

MEMORANDUM PREPARED SHOWING RESPONSIBILITY OF TRUMAN ADMINISTRATION
AND NOT THE 80th CONGRESS FOR POSTWAR INFLATION, JULY 23, 1948.

Removal of Wartime Controls

Prior to V-J Day those who were most directly concerned with postwar planning generally believed that an orderly transition to a peacetime economy would necessitate maintenance of controls over allocation of materials, rationing of certain products, and continued control over prices. Premature dropping of controls, it was felt, would again invite a sharp rise in prices and extensive dislocation in economic activity.

Planned reconversion as an accepted policy was first recognized in the program adopted by WPB in June 1944, when optimism as to the successful conclusion of the war brought the problem of reconversion to the forefront. This program known as the "Spot Authorization Plan" allowed the production of civilian items from available materials on the basis of individual authorizations made at the local level. Manufacturers were allowed to purchase machine tools and dies out of surplus stocks for civilian production and build a working model of any product planned for postwar production. At the same time, restrictions on the use of aluminum and magnesium were relaxed. This program, however, never got fully underway because of the unexpected shift in the tide of the war brought on by the Battle of the Bulge. Some attempt to revitalize this program took place just before V-E Day on May 8.

Between V-E and V-J Day, WPB removed limitations on a large number of small consumer goods which made little use of steel. In addition, modifications were made in the Controlled Materials Plan, priorities system, and scheduling procedures. Limitation orders governing industries which had a major impact on resources were continued in full force, although WPB did provide procedures to permit operations at a minimum rate for some consumer durables. There was also some relaxation of major manpower controls and the orders controlling construction activities were relaxed so that increased annual dollar value limits on various types of construction might be undertaken without WPB authorization. The war ended before the success of these controls could be evaluated.

The sudden end of the war on August 14, 1945, brought drastic reductions in military procurement. The question of maintaining controls immediately became a major public issue. The policy of the Administration on this matter was enumerated on August 18, 1945 (Executive Order 9599) by the President, when he instructed the Federal agencies "to move as rapidly as possible without endangering the stability of the economy toward the removal of price, wage, production and other controls and toward the restoration of collective bargaining and the free market."

The day following the surrender of Japan, all controls over manpower were dropped and the OPA removed ration restrictions on gasoline, fuel oil, processed foods, and heating stoves. By the end of 1945 only sugar continued under rationing control. Several hundred items were removed from price control within the first hundred days after V-J Day. On August 21, 1945, WPB discontinued the "Controlled Materials Plan" which had become the cornerstone of war production controls. The CMP was a relatively simple device for dominating the industrial economy by giving WPB complete control of a few strategic commodities such as steel, copper, and aluminum. A great many control and priority orders were revoked by the end of August, including controls over most metals except tin, lead, and antimony. Industrial construction restrictions were first eased, and on October 15, 1945, construction order L-41 was revoked by WPB and with it went all limits on new construction.

The production controls which still were in effect on November 4, 1945, were transferred to the Civilian Production Administration and WPB was eliminated. These were mainly controls of textile, clothing, leather, and certain scarce materials such as rubber, tin, lead, and various chemicals. Simplified priorities and some inventory controls were also left to CPA.

Before the end of August 1945, the Office of Defense Transportation lifted almost all its controls over motor vehicles and railroads. The remaining controls were mainly to supply transportation facilities for military demobilization. On August 21, 1945, all Lend Lease was suspended. Early in September a large proportion of the controls over exports was lifted and coastal and intercoastal shipping was resumed.

Because of the threat of possible inflation, the President at the end of the war stressed the need for an Economic Stabilization Program to hold the price line. The Price Administrator was specifically instructed by the President (Executive Order 9599, August 18, 1945) to "take all necessary steps to assure that the cost of living and the general level of prices shall not rise." Price increases could only be allowed if they did not cause increases at later stages of production or distribution. Wage increases could be made without approval of the National War Labor Board, but only if such increases were not to be used to seek an increase in price ceilings.

