

Report On
WAR AND POST-WAR
ADJUSTMENT
POLICIES

FEBRUARY 15, 1944

Bernard M. Baruch

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IV

PART I

Letter of Transmittal.

The Honorable JAMES F. BYRNES,
*Director, Office of War Mobilization,
The White House, Washington, D. C.*

DEAR MR. BYRNES: Pursuant to the instructions you gave us to inquire into war and post-war adjustment policies, we submit herewith our report. It is divided into three parts: (1) This letter, which is a rough synopsis of our major suggestions; (2) the report itself, and (8) additions giving a more extensive treatment of three subjects—contract termination, surplus property, and tightening the industrial war machine.

Victory is our first and only duty, but just as we prepare for war in time of peace, so we should prepare for peace in time of war. Through preparation we visualize a prosperity, sound and lasting. We see not merely civilian needs crying to be filled, but a world requiring the things we can supply—an unlimited market for our products.

Our specific assignment was to study the immediate demobilization policies which have to do, necessarily, with the stimulation of the war effort, since victory is the first essential, and with the preparation for peace to follow victory—to win the war and to prepare for peace.

In the development of this theme we find certain considerations to be of first importance. They include:

1. Getting us all back to work in peacetime enterprises. This may require a special authority under the Director of War Mobilization to give its entire attention to the problem of bringing jobs to all workers, with emphasis laid upon the returning service men and service women who are our first concern.
2. Taking the Government out of business by—
 - (a) Payments for work done and work under way. In connection with this phase of the problem, we have assembled a complete "Financial Kit" that should prove effective. The Government must pay its debts, and pay them quickly and fully, so that Business will have its working capital freed for pay rolls and purchase of materials.
 - (b) These payments can be made with ample protection to the Government against fraud.
 - (c) Move out and store war materials from plants so as to make room for equipment and materials for civilian production.

- (d) Centralize the control and disposal of surpluses of all types in such a way as to bring them into ready and effective use and insure orderly markets. This, too, may require a special administrator in the Office of War Mobilization.
3. A general tightening up of the industrial war front so as to finish the bloody business with finality, and thus be ready for peace.
 4. Spreading acceptance by war contractors of the "Uniform Contract Article," as recommended by us and approved by you.
 5. Place all war agencies under running review to cut them down as their work dwindles; also review of all war industrial controls.
 6. Immediate extension of laws governing Price Control, Priorities and Requisitioning, all three expiring this year.
 7. Early engineering on public works to be ready if needed to fill in the valley of unemployment.
 8. Provide credit means for those requiring it during the adjustment period, particularly for the smaller business groups and returning servicemen.
 9. Prepare now for future action reducing taxes from war to peacetime levels, thereby providing necessary incentive for initiative and enterprise and stimulating employment.
 10. Prepare an Emergency "X Day" Reconversion Plan to be used in the event of a sudden collapse of Germany so as to enable us to go on with our crusade against Japan and at the same time to prevent the dislocation resulting from lack of preparation. This phase of the broader plan is to be worked out by the Armed Services with the War Production Board.

Transition from a war economy to that of peace is not easy; nothing worth while is. In our reconversion we shall try, as this country always does, to cure the things that caused us worry and to strengthen the good; to hold to the proven but be ready to test the new. That is progress.

The frame of our operation shows the gigantic nature of the change-over. It affects every part of our economic life. Nothing comparable ever has been known before.

As one indication of the size of the job, about 50 billion dollars of the current annual production represents strictly war goods—that is, things which, when peace comes, we will stop making. This gap must be filled in large part by civilian production and services, if we are to keep the needed volume of employment. The demobilization of the Armed Forces will come gradually. Their absorption by industry will

be aided materially by several factors, the weight of which is not now clear, such as: the giving up of war jobs by many women; the retirement of older workers; the increase of travel and recreation time; the return of many younger workers to school; the resumption of college and professional training by many now in the Services or in war industry; the renewal of many professional and service businesses that have stopped during the war; the starting of new enterprises; the business involved in meeting the needs of the world; reduction in the work-week; the normal enforcement of child labor laws.

The net increase in employment in industry from 1937 to 1944 is estimated at 7,600,000 people. Considering factors mentioned above, the problem of demobilization, though difficult, is soluble—if we create the atmosphere in which private initiative and resourcefulness—the traditional American spirit—can again take hold.

It is an easier task to convert from peace to war than from war to peace. With the coming of war a sort of totalitarianism is asserted. The Government tells each business what it is to contribute to the war program—just what it is to make and where it is to get the stuff out of which to make it. The planning and execution rest upon one overall purpose and a single control. Patriotism exercises a strong compulsion.

With peace, the opposite becomes true. Each has the right to make what he pleases. Governmental direction and aid disappear. The markets become free and each individual is dependent upon his vision, his courage, his resourcefulness, and his energy.

Everyone has the privilege of building up, but no one has the right to pull down. That is democracy at its best.

In the reconversion and readjustment will come improvements in our standards of life—better houses, better clothes, better food, better safeguards for children, better health protection, and wider educational opportunities. These bring hope for the future instead of fear; they give security instead of unrest.

There is no need for a post-war depression. Handled with competence, our adjustment, after the war is won, should be an adventure in prosperity. Our soldiers will not be let down. They are our chief concern. No pressure groups of self-seekers will take our thoughts from the duty we owe them.

Finally, while the producers should be restrained from excessive profits during the war, the workers as long as hostilities are on should refrain from strikes. No grievance, however just, should be permitted to slow our march to victory.

Sincerely yours,

BERNARD M. BARUCH,

JOHN M. HANCOCK,

*Advisory Unit for War and Post-war
Adjustment Policies, Office of War Mobilization.*

FEBRUARY 15, 1944.

PART II

Report on War and Post-War Adjustment Policies.

When the war will end either in Europe or Japan is not for us to speculate. Our military leaders have warned that the bloodiest, costliest fighting in Europe still lies ahead. The Germans with a superbly trained General Staff have been withdrawing behind interior lines awaiting our attack, prepared to strike back wherever they can, hoping to catch the United Nations either off guard or, through a suddenly amassed superior force, temporarily driving us off. Then there are the Japanese to finish off.

Regardless of how long it takes we must carry on so that absolutely nothing is permitted to hinder the quickest clinching of victory over both Japan and Germany. With that never out of our minds, we should proceed immediately to develop the organizations, policies, and methods for returning to peace with work for all.

No one colossal plan covering every aspect of the problem that crowded for settlement was possible. We have taken up first those things that had to be done first, bringing them to decision, then moving on to the next problems.

Finding Right Path.

The Uniform Termination Article, approved by you recently, was the "first step." This report seeks to carry that work further *to finding the right path* out of the maze and to getting started down that path.

Nor was it enough to say simply what should be done; but also how it should be done—that is, to develop workable plans which could be put into effect with a minimum of delay. In this, of course, we have taken things as we found them, not as they might or should have been.

Unwinding Difficult.

Unwinding our war economy can be expected to be more difficult than was the mobilization. It will be made more so by pressure groups organized for their selfish purposes. As victory comes nearer, we can expect the "but" patriots—those who profess themselves loudly all-out for war but fight any sacrifice or risk of their own—to grow ever louder in their protests, to become ever bolder in "positioning" themselves for the return to peace.

All-Important Question.

The question everyone asks, be he a civilian or in uniform, is: "How am I going to make a living for myself and for those dear to me when the war is over in a manner of my own choosing?"

Our entire inquiry has been directed toward that question. In particular, we have been concerned with the demobilization problems of the returning service-man and service-woman and civilian workers now engaged in war industries. The returning soldier should not be forced to look to charity or community help. He has rights that rise above that. When he returns to his home community, *there should be one place to which he can go in dignity and where he can be told of his rights and how he can get them.*

Legislation Needed.

Effective handling of the human problems of demobilization will require the closest kind of cooperative action on the part of both Congress and the Executive branch of Government. Many of the proposals that the American people will want adopted require legislation. At the same time, the first demobilizations of workers and those in Service are likely to take place while the war still is going on and will have to be knitted intimately with wartime manpower controls, with the draft, and other war controls.

Centralize the Forces.

There is no scarcity of plans and suggestions for dealing with these problems. In fact, we have found their consideration scattered loosely in both the Executive agencies of the Government and among the various committees of Congress. In their preoccupation with the war, the various operating agencies have been able to give these problems only part-time attention. Yet they must be planned for in the light of established administrative mechanisms, tied to the whole program.

We recommend unifying the Government forces dealing with the human problems of demobilization on two fronts—the Executive and Congress.

Everything being done by the Executive branch of the Government should be brought together *under a single, unforgetful mind*; the Congress to merge the activities of its many committees into a *single committee in the Senate and in the House* or, if it can be effected, into a joint committee of both Houses. *The unified Executive and Congressional groups should then work together on a combined program of legislation and operations that will carry out the objectives that all of us share.*

“Work Director.”

When problems are undertaken in many different places, diffusion of energy results. Much talking is done, much political pressure generated, with little action and small results to those involved.

We recommend the creation in the Office of War Mobilization of a new, most important post which, for want of a better title, we would call a "Work Director" to unify the forces of the Executive branch and to work with Congress on the whole human side of demobilization.

War Veterans.

This Work Director, who should be of such outstanding caliber as to command the immediate confidence of the country, should have full and adequate authority for developing integrated programs, working with the Armed Forces on their plans for personnel demobilization, when such plans are drawn up, studying the demobilization programs of other nations, developing adequate machinery for assisting in job placement and counsel for both veterans and demobilized war workers, integrating these programs with all wartime manpower controls.

Care for Disabled.

He should develop effective programs in such fields as adequate care for returning veterans, physical and occupational therapy for wounded and disabled; the resumption of education for those whose schooling has been broken by the war; vocational training for all workers.

War Workers.

He should also study the special employment problems involved in the great war industries where it is known peace will bring mass displacement of workers. He would work with Congress on all these matters.

Of course, there is no separating these things from the seemingly impersonal measures that will have to be taken to keep our economy production-strong. Being a part of the Office of War Mobilization, the Work Director will be best situated to keep his own activities linked with the many other aspects of the program we are recommending.

To summarize our concept of his job, it is to see that the human side of demobilization is not forgotten.

Great Opportunities.

It is our conviction that we will emerge from the war with the greatest opportunities any people ever had. A post-war depression is not inevitable. One-half of the world will need rebuilding. Enormous demands, put aside during the war, and added to pre-war demands, await satisfaction. Much depends on the settlement of the peace.

If it be one under which men and women can look forward with hope—not fear—there will not be enough hands to do what needs to be done.

Much will also depend on the measures taken now to prepare for peace—and, as important as the measures, on the men who will carry them out.

The mistakes and delays made in the mobilization must not be repeated in the demobilization.

No Better System.

There has been too much loose parroting of the slogan, that if individual enterprise fails to provide jobs for everyone, it must be replaced by some one of the other systems that are around. The war has been a crucible for all of the economic systems of the world, for our own, for Communism, Fascism, Nazi-ism—all the others. And the American system has outproduced the world.

America's productive capacity can perform still another miracle in a fine and lasting peace. It will not do so if pressure groups are permitted to turn that productive capacity into a battleground for their own selfish interests or inflate ourselves out of the world market.

Speed Essential.

Speed in shifting this productive capacity from war to peace is our most effective attack against the two enemies which threaten in the transition and post-war period—*unemployment and inflation*.

The First Questions.

What are the things that need to be done to insure this speed, to set our feet on the right path toward work—not alone for those here at home but for the men and women who will be returning from foreign shores?

The very first problem to be solved was how to get Government work out of the plants so civilian work could come back in. This raises three questions: How are war contractors going to get the money owed them? How is Government property to be moved out physically from their plants? And, while doing that, how is the public interest to be protected?

If plants are choked with Government property, equipment, inventories, and work in process, manufacturers will not have room for the new equipment and new materials to produce peacetime goods. Or, if their working capital remains frozen in unpaid-for Government work, they will lack the money to start up their businesses afresh; to buy new materials and new equipment, to pay their workers.

Business Frozen.

Business would be at a standstill; workers and returning service men would walk the streets, while the Government was figuring how to pay what it owed.

Our country's position today is such that if the war terminated suddenly most of the factories in this country would be shut and there would be unemployment of the worst kind. Of course, the war will not end tomorrow, but "peace jitters" already are cutting into war production. Removing all uncertainties as to the Government's policy on settling terminated contracts is needed for the immediate conduct of the war.

Unemployment by Audit.

We recommend quick, fair, and final settlement of terminated war contracts through negotiations by the contractors and the procurement agencies.

Any course, such as that proposed recently by the Comptroller General, would quibble the Nation into a panic.

The Comptroller's suggestion, as we understand it, was that he review every settlement before payment and that no payment be final until approved by him. Pending this audit, the Comptroller proposed that advances and loans be made; but the amounts would be entirely inadequate to keep business and jobs going. If such an audit before payment were decreed, no war contractor would know where he stood, prime contractors would be unable to pay subcontractors, banks would be reluctant to make adequate loans, billions in working capital would be frozen. The delays in settlement could force many concerns into bankruptcy. It would mean unemployment by audit.

Fairness the Thing.

The essential point to remember about these contract settlements is that they be fair—fair both to the Government and to the contractor. What is fair can be determined just as well in a matter of weeks as in years.

Full Review for Fraud.

The review powers of the Comptroller General should be limited to fraud, with every administrative aid of all the agencies in the detection of fraud.

This is in addition to his determining whether settlement payments are made in accordance with the settlement agreement.

To aid in the detection of fraud, we are recommending:

That written reports and full records be kept by the Government negotiators of the bases of settlement; also the contractors to keep their records for at least 3 years.

Settlement Teams.

In all sizable settlements, Government negotiations will be conducted not by one man but by a *team*. These teams in general will include a Legal Officer, a Termination Officer, an Accounting or Auditing Officer, a Technical Officer, and a Property Disposal Officer, each with his own experts, the whole team working under the direction of the contracting officer who finally makes the settlement. The team idea has been developed to prevent any possible collusion in these settlements and also to encourage the individual team members to exercise their independent courage and judgment in making these settlements.

In the final analysis, the Comptroller General would have to delegate his reviewing to many thousands of investigators. By and large, he could not recruit a more honest or more capable force than present procurement officers, and it would certainly be less experienced. The men who made the contracts or who have administered them are the best persons to unmake them.

Joint Board.

The Comptroller's vigilance and experience can be a most valuable contribution.

We recommend that both he and the Attorney General be added to the Joint Contract Termination Board.

This board has been established in the Office of War Mobilization, under a chairman *independent of any of the procurement agencies*, to unify and simplify the procedures of all the agencies, and it will control the regulations, instructions, and interpretations for the negotiators.

We recommend also that the War Production Board be represented on the Board.

Additional Safeguards

The administrative procedures of all the procurement agencies are now under review to see where additional safeguards can be wisely introduced.

All these safeguards—the Comptroller General's full review power for fraud, the presence on the Joint Board of the Comptroller and the Attorney General, settlements being made by teams with written reports from these teams, the requirement that contractors keep their records for a least 3 years—plus the additional administrative safeguards that will be developed, add up to *a more effective protection*

of the public interest than any audit before payment that the Comptroller General would find administratively practicable.

Immediate Cash.

Even with the best of good will by both Government and contractors, delays in settling are inevitable. An appreciable portion of every claim will be subject to human judgment of values, over which competent men may honestly differ. That is why these settlements do not lend themselves entirely to determination by mathematical formulas, but can be handled best through negotiations.

Complete Kit.

The importance to the whole economy of freeing the working capital of manufacturers so there will be jobs is such that interim financing which will provide quick cash pending final settlement is essential. Attempts at some one magic formula which could be applied to all alike—prime contractors, subcontractors, suppliers, etc.—result either in something rigid and inadequate or so loose as to be a blank check on the Treasury.

We have brought together every workable tool we could find into a financial kit, complete enough to meet the varying needs of all war contractors while fully protecting the Government.

This complete financial kit which we recommend includes:

1. Immediate payment—*the full 100 percent*—for all *completed* articles.
2. On the uncompleted portion of the contract, immediate payment—*the full 100 percent*—of the Government's estimate of "factual" items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, *up to 90 percent of the contractor's total estimated costs.*
3. Immediate payment—*the full 100 percent*—of settlements with subcontractors as soon as approved.
4. Payment by the Government of *interest on termination claims*, until settled.
5. As insurance against delays in validating claims, *a new, simplified system of T (Termination) loans by local banks*, with Government guarantees, to be available to all war contractors, primes and subs.
6. For those unable to obtain such loans from their local banks in 30 days, *the Government to make the loans directly.*
7. Until the new T loans are authorized by Congress, *extension of V and VT loans* to all eligible borrowers.
8. Finally, for hardship cases, unable to use any of the tools outlined above, *expedited settlements.*

A Community Plan.

The T loans will be made in the man's own community, by his own bank, the banks in general to take a minimum of 10 percent of the risk and the Government to guarantee the remainder. Representative bankers have assured us the banks of the country will make loans on this basis.

The loans will be based on an estimate of the applicant's receivables, inventory, work in process, amounts paid or to be paid to subcontractors or suppliers in the tiers below.

Subcontractors Eligible.

While designed for all war contractors, these new T loans are of particular importance to the tens of thousands of subcontractors of every type scattered around the country. A more extensive discussion of the staggering problems of settling subcontractor claims and of the measures developed to date will be found in the addendum chapter on *Settlement of Terminated War Contracts*. Sketchily summarizing the more important recommendations:

1. That the procurement agencies be authorized to protect the subcontractors in the event of insolvency or default of their customers.
2. A standard termination article for subcontractors to supplement the Uniform Termination Article for prime contractors already recommended to you—this is in the final drafting stage.
3. That the Director of War Mobilization set a minimum figure below which nuisance-size claims, great in number but small in value, can be immediately validated with suitable safeguards.
4. That the procurement agencies launch a vigorous experiment with the so-called company-wide type of settlement, seeking to develop a workable plan, if possible.
5. That Congress enact appropriate legislation to permit such settlements to the extent that they are found practicable and helpful by the procurement agencies.

Push Program.

If a workable plan for company-wide settlements can be developed, adjustments naturally will have to be made in this program for settlement. In the meantime, however, the program outlined here should be pressed without delay.

Legislation Ready.

The contract termination policies recommended in this report were worked out through the instrumentality of the Joint Contract Termination Board—and no finer working spirit could have been hoped for. Represented on the Board, are the War, Navy, and Treasury Departments, the Maritime Commission, Reconstruction Finance Corporation Subsidiaries, and the Foreign Economic Administration.

The program has the unanimous approval of these agencies and they are prepared to put most of it into effect immediately. To become completely effective, legislation will be needed.

Our major objectives requiring legislation in connection with contract termination are met by the bill prepared by the Committees of Senators George and Murray. Their staffs have been kept currently informed of the work being done under the Joint Contract Termination Board and the procurement agencies represented on the Board. As a result the program for contract termination legislation is now remarkably far advanced.

At an early date we will be prepared to advise with the Committees handling this legislation as we expect to complete our termination study very soon.

One Purpose.

Perhaps this should be noted. The only purpose of contract settlement is to pay what the Government owes. Contract settlement should not be used for punishment or reward, for making better or worse the position of manufacturers, workers, or the public. Attempts to turn the settlement legislation into a band wagon for special interests should be fought off. To the extent that the simple purpose of settlement becomes involved with other issues, passage of the legislation will be delayed. The result, should Germany collapse suddenly, might be calamitous.

Training Schools.

Schools are to be set up in various parts of the country for training both the Government's negotiators and representatives of contractors and other interested groups.

The fact that Government and industry men will sit side by side in learning about the complete plans should prove of mutual advantage. Industry will know what the Government expects of it. The Government negotiators will have the advantage, in their training, of contact with men who know the realistic problems of specific plants, at first-hand.

Contractors Delay.

It is reported to us that in the past an average of 4 months has been required to get contractors to submit claims. Only a part of this slowness can be laid to preoccupation with the war or to inadequacies of Government policy. Contractors will have only themselves to blame if they do not get set to handle the problems of termination.

Sixty-Day Clearance.

On the clearance of Government property from private plants, we recommend:

A deadline of not later than 60 days after the filing of inventory lists, with manufacturers having the right to remove and store the property earlier at their own risk.

Considerable quantities of raw materials, equipment, semifinished parts and inventories will come into the possession of the Government as a result of the termination of contracts. Prompt, effective, orderly handling of these and other Government surpluses in excess of war needs will have a most important effect on *quickenig war production, combatting inflation, speeding the resumption of civilian employment* as that becomes possible, and *reducing the national debt*, with a consequent *lowering of post-war taxes*. The months to come, while the war is still on, are *the most precious months for disposal*. Market conditions will never be better. Effective action now could reduce enormously the likely surpluses that will be left for after the war.

Central Administrator.

We recommend:

- 1. Immediate creation of a Surplus Property Administrator in the Office of War Mobilization to be appointed by the Director, with full responsibility and adequate authority for dealing with all aspects of surplus disposal.**
- 2. This Administrator to be Chairman, with full and final authority, of a Surplus Property Policy Board representing these agencies: War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, the Food Administrator, Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration.**
- 3. The work of actual disposal to be assigned to four major outlets; each operating in a clearly defined field, with no overlappings and following policies to be laid down by the Surplus Administrator.**

- (a) *Consumer Goods*—other than food—to the *Procurement Division of the Treasury*;
- (b) *Capital and Producer Goods* in general—all types of industrial property, including plants; equipment, materials and scrap—to *a single corporation within the Reconstruction Finance Corporation, consolidating the present Reconstruction Finance Corporation subsidiaries dealing with Government properties*;
- (c) *Ships and Maritime Properties* to the *Maritime Commission*;
- (d) *Food* to the *Food Administrator*.

