

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date November 9, 1943.To Mr. ClaytonSubject: Termination of war contracts.From Mr. Hackley

At the request of Mr. Dreibelbis I have prepared the attached brief statement relating to Item No. 1 on the Agenda for the meeting of the Federal Advisory Council to be held on November 14-16, 1943. I understand that the Chairman has requested such a statement for use by him in discussing this matter.

Please let me know if I can be of any further assistance in this connection.

Howard H. Hackley

Attachment

TERMINATION OF WAR CONTRACTS

The attitude of the Comptroller General is that no moneys should be paid out by the procurement agencies in settlement of terminated war contracts except after audit and final approval by the General Accounting Office. He concedes, however, that under the First War Powers Act and Executive Order No. 9001 the War and Navy Departments and other procurement agencies have power to make final settlements of terminated war contracts. Accordingly, he has recommended legislation expressly requiring final approval by the General Accounting Office and providing for the appointment by himself of a Board within his Office which would have authority to review and settle all termination adjustments.

The War and Navy Departments take the position that negotiated settlements of terminated contracts should properly be made by the procurement agencies which originally let the contract, and that the decision of the procurement agency should be final and not subject to review by any other agency of the Government except for fraud. If such settlements are required to be reviewed by the Comptroller General, they contend that the delay in settlement would be considerable and that contractors would be placed in an extremely precarious financial condition while awaiting payment of their claims.

The War Department has proposed a bill which would authorize the procurement agencies (1) to make advance payments up to 90 per cent on terminated contracts; (2) to guarantee loans or make loans directly, through the Federal Reserve Banks, to contractors who are engaged or have been engaged in war production; and (3) to allow interest on a contractor's claim from the date of termination to the date of final settlement. Under this bill, settlement by the contracting officer apparently would be final.

There is now pending a bill introduced by Mr. Vinson (H. R. 3518), which is substantially the same as that proposed by the War Department, except that it would be limited to the Navy, would not provide for an allowance of interest on the contractor's claim, and would expressly make settlements by the Navy Department conclusive on the Comptroller General.

There is also pending a bill introduced by Senator Murray (S. 1470; also H. R. 3509, by Congressman Patman) which would require the Smaller War Plants Corporation to make loans to contractors of not less than 75 per cent of the contractor's claim on a terminated contract. This bill would be applicable, however, only to business concerns having less than 500 wage earners or concerns determined by the Corporation to be small businesses in comparison with other concerns in the same industry.

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