Much of the Government's assistance to agriculture in the past ten years has been intended to reestablish farmers' purchasing power. This has been achieved—and more. Farm prices in 1943 were 115 percent of parity, and farm income in 1943 is estimated at 150 percent

of parity. On the price side, the problem of the Government is no longer to increase farm prices generally, but rather to adjust relationships among prices of the various farm products in harmony with relative production needs. To this end the War Food Administrator, in cooperation with the Price Administrator and with the approval of the Director of Economic Stabilization, has prepared a full schedule of support prices for war crops and other critical commodities with the objective of encouraging 1944 production of each crop in the quantity desired without increasing the general level of farm prices. This schedule should be announced well in advance of planting time. The carrying out of these support prices, however, will depend upon congressional action on the Commodity Credit Corporation bill. The schedule of support prices must be implemented by appropriate measures such as loans, purchase and sale programs, ceilings, and related production aids.

A stable farm price level is basic if we are to prevent inflation. I have often declared my belief that the judicious use of subsidies is necessary if consumer prices are to be kept from rising. I repeat it again. Only if we succeed in preventing an appreciable rise in the general level of both farm prices and wages, however, can we continue to hold the cost of living stable with a moderate use of subsidies. The cost-of-living index was 124.1 in November 1943—the same as in April.

In order that the Federal Government may fulfill its responsibility in the 1944 farm and food program, I am recommending appropriations of 659 million dollars for the Department of Agriculture including the War Food Administration. This is approximately 314 million dollars less than the current appropriations for these agencies. The recommendation includes provision for conservation and use of agricultural land resources, the Soil Conservation Service, the Farm Security Administration, the exportation and domestic consumption of agricultural commodities, the administration of the Sugar Act, and research and other long-established functions of the Department of Agriculture. It does not include provision for potential losses of the Commodity Credit Corporation. The over-all decrease of 314 million dollars results largely from the omission of a recommendation for parity payments and a reduction in the recommended appropriation for conservation and use of agricultural land resources.

MESSAGE TRANSMITTING THE BUDGET

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TOTAL FEDERAL EXPENDITURES

The estimates of Federal expenditures are intimately related to the stabilization program. If we permit general increases in wages in the war industries, in farm prices, or in profits on war contracts, Federal expenditures will increase correspondingly. The estimates presented in this Budget are based on the assumption that the wage and price line will be held and I am convinced that the line can be held. Wages, farm prices, and profits have reached levels which should be exceeded only in rare cases of special war requirements and not by attempts of pressure groups to promote their special interests. If we take the point of view that our efforts to secure stabilization can be relaxed just because production is nearing its peak, we shall be sacrificing one of the main objectives of the stabilization program—to reduce the dangers of economic disorganization in the demobilization period.

The following figures summarize Federal expenditures in recent years for the war program, for interest on the public debt, and for all other activities.

TOTAL EXPENDITURES FOR FISCAL YEARS 1942-1945

Excluding debt retirement and trust funds

[In millions]

Classification	1945 estimated	1944 estimated	1943 actual	1942 actual
War activities:				
General and special accounts.....	\$88,200	\$88,500	\$72,109	\$26,011
Government corporations (expenditures less receipts).....	1,800	3,500	2,976	2,255
Total	90,000	92,000	75,085	28,266
Interest on public debt.....	3,750	2,650	1,808	1,280
Other activities:				
General and special accounts:				
Veterans' pensions and benefits.....	1,252	865	600	552
Refunds of taxes and customs, including excess-profits tax refund bonds.....	1,799	412	79	94
All other.....	2,953	3,524	3,583	4,479
Government corporations (expenditures less receipts).....	15	-175	-1,476	-440
Total expenditures	99,769	99,276	79,679	34,211

As I have pointed out repeatedly, there is not much realism in the customary distinction between war expenditures and other expenditures, often called "nonwar" expenditures. Practically all Government activities under present conditions are related directly or indirectly to the war. War expenditures, as identified for budgetary purposes, include only those made under appropriations which the Congress has designated "defense" or "war" or obviously enacted for war purposes.

Another group of expenditures is emerging as a result of the present war. Already large, this aftermath-of-war category will become a dominant factor in future budgets. For the fiscal year 1945 it includes, for example, about three-fourths of the interest on the public debt; more than half of the expenditures for insurance, pensions, and other benefits for veterans; and a large amount for refunds of war taxes. Expenditures for contract termination, now included in war procurement, also belong in this group.

Expenditures for veterans' pensions and benefits and for tax refunds are expected to rise sharply during the fiscal year 1945. Tax refunds include 1 billion dollars for issuance of post-war bonds for the refundable portion of corporate excess-profits taxes. The issuance of refund bonds is, of course, not a cash expenditure.

Excluding expenditures for veterans and refunds, the total for "other" activities is expected to continue next year the steady decline which has been maintained since 1939. The estimate for the fiscal year 1945 is 2,953 million dollars—barely half the comparable total of 5,897 million dollars expended in 1939. It is 571 million dollars below the revised estimates for the current fiscal year.

This latter decrease will occur despite some increases in so-called "nonwar" expenditures. Among the increases are 129 million dollars in some subdivisions of the Treasury, Justice, State, and Agriculture Departments, the General Accounting Office, the National Advisory Committee for Aeronautics, and the social security program. For the most part, these increases reflect war-necessitated expansions of workloads under "nonwar" appropriations. Major reductions are expected in aids to agriculture, general public works, work relief, the Department of Commerce, War Department civil functions, and the Federal Works Agency. These items total 553 million dollars less than the corresponding items for the present fiscal year. The Post Office expects to have no deficit but rather a surplus of 11 million dollars.

For all purposes other than direct war activities, I am recommending appropriations, in general and special accounts, of 10,115 million dollars, including 3,750 million dollars for interest on the public debt and 590 million dollars for statutory debt retirement under permanent appropriation. The total of 5,775 million dollars for other purposes is an increase of 1,321 million dollars over the amount enacted by the Congress for the current fiscal year including anticipated supplemental appropriations. This increase, like the expenditure estimates, reflects primarily the large volume of veterans' benefits and tax refunds occasioned by the present war, and if these items are excluded there is a decrease of 434 million dollars.

The estimated expenditures and recommended appropriations assume application of the Overtime Pay Act with present coverage throughout the fiscal year 1945. Current provisions for overtime pay for most Federal Government employees have been operative only since May 1, 1943; they will expire June 30, 1945, unless terminated earlier by the Congress.

The overtime pay law provides for quarterly determinations by the Director of the Bureau of the Budget of the number of employees required for the proper and efficient exercise of the functions of each department or agency. Although nearly half the civilian personnel of the Government are not covered by the act, I believe the determinations have effectively supplemented other budgetary controls. Other factors contributing to savings in Government use of manpower have been the legislation authorizing overtime work and pay, suggestions made by congressional committees, general manpower controls, curtailment and consolidation of activities, and the unremitting efforts of the Civil Service Commission and the heads of operating agencies to use personnel more effectively.

More than a year ago I notified the heads of all departments and agencies that I expected them to eliminate every nonvital service, to seize every opportunity for improving the speed and efficiency of operations, and to conserve manpower, materials, and money. Each of these officials is now being asked to take stock of what his agency has accomplished and to continue aggressive efforts for improvement in the management and economical functioning of his organization.

One result of all these efforts has been a material reduction in Government personnel. The latest reported total of paid civilian employees of the Executive branch in continental United States was 2,798,000 in October 1943; there were 154,500 additional in Alaska,

the Panama Canal Zone, and overseas. Nearly three-fourths were in the War and Navy Departments and other war agencies. The total number employed in the continental United States in October was 205,000 below the peak of June 1943. The bulk of the reduction was in the war agencies; they reduced personnel by 167,000 from June to October, while the so-called nonwar agencies reduced personnel by 38,000. The earlier rise was in the war agencies. Other agencies as a group have been reducing personnel steadily for 18 months or more, although during all that time they have been devoting more and more of their efforts directly to war activities.

There has been, during the past year, too much unfounded disparagement of Government employment. No one can estimate what this has cost in impaired morale, employee turn-over, recruitment difficulties, and retardation of essential war work. Thousands of Americans entered the Government service or have remained in it with single-hearted determination to contribute to victory. Yet Government employees frequently have had to bear an unjustified stigma, somehow associated with the mistaken assumption that nearly all of them occupy armchair jobs. Of course, it is true that thousands of Government employees work at desks. In Government, as elsewhere, the manual workers are not the only producers. Modern armies cannot operate without quartermasters, paymasters, communication systems; ships and planes cannot be built without drafting, procurement, accounting; indeed, no organized activity in our complex society can succeed without writing and record-keeping. Even so, the large majority of employees in the war agencies are engaged in mechanical operations. Among the so-called nonwar agencies, the Postal Service alone accounts for more than two-fifths of all the personnel. These facts are too frequently disregarded by critics who fail to look behind personnel statistics to the work the employees do.

THE REVENUE AND BORROWING PROGRAM

SUMMARY OF FEDERAL FINANCES

Net receipts under present legislation are estimated at a little more than 41 billion dollars for the current fiscal year and at somewhat less than 41 billion dollars for the fiscal year 1945. Receipts in these years will be about 19 billion dollars above those of the fiscal year 1943. This rise reflects increased tax rates in the Revenue Act of 1942, the Current Tax Payment Act of 1943, and the higher level of incomes and profits. Net receipts from all sources in the fiscal year 1945 are

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expected to be somewhat lower than in the current fiscal year, despite the fact that some items, notably corporation taxes, will increase further. Substantial collections in the present fiscal year, mainly in connection with transition to a current basis for individual income taxes, will not recur in 1945 and later years. Estimates of receipts in this Budget are subject to modification if the pending revenue bill is enacted.

Total expenditures for the fiscal year 1945 are estimated to exceed net receipts by 59 billion dollars. Without further legislation the deficit will amount to 59 percent of total expenditures, approximately the same as the comparable ratio for the current fiscal year.

SUMMARY OF FEDERAL FINANCES

Excluding debt retirement and trust funds

[In millions]

Classification	1945 estimated	1944 estimated	1943 actual	1942 actual
Total expenditures (p. xvii).....	\$99,769	\$99,276	\$79,679	\$84,211
Total receipts.....	43,425	42,578	23,385	13,668
Deduct: Net appropriations for Federal old-age and survivors insurance trust fund.....	2,656	1,392	1,103	869
Net receipts.....	40,769	41,186	22,282	12,799
Excess of expenditures over receipts.....	59,000	58,090	57,397	21,412

In view of these prospective deficits, I recommend the earliest possible enactment of additional fiscal legislation.

The amount which the Federal trust funds, especially the old-age and survivors insurance fund, can invest in Treasury bonds has been estimated under the assumption that the increased Federal insurance contribution rates which were scheduled for January 1, 1944, will become effective on March 1, 1944. The Congress decided to postpone the effective date of the increase 60 days in order to gain time for further consideration of the increase in social security rates. I earnestly urge the Congress to retain at this time the scheduled increase in rates. High employment and low rates of retirement during the war have added to social insurance reserves. However, liabilities for future benefits based on the increased wartime employment and wages have risen concurrently. The increase in contributions provided by existing law should now become effective so that the contributions

will be more nearly in accord with the value of the insurance provided and so that reserves may be built up to aid in financing future benefit payments.

THE NEED FOR ADDITIONAL TAXES

In my Budget message last year I recommended legislation to collect 16 billion dollars in additional taxes, savings, or both. I also pointed out the importance of simplifying taxation and of putting taxes, as far as feasible, on a pay-as-you-go basis. I repeated previous recommendations for making our tax laws more fair and equitable.

Provision for collection of individual income taxes on a pay-as-you-go basis was made in 1943 by the passage of the Current Tax Payment Act.

In October 1943, the Administration's revenue program was presented calling for additional wartime taxes in the amount of 10.5 billion dollars. Those recommendations are still under consideration by the Congress, and I wish at this time to stress the need for additional wartime taxes in at least the amount requested in October.

The developments of the past year have not lessened the needs for additional revenue and nothing has occurred to indicate that the Administration's tax program is more than a minimum. Indeed, the necessity for additional revenue becomes increasingly acute as the war continues. The debt has risen at a record rate, and the prospect is for a continued rise with little or no diminution in rate during the months to come. Let us face the fact—the failure thus far to enact an adequate fiscal program has aggravated the difficulties of maintaining economic stabilization. Increases in income should be limited to reasonable rewards for additional effort. A wartime tax policy directed to that objective is a necessary support to wage and price stabilization. It is, furthermore, an important wartime contribution to post-war fiscal planning.

The time to impose high taxes is now when incomes are high and goods are scarce. In this situation, if we do not now pay in taxes all that we can, we shall be treating unfairly those who must face the accumulated bill after the war. Individual incomes will be approximately 40 percent higher in the calendar year 1944 than in 1941, after payment of all taxes, Federal, State, and local. Corporate profits after taxes are running at an all-time high. The time to relax some wartime taxes will come when goods are again plentiful, after reconversion of industry to peacetime production.

In view of these facts, I must urge upon the Congress the need for additional revenue beyond that provided in the bill now pending before the Senate. I also recommend tax simplification to reduce the burdens of compliance of the many millions of taxpayers by elimination of returns where feasible and by other measures—provided such changes do not result in substantial impairment of receipts for the Treasury or of equity for taxpayers.

RENEGOTIATION OF WAR CONTRACTS

The American people are united in their resolution to prevent war profiteering. Taxation alone is not enough. One of the most constructive attempts ever made to reduce profiteering at the expense of the Government in wartime was the renegotiation law, enacted by the Congress in April 1942. That statute gives to the major procurement agencies the right and charges them with the duty to re-examine their war contracts and subcontracts and to recover excessive amounts paid under them, as well as to reduce inordinately high prices being charged for goods still to be delivered.

The record of performance under that statute has been good. The cost of our procurement program has already been reduced by over 5 billion dollars by contractors' agreements to refund money already paid them by the Government for war matériel and by price reductions granted the Government on goods still to be delivered. A considerable part of this amount would have escaped even wartime taxes. Many wartime profits are not subject to excess-profits taxation; moreover, even taxes paid may be refunded under various provisions of the present excess-profits tax law. The recapture of exorbitant war profits, in my judgment, should be definitely assured by renegotiation. To measure the benefits of the renegotiation statute in terms of dollars recovered from war contractors is to understate its beneficial effect. The statute is enabling us to combine speed of procurement with fair prices for the goods the Government must buy. Without it the war procurement program would be handicapped.

Of late I have been disturbed by proposals, apparently being seriously considered in the Congress, which will, if adopted, greatly restrict the operation of the statute if not destroy its effectiveness. I believe adoption of such proposals would be a serious mistake. In spite of criticism leveled at the statute by highly articulate special pleaders, I think it can fairly be said that the statute has proved to

be very helpful in preventing or reducing excessive profits, and that renegotiation has been carried out with fairness and equity.

THE PUBLIC DEBT

Wartime spending leaves its legacy of post-war debt. By June 30, 1944, the public debt is expected to reach 198 billion dollars, and a year later, 258 billion dollars. Even higher totals will be reached if advance financing builds up cash balances. In any case it will soon be necessary to request legislation authorizing a further increase in the debt limit from the present level of 210 billion dollars. In view of these huge totals, administration of the public debt and of related fiscal policies must receive double care and scrutiny.

The primary achievement of our debt policy has been the maintenance of low and stable rates of interest. Average interest rates payable on the public debt now are less than 2 percent. Interest received from all new issues is fully taxable. As a result, the net cost per dollar borrowed since Pearl Harbor has been about a third the cost of borrowing in the first World War.

A debt of 258 billion dollars will require gross interest payments of 5 billion dollars annually at the present average rate. With a national income of 125 billion dollars or more, these payments need not prove oppressive. I am confident that we can devise a tax structure and other appropriate economic policies which will permit both payment of interest, and gradual repayment of principal during years of prosperity, without impairing the stability and growth of the national income.

We have sought to secure the broadest possible distribution of our debt, not only to fight against inflation, but also to assure a wide distribution of income from the debt. For these two reasons it has been our deliberate policy to offer the highest rates of interest on those bonds which are sold to individual purchasers in limited amounts.

Over 50 million subscribers to war bonds now own a direct financial stake in the United States. More than a third of all the resources of life insurance companies and mutual savings banks and half of all the assets of commercial banks consist of Government bonds. These individual investors, as well as bank depositors and insurance policy holders, can count upon the soundness of these assets.

Every dollar accumulated by individuals, corporations, or other nonfinancial institutions adds to rainy-day reserves of these bondholders. Businesses with heavy costs of reconversion will be able to defray such costs in part through liquidation of bonds. State and

local governments will be able to finance some public works programs without levying additional taxes or borrowing additional funds. Individuals who are temporarily unemployed will be able to redeem war bonds, besides relying upon unemployment compensation and other provisions.

An increase in wartime debt is unavoidable. War expenditures must continue at high levels until our enemies are defeated; a bare minimum of regular Government activity must be preserved; interest must be paid regularly on the outstanding debt. The executive departments are using their best efforts to hold down all these outlays, wherever reductions are consistent with maximum war effort. The only effective way now to control the volume of the debt and to minimize post-war adjustments is to adopt a truly stiff fiscal program.

This war was inevitable because peaceful nations cannot live in the same world with nations that have become tools in the hands of irresponsible cliques bent on conquest. That obstacle to peace will be removed by destruction of the German and Japanese war machines and by establishing lasting cooperation among the nations united in the fight for freedom. In this Budget I have outlined the financial requirements for victory. I have also outlined some of the measures required to aid in the reconversion of our war economy and to help discharged soldiers and dismissed war workers find their way back into civilian life and peacetime employment.

Military victory is not enough. We shall not have completed the defense of our way of life until we also solve the second task, the reconstruction of an economy in which everyone willing to work can find for himself a place in productive employment. The enemy, though beaten on the battlefields, may still arise in our midst if we fail in the task of reconstruction.

Victory will be not only a cause for joy over an accomplishment but at the same time a challenge to another great undertaking. You and I have the responsibility to prepare for victory and for peace. Let us make sure that the Budget, the Government's work plan, serves both ends.

FRANKLIN D. ROOSEVELT.

JANUARY 10, 1944.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

I am transmitting the Budget for the fiscal year 1946 as fighting all over the globe reaches a climax of fury. We on the home front must back our fighting men and women to the limit. That is our supreme duty. At the same time we must look ahead. We must be ready to throw our whole effort into the campaign against Japan as fast as the war in Europe permits. And finally, we must begin plans to transform an all-out war economy into a full-employment peace economy whenever demobilization becomes possible. Programs for all these developments must be considered in budget planning for a period that extends over 18 months.

We must make sure that our armed forces can plan their procurement programs for continuing global war. I shall transmit detailed recommendations for war appropriations by early spring, in time for the Congress to act on these requests before the beginning of the new fiscal year. I estimate now that 73 billion dollars of appropriations and authorizations will be needed for war purposes for the fiscal year 1946.

If the war develops favorably, unobligated balances of war appropriations no longer required for authorized purposes will be placed in reserve and reported to the Congress for repeal or other action under the provisions of present law.

Actual expenditures of the Federal Government depend largely on the course of the war. I have not made in the past, and I shall not now make, any prediction concerning the length of the war. My only prediction is that our enemies will be totally defeated before we lay down our arms. Depending on various assumptions which may reasonably be made with respect to the course of the war, estimates of war expenditures for the fiscal year 1946 range from less than 60 to more than 80 billion dollars. I propose to use 70 billion dollars as a tentative estimate of war expenditures for the fiscal year 1946. I repeat, however—the rate of actual spending must depend on developments on the battlefronts.

For purposes other than war, I am recommending appropriations, in¹ general and special accounts, to cover estimated expenditures of 13 billion dollars.

¹ Total appropriations and authorizations (including reappropriations and permanent appropriations) for war and other purposes

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reached a peak of 128 billion dollars for the last complete fiscal year that ended June 30, 1944; 97 billion dollars have been appropriated for the current fiscal year; and I estimate now that 87 billion dollars will be recommended to the Congress for the next fiscal year.

Total expenditures for war and other purposes (in general and special accounts and net outlays of Government corporations, excluding debt retirement) were 95 billion dollars during the fiscal year 1944; they are now estimated at 100 billion dollars for the current fiscal year; and, on the basis of the tentative estimates of war expenditures, they will be 83 billion dollars during the fiscal year 1946.

I propose no substantial change in tax legislation at this time. Revenues are expected to decline somewhat under the influence of the estimated decline in expenditures. The Federal debt is estimated to reach 252 billion dollars on June 30, 1945, and 292 billion dollars 12 months later.

The 1946 Budget is summarized in charts and tables following this Message. In the subsequent sections I comment on appropriations, expenditures, and revenues under existing legislation, and make suggestions for future legislation.

THE WAR PROGRAM

EXPENDITURES FOR THE WAR PROGRAM

Early in the war we had the threefold task of building up a new munitions industry in this country, producing the equipment and means of transportation for our expanding armed forces, and aiding our Allies in their resistance against the aggressors. The record today shows that we have spent 28 billion dollars since July 1, 1940, to build munitions factories, cantonments, depots, hospitals, war housing, and for other war construction. Three times the total strength of our Army and Navy at the time of Pearl Harbor is now fighting or deployed overseas. Thirty-six billion dollars of lend-lease aid have been furnished in goods and services to our Allies, who in turn have aided us with approximately 4.5 billion dollars worth of goods and services.

We have now substantially completed our war construction. Expenditures for war construction, which in the fiscal year 1943 reached a peak of 12.7 billion dollars, are now down to an annual rate of about 2.5 billion dollars. The development of new weapons and increased need for ammunition still require some new plants and equipment, but total outlays for war construction are declining, as shown in the following table:

MESSAGE TRANSMITTING THE BUDGET

VII

WAR EXPENDITURES FOR FISCAL YEARS 1941-1945

Including net outlays of Government corporations

[In billions]

Type of expenditure	1941	1942	1943	1944	1945 ¹
Munitions, including ships.....	\$2.3	\$12.7	\$42.3	\$55.6	\$53.8
War construction and war plant:					
Industrial plant and equipment.....	0.8	4.1	6.7	2.6	1.3
Nonindustrial and military construction.....	1.4	3.5	6.0	2.0	0.9
Total war construction and war plant.....	2.2	7.6	12.7	4.6	2.2
Pay, subsistence, and other nonmunitions ²	2.2	8.0	20.1	29.5	33.0
Total war expenditures.....	6.7	28.3	75.1	89.7	89.0

¹ Revised estimate.² Including agricultural lend-lease and other civilian war activities.

We have also substantially completed the initial equipment of the Army and Navy and their Air Forces. Although we have now a Merchant Marine four times its pre-war tonnage, the terrific strain of global war makes necessary some further addition to the cargo and tanker fleet.

Our forces engaged in battles in Europe and Asia expend munitions at a prodigious rate. The main job now is that of replenishing equipment and supplies and of providing our fighting men with the most up-to-date weapons which can be contrived. Some weapons of which we had sizable inventories only a few months ago must now be produced in increased quantities. More than one-fourth of present war production is in critical items. Untimely relaxation in war production spells greater sacrifice in human lives and delays victory.

Expenditures for pay and subsistence of the armed forces still are increasing because of the higher pay for a larger number of soldiers and sailors stationed overseas. Expenditures for mustering-out payments are also increasing as a result of the considerable turn-over in our forces.

The war expenditure estimate for the fiscal year 1946 also provides for continuance of subsidies paid out of funds of the Reconstruction Finance Corporation to assure war output and to stabilize the cost of living. It excludes payments of the Department of Agriculture for the farm price support and related agricultural programs which are discussed elsewhere in this Budget. No allowance is made either for possible addition of new subsidy programs or for discon-

tinuance or reduction of existing programs, although I hope that a reduction will become possible. In accordance with legislation enacted by the last Congress, I shall submit detailed recommendations for these programs at a later date.

War expenditures are expected to decline in the fiscal year 1946; our war construction and initial military equipment are substantially complete, and our supply lines have been filled. The extent of that decline depends on the course of the war. The composition of war expenditures will change considerably in any case.

There has been overoptimistic speculation about the possible cut in war expenditures when major hostilities in Europe end and our main efforts are concentrated on the Japanese campaign. We should make a great mistake if, in our military and budgetary planning, we underestimate the task of defeating Japan. Japan now occupies twice the area which was held by the Nazis in Europe at the peak of their power, an area as large as the continental United States. The population now under Japanese control is more than three times the population of the United States.

The supply lines to the Pacific and Asiatic theater are two and three times the distance to Europe, and the turn-around time for ships has been two-thirds greater. As the battle against Japan mounts, more cargo will have to be shipped over greater distances.

Our task in Europe will not end with the cessation of hostilities there. The war will not be won unless we accept our share of responsibility for the administration of occupied territories and for relief and rehabilitation in the liberated areas. Expenditures for these tasks are part of the war Budget.

