

INVESTIGATION OF SURPLUS PROPERTY AND ITS DISPOSAL

REPORT OF THE COMMITTEE ON EXPENDITURES IN THE EXECUTIVE DEPARTMENTS

PURSUANT TO

S. Res. 75
(80th Congress)

A RESOLUTION AUTHORIZING AN INVESTIGATION
OF SURPLUS PROPERTY AND ITS DISPOSAL

SURPLUS PROPERTY DISPOSAL



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FOREWORD

This report on Surplus Property Disposal was unanimously approved by both the Subcommittee Investigating Surplus Property and its Disposal of the Committee on Expenditures in the Executive Departments, and the full committee.

INVESTIGATION OF SURPLUS PROPERTY AND ITS DISPOSAL

MAY 20, 1948.—Ordered to be printed

Mr. FERGUSON, from the Committee on Expenditures in the Executive Departments, submitted the following

REPORT

[Pursuant to S. Res. 75, 80th Cong.]

SURPLUS PROPERTY DISPOSAL

INTRODUCTION

The disposal of World War II surplus property constitutes the biggest single job of merchandising ever undertaken. The task of setting up and operating the Government machinery for the disposal of vast amounts of war surpluses has been of such magnitude and of such importance to the Nation's postwar economy that it should continue to receive the careful consideration and constant surveillance of the Congress.

This subcommittee of the Committee on Expenditures in the Executive Departments was set up on February 6, 1947, for the purpose of investigating the disposal of Government-owned surplus property both here and abroad. On February 21, 1947, Senate Resolution 75 of the Eightieth Congress, first session, authorized the Committee on Expenditures in the Executive Departments, or any duly authorized subcommittee, to make expenditures for the purpose of undertaking investigations of this type.

The major objective of this subcommittee was to examine into the over-all administration and operation of the surplus disposal program. The subcommittee has been primarily interested in the broad policies of the executive agencies charged with the responsibility of carrying out the disposal program. However, in order to arrive at fair and factual conclusions concerning these broad policies, it was necessary for the subcommittee to undertake detailed investigations of specific cases of surplus disposal. The subcommittee believes that this "case method" procedure which it followed resulted in developing sufficient specific facts concerning the operation of the disposal pro-

gram to allow the subcommittee to reach the conclusions and recommendations which are set forth in this report. In carrying out this method of investigation the staff of the subcommittee has investigated approximately 250 cases. Close liaison was established between the subcommittee and the War Assets Administration, with the result that in many of the cases which were investigated corrective action was taken by the War Assets Administration, without the necessity of hearings, based on the suggestions of the subcommittee. The subcommittee has also held 26 public and executive hearings in which 1,439 pages of testimony were taken from 145 witnesses.

As a result of the work of this subcommittee, action was taken by the disposal agencies in several cases which resulted in substantial savings of public funds. It is also apparent that the existence of this congressional investigatory group caused representatives of the disposal agencies to exercise better judgment in the performance of their duties, and in that way increased the efficiency of the operation of the surplus-disposal program.

It is estimated that a total of approximately \$51,000,000,000 worth of Government-owned surplus property has been generated as a result of World War II. This figure represents the acquisition cost of our war surpluses, which is the only available estimate of worth. Of this surplus property, \$11,000,000,000 worth was located outside of the United States and the remaining \$40,000,000,000 worth consisted of domestic surpluses. At the present time, there is approximately 11½ billion dollars' worth of property remaining for disposal. Of this amount, about one-half billion is in foreign surpluses. Approximately 39½ billion dollars' worth of these domestic and foreign surpluses have now been disposed of by the various Government disposal agencies.

As this report is written the largest part of the job of disposing of World War II surpluses has been completed. With the exception of some plants and other items of real property, disposition has been made of the bulk of the most desirable and the readily salable surpluses. The sale of much of the remaining surpluses will result in relatively a small return to the Government.

The orderly and efficient disposal of this vast amount of surplus property in accordance with the provisions of the Surplus Property Act of 1944 required the application of sound merchandising techniques and efficient business procedures. Most of the deficiencies found to exist in our surplus-disposal program resulted from the utilization of poor merchandising methods and inefficient and cumbersome business procedures by the disposal agencies.

