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ANNUAL REPORT

of

Under Secretary of War

For Fiscal Year Ending June 30, 1945

WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

ANNUAL REPORT OF THE UNDER SECRETARY OF WAR
FOR THE FISCAL YEAR 1945

Dear Mr. Secretary:

The fiscal year 1945 witnessed the climax of our procurement of munitions. We had reached top production many months earlier and had built up a tremendous store of supplies and equipment. But the all-out use of what we had produced and were producing had just begun, for in Europe our troops were still contained in the Normandy bridgehead and in the Pacific had not yet approached the Philippines. Ten months later Germany collapsed in defeat, after a campaign which brought together more men and materiel than had ever before been grouped in an American army. By the end of the same period Japan had been brought to the brink of disaster by the greatest naval force the world had ever seen, by the largest army ever to operate at such a distance from its home shores, and by an air force of unparalleled range of action and concentrated hitting power.

The impact of this year of battles upon our munitions program was different in important particulars from that of the years which had been devoted primarily to the preparation and deployment of initial equipment. We had provided our troops with an unprecedented variety and an abundance of weapons in order, wherever possible, to save lives by spending materiel. However, the wealth of equipment which was carried by - and which carried - the American soldier made doubly formidable the task of keeping him supplied during the campaign. It would have been useless to give him twice the fire power of his enemies unless we could supply him with twice the amount of ammunition. The multitude of tanks and trucks with which he took the field would have immobilized him - instead of increasing his mobility - had we failed to provide fuel, tires, and spare parts in ample quantities. The swarm of airplanes, which covered him overhead would have disappeared from the skies had we failed to meet the requirements for high-octane gasoline or been unready to replace worn and broken machines.

This task of making good the expenditure and wastage of campaigning involved, not only procurement on a vast scale, but great uncertainties of procurement planning. Requirements for initial equipment can be calculated with reasonable precision, but rates of expenditure and replacement during a campaign are highly speculative. Weather,

the pace of movement, and the unforeseeable consequences of enemy action all inject elements of uncertainty. However, when conducting such a tremendous and all-out campaign as that which began on D-Day, we could not wait for experience to answer our doubts. In war momentum is crucial. If a campaign bogs down because some critical item of supply is missing, it takes a many times greater expenditure to get it moving again than would have been required to keep it moving in the first place. Thus it is essential never to underestimate rates of current expenditure and, once a campaign has begun, never to be unready to meet the highest possible demand for replacement and current supply.

That was our major task during the past fiscal year. Because of the marvels of modern transport and the excellence of our supply organization, shortages even in distant theaters could be repaired with amazing rapidity. But where shortage sprang from inadequate production, such quick repair was out of the question. To reopen closed facilities, or to build new ones, in order to make good a production deficiency, required months. Only the provision of ample margins, in order to allow for unexpectedly large requirements, could protect us against inadequacies which might cripple operations in the field and lose thousands of lives which, with greater foresight, could have been saved.

The events of the year proved the need for these ample margins. The delay in breaking out from the Normandy bridgehead, and the pause before the German frontier defenses, called for a use of heavy artillery far beyond what we had originally anticipated. Even though we had realized, before the landing in France, that our requirements might have to be revised upwards, the task of increasing the production of heavy guns and ammunition took time and became a critical problem. We also found that the rapid movement and continuous fighting of the advance across France used up our tanks more rapidly than had been expected, and that the appearance of heavier German tanks produced an immediate need for more of our new tanks, which could slug it out with these formidable adversaries. The nearly complete paralysis of the French railroad system, which was a tribute to the effectiveness of our bombing operations, placed an added burden upon our motor transport and multiplied our requirements for heavy trucks. The need for more heavy trucks, and for greater use of those we had, magnified the demand for heavy duty tires, an item in which we were already in short supply.

In making these adjustments of production, and making them quickly enough to keep the campaign moving, we faced the fact that we had very few reserves of productive capacity. In some cases materials were short, but for the greater part manpower was the problem. With production in full swing, and military operations demanding a constant flow of replacements to make good losses in battle, there was very little reserve manpower with which to effect a rapid increase in the production of items for which there was a suddenly increased demand. Furthermore, the production of many of the items most urgently needed required either special skills or labor of an extremely arduous nature.

At a moment when new employees were welcome in almost all of the many branches of war production, it was not an easy task, under existing regulations and with the inducements available, to secure workers skilled or rugged enough to meet our critical needs.

Nevertheless, although the national service legislation for the thorough mobilization of manpower which the War Department requested was not granted, these problems were solved. In some cases the margin of success was very narrow, but no military operation was seriously affected by shortages in production. We were able to maintain, through all the vicissitudes of campaigning, the tremendous superiority in materiel which has already saved time and lives and which, in the end, will save money by shortening the war.

But the maintenance of production in critical items has been only one of the serious problems of the year. At the same time that our war effort was nearing its climax, both in field and factory, we had to begin preparations for reducing it. Preparing to put a vast natural effort into reverse, while it is still gaining momentum forward, is an extremely difficult task, one which makes cruel demands upon the judgment of those responsible for decisions of policy. Special circumstances of this war have doubled the difficulty.

Because of both the limitations of our own strength and the difficulty of reaching Japan, we had to concentrate first upon the overthrow of Germany. This meant that, while the two-front war was still under way and its length could not be precisely foreseen, we had to plan a curtailment of production which would leave us enough to win in the Pacific but would eliminate production which the close of hostilities in Europe rendered no longer necessary.

Such plans were not easy to make. The Pacific war, in particular, was full of incalculable factors. Furthermore, we had to recognize that, in either Europe or the Pacific, our bold amphibious operations might suffer serious setbacks. Any major repulse would have meant additional procurement demands. In the satisfaction we take in the victories we have achieved, it is easy to forget that the nearly uniform success which has attended us is almost unprecedented in warfare. Our procurement plans could not afford to assume such unbroken good fortune.