APPROPRIATIONS FOR THE WAR PROGRAM

The uncertainties of war require that the budgets of the military agencies be sufficiently large and flexible to permit them to meet all demands that may arise. Adequate appropriations and contract authorizations enable the war agencies to make commitments and to place procurement contracts far enough ahead for industry to plan the various stages of production. On the other hand, we should, of course, also be prepared to adjust our war programs downward if the development of the war allows.

The Congress has placed administrative controls in the Executive Office of the President by granting authority, under legislation expir-

MESSAGE TRANSMITTING THE BUDGET

ing June 30, 1945, to limit personnel in the Federal agencies and has reinforced them by requesting reports on unobligated balances of war appropriations.

There is a considerable time lag between the legislative authorization or appropriation for war supply, the obligation or placement of orders with contractors, and the final payment on delivery of finished munitions. The huge authorizations and appropriations voted by the Congress in the early years of the war enabled the war agencies to place munitions contracts for later delivery. We are now paying for deliveries under these contracts. Unliquidated obligations for the war program totaled 100 billion dollars at the beginning of the fiscal year 1944; they had been reduced at the end of November 1944 to about 66 billion dollars by payment or, in some cases, by cancelation.

Appropriations and authorizations for war purposes, in the general and special accounts, for the fiscal year 1944 were 120 billion dollars. For the fiscal year 1945, they declined to 85 billion dollars, and for the fiscal year 1946 are now tentatively estimated at 73 billion dollars. These totals include reappropriations and contract authorizations required for new obligations. The total war program, measured by such appropriations and authorizations together with net commitments of Government corporations for the fiscal years 1941 through 1946, will total 450 billion dollars, as shown in the following table:

THE WAR PROGRAM
[In billions]

Description	Cumulative from July 1, 1940, to—	
	June 30, 1945	June 30, 1946
Authorizations:		
Appropriations.....	\$362.7	\$423.4
Unliquidated contract authorizations.....	13.1	11.1
Net commitments of Reconstruction Finance Corporation and affiliates ¹	16.5	15.2
Total authorizations.....	392.3	449.7
Expenditures:		
General and special accounts.....	279.4	348.8
Reconstruction Finance Corporation and affiliates (net).....	9.4	10.0
Total expenditures.....	288.8	358.8
Unobligated balances and unliquidated obligations at end of period.....	103.5	90.9

¹ Gross commitments less withdrawals and cancelations, and less receipts from rents, repayments, and sales.

The estimated appropriations and authorizations for war for the fiscal year 1946 are composed of 59 billion dollars of new appropriations and authorizations, and 14 billion dollars of reappropriations of funds previously appropriated for war but not yet obligated. Unobligated balances of prior-year appropriations and authorizations to the Maritime Commission are adequate to carry out the merchant ship construction program as now approved. Detailed recommendations for most war activities will be transmitted in the spring.

These tentative estimates of appropriations include provisions for continuing lend-lease aid to our Allies. They are based on the assumption that the Lend-Lease Act will be reenacted prior to its expiration on June 30, 1945.

About one-sixth of present war outlays are for lend-lease and for relief and rehabilitation. We shall continue to provide lend-lease, and our Allies to provide reciprocal aid, to the full extent necessary to win the war. Lend-lease has been and will be an instrument of war; it will be liquidated with the end of the war. But when the war draws to a close in any theater, it may become urgently necessary for us to assist in relieving distress in the liberated areas. Appropriations to the War Department make some provision for civilian supply in territories occupied by the Army, but only to the extent necessary in the interest of military operations. For relief and rehabilitation after the battle lifts, the Congress has already authorized 1,350 million dollars as the contribution of the United States to the United Nations Relief and Rehabilitation Administration. To date, appropriations of 450 million dollars and transfer authorizations from lend-lease of 350 million dollars have been made as our share for immediate needs under this program. If the appropriated amount proves inadequate, we must take additional measures, in cooperation with the other United Nations, to make sure that the peoples of the liberated countries have essential relief from the devastation of war.

APPROPRIATIONS AND EXPENDITURES FOR OTHER THAN WAR ACTIVITIES

AFTERMATH-OF-WAR

In last year's Budget Message, I indicated the inevitable increase of expenditures in the aftermath-of-war category, particularly expenditures for war veterans, interest on the public debt, and tax refunds. Total expenditures for these purposes are increasing from

1.6 billion dollars in 1939 to an estimated 7.2 billion dollars in the current fiscal year, and will probably amount to 9.8 billion dollars in the next fiscal year. This increase arises directly out of the war. The 1946 total is larger than the whole Federal Budget 5 years ago.

Veterans' pensions and benefits.—Although the full impact of the veterans' program will not be felt until the years following demobilization, the total estimated requirements for 1946 of 2,623 million dollars represent about 20 percent of the total appropriations for other than direct war purposes. They are more than double the total appropriated for the veterans' program in the current fiscal year.

Additional appropriations for the current fiscal year will become necessary to cover increased pension costs occasioned by losses in service; to conform with recent legislation increasing coverage and liberalizing payments to veterans of former wars and to their dependents; and to carry out the provisions of the Servicemen's Readjustment Act of 1944. The estimated supplemental appropriations include these items.

Pension costs during the fiscal year 1946 are expected to increase sharply to a total of 1,080 million dollars, and the costs of education, readjustment allowances, and loan guarantees to 295 million dollars. In addition, 1,000 million dollars are provided for losses resulting from the hazards of the war among holders of national service life insurance policies and 85 million dollars for construction and reconditioning of hospital facilities. This hospital construction program (shown in the Budget under General Public Works), together with Army facilities later to be made available to the Veterans' Administration, may ultimately provide 300,000 beds.

The time and rate of demobilization will greatly affect the expansion of education, readjustment allowance, loan guarantee, and rehabilitation activities of the Veterans' Administration. The number of veterans of the present war will increase until at full tide these veterans will constitute one-tenth of the population and almost one-fourth of the labor force. The responsibility which we are assuming for their jobs, education, medical care, and financial assistance makes it increasingly essential that these programs for veterans be integrated with other programs of like nature affecting the whole Nation.

Interest.—Interest on the public debt is estimated to rise next year by 750 million dollars to 4,500 million dollars. This rise reflects entirely the current increase in the outstanding debt. No change is anticipated in the low interest rates at which the war is being financed.

Tax refunds.—Refunds of taxes are expected to require a total of 2,725 million dollars, an increase of 556 million dollars over the fiscal year 1945. About 1 billion dollars of this total will consist of repayments to wage and salary earners of withholdings in excess of tax liabilities. Another billion dollars reflects the issuance of post-war bonds which cover the refundable 10 percent of the excess profits tax. Other corporate tax refunds are due to the recomputation of the special amortization allowances for emergency facilities certified to be no longer necessary for war production, and to the carry-back provisions of the corporate income and excess profits tax laws. The refunds arising from these provisions for corporate tax relief will reach full volume only in future years.

AGRICULTURE

Agricultural production has continued at record levels for 3 successive war years. Farm income has been more than 135 percent of parity throughout the period. To assure continued production at a high level, I recommend appropriations for the Department of Agriculture, including the War Food Administration, of 512 million dollars. Although this is considerably less than has been appropriated in the fiscal year 1945, the amount available, after adjustment for unused balances, reappropriations, and transfers, will not be substantially less than the amount being used for agricultural purposes in this fiscal year. The appropriations include provision for the Agricultural Adjustment Agency, the Soil Conservation Service, the Farm Security Administration, the exportation and domestic consumption of agricultural commodities, the administration of the Sugar Act, and research and other long-established functions of the Department of Agriculture. They do not include provision for potential net expenditures of either the Commodity Credit Corporation or the Federal Crop Insurance Corporation. Of the 512 million dollars recommended, 10 million dollars for the War Food Administration are designated for war activities and 10 million dollars are for General Public Works.

Anticipating the needs of returning war veterans and the desirability of providing adequate assistance to small, low-income farmers, I recommend that the borrowing authority of the Farm Security Administration be increased from 67 to 125 million dollars for rural rehabilitation and from 15 to 50 million dollars for the tenant purchase program. I recommend that the borrowing authority of the

Rural Electrification Administration be increased from 25 to 150 million dollars in order to permit the extension of electricity to at least part of the 6 million rural families now without such service. I have already given my approval to a recommendation of the War Food Administrator for an increase of 2 billion dollars in borrowing authority of the Commodity Credit Corporation. I shall recommend appropriations for financing the revived program for crop insurance in the very near future.

This agricultural budget is a wartime budget. It does not fully reflect desirable long-time objectives. In the future, we must develop a program to eliminate malnutrition and rural poverty. The Government is committed to support agricultural prices to farmers at a fair level for 2 years after the war. Farmers and the Nation as a whole must be protected from heavy fluctuations in agricultural prices and income, and this must be accomplished without the accumulation of unmanageable surpluses. So long as a large number of people have an inadequate diet, we cannot have a true surplus of agricultural production. We can have only too much of the wrong things.

SOCIAL SECURITY, RETIREMENT, AND EDUCATION

Social security.—Appropriations for administration and grants under the social security program are estimated at 494 million dollars for the fiscal year 1946, an increase of 14 million dollars over the fiscal year 1945. This increase is largely for higher grants to match payments of the States under the Social Security Act.

I hope that the Congress will give early consideration to extension and improvement of our social security system and will reexamine the financial basis of the program.

Retirement funds.—Appropriations for the Government employees' retirement funds are estimated at 247 million dollars for the fiscal year 1946, an increase of 50 million dollars over the current fiscal year. This will reduce the previously accrued liabilities of the Government to these trust funds and will also provide for an increase in the number of employees currently acquiring benefit rights.

Education.—As a part of the Budget for the fiscal year 1946, I am recommending reorganization of the basic structure of the Office of Education. This reorganization will facilitate service to the States in the development of more adequate educational programs with proper emphasis on all the various aspects of education.

The training and educational programs of the Army, the Navy, and civilian agencies during this war have broadened our conception of the role that education should play in our national life. The records of selective service reveal that we have fallen far short of a suitable standard of elementary and secondary education. If a suitable standard is to be maintained in all parts of the country, the Federal Government must render aid where it is needed—but only where it is needed. Such financial aid should involve no interference with State and local control and administration of educational programs. It should simply make good our national obligation to all our children. This country is great enough to guarantee the right to education adequate for full citizenship.

PUBLIC WORKS

Recommended appropriations under the General Public Works Program in the fiscal year 1946 total 279 million dollars, 93 million dollars more than appropriated for the current year. Balances brought forward from public works appropriations of several years ago are about used up. Even with the recommended new appropriations, the program as a whole will be limited; actual construction will continue to be restricted to those projects which contribute to the war effort. Because of the completion of some of this war-related construction, expenditures are estimated to decrease slightly in the next fiscal year.

I recommend, however, appropriations for the planning of public works which the Congress has already authorized. We must continue to stock up a shelf of meritorious construction and development projects to be undertaken as manpower and material become available. By the end of the current fiscal year, detailed plans will be ready for about 1.5 billion dollars of Federal public works, and also will be substantially ready for a billion-dollar program of Federal-aid highways, half of this road program to be financed with State funds. We need a larger shelf of detailed plans in order to be prepared for the post-war period. Hence, appropriations for 1946 are recommended to make possible the completion of additional plans for highways, flood control, river development, stream pollution control, power transmission, reclamation, hospital, and other construction, as authorized by law. Further requests for funds for detailed planning of Federal projects will be made on Congressional authorization.

Plans have been completed or are in the design stage for about 3 billion dollars of State and local public works, excluding Federal-aid highways. The War Mobilization and Reconversion Act authorizes funds for Federal loans and advances which would make it possible to place further projects on the shelf of planned public works. The extent to which Federal funds are needed to enable States and localities to plan adequately for useful public works is now being reexamined, and I shall soon transmit a new recommendation concerning funds for these purposes.

In addition, programs are being developed for Federal loans and guarantees to stimulate private construction after the war. Guarantees and loans already available under the Servicemen's Readjustment Act will encourage residential, commercial, and farm building.

GENERAL GOVERNMENT

The civil departments and agencies of the Federal Government have been fully geared to the war effort. Appropriations for other than direct war or war-related activities have been reduced to rock-bottom. When the war situation permits a reduction in the war program, it will also be possible to reduce war activities of the civil departments. Such activities should be curtailed wherever possible. The Bureau of the Budget has been instructed to review currently the activities of the various Government agencies and to recommend such changes as become desirable in light of changing war requirements.

Agencies which will play a leading role in the peace effort must begin preparations for a progressively larger job. I recommend, for instance, an increase in the appropriations for the Department of State in order that it may be more adequately staffed at home and abroad. To prepare for the expected increase in workload, increases in appropriations are recommended for the Bureau of Foreign and Domestic Commerce, the Office of the Administrator of Civil Aeronautics, and a few other agencies.

Recommended appropriations for general Government for the fiscal year 1946 are slightly below those enacted for the current fiscal year. If supplemental appropriations for overtime pay are adopted, requirements for general Government may be somewhat above those for the current year.

GOVERNMENT CORPORATIONS—OTHER THAN WAR ACTIVITIES

Receipts of Government corporations (excluding war activities) will exceed expenditures for purposes other than debt retirement by

27 million dollars in the fiscal year 1946, and by 224 million dollars in the current fiscal year.

The operations of the Commodity Credit Corporation in connection with the farm and food programs require net outlays of 1 billion dollars during the current fiscal year. This assumes a supplemental appropriation of 256 million dollars to restore impaired capital of the Corporation. The estimate for the fiscal year 1946 provides for net expenditures of 572 million dollars which will absorb practically all the funds available to the Corporation under its present maximum borrowing authority of 3 billion dollars. If the Congress approves the pending recommendation for a further increase in the borrowing authority, increased operations of the Corporation may result in additional net expenditures in the fiscal year 1946.

Activities of other Government corporations are expected to show smaller net receipts than during the fiscal year 1945. Liquidation of pre-war loans and other assets will probably taper off. Some expansion in the nondefense lending activities of the Reconstruction Finance Corporation is also anticipated. The net receipts of Government corporations, in both the fiscal years 1945 and 1946, reflect substantial transfers of funds necessary to retire outstanding obligations of the Federal land banks.

FEDERAL PERSONNEL

Most of the Federal civilian employees are engaged in essential war work and must stay on the job as long as the war lasts. Government war services have suffered in recent months by departure of personnel, partly because of overoptimism about early victory, partly because of concern about employment opportunities after the war.

The total number of paid Federal employees in the continental United States in November 1944 was slightly under 2,900,000, of whom 2,040,000 were in the War and Navy Departments and other war agencies and 836,000 in the Post Office and other peacetime establishments. The total has declined 126,000 below the peak of June 1943. There will be further reductions as the course of the war permits, but our main concern at the present moment is to keep essential Government personnel on the job.

Anticipated supplemental appropriations for the fiscal year 1946 include about 500 million dollars as an approximation of the additional cost of overtime pay and other salary adjustments, assuming enactment of such pay legislation as the Congress may authorize to replace those

present acts which expire June 30, 1945. This allowance has not been allocated among the detailed war and other appropriation estimates to which it relates. The Budget estimates of personnel needs, expressed in "man-years," do, however, assume continuance of the present workweek, generally 48 hours. Under the War Overtime Pay Act of 1943, salaried employees are compensated for hours worked in excess of 40 a week. With but minor exceptions, basic salary rates have not been increased during the war.

In contrast to salaried employees, the skilled and unskilled workers, such as those in navy yards and arsenals, have had wage adjustments which have approximately kept pace with wage rates for comparable work in private industry. They have also received overtime pay at true time and one-half rates.

The third large category of Federal employees—the postal workers—in addition to receiving overtime compensation at straight-time rates, has been granted a wartime bonus.

Prior to the expiration of the overtime pay law, the Congress should reexamine the entire subject of hours of work and pay. Regardless of the progress of the war in Europe, many Federal employees will continue to be needed on a 48-hour work schedule, and provision must be made for their overtime compensation. I recommend that the Congress enact permanent legislation which would authorize overtime compensation at true time and one-half rates.

When at some future date it becomes possible for most Federal employees to go on a 40-hour workweek, their earnings will be materially reduced. A situation of hardship and unfairness will then exist unless an increase in basic salary rates has been granted in recognition of the rise in the cost of living. I recommend a prompt reexamination of Federal salary rates with a view to making adjustments consistent with the national stabilization policy.

BUDGET TOTALS

The discussion of expenditures for the war and for all other purposes lays the basis for presenting the Budget totals and for an analysis of the impact of the Federal Budget on the national economy as a whole.

EXPENDITURES

Of the total estimated expenditures, including net outlays of Government corporations, of 83 billion dollars for the fiscal year 1946, 84

percent are for direct war purposes; 12 percent are for veterans, interest on the public debt, and tax refunds; and only 4 percent for all other activities of the Federal Government. Expenditures in this last group of "other activities" are estimated at 3.3 billion dollars, somewhat less than for the current fiscal year; they are only about one-half of what they were in the years before the start of the defense program—largely because of the reduction in work relief, aids to youth, and general public works.

NET RECEIPTS IN THE FISCAL YEAR 1946 UNDER EXISTING LEGISLATION

Net receipts in general and special accounts under existing legislation are expected to decline from 45.7 billion dollars in the current fiscal year to 41.3 billion dollars in the fiscal year 1946. This development reflects, in large part, the 17-billion-dollar decrease in expenditures estimated in this Budget. Such a decrease in expenditures before full reconversion to civilian production will mean smaller individual incomes and corporate profits. This, in turn, will bring a decrease in receipts from individual income taxes and from corporate taxes. Because the present law will expire June 30, 1945, receipts from recovery of excessive profits from renegotiated war contracts will taper off during the fiscal year 1946. I recommend that the Congress extend the authority to renegotiate war contracts.

Receipts from excises and customs are expected to continue at about the same level in the fiscal year 1946 as in the current fiscal year. Sales of surplus Government-owned war supplies and property are beginning to yield substantial amounts. These receipts will be still larger in later fiscal years.

RECOMMENDATIONS FOR TAX LEGISLATION

Wartime taxes must be maintained as long as large-scale war expenditures are necessary. There is no justification for tax reductions as long as we are engaged in a major war. When a favorable development of the war allows a major decline in war expenditures, minor tax adjustments will become possible and desirable. I am pleased that the Joint Committee on Internal Revenue Taxation is studying the tax problems of the transition and post-war period.

BORROWING IN THE FISCAL YEAR 1946

Borrowing requirements during the fiscal year 1946 will amount to an estimated 40 billion dollars, compared with 51 billion dollars in the current fiscal year. Federal trust funds will have 5 billion dollars available for investment in Government securities, thus leaving 35 billion dollars to be borrowed from individuals and financial and other institutions. These estimates assume that the Treasury general fund balance, which amounted to 20 billion dollars at the end of the fiscal year 1944, will be reduced by 5 billion dollars during the current fiscal year, and by 2 billion dollars during the fiscal year 1946. They also assume that retirement of guaranteed obligations of Government corporations held outside the Treasury will be almost completed by June 30, 1945.

These large borrowing operations will require a further rise in the public debt to 292 billion dollars on June 30, 1946. Before the debt reaches this figure, a further increase in the 260-billion-dollar debt limit will be necessary.

Management of the public debt has become one of the major financial operations of the Government. To assure effective discharge of these responsibilities and, in particular, to maintain the present low rates of interest, ample powers must be available to the monetary authorities. I shall later recommend legislation reducing the present high gold-reserve requirements of the Federal Reserve banks.

The management of the public debt is bound to have a profound influence on the economy for a long time to come. Retaining high taxes on the masses of consumers for general reduction of debt held by financial institutions may destroy purchasing power and create unemployment. But the use of progressive taxes for the redemption of bonds held by millions of individual savers may have a stabilizing influence on incomes and employment. I favor a policy of orderly but steady debt reduction, consistent with the objectives of long-run economic policy. The mistakes in debt management and tax policy after the last war should not be repeated.

ECONOMIC CONTROLS AND RECONVERSION

RECONVERSION

As long as we are at war—at war against two powerful enemies or against only one of them—we will give unqualified priority to all war production and to all manpower needs of war. Nevertheless, some reconversion of war industries may become possible, dependent on the progress of the war.

• The foundation for dealing with the main reconversion problems has been laid by the Contract Settlement Act, the Surplus Property Act, and the War Mobilization and Reconversion Act; the machinery for the administration of these acts is being put in operation. Still, a great many problems remain to be solved if we are to be ready for successful reconversion. We may have a scarcity of manpower in certain industries and regions, while temporary unemployment may develop in others. We may have surpluses of some commodities and a downward tendency in certain prices, particularly of raw materials, while scarcities cause a continuing upward pressure on other prices.

The human side of reconversion requires effective organization to aid each discharged war veteran and war worker to find his way back into productive peacetime employment. As far as veterans are concerned, the basis is laid by the Servicemen's Readjustment Act. I have already emphasized the need to strengthen our social security program. With respect to the reconversion period, I am particularly concerned over the fact that broad categories of workers are not covered by present legislation and that present standards for unemployment compensation are not adequate in many States. To promote employment opportunities and to assure the proper occupational adjustment of returning veterans and war workers, a strong, integrated system of public employment offices is a basic necessity. We can best accomplish this objective by the establishment, through permanent legislation, of an effective national employment service with adequate coverage throughout the Nation. For the reconversion period we should provide assistance for travel and retraining of war workers.

We must also see to it that our administrative machinery for the adjustment of labor disputes is ready for the strains of the reconversion period. We must apply some of our wartime lessons in labor-management cooperation in working out a sound long-range labor

policy implemented by permanent mediation machinery for the adjustment of labor disputes.

The material side of reconversion should also be conducted with a view toward the long-range objectives of economic policy. Surplus property disposal should contribute to filling the needs of production, domestic and foreign. It should be carried on with full recognition of the objectives of price stability.

Every effort should be made to achieve full civilian use of plants built for war purposes when they are no longer needed for war production and to facilitate their rapid transfer to private industry for productive use. If prompt transfers of ownership cannot be made, temporary lease arrangements may facilitate early productive use while permanent arrangements for transfer are being worked out.

Statistical information concerning business activities and markets, employment and unemployment, incomes, expenditures, and savings is urgently needed as a guide for economic policies during the remainder of the war and during the reconversion and post-war periods. I recommended appropriations for this purpose to the last Congress. I shall transmit recommendations in the near future for those essential parts of the program on which the Congress took no action. Business, agriculture, labor, and the Government need to know the basic economic facts if each is to play its role with maximum effectiveness during the months and years ahead.

INTERNATIONAL FINANCIAL PROGRAMS

As the war progresses, we must hasten our plans to secure worldwide economic cooperation in both the transition period and the post-war period. We have learned that just as the United States cannot afford to be isolationist in its political philosophy, neither can it stand the malignant effects of economic isolationism.

Last July the United Nations Monetary and Financial Conference formulated articles of agreement for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development. These institutions will be integral parts of a broad program for cooperation among the United Nations in those areas of economic contact where failure to adopt common policies will result in economic "spite fences," economic waste, and economic warfare.

A concrete program for international monetary and financial cooperation at an early date is essential. In the first place, all countries agree that a solution must be found for the evils that stem from the unstable and destructive exchange practices which the Fund is designed to eliminate. Second, the need for international investment is already becoming acute. The liberated countries will require loans for the reconstruction of their industry, their transport, their cities, their agriculture, and their trade. The International Bank will make direct long-term loans out of its capital or from borrowed funds, and particularly will guarantee private loans for these purposes. While the proceeds of these loans will be spent to procure equipment in the countries where it is available, the risks of lending will be spread equitably among all member countries.

It is therefore imperative that both the Fund and the Bank be established at once in order that they may be properly staffed and equipped to cope with problems which are already developing as the countries in Europe are liberated. Accordingly, I urge acceptance of the agreements and recommend the enactment of legislation which would permit the United States to make its proportionate investment in the Fund and the Bank.

In addition to the operations of the International Bank, there will continue to be many types of foreign investment in which a national financial institution such as the Export-Import Bank should participate, especially during the next few years when the foreign demand for our products will be particularly heavy. The Export-Import Bank will provide short- and medium-term credits to finance our exporters. It will also undertake long-term lending for reconstruction and development in cases where special American purposes are to be served and other countries may not wish to participate. In collaboration with private banks, manufacturers, engineers, and exporters, the Export-Import Bank has had 10 years of successful experience in these fields. At present its resources available for new operations are very limited. In order that it may play its part in the reconstruction period, I recommend early expansion of its lending power.

At present our foreign investment programs are impeded by legislation which restricts loans to those countries which are in default on loans arising out of the first World War. For both the International Bank and the Export-Import Bank to operate effectively, as well as

to achieve an adequate flow of private investment, it is essential that these restrictions be removed.

NATIONAL INCOME, PRODUCTION, AND ECONOMIC CONTROLS

The American Nation has almost doubled its total output of goods and services under the impact of the war program. Slightly less than one-half of this total output is purchased by the Federal Government. What is left for civilian consumption has been sufficient to provide most of us with better living standards than prevailed before the war.