The Surplus Administrator may use any other Government agency for the disposal of special properties or invite any other agency to sit with the Policy Board on special problems.

Goldfish Bowl.

The business of all of the disposal agencies should be conducted in a goldfish bowl, with the facts on all sales open to public inspection at the point of sale and each agency submitting reports, summarizing these sales regularly to Congress through the Surplus Administrator.

Firm Control.

This organization assures a firm hand at the helm to unify the policies and procedures for all the agencies and to prevent haphazard disposition or competition between the agencies. Buyers will not be able to beat down the Government's prices by playing one agency off against another. The task of actual disposition assigned to any one agency is kept of a manageable size.

Each of these broad types of surpluses involves different types of customers and different market conditions. Each agency is assigned to the field of its own experience so operations can begin without delay. To create one central disposal agency, as was proposed, would be to risk long delay in building an effective organization with the likelihood that the agency would bog down in the morass of attempting to deal with thousands of unrelated items. The precious months for disposal would be lost.

Civilian Shortages.

In this connection, the Armed Services have made an excellent suggestion to us which we recommend to the Surplus Administrator as one of his first tasks:

That a list of the most critical civilian items be drawn up and the Army and Navy examine their inventories, stocks and

stores of these items to see what can be safely released for the civilian economy without hurting the war.

This suggestion is made possible largely by the fact that our proven productive capacity is as good as inventory in reserve, allowing for the time required to produce and deliver the goods.

Legislation Later.

We are recommending that these steps be taken by executive order *for the time being* because of the urgency for quick handling of immediate surpluses, and because additional experience gained in actual administration is needed before legislation can be definitely drawn.

We recommend:

That the Surplus Administrator report to Congress as soon as possible on legislation that is needed, basing his recommendations on actual experience with the problems.

Nor should our recommendations be interpreted as ruling out a still further centralization of the handling of surpluses if experience indicates such a change desirable. Bringing the problem under a firm, managing hand *now* will facilitate smooth transition to any set-up that Congress ultimately legislates.

War Comes First.

The best single preparation for returning to peace lies in a more efficient conduct of the war. It means quicker victory, fewer casualties. Greater war efficiency also means a steadily improving utilization of our resources in constant adjustment to changing war conditions—meeting new war demands swiftly, promptly cutting out the production of unneeded things, shifting any resources that are freed to get more of the things needed for civilians.

No Separate Agency.

The agencies that did the mobilizing will have to carry out their comparable tasks in the demobilizing. At the present stage of the war, preparations for demobilization are inseparable from the actual conduct of the war, from the constant adjustments required by the war. ***For this chief reason, we are opposed to the creation of a new, separate Office of Demobilization.***

Such an agency could hardly avoid coming in conflict with every other war agency and would hinder the prosecution of the war. By the nature of its assignment, we fear it would tend to become a pressure agency seeking to quicken demobilization for its own sake, forgetting war needs.

Neither among our people, in the country, nor in the Government, can there be any compromise with the fact that war needs come first.

Congress Can Set Policy.

We do believe *Congress should lay down whatever policies it feels wise and desirable to guide the existing agencies* in their handling of demobilization problems. This view was expressed before the Special Committee of the Senate on Post-war Economic Policy and Planning on December 21, 1948. The weeks of intensive work on these problems that have passed confirms that judgment.

Eliminate Overlappings.

Later, it may be advantageous to create a new, *clearly post-war agency* to liquidate present war agencies. Right now, there already is too much overlapping Government machinery for the most efficient functioning of Government. Economies can be effected and manpower released.

We recommend that the Bureau of the Budget maintain a running study of the functions of all war agencies reporting regularly to the Director of War Mobilization with recommendations for eliminating overlappings, for discontinuing unnecessary functions, for merging or transferring units for greater efficiency, preparing ultimately to liquidate what is left.

As the tides of war ebb, little pools of Government functions will be left behind in various agencies, and they should be cleared up promptly.

Tightening Needed.

The existing agencies have the basic organizations, the experience and know-how, the feel and touch with these problems. What is needed is not the loosening up that would be the inevitable result of a new super-agency cutting across every other agency, but *a general tightening up* of the entire Government machine—both for mobilization and demobilization. The two go hand in hand.

Among the specific tightening up measures we recommend in addition to the running survey of war functions are:

A running conspectus by the Office of War Mobilization of the progress of all the agencies on the tasks assigned;

An intensification of the fine work done in the past seven months by the review boards, organized through your office by which billions have been cut out of the Services' programs by the elimination of requirements beyond actual needs;

Strengthening of the Industry Advisory Committees in the War Production Board;

Tightened handling and advance planning of new contracts and contract cancellations;

Closer working together of the War Production Board and the Office of Price Administration to permit prompt adjustment of pricing methods or controls, where needed to avoid delaying the resumption of civilian employment;

Arrangements for the Armed Services to furnish all of the civilian agencies full information in adequate time so these agencies can do the preparing expected of them;

Organization of the civilian agencies to use this information effectively.

Some fine advance planning is under way, particularly in the War Department, and this information can be most helpful in preparing for adjustments to come. *But we emphasize, the civilian agencies must organize themselves to use the information effectively.*

Planning Cancellations.

To assure that cancellations will be planned in advance as far as is practicable and to remedy the inadequacies we found, *we are recommending this tightening up of the cancellation procedures:*

1. The procurement agencies, in acting on the decisions of the Chiefs of Staff, to inform the War Production Board of possible cancellations *as soon as they begin to think of them*—this so the War Production Board and other civilian agencies can become properly attuned for swift action when decisions are made;
2. That the policies governing the choices as to which producers are to be cancelled and which left in production be worked out in advance by the War Production Board;
3. That the actual choices, in general, be made by the procurement agencies after full consultation (except in the case of minor or routine adjustments of programs) with the War Production Board or such unit of it as is set up to integrate its work with that of the War Manpower Commission and other interested agencies.

Criteria For War.

In general, choices as to which producers are to be cancelled should be guided:

First, by what will make for a more efficient carrying on of the war;

Second, once these war considerations are satisfied, by what will contribute most to a quick, balanced resumption of civilian employment and to an orderly changeover from war to peace.

In considering, *first* what will improve war efficiency, such factors as these enter: easing manpower shortages; minimizing unemployment or the leaving of facilities idle; eliminating the least efficient or most wasteful producers; how much fuel, transportation, and other critical resources the various plants drain.

To Aid Reconversion.

As to the *second* broad criterion, preferences would be given to such factors as releasing plants which can be converted most readily to desirable peacetime production; giving smaller enterprises an opportunity to return to civilian production earlier, easing their termination problems; balancing cancellations in the various communities; reducing overgrown war communities so as to ease their ultimate return to an inevitably slimmer peacetime level.

Reduce "Bloat" Now.

Where there have been war expansions, far beyond any possible post-war future, it will be better to cancel war contracts earlier, and begin reducing the "bloat," than to wait until it has to be done all at once.

Local United States Employment Service offices should be promptly informed of decisions to cancel contracts; also, the National Housing Agency, Federal Works Agency, and other agencies who may be constructing homes, nurseries, or other projects in war communities. Large-scale cancellations might make these projects unnecessary.

Shifting Contracts.

Planning of cancellations must be integrated both with war procurement and the program for civilian production. Plants and manpower released from one type of war work should be promptly utilized for new war work, but, if not needed for war, as far as practicable for expanding output of the more essential civilian items.

Some contracts likely to be cancelled because they no longer are needed for war may be for goods that other agencies can use, as for foreign relief and rehabilitation. Such contracts can be transferred or run out, avoiding the problems of termination and settlement.

This is not to be taken as an excuse, however, for continuing the production of goods no longer needed simply to provide employment or profit. Contracts should be cancelled promptly as soon as *it is seen* that production is running beyond actual needs.

If current cancellations are brought in hand, the skill will be acquired and the organization created for the much larger job to come.

Public Informed.

There will be the greatest interest in communities regarding local contracts being cancelled; other production cut-backs; how local products are to fare as the reconversion pattern unfolds.

We recommend that the Office of War Information, War Production Board, and the Procurement Agencies work out the necessary machinery for informing the public fully and frankly as to the problems involved and the actions taken.

To the extent that this is done, it will be an important defense against selfish interests.

"X Day" Reconversion.

To avoid being caught unprepared by a sudden collapse of Germany, we recommend that the Armed Services and the War Production Board cooperate in the immediate preparation of an "X Day Reconversion Plan" based on the assumed defeat of Germany on "X Day."

In recent weeks the War Department has put together a tentative supply program, assuming the end of hostilities in Europe on a hypothetical date. These estimates have been furnished to the War Production Board, which is now translating them into terms of manpower, materials, and manufacturing facilities likely to be released. While these estimates—necessarily a military secret—will certainly be changed, since no man can guess how much will be expended in Europe, they do provide a beginning basis for the "X Day" plan recommended.

Getting a Head Start.

As far as is practicable, this "X Day" plan should seek to estimate cancellations in advance, the industries affected and the resources likely to be released, make tentative selections of the industries and plants to be freed, weighing how these selections can be guided so as to contribute first, to greater war efficiency; and second, with war needs satisfied, to the speediest resumption of civilian production and to an orderly changeover from war to peace.

This "X Day" planning can help greatly in removing hindrances to the speediest shifting of our productive capacity, providing jobs for returning soldiers and other workers; also in increasing the volume of civilian goods which will be a protection against inflation. We visualize it as giving all of the agencies a head start on their demobilization problems, on termination settlements, surplus disposal, the prompt clearance of plants, the reduction and redistribution of excessive inventories; also in speeding the resumption of civilian produc-

tion, conferring with the industries affected in advance on their problems of physical changeover; and generally lessening the shock of a large, sudden change in the war program.

No Let Up.

With the hardest and bloodiest fighting ahead, some will object to such planning, in the fear that talk of resuming civilian production will divert people from the war; and perhaps, even precipitate a scramble by some to get back into peacetime production. We have weighed this view most carefully. It is an argument not without basis. But we conclude that the American people will face the facts courageously *if the Government deals frankly* with them.

An early or sudden collapse of the Nazis in Europe, finding us unprepared for handling the transition problems, could result in such chaos and confusion as to seriously obstruct the most effective prosecution of the war against Japan—and the last few weeks have given every American a special reason for not wanting to lose a minute in getting on with *that* job.

Plan for peace? Yes. Let up on the war? No.

Extend War Powers.

During 1944 the price control law will expire; also, the priorities and allocations powers on which the functioning of the War Production Board rests; also, the requisitioning power of the President.

We recommend the prompt extension of these war powers.

They are vital both for the continued prosecution of the war and for transition to peace.

Balance the Program.

Intensification of the review of the Service's requirements is stressed because of the great potential benefits in avoiding the waste of materials, manpower, and facilities in the production of unneeded goods and in the use of these resources to expand needed production; in lessening the dangers of inflation; reducing the dollar cost of the war; reducing the likely surpluses after the war. These great benefits hold with equal force to the total war program.

We recommend an early, equally effective review of the programs for the production of raw materials, for stockpiling, for imports, for subsidies, and premiums to marginal producers.

To continue any of these programs beyond their need is to prevent the production of more of what is needed. Where materials are in excess of military needs, civilian uses should be expanded or, if that

cannot be done, because of manpower, the production or import of these materials should be cut back.

This will release resources for a new balance of the program at a higher level. *Always the program must be kept in balance.*

Review of Controls.

All wartime material controls and limitation measures should be brought under early review to determine under what conditions these orders can or should be modified. Early review is stressed because, owing to a natural inertia, the adjustment of these controls is likely to lag behind actual conditions.

Civilian Priorities.

As a further aid to the swiftest resumption of balanced civilian production, when and to the extent that the war is not interfered with, an advance listing should be made of the priorities to be given different civilian needs in any opening up of civilian supply. This preference list naturally will give the highest priority to what will contribute directly or indirectly to improved military efficiency, such as vital repairs, transportation, improved maintenance.

In recommending an early review of war controls and a running survey of war functions along with the prompt extension of needed war powers we have had in mind this fact:

Basic wartime controls must be retained as long as necessary, but all controls and the war agencies administering these controls should be liquidated when no longer necessary.

Price Inflation.

Prices run through the web and woof of our entire economic system and hardly anything would be worse than an uncontrolled rise in prices. If unjustly fixed, they will cause unrest and a sense of wrong. We have not felt it within our province to go into this matter now, but this much we will say—that most of the pressure groups have brought about the conditions of which they complain. Those who do the least complaining, the great body of white-collar workers—the policemen, firemen, school teachers, members of professions—they have suffered most.

No Strikes.

Without going into the merits of the controversies or the grievances or wrongs complained of, what lies in front of us will not permit of any strikes or any lessening of the efforts to place in the hands of our men and women in the front lines the things they need with which to

defend themselves and defeat their enemy. It is unthinkable that at a time like this a manufacturer would for a moment cease his efforts in order to make greater profits or that a laborer would stop his efforts in order to receive a few cents more per hour.

The people have it in their own power to prevent further price rises—by refusing to pay present high charges for inferior quality, by saving their money until civilian production returns in volume and quality. If all of the people do this, inflation surely will be halted.

Important Choices.

As we have stressed the selection of the best man available for the post of "Work Director," so we now emphasize the importance of the choice of a man for the post of Surplus Property Administrator. He should be a man of proven executive capacity and business sagacity to deal with the multitude of problems that will arise in the sale of an endless variety of products and in meeting changing market conditions. He should be a man of character, unquestioned integrity and great courage to fight off the selfish interests that will be seeking to exploit these surpluses.

Board Functions.

The broadest functions are being entrusted to the Surplus Property Policy Board, acting through the Administrator. The more important of these functions can be summarized:

- To lay down policies for all agencies;

- To press for early sales;

- To enlist the aid of the Services in exploring the more critical civilian needs so as to determine what can safely be released;

- To develop with the Armed Services for the ultimate approval of the President and Congress a stand-by program of reserve plants, equipment, and other properties for future security;

- To devise effective inventory controls;

- To organize the demand for surpluses in advance, including the possible needs for foreign relief and rehabilitation, for states, counties, and municipalities, educational and similar institutions, the Smaller War Plants Corporation, or other possible claimants;

- To develop the possibilities of selling surpluses abroad;

- To determine how property coming into the possession of the Government can be reprocessed or completed before disposition.

Whatever legislation is finally enacted, the greatest administrative flexibility will have to be provided for.

No Monopoly.

We suggest the Attorney General be placed on the Surplus Property Policy Board in recognition of the importance of disposing of Government surpluses so as to lessen rather than increase monopoly.

Real Property.

How best to centralize the handling of surplus real property holdings will be studied by the Surplus Administrator; also, how to begin liquidating properties no longer needed. Real property disposition is complicated by both administrative and legislative overlappings.

Good Housekeeping.

War housing is being left to the National Housing Agency. The Surplus Administrator may similarly use any other Government agency for disposal of any special type of properties. The Bureau of the Budget is on the board to develop continuity between war surpluses and the permanent good housekeeping of Government properties.

Short-Sighted Extremes.

Some would dump Government surpluses at any price, simply to get rid of them, no matter how disruptive the effects. At the opposite extreme, some would sell nothing, proposing either to freeze the goods in warehouses, destroy them, or sink them into the sea.

We urge upon the Surplus Administrator a middle course of wise and carefully timed disposal. These surpluses represent a great wealth of usable resources to ourselves and to others.

American industry will want to purchase much of this modern, efficient equipment to replace obsolete equipment, so as to improve our national industrial efficiency upon which our high wage and living standards rest. *Before selling this equipment abroad, these possibilities should be fully explored.*

Leasing Desirable.

In general, outright sales are preferable. The disposal agencies, though, should *exchange properties* and *lease* as well as sell; also *sell on credit*, not solely for cash. This will assure smaller enterprises opportunities that would otherwise be denied them.

A Warning.

This red flag of warning is raised: *Leasing must not become a hidden device for the Government to compete with private plants; it must not become a hidden device for subsidies—by any name—to anyone.* Once plants leave the Government's hands they must stand on their own feet competitively.

Local Ownership.

As long as fair selling prices or fair rentals are paid—with sales preferable to rentals—local ownership should be encouraged. *But it will not serve the national interest to sell or rent any one plant at such low prices as to destroy the invested values and displace workers in whole established industries.* Were such transactions permitted as a matter of policy, a community might gain a new plant in one deal, only to lose an established industry through a similar deal favoring some other part of the country.

In all surplus disposal, the national interest must govern. Local or particular trade interests, while receiving full hearing and full consideration, must be subordinated.

Take Losses.

Heavy losses will have to be taken on some types of property since inflated wartime costs will have little relation to peacetime values. Expensive tools for highly specialized war uses may have value only as scrap or as stand-by reserves for future security.

Ten Rules.

Our suggestions to the Surplus Administrator can be summed up in these ten basic principles:

1. Sell as much as he can as early as he can without unduly disrupting normal trade.
2. Listen to pressure groups but act in the national interest.
3. No sales, no rentals to speculators; none to promoters.
4. Get fair market prices for the *values* with proceeds of all sales going to reduce the national debt.
5. Sell as in a goldfish bowl, with records always open to public inspection.
6. As far as practicable, use the same regular channels of trade that private business would in disposing of the particular properties.
7. No Government operation of surplus war plants in competition with private industry.
8. No monopoly; equal access to surpluses for all businesses; preference to local ownership, but no subsidizing of one part of the country against another.
9. Scrap what must be scrapped, but no deliberate destruction of *useful* property.
10. Before selling surplus equipment abroad, assure America's own productive efficiency on which our high wages and high living standards rest.

Strong Defense.

The great importance of reducing the national debt is to return to a position of strong national defense for future emergencies.

Surpluses should be offered in lots of such size as to permit small business, as well as large ones, to participate.

Small Business.

The particular problems of small business have been constantly on our mind. By small business we think of the broad backbone of enterprises, scattered throughout the country, which rely largely on the initiative and resourcefulness of their individual proprietors.

These businesses must be effectively represented on the Industry Advisory Committees which will be playing so important a role in the demobilization. The advice and counsel of the Smaller War Plants Corporation and the Attorney General should be drawn upon in seeing that these committees are representative of small business. The Smaller War Plants Corporation will be represented on both the Surplus Property Policy Board and the Joint Contract Termination Board through the War Production Board, of which it is a part.

As production controls are relaxed, particular care should be taken to protect the competitive positions of small business, as far as practicable within the needs of the war. Cancellations of war contracts can be guided to permit the earliest releasing of small concerns which can convert back to peacetime production. Also certain "nuisance" production controls, involving only a limited amount of resources and which press heavily on small concerns, can be relaxed sooner than broader production controls.

In all of this, we have felt it the responsibility of *all* the Government agencies to protect the interests of *all* business and of the workers employed by those businesses, regardless of their size.

Changeover Credit.

Many small businesses, severely curtailed during the war, will want to come back. Others will have to change over plants physically to reconvert from war to peace. Still other businesses will want to expand. Many persons will desire to start up new enterprises.

We are recommending:

- (1) That the lending authority of the Smaller War Plants Corporation, at present restricted to purposes of war production, be extended to permit short-term loans to assist small business in the "change-over" from war to peace.

Particular attention should be given to credit needs for physical reconversion, or to businesses, curtailed during the war, which seek

revival with sound prospects and under sound management. The unexpended lending balance of the Smaller War Plants Corporation is roughly *80 million dollars*.

Permanent Risk Capital.

- (2) As a permanent source of credit for small and medium-sized enterprises on a basis of broader risks than banks can be expected to assume, that the Federal Reserve System's authority to make industrial loans or commitments be expanded and liberalized.

These loans should be made in such a way as to supplement, not compete with, private investment, for which enormous funds are available.

The Chairman of the Federal Reserve Board advises us that no new appropriation would be necessary to provide the funds for guaranteeing such loans. There already has been appropriated under Section 13-B of the Federal Reserve Act the sum of \$139,209,557 which represents the subscriptions made by the twelve Federal Reserve banks towards the initial capital stock of the Federal Deposit Insurance Corporation. This sum, less approximately \$26,000,000 already advanced for 13-B loans, is on hand in the Treasury, but the Reserve banks have been unable to make effective use of the funds because of restrictions in the present law.

As a support for loans, it is estimated this sum should permit aggregate loans outstanding at any one time of *at least one-half billion dollars*. A detailed explanation of this plan is available for the consideration of Congress.

Ample Credit.

Careful study of the availability of credit shows further:

An enormous volume of personal savings in the hands of individuals and in the banks, many tens of billions, which should be tapped.

The profit position of business during the war has been generally good.

The Reconstruction Finance Corporation has a broad lending authority even to buying the capital stock of industrial concerns.

All of these available sources, plus the provisions we have made for prompt payment of terminated war contracts, should remove any doubt as to the existence of an adequate pool of credit for the financing of new enterprises or for the changeover.

Loans Not Enough.

Let us not provide credit to the returning soldier or small businessman which will only chain him like a galley slave to a loan he can

never repay. We must also make it possible for a man to repay what he borrows.