We were also fighting an enemy whose will to resist might not - and in the case of Germany at least did not - conform to the normal expectations of war and politics. By the usual standards of evaluating military situations, Germany ought to have surrendered by the end of the summer of 1944, and we were gravely tempted to assume that she would. Had we yielded to that temptation we would have cut back our production too soon, and the cost of our error might have been a year or more of additional war. We could not safely assume any less determined attitude on the part of the government of Japan.

The War Department has not been indifferent to the tremendous financial cost of war. By frequent review of requirements, greater efficiency in production, closer pricing of its purchases, and the reduction of excessive profits by the renegotiation of contracts, tremendous savings have been effected. But the only safe avenue to a reduction in the cost of war is quick victory. War, especially under modern technical conditions, is full of surprises ready to inflict penalties upon those who calculate too closely, penalties which are always written in blood and treasure and which may, in the form of revolutionary technical surprises, turn victory into defeat. Had our victory in Europe been delayed another six months, who can be sure we would have won it?

In the face of all these uncertainties, the only sound policy was one of sober pessimism about the length of the war and the size of its requirements. The cost of any excess war production, should fortune favor us more than we had reason to expect, was sure to be less than the cost of reverses and delays which might have resulted from hopes which proved to be too optimistic.

Production

The total production for the fiscal year 1945 was approximately the same as that of the previous year. The Army Service Forces obtained 23.1 billion dollars of equipment and supplies as against an adjusted figure of 21.9 billion for the year before. The Army Air Forces expended 8.9 billion as against 9.4 billion the previous year, and procured an airframe weight of 719 million pounds as against 742 million. Total production figures, however, obscure the fact that the rate of production in 1945 rose to an appreciably higher figure than that of 1944. Several weeks before the end of the fiscal year production felt the effect of cutbacks made, first in anticipation of, and then subsequent to the surrender of Germany. Had the war in Europe lasted through the summer, the production total for the fiscal year 1945 would have been considerably higher than for any other year of the war.

Within the over-all production picture there were many details in which 1945 differed appreciably from 1944. In the Army Air Forces there was a marked increase in the procurement of very heavy bombers and transport planes, and a marked decrease in light and medium bombers and trainers. In the Army Service Forces a downward trend in procurement late in the fiscal year 1944 was replaced by an upward trend in August which continued until March 1945, in which month there was a record delivery of 2.1 billions of equipment and supplies. About 50 per cent of all the deliveries to the Army Service Forces went to the Ordnance Department. The total of the deliveries to the Ordnance Department, however, was a little less than 1944, in spite of the fact that the deliveries of heavy field artillery were almost double and of heavy field artillery ammunition three and a half times those of the year before. The Quartermaster Corps received about 30 per cent of all the

deliveries to the Army Service Forces, an increase of 30 per cent over Quartermaster procurement of the previous year. The Quartermaster Corps purchased over 80 per cent of the subsistence of the Navy, the Coast Guard, the Marine Corps, the Veterans Administration, and the War Shipping Administration. The cost of subsistence for the Army was about 3.8 billion dollars.

There was no substantial change during the year in the administration of Army procurement. Under the supervision of the Under Secretary of War, the Army Air Forces and the Army Service Forces continued to perform the detailed work of supervising production and procuring supplies. The Office of the Under Secretary assisted in the solution of particularly difficult problems. The Under Secretary represented the War Department on the War Production Board, the War Manpower Commission, and other special and inter-agency boards which dealt with war production and related problems.

On 1 June 1945, after several months spent on a special assignment for the Army Air Forces, Lieutenant General William S. Knudsen, the Director of Production, left the Army to return to private life. General Knudsen played an invaluable role in the development of our munitions program. After serving in a leading position on the Advisory Commission to the Council of National Defense, and then in the Office of Production Management, he came to the War Department in 1942 as Director of Production. In this post he added to the debt which the nation already owed him. With a genius for spotting production difficulties and for finding ways to solve them, he moved tirelessly from problem to problem. Through his efforts both individual factories and entire programs, which might have fallen behind, were kept up to schedule. He was particularly instrumental in solving production difficulties which, otherwise, might have delayed the appearance of the B-29 bomber in action. In expediting that program General Knudsen made a notable contribution to the shortening of the war.

The year saw shortages in various materials essential to Army procurement. The need for stepping up the production of heavy artillery and heavy artillery ammunition has already been mentioned. Chiefly because of this there was a steel shortage in December 1944. The requirements for the M-4 floating bridge and increased requirements for aircraft produced an aluminum shortage. A greater need for Signal Corps communication wire led to a more than twofold increase in production, but the requirements were never fully met. Because of the enlarged ammunition program brass was in short supply. The tremendous strain on motor transport after D-Day produced a shortage of tires, particularly of the heavy duty type. In the manufacture of tires there were shortages of both cord and carbon black. The needs both of winter campaigning in Europe and of prospective campaigns in the Pacific expanded the demand for cotton duck beyond our immediate capacity to meet it, even though production was doubled and the output

of large tents increased from 10,000 to 100,000 per month. The production of both light-heavy and heavy-heavy trucks fell short of requirements. There was an enormous increase in the need for wool fabrics. Army deliveries of wool and worsted increased from a little less than 13 million yards in the first quarter of the fiscal year to 56 million yards in the last quarter. A decline in fibre stocks produced a shortage in cordage. Lumber was short, principally because of manpower difficulties. Many other items, although not actually short, had only very slender margins of sufficiency.

