

COPY

November 3, 1943

MEMORANDUM TO ALL THE MEMBERS OF THE TRUMAN COMMITTEE

The Navy Department has informed the Committee that Admirals Cochrane and Mills would like to tell the Committee, in a private hearing on Thursday afternoon, the action which they have taken in investigating the Cramp Shipyard and in improving conditions there. I understand that they have removed Admiral Dubose who had received \$35,000 a year as Chairman of the Board of Cramps, and that they have made numerous other changes.

Senator Truman has set a meeting for this purpose in Room 68 in the Capitol at 2:30 P.M. on Thursday, November 4.

*Hugh Fulton*  
HUGH FULTON

INVESTIGATION OF THE NATIONAL  
DEFENSE PROGRAM

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ADDITIONAL REPORT  
OF THE  
SPECIAL COMMITTEE INVESTIGATING THE  
NATIONAL DEFENSE PROGRAM

PURSUANT TO

S. Res. 71

(77th Congress, and S. Res. 6, 78th Congress)

RESOLUTIONS AUTHORIZING AND DIRECTING  
AN INVESTIGATION OF THE NATIONAL  
DEFENSE PROGRAM

(Submitted under authority of the order of the  
Senate of July 7, 1943)

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OUTLINES OF PROBLEMS OF CONVERSION  
FROM WAR PRODUCTION



—, 1943.—Ordered to be printed

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UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1943

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DEFENSE PROGRAM

ADDITIONAL REPORT

OF THE

SPECIAL COMMITTEE INVESTIGATING THE  
NATIONAL DEFENSE PROGRAM

PURSUANT TO

SPECIAL COMMITTEE TO INVESTIGATE THE NATIONAL DEFENSE  
PROGRAM

HARRY S. TRUMAN, Missouri, *Chairman*

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II

OUTLINE OF PROBLEMS OF CONVERSION  
FROM WAR PRODUCTION



Ordered to be printed  
1943

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### III



## INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

NOVEMBER —, 1943.—Ordered to be printed

Mr. \_\_\_\_\_, from the Special Committee to Investigate the National Defense Program, submitted the following

### ADDITIONAL REPORT

[Pursuant to S. Res. 71, 77th Cong., and S. Res. 6, 78th Cong.]

### OUTLINES OF PROBLEMS OF CONVERSION FROM WAR PRODUCTION

When the Senate passed a resolution organizing this committee it charged it with the duty of preventing waste. This requires the committee to make every effort to prevent any wasteful practices which increase the cost of the war program. Waste occurs in two ways: First, by spending more than necessary to procure the article or material needed for the war; and second, by so constructing plants and facilities needed for the war program that they will have no salvage value. The latter type of waste sometimes receives little attention, but is vitally important. The plants and facilities built for the war program have cost our Government approximately 15 billions of dollars. The size and importance of these expenditures can best be understood by contrasting them with the 15 billions of dollars, which were expended for manufacturing plants and facilities during the 5-year period from 1925 through 1929, the era of our great prosperity.

Not all plants and facilities will have salvage value. Some were so constructed that they are useful only for the special purposes for which they were built. Examples are some of our special ordnance installations. Others were equipped with special machinery of such size that there would be little peacetime demand for articles that could be made. Examples of this are found in the plants to make heavy, long-range gun barrels. The best and most important of these plants should be kept as stand-by plants, ready for use in the event that we should again be required to undertake a huge armament program. The War and Navy Departments have already made some plans along this line.

However, the great bulk of all war plants and the machine tools and facilities contained in them, and many of the machine tools and facilities in the special war plants, can be utilized for civilian production. Any assumption that they cannot be used is as baseless as the contention made in 1941 that our automobile plants and tools could



not be used to produce war materials. Of course, some of the tools cannot be used, additional tools will have to be acquired, and the arrangement of tools will have to be changed, but, by and large, most war plants are suitable to produce peacetime goods. Many of them, such as high-octane gasoline and synthetic rubber facilities, can be used as they are.

These war plants are the most modern that our architects could design. In general, they are well-lighted, well-ventilated, have high ceilings and heavy-duty cranes, and floors capable of carrying the heaviest machinery. They are the finest plants in the world and are far superior to what a few years ago were the finest in the United States.

We should use them not only because of the cost required to build them, but also because we must use them. The population of the United States have been reshuffled from one end of the country to the other, and today millions of people live in communities different from those where they lived before the war. Some of these communities grew up around war plants, and many more are largely dependent upon war plants for jobs for their people. It is no answer to say that they might return to their former jobs, because tens of thousands of small businesses by which they were formerly employed are now out of business and many more companies which are still in business will never have need for the number of employees that they formerly hired. Some communities with war industries will become ghost towns, and others will lose most of their increase in population. But a very large proportion of the war plants can produce useful peacetime articles and can continue to provide employment for their workers if we have the courage and the intelligence to utilize the vast industrial resources which we have already created and which we will have to pay for during the next generation through taxes.