Disposal of surplus property in World War I

In many respects the disposal of our World War II surpluses presented problems similar to those encountered in the disposal of our surpluses after World War I. The main point of difference involves the enormous size of the present surplus-disposal program. Although many deficiencies have been found to exist in our present disposal program, the job has been handled more efficiently and with better results than it was after World War I.

The armistice of 1918 found the United States without any surplus disposal organization. At that time warehouses and transportation facilities were filled to overflowing with war supplies and equipment. Prior to the armistice no real consideration had been given the basic

and important problem of surplus disposal which was an inevitable outgrowth of our expanded wartime production. It was not until 20 days after the armistice of 1918 that the War Department called a group of officers to Washington to consider and formulate a surplus disposal program.

In the First World War, a disorganized wartime procurement system had resulted in large-scale overpurchasing in many types of equipment and supplies, all of which became surplus as soon as the war was over. Many World War I surpluses continued to be sold by various Government agencies for a number of years following the end of the war. Some of this World War I surplus property was offered for sale by the Government as late as 1945. The confusion and disorganization resulting from this haphazard and hastily planned surplus disposal program after the First World War opened the door for mismanagement and fraud. As a result, favoritism and fraud were commonplace occurrences and a number of persons in high and responsible positions in the Government were found to have engaged in corrupt and illegal dealings involving the sale of these surpluses.

In planning for the disposal of World War II surpluses, the Congress and the executive branch were well aware of the stigma which had been attached to the surplus-disposal program of World War I. With the lessons of World War I fresh in mind, efforts were made to avoid similar mistakes in the disposal of surplus property in World War II. However, we now find that many of the same mistakes have been repeated, although most of them could have been avoided by careful planning in advance.

Disposal agencies in World War II

Although World War II surpluses began to accumulate in sizable amounts as early as 1943, no adequate machinery was set up to handle this specialized job of disposing of war surpluses until the passage of the Surplus Property Act of 1944 in October of that year. By Executive Order 9235, dated August 31, 1942, the responsibility for the development of standards and policies concerning surplus disposal was placed in the Director of the Bureau of the Budget, although the actual operation of the program and the disposal of surpluses was handled by the Procurement Division of the Treasury prior to 1944.

As early as November 1943 the Special Senate Committee Investigating the National Defense Program urged the creation of a Government agency to handle the specialized problem of disposing of war surpluses which were bound to accumulate during the war. On February 15, 1944, the Report on War and Postwar Adjustment Policies, known as the Baruch-Hancock study (S. Doc. 154, 78th Cong., 2d sess.), recommended the establishment of a war disposal program. This report, in a large measure, formed the basis from which our wartime surplus-disposal program was eventually evolved.

Finally, on February 19, 1944, Executive Order 9425 created a Surplus War Property Administration in the Office of War Mobilization. This organization had the responsibility of formulating policies for the disposal of surplus property. It was not a disposal agency. The actual disposal of war surpluses was turned over to the 14 Government agencies which had been designated by the Administration as disposal agencies. Representatives of each of these various disposal agencies were members of the Surplus War Property Policy Board,

which was an advisory group to the Surplus War Property Administration.

This agency continued to function until the passage of the Surplus Property Act in October 1944. The act established a three-man Surplus Property Board in the Office of War Mobilization. This three-man Board had regulatory and policy jurisdiction over the several Government agencies which were then engaged in disposing of surplus property, but did not handle the disposition of property. In actual operation, the three-man Surplus Property Board failed to accomplish its primary objective—namely, the setting forth of the policies and regulations for the orderly and efficient disposal of surplus property by the various designated disposal agencies. The unwieldy three-man Surplus Property Board was therefore abolished and replaced by a single Surplus Property Administrator. W. Stuart Symington, who had been a member of the three-man Board, was named Administrator and in a few months time he did succeed in setting up a policy organization which went a long way toward unraveling the muddled disposal program which had existed up to this time. However, the actual disposal of surpluses was still being handled by a number of Government agencies, including the Reconstruction Finance Corporation, the Treasury Department, the Department of the Interior, the Department of Commerce, and others.

