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THE CONGRESSIONAL FRONT
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RENEGOTIATION

The word "re-negotiate" has come to be quite a meaningful and impressive word in the business life of today. It refers to the re-negotiation of war contracts. In his message to Congress, the President requested a continuation of the law providing for the re-negotiation of war contracts as a part of his five-point program. The controversy over this matter refers more to the future than to the present from the standpoint of American industry and it might be well to consider its implications.

IT'S GENESIS

When our industries were asked to convert from the manufacture of peace time products to munitions of war, many of them were venturing into strange fields. A washing machine manufacturer for example who was asked to produce shells had no precise idea of what the cost might be and what price he should have. Nor did the military authorities always have an accurate idea of costs, especially when a plant had been re-tooled and finally got into mass production. An example of this is machine guns which on a mass basis could be produced for about one-fourth of what the first of such guns cost. Thus it was that many of the contracts first made for war goods showed high profits and it was suggested that they be re-negotiated on the basis of the experience of the manufacturer in producing such goods.

SEVERAL RENEGOTIATION ACTS.

The first act which authorized the re-negotiation of such contracts came in the form of an amendment to a Navy bill and was so general in its terms that difficulties soon developed over the basis that should be used in reforming war contracts. Later, it was amended in several particulars to make it more specific. In late 1943, when the House passed the new Revenue Act, a title was included which modified the re-negotiation act still further. Among other things, it provided a time limit when re-negotiation must be undertaken by the government, it excluded contracts under \$500,000, and also provided a review of the results of re-negotiation by the United States Tax Court so that a person who felt that he had received unfair treatment would have his day in court.

THE RENEGOTIATION PROCESS.

The method of re-negotiation is not very complicated in its essential pattern. The War or Navy Department or the Maritime Commission would examine a manufacturer's books, determine what his costs were, whether improper items were included, what his profits were, how they compared with profits in the pre-war period on the same items, how they compared with profits by other manufacturers of the same item, and what a fair profit would be. After a figure had been reached, conferences would be held to arrive at an agreement if possible. In thousands of cases, agreements were reached and the manufacturer turned over the excess profits to the government. In many cases however, there was disagreement. The matter was finally referred to the Assistant Secretary of War and his determination was final. There was no appeal to a court.

ATTITUDE OF INDUSTRY.

Insofar as the author of the Front has been able to determine, there was no objection to re-negotiation on the part of industry. In fact with few exceptions, industry felt that contracts should be re-examined and re-negotiated when excessively high profits were shown. The real controversy came over how much a producer of war goods might keep as a kind of reserve to be used when he was asked to re-convert his plant to the manufacture of peace-time goods so that he could create jobs as soon as hostilities were over. Industry argued that if they were stripped of reserves and working capital, it would have to go to the banks and borrow before it could get back into the production of peacetime goods. The re-negotiators argued that industry could get funds from the government in the form of V-loans. Industry argued that they would have to start peacetime manufacture with the handicap of debt. Government argued that industry's post-war condition was not a proper factor to be considered in re-negotiation. It was this situation together with the need for speed in re-converting industrial plants from war to peace that impelled the House to reform the present re-negotiation law. And there it stands- a matter of controversy.