Even if we could go back to the pre-war situation, we do not want to do it, because at the beginning of the war in 1939 we had approximately 9,000,000 unemployed. Our soldiers and sailors are entitled to jobs. Many of the women who have gone into our factories and done such splendid work during the war, will want to continue working, and they are entitled to a chance to earn a good living at jobs that they have shown they can do. The last war put the women into the offices on a large scale. This war put them into the factories. They are there to stay.

We have the factories, the tools, and the labor supply. During the war we have vastly increased our facilities to produce raw materials, and at the end of the war there will be tremendous inventories of materials ready for processing and semiprocessed, which should be utilized to create articles for civilian use. Unless so used, those inventories will flood the markets and threaten our prosperity.

During the war we have also learned new uses for aluminum and magnesium, the miracle metals of the future, plastics, and steel alloys. New processes for fabricating them have been developed, and new precision machinery developed and built. These open up new vistas for the future.

The purchasing power will be available because during the war most families have paid off their indebtedness for automobiles and household goods, reduced their indebtedness for housing and, in addition, have increased their bank savings and purchased War bonds.



If they can be given assurance that their jobs will be safe, they will purchase huge quantities of consumer goods, and many will be in the market for new homes.

Thus, we will have the plants, the tools, the labor, new materials, new processes, new products, and the purchasing power on which to base the greatest and soundest era of prosperity that this Nation ever enjoyed, if we have peace and a measure of stability for a substantial period of years.

The United States has led the nations of the world in industrial progress and can continue to do so in the future. American business is vigorous, talented, and enterprising. We must see to it that it has the facilities to establish and maintain sound industrial progress after the war.

The task of the Government is to determine the standards by which business is to operate in such a way that businessmen will know where they stand, what they can do and what they cannot do. If Government performs this task, each business man will be able to make his own plans for the operation of his business. Until these standards are determined, it will be difficult for him to make his post-war plans. Such plans cannot be made in a vacuum. Businessmen, no matter how able, cannot make plans that are worth while until they know the conditions under which they will have to operate.

By referring to the necessity of a determination by Government of the standards and conditions on which business is to operate, the committee does not mean to infer that the Government should determine, or even strongly influence the determination of, what products are to be made, by whom, in what quantity, and when. Reliance cannot be placed upon plans by Government agencies for action to be taken in the future. If anyone questions this, let him look at the plans which the Army and Navy made during a quarter of a century of peace for the conversion of American industry to war production. Some of the plans had value, but the actual operations of American industry in wartime bear little resemblance to the plans which the Army and Navy assured us a few years ago had been so carefully made.

The determinations which Government must make include (1) the method by which contracts are to be terminated after the war, (2) the advance notice which industry can have of the terminations, (3) the methods for insuring the early removal of Government property from private plants so as to make them available for the production of civilian articles, (4) the extent to which the Government will make or guarantee loans to provide business with working capital, and (5) the conditions upon which the Government will lease or sell the plants and facilities which had been constructed for the war effort.

The purpose of the committee in this report is not to propose short-cut solutions to these problems, but rather to point out the importance of directing attention now to their existence, and obtaining the best information from all competent sources on how to solve them.

The committee will hold a series of public hearings at which representatives of Government, business, and labor will be asked to testify on some of these subjects so that the necessary work can be done now to obtain satisfactory solutions. Even if the solutions



are not entirely satisfactory, it is important that certainty be substituted for the doubt that now prevents business from making its plans.

#### TERMINATION OF CONTRACTS

In January 1942, this committee pointed out how important it was that the Government insert in its contracts provisions entitling it to terminate its war contracts on terms fair to the Government whenever the Government ascertains that it will have no need for the articles to be produced. Although more than \$300,000,000,000 have been appropriated for the war program as of August 1943, and more than \$128,000,000,000 were expended as of August 31, 1943, contracts for many billion dollars' worth of materials have not been completed. Work on some of them has scarcely been started, and will not be completed for several years to come. The cost of the war will be greatly decreased if the course of the war should warrant the termination of these contracts before their completion.

Articles produced after the end of the war would have to be warehoused and cared for at great trouble and expense, and in most instances would be too obsolete to be used in the event of another war. It is already apparent that many items originally thought necessary in this war will not be necessary, at least not in the quantities for which contracts were executed. Contracts for their procurement are being terminated or reduced. For example, the Army is terminating many of its contracts for tanks, and the Navy is terminating many of its contracts for submarine chasers and destroyer escorts. As we approach victory, there will be more and more of these terminations.