However, reconciling labor demands for higher wages and industries' demands for higher prices and profits presented difficulties which the Stabilization Program was, in the end, unable to solve. However, through a process of slow retreat the Program did delay and reduce many potential wage and price increases during the period. Liquidation of the various programs is discussed below.

Wages

Along with almost all other groups, labor was restive over wartime restraints. The no-strike pledge and the "Little Steel" formula were not popular. The relatively tight labor market, along with a reduction in take-home pay because of the elimination of overtime in many industries, gave labor a strong bargaining position, and when the President approved in November 1945 the removal of the Excess Profits Tax, labor demands for wage increases became insistent.

Without the no-strike pledge and labor cooperation the National War Labor Board could not function effectively and no alternative plans had been prepared to meet demands of labor for substantial wage increases. The resignation of William Davis in October 1945 marked the beginning of the end of an effective government wage policy.

By the end of October the demand for substantial wage increases was given formal recognition by the President. In an address to the Nation he contended that industry as a whole could grant wage increases while "holding the line" on prices. Executive Order 9651, October 31, 1945, provided that wage increases could be used in justification for price adjustments from OPA in the following instances: (1) A percentage increase in average straight-time hourly earnings was not equal to the 30 per cent increase in the cost of living between January 1941 and September 1945. (2) There were inequities in wage rates or salaries among plants in the same industry or locality. (3) The present wage rates were inadequate to recruit manpower in industries essential to reconversion. The Stabilization Administrator was given the power to define additional classes where wage increases could be approved to correct maladjustments and inequities.

Management, however, maintained that wage increases across the board could only be granted if prices were allowed to rise. The Labor Management Conference which convened on November 5, 1945, ended in failure on November 30, 1945, primarily because industry did not think an overall wage policy could be formulated by such a conference. Some segments of labor supported management's position.

In attempting to meet the serious situation caused by the work stoppages in the winter of 1945-46, the President appointed fact-finding boards to hear the major disputes and to make recommendations for settlement. These recommendations had no force of law behind them and did not have to be accepted by the parties in dispute. These boards in most instances agreed that wage increases were necessary, and when the 18-cent pattern developed in February 1946, upon settlement of major strikes effective wage controls were almost eliminated.

In February 1946, the National Wage Stabilization Board was ordered to approve as a pattern for guidance in approving wage adjustments in a given industry or locality those which had already been worked out voluntarily, and OPA permitted price increases where such wage increases caused hardship to an employer (Executive Order 9697, February 16, 1946). After February 1946, the Board's activities were mainly concerned with processing cases arising from violations of the general wage controls which had been in force before August 18, 1945. In addition, direct wage controls were maintained until November 9, 1946, in the construction industry and these controls were also handled by NWSB. The National Wage Stabilization Board was terminated by an Executive Order effective February 24, 1947, and no successor agency was appointed.

Prices

The Office of Price Administration at the start of 1946 was faced with an almost overwhelming problem in maintaining a price stabilization program. The wholesale removal of WPB's controls had eliminated many war production controls which contained provisions that gave support to OPA's efforts to provide low priced items for the economy. The break in the wage line in February 1946 posed the question as to what action OPA would take to cover increased labor costs which resulted from wage awards. The agency attempted in so far as possible to obtain the absorption of cost increases in the intermediary stages in the flow of products. This absorption policy as well as its other efforts to maintain the price line met with strenuous opposition on the part of industry, with each affected industry demanding relaxations in the prices of its products.

During the first 6 months of 1946, 600 industry-wide price increases were granted, 400 of them in the second quarter. By mid-year 15 per cent of all items which had been under control had been decontrolled. The OPA extension bill was vetoed by President Truman as being inadequate, and it was not until July 25, 1946, that the President signed the revised OPA bill after a 25-day lapse of price control authority. During the 25-day price control lapse the Bureau of Labor Statistics cost-of-living index showed an increase for all foods of 18 per cent, with the largest increases being reported for meat, poultry, and fish which rose 39 per cent.