On January 31, 1946, the functions of the Surplus Property Administrator were transferred to the Chairman of the Board of Directors of the War Assets Corporation by Executive order. This order provided that effective as of March 25, 1946, the functions of the Chairman of the Board of Directors of the War Assets Corporation should be transferred to a War Assets Administrator. This administrator was to head the newly created War Assets Administration which had the same policy-making function as its predecessor, the Surplus Property Board, but in addition it took over the actual disposal of most of our domestic surpluses. It was then for the first time that a single agency had both the policy making and actual disposal functions in the field of domestic surplus.

A number of different agencies and departments of the Government were likewise involved in the field of foreign disposal from time to time beginning early in 1944. On February 21, 1944, Executive Order 9425 provided that the Foreign Economic Administrator should be the agent for disposal of surpluses abroad. However, comparatively little surpluses were available abroad for disposal by the Foreign Economic Administration during the time that it had this responsibility. On December 5, 1944, the Government-owning agencies were designated as disposal agencies for foreign surpluses. The great bulk of our foreign surpluses were then owned by the Army and Navy. The office of the Army-Navy Liquidation Commissioner was created on December 28, 1944, by the Secretary of War and the Secretary of the Navy, for the purpose of handling foreign surplus disposals for those two departments. That organization continued to operate until September 27, 1945, when the State Department was designated the surplus disposal agency abroad by Executive Order 9630. Mr. Thomas B. McCabe, who had been the Army-Navy Liquidation Commissioner, was named Commissioner of the Foreign Liquidation Commission which was set up in the State Department to take over the

foreign disposal program. At that time most of the organization which had been operated in the office of the Army-Navy Liquidation Commissioner was transferred to the office of the Foreign Liquidation Commissioner. The latter office is still handling the disposal of foreign surpluses.

Thus, we find that from February 1944 to early 1946 our disposal program for both domestic and foreign surpluses underwent a number of organizational changes. These changes were being made while our war surpluses were accumulating at a tremendous rate and the problems involved in the disposal of these vast amounts of surpluses were becoming more and more urgent.

Each time a new disposal organization was created and the functions of one organization were transferred to another, it caused at least temporarily delays in our disposal program. Personnel of the old organizations had to be fitted into the new organizations and it was necessary to hire and train new personnel. New operational procedures also had to be established and perfected in the new agencies each time a change was made. All of these changes in personnel and procedures made it almost impossible for the Government-owning and disposal agencies to become sufficiently acquainted with the disposal policies or methods to carry out an orderly disposal program. Under such circumstances it was likewise difficult for prospective purchasers who sought to acquire surpluses to follow and abide by the ever-changing disposal policies. The subcommittee is convinced that these frequent organization and operational changes in our disposal program, both here and abroad, necessarily created considerable confusion in the disposal of war surpluses.

THE SURPLUS PROPERTY ACT OF 1944

The Surplus Property Act of 1944 set forth 20 objectives to facilitate and regulate the orderly disposal of this vast amount of surplus property which would have to be absorbed by our civilian economy. These objectives were set forth by the Congress in an effort to prevent the abuses and avoid the pitfalls which existed in our surplus disposal program after World War I. Under the act, the Surplus Property Board and its successor, the War Assets Administration, were to adopt regulations to carry out the provisions and objectives of the act.

Time after time representatives of the various disposal agencies have appeared before this and other congressional committees and explained their inability to make prompt and orderly disposals of surplus property by pointing out that the many objectives and provisions of the act, together with the regulations promulgated under the act, made it impossible to conduct an orderly and businesslike program. This subcommittee is in complete disagreement with these views. If the disposal agencies had given proper consideration to the intent of Congress in passing the Surplus Property Act and had they planned and set up their organizations with the primary purpose of carrying out the intent of Congress, there is little doubt that the disposal program would have been conducted far more effectively and efficiently. This subcommittee realizes that it would have been much easier to have disposed of all our war surpluses by selling them to any and all sources at the best prices obtainable. However, had this been done, the resulting economic repercussions

would have far outweighed the financial benefits which might have occurred as a result of such a disposal policy. It was a primary intent of Congress to avoid such repercussions.