The national economy is operating at extremely high levels of income and expenditure. Despite wartime taxes and large wartime savings, consumers and business have sought to buy more than the available supply of goods and services. Nevertheless, prices have been substantially stabilized through vigorous application of our stabilization program and the cooperation of the American people. Whereas the cost of living has increased by between 25 and 30 percent since 1939, it has risen only about 2 percent since the "hold-the-line" order of April 1943. Holding the line on prices and wages has prevented, and is still preventing, inflationary developments.

The reduction in war expenditures, which I hope the progress of the war will permit during the next fiscal year, will result in somewhat lower wartime incomes, even if wage ceilings are adjusted upward to avoid reduction in average hourly rates when overtime is curtailed. Nevertheless, the demand for goods and services will undoubtedly still be great and we can be sure of eager buyers for whatever durable goods industry might produce.

When war production is extensively reduced some of the controls which were needed in an all-out war economy can be relaxed, although other controls must be continued to assure necessary war production and orderly reconversion. For example, we must avoid speculation in inventories such as contributed to the inflation after the last war. The fact that many businesses and individuals have ample funds for a buying spree necessitates caution in relaxing controls. The balance between incomes, savings, and expenditures will still be precarious during the reconversion period. It will therefore be necessary to retain the machinery for allocation and price controls as long as certain materials and finished goods are in short supply. I therefore recommend extension of the Economic Stabilization Act before its expiration on June 30, 1945.

In general, it will be our policy to hold the over-all cost of living and to permit only such adjustments as are conducive to the full utilization of available resources and compatible with the general objective of economic stabilization. As long as we are engaged in a war with desperate and resourceful enemies, war controls are needed, but they must be readjusted to changing levels of war production and civilian production.

DEMobilIZATION AND POST-WAR FULL EMPLOYMENT

Large-scale demobilization can hardly be expected to begin during the period covered in this Budget. Nevertheless, as we continue to mobilize for a long, hard war, we must under no circumstances be caught unprepared for peace.

Under the impact of a huge war program, we are employing 52 million men and women either in war production or in production and service for civilian purposes, while another 12 million are serving in the armed forces. After the war many of them will retire or resume their schooling or devote themselves to their homes and families. But such reduction in the civilian labor force will be more than offset by demobilization of our armed forces and by the natural growth of the population of working age. Thus, before long there may be 60 million men and women to be employed. Huge war expenditures have brought full employment, more than full employment. What will be the outlook when Federal expenditures are 50 and 25 billion dollars in the period of demobilization and thereafter?

The following table shows the operations of our national economy—the Nation's Budget—in the calendar year 1939 with considerable unemployment, and the same operations in the calendar year 1944 when we had moved to a much higher level of incomes, expenditures, and savings, involving more than full employment under the stress of war. Manifestly, full employment in peacetime can be assured only when the reduction in war demand is approximately offset by additional peacetime demand from the millions of consumers, businesses, and farmers, and by Federal, State, and local governments. And that means that consumers' expenditures and business investments must increase by about 50 percent, measured in constant prices, above the level of the year 1939 if full employment is to be provided by private enterprise.

MESSAGE TRANSMITTING THE BUDGET

XXV

THE GOVERNMENT'S BUDGET AND THE NATION'S BUDGET

Calendar years 1939 and 1944

[Current prices,¹ in billions]

Economic group	Calendar year 1939			Calendar year 1944		
	Receipts	Expenditures	Excess (+), deficit (-)	Receipts	Expenditures	Excess (+), deficit (-)
CONSUMERS						
Income after taxes.....	\$67.3			\$132.8		
Expenditures.....		\$61.7			\$97.0	
Savings (+).....			+\$5.6			+\$35.8
BUSINESS						
Undistributed profits and reserves.	\$8.3			\$12.3		
Gross capital formation.....		\$10.9			\$2.6	
Excess of receipts (+) or capital formation (-).....			-\$2.6			+\$9.7
STATE AND LOCAL GOVERNMENT						
Receipts from the public, other than borrowing.....	\$8.9			\$10.4		
Payments to the public.....		\$9.1			\$8.8	
Excess of receipts (+) or payments (-).....			-\$0.2			+\$1.6
FEDERAL GOVERNMENT						
Receipts from the public, other than borrowing.....	\$6.5			\$47.9		
Payments to the public.....		\$9.3			\$95.0	
Excess of receipts (+) or payments (-).....			-\$2.8			-\$47.1
Less: Adjustments ²	\$2.4	\$2.4		\$5.9	\$5.9	
TOTAL: GROSS NATIONAL PRODUCT						
Receipts.....	\$88.6			\$197.5		
Expenditures.....		\$88.6			\$197.5	
Balance.....			0			0

NOTE.—For details and explanation see appendix 10, pp. 830-831.

¹ Prices in 1944 were between 25 and 30 percent above 1939.² Mainly Government expenditures for other than goods and services.

Consumers' purchases of durable goods, business nonwar investments, and capital outlays of the governments for nonwar purposes have been so low during recent years that a large backlog of demand will be carried over into the post-war period. Individuals, however, will buy the new car or build the new home only if they feel secure in their jobs; businessmen will expand plant and buy new machinery only if they feel confident of profitable markets for additional products.

The American people have learned during the war the measure of their productive capacity, and they will remember that experience in the peace to come. It is the responsibility of business enterprise to translate market opportunities into employment and production. It is the responsibility of the Government to hold open the door of opportunity and to assure sustained markets. Then and only then can free enterprise provide jobs.

Full employment after the war is not only a matter of immediate self-interest, but also part of our stake in world stability and prosperity. Other countries are anxiously awaiting the development of our policy and will be more willing to make international commitments if they are assured of high post-war employment in the United States. They are fully aware that international cooperation cannot succeed unless the United States is prosperous.

We must attack the employment problem on every front.

For instance, we must overhaul the wartime tax structure to stimulate consumers' demand and to promote business investment. The elements of such a tax program should be developed now so that it can be put into effect after victory.

We must make sure that there are opportunities for new and growing business. The national and international policies which we adopt now—affecting trade, credit, investment, and competition and monopoly—largely determine future business and employment opportunities.

We must develop the human standards and material resources of the Nation, which in turn will tend to increase our productivity and most effectively support business expansion and employment. Our program should include provision for extended social security, including medical care; for better education, public health, and nutrition; for the improvement of our homes, cities, and farms; and for the development of transportation facilities and river valleys. We must plan now so that these programs can become effective when manpower and material are available.

I shall from time to time submit to the Congress recommendations for legislative measures to implement our demobilization program and to assure jobs for all returning war veterans and discharged war workers.

Our productive achievements during the war have demonstrated once and for all the progress which this Nation can support, the progress which will be required if all our resources are to be put to adequate peacetime use. The war, however, will also leave us deep distortions in our economic life which must be overcome. We owe it to those who give everything that we set our sights as high for peace as we set them for war.

FRANKLIN D. ROOSEVELT.

JANUARY 3, 1945.

CHART 1

**NET RECEIPTS AND TOTAL EXPENDITURES
GENERAL AND SPECIAL ACCOUNTS**

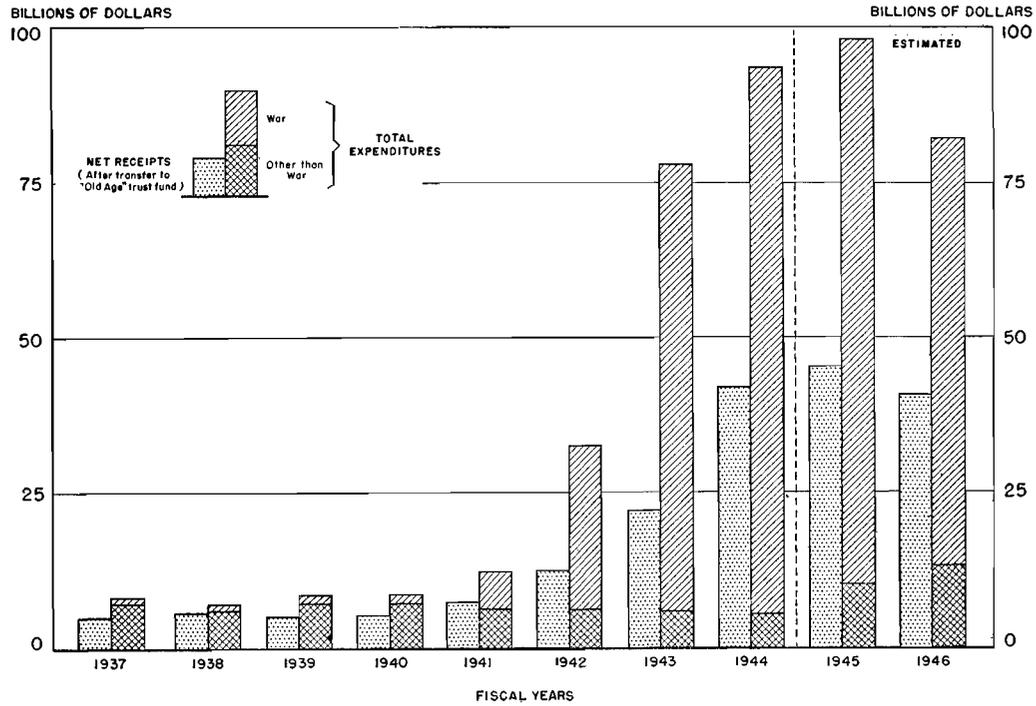


CHART 2

**EXPENDITURES FOR OTHER THAN WAR ACTIVITIES
GENERAL AND SPECIAL ACCOUNTS**

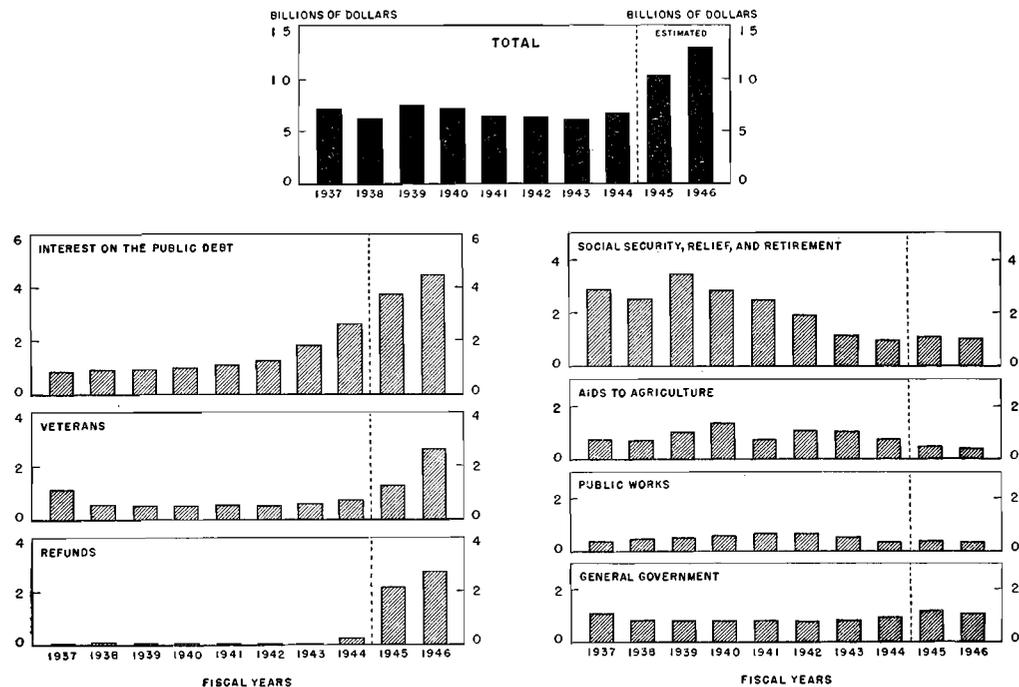


CHART 3
TOTAL RECEIPTS BY SOURCE
 GENERAL AND SPECIAL ACCOUNTS

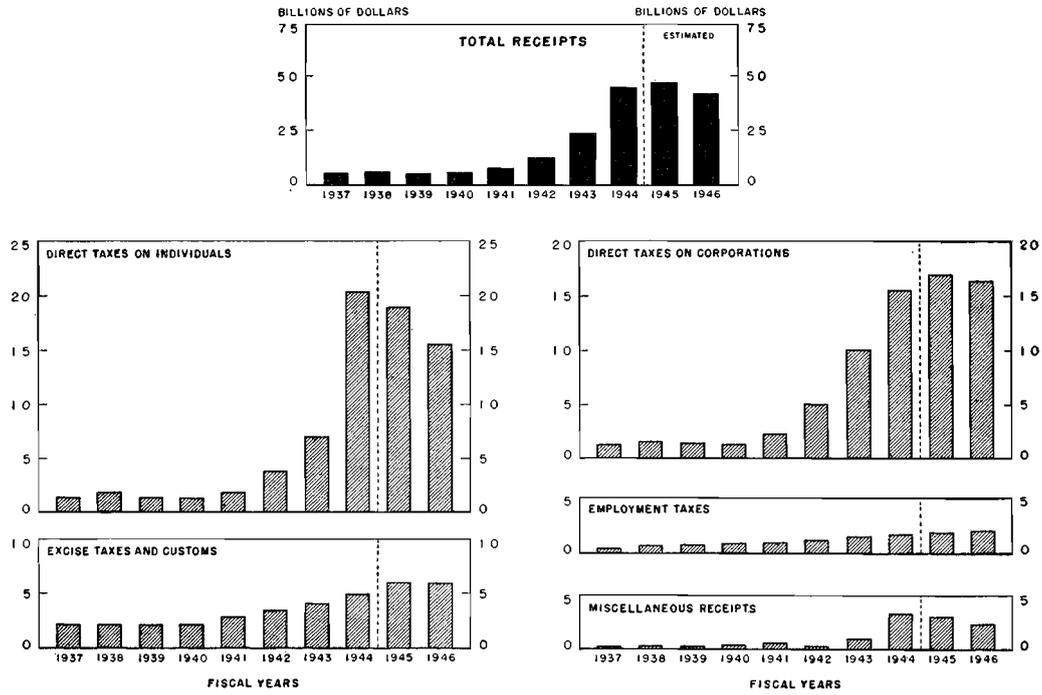
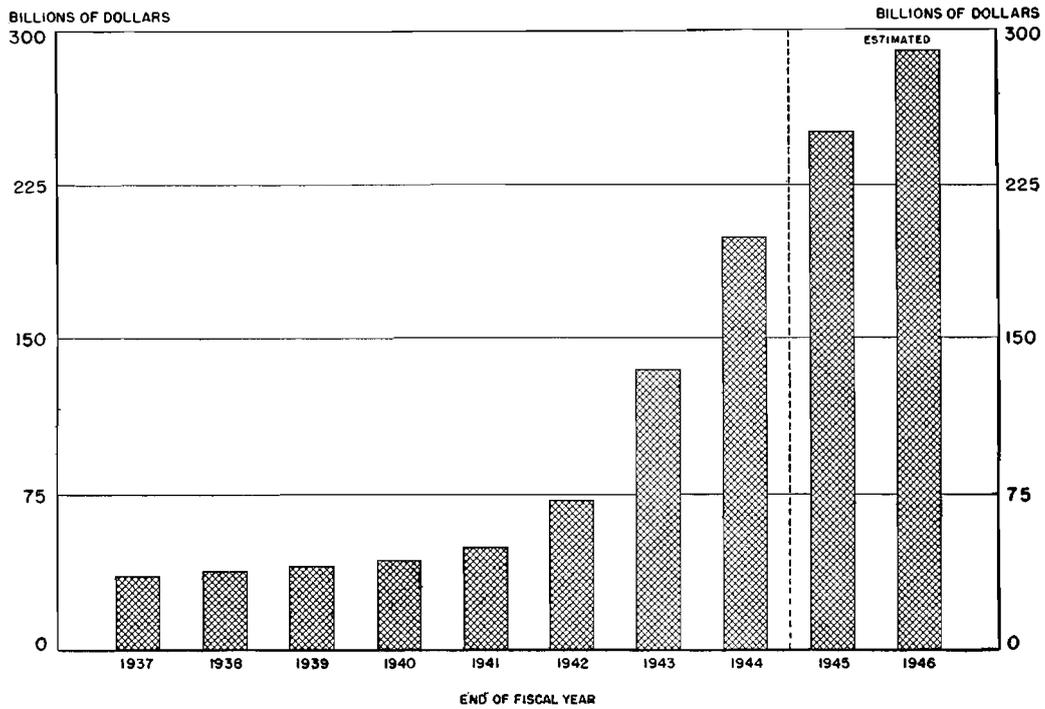


CHART 4
THE PUBLIC DEBT



MESSAGE OF THE PRESIDENT

On the State of the Union and Transmitting the Budget

To the Congress of the United States:

A quarter century ago the Congress decided that it could no longer consider the financial programs of the various departments on a piecemeal basis. Instead it has called on the President to present a comprehensive Executive Budget. The Congress has shown its satisfaction with that method by extending the budget system and tightening its controls. The bigger and more complex the Federal Program, the more necessary it is for the Chief Executive to submit a single budget for action by the Congress.

At the same time, it is clear that the budgetary program and the general program of the Government are actually inseparable. The President bears the responsibility for recommending to the Congress a comprehensive set of proposals on all Government activities and their financing. In formulating policies, as in preparing budgetary estimates, the Nation and the Congress have the right to expect the President to adjust and coordinate the views of the various departments and agencies to form a unified program. And that program requires consideration in connection with the Budget, which is the annual work program of the Government.

Since our programs for this period which combines war liquidation with reconversion to a peacetime economy are inevitably large and numerous it is imperative that they be planned and executed with the utmost efficiency and the utmost economy. We have cut the war program to the maximum extent consistent with national security. We have held our peacetime programs to the level necessary to our national well-being and the attainment of our postwar objectives. Where increased programs have been recommended, the increases have been held as low as is consistent with these goals. I can assure the Congress of the necessity of these programs. I can further assure the Congress that the program as a whole is well within our capacity to finance it. All the programs I have recommended for action are included in the Budget figures.

For these reasons I have chosen to combine the customary Message on the State of the Union with the annual Budget Message, and to include in the Budget not only estimates for functions authorized by the Congress, but also for those which I recommend for its action.

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I am also transmitting herewith the Fifth Quarterly Report of the Director of War Mobilization and Reconversion. It is a comprehensive discussion of the present state of the reconversion program and of the immediate and long-range needs and recommendations.

This constitutes, then, as complete a report as I find it possible to prepare now. It constitutes a program of government in relation to the Nation's needs.

With the growing responsibility of modern government to foster economic expansion and to promote conditions that assure full and steady employment opportunities, it has become necessary to formulate and determine the Government program in the light of national economic conditions as a whole. In both the executive and the legislative branches we must make arrangements which will permit us to formulate the Government program in that light. Such an approach has become imperative if the American political and economic system is to succeed under the conditions of economic instability and uncertainty which we have to face. The Government needs to assure business, labor, and agriculture that Government policies will take due account of the requirements of a full employment economy. The lack of that assurance would, I believe, aggravate the economic instability.

With the passage of a full employment bill which I confidently anticipate for the very near future, the executive and legislative branches of government will be empowered to devote their best talents and resources in subsequent years to preparing and acting on such a program.

I. FROM WAR TO PEACE—THE YEAR OF DECISION

In his last Message on the State of the Union, delivered one year ago, President Roosevelt said:

This new year of 1945 can be the greatest year of achievement in human history.

1945 can see the final ending of the Nazi-Fascist reign of terror in Europe.

1945 can see the closing in of the forces of retribution about the center of the malignant power of imperialistic Japan.

Most important of all—1945 can and must see the substantial beginning of the organization of world peace.

All those hopes, and more, were fulfilled in the year 1945. It was the greatest year of achievement in human history. It saw the end of the Nazi-Fascist terror in Europe, and also the end of the malig-

nant power of Japan. And it saw the substantial beginning of world organization for peace. These momentous events became realities because of the steadfast purpose of the United Nations and of the forces that fought for freedom under their flags. The plain fact is that civilization was saved in 1945 by the United Nations.

Our own part in this accomplishment was not the product of any single service. Those who fought on land, those who fought on the sea, and those who fought in the air deserve equal credit. They were supported by other millions in the armed forces who through no fault of their own could not go overseas and who rendered indispensable service in this country. They were supported by millions in all levels of government, including many volunteers, whose devoted public service furnished basic organization and leadership. They were also supported by the millions of Americans in private life—men and women in industry, in commerce, on the farms, and in all manner of activity on the home front—who contributed their brains and their brawn in arming, equipping, and feeding them. The country was brought through four years of peril by an effort that was truly national in character.

Everlasting tribute and gratitude will be paid by all Americans to those brave men who did not come back, who will never come back—the 330,000 who died that the Nation might live and progress. All Americans will also remain deeply conscious of the obligation owed to that larger number of soldiers, sailors, and marines who suffered wounds and sickness in their service. They may be certain that their sacrifice will never be forgotten or their needs neglected.

The beginning of the year 1946 finds the United States strong and deservedly confident. We have a record of enormous achievements as a democratic society in solving problems and meeting opportunities as they developed. We find ourselves possessed of immeasurable advantages—vast and varied natural resources; great plants, institutions, and other facilities; unsurpassed technological and managerial skills; an alert, resourceful, and able citizenry. We have in the United States Government rich resources in information, perspective, and facilities for doing whatever may be found necessary to do in giving support and form to the widespread and diversified efforts of all our people.

And for the immediate future the business prospects are generally so favorable that there is danger of such feverish and opportunistic activity that our grave postwar problems may be neglected. We need to act now with full regard for pitfalls; we need to act with foresight

and balance. We should not be lulled by the immediate alluring prospects into forgetting the fundamental complexity of modern affairs, the catastrophe that can come in this complexity, or the values that can be wrested from it.

But the long-range difficulties we face should no more lead to despair than our immediate business prospects should lead to the optimism which comes from the present short-range prospect. On the foundation of our victory we can build a lasting peace, with greater freedom and security for mankind in our country and throughout the world. We will more certainly do this if we are constantly aware of the fact that we face crucial issues and prepare now to meet them.

To achieve success will require both boldness in setting our sights and caution in steering our way on an uncharted course. But we have no luxury of choice. We must move ahead. No return to the past is possible.

Our Nation has always been a land of great opportunities for those people of the world who sought to become part of us. Now we have become a land of great responsibilities to all the people of all the world. We must squarely recognize and face the fact of those responsibilities. Advances in science, in communication, in transportation, have compressed the world into a community. The economic and political health of each member of the world community bears directly on the economic and political health of each other member.

The evolution of centuries has brought us to a new era in world history in which manifold relationships between nations must be formalized and developed in new and intricate ways.

The United Nations Organization now being established represents a minimum essential beginning. It must be developed rapidly and steadily. Its work must be amplified to fill in the whole pattern that has been outlined. Economic collaboration, for example, already charted, now must be carried on as carefully and as comprehensively as the political and security measures.

It is important that the nations come together as States in the Assembly and in the Security Council and in the other specialized assemblies and councils that have been and will be arranged. But this is not enough. Our ultimate security requires more than a process of consultation and compromise.

It requires that we begin now to develop the United Nations Organization as the representative of the world as one society. The United Nations Organization, if we have the will adequately to staff it and

to make it work as it should, will provide a great voice to speak constantly and responsibly in terms of world collaboration and world well-being.

There are many new responsibilities for us as we enter into this new international era. The whole power and will and wisdom of our Government and of our people should be focused to contribute to and to influence international action. It is intricate, continuing business. Many concessions and adjustments will be required.

The spectacular progress of science in recent years makes these necessities more vivid and urgent. That progress has speeded internal development and has changed world relationships so fast that we must realize the fact of a new era. It is an era in which affairs have become complex and rich in promise. Delicate and intricate relationships, involving us all in countless ways, must be carefully considered.

On the domestic scene, as well as on the international scene, we must lay a new and better foundation for cooperation. We face a great peacetime venture; the challenging venture of a free enterprise economy making full and effective use of its rich resources and technical advances. This is a venture in which business, agriculture, and labor have vastly greater opportunities than heretofore. But they all also have vastly greater responsibilities. We will not measure up to those responsibilities by the simple return to "normalcy" that was tried after the last war.

The general objective, on the contrary, is to move forward to find the way in time of peace to the full utilization and development of our physical and human resources that were demonstrated so effectively in the war.

To accomplish this, it is not intended that the Federal Government should do things that can be done as well for the Nation by private enterprise, or by State and local governments. On the contrary, the war has demonstrated how effectively we can organize our productive system and develop the potential abilities of our people by aiding the efforts of private enterprise.

As we move toward one common objective there will be many and urgent problems to meet.

Industrial peace between management and labor will have to be achieved—through the process of collective bargaining—with Government assistance but not Government compulsion. This is a problem which is the concern not only of management, labor, and the Government, but also the concern of every one of us.

Private capital and private management are entitled to adequate reward for efficiency, but business must recognize that its reward results from the employment of the resources of the Nation. Business is a public trust and must adhere to national standards in the conduct of its affairs. These standards include as a minimum the establishment of fair wages and fair employment practices.