Unquestionably there will be objections from business concerns which will lose war profits, and from labor which will lose war wages, but it will be the duty of the Army and the Navy to stop expenditures for military goods not needed as soon as the Joint Chiefs of Staff determine that such goods are in fact not required for military purposes.

Objections to such terminations will be valid only where business or labor can show that the Army and the Navy did not exercise fairness and intelligence in determining which contracts should be canceled or cut back. There must be no favoritism.

The Joint Chiefs of Staff should constantly review Army and Navy needs for the purpose of eliminating contracts for the procurement of articles not needed just as soon as it becomes possible to determine the lack of need. The decision should be made as much in advance of the actual termination of the contract as it is possible to make it, so that notice can be given to the industries involved. For example, if the Army knows now that it will not need more than a certain quantity of machine guns which could be produced by the end of March in 1944, it should notify the producers of machine guns now that they should plan to produce no more machine guns after March 1944. This would not only have the advantage of preventing them from accumulating an enormous inventory of partially manufactured material, but it will also enable the industry to make orderly plans for the conversion of factories to the production of other goods.

Special attention to such conversion should be given by the War Production Board, which should be prepared to assist by promptly making the necessary decisions to allocate materials. In such conversion, the manufacture of other war articles should be given a



preference if there is a real need for them. Otherwise, the industry should be permitted to make essential civilian articles, or even to return to the manufacture of strictly peacetime goods. Any progress that we can accomplish in this direction before the end of the war will lessen the problem of converting industry from war to peace.

The committee has noted suggestions, particularly by Army officials in public speeches, that the War Department will not release soldiers from the Army until it believes that industry is ready to provide them with jobs and that it will continue its war contracts until industry is ready to make a transition. Such suggestions are beyond the authority of the War Department.

The Congress has never authorized either the War or Navy Department to provide a new Work Projects Administration by forcing soldiers or sailors to remain in the Army or Navy, or by permitting the production of war goods for which there is no military use. The Congress did not vote billions of dollars of appropriations to the War and Navy Departments for such purposes as these, and the job which the Army and Navy did in peacetime planning for wartime needs does not support a conclusion that they should be allowed to determine the conditions under which our peacetime business is to be operated. That is not a military function.

The methods by which contracts are to be terminated should be determined by the Congress. Contracts involving approximately six billions of dollars and two billions of dollars, respectively, have already been terminated by the War and Navy Departments, respectively. This is considerably greater than the total of all war contracts terminated at the close of the last war.

The subject of termination is now being studied by subcommittees of the Senate and the House. The chairman of this committee is a member of the Senate subcommittee. This committee will not attempt to duplicate the work of the other committees now studying this matter, but will render them all possible assistance.

The Senate bill (S. 1268) would authorize any department or agency to make advance or partial payments upon contracts related to the prosecution of the war, to make loans or guarantees, and to purchase the interests of contractors, subcontractors, and suppliers, subject to rules and regulations to be promulgated by the Chairman of the War Production Board or such other official as the President may designate.

The House bill (H. R. 3022) would authorize the Secretary of War to use any appropriation in connection with the termination of War Department contracts under regulations to be prescribed by him.

There is a considerable difference of opinion as to whether the contract officials of the procurement agencies should be allowed to make settlement agreements which would be final, except upon proof of fraud. There is also disagreement as to whether such contracts should be subject to the audit of the General Accounting Office. These and other related matters are the subject of public and private hearings.

The problem of determining the conditions under which contracts are to be terminated is most difficult, and no solution can be entirely satisfactory. For this reason, provisions should be made for guarantees by the Government of loans to contractors involved in disputes as to the amounts due them after the termination of their contracts. These loans should be for a substantial percentage of the amount claimed by the contractors.



Provision should also be made for an expeditious determination of litigation either by the courts or by a special agency set up to hear and determine disputes. We should avoid a recurrence of the protracted litigation which followed the last war, where, litigation relating to the termination of contracts, in many cases, extended over a period of years. Some of the cases have only recently been determined.

#### INVENTORIES

In this war, the amounts involved are so great that unless a satisfactory termination is obtained, most of the corporations will not have sufficient working capital. Bankers will find it difficult to make loans to such corporations because the difference between the allowance and disallowance of their claims against the Government, in some instances, will represent the difference between solvency and bankruptcy.

For these reasons, it is especially important that inventories be reduced to a minimum so that the difficulties of termination and the impact of an unsuccessful termination upon the financial structure of the corporations involved will be as small as possible.