It must be realized that the Surplus Property Act of 1944 was not enacted merely for the purpose of quickly disposing of our war surpluses at the best possible price. The Congress in passing this act had broader purposes in mind, namely, to dispose of our surpluses in such a manner as to give maximum assistance to many important segments of our economy; to prevent practices which would be detrimental to our concept of free enterprise; and to prevent the possible serious economic dislocations which very likely would have resulted had these vast amounts of war surpluses been allowed to flood the civilian markets without controls of any kind.

STATUS OF SURPLUS PROPERTY DISPOSAL

The bulk of our World War II surpluses have now been disposed of by the Government disposal agencies. The latest available figures indicate that the total acquisition cost of our foreign and domestic surpluses amounted to \$50,927,621,000. About 39½ billion dollars worth of these surpluses have been disposed of as of this date. This amounts to approximately 77 percent of our total surpluses.

As of March 1, 1948, the total acquisition cost of our domestic surplus property amounted to \$39,856,697,000; \$20,188,487,000 worth of this property has been sold for \$5,768,267,000. The Government, therefore, realized about 28½ percent of the total acquisition cost of the property in these domestic surplus sales. Approximately 8.67 billion dollars worth of domestic surpluses have been disposed of by methods other than sale, and resulted in no monetary return to the Government. The disposals in this latter category included donations and transfers made in accordance with the provisions of the Surplus Property Act.

Our domestic surpluses are generally divided into two main categories—namely, movable or personal property and real property. The total acquisition cost of surplus domestic personal property amounted to \$30,579,697,000. This included the acquisition costs of all types of consumers and producers goods and aircraft parts. \$23,094,389,000 worth of this personal property has now been disposed of by sale or transfer, and \$4,593,267,000 has been realized by the Government from these sales. Real property, with a net acquisition cost of \$9,277,000,000 has been declared surplus. The greater amount of this real property was in the form of industrial plants. Approximately \$5,749,000,000 worth of surplus real property has been disposed of and \$1,175,000,000 has been realized from these sales.

The total acquisition cost of our surplus property located abroad as of March 1, 1948, was \$11,070,924,000; \$10,549,932,000 worth of these foreign surpluses have been disposed of by sale, transfer, or otherwise. The United States Government realized \$1,969,083,000 from the sale of these foreign surpluses. This amounted to 18 percent of acquisition cost. These figures furnished by the Office of the Foreign Liquidation Commissioner do not, in the opinion of the subcommittee, reflect accurately the amount realized in the sale of our foreign surpluses. It is believed that the percentage of recovery in our

However, had the foreign surplus property been sold, the percentage of recovery would have been approximately 25 percent.

foreign disposal program would be substantially less if complete information was available for analysis. However, this is not the case, inasmuch as the bulk sales of surplus property to the United Kingdom, France, Australia, Belgium, India, New Zealand, and the Netherlands, were tied in with the settlement of our lend-lease accounts with those nations. Under such circumstances, the actual proceeds from surplus sales is not ascertainable. When we consider the large amount of lend-lease materials which was furnished to these nations, it can be readily seen that the offsetting of our surplus property sales would have a very small effect on the total outcome of the lend-lease settlement transactions. Under such circumstances the allocation of funds to surplus sales resulted in nothing more or less than a bookkeeping transaction. A list setting forth an agency break-down of the acquisition and disposal of all of our war surpluses is set forth in appendix I.

It is difficult to comprehend the magnitude of the task of setting up and operating the various Government agencies which had the responsibility of making disposition of almost 51 billion dollars' worth of property. The size of the task involved is illustrated by the fact that at the peak of our domestic surplus-disposal program in the fall of 1946 over 58,000 persons were employed by the War Assets Administration. A monthly recapitulation of the number of persons employed by the War Assets Administration is set forth in appendix II. In addition to those employed in handling the domestic disposal program over 2,200 persons were employed in the Office of the Foreign Liquidation Commission and several hundred other persons were engaged in disposal work in other Government agencies. A résumé of the number of persons employed by the Foreign Liquidation Commission is set forth in appendix III.