Labor also has its own new peacetime responsibilities. Under our collective bargaining system, which must become progressively more secure, labor attains increasing political as well as economic power, and this, as with all power, means increased responsibility.

The lives of millions of veterans and war workers will be greatly affected by the success or failure of our program of war liquidation and reconversion. Their transition to peacetime pursuits will be determined by our efforts to break the bottlenecks in key items of production, to make surplus property immediately available where it is needed, to maintain an effective national employment service, and many other reconversion policies. Our obligations to the people who won the war will not be paid if we fail to prevent inflation and to maintain employment opportunities.

While our peacetime prosperity will be based on the private enterprise system, Government can and must assist in many ways. It is the Government's responsibility to see that our economic system remains competitive, that new businesses have adequate opportunities, and that our national resources are restored and improved. Government must realize the effect of its operations on the whole economy. It is the responsibility of Government to gear its total program to the achievement of full production and full employment.

Our basic objective—toward which all others lead—is to improve the welfare of the American people. In addition to economic prosperity, this means that we need social security in the fullest sense of the term; the people must be protected from the fear of want during old age, sickness, and unemployment. Opportunities for a good education and adequate medical care must be generally available. Every family should have a decent home. The new economic bill of rights to which I have referred on previous occasions is a charter of economic freedom which seeks to assure that all who will may work toward their own security and the general advancement; that we become a well-housed people, a well-nourished people, an educated people, a people socially and economically secure, an alert and responsible people.

These and other problems which may face us can be met by the cooperation of all of us in furthering a positive and well-balanced Government program—a program which will further national and international well-being.

II. THE FEDERAL PROGRAM

INTERNATIONAL AFFAIRS

1. FOREIGN POLICY

The year 1945 brought with it the final defeat of our enemies. There lies before us now the work of building a just and enduring peace.

Our most immediate task toward that end is to deprive our enemies completely and forever of their power to start another war. Of even greater importance to the preservation of international peace is the need to preserve the wartime agreement of the United Nations and to direct it into the ways of peace.

Long before our enemies surrendered, the foundations had been laid on which to continue this unity in the peace to come. The Atlantic meeting in 1941 and the conferences at Casablanca, Quebec, Moscow, Cairo, Tehran, and Dumbarton Oaks each added a stone to the structure.

Early in 1945, at Yalta, the three major powers broadened and solidified this base of understanding. There fundamental decisions were reached concerning the occupation and control of Germany. There also a formula was arrived at for the interim government of the areas in Europe which were rapidly being wrested from Nazi control. This formula was based on the policy of the United States that people be permitted to choose their own form of government by their own freely expressed choice without interference from any foreign source.

At Potsdam, in July 1945, Marshal Stalin, Prime Ministers Churchill and Attlee, and I met to exchange views primarily with respect to Germany. As a result, agreements were reached which outlined broadly the policy to be executed by the Allied Control Council. At Potsdam there was also established a Council of Foreign Ministers which convened for the first time in London in September. The Council is about to resume its primary assignment of drawing up treaties of peace with Italy, Rumania, Bulgaria, Hungary, and Finland.

In addition to these meetings, and in accordance with the agreement at Yalta, the Foreign Ministers of Great Britain, the Soviet Union, and the United States conferred together in San Francisco last spring, in Potsdam in July, in London in September, and in Moscow in December. These meetings have been useful in promoting understanding and agreement among the three governments.

Simply to name all the international meetings and conferences is to suggest the size and complexity of the undertaking to prevent international war in which the United States has now enlisted for the duration of history.

It is encouraging to know that the common effort of the United Nations to learn to live together did not cease with the surrender of our enemies:

When difficulties arise among us, the United States does not propose to remove them by sacrificing its ideals or its vital interests. Neither do we propose, however, to ignore the ideals and vital interests of our friends.

Last February and March an Inter-American Conference on Problems of War and Peace was held in Mexico City. Among the many significant accomplishments of that Conference was an understanding that an attack by any country against any one of the sovereign American republics would be considered an act of aggression against all of them; and that if such an attack were made or threatened, the American republics would decide jointly, through consultations in which each republic has equal representation, what measures they would take for their mutual protection. This agreement stipulates that its execution shall be in full accord with the Charter of the United Nations Organization.

The first meeting of the General Assembly of the United Nations now in progress in London marks the real beginning of our bold adventure toward the preservation of world peace, to which is bound the dearest hope of men.

We have solemnly dedicated ourselves and all our will to the success of the United Nations Organization. For this reason we have sought to insure that in the peacemaking the smaller nations shall have a voice as well as the larger states. The agreement reached at Moscow last month preserves this opportunity in the making of peace with Italy, Rumania, Bulgaria, Hungary, and Finland. The United States intends to preserve it when the treaties with Germany and Japan are drawn.

It will be the continuing policy of the United States to use all its influence to foster, support, and develop the United Nations Organization in its purpose of preventing international war. If peace is to endure it must rest upon justice no less than upon power. The question is how justice among nations is best achieved. We know from day-to-day experience that the chance for a just solution is immeasurably increased when everyone directly interested is given a voice. That does not mean that each must enjoy an equal voice, but it does mean that each must be heard.

Last November, Prime Minister Attlee, Prime Minister MacKenzie King, and I announced our proposal that a commission be established within the framework of the United Nations to explore the problems of effective international control of atomic energy.

The Soviet Union, France, and China have joined us in the purpose of introducing in the General Assembly a resolution for the establishment of such a commission. Our earnest wish is that the work of this commission go forward carefully and thoroughly, but with the greatest dispatch. I have great hope for the development of mutually effective safeguards which will permit the fullest international control of this new atomic force.

I believe it possible that effective means can be developed through the United Nations Organization to prohibit, outlaw, and prevent the use of atomic energy for destructive purposes.

The power which the United States demonstrated during the war is the fact that underlies every phase of our relations with other countries. We cannot escape the responsibility which it thrusts upon us. What we think, plan, say, and do is of profound significance to the future of every corner of the world.

The great and dominant objective of United States foreign policy is to build and preserve a just peace. The peace we seek is not peace for twenty years. It is permanent peace. At a time when massive changes are occurring with lightning speed throughout the world, it is often difficult to perceive how this central objective is best served in one isolated complex situation or another. Despite this very real difficulty, there are certain basic propositions to which the United States adheres and to which we shall continue to adhere.

One proposition is that lasting peace requires genuine understanding and active cooperation among the most powerful nations. Another is that even the support of the strongest nations cannot guarantee a peace unless it is infused with the quality of justice for all nations.

On October 27, 1945, I made, in New York City, the following pub-

lic statement of my understanding of the fundamental foreign policy of the United States. I believe that policy to be in accord with the opinion of the Congress and of the people of the United States. I believe that that policy carries out our fundamental objectives.

1. We seek no territorial expansion or selfish advantage. We have no plans for aggression against any other state, large or small. We have no objective which need clash with the peaceful aims of any other nation.

2. We believe in the eventual return of sovereign rights and self-government to all peoples who have been deprived of them by force.

3. We shall approve no territorial changes in any friendly part of the world unless they accord with the freely expressed wishes of the people concerned.

4. We believe that all peoples who are prepared for self-government should be permitted to choose their own form of government by their own freely expressed choice, without interference from any foreign source. That is true in Europe, in Asia, in Africa, as well as in the Western Hemisphere.

5. By the combined and cooperative action of our war allies, we shall help the defeated enemy states establish peaceful democratic governments of their own free choice. And we shall try to attain a world in which nazism, fascism, and military aggression cannot exist.

6. We shall refuse to recognize any government imposed upon any nation by the force of any foreign power. In some cases it may be impossible to prevent forceful imposition of such a government. But the United States will not recognize any such government.

7. We believe that all nations should have the freedom of the seas and equal rights to the navigation of boundary rivers and waterways and of rivers and waterways which pass through more than one country.

8. We believe that all states which are accepted in the society of nations should have access on equal terms to the trade and the raw materials of the world.

9. We believe that the sovereign states of the Western Hemisphere, without interference from outside the Western Hemisphere, must work together as good neighbors in the solution of their common problems.

10. We believe that full economic collaboration between all nations, great and small, is essential to the improvement of living conditions all over the world, and to the establishment of freedom from fear and freedom from want.

11. We shall continue to strive to promote freedom of expression and freedom of religion throughout the peace-loving areas of the world.

12. We are convinced that the preservation of peace between nations requires a United Nations Organization composed of all the peace-loving nations of the world who are willing jointly to use force, if necessary, to insure peace.

That is our foreign policy.

We may not always fully succeed in our objectives. There may be instances where the attainment of those objectives is delayed. But we will not give our full sanction and approval to actions which fly in the face of these ideals.

The world has a great stake in the political and economic future of Germany. The Allied Control Council has now been in operation there for a substantial period of time. It has not met with unqualified success. The accommodation of varying views of four governments in the day-to-day civil administration of occupied territory is a challenging task. In my judgment, however, the Council has made encouraging progress in the face of most serious difficulties. It is my purpose at the earliest practicable date to transfer from military to civilian personnel the execution of United States participation in the government of occupied territory in Europe. We are determined that effective control shall be maintained in Germany until we are satisfied that the German people have regained the right to a place of honor and respect.

On the other side of the world, a method of international cooperation has recently been agreed upon for the treatment of Japan. In this pattern of control, the United States, with the full approval of its partners, has retained primary authority and primary responsibility. It will continue to do so until the Japanese people, by their own freely expressed choice, choose their own form of government.

Our basic policy in the Far East is to encourage the development of a strong, independent, united, and democratic China. That has been the traditional policy of the United States.

At Moscow the United States, the Union of Soviet Socialist Republics, and Great Britain agreed to further this development by supporting the efforts of the national government and nongovernmental Chinese political elements in bringing about cessation of civil strife and in broadening the basis of representation in the Government. That is the policy which General Marshall is so ably executing today.

It is the purpose of the Government of the United States to proceed as rapidly as is practicable toward the restoration of the sovereignty of Korea and the establishment of a democratic government by the free choice of the people of Korea.

At the threshold of every problem which confronts us today in international affairs is the appalling devastation, hunger, sickness, and pervasive human misery that mark so many areas of the world.

By joining and participating in the work of the United Nations Relief and Rehabilitation Administration the United States has directly recognized and assumed an obligation to give such relief assistance as is practicable to millions of innocent and helpless victims of the war. The Congress has earned the gratitude of the world by generous financial contributions to the United Nations Relief and Rehabilitation Administration.

We have taken the lead, modest though it is, in facilitating under our existing immigration quotas the admission to the United States of refugees and displaced persons from Europe.

We have joined with Great Britain in the organization of a commission to study the problem of Palestine. The Commission is already at work and its recommendations will be made at an early date.

The members of the United Nations have paid us the high compliment of choosing the United States as the site of the United Nations headquarters. We shall be host in spirit as well as in fact, for nowhere does there abide a fiercer determination that this peace shall live than in the hearts of the American people.

It is the hope of all Americans that in time future historians will speak not of World War I and World War II, but of the first and last world wars.

2. FOREIGN ECONOMIC POLICY

The foreign economic policy of the United States is designed to promote our own prosperity, and at the same time to aid in the restoration and expansion of world markets and to contribute thereby to world peace and world security. We shall continue our efforts to provide relief from the devastation of war, to alleviate the sufferings of displaced persons, to assist in reconstruction and development, and to promote the expansion of world trade.

We have already joined the International Monetary Fund and the International Bank for Reconstruction and Development. We have expanded the Export-Import Bank and provided it with additional capital. The Congress has renewed the Trade Agreements Act which provides the necessary framework within which to negotiate a reduction of trade barriers on a reciprocal basis. It has given our support to the United Nations Relief and Rehabilitation Administration.

In accordance with the intentions of the Congress, lend-lease was

ERRATUM

The last sentence on Page XVI should read as follows:

"In accordance with the intentions of the Congress, lend-lease, except as to continuing military lend-lease in China, was terminated upon surrender of Japan."

terminated upon the surrender of Japan. The first of the lend-lease settlement agreements has been completed with the United Kingdom. Negotiations with other lend-lease countries are in progress. In negotiating these agreements, we intend to seek settlements which will not encumber world trade through war debts of a character that proved to be so detrimental to the stability of the world economy after the last war.

We have taken steps to dispose of the goods which on VJ-day were in the lend-lease pipe line to the various lend-lease countries and to allow them long-term credit for the purpose where necessary. We are also making arrangements under which those countries may use the lend-lease inventories in their possession and acquire surplus property abroad to assist in their economic rehabilitation and reconstruction. These goods will be accounted for at fair values.

The proposed loan to the United Kingdom, which I shall recommend to the Congress in a separate message, will contribute to easing the transition problem of one of our major partners in the war. It will enable the whole sterling area and other countries affiliated with it to resume trade on a multilateral basis. Extension of this credit will enable the United Kingdom to avoid discriminatory trade arrangements of the type which destroyed freedom of trade during the 1930's. I consider the progress toward multilateral trade which will be achieved by this agreement to be in itself sufficient warrant for the credit.

The view of this Government is that, in the longer run, our economic prosperity and the prosperity of the whole world are best served by the elimination of artificial barriers to international trade, whether in the form of unreasonable tariffs or tariff preferences or commercial quotas or embargoes or the restrictive practices of cartels.

The United States Government has issued proposals for the expansion of world trade and employment to which the Government of the United Kingdom has given its support on every important issue. These proposals are intended to form the basis for a trade and employment conference to be held in the middle of this year. If that conference is a success, I feel confident that the way will have been adequately prepared for an expanded and prosperous world trade.

We shall also continue negotiations looking to the full and equitable development of facilities for transportation and communications among nations.

The vast majority of the nations of the world have chosen to work together to achieve, on a cooperative basis, world security and world

prosperity. The effort cannot succeed without full cooperation of the United States. To play our part, we must not only resolutely carry out the foreign policies we have adopted but also follow a domestic policy which will maintain full production and employment in the United States. A serious depression here can disrupt the whole fabric of the world economy.

3. OCCUPIED COUNTRIES

The major tasks of our Military Establishment in Europe following VE-day, and in the Pacific since the surrender of Japan, have been those of occupation and military government. In addition we have given much-needed aid to the peoples of the liberated countries.

The end of the war in Europe found Germany in a chaotic condition. Organized government had ceased to exist, transportation systems had been wrecked, cities and industrial facilities had been bombed into ruins. In addition to the tasks of occupation we had to assume all of the functions of government. Great progress has been made in the repatriation of displaced persons and of prisoners of war. Of the total of 3,500,000 displaced persons found in the United States zone only 460,000 now remain.

The extensive complications involved by the requirement of dealing with three other governments engaged in occupation and with the governments of liberated countries require intensive work and energetic cooperation. The influx of some 2 million German refugees into our zone of occupation is a pressing problem, making exacting demands upon an already overstrained internal economy.

Improvements in the European economy during 1945 have made it possible for our military authorities to relinquish to the governments of all liberated areas, or to the United Nations Relief and Rehabilitation Administration, the responsibility for the provision of food and other civilian relief supplies. The Army's responsibilities in Europe extend now only to our zones of occupation in Germany and Austria and to two small areas in northern Italy.

By contrast with Germany, in Japan we have occupied a country still possessing an organized and operating governmental system. Although severely damaged, the Japanese industrial and transportation systems have been able to insure at least a survival existence for the population. The repatriation of Japanese military and civilian personnel from overseas is proceeding as rapidly as shipping and other means permit.

In order to insure that neither Germany nor Japan will again be in a position to wage aggressive warfare, the armament-making potential of these countries is being dismantled and fundamental changes in their social and political structures are being effected. Democratic systems are being fostered to the end that the voice of the common man may be heard in the councils of his government.

For the first time in history the legal culpability of war makers is being determined. The trials now in progress in Nürnberg—and those soon to begin in Tokyo—bring before the bar of international justice those individuals who are charged with the responsibility for the sufferings of the past six years. We have high hope that this public portrayal of the guilt of these evildoers will bring wholesale and permanent revulsion on the part of the masses of our former enemies against war, militarism, aggression, and notions of race superiority.

4. DEMOBILIZATION OF OUR ARMED FORCES

The cessation of active campaigning does not mean that we can completely disband our fighting forces. For their sake and for the sake of their loved ones at home, I wish that we could. But we still have the task of clinching the victories we have won—of making certain that Germany and Japan can never again wage aggressive warfare, that they will not again have the means to bring on another world war. The performance of that task requires that, together with our allies, we occupy the hostile areas, complete the disarmament of our enemies, and take the necessary measures to see to it that they do not rearm.

As quickly as possible, we are bringing about the reduction of our armed services to the size required for these tasks of occupation and disarmament. The Army and the Navy are following both length-of-service and point systems as far as possible in releasing men and women from the service. The points are based chiefly on length and character of service, and on the existence of dependents.

Over 5 million from the Army have already passed through the separation centers.

The Navy, including the Marine Corps and the Coast Guard, has discharged over one and a half million.

Of the 12 million men and women serving in the Army and Navy at the time of the surrender of Germany, one-half have already been released. The greater part of these had to be brought back to this country from distant parts of the world.

Of course there are cases of individual hardship in retention of personnel in the service. There will be in the future. No system of such size can operate to perfection. But the systems are founded on fairness and justice, and they are working at full speed. We shall try to avoid mistakes, injustices, and hardship—as far as humanly possible.

We have already reached the point where shipping is no longer the bottleneck in the return of troops from the European theater. The governing factor now has become the requirement for troops in sufficient strength to carry out their missions.

In a few months the same situation will exist in the Pacific. By the end of June, 9 out of 10 who were serving in the armed forces on VE-day will have been released. Demobilization will continue thereafter, but at a slower rate, determined by our military responsibilities.

Our national safety and the security of the world will require substantial armed forces, particularly in overseas service. At the same time it is imperative that we relieve those who have already done their duty, and that we relieve them as fast as we can. To do that, the Army and the Navy are conducting recruiting drives with considerable success.

The Army has obtained nearly 400,000 volunteers in the past four months, and the Navy has obtained 80,000. Eighty percent of these volunteers for the regular service have come from those already with the colors. The Congress has made it possible to offer valuable inducements to those who are eligible for enlistment. Every effort will be made to enlist the required number of young men.

The War and Navy Departments now estimate that by a year from now we still will need a strength of about 2 million, including officers, for the armed forces—Army, Navy, and Air. I have reviewed their estimates and believe that the safety of the Nation will require the maintenance of an armed strength of this size for the calendar year that is before us.

In case the campaign for volunteers does not produce that number, it will be necessary by additional legislation to extend the Selective Service Act beyond May 16, the date of expiration under existing law. That is the only way we can get the men and bring back our veterans. There is no other way. Action along this line should not be postponed beyond March, in order to avoid uncertainty and disruption.

DOMESTIC AFFAIRS

1. THE ECONOMIC OUTLOOK

Prophets of doom predicted that the United States could not escape a runaway inflation during the war and an economic collapse after the war. These predictions have not been borne out. On the contrary, the record of economic stabilization during the war and during the period of reconversion has been an outstanding accomplishment.

We know, however, that nothing is as dangerous as overconfidence, in war or in peace. We have had to fight hard to hold the line. We have made strenuous efforts to speed reconversion. But neither the danger of a postwar inflation nor of a subsequent collapse in production and employment is yet overcome. We must base our policies not on unreasoning optimism or pessimism but upon a candid recognition of our objectives and upon a careful analysis of foreseeable trends.

Any precise appraisal of the economic outlook at this time is particularly difficult. The period of demobilization and reconversion is fraught with uncertainties. There are also serious gaps in our statistical information. Certain tendencies are, however, fairly clear and recognition of them should serve as background for the consideration of next year's Federal Program. In general, the outlook for business is good, and it is likely to continue to be good—provided we control inflation and achieve peace in management-labor relations.

Civilian production and employment can be expected to increase throughout the next year. This does not mean, however, that continuing full employment is assured. It is probable that demobilization of the armed forces will proceed faster than the increase in civilian employment opportunities. Even if substantial further withdrawals from the labor market occur, unemployment will increase temporarily. The extent to which this unemployment will persist depends largely on the speed of industrial expansion and the effectiveness of the policies of the Federal Government.

Along with extraordinary demand there are still at this time many critical shortages resulting from the war. These extraordinary demands and shortages may lead to a speculative boom, especially in the price of securities, real estate, and inventories.

Therefore, our chief worry still is inflation.

While we control this inflationary pressure we must look forward to the time when this extraordinary demand will subside. It will be years before we catch up with the demand for housing. The extraordinary demand for other durable goods, for the replenishment of

inventories, and for exports may be satisfied earlier. No backlog of demand can exist very long in the face of our tremendous productive capacity. We must expect again to face the problem of shrinking demand and consequent slackening in sales, production, and employment. This possibility of a deflationary spiral in the future will exist unless we now plan and adopt an effective full employment program.

2. GENERAL POLICIES—IMMEDIATE AND LONG-RANGE

During the war, production for civilian use was limited by war needs and available manpower. Economic stabilization required measures to spread limited supplies equitably by rationing, price controls, increased taxes, savings bond campaigns, and credit controls. Now, with the surrender of our enemies, economic stabilization requires that policies be directed toward promoting an increase in supplies at low unit prices.

We must encourage the development of resources and enterprises in all parts of the country, particularly in underdeveloped areas. For example, the establishment of new peacetime industries in the Western States and in the South would, in my judgment, add to existing production and markets rather than merely bring about a shifting of production. I am asking the Secretaries of Agriculture, Commerce, and Labor to explore jointly methods for stimulating new industries, particularly in areas with surplus agricultural labor.

We must also aid small businessmen and particularly veterans who are competent to start their own businesses. The establishment and development of efficient small business ventures, I believe, will not take away from, but rather will add to, the total business of all enterprises.

Even with maximum encouragement of production, we cannot hope to remove scarcities within a short time. The most serious deficiencies will persist in the fields of residential housing, building materials, and consumers' durable goods. The critical situation makes continued rent control, price control, and priorities, allocations, and inventory controls absolutely essential. Continued control of consumer credit will help to reduce the pressure on prices of durable goods and will also prolong the period during which the backlog demand will be effective.

While we are meeting these immediate needs we must look forward to a long-range program of security and increased standard of living.

The best protection of purchasing power is a policy of full production and full employment opportunities. Obviously, an employed worker is a better customer than an unemployed worker. There

always will be, however, some frictional unemployment. In the present period of transition we must deal with such temporary unemployment as results from the fact that demobilization will proceed faster than reconversion or industrial expansion. Such temporary unemployment is probably unavoidable in a period of rapid change. The unemployed worker is a victim of conditions beyond his control. He should be enabled to maintain a reasonable standard of living for himself and his family.

The most serious difficulty in the path of reconversion and expansion is the establishment of a fair wage structure.

The ability of labor and management to work together, and the wage and price policies which they develop, are social and economic issues of first importance.

Both labor and management have a special interest. Labor's interest is very direct and personal because working conditions, wages, and prices affect the very life and happiness of the worker and his family.

Management has a no less direct interest because on management rests the responsibility for conducting a growing and prosperous business.

But management and labor have identical interests in the long run. Good wages mean good markets. Good business means more jobs and better wages. In this age of cooperation and in our highly organized economy the problems of one very soon become the problems of all.

Better human relationships are an urgent need to which organized labor and management should address themselves. No government policy can make men understand each other, agree, and get along unless they conduct themselves in a way to foster mutual respect and good will.

The Government can, however, help to develop machinery which, with the backing of public opinion, will assist labor and management to resolve their disagreements in a peaceful manner and reduce the number and duration of strikes.

All of us realize that productivity—increased output per man—is in the long run the basis of our standard of living. Management especially must realize that if labor is to work wholeheartedly for an increase in production, workers must be given a just share of increased output in higher wages.

Most industries and most companies have adequate leeway within which to grant substantial wage increases. These increases will have

a direct effect in increasing consumer demand to the high levels needed. Substantial wage increases are good business for business because they assure a large market for their products; substantial wage increases are good business for labor because they increase labor's standard of living; substantial wage increases are good business for the country as a whole because capacity production means an active, healthy, friendly citizenry enjoying the benefits of democracy under our free enterprise system.

Labor and management in many industries have been operating successfully under the Government's wage-price policy. Upward revisions of wage scales have been made in thousands of establishments throughout the Nation since VJ-day. It is estimated that about 6 million workers, or more than 20 percent of all employees in nonagricultural and nongovernmental establishments, have received wage increases since August 18, 1945. The amounts of increases given by individual employers concentrate between 10 and 15 percent, but range from less than 5 percent to over 30 percent.

The United States Conciliation Service since VJ-day has settled over 3,000 disputes affecting over 1,300,000 workers without a strike threat and has assisted in settling about 1,300 disputes where strikes were threatened which involved about 500,000 workers. Only workers directly involved, and not those in related industries who might have been indirectly affected, are included in these estimates.

Many of these adjustments have occurred in key industries and would have seemed to us major crises if they had not been settled peaceably.