At current tax rates, few new enterprises or individuals could repay their borrowings out of earnings less taxes in any reasonable period of time. There will be general agreement that tax rates should be reduced after the war. However, until it is definitely known that post-war taxes are to be reduced, the launching of new enterprises and the expansion of existing ones will be deferred. We recommend, therefore:

That a post-war tax law be drafted now, during the war, and put on the shelf to go into effect at the end of the war.

This recommendation should lead no one to think we believe present tax rates too high for wartime—if anything, they are too low—or that we believe there should be an upward revision of our standards of fair wartime profits. All through the years before the outbreak of war we urged that measures be enacted to “take the profit out of war.” We have never swerved from that position.

Reduce the Debt.

This post-war tax bill should aim at reduction in the national debt. In fact, it ought to be possible to begin the orderly retirement of that debt before the war itself ends. After the war, if the proper policies can be followed, tax rates can be reduced and the debt still cut. Lower rates, which stimulate a high volume of business and a high national income, will yield greater total tax receipts than would high rates, which depress business volume, employment, and income.

Prevent Monopoly.

Nothing will do more to make for monopoly or to deter the creation of new enterprise than excessively high taxes.

To repeat, our principal reason for wanting a lowered national debt is to return to a position of strong national defense for future emergencies.

Public Works.

Planning, designing, and engineering of worth-while projects—not simply make-work schemes—should be pressed immediately and put on the shelf for use if needed.

We believe this shelf of projects should be put together now, even though we see no likelihood that the materials or manpower for a Nation-wide program of public works can be available during the war or even after the defeat of Japan. When war needs slacken there still will be a great backlog of deferred housing and industrial construction, repair, and maintenance that must be satisfied first. Still, much

excellent advance planning has been done—as the work done for New York State and New York City. Other States and cities should do likewise.

Public works, it must be remembered, can have only a limited function and their greatest usefulness lies in helping to fill the valleys of depression. If public works *are* to be a reserve of employment, they should not be carried on in a period of full employment, but should be kept on the shelf until needed.

Engineering Funds.

Congress may want to establish a fund in the Federal Works Agency with which to assist local bodies in the preparatory planning.

If such a fund is created, it should be administered with full recognition of the fact that the debt burden of many communities, cities, and States is far lower than that of the Government.

Population Problem.

We appreciate that the public works planning of some communities will have to be incomplete because of the great population shifts the war has brought and the need to wait until the population has settled down. Will the workers who have moved North return to their homes in the South? What profound changes will the displacement of the Japanese on the Pacific Coast bring? What of the great aircraft, shipbuilding, and munitions centers—where will the workers now there go?

Deferred Projects.

Separate from these longer-time public works, many worth-while community projects such as schools, hospitals, waterworks, and others, have had to be deferred through the war because there were other more essential needs for the same manpower and materials. Many of these projects are completely engineered and the funds for their construction set aside. As war needs slacken the War Production Board has the mechanism for reconsidering any of these projects in the light of the rules of relative essentiality then prevailing.

Such projects, along with the backlog of normal construction and housing that has been deferred, *can be made immediately available in any localized areas of unemployment* that may develop in the transition period.

Good Administration.

No plan can be better than its administration. No formula or law can supplant—or supply—good judgment and ability. In such a vol-

ume of business, thinking of both the settlement of terminated contracts and the disposal of property, there will be errors of fact, errors of judgment, and even some cases of fraud. It is the by-and-large result that the American people must look for and use in judging how well these jobs are done.

Pressure Groups.

Again and again, we have warned of the dangers of groups organized for selfish interests. When we speak of pressure groups, we are not thinking only of the individuals who lead them, but of the men and women who make up their following. Present leaders may go but others will arise in their places. The greatest danger that our Nation faces, not only in the transition period but also in the long-time future, is the tendency for people to become broken up into blocs and segments, each organized for some narrow interest of the moment.

The kind of peace we build will depend, as much as any one thing, on the personal choice every American makes—whether he or she is pulled into such blocs or unites with the Nation as a whole in organized self-restraint, which is the highest form of civilization.

Our concern over pressure groups is another reason why we have guided our recommendations so that once victory is won we can *close the books on the war as quickly as possible*.

We have not wanted to leave the government after the war a jackpot of controls which invites every pressure group to hit it.

Peace Settlement.

In all that we have recommended, we have had in mind the need of keeping America production-strong so as to retain our high standards of living. The fact that our recommendations deal chiefly with domestic problems should not be misinterpreted as indicating we underestimate the importance of foreign trade or the kind of peace that is written. Such problems as an international currency, international Reconstruction Finance Corporation, the future of synthetic rubber, what is to happen with air bases and international airlines, ocean shipping, international communications—such problems have not been taken up because there now is no adequate basis of fact or knowledge of conditions on which definitive policies can yet be framed. The formulation of these policies in large measure must await the end of the war and the terms of the settlement of peace. Many of these problems, in fact, will be part of the making of the peace and should be prepared for in this light.

Education.

Many domestic problems have not been touched upon, again not because we are unaware of them, but because it would be futile to try to cover every phase of the many problems that presented themselves. Agriculture, while of enormous importance, is not touched upon because it has a special agency which is brought into contact with the others under your direction in the Office of War Mobilization.

Higher education has been converted from peace to war and consideration will have to be given to its quick conversion back to peace. Trained people are an inestimable asset to every community. The war's interruptions may leave the future devoid of many of the educated, trained, and thoughtful people so necessary in every field of human endeavor. We would urge that those whose courses have been interrupted be encouraged to resume their training.

Research.

A closer connection between scientific research and its practical application is needed, particularly in view of the great number of products which we must import from abroad. Especially do we have in mind greater research regarding agricultural by-products and the finding of new sources of minerals through better processes that will permit the using of lower grades of ore. The distillation of coal and the extraction of oil from shales are only two instances worthy of pursuit.

Precious Surpluses.

The problems that lie before us are difficult but soluble. Let no one feel that precious surpluses will bear down upon us and destroy us; that vast amounts of metals, raw materials, ships and airplanes will smother us and engulf us. These are assets of tremendous value. They will be real forces not alone in making the peace but in opening to the whole world, and therefore to us, vast opportunities. As soon as our Government obtains possession of cotton, or gold, or silver, or ships, or planes, or other evidences of power or wealth, these possessions suddenly seem to become less valuable in the eyes of others. Remember the fox in Aesop's fable, who, when he lost his tail, wanted the other foxes to cut off theirs.

America's Strength.

All of the nations of the world, after the war, will be striving to raise their living standards. Without drawing upon America's productive capacity, no nation in the world will be able to do so.

Winston Churchill has said he did not accept his portfolio in order to liquidate His Majesty's empire. No American should accept a portfolio to liquidate American living standards.

Our great wealth can be used or abused. We have no fear that it will not be used for the advantage of America and the world in the most rational and enlightened manner. The living standards of the world must be lifted—and ours go higher—not our standards be dragged down to those of others.

Win the War.

This final word:

We have pledged our faith and honor on great offensives. The blood and suffering of our soldiers and of hundreds of millions of trampled peoples demand that we go on and finish the job of defeating our enemies in the shortest time, with nothing, no thoughts, no actions, interfering.

BERNARD M. BARUCH,

JOHN M. HANCOCK,

*Advisory Unit for War and Post-war
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FEBRUARY 15, 1944.

PART III

Summary Index of Recommendations.

A. Human Side of Demobilization.

1. That the Government forces dealing with the human problems of demobilization be unified on two fronts—the Executive and Congress.

2. On the Executive side, creation in the Office of War Mobilization of the new post of “Work Director” to “see that the human side of demobilization is not forgotten.”

3. This “Work Director” to be a man of such outstanding caliber as to command the immediate confidence of the country.”

4. This “Work Director” to work with Congress in the development of a combined program of legislation and operations “to carry out the objectives that all of us share.”

5. Among the fields to be covered by this “Work Director”—personnel demobilization of the Armed Forces, developing adequate machinery for job placement of veterans and demobilized war workers, adequate care for returning veterans, physical and occupational therapy for wounded and disabled, resumption of education interrupted by war, vocational training, the special employment problems of the great war industries, and others.

6. That there be in each community, only one place to which returning service men and service women need to go to learn *all* their rights and how to get them.

B. Settlement of Terminated War Contracts.

1. To assure quick cash pending settlement, a complete “financial kit” is assembled, including:

- (a) Immediate payment—*the full 100 percent*—for all completed articles.
- (b) On the uncompleted portion of the contract, immediate payment—*the full 100 percent*—of the Government’s estimate of “factual” items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, up to 90 percent of the contractor’s total estimated costs.
- (c) Immediate payment—*the full 100 percent*—of settlements with subcontractors as soon as approved.
- (d) Payment by the Government of *interest on termination claims*, until settled.
- (e) As insurance against delays in validating claims, *a new, simplified system of T (Termination) loans by local banks*,

with Government guarantees, to be available to all war contractors, primes and subs.

- (f) For those unable to obtain such loans from their local banks in 30 days, *the Government to make the loans directly.*
 - (g) Until the new T loans are authorized by Congress, *extension of V and VT loans* to all eligible borrowers.
 - (h) Finally, for hardship cases, unable to use any of the tools outlined above, *expedited settlements.*
2. Quick, fair, and final settlement through negotiation by contractors and procurement agencies.
3. As a more effective safeguard of the public interest than the kind of review suggested by the Comptroller General:
- (a) Review powers of Comptroller General limited to fraud with every administrative aid for detecting fraud.
 - (b) That all sizable settlements be made by Teams of negotiators.
 - (c) These Teams to file written reports and keep full records of the bases of settlement.
 - (d) Contractors to keep records for three years.
 - (e) That the Comptroller General and the Attorney General be added to the Joint Contract Termination Board.
 - (f) Further administrative safeguards now under study.
4. Establishment on an operating basis of a Joint Contract Termination Board within the Office of War Mobilization, to unify procedures and policies of all agencies:
- (a) The Board Chairman to be a civilian, independent of any of the procurement agencies, answerable to the Director of War Mobilization.
 - (b) This Chairman to require progress reports from all agencies and to report regularly to Congress.
 - (c) Also to maintain a running survey of the extent to which V and VT loans and the new T loans are taken out:
 - (d) To keep a constant eye on all aspects of contract settlement recommending any changes that become necessary.
 - (e) The War Production Board be added to the Joint Contract Board.
5. Spread acceptance by war contractors of the Uniform Termination Article for fixed-price contracts.
6. Speed the handling of subcontractor claims:
- (a) The procurement agencies to be authorized by Legislation to protect subcontractors in event of insolvency or default of their customers.
 - (b) A standard termination article for subcontractors to be completed soon to supplement the Uniform Termination Article for prime contractors.

(c) A minimum figure to be set by the Director of War Mobilization below which "nuisance-sized" claims can be immediately validated with suitable safeguards.

(d) Vigorous experiment with the so-called "company-sized" type of settlement, seeking a workable plan.

7. Schools to be set up around the country for training Government negotiators and contractor representatives in the same classrooms.

8. Prompt clearance of Government property from private plants not later than 60 days after the filing of inventory lists, the manufacturers having the right to remove and store the property earlier at their own risks.

9. This entire termination program to be put into effect by the agencies at once to the extent administratively possible.

10. Prompt enactment of legislation to make this program fully effective, including appropriate authority to permit company-wide settlements, to the extent found practicable.

C. Surplus Property.

1. The Director of War Mobilization to name a ***Surplus Property Administrator*** in the Office of War Mobilization with full authority for handling every aspect of surplus disposal.

2. A ***Surplus Property Policy Board***, the Administrator as Chairman with full and final authority, and with these agencies represented: War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, the Food Administrator, the Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration.

3. Four major outlets to handle actual disposal, each in a clearly defined field, with no overlappings:

(a) ***Consumer Goods*** to the ***Treasury Procurement Division***.

(b) ***Capital and Producer Goods***, all types of industrial property, to a ***single corporation within the Reconstruction Finance Corporation***, consolidating present R. F. C. subsidiaries.

(c) ***Ships and Maritime Property*** to the ***Maritime Commission***.

(d) ***Food*** to the ***Food Administrator***.

4. All of these agencies, as well as any other agencies called upon to handle special disposal problems, to follow policies laid down by the Administrator in consultation with the Policy Board.

5. The Surplus Administrator to report to Congress as soon as possible on legislation needed, basing his recommendations on actual experience with the problem.

6. Our own suggestions as to the broad policies that the Surplus Administrator may wish to follow are summed up in ten basic principles:

1. Sell as much as he can as early as he can without unduly disrupting normal trade.
 2. Listen to pressure groups but act in the national interest.
 3. No sales, no rentals to speculators; none to promoters.
 4. Get fair market prices for the values with proceeds of all sales going to reduce the national debt.
 5. Sell as in a goldfish bowl, with records always open to public inspection.
 6. As far as practicable, use the same regular channels of trade that private business would in disposing of the particular properties.
 7. No Government operation of surplus war plants in competition with private industry.
 8. No monopoly; equal access to surpluses for all businesses; preference to local ownership, but no subsidizing of one part of the country against another.
 9. Scrap what must be scrapped but no deliberate destruction of *useful property*.
 10. Before selling surplus equipment abroad, assure America's own productive efficiency on which our high wages and high living standards rest.
7. The Surplus Administrator to be a man of proven executive capacity, business sagacity, unquestioned integrity, and great courage to fight off the selfish interests who will be seeking to exploit these surpluses.
 8. The facts on all sales to be open to public inspection, with regular reports from each disposal agency to Congress.
 9. All of the disposal agencies to make effective use of Industry Advisory Committees.
 10. The disposal agencies to lease as well as sell, to exchange properties, to sell on credit—but leasing must not become a hidden device for Government ownership or subsidies.
 11. The Army and the Navy to examine their inventories of the most critical civilian items to see what can be safely released during the war for the civilian economy without hurting the war.
 12. Surplus Administrator to study how to centralize the handling of real property, also, to explore the possibilities of beginning to liquidate Government holdings.
 13. The closest cooperation between the War Production Board and the Surplus Administrator so that controls do not necessarily hinder disposition by unduly limiting potential buyers, particularly in assuring prompt disposal of small quantities of surplus materials.
 14. The Surplus Administrator and the disposal agencies to have available to them in carrying out their policies the entire field force of all of the various agencies, including the Services.

15. Surpluses to be offered in lots of such size as to permit businesses of all sizes to participate.

16. The Attorney General is placed on the Policy Board because of the importance of preventing monopoly in disposal.

17. The Bureau of the Budget is on the Board to develop policy for permanent good housekeeping of Government properties.

18. The membership of the Surplus Property Board to be made up of men who will carry out the decisions that are made.

19. The broad functions of the Surplus Property Board are summarized in the chapter on Surplus in the addendum.

D. A general tightening of the entire Government war machine for both mobilization and demobilization—the two going hand in hand.

1. A running view of the functions of all war agencies by the Bureau of the Budget, reporting regularly to the Director of War Mobilization with recommendations for cutting down the agencies as their work dwindles.

2. Intensification of the fine work already being done in sweating out unnecessary requirements in the Services' programs.

3. An early, equally effective review of the programs for raw material production, stockpiling, imports, subsidies, and premiums to marginal producers so as not to continue any of these programs beyond being needed.

4. Early review of all wartime materials controls and limitation measures to determine under what conditions these orders can or should be modified.

5. Strengthening of the Industry Advisory Committees in the War Production Board.

6. Tightened handling and advance planning of new contracts and contract cancellation.

7. Closer working together of the WPB and the OPA to avoid pricing delays in the resumption of civilian production.

8. The Armed Services to furnish all civilian agencies full information in adequate time for these agencies to do their planning.

9. The civilian agencies to organize themselves to use this information effectively.

10. A running conspectus by the Office of War Mobilization of the tasks assigned each agency.

11. No new demobilization agency needed at this time.

E. Advance Planning for "X Day."

1. To be prepared in event of a sudden collapse of Germany, the Armed Services and the War Production Board to cooperate in the immediate preparation of an "X Day" Reconversion Plan based on the assumed defeat of Germany on a hypothetical "X Day."

2. This plan to seek to estimate cancellations in advance, to make tentative selections of the industries and plants to be freed, to be used to get a head start on all demobilization problems.

3. Advance listing of the priorities to be given different civilian needs in any opening up of civilian supply.

4. The highest priority to go to those things which contribute directly or indirectly to improved military efficiency, such as vital repairs, transportation.

5. As far as possible, all competitors to be treated alike in the resumption of civilian production but not so as to interfere with war requirements or to hold back production of needed items.

6. While this advance planning is being done, **no let-up on the war.**

F. Prompt Extension of Needed War Powers.

1. The price-control law.

2. Priorities and allocations power on which functioning of War Production Board rests.

3. Requisitioning power of President.

4. Attorney General to study other war powers of agencies to determine when they will expire, which can be allowed to elapse, and which should be extended.

G. Tightened Handling of Cancellations.

1. Prompt cancellation of war contracts as soon as it is seen goods are no longer needed.

2. Procurement agencies to inform the War Production Board of possible cancellations or cut-backs as soon as they begin to think of them.

3. The War Production Board to work out in advance the policies governing the choices as to which producers should be cancelled and which left in production.

4. The actual choices to be made after full consultation with the War Production Board, War Manpower Commission, and other interested agencies.

5. That contract cancellations be guided *first* by what will contribute to a more efficient prosecution of the war.

6. With war needs satisfied, *second* by what will contribute to the quick balanced resumption of civilian production and to an orderly changeover from war to peace.

7. Contract cancellation to be integrated with procurement and expansion of civilian production so that facilities and manpower which are released are shifted to new war work or, as far as practicable, to expanded civilian production.

8. A full, frank information policy on all cut-backs and cancellations.

H. Small Business.

1. That Surpluses be disposed of in small lots to permit small as well as large business to participate.
2. Similarly, the disposal agencies to be able to lease and to sell on credit, expanding opportunities for small business.
3. Effective representation of small business on Industry Advisory Committees.
4. Protection of small business in the resumption of civilian production, as far as is practicable without interfering with war.
 - (a). Earlier cancellations where small business can be converted.
 - (b). Care to protect competitive position of small business.
 - (c). Possible relaxation of "nuisance" type production control sooner than broader controls.
5. Provision for special credit to assist small business in the change-over and to encourage new enterprises.
 - (a). Extension of the lending authority of the Smaller War Plants Corporation, at present restricted to purposes of war production, to cover financial assistance for change-over problems.
 - (b). Expansion and liberalization of the Federal Reserve System's authority to make industrial loans permitting one-half billion dollars of such loans outstanding at any one time.
 - (c). These two additional sources of credit to supplement—not compete with—the enormous volume of savings in the hands of individuals and banks which await tapping.

I. So that the loans made available can be repaid and to encourage new enterprises, a post-war tax law be drafted now, during the war, and put on a shelf for use at the end of the war.

1. This tax law to make known in advance the reductions in tax rates from the present wartime levels to normal peacetime levels.
2. That this tax law provide for reduction of the national debt—the importance of reducing the debt being "to return to a strong position of national defense."
3. That this recommendation not be interpreted as meaning that present tax rates are too high for war—if anything they are too low—or that there should be an upward revision of our standards of fair wartime profits. "We have never swerved from the position that the profit be taken out of war."

J. Public Works.

1. Early engineering, planning, and designing of public works to be put on the shelf for use if needed.

2. Any fund created to assist local bodies in such planning be administered with full recognition that the debt burden of many communities, cities, and states is far lower than the Federal Government's.

3. Immediately needed projects which have been deferred during the war to be kept under review by the War Production Board for possible clearance as war needs slacken, with due regard to the competing demands of other essential production and employment.

PART IV

Addendum.

1. Settlement of Terminated War Contracts.

In developing a uniform plan for settling terminated contracts, we have sought a workable plan, as simple as possible and likely to lend itself to good operations. The complete plan will be built around the Uniform Termination Article for Fixed-Price Supply Contracts recently approved by the Director of War Mobilization.¹ While the present report covers the bulk of contract termination settlement policies, some aspects of these policies still need further working. As each portion is completed in a way to fit into the whole plan, it will be brought to the Director of War Mobilization for approval and for release to the public.

The instrumentality for putting together the program being recommended by us has been the *Joint Contract Termination Board*, established by agreement within the six major procurement agencies on November 12, 1943. The Board's workings have been a fine example of the best kind of interagency cooperation—no finer working spirit could have been hoped for. Represented on this Board are the War, Navy, and Treasury Departments, the Maritime Commission, the Reconstruction Finance Corporation Subsidiaries, and the Foreign Economic Administration. Mr. Hancock has been acting as chairman, representing the Director of War Mobilization.

The program is as much the work of these agencies as ours and it carries their unanimous approval.

A Workable Plan.

The thoroughness with which the Board has been working is worth special mention. From the outset it was clear that the broad objectives of policy could be easily formulated. If we had been content simply to say in general terms *what* should be done, the report could have been made long ago. That was not enough.

Workable plans also had to be developed for carrying out these objectives. The various subcommittees of the Board have been in constant discussion with businessmen, bankers, accountants and others specially interested in different segments of the program. On some of the unfinished aspects of the program, tests are being made in representative plants around the country to determine how different plans will work.

¹ See part V for text of article.

Three Basic Principles.