COST OF SURPLUS DISPOSAL

Government disposal agencies spent \$867,598,000 on salaries and other operation expenses in carrying out the war surplus-property-disposal program. In addition to this staggering amount other unknown amounts were expended by the owning agencies of the Government in connection with various phases of our disposal program. A statement showing the costs incurred by the disposal agencies is set forth hereinafter in appendix IV. Based on available figures the cost of operating our domestic disposal program amounted to approximately 15 percent of the total amount realized from the sale of domestic surpluses. The cost of operating our foreign-disposal program has amounted to \$9,979,000 which represents approximately one-half of 1 percent of the total foreign surplus sales. This great difference in the percentage of cost of operation between the domestic and foreign-disposal programs is accounted for by the fact that many of our foreign surpluses were disposed of in large bulk sales which required a minimum of administrative and operational expenses. Furthermore a large part of the cost of protecting and maintaining our surpluses abroad were paid by the armed services and the other owning agencies while in the case of domestic surpluses similar costs had to be borne by the War Assets Administration or some other disposal agency.

DISPOSAL OF DOMESTIC SURPLUS PERSONAL PROPERTY

Lack of adequate inventories

The majority of the complaints concerning our surplus-disposal program have to do with the disposal of personal property. Large numbers of the general public had personal dealings with the War Assets Administration and other disposal agencies in an effort to purchase surpluses of this type. The majority of these complaints had to do with the sales methods employed by the disposal agencies and it is the opinion of the subcommittee that many complaints were justified. The subcommittee found that lack of proper business procedures on the part of the disposal agencies resulted in considerable confusion in the disposal of personal property.

The disposal of personal property, much of which was sold in small lots to a great number of purchasers, was fundamentally a merchandising job. Although the sale of this vast amount of personal property was admittedly a vast and complex undertaking, the subcommittee feels that if sound and accepted merchandising procedures had been followed by the War Assets Administration and its predecessor disposal agencies, much of the confusion attached to the sale of these surpluses could have been avoided. One of the primary reasons for the chaotic conditions in the sale of personal property resulted from the fact that there never was an accurate inventory of the property which the disposal agency had on hand and ready for sale. This was a basic mistake.

It is impossible for the committee to comprehend how any orderly disposal program could be planned or undertaken without an accurate inventory of the goods to be sold. No private merchandising organization would ever attempt to undertake a large merchandising operation without an inventory of the goods on hand. Nevertheless this condition did and still does exist in the disposal of our domestic surplus personal property. There have been numerous instances where warehouses and storage areas were filled with property with no one having a definite knowledge or record of the property in possession of the disposal agency.

The failure to have an accurate inventory of personal property is the fault of the owning agencies, as well as the disposal agencies. In many cases large amounts of personal property were turned over to the disposal agencies by the owning agencies, particularly the Army and the Navy, and no complete or accurate records were available as to the amount of property turned over for disposal. In some cases the records of the owning agency would indicate property being turned over for disposal which was not actually in the physical inventory and on the other hand property would be turned over to the disposal agency and would not appear on the inventory record. This resulted in a situation where the disposal agency found itself with many millions of dollars worth of surpluses on hand and no way of knowing the amount or type of property it had in its possession. As the volume of surpluses being declared began to increase it became a physical impossibility for the disposal agencies to undertake a physical inventory of all of the property on hand. Nevertheless, accurate inventories could have been made of a great deal of the property which was offered for sale. As it was, the disposal agency would plan and advertise a sale of certain types and quantities of property based on

the declarations it had received from the owning agencies, however inadequate or inaccurate the declarations might have been. In many cases, after the sale began and was open to the public, it would be discovered that a great deal of the property advertised for sale was not in possession of the disposal agency. In other cases, one type of property would be advertised for sale and when a sale was made it would then be found that the property was of entirely different type.

The failure to have accurate inventories led to a great deal of the confusion surrounding the surplus disposal program and was the cause of much of the dissatisfaction on the part of the public dealing with the disposals agencies.