During wartime it has been natural that large inventories have been built up. A very large amount of the contracts were cost-plus contracts, and many of the fixed-price contracts were so loosely priced that they had to be renegotiated to prevent excessive profits and thereby became in effect cost-plus-whatever-the-Government-would-allow-as-profit contracts.

Since they were operating with Government money and since they were urged to make speed the primary consideration, the businessmen naturally ordered all their materials and parts as far in advance as they could obtain delivery. They would be blamed if schedules could not be met for lack of materials or parts, and they would not be blamed for ordering more than they could use. Some of the worst offenders in this respect were the Army, Navy, and Maritime Commission themselves. The result was that huge quantities of raw materials were ordered before they could be processed and that throughout industry, and in the services themselves, huge stocks of semifinished materials and parts were accumulated.

One of the principal purposes of the Controlled Materials Plan was to limit the amount of inventory to that necessary so as to enable the spread of scarce materials to other desirable uses.

As of June 30, 1943, industry reported to the War Production Board that it held the following amounts of the materials:

		Inventory June 30, 1943	
Material:			
Carbon steel	tons	7,399,150	
Alloy steel	do	1,155,991	
Copper products and alloys	pounds	575,253,087	
Aluminum	do	405,481,869	
Zinc	do	235,961,394	
Nickel	do	13,551,157	

The holdings in excess of metal necessary for 60 days of production, as reported to the War Production Board by the individual firms was:

		Excess reported	
Material:			
Carbon steel	tons	2,296,564	
Alloy steel	do	333,175	
Copper	pounds	176,804,375	
Aluminum	do	89,622,169	



The extent and importance of the above inventories can be judged by contrasting them with the total production of the primary metals for the year 1939:

Material:		1939 production in the United States
Aluminum.....	pounds.....	327, 090, 000
Copper.....	short tons.....	1, 009, 515
Zinc.....	do.....	507, 236
Nickel.....	do.....	394
Carbon steel.....	long tons.....	44, 959, 226
Alloy steel.....	do.....	2, 828, 384

The increase in inventories is also evidenced by the following table prepared by the Department of Commerce:

*Manufacturers' inventories, by stages of fabrication*<sup>1</sup>

End of month	Raw materials	Goods in process	Finished goods	Total
1939: December.....	\$4, 515, 000, 000	\$1, 889, 000, 000	\$4, 255, 000, 000	\$10, 659, 000, 000
1943: June.....	8, 057, 000, 000	4, 813, 000, 000	4, 349, 000, 000	17, 219, 000, 000

<sup>1</sup> Classification by stages of fabrication is as reported by manufacturing companies and does not necessarily reflect economic stages of fabrication.

While manufacturers' inventories of finished goods remained almost stationary, inventories of raw materials increased by 73 percent and inventories of goods in process increased by 155 percent. There would be an even greater disparity in these figures, if it were not for the fact that the declining inventories of civilian goods and the decreasing rate of manufacture of such goods tended to offset a large part of the increase in inventories of war goods.

At this stage of the war, the procurement agencies have had the benefit of several years of experience, and are much more nearly able to determine their needs. Also, the manufacturers have produced the articles and should now be able to determine exactly what materials they will need, and when they will need them. There is, therefore, no longer the same excuse for having so large a backlog of raw materials, semifinished materials, and parts.

Every effort should be made by the War Production Board, the procurement agencies themselves, and industry to reduce the amount of such materials to a minimum. To the extent that the controlled materials plan has been put into effect and is working, there is little excuse for any contractor having in his possession more materials than those allocated under that plan. Consideration should therefore be given to disallowing any payment upon termination of contract, for materials in excess of those permitted under the controlled materials plan, except where the accumulation of excess materials was specifically authorized.

#### DISPOSITION OF SURPLUS MATERIALS

Even if inventories are reduced to a minimum, the Government will have to face the problem of disposing of huge stocks of materials. This might be done through the organization of a Surplus Commodities Corporation, which might be engaged in liquidating operations over a number of years. It might also be done through the procurement



agencies themselves. The latter procedure would have the disadvantage that there might be different policies followed by the several different agencies and that they might operate without full knowledge of the activities of each other. Any such liquidating operations would constitute a specialized marketing job bearing no relation to a military function and would have a major effect upon markets and market prices. If the inventories are very large and the market job unskillfully done, the markets and the confidence of business might be so seriously disturbed as to retard conversion from war time to peace time production. This happened in 1920-21 after the last war, and a number of businesses failed because of large inventories and the inability to dispose of them in competition with the Government at prices approaching the wartime costs of acquisition.