Within the framework of the wage-price policy there has been definite success, and it is to be expected that this success will continue in a vast majority of the cases arising in the months ahead.

However, everyone who realizes the extreme need for a swift and orderly reconversion must feel a deep concern about the number of major strikes now in progress. If long continued, these strikes could put a heavy brake on our program.

I have already made recommendations to the Congress as to the procedure best adapted to meeting the threat of work stoppages in Nation-wide industries without sacrificing the fundamental rights of labor to bargain collectively and ultimately to strike in support of their position.

If we manage our economy properly, the future will see us on a level of production half again as high as anything we have ever accomplished in peacetime. Business can in the future pay higher

wages and sell for lower prices than ever before. This is not true now for all companies, nor will it ever be true for all, but for business generally it is true.

We are relying on all concerned to develop, through collective bargaining, wage structures that are fair to labor, allow for necessary business incentives, and conform with a policy designed to "hold the line" on prices.

Production and more production was the byword during the war and still is during the transition from war to peace. However, when deferred demand slackens, we shall once again face the deflationary dangers which beset this and other countries during the 1930's. Prosperity can be assured only by a high level of demand supported by high current income; it cannot be sustained by deferred needs and use of accumulated savings.

If we take the right steps in time we can certainly avoid the disastrous excesses of runaway booms and headlong depressions. We must not let a year or two of prosperity lull us into a false feeling of security and a repetition of the mistakes of the 1920's that culminated in the crash of 1929.

During the year ahead the Government will be called upon to act in many important fields of economic policy from taxation and foreign trade to social security and housing. In every case there will be alternatives. We must choose the alternatives which will best measure up to our need for maintaining production and employment in the future. We must never lose sight of our long-term objectives: the broadening of markets—the maintenance of steadily rising demand. This demand can come from only three sources: consumers, businesses, or government.

In this country the job of production and distribution is in the hands of businessmen, farmers, workers, and professional people—in the hands of our citizens. We want to keep it that way. However, it is the Government's responsibility to help business, labor, and farmers do their jobs.

There is no question in my mind that the Government, acting on behalf of all the people, must assume the ultimate responsibility for the economic health of the Nation. There is no other agency that can. No other organization has the scope or the authority, nor is any other agency accountable, to all the people. This does not mean that the Government has the sole responsibility, nor that it can do the job alone, nor that it can do the job directly.

All the policies of the Federal Government must be geared to the objective of sustained full production and full employment—to raise consumer purchasing power and to encourage business investment. The programs we adopt this year and from now on will determine our ability to achieve our objectives. We must continue to pay particular attention to our fiscal, monetary, and tax policy, programs to aid business—especially small business—and transportation, labor-management relations and wage-price policy, social security and health, education, the farm program, public works, housing and resource development, and economic foreign policy.

For example, the kinds of tax measures we have at different times—whether we raise our revenue in a way to encourage consumer spending and business investment or to discourage it—have a vital bearing on this question. It is affected also by regulations on consumer credit and by the money market, which is strongly influenced by the rate of interest on Government securities. It is affected by almost every step we take.

In short, the way we handle the proper functions of government, the way we time the exercise of our traditional and legitimate governmental functions, has a vital bearing on the economic health of the Nation.

These policies are discussed in greater detail in the accompanying Fifth Quarterly Report of the Director of War Mobilization and Reconversion.

3. LEGISLATION HERETOFORE RECOMMENDED AND STILL PENDING

To attain some of these objectives and to meet the other needs of the United States in the reversion and postwar period, I have from time to time made various recommendations to the Congress.

In making these recommendations I have indicated the reasons why I deemed them essential for progress at home and abroad. A few—a very few—of these recommendations have been enacted into law by the Congress. Most of them have not. I here reiterate some of them, and discuss others later in this Message. I urge upon the Congress early consideration of them. Some are more urgent than others, but all are necessary.

(1) Legislation to authorize the President to create **fact-finding boards** for the prevention of stoppages of work in Nation-wide industries after collective bargaining and conciliation and voluntary arbitration have failed—as recommended by me on December 3, 1945.

(2) Enactment of a satisfactory **full employment bill** such as the Senate bill now in conference between the Senate and the House—as recommended by me on September 6, 1945.

(3) Legislation to supplement the **unemployment insurance benefits** for unemployed workers now provided by the different States—as recommended by me on May 28, 1945.

(4) Adoption of a **permanent Fair Employment Practice Act**—as recommended by me on September 6, 1945.

(5) Legislation substantially raising the amount of **minimum wages** now provided by law—as recommended by me on September 6, 1945.

(6) Legislation providing for a comprehensive program for **scientific research**—as recommended by me on September 6, 1945.

(7) Legislation enacting a **health and medical care program**—as recommended by me on November 19, 1945.

(8) Legislation adopting the program of **universal training**—as recommended by me on October 23, 1945.

(9) Legislation providing an **adequate salary scale for all Government employees** in all branches of the Government—as recommended by me on September 6, 1945.

(10) Legislation making provision for **succession to the Presidency** in the event of the death or incapacity or disqualification of the President and Vice President—as recommended by me on June 19, 1945.

(11) Legislation for the **unification of the armed services**—as recommended by me on December 19, 1945.

(12) Legislation for the **domestic use and control of atomic energy**—as recommended by me on October 3, 1945.

(13) **Retention of the United States Employment Service** in the Federal Government for a period at least up to June 30, 1947—as recommended by me on September 6, 1945.

(14) **Legislation to increase unemployment allowances for veterans** in line with increases for civilians—as recommended by me on September 6, 1945.

(15) **Social security coverage for veterans** for their period of military service—as recommended by me on September 6, 1945.

(16) **Extension of crop insurance**—as recommended by me on September 6, 1945.

(17) Legislation permitting the **sale of ships** by the Maritime Commission at home and abroad—as recommended by me on September 6, 1945. I further recommend that this legislation include adequate authority for chartering vessels both here and abroad.

(18) Legislation to take care of the **stock piling of materials** in which the United States is naturally deficient—as recommended by me on September 6, 1945.

(19) Enactment of **Federal airport legislation**—as recommended by me on September 6, 1945.

(20) Legislation **repealing the Johnson Act** on foreign loans—as recommended by me on September 6, 1945.

(21) Legislation for the **development of the Great Lakes-St. Lawrence River Basin**—as recommended by me on October 3, 1945.

4. POLICIES IN SPECIFIC FIELDS

(a) *Extension of Price Control Act*

Today inflation is our greatest immediate domestic problem. So far the fight against inflation has been waged successfully. Since May 1943, following President Roosevelt's "hold the line" order and in the face of the greatest pressures which this country has ever seen, the cost of living index has risen only three percent. Wholesale prices in this same period have been held to an increase of two and one-half percent.

This record has been made possible by the vigorous efforts of the agencies responsible for this program. But their efforts would have been fruitless if they had not had the solid support of the great masses of our people. The Congress is to be congratulated for its role in providing the legislation under which this work has been carried out.

On VJ-day it was clear to all thinking people that the danger of inflation was by no means over. Many of us can remember vividly our disastrous experience following World War I. Then the very restricted wartime controls were lifted too quickly, and as a result prices and rents moved more rapidly upward. In the year and a half following the armistice, rents, food, and clothing shot to higher and still higher levels.

When the inevitable crash occurred less than two years after the end of the war, business bankruptcies were widespread. Profits were wiped out. Inventory losses amounted to billions of dollars. Farm income dropped by one-half. Factory pay rolls dropped 40 percent, and nearly one-fifth of all our industrial workers were walking the streets in search of jobs. This was a grim greeting, indeed, to offer our veterans who had just returned from overseas.

When I addressed the Congress in September, I emphasized that we must continue to hold the price line until the production of goods

caught up with the tremendous demands. Since then we have seen demonstrated the strength of the inflationary pressures which we have to face.

Retail sales in the closing months of 1945 ran 12 percent above the previous peak for that season, which came in 1944. Prices throughout the entire economy have been pressing hard against the price ceilings. The prices of real estate, which cannot now be controlled under the law, are rising rapidly. Commercial rents are not included in the present price control law and, where they are not controlled by State law, have been increasing, causing difficulties to many businessmen.

It will be impossible to maintain a high purchasing power or an expanding production unless we can keep prices at levels which can be met by the vast majority of our people. Full production is the greatest weapon against inflation, but until we can produce enough goods to meet the threat of inflation the Government will have to exercise its wartime control over prices.

I am sure that the people of the United States are disturbed by the demands made by several business groups with regard to price and rent control.

I am particularly disturbed at the effect such thinking may have on production and employment. If manufacturers continue to hold back goods and decline to submit bids when invited—as I am informed some are doing—in anticipation of higher prices which would follow the end of price controls, we shall inevitably slow down production and create needless unemployment. On the other hand, there are the vast majority of American businessmen who are not holding back goods, but who need certainty about the Government pricing policy in order to fix their own long-range pricing policies.

Businessmen are entitled therefore to a clear statement of the policy of the Government on the subject. Tenants and housewives, farmers and workers—consumers in general—have an equal right.

We are all anxious to eliminate unnecessary controls just as rapidly as we can do so. The steps that we have already taken in many directions toward that end are a clear indication of our policy.

The present Price Control Act expires on June 30, 1946. If we expect to maintain a steady economy we shall have to maintain price and rent control for many months to come. The inflationary pressures on prices and rents, with relatively few exceptions, are now at an all-time peak. Unless the Price Control Act is renewed there will be no limit to which our price levels would soar. Our country would face a national disaster.

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MESSAGE OF THE PRESIDENT

We cannot wait to renew the act until immediately before it expires. Inflation results from psychological as well as economic conditions. The country has a clear right to know where the Congress stands on this all-important problem. Any uncertainty now as to whether the act will be extended gives rise to price speculation, to withholding of goods from the market in anticipation of rising prices, and to delays in achieving maximum production.

I do not doubt that the Congress will be beset by many groups who will urge that the legislation that I have proposed should either be eliminated or modified to the point where it is nearly useless. The Congress has a clear responsibility to meet this challenge with courage and determination. I have every confidence that it will do so.

I strongly urge that the Congress now resolve all doubts and as soon as possible adopt legislation continuing rent and price control in effect for a full year from June 30, 1946.

(b) *Food subsidies*

If the price line is to be held, if our people are to be protected against the inflationary dangers which confront us, we must do more than extend the Price Control Act. In September we were hopeful that the inflationary pressures would by this time have begun to diminish. We were particularly hopeful on food. Indeed, it was estimated that food prices at retail would drop from 3 to 5 percent in the first six months following the end of the war.

In anticipation of this decline in food prices, it was our belief that food subsidies could be removed gradually during the winter and spring months, and eliminated almost completely by June 30 of this year. It was our feeling that the food subsidies could be dropped without an increase to the consumer in the present level of food prices or in the over-all cost of living.

As matters stand today, however, food prices are pressing hard against the ceilings. The expected decline in food prices has not occurred, nor is it likely to occur for many months to come. This brings me to the reluctant conclusion that food subsidies must be continued beyond June 30, 1946.

If we fail to take this necessary step, meat prices on July 1 will be from 3 to 5 cents higher than their average present levels; butter will be at least 12 cents a pound higher, in addition to the 5 cents a pound increase of last fall; milk will increase from 1 to 2 cents a quart; bread will increase about 1 cent a loaf; sugar will increase over 1 cent a pound; cheese, in addition to the increase of 4 cents now

planned for the latter part of this month, will go up an additional 8 cents. In terms of percentages we may find the cost-of-living index for food increased by more than 8 percent, which in turn would result in more than a 3-percent increase in the cost of living.

If prices of food were allowed to increase by these amounts, I must make it clear to the Congress that, in my opinion, it would become extremely difficult for us to control the forces of inflation.

None of us likes subsidies. Our farmers, in particular, have always been opposed to them.

But I believe our farmers are as deeply conscious as any group in the land of the havoc which inflation can create. Certainly in the past eighteen months there has been no group which has fought any harder in support of the Government's price control program. I am confident that, if the facts are placed before them and if they see clearly the evils between which we are forced to choose, they will understand the reasons why subsidies must be continued.

The legislation continuing the use of food subsidies into the new fiscal year should be tied down specifically to certain standards. A very proper requirement, in my opinion, would be that subsidies be removed as soon as it is indicated that the cost of living will decline below the present levels.

(c) *Extension of War Powers Act*

The Second War Powers Act has recently been extended by the Congress for six months instead of for a year. It will now expire, unless further extended, on June 30, 1946. This act is the basis for priority and inventory controls governing the use of scarce materials, as well as for other powers essential to orderly reconversion.

I think that this Administration has given adequate proof of the fact that it desires to eliminate wartime controls as quickly and as expeditiously as possible. However, we know that there will continue to be shortages of certain materials caused by the war even after June 30, 1946. It is important that businessmen know now that materials in short supply are going to be controlled and distributed fairly as long as these war-born shortages continue.

I, therefore, urge the Congress soon to extend the Second War Powers Act. We cannot afford to wait until just before the act expires next June. To wait would cause the controls to break down in a short time, and would hamper our production and employment program.

(d) Small business and competition

A rising birth rate for small business, and a favorable environment for its growth, are not only economic necessities but also important practical demonstrations of opportunity in a democratic free society. A great many veterans and workers with new skills and experience will want to start in for themselves. The opportunity must be afforded them to do so. They are the small businessmen of the future.

Actually when we talk about small business we are talking about almost all of the Nation's individual businesses. Nine out of every ten concerns fall into this category, and 45 percent of all workers are employed by them. Between 30 and 40 percent of the total value of all business transactions are handled by small business.

It is obvious national policy to foster the sound development of small business. It helps to maintain high levels of employment and national income and consumption of the goods and services that the Nation can produce. It encourages the competition that keeps our free enterprise economy vigorous and expanding. Small business, because of its flexibility, assists in the rapid exploitation of scientific and technological discoveries. Investment in small business can absorb a large volume of savings that might otherwise not be tapped.

The Government should encourage and is encouraging small-business initiative and originality to stimulate progress through competition.

During the war, the Smaller War Plants Corporation assisted small concerns to make a maximum contribution to victory. The work of the Smaller War Plants Corporation is being carried on in peacetime by the Federal Loan Agency and the Department of Commerce. The fundamental approach to the job of encouraging small concerns must be based on:

1. Arrangements for making private and public financial resources available on reasonable terms.
2. Provision of technical advice and assistance to business as a whole on production, research, and management problems. This will help equalize competitive relationships between large and small companies, for many of the small companies cannot afford expensive technical research, accounting, and tax advice.
3. Elimination of trade practices and agreements which reduce competition and discriminate against new or small enterprises.

We speak a great deal about the free enterprise economy of our country. It is competition that keeps it free. It is competition

that keeps it growing and developing. The truth is that we need far more competition in the future than we have had in the immediate past.

By strangling competition, monopolistic activity prevents or deters investment in new or expanded production facilities. This lessens the opportunity for employment and chokes off new outlets for idle savings. Monopoly maintains prices at artificially high levels and reduces consumption which, with lower prices, would rise and support larger production and higher employment. Monopoly, not being subject to competitive pressure, is slow to take advantage of technical advances which would lower prices or improve quality. All three of these monopolistic activities very directly lower the standard of living—through higher prices and lower quality of product—which free competition would improve.

The Federal Government must protect legitimate business and consumers from predatory and monopolistic practices by the vigilant enforcement of regulatory legislation. The program will be designed to have a maximum impact upon monopolistic bottlenecks and unfair competitive practices hindering expansion in employment.

During the war, enforcement of antimonopoly laws was suspended in a number of fields. The Government must now take major steps not only to maintain enforcement of antitrust laws but to encourage new and competing enterprises in every way. The deferred demand of the war years and the large accumulations of liquid assets provide ample incentive for expansion. Equalizing of business opportunity, under full and free competition, must be a prime responsibility in the reconversion period and in the years that follow. Many leading businessmen have recognized the importance of such action both to themselves and to the economy as a whole.

But we must do more than break up trusts and monopolies after they have begun to strangle competition. We must take positive action to foster new, expanding enterprises. By legislation and by administration we must take specific steps to discourage the formation or the strengthening of competition-restricting business. We must have an over-all antimonopoly policy which can be applied by all agencies of the Government in exercising the functions assigned to them—a policy designed to encourage the formation and growth of new and freely competitive enterprises.

Among the many departments and agencies which have parts in the program affecting business and competition, the Department of Commerce has a particularly important role. That is why I have

recommended a substantial increase in appropriations for the next fiscal year for this Department.

In its assistance to industry, the Department of Commerce will concentrate its efforts on these primary objectives: Promotion of a large and well-balanced foreign trade; provision of improved technical assistance and management aids, especially for small enterprises; and strengthening of basic statistics on business operations, both by industries and by regions. To make new inventions and discoveries available more promptly to all businesses, small and large, the Department proposes to expand its own research activities, promote research by universities, improve Patent Office procedures, and develop a greatly expanded system of field offices readily accessible to the businesses they serve.

Many gaps exist in the private financial mechanism, especially in the provision of long-term funds for small- and medium-sized enterprises. In the peacetime economy the Reconstruction Finance Corporation will take the leadership in assuring adequate financing for small enterprises which cannot secure funds from other sources. Most of the funds should and will be provided by private lenders; but the Reconstruction Finance Corporation will share any unusual risks through guarantees of private loans, with direct loans only when private capital is unwilling to participate on a reasonable basis.

(e) *Minimum wage*

Full employment and full production may be achieved only by maintaining a level of consumer income far higher than that of the prewar period. A high level of consumer income will maintain the market for the output of our mills, farms, and factories, which we have demonstrated during the war years that we can produce. One of the basic steps which the Congress can take to establish a high level of consumer income is to amend the Fair Labor Standards Act to raise substandard wages to a decent minimum and to extend similar protection to additional workers who are not covered by the present act.

Substandard wages are bad for business and for the farmer. Substandard wages provide only a substandard market for the goods and services produced by American industry and agriculture.

At the present time the Fair Labor Standards Act prescribes a minimum wage of 40 cents an hour for those workers who are covered by the act. The present minimum wage represents an annual income of about \$800 to those continuously employed for 50 weeks—

clearly a wholly inadequate budget for an American family. I am in full accord with the proposal now pending in the Congress that the statutory minimum be raised immediately to 65 cents an hour, with further increases to 70 cents after one year and to 75 cents after two years. I also favor the proposal that the industry committee procedure be used to set rates higher than 65 cents per hour during the two-year interval before the 75-cent basic wage would otherwise become applicable.

The proposed minimum wage of 65 cents an hour would assure the worker an annual income of about \$1,300 a year in steady employment. This amount is clearly a modest goal. After considering cost-of-living increases in recent years, it is little more than a 10-cent increase over the present legal minimum. In fact, if any large number of workers earn less than this amount, we will find it impossible to maintain the levels of purchasing power needed to sustain the stable prosperity which we desire. Raising the minimum to 75 cents an hour will provide the wage earner with an annual income of \$1,500 if he is fully employed.

The proposed higher minimum wage levels are feasible without involving serious price adjustments or serious geographic dislocations.

Today about 20 percent of our manufacturing wage earners—or about 2 million—earn less than 65 cents an hour. Because wages in most industries have risen during the war, this is about the same as the proportion—17 percent—who were earning less than 40 cents an hour in 1941.

I also recommend that minimum wage protection be extended to several groups of workers not now covered. The need for a decent standard of living is by no means limited to those workers who happen to be covered by the act as it now stands. It is particularly vital at this period of readjustment in the national economy and readjustment in employment of labor to extend minimum wage protection as far as possible.

Lifting the basic minimum wage is necessary, it is justified as a matter of simple equity to workers, and it will prove not only feasible but also directly beneficial to the Nation's employers.

(f) Agricultural programs

The farmers of America generally are entering the crop year of 1946 in better financial condition than ever before. Farm mortgage debt is the lowest in 30 years. Farmers' savings are the largest in history. Our agricultural plant is in much better condition than

after World War I. Farm machinery and supplies are expected to be available in larger volume, and farm labor problems will be less acute.

The demand for farm products will continue strong during the next year or two because domestic purchases will be supplemented by a high level of exports and foreign relief shipments. It is currently estimated that from 7 to 10 percent of the total United States food supply may be exported in the calendar year 1946.

Farm prices are expected to remain at least at their present levels in the immediate future, and for at least the next 12 months they are expected to yield a net farm income double the 1935-39 average and higher than in any year prior to 1943.

We can look to the future of agriculture with greater confidence than in many a year in the past. Agriculture itself is moving confidently ahead, planning for another year of big production, taking definite and positive steps to lead the way toward an economy of abundance.

Agricultural production goals for 1946 call for somewhat greater acreage than actually was planted in 1945. Agriculture is prepared to demonstrate that it can make a peacetime contribution as great as its contribution toward the winning of the war.

In spite of supplying our armed forces and our allies during the war with a fifth to a fourth of our total food output, farmers were still able to provide our civilians with 8 percent more food per capita than the average for the five years preceding the war. Since the surrender of Japan, civilian food consumption has risen still further. By the end of 1945 the amount of the increase in food consumption was estimated to be as high as 15 percent over the prewar average. The record shows that the people of this country want and need more food and that they will buy more food if only they have the jobs and the purchasing power. The first essential therefore in providing fully for the welfare of agriculture is to maintain full employment and a high level of purchasing power throughout the Nation.

For the period immediately ahead we shall still have the problem of supplying enough food. If we are to do our part in aiding the war-stricken and starving countries some of the food desires of our own people will not be completely satisfied, at least until these nations have had an opportunity to harvest another crop. During the next few months the need for food in the world will be more serious than at any time during the war. And, despite the large shipments we have

already made, and despite what we shall send, there remain great needs abroad.

Beyond the relief feeding period, there will still be substantial foreign outlets for our farm commodities. The chief dependence of the farmer, however, as always, must be upon the buying power of our own people.

The first obligation of the Government to agriculture for the reconversion period is to make good on its price-support commitments. This we intend to do, with realistic consideration for the sound patterns of production that will contribute most to the long-time welfare of agriculture and the whole Nation. The period during which prices are supported will provide an opportunity for farmers individually to strengthen their position in changing over from a wartime to a peacetime basis of production. It will provide an opportunity for the Congress to review the needs of agriculture and make changes in national legislation where experience has shown changes to be needed. In this connection, the Congress will wish to consider legislation to take the place of the 1937 Sugar Act which expires at the end of this year. During this period we must do a thorough job of basic planning to the end that agriculture shall be able to contribute its full share toward a healthy national economy.

Our long-range agricultural policies should have two main objectives: First, to assure the people on the farms a fair share of the national income; and, second, to encourage an agricultural production pattern that is best fitted to the Nation's needs. To accomplish this second objective we shall have to take into consideration changes that have taken place and will continue to take place in the production of farm commodities—changes that affect costs and efficiency and volume.

What we seek ultimately is a high level of food production and consumption that will provide good nutrition for everyone. This cannot be accomplished by agriculture alone. We can be certain of our capacity to produce food, but we have often failed to distribute it as well as we should and to see that our people can afford to buy it. The way to get good nutrition for the whole Nation is to provide employment opportunities and purchasing power for all groups that will enable them to buy full diets at market prices.

Wherever purchasing power fails to reach this level we should see that they have some means of getting adequate food at prices in line with their ability to buy. Therefore, we should have available supplementary programs that will enable all our people to have enough of the right kind of food.

For example, one of the best possible contributions toward building a stronger, healthier Nation would be a permanent school-lunch program on a scale adequate to assure every school child a good lunch at noon. The Congress, of course, has recognized this need for a continuing school-lunch program and legislation to that effect has been introduced and hearings held. The plan contemplates the attainment of this objective with a minimum of Federal expenditures. I hope that the legislation will be enacted in time for a permanent program to start with the beginning of the school year next fall.

We have the technical knowledge and the productive capacity to provide plenty of good food for every man, woman, and child in the United States. It is time we made that possibility a reality.

(g) Resource development

The strength of our Nation and the welfare of the people rest upon the natural resources of the country. We have learned that proper conservation of our lands, including our forests and minerals, and wise management of our waters will add immensely to our national wealth.

The first step in the Government's conservation program must be to find out just what are our basic resources, and how they should be used. We need to take, as soon as possible, an inventory of the lands, the minerals, and the forests of the Nation.

During the war it was necessary to curtail some of our long-range plans for development of our natural resources, and to emphasize programs vital to the prosecution of the war. Work was suspended on a number of flood control and reclamation projects and on the development of our national forests and parks. This work must now be resumed, and new projects must be undertaken to provide essential services and to assist in the process of economic development.

The rivers of America offer a great opportunity to our generation in the management of the national wealth. By a wise use of Federal funds, most of which will be repaid into the Treasury, the scourge of floods and drought can be curbed, water can be brought to arid lands, navigation can be extended, and cheap power can be brought alike to the farms and to the industries of our land.

Through the use of the waters of the Columbia River, for example, we are creating a rich agricultural area as large as the State of Delaware. At the same time, we are producing power at Grand Coulee and at Bonneville which played a mighty part in winning the war

and which will found a great peacetime industry in the Northwest. The Tennessee Valley Authority will resume its peacetime program of promoting full use of the resources of the Valley. We shall continue our plans for the development of the Missouri Valley, the Arkansas Valley, and the Central Valley of California.