A typical case illustrative of the poor inventory system was investigated by the subcommittee in connection with the sale of surplus aircraft at Kingman Field, Ariz. In that case the War Assets Administration represented that 5,443 combat aircraft located at Kingman Field were to be sold to the highest bidder as scrap. The acquisition cost of these planes was one-billion-one-hundred-and-fifty-seven-million-odd dollars. After receiving a high bid of \$2,780,000, the bill of sale specified that 5,443 planes had been sold. After the sale had been concluded, it was found that there were actually 5,481 planes in the lot, so that the successful bidder received 38 more planes than had been stated in the bill of sale. This resulted in a dispute between the buyer and the War Assets Administration, which dispute was finally resolved in the buyer's favor and he was permitted to keep the 38 planes with no extra payment. After the sale had been made, it was also discovered that the planes at Kingman Field contained approximately 3,000,000 gallons of high octane aviation gasoline, some 650,000 gallons of used engine oil, and a large quantity of hydraulic fluid. None of the advertisements for this sale had indicated that these large quantities of gasoline, oil and hydraulic fluid were to be included in the sale. In fact, the unsuccessful bidders advised the subcommittee that they submitted their bids under the impression that the gasoline, oil and hydraulic fluid were not included in the sale. However, after the sale had been consummated, the War Assets Administration proceeded to advertise and attempted to sell the gasoline in the planes. The successful bidder took the position that the gasoline was included in the sale and he considered it part of the property in submitting his bid. Finally, the War Assets Administration agreed with the position of the successful bidder. It appears to the subcommittee that it would have been practical for the War Assets Administration to have made a complete and accurate inventory of the equipment and material on hand in Kingman Field prior to the time that bids were accepted and in that way it would have been quite likely that the Government would have realized a great deal more from the sale of these planes and the War Assets Administration would have saved itself from a considerable amount of criticism, which in the opinion of the subcommittee, was entirely justified.

Another example of poor inventories was illustrated in the sale of machine tools at the Defense Plant Corporation plant which was operated by the Vickers Corp. at Detroit, Mich. In that case approximately \$5,000,000 worth of machine tools and equipment owned by the Reconstruction Finance Corporation was located in the Vickers plant. About \$3,500,000 of this equipment had been declared surplus by the Reconstruction Finance Corporation and was accepted by the

War Assets Administration for disposal. Some time later the Reconstruction Finance Corporation declared an additional \$1,539,000 worth of equipment as surplus to the War Assets Administration. However, the disposal agency refused to accept accountability for this property without an actual physical inventory being made in view of the fact that no inventory had been made by the owning agency. It later developed that a great deal of the equipment and machinery had been actually moved out of the plant by the lessee and as no adequate records existed there was no way of determining what property might be missing. When an inventory was finally made it was found that \$174,000 worth of property was missing, or damaged, which property was included in the alleged amount which the Reconstruction Finance Corporation had attempted to turn over to the War Assets Administration.

When the subcommittee conducted an investigation concerning the sale of the Kaiser-Swan Island Shipyard in Portland, Oreg., in the spring of 1947, it found another case where the War Assets Administration had no inventory of a sizable amount of personal property. In that case the War Assets Administration was negotiating for the disposal of this shipyard to the Port of Portland, Oreg. Notwithstanding the fact that actual negotiations were in progress no inventory existed of the personal property located in the shipyard. At the insistence of the subcommittee an inventory and appraisal was made of the personal property in the shipyard, and it was determined that approximately \$4,000,000 worth of personal property was in the yard including 53 automobiles and trucks, 800 desks, hundreds of typewriters and other items which were then in short supply in the civilian economy.

Other poor business practices

In addition to the lack of accurate inventories the disposal agencies allowed other poor business practices and methods to exist in the disposal program, adding to the confusion and causing buyers and prospective buyers to lose faith in the ability of the Government to make orderly disposals of surplus. Rather than set forth a detailed list of what the subcommittee believes is poor business practice, it is felt that a recital of a few concrete cases will best illustrate this point.

The subcommittee determined that about \$25,000,000 worth of plant equipment and other personal property was located in the Defense Plant Corporation plant operated by the Continental Motors Co. at Detroit, Mich. The Defense Plant Corporation lease agreement with the Continental Motors Co. was terminated on May 1, 1946. The Reconstruction Finance Corporation, which was the owning agency in this case, advised the subcommittee that they had declared approximately 14½ million dollars' worth of equipment in this plant to the War Assets Administration as surplus, and that the disposal agency had accepted accountability for \$13,000,000 worth of the equipment. However, the War Assets Administration representatives claimed that they had accepted accountability on only \$1,186,000 worth of equipment. It was also developed at the hearing before the subcommittee through the testimony of Reconstruction Finance Corporation personnel that approximately \$1,000,000 worth of property from this plant was missing and unaccounted for.