Although none of our military operations were curtailed in any major fashion by these shortages, curtailment was just barely avoided. The reappearance of shortages, which many people believed to be safely behind us, illustrates again the uncertainty of war and the impact of that uncertainty upon supply. Some shortages sprang from tactical delays which, by prolonging operations, added to the amounts required to win final victory. The pause during the winter in front of the German frontier defenses added to requirements in this fashion. Other shortages were the result of more rapid progress than had been expected, which created a need for certain supplies earlier than had been anticipated. The unexpected speed of our operations in the Pacific created additional burdens of this type.

It was fortunate that our original calculation of requirements allowed some margin for these enlarged demands. Had we not been ready to advance into the Rhineland at the moment when we did, the rapid development of German jet-propelled planes might have challenged our control of the air, and other new weapons might have joined them to prolong German resistance. Had we not possessed sufficient supplies to take advantage of rapid tactical advances in the Pacific, the Japanese might have been able to reorganize and deny us many of the fruits of success in battle.

A high general rate of production is no cause for complacency so long as there is a possibility that particular requirements of importance may surpass existing output. An army is no stronger than its weakest major item of supply. When production is at a peak it is, in fact, more difficult to correct underestimates of particular requirements, because of the absence of undeveloped or unutilized capacity, than it is when the general level of production has not reached its climax. When the forces of production are engaged upon every front, it is difficult to find the reserves with which to meet sudden contingencies, unless ample allowance has been made for them in advance.

Manpower

Although nearly a billion dollars worth of new facilities had to be initiated during the fiscal year, every effort was made to

meet new production requirements by a greater use of existing facilities. Where new facilities were created they took the form chiefly of tools and equipment for existing plants. There were relatively few cases of new construction or new floor space.

The principal difficulty, in nearly all our production problems, was that of securing adequate manpower. Necessarily, at a moment when production was at the highest level of the war, and the heavy fighting in Europe brought increasing pressure for replacements, it was not easy to secure workers to meet new, and often sudden, production requirements. The total of our new manpower needs was not great, but the detailed requirements often called for workers with special skills, or for work under arduous conditions or in localities to which the necessary labor had to be imported.

The essence of the difficulty was the fact that, although controls had been set up to keep workers from leaving essential work, no adequate method had been established to force them into new lines of war production as need for that work developed. The War Department had advocated National Service legislation in order to overcome this difficulty, but the legislation had not been passed. When the heavy production requirements of last winter again produced serious shortages of manpower, the War Department once more asked for National Service legislation, but again without success. In its absence various expedients had to be adopted, and War Department officials had to devote much of their time and energy to the development and operation of special measures without which production difficulties could not have been overcome.

Increased emphasis was placed upon the system of special manpower project teams which had proved its worth when manpower shortage impeded aircraft production in the Northwest in 1943. Although these teams took the time of valuable Army personnel, they were able to bring about a coordination of various groups, governmental and local, which helped greatly in solving particular problems. During the fiscal year special project teams worked on manpower difficulties in military tires, forges and foundries, the atomic bomb project, aircraft, cotton duck, carbon black, wool top, aluminum extrusions, high tenacity rayon, cotton tire cord, the Newark and New Bedford areas, and the Western Railroads. Although some of the problems these teams attacked were in industries in which the War Department had a direct and dominant interest, the majority were in fields in which the technical responsibility lay with some other agency of government, but in which the product of the industry was of vital, although indirect, concern to the War Department. The War Department has always been reluctant to devote its energies to work of this type and has done so only where the alternative was a probable failure to meet military production requirements.

The release or furlough of soldiers to meet manpower needs is another type of emergency action which the War Department was forced to take with increasing frequency during the year. By late 1944, labor shortages in plants producing critical munitions items were so great that the release or furlough of 11,763 soldiers had to be authorized. War industries which required a considerable number of soldiers to meet critical labor needs included: heavy ammunition - 3,000; military tires - 2,200; foundry - 1,000; cotton duck - 1,000; aluminum sheet - 1,000; bomb protection - 1,000; and tire fabric - 1,000. To meet redeployment problems the War Department furloughed, with great reluctance, 4,000 soldiers to the Western railroads.

The War Department has always been strongly opposed to the practice of sending men drafted for military service into industrial establishments. Military training and deployment schedules are upset, and there are many technical complications. Nevertheless, the labor shortage in certain areas of production during the past year has been so serious that, in the absence of an adequate over-all system of manpower controls, the War Department felt compelled to return to industry some soldiers being trained for combat in order that those already in combat might obtain the weapons they needed.

The unfortunate influence of the release of soldiers for industrial work is shown by the fact that, almost immediately after VE-Day, the War Department was deluged by requests from various industrial, professional, and governmental groups for the release of soldiers, in disregard of the point system. The War Department firmly resisted these requests for, if granted, they would have required the release of several hundred thousand men.

It has also been necessary for the War Department and other procurement agencies to participate in Selective Service procedures in order to guard against the withdrawal from industry of male workers whose skill and strength were essential to the maintenance of production schedules. By a deferment certification process, which screened the relative needs of war plants for young male employees, it was possible to fill military induction quotas without disrupting munitions production, although the task involved the heavy expenditure of time and energy by War Department representatives.

Use was also made of the so-called "work or fight" regulations of Selective Service as a means of keeping male workers from leaving war jobs, under penalty of induction into military service. These regulations were sponsored by the War Department in lieu of any other effective curb upon the quitting of war jobs. Although the process did serve to restrain men from leaving their jobs, it also forced the Army to induct, house, clothe, feed, and supervise individuals whom it did not want, and frequently could not even use. During the second half of the fiscal year, 10,641 men were inducted as job-jumpers and sent

to Camp Ellis for "work or fight" training. It is scarcely compatible with the patriotic service given by so many millions, to use the Army as a penal threat to compel a recalcitrant few to perform the civilian tasks which the safety of the nation requires of them.