The program we are recommending balances three basic principles: ***speed, finality, and protection of the Government.***

Delay seemed the chief enemy—delay in making the settlements, delay in paying what the Government owes, delay in clearing the plants of Government-owned property. Even if the settlements were speedy, it would not help much if they were not final, for then the advantages of speed would not be felt through the entire, complicated industrial structure. Prime contractors would still hesitate to pay their subcontractors; and these subs, in turn, would hesitate at paying their subcontractors and suppliers, for fear that the settlement might be changed and they be held liable for sums paid.

At the same time, the public interest had to be protected and no waste of public funds permitted through loose methods of settlement.

Comptroller General.

We weighed most carefully the suggestion that the Comptroller General be permitted to make an independent audit of every settlement and that no payment be final until approved by him. With the purpose of the suggestion—to guard the public's interest—we agree entirely. But it is no real protection of the public's interest to prescribe as a safeguard something which is administratively impractical or which would quibble the Nation into a panic.

By their very nature, the settlements of terminated war contracts must rest in large part on judgments of values, matters on which competent men could honestly differ. It is a field where auditing procedures can be only a limited tool.

What Is Fair.

It is for this reason that settlements by negotiation are recommended, so that weeks and months will not be spent in futile efforts to determine the last penny of cost on work in various stages of completion.

The essential thing about termination settlements is to determine what is fair to the Government and contractor alike. What is fair can be determined upon in several weeks as well as in several years.

Inviting Depression.

An independent review, as suggested by the Comptroller General, could only be for the purpose of having a second negotiation. A contractor would negotiate a settlement with one group of Government representatives. Some time later he would discover that the Comptroller General objected to this or that item, and he would have to negotiate and settle anew. Quick agreement would be discouraged, many contractors wanting to preserve some bargaining position against

this second negotiation. The net result might be a looser settlement than if responsibility were left fully and finally with the procurement agencies.

Capital Frozen.

The Comptroller did propose loans and advances pending his audit but the amounts are inadequate to keep business going. Until the Comptroller General had made his audit no war contractor would know where he stood. Prime contractors would be unable to pay subcontractors for fear that the Comptroller General might later scale down the settlement and demand the return of funds they had paid out. Banks would be reluctant to make adequate loans. Billions in working capital would be frozen. Workers and returning soldiers would walk the streets.

It is up to Congress, of course, to decide whether it wants an audit by the Comptroller General prior to payment and to prescribe its scope. It is our responsibility to make clear that in our judgment if such a law, as has been proposed, were to be enacted, Congress would be legislating a depression.

Vigilance Against Fraud.

No restriction should be imposed either by law or administratively on the Comptroller General in his auditing of payments to see that they correspond mathematically to the settlements, or in his reopening of any settlement for fraud. Every administrative aid of all the agencies should be given him.

To aid in the detection of fraud, contractors are being required to keep their records for at least three years and Government negotiators will file written reports of the bases on which settlements are made.

As a further safeguard, we are recommending *that the Comptroller General and Attorney General, both, be invited to become members of the Joint Contract Termination Board*, which will control the regulations, interpretations, and instructions for the negotiating officers in their settlement work.

Settlement Teams.

Worthy of special mention are the *teams* of Government negotiators who will be making these settlements. It is often popularly supposed that the Government's part of contract settlement is handled by one person, the Contracting Officer. Actually, in all sizable settlements, this Contracting Officer will be heading a Settlement Team which generally includes a Termination Officer, a Legal Officer, an Accounting Officer, a Technical Officer, and a Property Disposal Officer, each of whom may have his own staff assistants. We are recommending that written reports be filed by these Settlement Teams. As part of these

records, the Contracting Officer, who makes the final decision, is to file a written report of his conclusion and reasons, also where his decision disagrees with those of other members of the Team.

The Team idea has been developed to prevent any possible collusion in these settlements and also to encourage the individual Team members to exercise their independent courage and judgment in making these settlements.

No Better Men.

In the main, the members of these Settlement Teams will be the men who either took part in the letting of the original contract or who have been administering them. ***They are the best ones to unmake the contracts.*** They will have a familiarity with the companies with which they are dealing that no set of vouchers, no matter how detailed, could reveal.

In the final analysis, the Comptroller General would have to delegate his reviewing to many thousands of investigators. By and large he could not recruit a more honest or more capable force than present procurement officers, and it would certainly be less experienced. Through his position on the Joint Contract Termination Board, the Comptroller can employ his vigilance and experience in assisting these Settlement Teams.

Termination will be handled by the agencies as procurement in reverse and the same safeguards that held for making contracts will be there in the settling of these contracts. A subcommittee of the Joint Contract Termination Board has been conducting a review of administrative procedures of all the procurement agencies to see what additional safeguards can be wisely introduced. This subcommittee will report to us shortly.

Greater Safeguards.

These additional safeguards, plus those already provided for in this report—the Comptroller General's full review power for fraud, the presence on the Joint Board of the Comptroller and the Attorney General, the requirement that contractors keep their records for at least three years, the settlements being made by Teams, with written reports by these Teams—***total a more effective safeguarding of the public's interest than the audit before payment proposed by the Comptroller.***

Training Schools.

No plan can be better than its administration. The contract settlement program will depend on the judgment and understanding not only of the Government negotiators but of contractors as well.

An intensified and expanded training program for both Government negotiators and men from war contracting concerns and others in business dealing with these problems, is being drawn up to be placed into effect on a national scale. Schools will be established in various parts of the country *with Government and industry men attending the same classes*. This training program is the best insurance of good administration in the field—attaining the twin objective of fast, fair settlements and the protection of the Government.

Getting Contractors Paid.

Even with the best of good will on the part of the Government to make payments promptly, and of contractors to speed their submission of accurate claims, settlements will take time. If manufacturers are to provide continued employment, it is essential that there be developed and put into operation on a nation-wide scale, a plan of interim financing that will release the working cash of manufacturers, while they await settlement.

No one financial device has been found which could be applied to all alike, prime, sub, suppliers, etc. Attempts at such a magic formula result either in something so rigid as to be unworkable or inadequate or so loose as to be a blank check on the Government.

A Complete Financial Kit.

We, therefore, have painstakingly assembled every working tool that could be found into what might be called a *“complete kit” of financing tools*, to meet the great variety of cases and conditions of the thousands of war contractors, while still protecting the Government.

No One Tool.

A universal formula does have an offhand simplicity. But every craftsman knows it is simpler to have a kit of tools designed for different jobs than to attempt to do every job with the same tool.

Major items in this complete financial tool kit are:

1. Immediate payment—*the full 100 percent*—for all *completed* articles.
2. On the uncompleted portion of the contract, immediate payment—*the full 100 percent*—of the Government's estimate of “factual” items, where proof ordinarily is simple, such as direct labor or materials, and of other items on which the Government is able to satisfy itself, up to 90 percent of the contractor's total estimated costs.
3. Immediate payment—*the full 100 percent*—of settlements with subcontractors as soon as approved.

4. Payment by the Government of *interest on termination claims*, until settled. This will require legislation.
5. As insurance against delays in validating claims, *a new, simplified system of T (for termination) loans by local banks*, with Government guarantees, to be available to all who have been producing for war contracts. This also will need legislation.
6. For those unable to obtain such loans from their local banks in 30 days, *the Government—through the procuring agencies—to make such loans directly or* to make partial payments as a loan against the settlement.
7. Until the new T loans are authorized by Congress, war contractors to be urged to arrange *VT loans*.
8. For hardship cases, those not adequately covered by any of the plans for loans and advances outlined above, *expedited settlements*.

T Loans.

The new T loans are designed as a simplified type of such loan and to remedy the inadequacies of present V and VT loans. They are a part of the plan developed by the Federal Reserve System. Under existing law, V loans can only be taken out and used to aid war production. They cannot be made once a contract is terminated. VT loans can be used for termination needs, but they, too, must be arranged for *before* contracts are cancelled, limiting their applicability. The T loans proposed here would be available *before or after* termination.

All contractors, subcontractors, or others who have been engaged in the performance of a war contract would be eligible. The individual T loans would be based on an estimate of the applicant's receivables, inventory, work in process, amounts paid or to be paid to subcontractors or suppliers in the tier below.

A Community Plan.

These T loans are to be made by local banks, who will assume, in general, at least 10 percent of the risk, the procurement agency guaranteeing the remainder. This participation by banks in the same communities as the contractors or subcontractors provides both reasonable protection to the Government, and, through the banks' trained staffs, the most convenient and effective means for reaching the many thousands of prime and subcontractors quickly.

The plan has been discussed with representative bankers from various parts of the country who have assured us that commercial bankers will actively support the plan. It would be not only a definite contribution to the whole economy but also good community banking,

as these loans could be made in the contractor's own community and not become involved in extended negotiations with the central authorities in Washington. The administrative machinery for arranging Governmental guarantees should be as nearly automatic as possible and as decentralized as feasible.

More VT Loans.

V and VT loans, in the main, are long and involved documents which deter many banks from handling them. *The new T loan will be a short, simple document.*

Until new T loans are authorized by law, war contractors would be well advised to take out V and VT loans as an inexpensive form of insurance. Otherwise, they run the risk of cancellation before legislation is enacted. It will be possible to merge V and VT loans readily with the T loans, when these latter loans are available, giving present V and VT borrowers all the advantages of the T loans.

As of December 31, 1943, applications for 5,217 V loans had been approved and only 130 VT loans, by little more than 1,000 out of 14,000 banks in the country. These figures leave little doubt that there are many eligible borrowers who still should get these loans. The T loan plan will utilize all member banks in the Federal Reserve System.

Needs Vary.

Happily, many war contractors are already adequately financed, and will not need any kind of loan. Many have the credit standing which will permit them to borrow through commercial channels without any Government guarantee. Many others will be able to borrow from commercial banks with the aid of a Government guarantee and the T loans will meet this need.

Smaller War Plants Corporation.

In the cases of smaller war plants who find themselves unable to obtain loans from their local banks, *Congress may want to authorize the Smaller War Plants Corporation to step in and assume the equivalent minimum 10 percent risk* that the local banks find themselves unable to assume. The Smaller War Plants Corporation, however, should supplement—not compete with—normal financial channels.

Direct Government Loans.

Some war contractors will not be able to arrange T loans with their banks. For them the "tool" in the "kit" is the provision for direct loans or partial payments by the Government. Any eligible borrower may apply directly to the Government if unable to obtain a loan from a private bank in 30 days.

90 Percent Advance.

In event of failure to agree on the final settlement, the contractor will be paid 90 percent of what the Government is willing to pay, leaving the contractor free to submit a claim for the remainder under the appeals procedure which will be established.

This kit of financial tools, including loans, immediate payment in full, on agreed upon items, and a 90 percent payment in event of disagreement, *plus expedited settlement where financing is inadequate*, will meet the working capital needs of concerns whose war contracts are terminated.

Pre-termination Preparedness.

Reinforcing this financing plan will be a number of administrative improvements, particularly in the way of pre-termination preparedness, that are being pushed. As an example, the procurement agencies now are surveying their disbursing and inspecting organizations to bring them up to date on current work so as to prevent their being swamped by a suddenly increased volume.

This much must be kept in focus. No plan of interim financing can be as good as final settlement itself. This financial kit has been assembled as *insurance against delays* in settlement that inevitably must arise—but which, we hope, will be minimized by other recommendations in this report. Interim financing arrangements should not be an excuse for delaying settlement on the part of either Government or contractor.

No Blank Checks.

That is one of the reasons why we are opposed to the suggestions that payments or loans to contractors be made on the basis of a fixed percentage of the *claims submitted by manufacturers*. It is an invitation to padding. Some manufacturers would submit claims not in expectation of their being settled immediately but as a basis for bargaining and for receiving large advance payments or loans. Entirely new claims would have to be submitted, delaying the settlements proportionately. The litigation would be endless.

Moreover, no one would ever suggest that a businessman pay his bills without checking them. Why should the Government do so?

Subcontractors.

Settling the claims of subcontractors raises truly staggering questions, made all the more complicated by the fact that their problems vary. In discussions of the questions, it is often assumed that the aggregate of *all* of the problems of *all* of the subcontractors is the individual burden of *each* subcontractor.

There also is a tendency to think of subcontracts as always involving only small sums. This is not true in a great mass of cases.

Intricate Pattern.

Subcontractors have no direct contractual relationship with the Government, although Government men often press them to take subcontracts for urgently needed tools of war. It is the prime contractor who receives the contract from the procurement agency, and under present practice, it is he with whom the Government settles on termination.

When he gets his contract, this prime lets out bits and pieces of the work to scores and often hundreds of different concerns. These subcontracts spread downward, through successive layers or tiers of producers. Often there are six or seven tiers, each supplying a producer in a tier above, the final product being the finished weapon delivered by the prime at the top. Nor is it unusual for a manufacturer to be at the same time a prime contractor and someone else's subcontractor. The web of interrelationships crisscrosses in as intricate a fabric as the integration of American industry itself. It is the result of the efforts to widen subcontracting to increase war output.

Currently, the normal movement is for cancellations, to go down from the prime at the top through the tiers below; for claims to be sent up; then for payments to come back down again. If many tiers of producers are involved, the process is likely to be slow at best, with risks of serious stoppages in the flow.

Complex Difficulties.

It has been proposed that the Government settle with all subcontractors directly. Apart from other problems discussed later, the Government has had no direct dealings with most of these subcontractors—their names and addresses are not even known—and it would be a tremendous administrative task to settle this multitude of claims. The contractual relationships of these many subcontractors, suppliers and primes, each with one another, are as intimate and complex as the commercial life of the Nation.

Offsetting Claims.

The personnel problem involved in having the Government check each of these claims would be gigantic.

Another difficulty of having the Government step in and attempt to settle directly with the subcontractor is that the prime contractor may have an offsetting claim against the subcontractor. In such situations, the Government would have to get a release from all such claims or would need the consent of the prime before making payment to a subcontractor.

Again, it often is difficult to identify a subcontract with the particular contract of the Government which is being terminated.

Normal Business.

Under the plan recommended here for the existing procedure of settling by individual contracts, prime contractors are left free to make their own settlements with subcontractors as they would in normal business practice. These settlements, on validation by the Government, will be paid in full. The contractor has the best knowledge of the companies with whom he has been doing business. Through his purchasing and engineering staffs he ordinarily is in the best position to know quite quickly whether the claims from his subcontractors are sound and reasonable.

For this reason, imposition of a requirement of Government approval as a prerequisite before paying a subcontractor has been avoided. *The contractor is left free to exercise his own business judgment.* If a contractor wishes to, he may obtain Government approval in advance of making the payment. Where such approval is given, the Government will be bound in the final settlement not to dispute the payment.

Preventing Delays.

This still leaves a field for some hesitation on the part of the contractor against paying those in the tiers below. We have endeavored systematically to speed the settlement of claims and the flow of payments and are seeking still further improvements. One of the chief causes of hesitation currently has been the fear that settlements negotiated with the procurement agencies could be upset at some later date by the Comptroller General, not for fraud, but on the basis of a differing judgment.

Under existing law, the settlements negotiated by the procurement agencies are final, except for fraud. The fact that the Comptroller General requested legislation to give him the power to make an independent review has left a great deal of uncertainty among contractors and Government procurement officers as well. We are recommending that this uncertainty be eliminated.

Loans Available.

The T loans, it might be emphasized, have been designed with particular regard to providing quick working cash to the many thousands of subcontractors scattered around the country, pending settlement.

Immediate Payments.

The provisions for immediate payment in full for completed articles, for so-called factual items, and for any other items where agree-

ment is reached, should permit *similar payments to subcontractors down the line*. These payments will be quickened by the Administrative action of bringing the disbursing and inspecting offices of the procurement agencies up to date for deliveries already made.

Another major contribution, reducing the hesitation on the part of the contractor against making payments down the line, is the recently announced Uniform Termination Article which defines clearly the mutual rights and obligations of the Government and contractor on termination. In the absence of such a Uniform Termination Article, confusion and conflict could easily have arisen in the settling of different contracts, particularly between the different agencies.

A Policy of Certainty.

Wherever there has been uncertainty as to the Government's position, we have sought to formulate a policy of certainty. That will continue to be our aim through the remainder of the problem and the development of complete regulations.

Uniform Article for Subs.

To supplement the Uniform Termination Article for prime contractors, already in effect, a shorter, standard termination article for subcontractors is being drafted.

The clarification of the rights and obligations of subcontractors provided for in this article will be a major contribution towards helping prime contractors settle promptly with their subs.

Nuisance Claims.

To further narrow the field of possible hesitation, we recommend that *a minimum figure* be set, below which contractors could settle claims with complete assurance that the claim would be paid in full by the Government. The purpose is to provide a means of quick validation for the multitude of "nuisance" claims, which are great in number but small in aggregate value. As safeguards in using this device, we would require:

- (a) Those receiving such payments to certify against fraud, this certification to be not only by the corporation receiving the money, but also by its officers, making them personally responsible;
- (b) That the contractors, who are given this minimum validating right, satisfy the procurement agencies of the adequacy and fairness of their general methods for making such settlements.

An Adjustable Figure.

Because no one now knows exactly how one minimum figure would work out as against another, we do not believe that Congress should now attempt to set such a figure by legislation. It is recommended, instead, that *authority to establish such a figure be granted by legislation to the Director of War Mobilization*, who in turn would delegate it to the Chairman of the Joint Contract Termination Board. It may develop that this figure will have to be adjusted from time to time on the basis of experience. With this figure properly adjusted, immediate settlement could be provided for a very large percentage of the claims in number, yet involve only a small percentage of the value. Field samplings are being made to get the facts as a basis for a specific recommendation as to what this figure should be.

Direct Settlement.

We recommend that the termination legislation enacted by Congress contain *appropriate authority to permit the procurement agencies to settle subcontracts directly at their discretion*. This is a further insurance of speed in settlement. It will also meet situations where subcontractors, who so frequently have undertaken work at Government request, are threatened with loss through default or insolvency of a contractor in the higher tier. Such direct settlement must be made with the consent of producers in the tiers above, who may have offsetting claims.

A variety of administrative measures are under study in the way of advance planning and pre-termination preparation, simplification, and unification of procedures, personnel training, education and other assistance which will clarify termination settlement and further speed payments to subcontractors.

Company-Wide Settlements.

One proposed solution of the subcontractor's problem deserves particular mention, the so-called company-wide or merged claim settlement. At present, settlements are conducted contract by contract, each contract being handled separately. Under the company-wide plan, the claims of a company would be merged together in one claim, regardless of the number of contracts involved or the agencies of Government holding these contracts and regardless of whether the company is prime or subcontractor.

This approach to the problem has great appeal. All who have studied the idea are agreed that if a workable plan could be found it would have considerable advantages. The difficulty lies in the *"if"*. There has been no administrative experience with this type of settlement and thus far no complete plan for such settlements has been

brought forward. Legislation will be needed on some points before it could be put into operation.

Experiment With Idea.

However, it is not proposed that the idea be dropped. To the contrary, *we recommend that the contracting agencies launch immediately a vigorous experiment, fully exploring its possibilities* and searching for a workable means of employing it wherever settlement would be expedited without impeding war procurement. These tests are likely to develop improvements in the present procedure.

It is also recommended that *Congress be asked to pass appropriate legislation which will permit the use of such a plan*, if it is found sound, and to the extent deemed desirable.

Prompt Clearance.

Next in importance to freeing the working capital of manufacturers is the clearing of plants of Government-owned raw materials, work in process, equipment, component parts, and completed articles, so producers are physically able to take on new war work, or to move in their equipment and materials for producing peace goods. We are recommending prompt clearance of Government property from plants not later than 60 days after the filing of the inventory lists. Manufacturers, further, will be given the right to remove and store this property earlier at their own risk.

This 60-day deadline applies equally to prime contractors and subcontractors. Subcontractors will have to submit their inventory lists to their prime contractors and the 60-day deadline will become effective after these lists are received by the Government.

What to Keep.

These lists will include any property that is allowed for as part of the termination settlement or otherwise owned by the Government. Along with the inventory lists, contractors and subcontractors should indicate what things they would be willing to buy and at what price. Where contracts provide for options, contractors should indicate promptly whether the options will be exercised.

The procurement agencies will decide what is to be sold to the contractor for war or other appropriate uses, what should be taken and sold to other war producers so as to quicken war production. Prices to be paid will be agreed upon between the contractor and the procurement agency, the agency following such broad pricing policies as may be laid down by the Surplus Administrator.

Detailed regulations on clearance will be issued soon. Also it should be noted that the policy on how to handle facilities held by contractors under contracts containing special provisions for disposition other

than those recommended is still under study by a subcommittee of the joint board. The Statement of Policy on Removal and Disposition in Appendix 2 is not intended to cover these.

The goal of 60-day clearance, however, will hold for special facilities and special equipment still under study.

Pre-Termination Planning.

Settlement will be speeded by two broad programs of administrative action being recommended—pre-planning and the simplifying and unifying of procedures.

Pre-planning termination for “X day”—that unknown day of termination of contracts—should permit an advance decision as to what articles are to be finished and what articles are to be stopped immediately with a view to saving every cent possible. The fact that war is essentially wasteful should not be used as an excuse for further waste.

Another part of pre-planning would include the training of contractors’ personnel, the assignment of competent men, and the development of methods for the preparation of the claims in such form as to permit prompt payment. Whatever could be done in advance to lessen the job of disposal of facilities would be helpful. Whatever plans could be made for handling of Government material in the contractors’ plan would likewise contribute to speed in settlement and to the opening up of civilian jobs for workers and returning soldiers.