The Congress has shown itself alive to the practical requirements for a beneficial use of our water resources by providing that preference in the sale of power be given to farmers' cooperatives and public agencies. The public power program thus authorized must continue to be made effective by building the necessary generating and transmission facilities to furnish the maximum of firm power needed at the wholesale markets, which are often distant from the dam sites.

These great developmental projects will open the frontiers of agriculture, industry, and commerce. The employment opportunities thus offered will also go far to ease the transition from war to peace.

(h) Public works

During the war even urgently needed Federal, State, and local construction projects were deferred in order to release resources for war production. In resuming public works construction, it is desirable to proceed only at a moderate rate, since demand for private construction will be abnormally high for some time. Our public works program should be timed to reach its peak after demand for private construction has begun to taper off. Meanwhile, however, plans should be prepared if we are to act promptly when the present extraordinary private demand begins to run out.

The Congress made money available to Federal agencies for their public works planning in the fiscal year 1946. I strongly recommend that this policy be continued and extended in the fiscal year 1947.

State and local governments also have an essential role to play in a national public works program. In my message of September 6, 1945, I recommended that the Congress vote such grants to State and local governments as will insure that each level of government makes its proper contribution to a balanced public construction program. Specifically, the Federal Government should aid State and local governments in planning their own public works programs, in undertaking projects related to Federal programs of regional development, and in constructing such public works as are necessary to carry out the various policies of the Federal Government.

Early in 1945 the Congress made available advances to State and local governments for planning public works projects, and recently made additional provision to continue these advances through the fiscal year 1946. I believe that further appropriations will be needed for the same purpose for the fiscal year 1947.

The Congress has already made provision for highway programs. It is now considering legislation which would expand Federal grants and loans in several other fields, including construction of airports, hospital and health centers, housing, water pollution control facilities, and educational plant facilities. I hope that early action will be taken to authorize these Federal programs.

With respect to public works of strictly local importance, State and local governments should proceed without Federal assistance except in planning. This rule should be subject to review when and if the prospect of highly adverse general economic developments warrants it.

All loans and grants for public works should be planned and administered in such a way that they are brought into accord with the other elements of the Federal Program.

Our long-run objective is to achieve a program of direct Federal and Federally assisted public works which is planned in advance and synchronized with business conditions. In this way it can make its greatest contribution to general economic stability.

(i) National housing program

Last September I stated in my message to the Congress that housing was high on the list of matters calling for decisive action.

Since then the housing shortage in countless communities, affecting millions of families, has magnified this call to action.

Today we face both an immediate emergency and a major postwar problem.

Since VJ-day the wartime housing shortage has been growing steadily worse and pressure on real estate values has increased. Returning veterans often cannot find a satisfactory place for their families to live, and many who buy have to pay exorbitant prices. Rapid demobilization inevitably means further overcrowding.

A realistic and practical attack on the emergency will require aggressive action by local governments, with Federal aid, to exploit all opportunities and to give the veterans as far as possible first chance at vacancies. It will require continuation of rent control in shortage areas as well as legislation to permit control of sales prices. It

will require maximum conversion of temporary war units for veterans' housing and their transportation to communities with the most pressing needs; the Congress has already appropriated funds for this purpose.

The inflation in the price of housing is growing daily.

As a result of the housing shortage, it is inevitable that the present dangers of inflation in home values will continue unless the Congress takes action in the immediate future.

Legislation is now pending in the Congress which would provide for ceiling prices for old and new houses. The authority to fix such ceilings is essential. With such authority, our veterans and other prospective home owners would be protected against a skyrocketing of home prices. The country would be protected from the extension of the present inflation in home values which, if allowed to continue, will threaten not only the stabilization program but our opportunities for attaining a sustained high level of home construction.

Such measures are necessary stopgaps—but only stopgaps. This emergency action, taken alone, is good—but not enough. The housing shortage did not start with the war or with demobilization; it began years before that and has steadily accumulated. The speed with which the Congress establishes the foundation for a permanent, long-range housing program will determine how effectively we grasp the immense opportunity to achieve our goal of decent housing and to make housing a major instrument of continuing prosperity and full employment in the years ahead. It will determine whether we move forward to a stable and healthy housing enterprise and toward providing a decent home for every American family.

Production is the only fully effective answer. To get the wheels turning, I have appointed an emergency housing expediter. I have approved establishment of priorities designed to assure an ample share of scarce materials to builders of houses for which veterans will have preference. Additional price and wage adjustments will be made where necessary, and other steps will be taken to stimulate greater production of bottleneck items. I recommend consideration of every sound method for expansion in facilities for insurance of privately financed housing by the Federal Housing Administration and resumption of previously authorized low-rent public housing projects suspended during the war.

In order to meet as many demands of the emergency situation as possible, a program of emergency measures is now being formulated for action. These will include steps in addition to those already taken.

As quickly as this program can be formulated, announcement will be made.

Last September I also outlined to the Congress the basic principles for the kind of decisive, permanent legislation necessary for a long-range housing program.

These principles place paramount the fact that housing construction and financing for the overwhelming majority of our citizens should be done by private enterprise. They contemplate also that we afford governmental encouragement to privately financed house construction for families of moderate income, through extension of the successful system of insurance of housing investment; that research be undertaken to develop better and cheaper methods of building homes; that communities be assisted in appraising their housing needs; that we commence a program of Federal aid, with fair local participation, to stimulate and promote the rebuilding and redevelopment of slums and blighted areas—with maximum use of private capital. It is equally essential that we use public funds to assist families of low income who could not otherwise enjoy adequate housing, and that we quicken our rate of progress in rural housing.

Legislation now under consideration by the Congress provides for a comprehensive attack jointly by private enterprise, State and local authorities, and the Federal Government. This legislation would make permanent the National Housing Agency and give it authority and funds for much needed technical and economic research. It would provide additional stimulus for privately financed housing construction. This stimulus consists of establishing a new system of yield insurance to encourage large-scale investment in rental housing and broadening the insuring powers of the Federal Housing Administration and the lending powers of the Federal savings and loan associations.

Where private industry cannot build, the Government must step in to do the job. The bill would encourage expansion in housing available for the lowest income groups by continuing to provide direct subsidies for low-rent housing and rural housing. It would facilitate land assembly for urban redevelopment by loans and contributions to local public agencies where the localities do their share.

Prompt enactment of permanent housing legislation along these lines will not interfere with the emergency action already under way. On the contrary, it would lift us out of a potentially perpetual state of housing emergency. It would offer the best hope and prospect to

millions of veterans and other American families that the American system can offer more to them than temporary makeshifts.

I have said before that the people of the United States can be the best housed people in the world. I repeat that assertion, and I welcome the cooperation of the Congress in achieving that goal.

(j) Social security and health

Our Social Security System has just celebrated its tenth anniversary. During the past decade this program has supported the welfare and morale of a large part of our people by removing some of the hazards and hardships of the aged, the unemployed, and widows and dependent children.

But, looking back over 10 years' experience and ahead to the future, we cannot fail to see defects and serious inadequacies in our system as it now exists. Benefits are in many cases inadequate; a great many persons are excluded from coverage; and provision has not been made for social insurance to cover the cost of medical care and the earnings lost by the sick and the disabled.

In the field of old-age security, there seems to be no adequate reason for excluding such groups as the self-employed, agricultural and domestic workers, and employees of nonprofit organizations. Since many of these groups earn wages too low to permit significant savings for old age, they are in special need of the assured income that can be provided by old-age insurance.

We must take urgent measures for the readjustment period ahead. The Congress for some time has been considering legislation designed to supplement at Federal expense, during the immediate reconversion period, compensation payments to the unemployed. Again I urge the Congress to enact legislation liberalizing unemployment compensation benefits and extending the coverage. Providing for the sustained consumption by the unemployed persons and their families is more than a welfare policy; it is sound economic policy. A sustained high level of consumer purchases is a basic ingredient of a prosperous economy.

During the war, nearly 5 million men were rejected for military service because of physical or mental defects which in many cases might have been prevented or corrected. This is shocking evidence that large sections of the population are at substandard levels of health. The need for a program that will give everyone opportunity for medical care is obvious. Nor can there be any serious doubt of

the Government's responsibility for helping in this human and social problem.

The comprehensive health program which I recommended on November 19, 1945, will require substantial additions to the Social Security System and, in conjunction with other changes that need to be made, will require further consideration of the financial basis for social security. The system of prepaid medical care which I have recommended is expected eventually to require amounts equivalent to 4 percent of earnings up to \$3,600 a year, which is about the average of present expenditures by individuals for medical care. The pooling of medical costs, under a plan which permits each individual to make a free choice of doctor and hospital, would assure that individuals receive adequate treatment and hospitalization when they are faced with emergencies for which they cannot budget individually. In addition, I recommended insurance benefits to replace part of the earnings lost through temporary sickness and permanent disability.

Even without these proposed major additions, it would now be time to undertake a thorough reconsideration of our social security laws. The structure should be expanded and liberalized. Provision should be made for extending coverage credit to veterans for the period of their service in the armed forces. In the financial provisions we must reconcile the actuarial needs of social security, including health insurance, with the requirements of a revenue system that is designed to promote a high level of consumption and full employment.

(k) Education

Although the major responsibility for financing education rests with the States, some assistance has long been given by the Federal Government. Further assistance is desirable and essential. There are many areas and some whole States where good schools cannot be provided without imposing an undue local tax burden on the citizens. It is essential to provide adequate elementary and secondary schools everywhere, and additional educational opportunities for large numbers of people beyond the secondary level. Accordingly, I repeat the proposal of last year's Budget Message that the Federal Government provide financial aid to assist the States in assuring more nearly equal opportunities for a good education. The proposed Federal grants for current educational expenditures should be made for the purpose of improving the educational system where improvement is most needed. They should not be used to replace existing non-Federal expenditures, or even to restore merely the situation which existed before the war.

In the future we expect incomes considerably higher than before the war. Higher incomes should make it possible for State and local governments and for individuals to support higher and more nearly adequate expenditures for education. But inequality among the States will still remain, and Federal help will still be needed.

As a part of our total public works program, consideration should be given to the need for providing adequate buildings for schools and other educational institutions. In view of current arrears in the construction of educational facilities, I believe that legislation to authorize grants for educational facilities, to be matched by similar expenditures by State and local authorities, should receive the favorable consideration of the Congress.

The Federal Government has not sought, and will not seek, to dominate education in the States. It should continue its historic role of leadership and advice and, for the purpose of equalizing educational opportunity, it should extend further financial support to the cause of education in areas where this is desirable.

(l) Federal Government personnel

The rapid reconversion of the Federal Government from war to peace is reflected in the demobilization of its civilian personnel. The number of these employees in continental United States has been reduced by more than 500,000 from the total of approximately 2,900,000 employed in the final months of the war. I expect that by next June we shall have made a further reduction of equal magnitude and that there will be continuing reductions during the next fiscal year. Of the special wartime agencies now remaining, only a few are expected to continue actively into the next fiscal year.

At the same time that we have curtailed the number of employees, we have shortened the workweek by one-sixth or more throughout the Government and have restored holidays. The process of readjustment has been complicated and costs have been increased by a heavy turn-over in the remaining personnel—particularly by the loss of some of our best administrators. Thousands of war veterans have been reinstated or newly employed in the civil service. Many civilians have been transferred from war agencies to their former peacetime agencies. Recruitment standards, which had to be relaxed during the war, are now being tightened.

The elimination last autumn of overtime work for nearly all Federal employees meant a sharp cut in their incomes. For sal-

aried workers, the blow was softened but by no means offset by the increased rates of pay which had become effective July 1. Further adjustments to compensate for increased living costs are required. Moreover, we have long needed a general upward revision of Federal Government salary scales at all levels in all branches—legislative, judicial, and executive. Too many in Government have had to sacrifice too much in economic advantage to serve the Nation.

Adequate salaries will result in economies and improved efficiency in the conduct of Government business—gains that will far outweigh the immediate costs. I hope the Congress will expedite action on salary legislation for all Federal employees in all branches of the Government. The only exception I would make is in the case of workers whose pay rates are established by wage boards; a blanket adjustment would destroy the system by which their wages are kept aligned with prevailing rates in particular localities. The wage boards should be sensitive now, as they were during the war, to changes in local prevailing wage rates and should make adjustments accordingly.

I hope also that the Congress may see fit to enact legislation for the adequate protection of the health and safety of Federal employees, for their coverage under a system of unemployment compensation, and for their return at Government expense to their homes after separation from wartime service.

(m) Territories, insular possessions, and the District of Columbia

The major governments of the world face few problems as important and as perplexing as those relating to dependent peoples. This Government is committed to the democratic principle that it is for the dependent peoples themselves to decide what their status shall be. To this end I asked the Congress last October to provide a means by which the people of Puerto Rico might choose their form of government and ultimate status with respect to the United States. I urge, too, that the Congress promptly accede to the wishes of the people of Hawaii that the Territory be admitted to statehood in our Union, and that similar action be taken with respect to Alaska as soon as it is certain that this is the desire of the people of that great Territory. The people of the Virgin Islands should be given an increasing measure of self-government.

We have already determined that the Philippine Islands are to be independent on July 4, 1946. The ravages of war and enemy occupation, however, have placed a heavy responsibility upon the United

States. I urge that the Congress complete, as promptly and as generously as may be possible, legislation which will aid economic rehabilitation for the Philippines. This will be not only a just acknowledgment of the loyalty of the people of the Philippines, but it will help to avoid the economic chaos which otherwise will be their heritage from our common war. Perhaps no event in the long centuries of colonialism gives more hope for the pattern of the future than the independence of the Philippines.

The District of Columbia, because of its special relation to the Federal Government, has been treated since 1800 as a dependent area. We should move toward a greater measure of local self-government consistent with the constitutional status of the District. We should take adequate steps to assure that citizens of the United States are not denied their franchise merely because they reside at the Nation's Capital.

III. THE BUDGET FOR THE FEDERAL PROGRAM FOR THE FISCAL YEAR 1947

SUMMARY OF THE BUDGET

For the first time since the fiscal year 1930 the Budget for the next fiscal year will require no increase in the national debt.

Expenditures of all kinds, authorized and recommended, in the next year are estimated at just above 35.8 billion dollars. Net receipts are estimated at 31.5 billion dollars. The estimated difference of 4.3 billion dollars will be met by a reduction in the very substantial balance which will be in the Treasury during the next fiscal year.

A large part of the activities outside defense and war liquidation, aftermath of war, and international finance, classified as "other activities" in a following table, is still due to repercussions of the war. These "other activities" include more than 2 billion dollars for aids to agriculture and net outlays for the Commodity Credit Corporation—almost double the expenditures for the same purposes in prewar years. This increase is due mainly to expenditures for purposes of price stabilization and price support resulting from the war food production program. Other increases in this category are due to the fact that certain wartime agencies now in the process of liquidation are included in this group of activities. If all expenditures for those activities which are directly or indirectly related to the war are excluded, the residual expenditures are below those for corresponding activities in prewar years. In making this comparison account should

be taken of the fact that, while prewar expenditures were affected by direct relief and work relief for the unemployed, the postwar budgets are affected by the considerable increase in pay rates and other increases in costs and prices.

To elaborate, the Budget, as I have remarked above, reflects on both sides of the ledger the Government's program as recommended by the Executive. It includes estimates not only of expenditures and receipts for which legislative authority already exists, but also of expenditures and receipts for which authorization is recommended.

The Budget total for the next fiscal year, the year that ends on June 30, 1947, is estimated at just above 35.8 billion dollars—about a third of the budgets for global war, although nearly four times the prewar budgets. This estimate is based on the assumption that a rapid liquidation of the war program will be associated with rapid reconversion and expansion of peacetime production. The total includes net outlays of Government corporations.

The estimated expenditures in the next and current fiscal year compare as follows with those of a year of global war and a prewar year:

Fiscal year:	<i>Total Budget expenditures (in millions)</i>
1947.....	\$35,860
1946.....	67,229
1945.....	100,031
1940.....	9,252

Although allowances for occupation, demobilization, and defense are drastically reduced in the fiscal year 1947, they will still amount to 42 percent of the total Budget. The so-called "aftermath of war" expenditures account for a further 30 percent of the total. The total of all other programs, which was drastically cut during the war, is increasing again as liquidation of the war program proceeds and renewed emphasis is placed on the peacetime objectives of the Government.

On the other side of the ledger, net receipts are estimated at 31.5 billion dollars. This estimate assumes that all existing taxes will continue all through the fiscal year 1947. Included are the extraordinary receipts from the disposal of surplus property.

As a result, estimated expenditures will exceed estimated receipts by 4.3 billion dollars. This amount can be provided by a reduction in the cash balance in the Treasury. Thus, after a long period of increasing public debt resulting from depression budgets and war budgets, it is anticipated that no increase in the Federal debt will be required next year.

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FEDERAL BUDGET EXPENDITURES AND BUDGET RECEIPTS
Including net outlays of Government corporations and credit agencies
(based on existing and proposed legislation)

[In millions]

	Fiscal year	
	1946	1947
Expenditures:		
Defense, war, and war liquidation.....	\$49,000	\$15,000
Aftermath of war: Veterans, interest, refunds.....	10,813	10,793
International finance (including proposed legislation).....	2,614	2,754
Other activities.....	4,552	5,813
Activities based on proposed legislation (excluding international finance)....	250	1,500
Total expenditures.....	67,229	35,860
Receipts (net).....	38,609	31,513
Excess of expenditures.....	28,620	4,347

The current fiscal year, 1946, is a year of transition. When the year opened, in July 1945, we were still fighting a major war, and Federal expenditures were running at an annual rate of about 100 billion dollars. By June 1946 that rate will be more than cut in half. The Budget total for the current fiscal year is now estimated at 67.2 billion dollars, of which more than two-thirds provides for war and war liquidation. Since net receipts are estimated at 38.6 billion dollars, there will be an excess of expenditures of 28.6 billion dollars for the current fiscal year.

For all programs discussed in this Message I estimate the total of Budget appropriations and authorizations (including reappropriations and permanent appropriations) at 30,982 million dollars for the fiscal year 1947. Of this amount, present permanent appropriations are expected to provide 5,755 million dollars, principally for interest. This leaves 24,224 million dollars to be made available through new appropriations, exclusive of appropriations to liquidate contract authorizations; 900 million dollars in new contract authorizations; and 103 million dollars through the reappropriation of unliquidated balances of previous appropriations. The appropriations needed to liquidate contract authorizations are estimated at 1,113 million dollars.

In the Budget for the year ahead only over-all estimates are included at this time for the major war agencies and for net outlays of Government corporations. Detailed recommendations will be transmitted in the spring for the war agencies; and the business-type budgets of

Government corporations will likewise be transmitted in accordance with the recently adopted Government Corporation Control Act.

Similarly, only over-all estimates are provided for new programs recommended in this Message; detailed recommendations will be transmitted after authorizing legislation has been enacted. It should be recognized that many of the estimates for new programs recommended in this Message are initial year figures. These figures will be affected by the date the legislation is enacted and by the time needed for getting a program under way. New programs, such as that for a national research agency, will require larger amounts in later years. The estimates exclude major elements of the proposed national health program since the greater part of these will be covered by expenditures from trust funds.

The Budget total includes expenditures for capital outlay as well as for current operations. An estimated 1,740 million dollars will be expended in the fiscal year 1947 for direct Federal public works and for loans and grants for public works.

THE ECONOMIC IMPACT OF THE LIQUIDATION OF THE WAR PROGRAM

Government programs are of such importance in the development of production and employment opportunities—domestic and international—that it has become essential to formulate and consider the Federal Budget in the light of the Nation's budget as a whole. The relationship between the receipts, expenditures, and savings of consumers, business, and government is shown in the accompanying table.

Considering the whole Nation, total expenditures must equal the total receipts, because what any individual or group spends becomes receipts of other individuals or groups. Such equality can be achieved on either a high level of incomes or on a low or depression level of incomes.

Tremendous orders for munitions during the war shifted production and employment into high gear. Total goods produced and services rendered for private as well as for Government purposes—the Nation's budget—reached about 200 billion dollars in the calendar year 1944. Federal, State, and local government expenditures represented half of this total.

Corresponding estimates for the past 3 months depict the national economy in the process of demobilization and reconversion.

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THE GOVERNMENT'S BUDGET AND THE NATION'S BUDGET

Calendar year 1944 and October-December 1945

[In billions]

Economic group	Calendar year 1944 (global war)			October-December 1945 (start of reconversion) (in seasonally adjusted annual rates)		
	Receipts	Expendi- tures	Excess (+), def- icit (-)	Receipts	Expendi- tures	Excess (+), def- icit (-)
CONSUMERS						
Income after taxes.....	\$134			\$132		
Expenditures.....		\$98			\$107	
Excess of receipts, savings (+).....			+\$35			+\$25
BUSINESS						
Undistributed profits and reserves.....	\$13			\$9		
Gross capital formation:						
Domestic.....		\$4			\$15	
Net exports ¹		-2			1	
Total, gross capital formation.....		2			16	
Excess of receipts (+) or capital forma- tion (-).....			+\$11			-\$7
STATE AND LOCAL GOVERNMENT						
Receipts from the public, other than borrowing.....	\$10			\$11		
Payments to the public.....		\$8			\$9	
Excess of receipts (+).....			+\$2			+\$2
FEDERAL GOVERNMENT						
Receipts from the public, other than borrowing.....	\$48			\$44		
Payments to the public.....		\$90			\$64	
Excess of payments (-).....			-\$48			-\$20
Less: Adjustments ²	\$7	\$7		\$14	\$14	
TOTAL: GROSS NATIONAL PRODUCT						
Receipts.....	\$198			\$182		
Expenditures.....		\$198			\$182	
Balance.....			0			0

NOTE.—See corresponding table in part III, page 728, for detailed estimates and explanations.

¹ Excludes exports for lend-lease and relief which are included in Federal Government expenditures.² Mainly government expenditures for other than goods and services, such as mustering-out pay and unemployment compensation.

The wartime annual rate of Federal expenditures has been reduced by 32 billion dollars, while the Nation's budget total has dropped only half as much. The drop in total value of production and services has been less drastic because increasing private activities have absorbed in large measure the manpower and materials released from war production and war services.

The largest increase in private activities has occurred in business investments, which include residential and other construction, producers' durable equipment, accumulation of inventories, and net exports. Under conditions of global war, expenditures for private construction and equipment were held to a minimum and inventories were depleted. With the beginning of reconversion these developments have been reversed. Residential construction and outlays for plant and equipment are on the increase; inventories, too, are being replenished. International transactions (excluding lend-lease and international relief which are included under war expenditures) showed an import surplus under conditions of global war. In the past 3 months private exports have been slightly in excess of imports, for the first time since 1941.

Consumers' budgets show a significant change. On the income side, their total has declined but little because the reduction in "take-home" pay of war workers is, to a large extent, offset for the time being by the mustering-out payments received by war veterans and by unemployment compensation received by the unemployed. On the expenditure side, however, consumers' budgets, restricted during the war, have increased substantially as a result of the fact that scarce goods are beginning to appear on the market and wartime restraints are disappearing. Thus, consumers' current savings are declining substantially from the extraordinarily high wartime rate and some wartime savings are beginning to be used for long-delayed purchases.

Unemployment has increased less than was expected during this first period of demobilization and reconversion. It is true that 6 million men and women have been discharged from the armed forces since May 1945 and more than 5 million have been laid off from war work. On the other hand, more than a million civilians have been enlisted in the armed forces, a considerable number of war veterans have not immediately sought jobs, and many war workers, especially women, have withdrawn from the labor force. In addition, many industries, and especially service trades which were undermanned during the war, are beginning now, for the first time in years, to recruit

an adequate labor force. The reduced workweek has also contributed to the absorption of those released from war service and war work.

In general, the drastic cut in war programs has thrown the economy into lower gear; it has not thrown it out of gear. Our economic machine demonstrates remarkable resiliency, although there are many difficulties that must still be overcome. The rapid termination of war contracts, prompt clearance of unneeded Government-owned equipment from private plants, and other reconversion policies have greatly speeded up the beginning of peacetime work in reconverted plants.

Although the first great shock of demobilization and war-work termination has thus been met better than many observers expected, specific industries and specific regions show much unevenness in the progress of reconversion.

The Quarterly Report of the Director of War Mobilization and Reconversion analyzes the difficulties in recruiting personnel and obtaining materials that hamper reconversion in certain industries and proposes policies to deal with these situations. The lack of adequate housing is one of the main factors checking the flow of workers into areas where job opportunities exist.

FEDERAL REVENUE, BORROWING, AND THE PUBLIC DEBT

1. FINANCIAL REQUIREMENTS AND TAX POLICY

Recommendations for tax legislation should be considered not only in the light of the financial requirements of the ensuing year, but also in the light of future years' financial requirements and a full consideration of economic conditions.