Consequently, every reduction in inventory or in materials and parts, warehoused or in course of production, that we can make between now and the end of the war will not only reduce the cost of the war, but will have a substantial and beneficial effect upon post-war conversion. We must not use scarce materials and even scarcer manpower to create parts and semifinished articles, the chief effect of which will be to depress our post-war economy.

The War and Navy Departments and other agencies of the Government will also possess large tracts of real estate acquired for war purposes, much of which will have to be reconveyed for private use. Arrangements for this purpose will have to be made.

#### REMOVAL OF GOVERNMENT PROPERTY FROM PRIVATE PLANTS

Many private plants have machine tools, dies, jigs, and fixtures which were installed for the purpose of enabling the plants to produce war matériel, but the title to which is in the Government. In many cases such articles, plus the inventory of parts and materials, occupy a considerable portion of the floor space and would have to be removed before steps could be taken to make the private plants ready for the production of peacetime goods.

When private plants were converted to the production of wartime goods, the owners were dealing with their own property and could issue orders for its immediate removal, even though in many cases there were no storage facilities and the articles had to be stored in the open, subject to deterioration from weather.

In approaching the comparable problem of converting back to the production of peacetime goods, the corporations will be hampered by the necessity of obtaining Government permission to remove the articles. If there is delay in the granting of such permission or if the permission is made conditional upon obtaining warehouse facilities which may not be available, substantial delays might occur which, in the aggregate, would have a deterrent effect upon industry.

To avoid such a situation, plans should be made now by the procurement agencies involved and procedures determined so as to permit the expeditious removal of Government property from private plants.



## NECESSITY OF PROVIDING WORKING CAPITAL FOR BUSINESS

There necessarily is a lag between the time when plants are tooled, jigs and dies are built and materials are acquired for processing on the one hand, and the time when finished articles can be delivered and the payment therefor received. During this interval, business must have sufficient working capital to finance the operations. Our pre-war production for the years 1935 through 1939 averaged only about \$82,000,000,000 per year, as contrasted to approximately 100 billions in 1929 and approximately 188 billions estimated for 1943.

We hope that after the war we will have a civilian business very much greater than that during the pre-war peacetime years. The Department of Commerce has estimated for 1946 that it would be 142 billions expressed in 1940 prices. Yet the working capital of our corporations is geared to a peacetime economy of only 82 billions.

Some corporations have been able to improve their financial position during the war by reason of the profits which they made during the war, but, by and large, taxation and renegotiation and the efforts of the procurement agencies to prevent excessive profits have prevented corporations from greatly increasing their working capital at the expense of the Government.

This is as it should be, because we have been determined that there should be no profiteering in this war. The Congress has taken various tax actions which will assist corporations in meeting post-war problems. These include provisions for accelerated depreciation, and amortization of emergency facilities, for adjustment of taxable income retroactively to reflect changes in inventory values and to cover a 2-year instead of a 1-year period. But with all these steps, many corporations will not have sufficient reserves.

In order to provide part of the reserves which such corporations would have to have after the war, Senator Carl Hatch, chairman of the subcommittee on renegotiation of this committee, introduced an amendment to the renegotiation statute, by which he suggested that the tax law be amended so as to provide:

(1) That reserves claimed by taxpayers in amounts not exceeding 20 per centum of their taxable income shall be deductible as an operating expense in computing Federal income and excess-profits taxes, subject to the following conditions:

(2) that the amount set aside in such reserves be invested in a special issue of nonnegotiable, non-interest-bearing government bonds, redeemable at any time prior to a date 18 months after the cessation of all hostilities;

(3) that simultaneously with the liquidation of such securities, the taxpayer must return the amount derived from such liquidation to his taxable income for the year of liquidation.

This plan has the advantage that it automatically differentiates between those contractors who have a serious post-war expense and declining income problem and those who have not. The former would get the maximum benefit of this provision, while the latter would get little or no benefit from it. Moreover, the plan would keep all moneys required for these intangible post-war items now in the form of Government securities, making such funds completely available for war purposes until they are actually needed for post-war purposes.



The committee has checked with a number of the corporations to ascertain the extent to which they believe that reserves should be set up now for post-war purposes, and from an examination of the returns of some of those corporations is of the opinion that such a provision would constitute a major assistance to corporations which in fact will have large post-war needs without providing a vehicle for the escape from taxation of those obtaining excessive profits.

On the whole, the interests of business have been well safe-guarded where they are consistent with fairness to the Government. The difficulty of working capital arises because business has been expanded with Government capital during the war, and we want it to continue to function after the Government ceases to provide, as it does now, an unlimited buyer and prompt payment for all that can be produced.