Publicity and local recruitment programs were also developed in order to overcome labor shortages. The Industrial Services Division developed a many-sided publicity program to facilitate the recruitment of persons not normally employed, and to effect the voluntary transfer of workers from non-essential to essential work. It also sponsored numerous in-plant morale programs to reduce turnover and absenteeism. In cooperation with other government agencies, War Department representatives devoted much attention to devising programs for putting pressure upon workers to transfer from less essential to essential activities. Some of these programs were moderately successful, but others, in the absence of enabling legislation, yielded little.

Increasing use was also made of prisoners of war. By June 1945 some 140,000 prisoners were employed in the following industries: agriculture - 85,000; forestry - 25,000; food processing - 25,000; and other industries - 5,000. The use of prisoners of war in fields normally supplied by organized civilian labor raises certain problems which were, however, worked out in a way satisfactory to all concerned.

Recognizing that the use of foreign workers would help to remove labor shortages in certain industries, the War Department stimulated the placement of orders for foreign workers by plant managements, secured union agreement to their employment, and arranged for housing and other necessary facilities. At the urging of the War Department, an arrangement was made between the War Manpower Commission and the War Food Administration for the transfer to war industries of 5,600 foreign workers as soon as the close of the harvest season released them from agriculture. The War Department was also instrumental in bringing about the importation of 18,500 Jamaicans and Barbadians for work in industry. Although efforts to arrange for the importation of Mexican nationals for industrial employment were not successful, some 64,000 were recruited to work on the railroads most heavily engaged in the shipment of war goods.

Labor Disputes

The past fiscal year has seen a marked rise in labor disputes affecting war production. During that period there were approximately 1,100 strikes which directly touched War Department procurement and caused a loss of some 5,500,000 man-days of production. The peak came in June 1945 and 134 strikes caused a loss of approximately 1,350,000 days of production, 50 per cent more than during the whole year of 1942. Some of the strikes created situations far more serious than the over-all figures would indicate. The strikes at the Goodyear and Firestone tire and rubber plants stopped approximately 70 per cent of all aircraft tire production for several weeks at a time when stocks

were very low. Many Army officers were constantly engaged in assisting the National War Labor Board and the United States Conciliation Service in preventing or terminating disputes which threatened to interrupt the vital flow of supplies to the fronts.

Because of the lack of governmental machinery to compel compliance with War Labor Board orders, the President directed the War Department to take over and operate a number of plants. At the beginning of the fiscal year the War Department was still in possession of two facilities seized under earlier Executive Orders. During the year the Department was required to take over sixteen additional plants. These cases were about evenly divided between those in which management and labor refused compliance. At the close of the fiscal year the War Department was still in possession of eleven establishments. In all but two of these cases the continuance of possession was the result of non-compliance on the part of management.

Large numbers of Army personnel had to be diverted to take-over operations. For example, the services of more than 150 officers, enlisted men, and civilians were required at Montgomery Ward and Company. During the Philadelphia Transportation strike 10,000 troops were concentrated for protective purposes and for use, if necessary, in the actual operation of the transit system. The War Department was also called upon by the Office of Defense Transportation to furnish approximately 20,000 troops to operate and protect the operation of most of the trucks in the city of Chicago during a general teamster's strike.

Army-Navy "E" Award

In order to stimulate industrial morale, the Army Board for Production Awards granted the Army-Navy "E" to 697 plants. In addition, Star Awards were granted to plants eligible because they had maintained or exceeded the production records established at the time of their previous awards. Reports indicate that the award retained its incentive value and was as eagerly sought as before. Consideration was given, early in 1945, to the question of changing award policies after the end of hostilities in Europe. Minor revisions of policy were made in April, but changes in eligibility requirements were postponed until the post-VE-Day production picture was clarified. Those changes were ready for final approval at the end of the fiscal year.

Contract and Facilities Division

The Contract and Facilities Division in the Office of the Under Secretary acted for the War Department in arranging the financing of industrial facilities by the Defense Plant Corporation. Because of expansion in production and modifications of end products, a substantial

volume of Defense Plant Corporation facilities was required. Army Air Forces finance nearly all their facilities through Defense Plant Corporation, and the Ordnance Department, Signal Corps, and Chemical Warfare Service use the Corporation as the agency for the creation of a large portion of the productive capacity required by them. The year also saw substantial transfers of equipment between Defense Plant Corporation-owned plants in order to meet changes in production schedules and to obviate the purchase of new equipment. Because of substantial cutbacks during the year, negotiations were carried on with Defense Plant Corporation for new or different War Department uses for industrial facilities. Efforts were continued to make available for disposition for commercial uses those facilities no longer required by the War Department for war production.

In many cases production requirements could not be met without new or enlarged facilities. This was particularly true in the case of ammunition, heavy bombers, the development of jet and turbine propelled planes, and the production of the atomic bomb. To a large extent these expansions were accomplished by the use of Expediting Production Funds, which are controlled by the Under Secretary of War. During the fiscal year over \$1,600,000,000 of Expediting Production Funds were allocated for these purposes, of which over \$1,000,000,000 went to the atomic bomb project. However, more than \$470,000,000 of Expediting Production Funds, which had been allocated during previous fiscal years were not found to be needed for the purposes for which they were originally allocated and were returned by the Technical Services and the Army Air Forces to the credit of the appropriation.

During the fiscal year, when the problem of housing industrial workers and employees at command installations became critical, the Contract and Facilities Division was assigned the duty of approving for the Under Secretary of War requests from the various Services and Army Air Forces for needed housing to be constructed by the use of the National Housing Agency's appropriations. The Division continued to approve new and amended Procurement Regulations on behalf of the Under Secretary. During the fiscal year, the Joint Termination Regulation, covering procedures used by the War and Navy Departments in connection with contract terminations and surplus property declarations and disposition, was developed. Substantial changes were also made in Procurement Regulations in connection with pricing procedures.

