

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Washington

September 16, 1943.

Honorable James F. Byrnes,
Office of War Mobilization,
East Wing of the White House,
Washington, D. C.

Dear Mr. Byrnes:

You will recall that some two weeks ago I discussed briefly with you some aspects of the reconversion problem.

We have been giving continuing thought to this matter here at the Federal Reserve. As a result of recent discussions, there has been prepared by a committee representing the Board of Governors and the Conference of Reserve Bank Presidents, a memorandum which contains a brief statement of the problem as viewed by the Federal Reserve System. I am transmitting a copy of the memorandum herewith.

Because of its broad responsibilities in the banking and credit field, the Federal Reserve System is particularly concerned with the financial problems impending during the reconversion period. Moreover, through the System's experience in administering industrial loans under Section 13b and war production loans under Regulation V, the System is in a position to assist in working out the financial part of a coordinated program suggested in the memorandum. I should be glad to discuss this matter further with you if you should so desire.

Yours very truly,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Enclosure

Need for a Coordinated Governmental Program Relating to the Reconversion of Industry

As the war progresses, there is a growing demand for the development of plans which will facilitate the reconversion of industry to civilian production. Business organizations and local authorities are showing a growing concern over a variety of problems with which they will be faced immediately when contracts are terminated. They realize that prompt solutions will be necessary if reconversion is to proceed with a minimum of delay and in an orderly manner. It is believed that full production for war would be greatly facilitated from now on if assurance were given that the Government is working out a comprehensive and coordinated program relating to reconversion of industry. This memorandum suggests such a program; it is not concerned with the many other postwar problems.

Some of the more important reconversion questions are:

Will provision be made promptly to clear privately-owned plants of Government-owned inventories and equipment after termination of contracts? What plans are there for the disposition of surplus inventories held by the Government and by industry? In what cases may it be desirable temporarily to continue production on Government contracts?

What disposition will be made of Government-owned plants and machinery? Which plants will be operated, sold, or closed?

What additional measures may be needed for the protection of subcontractors?

Will there be adequate provision to take care of financial problems? How promptly will payment be made on terminated contracts? Are existing facilities adequate to provide prompt credit for the release of working capital pending such payment? Are special provisions needed for capital and credit requirements, both for reconversion of war industries and for readaptation of civilian lines of activity, such as service industries, to peacetime conditions?

How will problems which arise out of demobilization from military service and the discharge of workers from the war industries be handled? Drastic population shifts will create serious problems for local business, real estate owners, and local Governments.

As things are now, each war producer finds that his situation depends on the solution of not one but several of these questions. He

finds that Government agencies are individually working on specific reconversion problems. The procurement authorities are now giving active consideration to the many problems relating to contract termination, but, in general, these responsibilities cease when settlement of contracts is completed. A related question is the disposition of Government-owned plants and machinery, which represent about one-fifth of total manufacturing capacity. Agencies concerned with such matters are: the Army, the Navy, the Maritime Commission, the War Production Board, and the Defense Plant Corporation.

A variety of agencies is concerned with the impending problems of unemployment and reemployment. Such problems will be of tremendous magnitude compared with those following the last war. The aggregate number of people who will be seeking reemployment during the course of the reconversion period may approach 20 millions. The situation will be especially acute in some sections of the country where war-built plants have created excess industrial capacity. A number of Government agencies are now working on programs to spread out the demobilization process over a period of time, to assist persons in finding new employment in private industry, and to consider other ways of meeting many local problems. Among the agencies particularly concerned with these questions are: The Department of Labor, the War Manpower Commission, and the Federal Security Agency.

Financing of business during the reconversion period is an essential part of any coordinated program. Adequate funds should be assured to deserving companies which cannot secure them through regular banking connections on the usual basis. Because of its broad responsibilities in the banking and credit field, the Federal Reserve System is particularly concerned with the financial problems. It has had valuable experience with the guarantee of loans made by private financial institutions and will continue to be engaged in the administration of Regulation V loans during the reconversion period.

Each Government agency attempting to study its own special questions relating to reconversion finds itself handicapped by having limited knowledge of or authority regarding other phases of the problem. No one agency has responsibility or authority to deal with the full range of these problems. Much more could be accomplished during the war on the over-all problem--with no disruption of the war effort--if the studies and planning of the various agencies were coordinated.

To accomplish this, it is suggested that an official be appointed with responsibility for developing a program. This official should have authority to coordinate work in the various Government agencies on reconversion problems. He should have an advisory committee on which agencies with particular responsibilities in the field would be represented,