During the war, business has obtained relatively little additional private capital from the flotation of security issues.

In addition, business will probably require more working capital proportionately than it did in the years 1935 through 1939. During that time, business operations had become relatively stabilized. Through the extension of part-time payment plans and other special means of financing, and the working out of an elaborate program of commitments for the purchase of products by dealers and distributors prior to their manufacture, business in general had reduced the amount of working capital required.

When we seek to convert war production to peacetime production, many corporations will find that their marketing organizations and practices will have to be modified substantially; others will find that it will be necessary for them to carry the cost of production for a longer period than they have previously been accustomed to; and some will be new businesses which had little or no pre-war experience or marketing organizations. The latter category includes the aircraft industry, which has grown from a very small industry to a very large one, and which will have to have large sums for working capital, if it hopes to enter post-war competition with other major industries in the United States.

Many of these corporations have argued in connection with the renegotiation of their profits that they should be allowed to retain sufficient sums to provide working capital to do business later. This argument, of course, amounts to a request that the Government allow them excessive profits on the theory that the economy would benefit by their being sound, healthy companies capable of engaging in profitable post-war operations which would produce employment and provide articles necessary for civilian use.

There may be some justification for this position, but it is unfair to existing businesses and to the taxpayers to subsidize their competitors at taxpayers' expense, and primarily the obligation is on the corporations that need working capital to seek and obtain funds for that purpose on their own initiative.

To the extent that it is possible, the additional working capital which is needed should be obtained through the sale of bonds and stocks to private investors who have confidence in the corporations in question and are willing to invest in their future. To the extent that private banking has the facilities to bring such investors and the corporations together, it should be encouraged to do so. Measures to expedite and facilitate this should be considered and adopted where consistent



with the protection of the investing public against a repetition of the financial frauds and excesses of the twenties.

However, it will be difficult if not impossible for private banking to provide sufficient working capital soon enough. It will, therefore, be necessary for the Government to formulate plans to supplement private banking. Some agency, such as the Reconstruction Finance Corporation, will have to be ready to provide working capital quickly to worthy business corporations which would otherwise not be able to obtain it. This should be confined, as was the Reconstruction Finance Corporation, to strictly banking operations and should not be used as a vehicle to place the Government in business or by which the Government would determine the articles to be manufactured or the prices to be paid for them. In short, it should supplement private banking where private banking is not able to do the job, but should not try to supplant it or to place the Government in control of business.

Every effort should be made to induce the corporations to obtain their working capital through the investing public and not by loans from a Government agency. In order to accomplish this purpose, consideration should be given as to whether Government loans or loans guaranteed by the Government should not bear a higher interest rate than private loans and as to whether the profits to be made by corporations with working capital loaned by the Government or guaranteed by the Government should not be taxed at a higher rate.

It is vitally important that the standards upon which such loans can be obtained should be determined as soon as possible, so that corporations could determine now whether they would be eligible for Government loans and, if so, the amounts which they could borrow and the terms upon which they could borrow.

In general, the corporations which we relied upon for the production of war goods and which made good records in such production, ought to be regarded as worthy of financial assistance through loans for working-capital purposes, so long as care is taken to provide practical banking standards for the protection of the Government, and to prevent favoritism or discrimination in the distribution of funds.

#### ACQUISITION OF GOVERNMENT-OWNED PLANTS AND FACILITIES

Many corporations will want to acquire, by lease or purchase, the right to use for civilian production plants and facilities erected at the expense of the Defense Plants Corporation or the War and Navy Departments. In many cases, the contracts for the construction and management of the plant and facilities provide specific terms upon which they can be acquired. These were agreed upon at the time that it was determined to erect the facilities and would not necessarily bear a proper relation to the value of the plant or facility at the end of the war. Many other contracts simply provide that the corporation operating the plant or facility can have the plant or facility if it equals or betters all other offers.

It must be recognized that the value of the plant or facility is not its cost to the Government. In the first place, construction costs are considerably greater in wartime than in peacetime. In the second place, the facilities were specially designed for the production of particular war items, and an equal expenditure of materials and labor for facilities specially designed for particular peacetime goods would produce a plant superior for that purpose. Government must,



therefore, be prepared to lease or sell these facilities in accordance with a realistic understanding of their true value to those interested in acquiring them. If the Government asks too much for these facilities, they will not be acquired by private business, and their entire cost will have to be written off as loss. This would not only greatly increase the cost of the war, but it would prevent the utilization of these facilities, the finest and most modern in the world, to provide jobs for returning soldiers and sailors and to produce, in mass quantities, the civilian goods necessary to maintain and increase the standard of American living.