Expenditures are estimated at nearly 36 billion dollars in the fiscal year 1947; they can hardly be expected to be reduced to less than 25 billion dollars in subsequent years. Net receipts in the fiscal year 1947 are estimated at 31.5 billion dollars.

Included in this estimate are 2 billion dollars of receipts from disposal and rental of surplus property and 190 million dollars of receipts from renegotiation of wartime contracts. These sources of receipts will disappear in future years. Tax collections for the fiscal year 1947 also will not yet fully reflect the reduction in corporate tax liabilities provided in the Revenue Act of 1945. If the extraordinary receipts from the disposal of surplus property and renegotiation of contracts be disregarded, and if the tax reductions adopted in the Revenue Act of 1945 were fully effective, present tax rates would yield about 27 billion dollars.

These estimates for the fiscal year 1947 are based on the assumption of generally favorable business conditions but not on an income reflecting full employment and the high productivity that we hope to achieve. In future years the present tax system, in conjunction with a full employment level of national income, could be expected to yield more than 30 billion dollars, which is substantially above the anticipated peacetime level of expenditures.

In view of the still extraordinarily large expenditures in the coming year and continuing inflationary pressures, I am making no recommendation for tax reduction at this time.

We have already had a substantial reduction in taxes from wartime peaks. The Revenue Act of 1945 was a major tax-reduction measure. It decreased the total tax load by more than one-sixth, an amount substantially in excess of the reductions proposed by the Secretary of the Treasury to congressional tax committees in October 1945. These proposed reductions were designed to encourage reconversion and peacetime business expansion.

The possibility of further tax reductions must depend on the budgetary situation and the economic situation. The level of anticipated expenditures for the fiscal year 1947 and the volume of outstanding public debt require the maintenance of large revenues. Moreover, inflationary pressures still appear dangerously powerful, and ill-advised tax reduction would operate to strengthen them still further.

My decision not to recommend additional tax reductions at this time is made in the light of existing economic conditions and prospects.

2. BORROWING AND THE PUBLIC DEBT

The successful conclusion of the Victory loan marked the end of war borrowing and the beginning of the transition to postwar debt management.

Because of the success of the Victory loan, I am happy to report that the Treasury will not need to borrow any new money from the public during the remainder of the present fiscal year except through regular sales of savings bonds and savings notes. Furthermore, a part of the large cash balance now in the Treasury will be used for debt redemption so that the public debt which now amounts to about 278 billion dollars will decrease by several billion dollars during the next 18 months. The present statutory debt limit of 300 billion dollars will provide an ample margin for all of the public-debt trans-

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actions through the fiscal year 1947. The net effect of the excess of expenditures and debt redemption on the Treasury cash balance, as compared with selected previous years, is shown in the following table:

EXCESS OF BUDGET EXPENDITURES, THE PUBLIC DEBT, AND THE TREASURY CASH BALANCE IN SELECTED YEARS

[In billions]

Fiscal year	Excess of Budget expenditures over receipts	At end of period	
		Public debt	Cash balance
1940.....	\$3.9	\$43.0	\$1.9
1945.....	53.6	258.7	24.7
1946:			
July-Dec. 1945.....	18.1	278.1	26.0
Jan.-June 1946.....	10.5	275.0	11.9
1947.....	4.3	271.0	3.2

Although the public debt is expected to decline, a substantial volume of refinancing will be required, because of the large volume of maturing obligations. Redemptions of savings bonds also have been running high in recent months and are expected to remain large for some time. The issuance of savings bonds will be continued. These bonds represent a convenient method of investment for small savers, and also an anti-inflationary method of refinancing. Government agencies and trust funds are expected to buy about 2.5 billion dollars of Government securities during the next 6 months, and 2.8 billion dollars more during the fiscal year 1947. Through these and other debt operations, the distribution of the Federal debt among the various types of public and private owners will change, even though the total is expected to decline.

The interest policies followed in the refinancing operations will have a major impact not only on the provision for interest payments in future budgets, but also on the level of interest rates prevailing in private financing. The average rate of interest on the debt is now a little under 2 percent. Low interest rates will be an important force in promoting the full production and full employment in the postwar period for which we are all striving. Close wartime cooperation between the Treasury Department and the Federal Reserve System has made it possible to finance the most expensive war in history at low and stable rates of interest. This cooperation will continue.

No less important than the level of interest rates paid on the debt is the distribution of its ownership. Of the total debt, more than half represents direct savings of individuals or investments of funds received from individual savings by life insurance companies, mutual savings banks, savings and loan associations, private or Government trust funds, and other agencies.

Most of the remaining debt—more than 100 billion dollars—is held by the commercial banks and the Federal Reserve banks. Heavy purchases by the banks were necessary to provide adequate funds to finance war expenditures. A considerable portion of these obligations are short-term in character and hence will require refinancing in the coming months and years. Since they have been purchased out of newly created bank funds, continuance of the present low rates of interest is entirely appropriate. To do otherwise would merely increase bank profits at the expense of the taxpayer.

The 275-billion-dollar debt poses a problem that requires careful consideration in the determination of financial and economic policies. We have learned that the problem, serious as it is, can be managed. Its management will require determined action to keep our Federal Budget in order and to relate our fiscal policies to the requirements of an expanding economy. The more successful we are in achieving full production and full employment the easier it will be to manage the debt and pay for the debt service. Large though the debt is, it is within our economic capacity. The interest charges on it amount to but a small proportion of our national income. The Government is determined, by a resolute policy of economic stabilization, to protect the interests of the millions of American citizens who have invested in its securities.

During the past 6 months the net revenue receipts of the Federal Government have been about 20 billion dollars, almost as much as during the closing 6 months of 1944 when the country was still engaged in all-out warfare. The high level of these receipts reflects the smoothness of the reconversion and particularly the strength of consumer demand. But the receipts so far collected, it must be remembered, do not reflect any of the tax reductions made by the Revenue Act of 1945. These reductions will not have their full effect on the revenue collected until the fiscal year 1948.

It is good to move toward a balanced budget and a start on the retirement of the debt at a time when demand for goods is strong and the business outlook is good. These conditions prevail today. Business is good and there are still powerful forces working in the direction of inflation. This is not the time for tax reduction.

RECOMMENDATIONS FOR SPECIFIC FEDERAL ACTIVITIES

1. WAR LIQUIDATION AND NATIONAL DEFENSE

(a) War expenditures

The fiscal year 1947 will see a continuance of war liquidation and occupation. During this period we shall also lay the foundation for our peacetime system of national defense.

In the fiscal year that ended on June 30, 1945, almost wholly a period of global warfare, war expenditures amounted to 90.5 billion dollars. For the fiscal year 1946 war expenditures were originally estimated at 70 billion dollars. That estimate was made a year ago while we were still engaged in global warfare. After victory over Japan this estimate was revised to 50.5 billion dollars. Further cut-backs and accelerated demobilization have made possible an additional reduction in the rate of war spending. During the first 6 months 32.9 billion dollars were spent. It is now estimated that 16.1 billion dollars will be spent during the second 6 months, or a total of 49 billion dollars during the whole fiscal year.

For the fiscal year 1947 it is estimated, tentatively, that expenditures for war liquidation, for occupation, and for national defense will be reduced to 15 billion dollars. The War and Navy Departments are expected to spend 13 billion dollars; expenditures of other agencies, such as the United States Maritime Commission, the War Shipping Administration, and the Office of Price Administration, and payments to the United Nations Relief and Rehabilitation Administration are estimated at 3 billion dollars. Allowing for estimated net receipts of 1 billion dollars arising from war activities of the Reconstruction Finance Corporation, the estimated total of war expenditures is 15 billion dollars. At this time only a tentative break-down of the total estimate for war and defense activities can be indicated.

An expenditure of 15 billion dollars for war liquidation, occupation, and national defense is a large sum for a year which begins 10 months after fighting has ended. It is 10 times our expenditures for defense before the war; it amounts to about 10 percent of our expected national income. This estimate reflects the immense job that is involved in winding up a global war effort and stresses the great responsibility that victory has placed upon this country. The large expenditures needed for our national defense emphasize the great scope for effective organization in furthering economy and efficiency. To this end I have recently recommended to the Congress adoption of legislation

combining the War and Navy Departments into a single Department of National Defense.

A large part of these expenditures is still to be attributed to the costs of the war. Assuming, somewhat arbitrarily, that about one-half of the 15-billion-dollar outlay for the fiscal year 1947 is for war liquidation, aggregate expenditures by this Government for the second World War are now estimated at 347 billion dollars through June 30, 1947. (See table A, part III, page 751.) Of this, about 9 billion dollars will have been recovered through renegotiation and sale of surplus property by June 30, 1947; this has been reflected in the estimates of receipts.

Demobilization and strength of armed forces.—Demobilization of our armed forces is proceeding rapidly. At the time of victory in Europe, about 12.3 million men and women were in the armed forces; 7.6 million were overseas. By the end of December 1945 our armed forces had been reduced to below 7 million. By June 30, 1946, they will number about 2.9 million, of whom 1.8 million will be individuals enlisted and inducted after VE-day. Mustering-out pay is a large item of our war liquidation expense; it will total 2.5 billion dollars in the fiscal year 1946, and about 500 million dollars in the fiscal year 1947.

In the fiscal year 1947 the strength of our armed forces will still be above the ultimate peacetime level. As I have said, War and Navy Department requirements indicate a strength of about 2 million in the armed forces a year from now. This is necessary to enable us to do our share in the occupation of enemy territories and in the preservation of peace in a troubled world. Expenditures for pay, subsistence, travel, and miscellaneous expenses of the armed forces, excluding mustering-out pay, are estimated at 5 billion dollars.

Contract settlement and surplus property disposal.—The winding up of war procurement is the second most important liquidation job. By the end of November a total of 301,000 prime contracts involving commitments of 64 billion dollars had been terminated. Of this total, 67,000 contracts with commitments of 35 billion dollars remained to be settled. Termination payments on these contracts are estimated at about 3.5 billion dollars. It is expected that more than half of these terminated contracts will be settled during the current fiscal year, leaving payments of about 1.5 billion dollars for the fiscal year 1947.

Another important aspect of war supply liquidation is the disposal of surplus property. Munitions, ships, plants, installations, and supplies, originally costing 50 billion dollars or more, will ultimately be

declared surplus. The sale value of this property will be far less than original cost and disposal expenses are estimated at 10 to 15 cents on each dollar realized. Disposal units within existing agencies have been organized to liquidate surplus property under the direction of the Surplus Property Administration. Overseas disposal activities have been centralized in the State Department to permit this program to be carried on in line with over-all foreign policy. Thus far only about 13 billion dollars of the ultimate surplus, including 5 billion dollars of unsalable aircraft, has been declared. Of this amount, 2.3 billion dollars have been disposed of, in sales yielding 600 million dollars. The tremendous job of handling surplus stocks will continue to affect Federal expenditures and receipts for several years. The speed and effectiveness of surplus disposal operations will be of great importance for the domestic economy as well as for foreign economic policies.

War supplies, maintenance, and relief.—Adequate provision for the national defense requires that we keep abreast of scientific and technical advances. The tentative estimates for the fiscal year 1947 make allowance for military research, limited procurement of weapons in the developmental state, and some regular procurement of munitions which were developed but not mass-produced when the war ended. Expenditures for procurement and construction will constitute one-third or less of total defense outlays, compared to a ratio of two-thirds during the war years.

The estimates also provide for the maintenance of our war-expanded naval and merchant fleets, military installations, and stocks of military equipment and supplies. Our naval combatant fleet is three times its pre-Pearl Harbor tonnage. Our Merchant Marine is five times its prewar size. The War Department has billions of dollars worth of equipment and supplies. Considerable maintenance and repair expense is necessary for the equipment which we desire to retain in active status or in war reserve. Expenses will be incurred for winnowing the stocks of surpluses, for preparing lay-up facilities for the reserve fleets, and for storage of reserve equipment and supplies.

Military expenditures in the current fiscal year include 650 million dollars for civilian supplies for the prevention of starvation and disease in occupied areas. Expenditures on this account will continue in the fiscal year 1947. The war expenditures also cover the expenses of civilian administration in occupied areas.

During the war, 15 cents of each dollar of our war expenditures was for lend-lease aid. With lend-lease terminated, I expect the direct operations under this program to be substantially completed in the

current fiscal year. The expenditures estimated for the fiscal year 1947 under this program are mainly interagency reimbursements for past transactions.

Relief and rehabilitation expenditures are increasing. It is imperative that we give all necessary aid within our means to the people who have borne the ravages of war. I estimate that in the fiscal year 1946 expenditures for the United Nations Relief and Rehabilitation Administration will total 1.3 billion dollars and in the following year 1.2 billion dollars. Insofar as possible, procurement for this purpose will be from war surpluses.

(b) Authorizations for war and national defense

During the war, authorizations and appropriations had to be enacted well in advance of obligation and spending to afford ample time for planning of production by the procurement services and by industry. Thus our cumulative war program authorized in the period between July 1, 1940, and July 1, 1945, was 431 billion dollars, including net war commitments of Government corporations. Expenditures against those authorizations totaled 290 billion dollars. This left 141 billion dollars in unobligated authorizations and unliquidated obligations. (See table A, part III, page 751.)

With the end of fighting, it became necessary to adjust war authorizations to the requirements of war liquidation and continuing national defense. Intensive review of the war authorizations by both the executive and the legislative branches has been continued since VJ-day. As a result, the authorized war program is being brought more nearly into line with expenditures.

Rescissions and authorizations through the fiscal year 1946.—Readjusting the war program, as the Congress well knows, is not an easy task. Authorizations must not be too tight, lest we hamper necessary operations; they must not be too ample, lest we lose control of spending. Last September, I transmitted to the Congress recommendations on the basis of which the Congress voted H. R. 4407 to repeal 50.3 billion dollars of appropriations and authorizations. I found it necessary to veto this bill because it was used as a vehicle for legislation that would impair the reemployment program. However, in order to preserve the fine work of the Congress on the rescissions, I asked the Director of the Bureau of the Budget to place the exact amounts indicated for repeal in a nonexpendable reserve, and to advise the departments and agencies accordingly. This has been done.

In accord with Public Law 132 of the Seventy-ninth Congress, I have transmitted recommendations for additional rescissions for the current fiscal year of appropriations amounting to 5.8 billion dollars and of contract authorizations totaling 420 million dollars. The net reduction in authority to obligate will be 5.0 billion dollars, because, of the appropriations, 1.2 billion dollars will have to be restored in subsequent years to liquidate contract authorizations still on the books.

The appropriations recommended for repeal include 2,827 million dollars for the Navy Department, 1,421 million dollars for the War Department, 850 million dollars for lend-lease, 384 million dollars for the War Shipping Administration, and 260 million dollars for the United States Maritime Commission. The contract authorizations proposed for repeal are for the Maritime Commission.

In addition, there are unused tonnage authorizations for construction of naval vessels now valued at 5.4 billion dollars. In September 1945, I suggested that this authority be reviewed by the appropriate committees of the Congress, and the Congress has moved to bar construction under these authorizations during the remainder of the fiscal year 1946. I propose to continue this prohibition in the Navy budget estimates for the fiscal year 1947 and now renew my recommendation that legislation be enacted at the earliest time to clear the statute books of these authorizations.

The amounts indicated for repeal in H. R. 4407 and the further rescissions which I have recommended, excluding duplications and deferred cash payments on existing authorizations, represent a cut in the authorized war program of 60.8 billion dollars. The war authorizations will also be reduced 3.7 billion dollars by carrying receipts of revolving accounts to surplus, by lapses, and by cancelation and repayment of commitments of the Government war corporations.

On the other hand, supplemental appropriations of 600 million dollars will be required for the United Nations Relief and Rehabilitation Administration.

In the net, it is estimated that the cumulative authorized war and national defense program will amount to 368 billion dollars on June 30, 1946. Expenditures of 49 billion dollars during the fiscal year 1946 will have pushed cumulative expenditures to 339 billion dollars. The unexpended balances will be down to 28 billion dollars on June 30, 1946.

New authorizations for national defense and war liquidation in the fiscal year 1947.—The expenditures of 15 billion dollars for national defense and war liquidation in the fiscal year 1947 will be partly for payment

of contractual obligations incurred in the past, and partly for the payment of new obligations. The unexpended balances on June 30, 1946, will be scattered among hundreds of separate appropriations. Thus, while some appropriation accounts will have unused balances, others will require additional appropriations.

It is estimated that authorizations to incur new obligations of 11,772 million dollars will be needed during the fiscal year 1947, mainly for the War and Navy Departments. Of the required authorizations, 11,365 million dollars will be in new appropriations, 400 million dollars in new contract authority, and 7 million dollars in reappropriations of unobligated balances. In addition, appropriations of 825 million dollars will be needed to liquidate obligations under existing contract authorizations.

Taking into account the tentative authorizations and expenditures estimated for the fiscal year 1947, and offsets of 3 billion dollars in war commitments of Government corporations, the cumulative authorized war and national defense program on June 30, 1947, will be 376 billion dollars; total expenditures, 354 billion dollars; and unexpended balances, 22 billion dollars.

The 22 billion dollars of unexpended balances tentatively indicated as of June 30, 1947, comprise both unobligated authorizations and unliquidated obligations. Most of the unliquidated obligations result from transactions booked during the war years. A large part of the 22 billion dollars would never be spent even if not repealed, for the appropriations will lapse in due course. For example, several billion dollars of these unliquidated obligations represent unsettled inter- and intra-departmental agency accounts for war procurement. Legislation is being requested to facilitate the adjustment of some of these inter-agency accounts. Another 6 billion dollars is set aside for contract termination payments. If contract settlement costs continue in line with recent experience, it is likely that part of the 6 billion dollars will remain unspent.

On the other hand, some of the 22 billion dollars would be available for obligation and expenditure unless impounded. In certain appropriations, such as those for long-cycle procurement, considerable carry-over of unliquidated obligations into future years is to be expected and is necessary. However, substantial further rescissions can and should be made when the war liquidation program tapers off and budgetary requirements for national defense are clarified. As I have said, I shall continue to review the war authorizations and from time to time recommend excess balances for repeal.

As in recent years, detailed recommendations concerning most appropriations for the national defense program are postponed until the spring. In connection with the war activities of the United States Maritime Commission and certain other agencies, however, I now make specific recommendations for the fiscal year 1947. No additional authorizations or appropriations will be necessary for the Maritime Commission since sufficient balances will be left after the above-mentioned rescissions to carry out the program now contemplated for the fiscal year 1947.

2. AFTERMATH OF WAR

Nearly one-third—11 billion dollars—of estimated Federal expenditures in the fiscal year 1947 will be for purposes that are largely inherited from the war—payments to veterans, interest on the Federal debt, and refunds of taxes.

(a) *For veterans*

“Veterans’ pensions and benefits” has become one of the largest single categories in the Federal Budget. I am recommending for this purpose total appropriations of 4,787 million dollars for the fiscal year 1947. Expenditures in the fiscal year are estimated, under present legislation, at 4,208 million dollars. These expenditures will help our veterans through their readjustment period and provide lasting care for those who were disabled.

The Congress has provided unemployment allowances for veterans during their readjustment period. Expenditure of 850 million dollars for this purpose is anticipated for the fiscal year 1947. In addition, readjustment allowances for self-employed veterans are expected to cost 340 million dollars in the fiscal year 1947.

On May 28, 1945, in asking the Congress to raise the ceiling on benefits for civilian unemployed to not less than 25 dollars a week during the immediate reconversion period, I suggested that the Congress also consider liberalizing veterans’ allowances. Elsewhere in this Message I reiterate my recommendation with respect to emergency unemployment compensation. I also recommend increasing veterans’ unemployment allowances from 20 dollars to 25 dollars a week. This would involve additional expenditures estimated at approximately 220 million dollars for the fiscal year.

Included in the 1947 Budget is an expenditure of 535 million dollars for veterans’ education under provisions of the Servicemen’s Read-

justment Act. This amount includes both tuition expenses and maintenance allowances. It is expected that half a million veterans will be enrolled in our schools and colleges during the year.

The ultimate benefit which veterans receive from the loan guarantee provisions of the Servicemen's Readjustment Act depends largely on the success of our stabilization program in restraining building costs and real estate values. Under the revised procedure contained in recent amendments, the administrative workload will be minimized by the almost complete transfer of authority for approving the guarantees to private lending agencies and private appraisers designated by the Veterans Administration. This authority carries with it the responsibility for restricting the guarantees to loans on reasonably valued properties. Costs of the program, other than for administration, are estimated at 21 million dollars in the fiscal year 1947.

Pensions for veterans will require expenditures estimated at 1,748 million dollars for the fiscal year 1947. Two-thirds of this amount will be received by veterans of the war which we have just won. This figure includes 55 million dollars of increased pensions for student-veterans in our vocational rehabilitation program. In addition, 170 million dollars will be expended in transfers to the National Service Life Insurance Fund from general and special accounts.

Expenditures under the appropriation for salaries and expenses of the Veterans Administration are estimated at 528 million dollars in the fiscal year 1947. This includes 260 million dollars for medical care and the operation of some 103,000 hospital and domiciliary beds.

A separate appropriation for hospital and domiciliary facilities, additional to the total for veterans' pensions and benefits, covers construction that will provide some 13,000 hospital beds as part of the 500-million-dollar hospital construction program already authorized by the Congress. The estimated expenditures of 130 million dollars for this purpose are classified in the Budget as part of the general public works program for the next fiscal year.

(b) *For interest*

Interest payments on the public debt are estimated at 5 billion dollars in the fiscal year 1947, an increase of 250 million dollars from the revised estimate for the current fiscal year. This increase reflects chiefly payment of interest on additions to the debt this year. Assuming continuance of present interest rates, the Government's interest bill is now reaching the probable postwar level.

(c) *For refunds*

An estimated total of 1,585 million dollars of refunds will be paid to individuals and corporations during the fiscal year 1947. Slightly over half of this amount, or 800 million dollars, will be accessory to the simplified pay-as-you-go method of tax collection, and will be the result of overwithholding and overdeclaration of expected income. Most of the remainder will arise from loss and excess-profits credit carry-backs, recomputed amortization on war plants, and special relief from the excess-profits tax.

This category of expenditures is thus losing gradually its "aftermath-of-war" character, and by the succeeding year will reflect almost entirely the normal operation of loss carry-backs and current tax collection.

3. AGRICULTURAL PROGRAMS

The agricultural programs contemplated for the fiscal year 1947 are those which are essential for the provision of an adequate supply of food and other agricultural commodities with a fair return to American farmers. To support these objectives, expenditures by the Department of Agriculture estimated at 784 million dollars from general and special accounts will be required in the fiscal year 1947. This compares with estimated expenditures of 676 million dollars in 1946. These figures exclude expenditures by the Department of Agriculture on account of lend-lease, the United Nations Relief and Rehabilitation Administration, and other war expenditures. The expenditure for the fiscal year 1947 is composed of 553 million dollars for "aids to agriculture," 35 million dollars for general public works, and 196 million dollars for other services of the Department.

Net outlays for the price stabilization, price support, and other programs of the Commodity Credit Corporation are expected to increase from about 750 million dollars in the fiscal year 1946 to about 1,500 million dollars in 1947. Cash advances made on loans by the Farm Security Administration and the Rural Electrification Administration are expected to amount to 266 million dollars in the fiscal year 1946 and 351 million dollars in 1947; and after receipts from principal and interest are taken into account, net loan expenditures of these two agencies will amount to 120 and 209 million dollars in the two fiscal years.

To provide for the expenditures from general and special accounts, I recommend for the fiscal year 1947 appropriations of 721 million

dollars (including the existing permanent appropriation of an amount equal to 30 percent of estimated annual customs receipts) and a reappropriation of 88 million dollars of prior-year balances from customs receipts. In addition there is a recommended authorization of 367.5 million dollars for borrowing from the Reconstruction Finance Corporation for the loan programs of the Farm Security Administration and the Rural Electrification Administration. It is expected that the operations of the Commodity Credit Corporation will be financed during the coming year through the 500 million dollars of lend-lease funds which the Congress has earmarked for price support purposes, a supplemental appropriation to restore impaired capital of the Corporation, and the borrowing authority of the Corporation.

Some detailed recommendations follow for major agricultural programs.

Conservation and use of land.—I am recommending that 270 million dollars be appropriated for “conservation and use of agricultural land resources”—the so-called AAA program—for the fiscal year 1947, compared with 356 million dollars in the current year. This reduction of 86 million dollars is in large part accounted for by elimination of the wartime flax production incentive project and other nonrecurring items; the proposed reduction in normal activities is less than 33 million dollars.

For the past several years, this program has consisted largely of payments to farmers for application of fertilizer and other approved soil management practices. I am convinced that farmers generally are now fully alert to the benefits, both immediate and long-term, which they derive from the practices encouraged by this program. I believe, therefore, that this subsidization should continue to be reduced.