Simplify Procedures.

The essential function of the Joint Contract Termination Board will be to simplify and unify the procedures and policies of the several procurement agencies, while fully protecting the public interest; also to bridge any gaps in policy or administration between the agencies.

Board Chairman.

At present Mr. John M. Hancock has been acting as Chairman of the Joint Contract Termination Board in order to expedite the formulation of all of these policies. Still to be worked out are policies and plans for other aspects of the termination problem including the possibility of company-wide settlement procedure; settling obligations of Government to the contractor for special facilities; a standard termination article for subcontracts; a similar article for cost-plus-fixed-fee contracts; the possibilities of direct settlement of subcontractors’ claims; administrative safeguards against fraud; the establishment of appeals and review procedure; also the issuance of cost interpretations and manuals of instruction.

Independent Civilian.

When this policy-formulating job is done and the Board becomes an operating organization, a permanent Chairman should be named.

He should be an independent civilian, not representing any of the procurement agencies, and answerable to the Director of War Mobilization.

Among other things, we would recommend that the Chairman of the Board:

1. Receive from all the procurement agencies, current ***reports on the progress of termination settlements***, the numbers of contracts cancelled, amounts of claims submitted, amounts of settlements, volume of claims unsettled, and submit appropriate reports to Congress through the Director of War Mobilization.

These reports, it is hoped, will keep the American people and Congress currently informed on the status and progress of contract settlement.

2. Maintain a running survey of ***the extent to which V and VT loans and the new T loans, when authorized, are being taken out*** by eligible borrowers.
3. Keep ***a constant eye on all aspects of contract settlement*** with a view to recommending any necessary changes to the Director of War Mobilization. This, however, should not be interpreted to relieve the procurement agencies themselves of primary responsibility for initiating changes and improving their procedures as they gain experience.

Field Studies.

If it becomes necessary, the Board Chairman should have a sufficient staff to make field inspections to test the working out of these plans, and he should initiate any suggestions for needed legislation.

Gain Experience.

The current stage of contract termination should be thought of as a period of experience for all of us. Government and industry should prepare to handle the heavy cancellations that will come. Out of this experience will come important procedures, shortcuts. There is no way of replacing confidence and ability by a formula, or instructions.

Contractors' Part.

Speed in settlement is not something that the Government alone can provide. Contractors and their subcontractors must contribute as well in getting themselves organized to handle the problems of termination. They must familiarize themselves with the procedures, get their records in shape, prepare promptly the necessary lists of inventory and work in process, and promptly submit their claims. In the

past an average of four months has been required to get contractors to submit claims.

Contractors should also analyze their own financial positions and see which tools in the financial kit that has been assembled will serve them best and they should promptly utilize those tools. Prime contractors, in addition, must get acquainted with the problems of their subcontractors to get the claims from them as quickly as possible.

Right Approach.

In summary, too much stress cannot be placed upon the importance of the spirit and the attitude in which termination settlements are approached by Government officials as well as war contractors. There is the ever-present need of protecting the interests of the Government. There is also the responsibility of all Government officials to discharge the obligations of the Government with every determination to be fair and reasonable. These rights and obligations of the Government will be covered as fully as practicable and in time the detailed instructions should narrow the field for differences of opinion. Settlements should not be approached by Government or industry except with the purpose of determining what the Government owes the war contractor. The determination should be made with this basis alone in mind.

No Claim Padding.

While no Government officer can be allowed to approve excessive settlements, he is also under definite responsibility ***not to pay less than is due.*** The obligation is ***equally upon industry not to file claim for amounts beyond those genuinely due*** nor to approach the problem of settlement as a trading proposition.

If industry and Government approach this problem in this way, a feeling of cooperation will result which will be a material aid in securing prompt and fair settlement. There should be no occasion for the use of the blackjack by any Government official, nor for resort to refusing to pay what is clearly owed, to force a contractor to accept less than is fairly due him.

In many cases the need of the contractor for the money owed him by the Government will be such that he will have to get the money promptly or close up his business. That will be a factor which ought to encourage the contractor in preparing his claims completely, accurately, and promptly. It likewise is entitled to consideration on the part of Government officials. After all, the net fact is that the Government is holding money which it owes the contractor. Its delay in payment should be only as long as is needed to determine how much is owed, with full protection of the Government's interest.

In this way, the account books on the war can be closed fairly and quickly and the country can go back to its peacetime pursuits.

2. Surplus Property.

In developing our recommendations for the handling of surplus Government property—that is, property in excess of war needs—we were confronted with many complexities. The variety of Government properties to be disposed of during and after the war ranged literally from ships to sealing wax, each with its own problems. No exact determination of the size of these surpluses was possible, nor of the policies to guide the disposition of certain categories of surplus until such questions as these could be answered :

What plants and machinery will the Army and the Navy need to keep as a stand-by reserve for future security?

What plants and camps will be needed for storage and warehousing?

What, if any, non-perishable raw materials produced outside of the United States will we keep as a strategic stockpile—

How large an Army and a Fleet will we maintain after the war?

Will there be universal military service after the war?

These and other questions can be finally determined only by Congress and the President, by the Armed Forces, and in many instances by the terms of the peace settlement.

Surpluses Immediate.

Yet, immediate surpluses are developing which as the war goes on will gain in volume. With the cancellation of contracts, considerable quantities of materials, equipment, partly finished goods, and other inventories will be coming into the possession of the Government. Some of these things will be useful only as scrap. Some will deteriorate if not used soon; others would gain in value if their manufacture were completed. Some things will be needed by other war plants. Sooner or later many can be used to expand civilian production.

Speedy Action Needed.

An organization was needed to take over these surpluses as they were developing, putting them to their best uses, and obtaining a fair return for the Government. The need was all the more acute in view of the importance of prompt clearance of Government property from private plants as part of our program of contract termination.

We also are keenly aware that the next months to come will be the best months for disposal in that they will be the easiest during

which to dispose of things that are needed. An immediate start on the problem could reduce enormously the likely surpluses that would be left for the more difficult months after the war.

Present Inadequacies.

The existing machinery of Government, as now functioning, clearly was inadequate to handle with dispatch these immediate problems, let alone the much heavier accumulation in the future. Yet any attempt to set up a wholly new disposal agency could defeat its purpose. Time would be taken in organizing such an agency. When set up it might find itself bogged down in efforts to deal with thousands of unrelated items. Inevitably, it seemed that such an action would lose the previous months to come.

After weighing the various alternatives, what was needed was this kind of an organization: one capable of dealing with the immediate disposal problems without delay and in doing so gain the experience for handling the greater post-war surpluses; one capable of adequate fact-finding, bringing decision between the agencies on many problems, and formulating recommendations to Congress; one which would have a firm hand, centralizing the control over a widely scattered, decentralized operating personnel to achieve the necessary unified, orderly policy, eliminating competition between Government agencies and to be able to bring to policy considerations the all-important element of timing; yet an organization sufficiently flexible for dealing with the bewildering variety of items and with the different jobs of disposition organized into manageable size.

These needs are met by the new organization we are recommending:

1. ***A Surplus Property Administrator*** in the Office of War Mobilization, named by the Director, with full responsibility and adequate authority for dealing with all of the many aspects of war surpluses.
2. To advise and assist him in developing unified policies for all Government agencies, a ***Surplus Property Policy Board***, representing these agencies: War, Navy, Treasury, Reconstruction Finance Corporation, Maritime Commission, War Production Board, Bureau of the Budget, Food Administrator, Attorney General, Federal Works Agency, State Department, and Foreign Economic Administration. The Surplus Property Administrator would be Chairman with full and final authority. He could call on any other agency, as he wished, in dealing with special problems.
3. The actual disposal of surpluses to be handled by these ***four major disposal outlets***:

(a) ***Consumer Goods***, other than food, to be handled by the ***Procurement Division of the Treasury***.

- (b) **Capital and Producers' Goods**—every type of industrial property including plants, equipment, raw materials, scrap, semifinished parts—to a **central corporation within the RFC**, consolidating existing RFC subsidiaries dealing with Government properties.
- (c) **Ships and Maritime Properties** to the **Maritime Commission**.
- (d) Food to the **Food Administrator**.

Each of these broad types of surpluses involve dealing with different outlets and different market conditions. The agencies have been assigned to the fields of their own experience, where they could proceed to operation with a minimum of delay. In event of questions arising as to which agency is to handle what type of surplus, the Surplus Administrator will make the decision. There should be no overlappings or conflicts in jurisdiction.

- 4. All of these outlets, as well as any other Government agencies assigned special surplus problems, to follow broad policies to be laid down by the Surplus Administrator in consultation with the Surplus Property Policy Board.
- 5. All of the disposal outlets should make effective use of **Industry Advisory Committees** so that regular channels of trade can be used to the fullest extent practicable, with small and large concerns alike participating.

No Liaison Men.

The Surplus Property Policy Board must be made up of men who can see that the policies agreed upon by the Board are carried out in their own agencies.

Board's Functions.

Among the functions to be exercised by this Surplus Property Policy Board, through its Chairman, are:

- 1. To lay down **surplus disposal policies** to be followed by all agencies of the Government.
- 2. To **press for the early disposal** of surpluses in as great a quantity as possible, while the war still is going on.
- 3. To see that complete plans are developed for handling the disposal problems that grow out of contract termination, including
 - (a) utilization of existing agencies to the limit in establishing the necessary field organizations;
 - (b) setting of methods, practices, and policies to govern all transactions by all agencies on as nearly a uniform basis as possible;

- (c) development of the necessary warehousing and storage facilities to implement the prompt clearance of war plants; and
 - (d) development of instructions regarding the preservation, packing, shipping, storage and protection of surplus goods.
4. To develop an effective *redistribution of surplus materials*, equipment, etc., both to improve war production and to speed the program for the resumption of civilian production that is established by the War Production Board.
 5. During the remainder of the war, in cooperation with the W. P. B., to explore the more *critical civilian needs* and enlist the support of the Services in declaring as surplus such items as can be safely released.
 6. To encourage the agencies to *report surpluses promptly*, but at the termination of the war *to dig persistently* so that hidden surpluses will not accumulate in the agencies.
 7. To develop with the Armed Services for the ultimate approval of the President and Congress, a *stand-by program* of plants, equipment, and other properties needed to be held in reserve for future security.
 8. To arrange for *transferring of Government property* from one agency to another where necessary to carry out the policies that are laid down, so that the shifts are made with a minimum of interagency negotiation and bookkeeping.
 9. To explore the uses of these surpluses within the agencies of the Government, arranging for *an effective coordination of surpluses and purchases* so that new purchases will not be made where they can be satisfied from existing surpluses.
 10. As far as is reasonably possible without diverting from the prosecution of the war, to devise such effective methods of *inventory controls* within the various agencies as to
 - (a) develop the possibilities of early declarations of surplus, and
 - (b) insure that inventories on hand are not swelled except where needed.
 11. To plan for the handling of future surpluses; as far as possible *organizing the demand for such surpluses in advance*, as for *foreign relief and rehabilitation*; for *states, counties, and municipalities*; *educational and other institutions*; and other claimants.
 12. In cooperation with the State Department and Foreign Economic Administration, to develop the possibilities of *disposing of surpluses abroad*, balancing this with the need of

improving the efficiency of our own productive plants and with other domestic needs.

13. So as to realize the greatest possible yield from this property, to determine how property coming into the possession of the Government can be *reprocessed and completed* before disposition.
14. To develop in cooperation with the War Production Board, a *policy for stockpiling* both for the rest of the war and after, having in mind the problems of later disposal.

Surpluses for Use.

The membership of the War Production Board on the Surplus Property Policy Board deserves particular notice. Since the uses of surpluses and new production will often be interchangeable, there must be the closest cooperation between the Surplus Administrator and the War Production Board. The Surplus Administrator should guide disposition so as to quicken war production and speed the resumption of civilian production in the pattern laid down by the WPB. The WPB, through its control of requirements and other aspects of the production program, must prevent the unnecessary accumulation of surpluses. WPB must also keep the various production limitation orders under constant review to see that they do not necessarily hinder disposition by unduly limiting the use by potential buyers.

Adjust Controls.

Unless these control orders are relaxed promptly when they should be, much of this surplus property will move into warehouses and may not be brought out until too late to help in war production or in speeding the resumption of civilian employment.

We recommend, in particular, that the WPB and Surplus Administrator, between them, work out a means by which small quantities of surplus materials can be promptly disposed of so as not to get involved in rehandling or storage problems or tight priority interpretations. Otherwise the clearance of private plants will be hindered and unemployment will result.

Existing Field Force.

There is now in existence an efficient field force of the various agencies, including Army and Navy representatives in individual plants, salvage officers, field redistribution officers, procurement officers, etc. All of this personnel and machinery should be available for the carrying out of the disposal policies that are developed. No new enormous field organization needs to be or should be created.

Legislation Later.

We are recommending that this organization be established by Executive order for the time being, only because of the need for speed in handling the immediate problem and of gaining experience in the actual administration of the problem; also for developing the machinery through which the various agencies will have to work together on these problems. Ultimately Congress will have to lay down the basic policies for the disposal of these properties. Accordingly, we are recommending:

That the Surplus Administrator maintain a continuing study of the surplus problem and report to Congress on needed legislation as soon as possible.

Further Centralization.

We would not want our recommendations for handling the immediate disposal problems to seem to rule out a still further centralization of the handling of disposal if experience with the problem in the coming months indicates such a centralization desirable. By bringing the problem under a firm, managing hand, our recommendations should facilitate a smooth transition, without loss of efficiency or time, to any set-up that Congress ultimately decides is best. If any such action comes under consideration, we would stress again the importance of keeping the disposal job to a manageable size.

Most Important Choice.

The question was asked by one member of the Senate Post-War Planning Committee whether there could possibly be a more important post, affecting not only the well-being of America but also of the civilized world, than that of this Surplus Administrator? The answer was "No." It should be added that few Government posts are more difficult.

Prevent Unemployment.

Proper handling of surpluses will be a most significant factor in preventing inflation, speeding reconversion and avoiding serious unemployment. It could make a difference of billions in the size of the national debt.

Boldness will be needed in disposing of surpluses promptly while civilian shortages are acute; **caution** to obtain the full value and to slow sales when they threaten to disrupt normal trade; **wisdom** to give proper balance to long-time security factors.

Courage Vital.

The Surplus Administrator should be a man of proven executive capacity and business sagacity to deal with the multitude of problems that will arise in the sale of an endless variety of products and changing market conditions. He should be a man of character, unquestioned integrity, and great courage to fight off all the selfish interests that will be seeking to exploit these surpluses.

No Formula Possible.

Whatever policies are laid down by Congress, no formula or statute can be adequate in this situation. In the final analysis we will have to depend upon the judgment and ability of the best men who can be gotten for the job.

We are recommending placing the Surplus Administrator in the Office of War Mobilization, to insure the best use of surpluses for the war and so that the Administrator will have the immense authority of the Director of War Mobilization behind him in doing his difficult job.

Leasing Needed.

In general, outright sale will be preferable. The disposal agencies, however, should have authority to exchange properties and to lease as well as sell; also to sell on credit and not simply for cash. The authority to make exchanges will be important in replacing obsolescent equipment with the most efficient, modern tools, and in unscrambling cases of mixed Government and private ownership. Leasing and credit arrangements will assure smaller enterprises opportunities that would otherwise be denied them. Leasing will have the further advantage of providing a means of bringing plants and equipment into immediate use, pending the determination of the value and completing the selling arrangements.

A Warning.

This red flag of warning is raised. *Leasing must not become a hidden device for the Government to compete with private plants; it must not become a hidden device for subsidies—by any name—to anyone.* Once plants leave the Government's hands they must stand on their own feet competitively.

Small Lots.

Surpluses should be offered in lots of such size as to permit small businesses, as well as large ones, to participate. Membership of the advisory committees helping the disposal agencies should be balanced

both as to size of business represented and the different regions of the country.

The advice and aid of the Smaller War Plants Corporation should be drawn upon to make certain that small business is effectively represented on the Industry Advisory Committees. Should the Smaller War Plants Corporation desire to do so it can further assist in acquainting small businesses with the surpluses that will be available and in aiding small enterprises to acquire such properties.

Shortsighted Extremes.

Discussion of surplus policy generally has swung between two extremes. At one extreme have been those who would dispose of surpluses at any price, simply to get rid of them, no matter how disruptive the effects. The opposite extreme would sell nothing, proposing either to hold the goods off the market indefinitely in warehouses or to destroy them by sinking them into the sea.

We would urge upon the Surplus Administrator a middle course between these two extremes of dumping or freezing—the middle course of wise and carefully timed disposal. Let us keep in mind that these surpluses, properly utilized, represent tremendous wealth to ourselves and to others.

Keep America Strong.

American industry will want to purchase much of this surplus equipment which is modern and efficient, to replace older, obsolete equipment so as to improve our national industrial efficiency upon which our high wage and living standards rest. Before selling this equipment abroad, these possibilities certainly should be fully explored and plans developed early for the sale of the equipment to such users when fair values can be realized.

Timing Vital.

Timing will be of the essence in the disposal. While the war is going on and, in many instances, even until civilian industries are restored to volume production, it will be comparatively easy to dispose of things at good prices and little disturbance to the trade. The Surplus Administrator should sell all he can as early as he can, reducing proportionately the quantities of surpluses which will be left for the more difficult post-war period and saving handling and storage charges.

Wartime costs for many Government properties will bear little relation to peacetime values. Expensive tools or equipment for highly specialized war uses may be valuable only as scrap. Plants have been erected at inflated cost levels. We must face squarely the fact that heavy dollar losses will have to be taken on some properties as part of

the necessary cost of war. In this connection we have asked that a study be made comparing war construction costs with more normal peacetime construction costs and this information may help the Surplus Administrator in developing fair appraisal methods.

Lower Debt.

All of the war surpluses will have been paid for by the American public either through war taxes or the increase in the national debt. Therefore, the proceeds of all sales should go to reduce that debt, lowering the post-war carrying charges which will have to be met through taxation. Certainly no agency should be permitted to sell surpluses and use the proceeds for other purposes.

The fact that surplus sales will lower the debt dramatizes an important point which some business groups are inclined to forget. The net result of an effective disposal program will aid *all* business; which is an important consideration to be balanced against the possible short-term effects of individual sales.

Local Ownership.

Local groups can be expected to offer to take over Government properties in order to stimulate community industries. As long as fair selling prices or fair rentals are paid—with sales preferable to rentals—local ownership should be encouraged. To repeat—no wind-fall subsidies should be given anyone.

It will not serve the national interest to sell any one plant at such low prices as to destroy the invested values and displace workers in whole established industries. Were such transactions to be permitted as a matter of policy, a community might gain a new industry in one deal, only to lose an established industry through a similar deal favoring some other part of the country.

The national interest must govern in all surplus disposal. Local or particular trade interests, while receiving full hearing and full consideration, must be subordinated.

Goldfish Bowl.

A "goldfish bowl" policy should be followed in all sales. The facts on all sales should be made a matter of record open to public inspection at the point of sale. Each of the disposal agencies should submit reports, summarizing these sales regularly to Congress, through the Surplus Administrator.

No Speculation.

The billions of surpluses can be expected to bring out speculators, promoters, and others of the ballyhoo craft. Sales or rentals to speculators or promoters should be barred. The American people would be

well-advised not to invest any of their hard-earned savings in any schemes, syndicates, etc., which will seek to exploit and make huge profits out of the traffic in Government properties. The Government should be its own selling agent. In all disposal, preference should be given to those who will use the property, whether plants, machinery, or consumer goods, for the greatest good. Cooperative buying by legitimate distributors should be encouraged.

Much property will have to be disposed of locally to avoid the expense and trouble of rehandling and shipping. This fact points to the danger that priority and other control orders, too rigidly applied, may prevent effective disposal. Some means will have to be developed to permit quick local disposition of those things that must be disposed of on the spot.

Flexibility Vital.

All of this emphasizes anew the indispensability of administrative flexibility.

Our own suggestions to the Surplus Administrator are summed up in the ten basic rules put forth in our report. (See p. 24.)

Real Property.

Real property holdings of the Government present a peculiarly tangled disposal problem both in the variety of properties embraced, from agricultural lands and plant sites to cantonments and hotels, and in the overlappings of both the administrative agencies and existing legislation. We are recommending:

That the Surplus Administrator have a study made of the question to determine how best to centralize the handling of real property—if possible in one agency—including the appraising, acquisitioning, recording, and abstracting functions.

The possibilities of beginning to liquidate holdings no longer needed for war should also be explored. The Surplus Administrator should report to Congress and the President with recommendations as to the administrative and legislative changes desired.

War Housing.

War housing, for the present, should be left with the National Housing Agency which has been given the specific power of disposal by Congress and is best suited to balance the disposition with the construction of new housing. Should the real-property study reveal overlappings they can be handled later either administratively or by legislation. The Surplus Administrator should use any Government agency for disposal of any special type of surplus.

Good Housekeeping.

The Bureau of the Budget is placed on the Surplus Property Policy Board because it was the logical agency to provide for a continuity between the disposition of war surpluses and the longer-time, permanent problem of good housekeeping and improved management of all Government property.

No Monopoly.

The Attorney General is placed on the Surplus Property Policy Board in recognition of the importance of disposing of Government surpluses so as to lessen rather than increase monopoly.

Surpluses Abroad.