Reconversion

The War Department has always been fully aware that, when hostilities approached a final termination, the orderly reconversion of war industry to its peace-time uses would present a major problem, and that the problem would begin to make itself felt as soon as the end of the war in Europe came in sight. With this in mind an Under Secretary's

Working Committee on Industrial Demobilization was appointed on 11 August 1944. It was composed of representatives from the offices of the Army Air Forces and the Army Service Forces chiefly concerned with industrial demobilization, and was under the chairmanship of a representative from the Special Planning Division, War Department Special Staff. During the six months prior to the defeat of Germany the Committee met frequently and prepared four formal reports. These reports described the plans currently under preparation throughout the War Department in the field of industrial demobilization, made a critical analysis of their contents and status, and attempted to estimate their adequacy and readiness for post-VE-Day implementation.

In taking actual steps, as distinct from plans, toward reconversion the War Department held to its policy of not cutting back production, which might be needed in case hostilities continued, until it could be sure beyond any doubt that the fighting was coming to an early close. Thus, although cutbacks in production based principally upon changes in types of equipment needed had begun several months earlier, major cutbacks in anticipation of the closing of hostilities in Europe did not begin until early April 1945. More extensive cutbacks were made near the end of April. Special priority was given to the release of plants not normally engaged in military production.

These cutbacks were carried out in accordance with the procedure established by the Director of War Mobilization and Reconversion on 20 January 1945. Each proposed cutback of major magnitude had to be reviewed by both the War Department and the War Production Board. Advanced rulings had to be obtained on those of more than \$500,000 and advance notice had to be given the reviewing authority on those of more than \$100,000.

Reducing Costs

At the beginning of the national emergency, when speed was vital and experience was lacking in the mass production of many items of modern military equipment, close pricing in Army contracts was frequently impossible, except at the cost of dangerous delay. As experience accumulated and as production grew more efficient, it became possible to achieve important economics. Many contracts originally negotiated on a cost-plus-fixed-fee basis have been transformed into fixed price contracts. All new contracts have been subjected to close scrutiny in order to keep prices as low as possible.

It is the belief of the War Department that this close attention to pricing has yielded important benefits, not only in the saving of money, but also in increasing the efficiency of production. To pay too high a price for an article discourages close attention to the efficient use of machines and labor in the production of that article.

When every man and every machine is urgently needed, inefficiency in one area of production is almost certain to result in failure to meet schedules in others. Some portion of the steady increase in efficiency which has characterized almost every phase of war production is certainly attributable to the influence of more accurate pricing.

Contract renegotiation, under the Renegotiation Act of 1942, has continued to be a fruitful source of saving to the Government. During the past fiscal year agreements and orders involving refunds totalling \$2,594,284,000 were completed by the War Department, bringing the total since the first enactment of the statute to \$4,871,836,000. The taxes which will have to be refunded will greatly reduce the saving but, even after these refunds are subtracted, the saving will certainly be in the neighborhood of a billion and a half. The cost of administration in the achievement of this saving has been only \$19,000,000.

The direct monetary saving to the War Department resulting from renegotiated contracts is, however, only part of the economy secured from the administration of the Renegotiation Act. The knowledge that the statute is on the books and that it is being vigorously administered has been a powerful inducement to more correct original pricing. Exact figures upon this influence are, of course, unobtainable, but those closest to the work estimate this indirect saving to be fully as great as the direct.

The total saving in War Department procurement from renegotiation, better pricing, more effective labor utilization, and various other economics and improvements in efficiency is beyond accurate estimate, but it certainly constitutes an appreciable percentage of the cost of Army equipment and supplies.

Contract Settlement

In conformity with the statutory provisions of the Contract Settlement Act which was passed at the beginning of the fiscal year, the War and Navy Departments on 1 November 1944 issued a Joint Termination Regulation. Under these regulations certain problems of policy have received much attention during the year. There has been considerable emphasis upon the so-called "horizontal" method of settlement. Twelve large contractors occupying focal points in the procurement program have been selected for direct settlement on a company-wide basis. Of equal importance has been the expansion of a program under which the necessary processing of termination claims is accomplished at the company level by Government personnel, and the final settlement is negotiated under normal vertical procedures.

The many complexities of the settlement of cost-plus-fixed-fee contracts have retarded the setting up of satisfactory procedures to

accomplish prompt settlement. The difficulties are principally of an operational nature and spring from the size and complexity of the contracts, the number of subcontractors involved, and similar factors. Some progress has been made in converting cost-plus-fixed-fee contracts to a fixed price basis. If successful this will greatly simplify settlement.

Interim financing arrangements have been established during the year whereby any contractor or subcontractor may receive prompt financial help to tide him over the period required for the processing of his termination claim. These procedures have proved satisfactory and are believed to be adequate to cover the problem.

Approximately 27,000 fixed price contracts were terminated either in whole or in part during the year, cancelling commitments of over \$9,500,000,000. During the same period over 21,000 terminations were settled, by which commitments of nearly \$8,500,000,000 were disposed of at a cost to the Government of approximately \$454,787,000. Of these, 13,000 effected disposition of more than \$1,500,000,000 in commitments without claim against the Government. The average time required for the settlement of contractor claims has been substantially reduced during the year. At the end of the fiscal year only 145 terminations had been in process more than three months.

Three hundred and fifty-one cost-plus-fixed-fee contracts were terminated, in whole or in part, during the fiscal year, effecting a cancellation of approximately \$4,500,000,000. Although 298 of these have been settled, they represent only about 55 per cent of the dollar value of the cancellations. The special difficulties of cost-plus-fixed-fee settlements, as well as the fact that the bulk of these terminations came during April and May, explain this lag in settlement.