Rural electrification.—It is proposed that the loan authorization for the Rural Electrification Administration for the fiscal year 1947 be increased from 200 million dollars to 250 million dollars. During the war period, REA was limited by the scarcity of materials and manpower. But that situation is rapidly changing, and the REA program, which was materially stepped up for the fiscal year 1946, can be increased still more. It is my belief that a feasible and practical rural electrification program should be carried forward as rapidly as possible. This will involve total loans of approximately 1,800 million dollars over the next 10 years, much of which will be repaid during that period.

Other programs.—It is recommended that the continuing forest land-acquisition program be resumed at the rate of 3 million dollars an-

nually, which is about the minimum rate at which this program can be economically carried on. The lands involved in this program can contribute fully to the national welfare only when brought into the national forest system for protection and development.

Such programs as those of the Farm Security Administration and the Farm Credit Administration are estimated to be continued during the fiscal year 1947 at about the same level as in the fiscal year 1946. Recent action by the Congress has permitted some expansion of the school-lunch program. I hope it will be continued and expanded. The budgets of the Federal Crop Insurance Corporation and the Federal Farm Mortgage Corporation will be transmitted in the spring under the terms of the Government Corporation Control Act.

4. TRANSPORTATION

Transportation is one of the major fields for both public and private investment. Our facilities for transportation and communication must be constantly improved to serve better the convenience of the public and to facilitate the sound growth and development of the whole economy.

Federal capital outlays for transportation facilities are expected to approximate 519 million dollars in the fiscal year 1947. State and local governments may spend 400 million dollars. Private investment, over half of it by railways, may approach 1,150 million dollars.

The Congress has already taken steps for the resumption of work on improvement of rivers and harbors and on the construction of new Federal-aid highways. Much needed work on airports can begin when the Congress enacts legislation now in conference between the two Houses.

The Federal expenditure estimates for the fiscal year 1947 include 53 million dollars for new construction in rivers, harbors, and the Panama Canal and 291 million dollars for highways and grade-crossing elimination, assuming that the States expend some 275 million dollars on the Federal-aid system. Additional expenditures for highways totaling 36 million dollars are anticipated by the Forest Service, National Park Service, and the Territory of Alaska. Civil airways and airports will involve expenditures of 35 million dollars under existing authority. Additional Federal expenditures exceeding 20 million dollars (to be matched by States and municipalities) may be made during the fiscal year 1947 under the airport legislation now in conference between the two Houses of the Congress.

The United States now controls almost two-thirds of the world's merchant shipping, most of it Government-owned, compared with little more than one-seventh of the world's tonnage in 1939. This places a heavy responsibility upon the Nation to provide for speedy and efficient world commerce as a contribution to general economic recovery.

The estimates for the United States Maritime Commission and War Shipping Administration provide for the transition of shipping operation from a war to a peace basis; the sale, chartering, or lay-up of much of the war-built fleet; and for a program of ship construction of some 84 million dollars in the fiscal year 1947 to round out the merchant fleet for peacetime use.

Federal aids, subsidies, and regulatory controls for transportation should follow the general principle of benefiting the national economy as a whole. They should seek to improve the transportation system and increase its efficiency with resulting lower rates and superior service. Differential treatment which benefits one type of transportation to the detriment of another should be avoided save when it is demonstrated clearly to be in the public interest.

5. RESOURCE DEVELOPMENT

Total capital outlays for resource development are estimated at 653 million dollars in the fiscal year 1947 as compared with 452 million dollars in 1946. These include capital expenditures by the Rural Electrification Administration and expenditures for resource development by other organizational units in the Department of Agriculture which are also mentioned above under "agricultural programs."

The reclamation and flood control projects which I am recommending for the fiscal year 1947 will involve capital outlays of approximately 319 million dollars as compared with 245 million dollars in the fiscal year 1946. These expenditures cover programs of the Corps of Engineers, the Bureau of Reclamation, the Bureau of Indian Affairs, the Department of Agriculture, and the International Boundary and Water Commission, United States and Mexico. A number of these projects are multiple-purpose projects, providing not only for reclamation and irrigation of barren land and flood control, but also for the production of power needed for industrial development of the areas.

Expenditures for power transmission and distribution facilities by the Bonneville Power Administration are expected to increase from 12 million dollars in the fiscal year 1946 to 15 million dollars in the

next fiscal year. In addition, the Southwestern Power Administration will undertake a new program involving expenditures of about 16 million dollars in the fiscal year 1947. The Rural Electrification Administration will require expenditures during the current fiscal year estimated at 156 million dollars; in the fiscal year 1947, at 241 million dollars.

The TVA program includes completion of major multiple-purpose projects—navigation, flood control, and power facilities—and additions to chemical plants and related facilities. Expenditures for these capital improvement programs are estimated at 30 million dollars in the fiscal year 1946 and 39 million dollars in the fiscal year 1947.

Expenditures for construction of roads and other developmental works in the national forests, parks, and other public lands, and for capital outlays for fish and wildlife development will increase from below 9 million dollars in the fiscal year 1946 to 24 million dollars in the fiscal year 1947.

6. SOCIAL SECURITY AND HEALTH

Benefit payments out of the Old-Age and Survivors Insurance Trust Fund during 1947 are estimated at 407 million dollars, while withdrawals by the States from the Unemployment Trust Fund for compensation payments are expected to total 1 billion dollars. These disbursements are financed out of social security contributions.

The appropriations from general and special accounts for the social security program, which cover Federal administrative expenses and grants to States for assistance programs, are estimated at 593 million dollars for the fiscal year 1947, an increase of 57 million dollars over the current year. The increase anticipates greater administrative workload and higher grants to match increasing State payments. The social security program does not include all the Federal health services under existing legislation. For the other health services classified under general government and national defense, appropriations are estimated at 102 million dollars for the fiscal year 1947.

Some expansion in peacetime medical research and other programs of the Public Health Service is provided for in the appropriation estimates for these purposes totaling approximately 87 million dollars for the fiscal year 1947 which are submitted under provisions of existing law. Part of this will be provided through the social security appropriations, the remainder through other appropriations. About 28 million dollars is recommended for maternity care and health

services for children under existing law, mainly under the emergency provision for the wives and infants of servicemen. While we should avoid duplication of maternity and child health services which will be provided through the proposed general system of prepaid medical care, legislation is needed to supplement such services. For medical education, I have recommended legislation authorizing grants-in-aid to public and nonprofit institutions. The existing sources of support for medical schools require supplementation to sustain the expansion that is needed.

Hospitals, sanitation works, and additional facilities at medical schools will be required for an adequate national health program. Legislation is now pending in the Congress to authorize grants for the construction of hospitals and health centers and grants and loans for water-pollution control. I hope the Congress will act favorably on generous authorizing legislation.

7. RESEARCH AND EDUCATION

The Budget provides for continuation and desirable expansion of the research activities that are carried on throughout the Federal establishment and through previously authorized grants to the States. Additional appropriations will be required for the proposed central Federal research agency which I recommended last September 6. That agency will coordinate existing research activities and administer funds for new research activities wherever they are needed; it will not itself conduct research. The plan contemplates expenditures through the new research agency of approximately 40 million dollars for the first year.

These amounts are small in relation to the important contribution they can make to the national income, the welfare of our people, and the common defense. Expenditures must be limited for the time being by the capacity of research agencies to make wise use of funds. The maintenance of our position as a nation, however, will require more emphasis on research expenditures in the future than in the past.

Educational expenditures will require a significant share of the national income in the fiscal year 1947. State, local, and private expenditures for the current support of elementary, secondary, and higher education are expected to be substantially above 3 billion dollars in that year. These non-Federal expenditures will be supplemented by Federal expenditures estimated at 625 million dollars in the present Budget. Of this amount, the estimate for veterans' education, as previously mentioned, is 535 million dollars. Other amounts

include 21 million dollars for the support of vocational education in public schools, 5 million dollars for the land-grant colleges, 50 million dollars for the present school-lunch and milk program, 1 million dollars for the Office of Education, and approximately 13 million dollars for various other items. In view of the major policy issues which are still under study by the Congress and the Administration, no specific amount has been determined for the Federal grants, previously recommended in this Message, which would assist the States generally in assuring more nearly equal opportunities for a good education.

Notwithstanding the urgent need for additional school and college buildings, careful planning will be required for the expenditures to be made under the proposed legislation to aid the States in providing educational facilities. A major share of the grants for the first year would be for surveys and plans.

8. INTERNATIONAL FINANCIAL PROGRAMS

I have already outlined the broad objectives of our foreign economic policy. In the present section I shall indicate the Federal outlays which the execution of these programs may require in the fiscal years 1946 and 1947.

(a) On the termination of lend-lease, the lend-lease countries were required to pay for goods in the lend-lease pipe line either in cash or by borrowing from the United States or by supplying goods and services to the United States. Credits for this purpose have already been extended to the Soviet Union, France, the Netherlands, and Belgium amounting to 675 million dollars. The settlement credit of 650 million dollars to the United Kingdom includes an amount preliminarily fixed at 118 million dollars which represents the excess of purchases by the United Kingdom from the pipe line over goods and services supplied by the United Kingdom to the United States since VJ-day and the balance of various claims by one government against the other.

Credits are also being negotiated with lend-lease countries to finance the disposition of lend-lease inventories and installations and property declared to be surplus. For instance, 532 million dollars of the settlement credit to the United Kingdom is for this purpose. These credits will involve no new expenditures by this Government, since they merely provide for deferred repayment by other governments for goods and services which have been financed from war appropriations.

(b) Expenditures from the appropriations to United Nations Relief and Rehabilitation Administration, which were discussed under war expenditures above, are estimated to be 1.3 billion dollars in the fiscal year 1946 and 1.2 billion dollars in the fiscal year 1947.

(c) To assist other countries in the restoration of their economies the Export-Import Bank has already negotiated loans in the fiscal year 1946 amounting in total to about 1,010 million dollars and an additional 195 million dollars will probably be committed shortly. The Bank is also granting loans to carry out its original purpose of directly expanding the foreign trade of the United States. In this connection the Bank has established a fund of 100 million dollars to finance the export of cotton from the United States. The Export-Import Bank has thus loaned or committed approximately 1,300 million dollars during the current fiscal year and it is expected that demands on its resources will increase in the last 6 months of the fiscal year 1946. Requests for loans are constantly being received by the Bank from countries desiring to secure goods and services in this country for the reconstruction or development of their economies. On July 31, 1945, the lending authority of the Export-Import Bank was increased to a total of 3,500 million dollars. I anticipate that during the period covered by this Budget the Bank will reach this limit. The bulk of the expenditures from the loans already granted will fall in the fiscal year 1946 while the bulk of the expenditures from loans yet to be negotiated will fall in the fiscal year 1947. In view of the urgent need for the Bank's credit, I may find it necessary to request a further increase in its lending authority at a later date.

(d) The proposed line of credit of 3,750 million dollars to the United Kingdom will be available up to the end of 1951 and will be used to assist the United Kingdom in financing the deficit in its balance of payments during the transition period. The rate at which the United Kingdom will draw on the credit will depend on the rapidity with which it can reconvert its economy and adapt its trade to the postwar world. The anticipated rate of expenditure is likely to be heaviest during the next 2 years.

(e) Since the Bretton Woods Agreements have now been approved by the required number of countries, both the International Monetary Fund and the International Bank for Reconstruction and Development will commence operations during 1946. The organization of these institutions will undoubtedly take some time, and it is unlikely that their operations will reach any appreciable scale before the beginning of the fiscal year 1947.

Of the 2,750 million dollars required for the Fund, 1,800 million dollars will be provided in cash or notes from the exchange stabilization fund established under the Gold Reserve Act of 1934. The remaining 950 million dollars will be paid initially in the form of non-interest-bearing notes issued by the Secretary of the Treasury. It is not anticipated that the Fund will require in cash any of the 950 million dollars during the fiscal years 1946 and 1947. Consequently, no cash withdrawals from the Treasury will be required in connection with the Fund in these years.

The subscription to the Bank amounts to 3,175 million dollars. Of this total, 2 percent must be paid immediately and the Bank is required to call a further 8 percent of the subscription during its first year of operations. The balance of the subscription is payable when required by the Bank either for direct lending or to make good its guarantees. It is likely that the United States will be required to pay little if any more than the initial 10 percent before the end of the fiscal year 1947.

I anticipate that net expenditures of the Export-Import Bank and expenditures arising from the British credit and the Bretton Woods Agreements will amount to 2,614 million dollars, including the non-cash item of 950 million dollars for the Fund, in the fiscal year 1946, and 2,754 million dollars in the fiscal year 1947.

9. GENERAL GOVERNMENT

The responsibilities of the Government, in both domestic and international affairs, have increased greatly in the past decade. Consequently, the Government is larger than it was before the war, and its general operating costs are higher. We cannot shrink the Government to prewar dimensions unless we slough off these new responsibilities—and we cannot do that without paying an excessive price in terms of our national welfare. We can, however, enhance its operating efficiency through improved organization. I expect to make such improvements under the authority of the Reorganization Act of 1945.

The appropriations which I am recommending for general government for the fiscal year 1947 are 1,604 million dollars under existing legislation. This is an increase of 458 million dollars over the total of enacted appropriations for the current fiscal year, but a substantial part of this increase is due to the fact that the appropriations for the fiscal year 1946 were made prior to the general increase of employees' salaries last July 1, for which allowance is made in the anticipated supplemental appropriations for 1946. The recommended total for

1947 for general government, like the estimates for national defense and other specific programs, does not allow for the further salary increases for Government employees which, I hope, will be authorized by pending legislation, but the tentative lump-sum estimates under proposed legislation contemplate that such salary increases will be effective almost at once.

Expenditures for general government in the fiscal year 1947 are expected to continue the slowly rising trend which began in 1943. This category includes a great variety of items—not merely the overhead costs of the Government. It includes all the expenditures of the Cabinet departments, other than for national defense, aids to agriculture, general public works, and the social security program. It includes also expenditures of the legislative branch, The Judiciary, and many of the independent agencies of the executive branch. Consequently, the estimated increase in 1947 in the total of general government expenditures reflects a variety of influences.

Now included in general government are certain activities formerly classified under national defense. Some of these, such as certain functions of the former Foreign Economic Administration and the War Manpower Commission, are still needed during the period of reconversion; others are in the process of liquidation. A few wartime activities, for example, the international information and foreign intelligence services and some of the wartime programs for controlling disease and crime, have become part of our regular government establishment. Expenditures for these former wartime functions explain about 40 percent of the increase in expenditures for general government.

Other increases are for civil aeronautics promotion, the business and manufacturing censuses, and other expanded business services of the Department of Commerce which have been referred to above; the Forest and Soil Conservation Services and other activities of the Department of Agriculture; certain conservation activities of the Department of the Interior; and the collection of internal revenue in the Treasury Department.

The necessity for reestablishing postal services curtailed during the war and advances in the rates of pay for postal employees have increased substantially the estimated expenditures for postal service for both the current and the next fiscal year. It is not expected that this increase will cause expenditures to exceed postal revenues in either year, although an excess of expenditures may occur in the fiscal year 1947 if salaries are increased further.

Expenditures for our share of the administrative budgets of the United Nations and other permanent international bodies will increase sharply in the fiscal year 1947, yet will remain a small part of our total Budget. The budget for the United Nations has not yet been determined; an estimate for our contribution will be submitted later. Our contributions to the Food and Agriculture Organization, the International Labor Office, the Pan American Union, and other similar international agencies will aggregate about 3 million dollars for the fiscal year 1947. The administrative expenses of the International Monetary Fund and the International Bank will be met from their general funds.

We have won a great war—we, the nations of plain people who hate war. In the test of that war we found a strength of unity that brought us through—a strength that crushed the power of those who sought by force to deny our faith in the dignity of man.

During this trial the voices of disunity among us were silent or were subdued to an occasional whine that warned us that they were still among us. Those voices are beginning to cry aloud again. We must learn constantly to turn deaf ears to them. They are voices which foster fear and suspicion and intolerance and hate. They seek to destroy our harmony, our understanding of each other, our American tradition of "live and let live." They have become busy again, trying to set race against race, creed against creed, farmer against city dweller, worker against employer, people against their own governments. They seek only to do us mischief. They must not prevail.

It should be impossible for any man to contemplate without a sense of personal humility the tremendous events of the 12 months since the last annual Message, the great tasks that confront us, the new and huge problems of the coming months and years. Yet these very things justify the deepest confidence in the future of this Nation of free men and women.

The plain people of this country found the courage and the strength, the self-discipline, and the mutual respect to fight and to win, with the help of our allies, under God. I doubt if the tasks of the future are more difficult. But if they are, then I say that our strength and our knowledge and our understanding will be equal to those tasks.

HARRY S. TRUMAN.

JANUARY 14, 1946.

CHART 1
NET RECEIPTS AND TOTAL EXPENDITURES
 GENERAL AND SPECIAL ACCOUNTS
 BASED ON EXISTING AND PROPOSED LEGISLATION

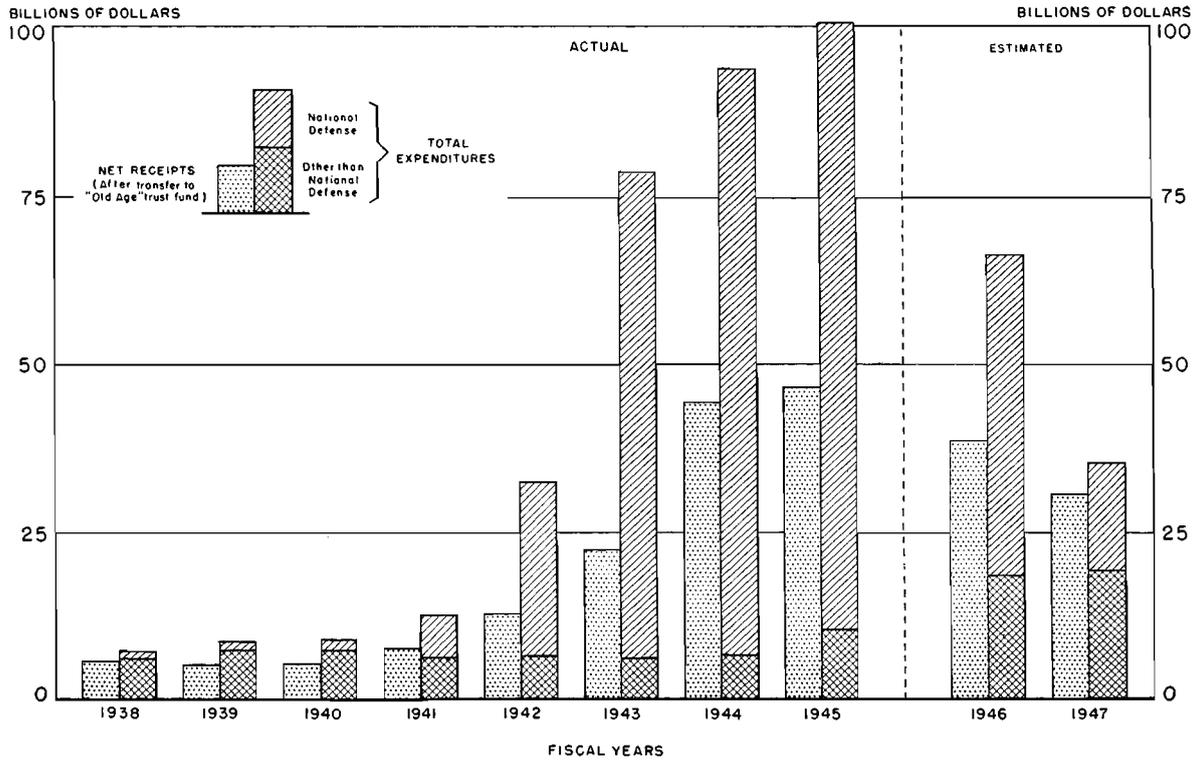


CHART 2
EXPENDITURES FOR OTHER THAN NATIONAL DEFENSE
 GENERAL AND SPECIAL ACCOUNTS
 BASED ON EXISTING AND PROPOSED LEGISLATION

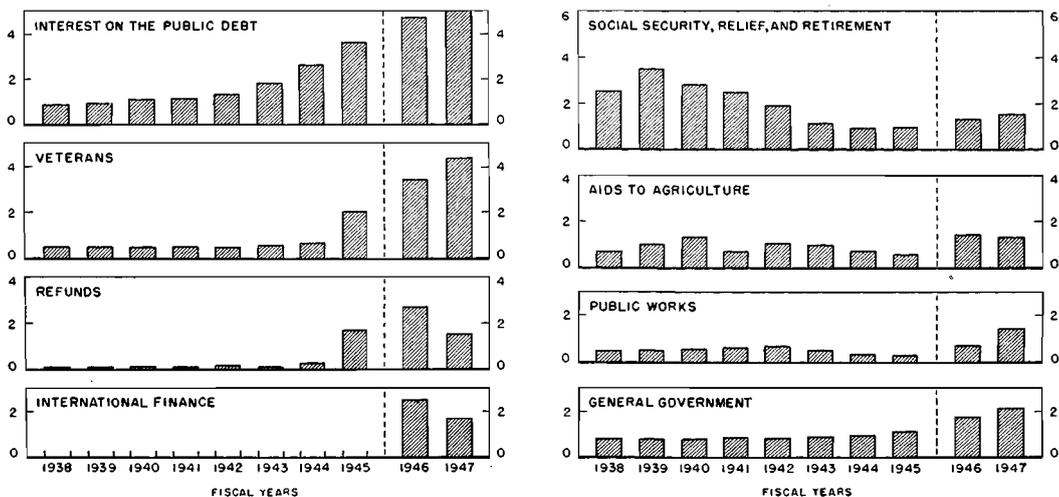
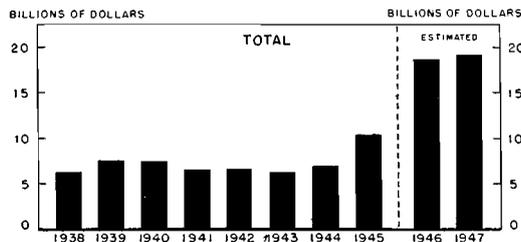


CHART 3
TOTAL RECEIPTS BY SOURCE
 GENERAL AND SPECIAL ACCOUNTS
 BASED ON EXISTING LEGISLATION

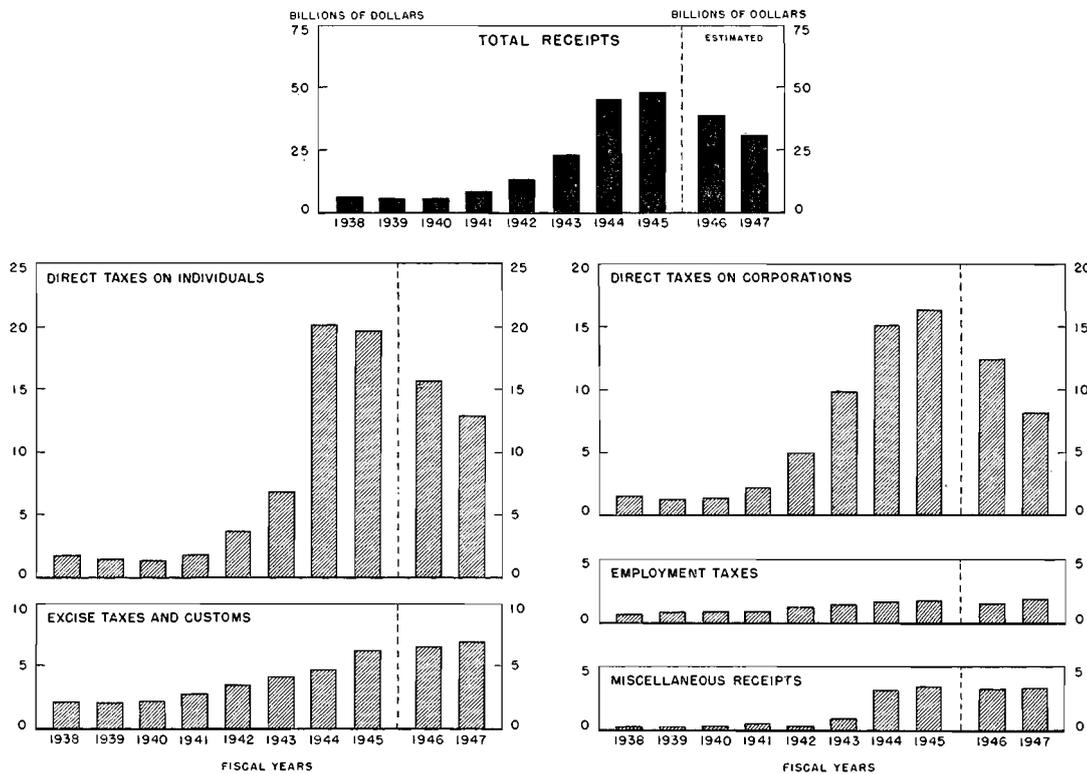


CHART 4
THE PUBLIC DEBT
 BASED ON EXISTING AND PROPOSED LEGISLATION