At the same time, there must be no gift of Government-owned facilities to favored corporations, and the contracts for the construction and operation of such plants should not permit competitive advantages to one corporation or industry at the expense of another. To prevent this, the committee, since its inception, has checked and rechecked a number of the principal contracts for the construction and operation of Government-owned plants and facilities. The committee has been particularly interested in making certain that the plants, as constructed, will be capable of operating at least as efficiently as those owned by private industry.

The committee believes that corporations engaged in operating Government-built plants should be giving consideration now to the extent to which they could utilize such plants in peacetime operations, and should negotiate now with the Defense Plants Corporation for the purpose of ascertaining the terms and conditions upon which such plants could be made available to them after they are no longer needed for war purposes. Here again, the procurement agencies should give as much notice as possible of the date when the plants can be made available.

Since most of these corporations have insufficient working capital, it is quite clear that most of them could not afford to pay cash for Government-owned plants operated by them until and unless they can obtain additional capital by the sale of stocks and bonds to private investors. This would take time. For this reason, it is desirable that arrangements be made for leasing such plants to the private corporations operating them upon fair terms, which might include an option on the part of the lessee to purchase the plant within a specified time and to apply rentals paid under the lease as part payment of the purchase price.

It has also been suggested that the Government might attempt to value the plant for peacetime uses and then sell it under an arrangement whereby the corporation would pay for it over its useful lifetime by annual payments equal to the amortization plus interest on the unpaid balance.

#### INTERNATIONAL SITUATION

Our domestic economy will be greatly affected by the determination which is to be made of our international problems.

If there is to be an international police force, our military forces will have to determine the nature of the equipment to be supplied to our portion of it. In those categories where obsolescence is greatest, plans will have to be made for new weapons, for this war has established the absolute necessity of developing new and better weapons in advance of all possible enemies.



We know now that we can build airplanes with longer range and greater weight-carrying capacity, equipped with lighter and more powerful engines, and that we can build lighter and faster naval craft.

A limited and sound program in this direction would be good insurance and would prevent the scattering of engineering and design talent that is essential to the development of superior military matériel. We must not, like France, rely upon a vast mass of warehoused obsolete matériel or, like England and ourselves, upon our ability to produce and fabricate huge quantities of the basic raw materials.

Many of our industries, particularly agriculture, will be greatly dependent upon the extent of our foreign trade, which, in turn, will depend upon the policies we adopt with respect to lend-lease and rehabilitation. Such programs are now so huge that their sudden termination would have serious effects upon important parts of our economy, and yet their maintenance constitutes a most serious burden upon our taxpayers and, in some cases, a serious drain upon limited natural resources.

Consequently, these programs should be determined as soon and as definitely as possible and made known to industry and to the public. Furthermore, every effort should be made to reduce the cost to our taxpayers to a minimum, both by obtaining reverse lend-lease, and by compelling the recipients of lend-lease to utilize the resources they have to a maximum before requesting aid from us. In the latter connection, we should never forget that lend-lease was originally authorized by the Congress, solely because the English and others whom we desired to assist did not have sufficient American exchange to purchase materials needed by them. Lend-lease was never intended as a device to shift a portion of their war costs to us, but only as a realistic recognition that they did not have the means with which to pay for materials they needed.

Before authorizing lend-lease, the Congress expressly requested and received assurances that lend-lease assistance would be extended only where the recipient was fully utilizing all of its own resources. Such resources, of course, include foreign-held American securities and foreign-held securities which control basic raw materials abroad.

For example, if England cannot pay us dollars for petroleum needed by her and cannot, by reason of a shipping shortage or other situation, procure the petroleum she needs from the petroleum resources she controls in Asia, South America, and the Dutch East Indies, consideration should be given as to whether she should not pay for the petroleum obtained from us by transferring to us her ownership of an equivalent value of foreign petroleum reserves or of the English-held securities of the corporations having title to such reserves.

Similarly, we have had to supply rubber and rubber products to England, which did not build an adequate stock pile and which, through the English and Dutch controlled International Rubber Regulations Committee, hindered Mr. Jesse Jones in his efforts to obtain a stock pile of rubber. (See Committee report on Rubber, dated May 26, 1942, pp. 25-30.) Consideration should be given now as to the terms and conditions under which any such rubber monopoly should be continued after the war. We should insure that we will never again be the victims of a plan like the Stevenson



plan, by which we were forced in the twenties to pay exorbitant prices for rubber at the same time that we were being called shylocks in the English press for requesting repayment of war loans which we had made to England.

Attention should also be given to the possibility of acquiring rights in the deposits of British-owned resources of nickel, copper, tin and iron in countries outside England, and the right to receive manganese from Russia after the war in return for lend-lease articles furnished to it now.