The program recommended here has been developed for handling surpluses within the United States only. In addition American properties abroad will have to be disposed of, including installations of various kinds, equipment that may not be desirable for shipment back to this country, lend-lease surpluses, etc. Further study is needed both of the kind and value of such property likely to be surplus; the policy problems involved; the best organizational procedures. The membership of the Surplus Property Policy Board is such that it seems an ideal body to make such a study and develop the necessary recommendations on policy.

Inflation Bulwark.

Possession of all these surpluses at the end of the war will be a most important defense against inflation, not simply in their balancing effect on prices but in that they represent vast usable resources which can be brought into the market quickly to stimulate production and trade.

Improve Arsenals.

As one aspect of developing the stand-by program for the Armed Services, Government arsenals and shipyards should be brought to the highest technical level through the replacement of any obsolete machinery with the new and more efficient equipment that has been produced during the war.

Special Plants.

There is one group of newly built war plants such as those for aircraft, aluminum, magnesium, and synthetic rubber, where special considerations are all-important. These are industries where the Government investments are so huge that the disposition of Gov-

ernment-owned facilities could decide the fate of the entire industry; or where questions of military security are paramount; or which may be part of the settlement of the peace.

Sales in these fields will not involve a matter of selling so many single plants but require the formulation of public policy on an industry-wide basis.

Plant Breakdown.

While on the subject of plants, it might be helpful to bring into sharper focus the dimensions and nature of these Government-owned plants. The Government's wartime investment in new plants and new machinery amounts to roughly \$15.5 billions. Nowhere near all of this, however, represents a disposal problem.

Between \$1 billion and \$5 billion is invested in plants specially designed for the manufacture of munitions and which would have little or no peacetime prospects, such as smokeless powder, ammunition loading and shipways. Most of these facilities are likely to be kept in stand-by condition as a reserve for future wars and will not come onto the market.

Nearly \$1.5 billion more of the Government's investment is represented by improvements or expansions in arsenals and Navy Yards which are operated by the Government at all times, through peace and war.

Peace Prospects.

Under \$10 billion is left of the Government's investment with peacetime production possibilities. This falls into three broad groupings: (a) A little more than \$1 billion in so-called scrambled plants; (b) about \$5.5 billion in industries which can produce for peace as readily as for war, requiring chiefly markets (this would include such industries as steel, chemicals, gasoline, machine tools, electrical equipment, synthetic rubber, and industrial components); and (c) slightly less than \$3 billion in plants which could be converted to peacetime production but only after some physical alterations and change-over. This would include airplane, aircraft engines, tanks, munitions, and assembly plants. Some of these plants are likely to be kept as stand-by reserves; others will need to be used for storage and warehousing.

While this still leaves a disposal problem that will have to be handled with wisdom and efficiency, it is a more manageable problem than the total figure of Government investment in plants would indicate offhand.

Size of Plants.

The great size of the Government-owned war plants that are to be disposed of will present many difficult problems and is one reason for our emphasis on giving the disposal agencies power to lease as well as sell. The average cost of Government-owned plants erected during the war is \$6 million apiece; 70 percent of the Government's total investment is in projects costing over \$10 million apiece; 12 percent in projects of \$100 million plus, each. Leasing on a fair basis will widen the opportunities for independent and local groups to take over some of these plants.

Subdivide Plants.

Studies should also be made as to the possibilities of subdividing the very largest units. Nor is the dollar cost to the Government a true yardstick of their real value, since many of these plants were erected at high war costs which bear no relation to their potential value in use by industry. Some are so disadvantageously located as to be unable to compete.

Wide Publicity.

Brochures describing the various plants to be disposed of are under preparation. When completed, *they should be given the widest publicity so that all who are interested can make their bids.*

3. Tightening the Mobilization Machine.

At the present stage of the war, preparations for demobilization are inseparable from the actual conduct of the war. The demobilization or unwinding of our war economy can best be done by the same agencies which wound up our industrial mobilization. These agencies have the experience and the know-how, the feel, and touch with all these problems, and with Government and industry. By industry we mean industry in its broadest sense—labor, management, and capital, whether it be on the farms, in the mines, in the factories, in civilian activities, or in governmental service.

New For Old.

The existing agencies not only have the basic organization for adjusting their programs to the changing conditions of the war, but also are constantly called upon to do so. In most instances of contract cancellation to date contracts for new weapons have been given in place of those cancelled. When the Armed Services cancel one weapon because of a change in strategy, they know best what other weapons need to be made and which can replace cancelled production.

Dividing Our Resources.

From the start of the war, the industrial machine has been making war and civilian goods, with first call going to war and essential civilian requirements; and what is left over going for civilian goods. So it must continue until the war is won. As war needs slacken, more can and should be made available for civilians. The dividing of our resources has been—and remains—the responsibility of the War Production Board which has full powers to do the job.

Over-All Direction.

The necessary over-all direction in dealing with the many problems of transition is the function of the over-all mobilizing authority—the Office of War Mobilization. The Office of War Mobilization can see both the mobilization and demobilization as one whole, laying out the tasks assigned to each of the operating agencies, eliminating overlappings and conflicts of functions, and making certain that no problems fall undone between the agencies.

Primary responsibility for formulating plans and for carrying them out in the fields assigned them must rest with the different operating agencies where the governing facts are available. As now, the Director of War Mobilization is available for clarifications of policy or appeals by one agency against the decision of another.

New Agency Unwise.

No new Office of Demobilization could do these many jobs as well as the existing agencies, working in unison. In its operation such a new agency would have to cut across all existing agencies and could hardly avoid coming in conflict with every war agency. It would hinder the prosecution of the war. By the nature of its assignment, and being removed from war responsibility, it would tend to pressure for quickening demobilization for its own sake.

With the bloodiest fighting still to come, we cannot permit any compromise, either among our people, in the country or in the Government, with the fact that war needs come first.

Staffing Difficult.

Nor are the difficulties of creating and staffing a new organization fully appreciated. At present, there already are so many Government agencies that the best available men already are pressed into service.

Compact Staff.

A small staff set up in the Office of War Mobilization and using the existing agencies, carefully assigning to each its responsibilities and duties and supplying general supervision, can do more than any new great operating or semi-operating agency that might be created.

Cut Out Overlappings.

There may come a time later when a new, clearly post-war agency will have a place, particularly in liquidating present war agencies. That is one reason why we have recommended that the Director of War Mobilization, using the Bureau of the Budget, maintain a constant study of the functions of all war agencies to eliminate overlappings, discontinue unnecessary functions, merge or transfer units for greater efficiency, preparing ultimately to liquidate what is left of war agencies.

All that we have said against the creation of a new agency does not mean that we do not believe that Congress should lay down the broad policies and measures for these various agencies to follow in dealing with the different demobilization problems. Any additional legislation required should be enacted promptly by Congress.

Tightening Needed.

Nor does our opposition to a new demobilization agency mean that we are entirely satisfied with the existing machinery of the Government. To the contrary, we believe that a general tightening up of the war machinery is necessary—both for mobilization and demobilization. The changing conditions of the war in this respect can be

pictured as dislocations that loosen the war mobilization machine and there must be a steady tightening up.

Requirements.

In addition to the running review of war functions, we recommend these further tightening up measures:

1. A running conspectus to be maintained by the Office of War Mobilization of the progress being made by the agencies on the special tasks assigned them.
2. Intensification of the fine work, so little known by the public, that has been done in the past seven months by the review boards, organized through the Director of War Mobilization, in screening the Services' programs so as to cut out requirements beyond actual needs.

This is in recognition of the fact that there is no sense in producing tools of war, far beyond what is needed to defeat the enemy. Weapons of war quickly become obsolete and possession of great quantities of such weapons would fool us into a false sense of security in the after-war. The cuts already effected by these review boards total many billions. The potential benefits from sweating down the programs, in avoiding the waste of material, manpower, and facilities used to produce unneeded war goods, at the same time permitting increased production of needed goods; the effect of those goods in lessening the dangers of inflation; the reduction in the dollar cost of the war, lowering the national debt, and the cost of carrying that debt which must be met through taxes—these great benefits warrant the aggressive prosecution of your reviews and their extension to any field so far untouched.

3. Improvement by the Armed Services and the War Production Board of their methods of working together, particularly in the handling of the problems of demobilization, contract cancellations, and the resumption of civilian production. Conflicts and indecisions in demobilization can be more costly than they were in mobilization.
4. Strengthening of the Industry Advisory Committees in the War Production Board, their functioning and membership. All other Government agencies should use the same committees.

Industry Committees.

In these industry committees the Government will find the best groups to advise on all of the many problems of industrial demobilization, particularly on the resumption of civilian production while still maintaining the war program. These committees should be representative of both small as well as large interests and of all parts of

the country. When carrying out what the Government requests of them, these committees should have the present protection under the Anti-Trust law, through the full transition period. Capable of great good, they could be a source of abuse, and care must be taken to prevent the abuse of the privileges and responsibilities placed upon them.

Exchange Information.

5. Since the Armed Services will know first the changes in the program dictated by strategy or war events, it is most important that the Services furnish the civilian agencies full information in adequate time for these agencies to plan their share of the adjustments to changing war conditions.
6. The civilian agencies, in turn, must organize themselves to receive and use this information effectively.
7. Closer cooperation between the War Production Board and the Office of Price Administration to insure the prompt adjustment of price controls when and where needed, to avoid delaying the resumption of civilian production.

Foreign Policy.

We also invite attention to the growing impingement upon mobilization and demobilization problems of foreign policy, diplomacy, and treaty matters.

Trial and Error.

There must be a constant refinement of policies and methods, and appropriate legislation through trial and error experience. And in this experience there must be the closest cooperation by all of the agencies with Congress. In our own inquiry we have found the committees of Congress most cooperative. Many of our recommendations were inspired by suggestions from members of Congress.

Balancing the Program.

All that we have said earlier about the great benefits from the fine work being done by review boards in screening military requirements, holds with equal force to every other aspect of the war production program. It argues the need for *an early, equally effective review* of the programs for the production of raw materials, for stockpiling, for imports, for subsidies, premiums, and other devices to stimulate marginal production. To continue any of these programs beyond their need is a waste of resources. It prevents the production of more of what is needed. It adds to the federal debt. It increases the demobilization problems.

Always this must be in the fore—the program must be kept in balance.

Expand Uses Or—

Civilian uses for materials left after war needs are met should be expanded or, if that cannot be done because of a lack of manpower or manufacturing facilities, the production or import of these primary materials should be cut back. This will release manpower and facilities for a new balance of the program at a higher level.

Decide Now.

Failure to make the necessary decisions promptly will make later decisions more difficult. On the other hand, by keeping the programs in constant balance—inventory and planned acquisition on one side and prospective demands on the other—we will be able to carry the economy through the transition period with successively higher utilizations of our resources.

Stockpiling Trouble.

Some short-sighted persons will oppose prompt decisions in the hope of continuing unnecessary production. We call them short-sighted because they are only borrowing employment from the future when it will be needed, and using it up in the present when there is more work than all of us can do. Unneeded stocks of raw materials, beyond the margin of military safety, will hang over the post-war market, depressing future production, employment and prices. It will be stockpiling trouble for the future.

Strategic Reserve.

A distinction can be drawn as to those strategic materials which ordinarily are not produced or are produced in small quantities in this country. Such materials can always be utilized for future war needs, for peacetime production, or be held in a strategic reserve. While not unduly alarmed at the physical size of such stocks, we do feel that the timing of their acquisition can be most important. Present high costs argue for restricting such stocks to no more than a reasonable margin of safety above current needs. Also the purchase of these materials, deferred to later years, can be a helpful factor in stimulating international trade when such a stimulus could be vital.

“X Day” Planning.

The handling of current cancellations and the advance planning for the “X Day” on which Germany is defeated both require the closest working together of the military and civilian agencies. Some excellent work is being done by the military, and this information should be fully available in adequate time to the civilian agencies.

But these civilian agencies must organize themselves to put the information to use.

As far as is practicable—and such planning has its limitations—this “X Day” plan should seek to estimate cancellations in advance, the industries affected, and the resources likely to be released; make tentative selections of the industries and plants to be freed, weighing how these selections can be guided to improve war efficiency and to make for the speediest resumption of civilian production and the smoothest transition to peace.

Many Benefits.

Effectively carried through, we can visualize many benefits from this “X Day” plan. Contracts can be scheduled better so more of them will run out in orderly fashion and not have to be terminated when uncompleted. Some items likely to be cancelled will be found in demand by other agencies. In such instances arrangements can be made to transfer the uncompleted portion of the contract, avoiding terminating the contract with all the difficulties of settling, only to let another contract for virtually the same goods. This will be particularly important in the field of textiles and ordinary consumer goods.

Review of Controls.

As one part of the adjusting to changing war conditions—and this applies both to current adjustments and to those being planned for—all war production and limitation controls should be brought under early review to determine under what conditions these orders can or should be modified.

This general observation might be made. In the mobilizing for war it was always safe to err on the side of stringency in control, since one knew that rising war needs would demand ever tighter controls in the normal course of time. In the unwinding the reverse will be true. Lessened war demands will result in an extra loosening of the situation, since there will be a tendency to reduce hoards, to hold back on advance orders, and so on.

A further improvement in the shipping situation, freeing the seas to new goods, could cause many shortages to disappear almost overnight.

Therefore we stress an “early” review, since by the natural inertia of time the adjustment of controls will not be made as quickly as warranted.

Extend War Powers.

As is pointed out in the section dealing with surplus property, the adjustment of these controls will be most important in the effective

handling of surpluses. Until the law of supply and demand can function once more the basic wartime controls will have to be retained. All war legislation due to expire and which still is needed should be promptly extended.

During 1944 the Price Control Act will expire; also the requisitioning power given to the President; and the priorities and allocations powers on which the functioning of the War Production Board rests. Each of these laws is a vital necessity, both for the continued prosecution of the war and for our return to peace. Failure to renew these war powers would be a crippling blow.

In addition to these, other war powers may have to be extended. We have asked the Attorney General to make a study of the war powers of the different agencies to determine when these powers will expire, which can be allowed to elapse, and which should be extended. This is a field which the Committees of Congress may want to study, as well.

Resources Forecast.

In general, materials and manufacturing facilities both are likely to be looser than manpower, even after the collapse of Germany. We shall have to continue to strive unceasingly for a better utilization of manpower, for an end of strikes that waste manpower, and for a better balancing of contracts against available manpower. We have watched with interest the extension to other parts of the country of the "labor budget" plan proposed last September for the West Coast. Depending on the effectiveness that the local people can bring to the plan in the different communities, they will find in the "labor budget" a valuable instrument in shifting from war to peace.

Civilian Preferences.

To guide the swiftest resumption of civilian production, when and to the extent that it becomes possible without interfering with the war, an advance listing should be made of those civilian needs which have been restricted during the war and which are to have preference in the opening up of civilian supply. Highest priority naturally will be given those things which contribute directly or indirectly to improved military efficiency, such as vital repairs, expanded transportation, or improved maintenance.

Two Limiting Chains.

In thinking of the resumption of civilian employment, two important *chains* of production must be kept in mind—the *chain of materials*, and the *chain of integration of American industry*. Many civilian articles require a combination of materials and their production may be blocked by the lack of one or two of those materials

Again, some manufacturers will not be able to resume production because they are makers of parts that are dependent upon the release of major assembling units.

Fair Competition.

As far as possible, no manufacturer should be permitted to jump the gun on his competitors. Efforts should be made to treat all alike. It may not always be possible to do so, however, and industrialists must understand that this objective cannot be allowed to interfere with war requirements or to hold back the production of needed civilian items and so to contribute to inflation and unemployment.

Physical Reconversion.

This should be said about the term "reconversion" itself. Only a small proportion of American industry will have reconversion problems in the true meaning of the word, in that they will have to change over their plants physically to shift from war to peace production. There will be no such problem in the basic food industries, in textiles, and other nondurable goods. The problem will be confined chiefly to durable consumer goods, where the greatest physical conversion to war has taken place.

A detailed study of the specific industries affected by reconversion problems is now being made. Preliminary estimates indicate that at most only 20 percent of our industrial capacity will have these physical change-over problems. Other industries will have the simpler reconversion problems of changing over from war goods to peacetime goods, with no physical change required in the plants.

Advance Tooling.

Reconversion will be quickened and possible unemployment offset proportionately if those industries which have retooling problems in connection with peacetime output are permitted to secure their tools in advance of the end of the war. The facilities for making such tools can be expected to be available in time. This, along with the proper use of Government-owned surplus tools, should meet the needs. Similarly reasonable quantities of materials that will be wanted for testing for new products should be released.

The Human Side.

Tightening up is needed so that proper attention will be given the human side of these demobilization problems.

The war has brought abnormal conditions of employment which have given rise to human problems which become reflected in every situation requiring administrative or legislative decision. These problems cannot be separated from the others. They will be greater or

smaller directly according to the way in which such programs as contract termination, surplus disposal, the mustering out from the Armed Forces, public works, social security, education and benefits for veterans, and international agreements are handled. There is no way of isolating problems of human interests from others. But there is no necessity for losing sight of the personal element in any of the fields of adjustment—and there will be no excuse for ignoring it.

“Work Director.”

Returning soldiers and sailors, war workers, and the population at large deserve to have their individual and collective interests discussed and acted upon through channels more efficiently geared for effective action.

It is our hope that the new “Work Director,” whose creation we recommend, will see that the machinery for centralizing, planning, and action is effected so that the human element is not lost sight of.

For lack of a better title, we are calling him Work Director. His duties will embrace far more than the title indicates, for his will be the responsibility of finding every possible way in which the opportunities for individual Americans to pursue their chosen peacetime pursuits may be broadened so as to benefit the population as a whole.

Most of our veterans will be seeking jobs in the open employment market; others who are disabled can find encouragement mending their broken nerves and bodies through special occupations which return them also to useful peacetime work. Still others will be eager to return to colleges or take up vocational training instead of a job. There is at present a scattering of efforts on the part of many agencies to plan for the veterans' return. The important point at which civilian plans must be coordinated with the military in the demobilization of men and women in the service is a crucial one and it is now the final responsibility of no one agency.

Our Labor Force.

The abnormal increase in civilian employment and the geographical shifts of the national labor force must be dealt with in our preparations for peace. It is impossible to predict the size of the post-war reduction in our labor force at this time, for many factors still are unknown. They include the size of our peacetime Army and Navy; number of casualties; number of women returning home; retirement of older people and younger workers; number of veterans returning to school or going into vocational training.

PART V

Uniform Termination Article.

JANUARY 8, 1944.

For the Press.

The Director of War Mobilization today issued a directive to all procurement agencies making immediately effective a uniform article for the termination of Government fixed-price war-supply contracts, and a statement of principles to be followed by such departments in determining costs.

The directive was based upon a recommendation by Mr. B. M. Baruch and Mr. John Hancock. Mr. Baruch is in charge of the special unit in the Office of War Mobilization established by Director Byrnes to deal with war and post-war adjustment problems. Mr. Hancock is associated with Mr. Baruch in that work and is Chairman of the Joint Contract Termination Board, composed of representatives of the various departments, which Board has agreed to the article and the statement of principles today made effective for all departments.

In releasing the recommendation of Mr. Baruch and Mr. Hancock, Director Byrnes stated that the Office of War Mobilization would keep in touch with the various departments in order to see that the policies adopted were made effective. He said that the unit headed by Mr. Baruch had made great progress in considering other phases of contract termination and in the development of policies to govern the disposition of surplus property.

Director Byrnes said it was an important step toward eliminating the delay in a contractor getting his money and delay in the employee getting a job.

Statement by Director of War Mobilization James F. Byrnes.

JANUARY 8, 1944.

Letter from Mr. Baruch and Mr. Hancock to Director Byrnes, Transmitting the Uniform Termination Article and Statement of Principles on Cost Determination

Herewith we are transmitting with our approval, and the recommendation that they be made effective, a Uniform Termination Article for Government fixed-price war-supply contracts and a Statement of Principles on the Determination of Costs which have been drafted and unanimously agreed upon by the Joint Contract Termination Board, established at your direction on November 12, with representatives of the major war procurement agencies—War and Navy, Treasury, Maritime Commission, the R. F. C. subsidiaries, and the Foreign Economic Administration.

To facilitate war procurement and because of the need to insert this Termination Article into new war contracts and to give contractors the earliest opportunity to have this article included in their existing contracts, the joint board has asked that the Termination Article and Cost Statement be announced immediately, in advance of the broader program of contract-termination policies on which we are working and which we will recommend to you.

Defines Rights.

This Termination Article and Cost Statement deal with only two of the many aspects of contract termination policies. They fill a long-felt need for a clear definition of what are the rights of the Government and contractors when war contracts are terminated; a definition that will be fair to contractors while protecting the Government, and the same definition to bind all of the war procurement agencies.

The Termination Article and Cost Statement are not intended to cover and should not be confused with the many other aspects of contract-termination policies including such questions as payments and loans, settlement procedures, the keeping of adequate records, and protection of the public interest, the special problems of sub-contractors, appeals, company-wide settlements, the disposal of property, and the need for legislation. All of these problems are enmeshed in many difficulties which are being cut through and will be reported on to you.

Unifies Procedures.

The fact that the termination provisions in Government war-supply contracts are to be simplified and made uniform is an important contribution to and can be described as the first step in developing a full set of clear-cut, workable policies on contract termination; but it is only the first step.