During the year a great deal of emphasis has been placed upon pre-termination planning - upon doing now, before contracts are cancelled, the things which will have to be done before plants can be cleared and the way opened for peacetime production. Termination Coordination Committees have been established in twenty leading industrial communities. Through these committees the various procurement services of the Army and Navy come together on an operating level to discuss and work out mutual problems and procedures connected with contract settlement and property disposition. During the past year thirty training teams sponsored by the Termination Coordination Committees have given training to 23,000 individuals representing 16,000 contractors. More than 40,000 representatives of contractors have been trained in contract settlement procedures at public meetings and at university courses. During the fiscal year the War Department personnel engaged in contract settlement and property disposal increased from

4,082 to 12,071. These men, who are about equally divided between military and civilian personnel, have received special training for their work.

Surplus Property

In the fall of 1944 the Congress established the Surplus Property Board to establish policies for the disposal of surplus property. The War Department, as a major owning agency, has both assisted the Board in establishing regulations and has amended its own Procurement Regulations and established methods and procedures for implementing the regulations of the Board. It has also worked closely with the Navy in revising the Joint Termination Regulation, especially in matters connected with the disposition of war contractor's inventories. A major revision of the technical manual on salvage has been prepared. During the year substantial progress has been made in overcoming problems connected with the clearance of surplus property from contractor's plants, its storage, and its prompt declaration to disposal agencies. The basic policies for the disposal of domestic surplus property have been established.

During the fiscal year, more than \$200,000,000 of excess property was redistributed between the services of the War Department, exclusive of transfer within each service. This eliminated many duplications of procurement and relieved the burden upon production. Transfers of surplus property to other Government agencies, including the disposal agencies and the Navy Department, amounted to nearly \$1,500,000,000, at estimated original cost, during the year. Sales to non-Government buyers, chiefly retentions of property by war contractors whose contracts had been terminated, amounted to \$450,000,000. In addition to actual transfers to disposal agencies, surplus property amounting to over \$1,100,000,000 had been declared to them for which they had not assumed responsibility for storage and disposal by the end of the fiscal year. Receipts from the sale of waste, scrap, and salvage were nearly \$100,000,000. Real estate to a value of more than \$100,000,000 has either been certified to the disposal agency or has been declared surplus and is in process of being certified.

The disposal of surplus property overseas presents a very special problem. Many factors, such as foreign exchange and the relationship to foreign governments, which enter into this problem are absent in the domestic field. In recognition of these peculiarities, and of the need for unified action in steering a wise course through such complexities, on 27 January 1945 the Office of Army and Navy Liquidation Commissioner was established. The Commissioner, subject to the general policies established by the Surplus Property Board, is to carry out the responsibilities of the War and Navy Departments with respect to the disposal of surplus property outside the United

States, to supervise the settlement of contracts and quasi-contractual claims in foreign countries to the extent that settlement should be coordinated with the disposal of surplus property, and to supervise and direct the settlement of tort claims arising out of military operations to the extent that the Secretary of War and the Secretary of the Navy decide that they should be coordinated with the disposal of surplus property. The Commissioner is empowered to appoint representatives, preferably civilians, to exercise his authority in various areas, and may make use of the agencies and personnel of the Army and Navy for carrying out his work. Mr. Thomas B. McCabe has accepted appointment as Commissioner. By the end of the fiscal year the Army and Navy Liquidation Commissioner had been authorized to operate in the European, Mediterranean, Africa and Middle East, Persian Gulf, India-Burma, and Australian and New Zealand Areas.

Economic Warfare

Early in the fiscal year military events terminated the economic aid which Spain and Portugal had been giving the Axis. Sweden and Switzerland, however, continued to give Germany important assistance. The War Department urged constantly that pressure be brought to bear upon these two countries to discontinue this assistance. Partly as a result of this urging, measures were initiated which, in October 1944, secured from Sweden an agreement to prohibit the export to Germany of ball and roller bearings and of machinery for making them. Sweden finally agreed to prohibit all further trade with Germany after 1 January 1945.

The reduction of Swiss aid to Germany was accomplished more slowly. However, early in 1945, as a result of representatives of both the War and Navy Departments, a mission was sent to Switzerland to endeavor to put an end to this trade. It finally secured from the Swiss an agreement to discontinue the export of electric power to Germany, and practically to eliminate trade between Switzerland and Germany and the German use of Swiss railroads. The agreement came so near the end of the war, however, that its effects had little time in which to be felt.

The wisdom of allowing relief shipments to pass through the blockade was questioned by the War Department on the ground that the shipment of supplies to enemy-occupied Europe tended to relieve the supply problems of the enemy.

Legislation, Investigation and Liaison

War Department procurement is profoundly influenced by other agencies and activities of the Government. Prospective legislation must be studied in order to determine its effect upon procurement.

Material must be prepared for Congressional Committees. Contact must be maintained with other executive agencies of the Government, particularly with the War Production Board on production problems and with the Department of Justice on questions of alleged fraud. In a multitude of other ways the successful achievement of the procurement goals of the War Department presents problems of legal and legislative business and of the coordination of the executive action of many agencies.

This business, so far as it affects War Department procurement, is the responsibility of the Under Secretary of War. The Under Secretary has frequently appeared before committees of the Congress, and his representatives have guided the presentation of evidence by War Department personnel. The Under Secretary, or his representatives, have represented the War Department on inter-agency committees and boards having responsibility in procurement and related fields. Contact has been maintained with the Department of Justice in cases of alleged fraud. Where necessary to the successful prosecution of the war, requests have been made for the postponement of prosecution under the anti-trust laws. Assistance has been given in the preparation of legislation and executive orders. Measures have been taken to keep the public informed about the more important problems of the War Department in the field of procurement. Supervision has been exercised over the complex legal business connected with these activities. In these, and other, ways the procurement work of the War Department has been coordinated with the legal and administrative pattern of government.