#### LABOR

No business can determine the cost of its products, and consequently, the selling price, until it knows the conditions under which labor can be obtained, because the cost of labor constitutes a large portion of the cost of production. During the war, the cost of living, particularly the cost of food and clothing, rose very much above the levels prevailing in peacetime, and labor naturally asked for increases to compensate it. The increases that were obtained differed with different trades and with different sections of the country. Also, the actual working time was greatly increased in most war industries, with payment of overtime for work in excess of 40 hours per week, and a consequent increase in the total wage or "take-home" per week.

The return to peacetime operations will require many wage adjustments. Business must be fair to labor, but labor will have to take a realistic view of the situation. Specifically, it must understand the importance to labor of stabilizing working conditions in a manner that will permit increased production and a widespread distribution to labor of the articles produced. In wartime, additional labor costs are absorbed by the Government. In peacetime, they have to be taken out of profits or added to prices. Many industries will not have a sufficient profit margin and will not be able to increase prices and still sell their products in competition with other products filling similar wants. A demand for too much in such an industry would simply result in closing the plants.

Much will depend upon the courage and ability of leadership in labor. Labor leaders will find it difficult to walk the tightrope of getting the best terms possible for their members and at the same time take a realistic approach to hard facts, often made more difficult by lack of control over their members and by fear of raids by rival unions.

The great gains which labor has made must not be imperiled. But labor, like business, must recognize and fulfill its obligations to society. The alternative is Government regulation. The decision rests with labor.

The problems facing labor leadership are further complicated by the industrial progress made as a result of war activities in developing new materials and new processes. This means either that some of the craft unions will have to make new determinations of their several jurisdictions and the conditions under which they work, or that they will insist upon a continuance of the present situation. The latter course, in many instances, would result in jurisdictional disputes, and possibly even the failure to obtain production of new articles or of old articles by cheaper means.



This situation will be especially acute in the housing industry, where prefabrication and the use of new materials have an opportunity to revolutionize housing, with the result that every worker in the United States would have an opportunity to have improved housing for his family. To do this, however, it will be necessary to revise some municipal building codes and some of the conditions under which the building trades operate. If possible, such revision should be made by the building trades, themselves, so as to protect all the rights of labor and, at the same time, to enable them and all other laborers to have better housing. If progress along these lines can be made, housing can become a great industry, particularly useful in providing jobs during the period of conversion from wartime industry to peacetime production.

#### PUBLIC WORKS PROGRAM

It is also important that the State and local governments give consideration now to programs for the construction of public works such as highways, schools, slum clearance, and sewer and water projects. These projects are of secondary importance when compared to those of private industry for the production of consumer goods. The latter are essential to a sound economy, but public works projects, if planned now, can be undertaken immediately after the termination of the war, and would provide cushion jobs until private industry is able to get into production.



## PUBLISHED REPORTS

The Special Committee Investigating the National Defense Program, United States Senate, pursuant to Senate Resolution 71 (77th Cong.), authorizing and directing an investigation of the national defense program.

Report No. 480 (77th Cong., 1st sess.):

- Part 1—Aluminum.
- Part 2—Camp and Cantonment Construction.
- Part 3—Priorities and the Utilization of Existing Manufacturing Facilities.
- Part 4—Statement of Committee Policy.

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Report No. 480 (77th Cong., 2d sess.):

- Part 5—Annual Report of Committee Investigations.
- Part 6—Light Metals, Aircraft, and Other Matters.
- Part 7—Rubber.
- Part 8—Conversion to War Production Program of War Production Board.
- Part 9—Conversion Program, War Production Board. (Accompanies pt. 8.)
- Part 10—Investigation in Connection With Senator Albert B. Chandler's Swimming Pool in Kentucky.
- Part 11—Manpower.
- Part 12—Shipbuilding at the South Portland Shipbuilding Corporation.
- Part 13—Gasoline Rationing and the Fuel Oil Situation.
- Part 14—Lumber.

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Report No. 10 (78th Cong., 1st sess.):

- Part 1—Barges.
- Part 2—Farm Machinery and Equipment.
- Part 3—Interim Report on Steel.
- Part 4—Second Annual Report.
- Part 5—Renegotiation of War Contracts.
- Part 6—Labor.
- Part 7—Concerning Faking of Inspections of Steel Plate by Carnegie-Illinois Steel Corporation.
- Part 8—Shipbuilding and Shipping.
- Part 9—Conflicting War Programs.
- Part 10—Aircraft.
- Part 11—Comparative Merits of Rayon and Cotton Tire Cord.