The Price Control Extension Act proved to be only a temporary victory for the advocates of price control. It was in the area of agricultural products that the break-down of controls proceeded most rapidly. The Decontrol Board began hearings on August 7, 1946. As a result of its deliberations, the Board continued the suspension of controls on dairy products and grains. It found that these prices had not increased "unreasonably" since June 30. But in the livestock, cottonseed, and soy bean area, the Board found that prices had risen unreasonably and that price regulation was practicable. Price ceilings were restored on meat with ceilings averaging 10 per cent above the June 30 figure. Retail ceiling prices for meats were, however, delayed

until September 8 which permitted dealers to dispose of the inventories they had purchased at overceiling prices. The response of industry to recontrol was unfavorable and the flow of livestock declined drastically and the continuing shortage finally became serious enough for emergency action. The President announced on October 14, that the only solution was to decontrol meat. Within the next week controls were lifted on edible oils, and all by-product feeds and mixed feeds--industries closely allied to livestock industries. On October 23, 1946, all foods and beverages were decontrolled except sugar and sugar solutions, corn syrup and sugar, blended syrups and rough and milled rice.

On November 9, 1946, it was officially announced by the President that price control was at an end due to the difficulty of continuing controls on a partial basis. The only exceptions were housing accommodations, sugar and rice. On March 31, 1947, the power of the Board to control sugar, the last controlled item, was extended to October 31, 1947, when it expired. Rice was decontrolled on June 30, 1947. The Decontrol Board was liquidated on December 31, 1946. The termination of the Board was placed in the hands of the Treasury. The control of rice (until June 30, 1947) and sugar (until October 31, 1947) was handled by the Food Administration Division of the Department of Agriculture.

Production

During 1946 CPA operated a streamlined system of priorities, allocation, conservation orders and inventory controls. The distribution of tin, lead and a number of chemicals remained under strict control. For other materials remaining under control, only a limited segment of the supply was channeled to urgent requirements and essential programs through the use of certifications or priority ratings. Assistance in obtaining steel and merchant pig iron, for instance, was given only to a restricted number of housing items and a few other urgent uses. Priorities assistance was limited to producers of alcohols, leads, lumber, rubber, fractional horsepower motors and some housing items and low-priced clothing items. Inventories were restricted to normal working minimum.

CPA was consolidated with OWMR, OES, and OPA to form the Office of Temporary Controls on December 12, 1946. Its functions with respect to the Veteran Emergency Housing program was transferred to the Housing Expediter on April 1, 1947. CPA was terminated with OTC on June 1, 1947, and its functions transferred to the Department of Commerce for liquidation.

Manpower

The day following the announcement of the surrender of Japan, all controls over manpower were dropped by the War Manpower Commission, and on September 19, 1945, the agency was abolished. The United States Employment Service which had been under the direction of WMC during the war was transferred to the Department of Labor.

When the Japanese surrendered, the Armed Forces almost immediately began the demobilization process and lowered their demands on Selective Service. The Armed Forces reached a peak monthly rate of demobilization of 1.6 million in November and December of 1945, and by the end of 1946 demobilization was practically completed.

Selective Service continued in operation until March 31, 1947, although the last inductions were made in October of 1946. Registration for induction, however, continued up until the termination of Selective Service. Remaining functions of the Selective Service System were transferred to the Office of Selective Service Records. On June 19, 1948, the Selective Service Act of 1948 was passed which re-established the Selective Service System.

Housing and Rent

When commercial and industrial building started to expand rapidly at the expense of residential construction after the cancellation of Order L-41 on October 15, 1945, the Office of the Housing Expediter was created on December 12, 1945, to encourage housing for veterans. Wilson W. Wyatt, the Housing Expediter, announced his program in February 1946. His program set a goal of 2.7 million housing starts in 1946 and 1947. To meet the goal, the program called for the reinstatement of Government control of building, priorities assistance, allocation of materials, easier financing, and premium payments to stimulate production of building materials and to encourage development of new materials.