Board of Contract Appeals

The War Department Board of Contract Appeals, set up in the Office of the Under Secretary in August 1942, is the representative of the Secretary of War for the decision of appeals by contractors from decisions of contracting officers under War Department contracts. It recommends to the Secretary of War the action to be taken on appeals from the imposition of penalties under the Eight-Hour Law. It also investigates and recommends or takes final action on requests for relief under the First War Powers Act. Executive Order No. 9001, or Section 17 of the Contract Settlement Act of 1944. Upon request of the Chief Requisition Officer it recommends to the Under Secretary of War the amount of compensation to be paid for requisitioned property.

At the beginning of the fiscal year, 236 cases were pending on the Board's docket. During the year, 382 cases were received and 471 disposed of, leaving 147 undisposed of at the end of the year. Since its creation the Board has received a total of 1,135 cases, of which 988 have been determined. All of the first 400 cases filed have been disposed of, and of the first 900 filed, only 20 are still pending. Out of 16 termination appeals, 13 have been disposed of and only one has been appealed to the Contract Settlement Board.

Claims

The processing of claims arising out of the activities of the War Department and the Army, both in the United States and abroad, continued at a rapid pace during the past year. The decentralization of claims settlement, established in 1944, continued in operation. Action was taken on 32,245 claims, of which 26,375 were approved in total amount of \$4,015,256. In addition, with the increase in the number of troops overseas, the Foreign Claims Commissions processed 25,365 claims, of which 18,951 were approved in a total amount of \$3,073,059. This does not, however, represent the total of overseas claims for, pursuant to arrangements made by the Judge Advocate General, and under the general supervision of the Under Secretary of War, many thousands of claims overseas, after initial investigation, were turned over to foreign governments for the completion of processing and payment as reciprocal aid.

During the year the War Department sponsored the Military Personnel Claims Act of 1945 (P.L. 67, 79th Cong.) This Act, signed by the President on 29 May 1945, liberalized and clarified the provisions for the payment of claims of military personnel and civilian employees for property losses suffered incident to service, and corrected many inequities of the old act. The War Department also sponsored a bill to amend the Foreign Claims Act to make it applicable to the Philippines, and action was taken to assemble in the Office of the Judge Advocate General all available information within the War Department pertaining to possible claims against the United States arising out of military activities in the Philippines in the early stages of the war.

As the result of an intensified effort to collect claims in favor of the United States, \$576,419 was collected, as compared with \$96,942 the previous fiscal year.

Real Estate

During the past fiscal year the acquisition of real estate by the War Department has been held to a minimum and emphasis has been placed upon the full utilization of that now under the control of the Government. Only 117,680 acres of land have been acquired from private owners during the year, while 113,142 acres have been transferred from other government agencies for War Department use. The bulk of the land acquired was for the improvement of existing installations. There have also been a number of purchases of land in Hawaii, originally leased by the War Department, upon which permanent improvements, required in the post-war period, had already been constructed.

At present 18,028 property leases are in effect, with a total

annual rental of \$52,209,382. This represents a decrease, in the course of the fiscal year, of 3,466 in the number of leases, and approximately \$2,000,000 in annual rentals. During the year 4,630 new leases were entered into, but 8,096 were cancelled. \$68,928,716 were distributed to landowners, bringing the total disbursement for land acquisitions since July 1940 to \$387,105,160.

Periodic inspections have been carried on to insure the most efficient utilization of real estate under the control of the War Department. These surveys have led to the release of over 2,000 properties by the using services. In so far as need exists, these properties are redistributed to other War Department services or other government agencies. If there is no further requirement for them, the lease is cancelled or, if the property is government-owned, it is certified to the Surplus Property Board for disposal. This survey program has brought savings of almost \$4,000,000 in annual rentals, and further savings in repair and maintenance costs.

The outleasing of excess industrial plants and agricultural lands has brought in almost \$6,000,000 during the fiscal year. The properties thus outleased are in excess of the direct needs of the War Department, but are retained under War Department control either for the use of contractors manufacturing items essential to the war effort, or in order to preserve the security of an installation.

To date 181 properties costing \$74,000,000 have been declared surplus to the Surplus Property Board. The War Department has, however, been required to retain custody of these properties pending the establishment of staffs in the disposal agencies to take care of them.

The Army Industrial College

The immediate objective assigned to the Army Industrial College has been the training of commissioned and civilian personnel to assist in closing out the procurement activities of the war effort. Its long-range objective is the study of industrial mobilization and the training of military and naval personnel to carry out duties connected with that process.

During the year a series of short, intensive War Readjustment Courses were given. They dealt with policies and procedures governing the settlement of government contracts, including such incidental problems as the disposition of inventory and interim financing to tide over the contractor while his claims are being settled. In addition, short courses were given in price analysis, fundamentals of procurement, and the disposal of surplus property. During the year 2,911 students attended these courses. Of this number, 2,030 were trained for the Army,

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852 for the Navy, and 29 for Civilian Federal Agencies. A considerable number of executives and key personnel from Civilian Federal Agencies attended certain parts of these courses as observers.

The Army Industrial College has also made substantial progress toward the accomplishment of its long-range objective of studying the problems of industrial mobilization. During the year fifty-nine seminars or informational conferences were held, attended by representatives from various groups, both governmental and private, and records of the discussions were made available for study. The College, through its research staff, has also conducted studies of projects referred to it by the War Department or by other war agencies.