We trust there will be no speculation that our release of this Termination Article reflects a belief in an early end of the war. Contracts are being terminated and settled regularly as the needs of war change. The unifying and simplifying of the Government's contracts is a war measure, as well as a preliminary step in preparing for demobilization.

Quick Payment.

To clarify some of the questions that are not covered in this Termination Article and Cost Statement, our objectives on some of the unsettled problems might be stated:

1. How to apply the principles of this Uniform Termination Article to Subcontractors is under careful consideration. A number of serious administrative problems are involved that require further study. Our objective is to have the same principles of contract settlement apply to subcontractors as well as prime contractors.

2. As to payment, our object is quick payment of what the Government owes so that our great productive capacity can be fully utilized for war and peace—destroying the dangers of unemployment and inflation.

3. The development of the necessary safeguards to protect the Government's interest in both the settlement of contracts and the disposal of property, including not only adequate records but also protective methods for the prevention and detection of fraud.

Prompt Clearance.

4. On the clearance of Government-owned materials and equipment from the plants of both prime and subcontractors, we have set for ourselves the objective of assuring prompt clearance with a dead line of not later than 60 days after the filing of inventory lists, and with manufacturers having the right to remove and store this property at an earlier date at their own risk.

Manufacturers will benefit from having this termination article in their contracts. It will assure uniform handling of their claims by all of the agencies with which they have contracts, eliminating possible conflict and confusion over varying contract provisions; it will make for swifter and more equitable settlement, give manufacturers a clear definition of their rights; reduce litigation.

Long-Felt Need.

The desirability of having a Standard Termination Article for all agencies has been generally recognized. It has been advocated by business groups, independent organizations, the procurement agencies themselves as well as several important committees of Congress, including those headed by Senators George and Murray.

Efforts to develop such a uniform termination clause have been going on within the Government for more than a year and a half. The fact that agreement has been obtained in these last weeks is a tribute to the fine, cooperative spirit with which the Joint Contract Termination Board and its staff has functioned and to the preparatory work that has been done by the other agencies, particularly that done under the auspices of the War Production Board.

Protect Public Interest.

The article applies only to domestic contracts, not foreign. Consideration is being given to certain other exceptions and an approved list of such exceptions will be issued soon. Obviously, where the sums involved are so small or the time of the contract is short, the termination article is not needed.

In drawing up this article, the joint board was under instructions to protect the Government's interests fully, not giving contractors more than they are entitled to under existing contracts, but to assure them their just and fair rights. The termination article necessarily is a merging of the many types of contract termination provisions that have been used by the agencies and will not fit all cases perfectly. Differences between this article and existing contracts will be outweighed by the advantages of the unified, simpler, and speedier procedure for settling contracts which this uniform termination article makes possible.

Workable Principle.

Both the Termination Article and Cost Statement are confined to broad, workable principles, with details left to be covered in administrative regulations, manuals, and instructions. Many points were not included because they were questions of detail which will require constant refinement in the light of experience and could be handled best by regulations which can be revised readily and which are more easily adjusted to special cases.

Briefly summarized, the Termination Article provides that the Government may terminate a prime contract at any time by giving notice, which is the common provision in existing contracts. What the contractor must do on receiving his termination notice is set forth. Contractors will be paid for all completed articles at the contract price.

Two Settlements.

Two types of settlement are provided for: One, for the contractor and the Government to agree upon a fair and reasonable settlement through negotiation; the second, if such negotiations prove unsuccessful, for settlement through the application of a specified formula.

Profit Formula.

Of particular interest, is the margin of profit allowed on work which the contractor has begun but has not completed. Clearly, the simplicity of a flat, uniform rate of profit would yield enormous administrative benefits in easing the problems of settlement for both contractors and the Government. However, under certain conditions, a single flat rate might give excessive profits, as where a manufacturer's costs consisted largely of assembling an inventory of raw materials.

Accordingly a profit formula was devised which (a) limits the aggregate profit in all cases to a maximum of 6 percent, and (b) further limits to a maximum of 2 percent the profit on unprocessed inventory, and only to the extent that this inventory is properly allocable to the contract. Both these rates of profit are maximums and there will be instances where only a fraction of a percent profit will be allowed on raw materials. Obviously no profit will be allowed except on work done or cost incurred.

We have felt that it would contribute to fair and speedy settlement, with protection for both the Government and the contractor, to set forth a specified, though not too rigid, yardstick for measuring profit.

Allocable Costs.

The Cost Statement is based upon the recognition only of those costs that are properly allocable to the contract and only to the extent that they are quantitatively reasonable for the performance of the whole contract. In determining these costs, recognized accounting practices are to be used. The Cost Statement goes further to clarify some of the uncertainties that have arisen in the minds of contractors as to which costs are properly allocable to the contract and which are definitely excluded.

In bringing the drafting of this Termination Article and Cost Statement to decision and conclusion, our thinking has been that the interests of both contractors and the Government will be best served by a clear definition of their mutual rights and obligations and by preparing the ground for prompt settlement on the basis of those rights and obligations.

BERNARD M. BARUCH,

JOHN M. HANCOCK,

*Advisory Unit for War and Post-War
Adjustment Policies, Office of War Mobilization.*

2. Uniform Termination Article for Fixed Price Supply Contracts.

Article termination at the option of the Government: (a) The performance of work under this contract may be terminated by the Government in accordance with this article in whole, or from time to time in part, whenever the contracting officer shall determine any such termination is for the best interests of the Government. Termination of work hereunder shall be effected by delivery to the contractor of a notice of termination specifying the extent to which performance of work under the contract shall be terminated, and the date upon which such termination shall become effective. If termination of work under this contract is simultaneous with, a part of, or in connection with, a general termination (1) of all or substantially all of a group or class of contracts made by the Department for the same product or for closely related products, or (2) of war contracts at, about the time of, or following, the cessation of the present hostilities, or any major part thereof, such termination shall only be made in accordance with the provisions of this article, unless the contracting officer finds that the contractor is then in gross or willful default under this contract.

(b) After receipt of a notice of termination and except as otherwise directed by the contracting officer, the contractor shall (1) terminate work under the contract on the date and to the extent specified in the notice of termination; (2) place no further orders or subcontracts for materials, services, or facilities except as may be necessary for completion of such portions of the work under the contract as may not be terminated; (3) terminate all orders and subcontracts to the extent that they relate to the performance of any work terminated by the notice of termination; (4) assign to the Government, in the manner and to the extent directed by the contracting officer, all of the right, title, and interest of the contractor under the orders or subcontracts so terminated; (5) settle all claims arising out of such termination of orders and subcontracts with the approval or ratification of the contracting officer to the extent that he may require, which approval or ratification shall be final for all the purposes of this article; (6) transfer title and deliver to the Government in the manner, to the extent, and at the times directed by the contracting officer, (i) the fabricated or unfabricated parts, work in process, completed work, supplies, and other material produced as a part of, or acquired in respect of the performance of, the work terminated in the notice of termination, and (ii) the plans, drawings, information, and other property which, if the contract had been completed, would be required to be furnished to the Government; (7) use his best efforts to sell in the manner, to the extent, at the time, and at the price or prices directed or authorized by the contracting officer, any property of the types referred to in subdi-

vision (6) of this paragraph; provided, however, that the contractor (i) shall not be required to extend credit to any purchaser and (ii) may retain any such property at a price or prices approved by the contracting officer; (8) complete performance of such part of the work as shall not have been terminated by the notice of termination; and (9) take such action as may be necessary or as the contracting officer may direct for protection and preservation of the property, which is in the possession of the contractor and in which the Government has or may acquire an interest.

(c) The contractor and the contracting officer may agree upon the whole or any part of the amount or amounts to be paid to the contractor by reason of the total or partial termination of work pursuant to this article, which amount or amounts may include a reasonable allowance for profit, and the Government shall pay the agreed amount or amounts. Nothing in paragraph (d) of this article prescribing the amount to be paid to the contractor in the event of failure of the contractor and the contracting officer to agree upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article shall be deemed to limit, restrict, or otherwise determine or affect the amount or amounts which may be agreed upon to be paid to the contractor pursuant to this paragraph (c).

(d) In the event of the failure of the contractor and contracting officer to agree as provided in paragraph (c) upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article, the Government, but without duplication of any amounts agreed upon in accordance with paragraph (c), shall pay to the contractor the following amounts:

(1) For completed articles delivered to and accepted by the Government (or sold or retained as provided in paragraph (b) (7) above) and not theretofore paid for, forthwith a sum equivalent to the aggregate price for such articles computed in accordance with the price or prices specified in the contract;

(2) In respect of the contract work terminated as permitted by this article, the total (without duplication of any items) of (i) the cost of such work exclusive of any cost attributable to articles paid or to be paid for under paragraph (d) (1) hereof, (ii) the cost of settling and paying claims arising out of the termination of work under subcontracts or orders as provided in paragraph (b) (5) above, exclusive of the amounts paid or payable on account of supplies or materials delivered or services furnished by the subcontractor prior to the effective date of the notice of termination of work under this contract, which amounts shall be included in the cost on account of which payment is made under subdivision (i) above, and (iii) a sum equal to _____ percent¹ of the part of the amount determined under sub-

¹ Not to exceed 2 percent.

division (1) which represents the cost of articles or materials not processed by the contractor, plus a sum equal to ----- percent² of the remainder of such amount, but the aggregate of such sums shall not exceed 6 percent of the whole of the amount determined under subdivision (i), which for the purpose of this subdivision (iii) shall exclude any charges for interest on borrowings;

(3) The reasonable cost of the preservation and protection of property incurred pursuant to paragraph (b) (9) hereof; and any other reasonable cost incidental to termination of work under this contract, including expense incidental to the determination of the amount due to the contractor as the result of the termination of work under this contract.

The total sum to be paid to the contractor under subdivisions (1) and (2) of this paragraph (d) shall not exceed the total contract price reduced by the amount of payments otherwise made and by the contract price of work not terminated. Except for normal spoilage and to the extent that the Government shall have otherwise expressly assumed the risk of loss, there shall be excluded from the amounts payable to the contractor as provided in paragraph (d) (1) and paragraph (d) (2) (i), all amounts allocable to or payable in respect of property, which is destroyed, lost, stolen, or damaged so as to become undeliverable prior to the transfer of title to the Government or to a buyer pursuant to paragraph (b) (7) or prior to the 60th day after delivery to the Government of an inventory covering such property, whichever shall first occur.

(e) The obligation of the Government to make any payments under this article: (1) shall be subject to deductions in respect of (a) all unliquidated partial or progress payments, payments on account theretofore made to the contractor and unliquidated advance payments, (b) any claim which the Government may have against the contractor in connection with this contract, and (c) the price agreed upon or the proceeds of sale of any materials, supplies, or other things retained by the contractor or sold, and not otherwise recovered by or credited to the Government, and (2) in the discretion of the contracting officer shall be subject to deduction in respect of the amount of any claim of any subcontractor or supplier whose subcontract or order shall have been terminated as provided in paragraph (b) (3) except to the extent that such claim covers (a) property or materials delivered to the contractor or (b) services furnished to the contractor in connection with the production of completed articles under this contract.

(f) In the event that, prior to the determination of the final amount to be paid to the contractor as in this article provided, the contractor shall file with the contracting officer a request in writing that an equitable adjustment should be made in the price or prices specified in the

² To be established at a figure which is fair and reasonable under the circumstances.

contract for the work not terminated by the notice of termination, the appropriate fair and reasonable adjustment shall be made in such price or prices.

(g) The Government shall make partial payments and payments on account, from time to time, of the amounts to which the contractor shall be entitled under this article, whether determined by agreement or otherwise, whenever in the opinion of the contracting officer the aggregate of such payments shall be within the amount to which the contractor will be entitled hereunder.

(h) For the purposes of paragraphs (d) (2) and (d) (3) hereof, the amounts of the payments to be made by the Government to the contractor shall be determined in accordance with the statement of principles for determination of costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943. The contractor for a period of 3 years after final settlement under the contract shall make available to the Government at all reasonable times at the office of the contractor all of its books, records, documents, and other evidence bearing on the costs and expenses of the contractor under the contract and in respect of the termination of work thereunder.

3. Statement of Principles for Determination of Costs Upon Termination of Government Fixed-Price Supply Contracts.

The following is the Statement of Principles for Determination of Costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943, referred to in paragraph (h) of the Uniform Termination Article applicable to the termination of fixed-price supply contracts at the option of the Government:

"1. General principles: The costs contemplated by this statement of principles are those sanctioned by recognized commercial accounting practices and are intended to include the direct and indirect manufacturing, selling, and distribution, administrative, and other costs incurred which are reasonably necessary for the performance of the contract, and are properly allocable or apportionable, under such practices, to the contract (or the part thereof under consideration). The general principles set out in this statement are subject to the application of any special provisions of the contract. Certain costs are specifically described below because of their particular significance, and, as in the case of other costs, should be included to the extent that they are allocable to or should be apportioned to the contract or the part thereof under consideration.

"(a) Common inventory: The costs of items of inventory which are common to the contract and to other work of the contractor.

"(b) Common claims of subcontractors: The claims of subcontractors which are common to the contract and to other work of the contractor.

"(c) Depreciation: An allowance for depreciation at appropriate rates on buildings, machinery, and equipment, and other facilities including such amounts for obsolescence due to progress in the arts and other factors as are ordinarily given consideration in determining depreciation rates. Depreciation as defined herein shall not include loss of useful value of the type covered by subparagraph (f).

"(d) Experimental and research expense: General experimental and research expense to the extent consistent with an established pre-war program, or to the extent related to war purposes.

"(e) Engineering and development and special tooling: Costs of engineering and development and of special tooling; provided that the contractor protects any interests of the Government by transfer of title or by other means deemed appropriate by the Government.

"(f) Loss on facilities—conditions on allowance: In the case of any special facility acquired by the contractor solely for the performance of the contract, or the contract and other war production con-

tracts, if upon termination of the contract such facility is not reasonably capable of use in the other business of the contractor having regard to the then condition and location of such facility, an amount which bears the same proportion to the loss of useful value as the deliveries not made under the contract bear to the total of the deliveries which have been made and would have been made had the contract and the other contracts been completed, provided that the amount to be allowed under this paragraph shall not exceed the adjusted basis of the facility for Federal income-tax purposes immediately prior to the date of the termination of the contract, and provided further that no amount shall be allowed under this paragraph unless upon termination of the contract title to the facility is transferred to the Government, except where the Government elects to take other appropriate means to protect its interests.

“(g) Special leases: (1) Rentals under leases clearly shown to have been made for the performance of the contract, or the contract and other war production contracts, covering the period necessary for complete performance of the contract and such further period as may have been reasonably necessary; (2) costs of reasonable alteration of such leased property made for the same purpose; and (3) costs of restoring the premises, to the extent required by reasonable provisions of the lease; less (4) the residual value of the lease; provided that the contractor shall have made reasonable efforts to terminate, assign, or settle such leases or otherwise reduce the cost thereof.

“(h) Advertising: Advertising expense to the extent consistent with a pre-war program or to the extent reasonable under the circumstances.

“(i) Limitation on costs described in subparagraphs (d), (e), (f), (g), and (h). In no event shall the aggregate of the amounts allowed under subparagraphs (d), (e), (f), (g), and (h) exceed the amount which would have been available from the contract price to cover these items, if the contract had been completed, after considering all other costs which would have been required to complete it.

“(j) Interests: Interest on borrowings.

“(k) Settlement expenses: Reasonable accounting, legal, clerical, and other expenses necessary in connection with the termination and settlement of the contract and subcontracts and purchase orders thereunder, including expenses incurred for the purpose of obtaining payment from the Government only to the extent reasonably necessary for the preparation and presentation of settlement proposals and cost evidence in connection therewith.

“(l) Protection and disposition of property: Storage, transportation, and other costs incurred for the protection of property acquired or produced for the contract or in connection with the disposition of such property.

"2. Initial costs: Costs of a nonrecurring nature which arise from unfamiliarity with the product in the initial stages of production should be appropriately apportioned between the completed and the terminated portions of the contract. In this category would be included high direct labor and overhead costs, including training, costs of excessive rejections, and similar items.

"3. Excluded costs: Without affecting the generality of the foregoing provisions in other respects, amounts representing the following should not be included as elements of cost:

"(a) Losses on other contracts, or from sales or exchanges of capital assets, fees and other expenses in connection with reorganization or recapitalization, antitrust or Federal income-tax litigation, or prosecution of Federal income-tax claims or other claims against the Government (except as provided in paragraph 1 (k)); losses on investments; provisions for contingencies; and premiums on life insurance where the contractor is the beneficiary.

"(b) The expense of conversion of the contractor's facilities to uses other than the performance of the contract.

"(c) Expenses due to the negligence or willful failure of the contractor to discontinue with reasonable promptness the incurring of expenses after the effective date of the termination notice.

"(d) Costs incurred in respect to facilities, materials, or services purchased or work done in excess of the reasonable quantitative requirements of the entire contract.

"(e) Costs which, as evidenced by accounting statements submitted in renegotiation under section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942, as amended, were charged off during a period covered by a previous renegotiation, may not be subsequently included in the termination settlement if a refund was made for such period, or to the extent that such charging off is shown to have avoided such refund.

"4. To the extent that they conform to recognized commercial accounting practices and the foregoing statement of principles, the established accounting practices of the contractor as indicated by his books of account and financial reports will be given due consideration in the preparation of statements of cost for the purposes of this article.

"5. The failure specifically to mention in this statement any item of cost is not intended to imply that it should be included or excluded."

4. Directive Order to All Procurement Agencies Issued by Director Byrnes.

The Uniform Termination Article for Government fixed price war supply contracts and the statement of principles on the determinations, adopted by the Joint Contract Termination Board and approved by the War and Post-War Adjustment Unit of the Office of War Mobilization, are hereby made effective.

The Termination Article shall be used to the fullest extent practicable in all new war contracts and contractors shall be given the earliest practical opportunity to have the article included in existing contracts.

Situations in which it is deemed impractical to use the Termination Article should be promptly reported to this Office for further instructions.

APPENDIX 1

Statement of Policy on Termination Financing of Joint Contract Termination Board.

Introductory

The larger part of the productive capacity of the country is now engaged in the production of war supplies. The speedy conversion of this gigantic war economy to a peace economy will be essential if we are to avoid a disastrous business depression and mass unemployment at the end of the war. This reconversion of industry and the providing of new jobs for the millions discharged from military service and the other millions now engaged in war plants will require the release of the working capital of the contractor now employed in war production. In this situation, it is vital to make this capital available by prompt and final settlement of war production contracts. The Board believes:

(1) That the war contracts which are terminated must be settled and settled promptly by negotiated agreements wherever possible between the contractors and the procuring agencies of the Government.

(2) That settlements so negotiated should be final and not subject to review by any other agency except for fraud.

(3) That representatives of the procuring agencies who negotiate settlements or who make disbursements thereunder must not be financially liable for action taken by them in good faith.

Even with simple and speedy procedures, the settlement of terminated contracts for the production of war supplies will inevitably require a considerable period of time. Therefore, it is vital to the maintenance of our industrial economy that some means be found to insure that contractors, subcontractors, and suppliers of any tier engaged in war production get cash promptly upon termination of their contracts, to release their working capital from war inventories and receivables, to take care of their obligations to subcontractors and suppliers in the tier immediately below them, and to permit them to return to peacetime business.

* * * * *

It is recognized that the policies and procedures outlined below are predicated on extensions of existing mechanisms involving contract-by-contract settlements and settlements with subcontractors through prime contractors and intermediate subcontractors in a vertical chain. If other methods of settlement such as direct settlements with subcontractors or horizontal over-all company settlements are adopted, they will call for different or supplementary financing policies and procedures. It is likewise clear to

the Board that provisions for loans and guarantees will be of particular importance if substantial partial payments are not actually made in such a way as to reach both prime contractors and subcontractors at all levels.

Existing Policies and Procedures.

During the settlement period the procuring agencies have certain power to furnish financial assistance to contractors, in addition to such private financing as may be available or such financing as may be furnished by other governmental agencies such as the Reconstruction Finance Corporation. Prompt full payment may be made for completed articles. Partial payments may be made to prime contractors on account of the amounts clearly due the prime contractor or which are for the purpose of paying approved settlements with subcontractors and suppliers. Advance payments (that is, advances in the nature of loans made or authorized prior to termination against future deliveries) already made or authorized on the contract and not yet expended may be utilized to pay outstanding bills. Pursuant to existing legislation and Executive Order 9112, the procuring agencies are authorized to make direct loans or to guarantee "V" or "VT" loans which permit a contractor to obtain financing not only for present war production but also to finance his war production inventory and receivables attributable to terminated contracts pending final settlement.

It is the policy of the Board that, in addition to the use of private financing or financing furnished by other governmental agencies, the procuring agencies shall use these methods to the maximum extent. Partial termination payments should be made to prime contractors up to the amounts, less a reasonable margin, clearly due the prime contractor for his own costs and his financing of approved settlements with subcontractors and suppliers. Attention is also invited to the fact that, in the absence of legislation authorizing the guaranteeing of loans after termination of contracts, a war producer can obtain a "V" or "VT" guarantee or commitment giving termination protection while still in a war production status but cannot obtain such a guarantee or commitment thereafter.

Policies and Procedures Under Proposed Financing Legislation.