In March of 1946 this program was implemented by the issuance of Veterans Housing Program Order I by CPA which forbade, without a specific priority, the beginning of construction or repair work except for minor repairs. Priorities were given to veterans' housing under \$10,000 and rental units with maximum rent of \$80 a month. It also provided for help for the program through allocation of materials and the use of priorities.

During the year it was found necessary to place stricter limitations on nonresidential construction in order to provide sufficient building materials for residential construction. On May 31, 1946, an order reduced the volume of nonresidential construction authorizations to \$49 million weekly from \$145 million. By August authorizations for nonresidential construction were lowered to \$35 million weekly.

The Wyatt program was sharply curtailed in December 1946 when Creedon was appointed expediter. Controls were relaxed. Priorities for new construction were abolished and a system of permits was put into effect. Nonveterans were permitted to build, sale price limitations were removed and new houses were limited to 1,500 square feet in floor area. Rent ceilings on new housing were increased to an average of \$80 monthly per

unit. Authorized weekly total value of nonresidential construction was increased to 50 million dollars, a 15 million dollar increase over the previous weekly average.

On April 1, 1947, CPA controls were transferred to the Office of the Housing Expediter. By June 1, 1947, the permit system had been abolished and premium payments had been discontinued. Restrictions on nonresidential building had been relaxed and allocations of materials were limited to a few items.

The Housing and Rent Act passed on June 30, 1947, removed all controls except for construction of amusements and recreation and entertainment. Subsidy payments were discontinued.

Reorganization Plan 3 of 1947, passed July 27, 1947, abolished the National Housing Agency which had been in existence since February 27, 1942, and transferred its functions to a new overall housing agency, the Housing and Home Finance Agency which also includes the Home Loan Bank Board, the Federal Housing Administration, and the Public Housing Administration. In March 1948 the remaining minor controls over construction of amusement, recreation and entertainment facilities were removed.

Rent controls were established under the Emergency Price Control Act of 1942. The Housing Rent Act of 1947 allowed voluntary rent increases up to 15 per cent providing a lease was signed providing no further increase until December 31, 1948. Rent controls on new buildings were abolished. The Housing and Rent Act of 1948 extended rent controls for another year, permitting a 15 per cent increase if lease was signed to run through December 1949. There can be no pyramiding of 15 per cent increases.

Financial

Taxes on business were reduced, chiefly through elimination of the excess profits levy, and taxes on individual incomes were lowered effective as of the beginning of 1946.

Margin requirements for the purchase of registered securities and short sales were increased to 100 per cent effective January 21, 1946. On February 1, 1947, margin requirements both for purchases of registered securities and short sales were reduced from 100 per cent to 75 per cent.

Regulation W, relating to consumer credit, was amended on three occasions during 1946. The first amendment, effective July 5, 1946, made the regulation applicable to sales of listed articles in a principal amount of \$1,500 or less (there had previously been no dollar limit with respect to sales); it eliminated attic ventilating fans and automobile tires, batteries and accessories from the list of articles, and made certain technical changes. The second amendment, effective September 3, 1946, changed the regulation in two respects; the regulation was made applicable

to all consumer credits up to \$2,000 instead of only those up to \$1,500; and the maximum maturity for instalment loans not connected with the purchase of listed articles was reduced from 18 months to 15 months.

The regulation was extensively revised effective December 1, 1946. The principal changes made by the revision were to confine it to instalment credit (by eliminating the provisions relating to charge accounts and single-payment loans) and to center it on purchases of major durable goods (by eliminating many of the articles, including all articles priced at less than \$50, which had previously been listed in the regulation).

Regulation W ceased to be operative after November 1, 1947, in accordance with a resolution of Congress approved on August 8, 1947.

Federal taxes on individual incomes were again reduced, effective January 1, 1948.