Security

The Under Secretary's Board on Fire and Accident Prevention continued to meet throughout the year. Revisions of policy were carried out in the light of changing conditions, chiefly in the direction of reducing the responsibility of the War Department in this field. The number of private facilities on the Master Inspection Responsibility List was reduced from 3,616 at the beginning of the fiscal year to 992 at the end. During the fiscal year the question was raised as to the need for continuing the State's War Inspection Service, which provided the War Department free of charge with a comprehensive inspection service covering over 10,000 important plants which were not on the Master Inspection Responsibility List. When the question was first raised, it seemed desirable to continue the Service, but a few months later, when the situation in Europe had greatly improved, it was decided to discontinue it.

Continued attention was devoted to handling the problem of suspected subversives in war industry in such fashion as to prevent sabotage and espionage but not do injustice to individuals. The changing circumstances of the war, together with the fact that previous work had already covered the more serious danger spots, made possible a measure of relaxation of previous procedures, except for special projects such as that for the manufacture of the atomic bomb.

Military Justice

As a result of the responsibility of the Under Secretary of War for the exercise of clemency, action was initiated in this Office which led to the establishment, on 11 September 1944, of a Correction Division in the Office of the Adjutant General. It is the mission of the Correction Division to study the problems of military penology, to develop uniform policies and procedures, and to exercise staff super-

vision over rehabilitation centers and disciplinary barracks. The Division commands the services of skilled penologists, both civilian and military, and operates under the general supervision of the Under Secretary of War. Mr. Austin H. McCormick, formerly Commissioner of Correction for the State of New York, who helped formulate the plans for creating the Correction Division, remained in the Office of the Under Secretary to advise on custodial and clemency policies.

The Correction Division prepares the cases of all general prisoners confined in disciplinary barracks and Federal penitentiaries for clemency review by the Under Secretary, and recommends action to him. Recommendations in all cases where the sentence is five years or over are also made by the Office of the Judge Advocate General. By the end of the fiscal year these cases were coming in at a rate of about 200 a week. Every effort is made to assure uniformity of treatment for similar offenses.

At the close of the fiscal year, 32,562 general prisoners were in custody in five types of installation, rehabilitation centers, disciplinary barracks, overseas disciplinary training centers, guard houses, and Federal prisons. At present five rehabilitation centers are in operation. These, and the disciplinary training centers which perform the same function overseas, are innovations in military penology and have made a great contribution during the war by restoring to duty, after six to eight months of intensive training, men who would otherwise have been subject to the much slower restorative process of the disciplinary barracks. Of 13,165 men received in rehabilitation centers during the year, 6,764 were restored to duty.

The increase in Army strength and the transfer of non-restorables has necessitated the activation of new disciplinary barracks. Seven are now in operation and six more are scheduled to open within the year. Those now operating house 12,898 men. Through Honor Companies at these disciplinary barracks, 866 men were restored to duty.

The Army continues to send the more serious offenders to Federal prisons. During the year, 1,261 prisoners were committed to such institutions. Garrison prisoners remain the responsibility of post commanding officers. Because of the size of the task of detention and rehabilitation of general prisoners, garrison prisoners have not been brought under the jurisdiction of the Correction Division. Plans are being formulated, however, for the inspection of all guard houses and stockades with a view to establishing a uniform program for all such installations.

In anticipation of the need for formulating general policies for the exercise of clemency and for the post-war treatment of general prisoners, the Under Secretary of War appointed an Advisory Board on

Clemency on 9 June 1945 under the chairmanship of Judge Sherman Minton. It is expected that this Board, aided by subsidiary boards, will eventually review the cases of all general prisoners.

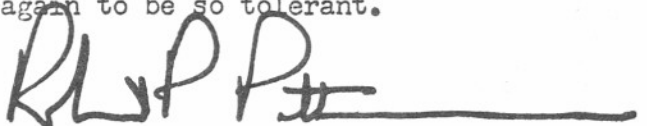
It is still the policy not to disturb the five-year duration sentence which is the standard meted out by general courts-martial for unaggravated military offenses. Every effort is made to restore these prisoners, but it is felt that the duration sentence should hold for those who are not restorable until after VJ-Day. Following the cessation of hostilities in Europe, the policy of taking no clemency action in overseas cases until after two years of confinement was abandoned. The tendency now is to level off sentences which seem clearly excessive. In cases where the offense is one punishable by a civilian court, reductions are generally made to conform to the sentence a civilian court might have imposed.

Plans are now under way for the post-war treatment of military prisoners.

Epilogue

Since the beginning of the preparation of this report, the Japanese, under the impact of naval attack, B-29 raids, the atomic bomb, and the certainty of invasion at an early date, have capitulated. The efficacy of many of the difficult process of redeployment and readjustment of war production, to which so much time and attention have been devoted, will never be fully tested in operation. But the decision of the Japanese not to fight to the bitter end is testimony, not only to what had already been done, but also to the fact that the plans which we have made, and were in process of carrying out, seemed to our enemies to hold for them inevitable doom. By convincing them that further resistance was useless, these plans have saved countless lives and treasure for our country.

The war is over and we have won. However, the majestic outpouring of the industrial and military strength of our nation which brought hostilities to a close must not blind us to the uncertain and perilous beginnings. If victory leads to complacency and forgetfulness of past dangers, our strength will decline more rapidly than it grew. We are custodians of a great heritage, left to us by generations past for the benefit of generations yet to come. We have added to that heritage by our achievements, but it was only by the narrowest of margins that we missed going down into history as a generation which, by carelessness and indifference, sacrificed one of the finest legacies a nation has ever possessed. There will be little meaning to our achievements of the past five years if we repeat the errors of the pre-war period, for Fate is not likely again to be so tolerant.



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Under Secretary of War

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