The Board recognizes, however, that under existing law and procedure the contracting, certifying, and disbursing officers of the procuring agencies may be subject to financial liability in the event that a partial payment in excess of the amount actually owed is made and not recovered; that advance payments in general cannot be made after war production has ceased and are of only limited value in freeing

cash tied up in war production inventory and receivables; that more workable procedures should be adopted for the protection of contractors under section 6 of the revised standard form of "V" or "VT" guarantee agreement; and that the absence of any provision for interest on termination claims makes it difficult for contractors to obtain private financing during the settlement period and places them at a disadvantage as compared with contractors being financed by advance payments or guaranteed loans, which provide for waiver of interest after termination.

The Board feels that the heart of the problem presented is the careful balancing of the urgency of supplying funds immediately upon termination with protection of the Government's interest. If by taking a broad over-all view the country will be better off by getting money out quickly even though some extra expense will result, then, to that extent, the risk of extra expense must be taken. It is impossible at this time to foresee just what the circumstances will be and the procuring agencies should be instructed and empowered in an emergency to take such steps as may be required in the public interest to insure adequate and prompt financing of claims during the settlement period.

The Board therefore recommends that legislation be enacted containing at least three types of provisions: First, authorizing the making of advance or partial payments to contractors and subcontractors after termination and relieving officers of the procuring agency authorizing or making such payments and prime contractors or intermediate subcontractors through whom they are made of financial responsibility for excess payments made in good faith; second, authorizing the making of guaranteed or direct loans to war producers after termination of their contracts or subcontracts; and third, allowing interest on termination claims during the settlement period as an allowable item in termination settlements. Such legislation, with existing mechanisms, should be such as to permit the adoption of the following recommended procedures:

Full Payments to Prime Contractors.

1. The procuring agencies shall provide for the prompt inspection of and payment at the contract rate for all such articles as are completed at the date of termination or as are completed thereafter with the Government's approval.

Partial Payments to Prime Contractors Under Vertical Settlement Procedures.

2. In order that the contractor may obtain, in advance of the filing of a certificate and supporting data as specified in paragraph 3 below, prompt payment of amounts that are clearly due to him, the procuring

agency shall make immediate partial payment of such part of the contractor's termination claim as the agency agrees will be clearly within the amount which the contractor could ultimately obtain under paragraph 3 below.

3. In addition to payments provided for in paragraphs 1 and 2 above, procuring agencies shall, without prejudice to the position of either party in the final settlement, make partial payments from time to time to contractors as set forth below:

(a) Each contractor requesting such a partial payment shall file with the procuring agency handling the termination a certificate (based on accepted commercial accounting practices and not in conflict with any principles in the "Statement of Principles for Determination of Costs Upon Termination of Government Fixed-Price Supply Contracts") setting forth his estimate (which may be revised in connection with any subsequent certificates) of all or any of the following elements:

(1) Cost of raw materials, purchased parts, supplies, direct labor and manufacturing overhead applicable to the terminated portions of the contracts, less any proceeds or estimated proceeds of such items retained, diverted, or disposed of or agreed to be so retained, diverted, or disposed of. Manufacturing overhead shall comprise those indirect expenses reasonably related to production such as indirect factory labor, maintenance and repairs, property taxes, insurance, factory rentals, and similar items generally recognized as manufacturing overhead expenses. This category shall not include special obsolescence of or loss on disposal of facilities, engineering and development, special tooling, administrative expenses, costs of terminating leases or other special costs which are related primarily to the termination of the contract;

(2) Advances and progress payments made by the contractor for supplies, parts, raw materials, or other items required for the terminated portions of the contracts, which are outstanding and unliquidated at termination and are not in excess of the subcontractor's claims;

(3) All other elements of cost with respect to terminated contracts which may include any allowable items of cost excluded from or not included by the contractor in (1) above, but which shall not include any provision for profit;

(4) Unliquidated balance of advance or partial payments made by the Government to the contractor under the contracts being terminated.

(b) Subject to the limitations set forth in paragraph (d) below, partial payments shall be made by the procuring agency, within thirty days after receipt of the certificate, of 100 percent of the amounts set forth in 3 (a) (1) and 3 (a) (2) unless the procuring agency has reason to believe, based on its examination of the claim, that the costs and expenses claimed have not been reasonably supported by the con-

tractor, in which case such partial payments will be made within such period but reduced accordingly. The procuring agency in making its examination of the claim may require the submission of additional data to support the certificate.

(c) In addition to the payments provided for in paragraph 3 (b), the procuring agency shall, as promptly as possible—and to the extent possible within such 30-day period—make additional partial payments from time to time of 100 percent of any balances due on items included in 3 (a) (1) and 3 (a) (2) and of 100 percent of any amounts due on items included in 3 (a) (3) to the extent that subsequent examination by the procuring agency substantiates such elements of cost.

(d) In no event, however, shall the aggregate of the partial payments made under this paragraph 3, when added to those made under paragraph 2, at any time exceed 90 percent of the procuring agency's estimate of the aggregate valid claim of the contractor as set forth in 3 (a) (1), 3 (a) (2), and 3 (a) (3) above, less the amounts set forth in 3 (a) (4) above.

(e) Partial payments without regard to the above restrictions may be made on reasonable terms and conditions, including the use of a controlled account from which only expenses incurred in connection with canceled contracts may be paid. Such payments out of a controlled account may be made either to subcontractors and suppliers or to the contractor for reimbursement of expenses already paid by him.

Payments to Subcontractors Under Vertical Settlement Procedures.

4. Without overlapping the partial payments provided for in paragraphs 2 and 3 above, the procuring agencies shall likewise provide for partial payments to prime contractors for the purpose of permitting them to make final or partial payments to subcontractors and suppliers. In any case where an amount payable to a subcontractor or supplier and includible in the amount payable to the prime contractor has been finally determined by agreement between the prime contractor and subcontractor or supplier, specifically approved by the procuring agency, or in accordance with general instructions, the partial payment shall be 100 percent of the amount so determined and such payment shall be final and conclusive as an element in the prime contractor's claim in the absence of fraud on his part. Where the amount payable to the subcontractor or supplier has not been finally determined, the partial payment to the prime contractor for the account of the subcontractor or supplier shall be determined substantially in accordance with the principles, procedures, and limitations established in this statement for partial payments to prime contractors, together with supporting data from the subcontractor and prime contractor.

5. In financing contract-by-contract settlements with subcontractors and suppliers through a vertical chain, as provided for in this statement, subcontractors and suppliers desiring partial payments must obtain them whenever possible through their prime contractors, but, in exceptional cases, where hardship is being worked on subcontractors or suppliers by reason of their inability to deal through their prime contractors, the procuring agencies should, if practicable, make payment directly to the subcontractors or suppliers. Partial payments on individual contracts will, in general, be made to subcontractors and suppliers below the first tier only by agreement with the prime contractor and intermediate subcontractors. Any partial payment made directly to a subcontractor or supplier shall be determined substantially in accordance with the principles, procedures, and limitations established in this statement for partial payments to prime contractors including a certificate and supporting data from the subcontractor or supplier. In making any direct partial payments to subcontractors or suppliers under this provision, the procuring agency shall make due allowance for outstanding setoffs or counterclaims asserted by the prime contractors or intervening rights asserted by other persons against such prime contractors, subcontractors, or suppliers. Any direct partial payments to a subcontractor or supplier shall be conditioned upon his furnishing appropriate releases for the benefit of the Government, the prime contractor, and any intermediate subcontractors.

Excess Payments.

6. Any excess payment over the total amount payable on final settlement shall be regarded, to the extent of the excess, as a loan, bearing interest at 6 percent per annum, to the company ultimately receiving the same. The officers of the procuring agency authorizing or making the partial payment and prime contractors or intermediate subcontractors through whom it is paid shall be relieved of financial responsibility for excess payments made in good faith.

Loans.

7. In addition to such private financing as may be available or such financing as may be furnished by other governmental agencies, the procuring agencies should guarantee or make commitments to guarantee loans to any contractor, subcontractor, or other person applying therefor who is engaged or has been engaged in the performance of a war contract which has been curtailed or terminated. The guarantee shall, in general, not exceed 90 percent of the loan, and a reasonable fee shall be charged therefor. The amount of the loan shall be based on an estimate of the applicant's over-all investment in war production receivables, inventory, work in process, and amounts paid or concur-

rently to be paid to the tier of subcontractors or suppliers immediately below the applicant. For this purpose a contract will be classified as a war contract if the procuring agency concludes that it has been or is connected with the production or procurement of war supplies. Such loans, guarantees, or commitments to guarantee will generally be made by the procuring agency which appears to have or to have had the dominant interest in the output of the contractor in question but may be made, in doubtful cases, by any procuring agency or any other agency authorized to guarantee such loans. Operations will be decentralized; existing agencies and mechanisms now used under Regulation V will be utilized to the greatest degree practicable; standard forms of loan and guarantee agreements shall be adopted for use in all cases; and simplicity of procedure shall be emphasized.

8. Prospective borrowers will be required to seek guaranteed loans directly through normal financing channels. However, in cases where it appears that a contractor, subcontractor, or other person described in paragraph 7 is or will be unable to arrange this type of loan within 30 days from filing of application, a loan will be made directly by a procuring agency or its agent. In determining the amount of the loan and the method of servicing it, the procuring agency will, if practicable, employ the same agencies and follow substantially the same procedures as in the case of a guaranteed loan. In the event that a direct loan is made, the gross interest charged will be the same as on a comparable guaranteed loan.

Interest on Termination Claims.

9. Interest should be allowed on the unpaid portion of termination claims under contracts terminated otherwise than for default, as a matter of fairness to contractors and subcontractors during inevitable delays in settlement and to permit and encourage contractors to borrow from private sources in order to finance themselves during the settlement period. The rate of interest should be $2\frac{1}{2}$ percent per annum.

10. In determining the amount payable to or for the account of a prime contractor, the procuring agency should recognize to an appropriate extent, not in excess of $2\frac{1}{2}$ percent interest paid or payable to subcontractors or suppliers.

11. Appropriate deduction shall be made for interest waived on advance payments and guaranteed or direct loans outstanding during the settlement period.

12. The period of interest payable to prime contractors will run from the 30th day after dispatch of the notice of termination, but if the prime contractor unduly delays the determination or payment in whole or in part of amounts payable to him, the procuring agency may stop the running of interest for the period of such delay by the giving of 10 days' notice to the contractor.

APPENDIX 2

Statement of Policy as to Removal and Disposition of Property in Connection With Contract Termination¹ of Joint Contract Board.

The speedy adjustment of terminated contracts depends to a large extent on the prompt removal and disposal of completed articles, component parts, work in process, raw materials and equipment in the possession of the contractor at the time of termination. So long as the war continues it is essential to clear the contractor's plant as soon as possible so that it may return to the production of other needed war materials and to make available for other war production any property which can be used for that purpose. After the war the speedy disposition of such property is essential in order to clear the contractor's plant for a return to civilian production. To that end it is essential that broad powers of disposition be vested in the procuring agencies, and that a central agency² should be designated to which may be transferred property not disposed of by the procuring agencies and no longer required by them.

In some cases legal title to the property in the possession of the contractor has passed to the Government; in others, it remains in the contractor. In either case the problem is essentially the same and there is need for policies permitting uniform administration. Therefore, the following steps should be taken promptly upon termination or substantial modification of any contract.

1. As soon as possible after receipt of notice of termination or modification of any contract, the contractor should submit lists of property no longer required for the performance of the contract to which the Government is entitled or which are the property of the Government. Separate lists should be prepared of (1) machine tools and other production equipment, (2) completed articles, subassemblies and component parts, (3) work in process, (4) supplies, (5) materials, and (6) scrap. Partial lists should be presented from time to time giving preference to those items which, in the opinion of the contractor or the procuring agency, are immediately needed in war production either in the contractor's plant or elsewhere. The list should contain an adequate description of each item and should show the ceiling and current established market prices for each item if readily available and any readily available information as to the cost of each item to

¹ Facilities held by contractors under contracts containing special provisions for disposition other than those recommended herein will be dealt with in a separate report.

² The term "central agency" used herein means such central agency as may be designated by the Director of War Mobilization to dispose of the particular kind of surplus or to set price policy.

the contractor. Where the contractor wishes to retain or acquire an item, he should state the price at which he is willing to accept the item. Failure to list an item should not prevent the contractor from claiming reimbursement therefor in the final settlement and in connection with final settlement the contractor may furnish additional information as to the cost of any item.

2. Where the contractor has an option to purchase or lease or other contract rights in any item, he should promptly indicate whether he desires to exercise such rights or is willing to waive them. If he indicates the former, disposition of the property should be made in accordance with the terms of the contract.

3. While the lists are in course of preparation and as the necessary information becomes available the procuring agency and the contractor should seek to make immediate disposition of any items which can be readily disposed of. If, in the judgment of the procuring agency, the item is one which it would be appropriate for the contractor to retain or acquire, the procuring agency should endeavor to negotiate an agreement for such retention or acquisition. If the procuring agency determines that the item should be disposed of to someone other than the contractor for purposes of war production, the procuring agency should endeavor to arrange for such disposition through the contractor or direct. Prior to the cessation of hostilities, any item not disposed of to the contractor or to others for purposes of war production, which the procuring agency does not desire to retain for its own use or that of any other governmental department, may be disposed of by the procuring agency or by the contractor with the approval of the procuring agency for any purpose not inconsistent with the policies of the Board. It is expected that the power of disposition for any purpose other than for war production or to the contractor will be transferred in whole or in part by action of the Board to the central agency as it becomes ready to undertake such activity.

4. Each procuring agency may exercise complete discretion as to the price at which any item may be disposed of subject to such pricing policies or formulas as may be established by the Board or under its authority, including any specific instructions referred to in paragraph 9 hereof. In the absence of specific action by the Board the procuring agency will endeavor to dispose of property at prices which it may regard as representing fair values under the existing circumstances observing the following general policy as to determination of fair value.

(a) Where there is an established market price for the item an effort should be made to obtain that price with due allowance for the condition of the item, its location and the cost to remove it to a place of disposal, and the selling cost including cost of preparation for sale.

(b) Where there is no established market price, consideration should be given to the foregoing factors and any other available information including the cost of the item, and the speed with which the item can be reprocessed or otherwise put back into use. It is recognized that disposal prices will in many instances bear little, if any, relationship to cost.

(c) Substantial portions of property involved in contract termination, particularly work in process, jigs, dies, fixtures, and specially designed items having no known commercial application, may have no value except as scrap. A prompt effort should be made to determine promptly what items are properly classified as scrap and to effect prompt disposition of such items.

(d) In cases where disposition is made to a contractor or supplier for the purpose of performing a war production contract consideration may be given to any lesser value of the item to the contractor or supplier for that purpose, if war production will thereby be facilitated. If disposition cannot be made at prices determined in accordance with the foregoing, then until such time as the central agency becomes ready to undertake disposition of the property, sale may be made by the procuring agency under such other regulations as it may prescribe for the purpose of adequately testing the market.

5. Unless the contract otherwise provides, the contractor may, at any time after receipt of termination notice, remove from his plant and store at his own risk, any property, and the Government, with the consent of the contractor, may remove and dispose of any property listed in accordance herewith prior to final settlement. At all events, unless the contract otherwise provides, any property not disposed of in the manner hereinbefore provided within sixty days from receipt of a list covering the particular item should, upon demand of the contractor, be removed from the contractor's premises by the procuring agency unless the procuring agency shall previously determine that the item is not chargeable to the Government and does not belong to the Government. In the event that any such property is not so removed upon demand, the property may be stored by the contractor at the expense and risk of the procuring agency either on the contractor's premises or, if he determines that space is not available for that purpose, then elsewhere. In such a case the contractor should take reasonable precautions for the protection of the property and should notify the procuring agency of the action taken. If it is later determined that the procuring agency was not obligated to take property which was removed or disposed of prior to final settlement, an adjustment should be made in the final settlement which will allow the contractor the current disposal value of the property at the time of removal.

6. Any property which comes into the hands of the procuring agency in connection with contract termination which is not disposed of as hereinbefore provided and which has been determined by the procuring agency to be surplus to its needs should be reported to the central agency for disposition. Upon receipt of such report the central agency shall with reasonable promptness take possession accountability, and full responsibility for any further maintenance or utilization removal, protection, storage, sale, or other disposition of the property. The central agency shall consult with the procuring agency as to the disposition of any property of special military significance. The procuring agency shall have the right to remove and store for the account and at the risk of the central agency any property so reported, pending action by the central agency.

7. The procuring agency shall render all reasonable assistance to the central agency in performing its obligations under paragraph 6. The central agency shall be authorized to use any existing storage or other facilities which the procuring agency finds it practicable to make available to it.

8. Transfers to the central agency shall be made without values, but the central agency shall make periodic reports to the procuring agency as to the aggregate estimated value of items transferred, valuations to be based on disposal values at the time of transfer to the central agency, as estimated by the central agency.

9. Any disposition of property by the procuring agencies or the central agency shall be made subject to such regulations as the particular agency may prescribe but only in conformity with policies or determinations of the Board and under applicable rulings of the War Production Board, the Office of Price Administration, or any other duly authorized agency. At the request of any procuring agency or the central agency or on its own initiative, the Board may establish or approve pricing formulas under which any article or class of articles may be sold by a procuring agency, may designate the appropriate agency to sell any article or class of articles, and may prohibit or condition the sale of any article or class of articles by a procuring agency.

10. The foregoing provisions relate solely to property in the hands of prime contractors. In order to carry out the basic policies of speedy adjustment of contracts and prompt clearance of plants, the same principles should be applied to property in the hands of subcontractors of any level where the subcontractor submits lists of such property prepared in accordance with paragraph 1, with the certificate of the prime contractor that the items listed are believed to be properly allocable to the prime contract, or any other satisfactory evidence of that fact.

APPENDIX 3

Role of Major War Agencies.

The reconversion of industry from war to peace often is spoken of as if it were one job. Actually, many jobs are involved, all of which must be done together. Eight major steps in industrial reconversion can be listed in the order of their sequence:

1. As the war changes, the production of certain weapons and war supplies is cut. Minor adjustments already are taking place; with the defeat of the Nazis, major cuts would come.
2. After the decision as to what is to be cut is made, the next step is to decide which producers of these munitions and supplies are to be cancelled out and which left in production.
3. On all war contracts that are terminated, the Government will owe the manufacturers money. Step three is to determine what the Government owes and to pay manufacturers promptly so they will have ready working capital with which to take on new business. This is called the settlement of terminated war contracts.
4. Simultaneously, the plants of these manufacturers are cleared physically of Government-owned inventories, raw materials, equipment, semifinished parts—this to make room for new equipment and new materials to start up peacetime production.
5. Any materials, inventories, equipment, and other properties coming into the possession of the Government are redistributed among other war producers as far as practicable to stimulate war production.
6. As plants, manpower, and materials are freed from war production, such resources are shifted first to other war work as far as such war work is needed.
7. With war needs satisfied, these resources of manpower, materials, and plants are shifted to increase production and employment for civilians.
8. As war needs slacken, wartime controls are modified or removed.

All One Program.

While these steps are listed in sequence, all the programs are to be carried through concurrently since adjustments already are taking place and will continue through the end of the war. The entire program must always be kept in balance.

The subject index lists the references to what the various war agencies are to do in carrying out the recommendations of our report. Because of their importance, there follows a brief summary of the

more important aspects of the roles of the War Production Board and the Armed Services; also, a brief summary of the legislative action requested by the report.

Armed Services:

To decide what weapons and war supplies should be cut as the war changes, informing the War Production Board as soon as such cuts are thought of; to work with the WPB and other civilian agencies, including War Manpower Commission on the choices of which contracts are to be cancelled; to negotiate settlements of what the Government owes on terminated war contracts after cancellation; to assist the Surplus Property Administrator in promptly clearing Government property from war plants; to work with him and the WPB on redistributing surplus property to stimulate war production; to be prepared to shift contracts to make use of plants and manpower freed by cancellations; to work with the WPB in the preparation of an "X Day" reconversion plan; to work with the "Work Director" on the demobilization of the Armed Forces when that becomes possible.

War Production Board:

To keep the program of production for war and civilians in constant balance; to lay down the policies to guide the choices for *cancelling* contracts of war goods no longer needed; to work with the Armed Services and other procurement agencies and with the War Manpower Commission and other civilian agencies in making the actual choices of which producers are to be cancelled and which left in war production; to guide the shifting of contracts to make use of facilities or manpower freed from war production; to decide what civilian production and employment is to be resumed as war needs slacken; to work with the Surplus Administrator and Armed Services on the disposal of surplus Government property so as to stimulate both war production and resumption of civilian employment; to keep all war controls under constant review so that they can be promptly modified; to review worthwhile local projects, deferred during the war, and which may be cleared as war needs slacken.

Legislation:

"Congress should lay down whatever policies it feels wise and desirable to guide the existing agencies in their handling of demobilization problems"; the Work Director to work with Congress on a combined program of legislation and operations for the entire human side of demobilization; legislation requested for the settling of terminated war contracts; the Surplus Administrator to report to Congress as soon as possible on legislation needed for surplus Government prop-

erty; extension of price control law, the priorities and allocations powers on which the functioning of WPB rests and the requisitioning power of the President; extension of Smaller War Plants Corporation's lending authority to permit changeover assistance; liberalization of Federal Reserve's authority to make industrial loans; post-war tax law on the shelf; Congress consider funds for engineering public works shelf.

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