It was further determined that the lease under which the Continental Motors Co. operated the plant and used the equipment had expired more than 1 year before the subcommittee's hearing in September 1947, and no rent had been paid to the Government for the use of this equipment for approximately 10 months. The subcommittee learned that the Kaiser-Frazer Corp. was using some of the machinery from this plant and that this company had also been taking parts from the plant for replacements on machines in its possession. This activity had been permitted by Continental Motors Co., under authorization from the War Assets Administration, although no charge was made to the Kaiser-Frazer Co. for the use of the machinery. The Reconstruction Finance Corporation had no knowledge of this arrangement and advised the subcommittee that the War Assets Administration had no right to permit this use of the machinery since it was still in the custody of the Reconstruction Finance Corporation.

The failure on the part of the owning and disposal agencies in this case to coordinate their actions with regard to the handling of this valuable Government property appears inexcusable. The subcommittee realizes that in many of these situations involving large facilities with substantial amounts of machinery and equipment in them, that it is probable that some confusion would arise among the various Government agencies involved. However, the subcommittee reiterates that the application of common, ordinary business sense on the part of the Government disposal and owning agencies would have eliminated a great many of the problems and resulting complaints in our disposal program.

Another practice which created considerable dissatisfaction on the part of prospective purchasers and was the cause of many complaints concerning our surplus property disposal program, was the poor management and handling of personal property sales by the War Assets Administration. One of the major causes for complaint resulted from the fact that on many occasions public sales would be programed and advertised and with little or no notice the articles up for disposal would be withdrawn prior to the sale, or in some cases the sale would actually begin and the goods which were to be sold would be withdrawn from the sale.

The handling of the public sale of machine tools at the Wright Aeronautical Co. plant, Plancor No. 10 at Lockland, Ohio, in March 1947, illustrates the above-mentioned type of delinquency. In that case the War Assets Administration arranged for and advertised a competitive bid sale on a "first come, first served" basis. Inasmuch as many of the machine tools which were offered for sale were in short supply, a great many persons interested in the purchase of machine tools appeared on the day of the sale and over 100 prospective buyers stood in line all night waiting for the sale to open. Prospective purchasers were allowed to enter the plant at the scheduled time and after the sale had been in progress about 1 hour and some \$3,000,000 worth of machine tools had actually been sold, all of the buyers present were advised by representatives of the War Assets Administration that the sale had been called off on instructions from Washington. No further explanation or reason was given. This situation caused considerable dissatisfaction among the prospective buyers and a number of them complained to the subcommittee.

In subsequent hearings by the subcommittee, it was determined that many of the machine tools included in the sale had previously been earmarked by the Air Forces for delivery to them for inclusion in their reserve program. It was also developed that neither the Air Forces nor the War Assets Administration representatives at Lockland had any authority to earmark or to set aside these machine tools for use of the Air Forces reserve program. Withdrawal of these machine tools by the Air Forces had previously been considered by the Deputy Administrator of the War Assets Administration in charge of general disposal and it was agreed that they should not be earmarked or withdrawn by the Air Forces. However, on the day of the sale an associate administrator of the War Assets Administration, who had no connection with the sale of machine tools, took it upon himself to call off the sale contrary to the previous determination of the Deputy Administrator and in direct violation of the existing regulations concerning the disposal of machine tools. It was, therefore, apparent to the subcommittee that this sale was erroneously discontinued because of a misunderstanding and lack of coordination between various officials of the War Assets Administration and the Army Air Forces.

In other cases which came to the attention of the subcommittee, the War Assets Administration publicly advertised that certain goods would be offered for sale under given conditions. However, when prospective buyers arrived at the location of the sale and examined the goods which were offered for sale, or in some cases after they had actually purchased and paid for the goods it was found that the goods differed in quantity, type or quality from those which were advertised or represented at the time of the sale. Such situations had the natural result of causing dissatisfaction among the buyers and created considerable friction between buyers and representatives of the War Assets Administration. These misrepresentations as to the property which was offered for sale were not intentional on the part of the disposal representatives, resulted for the most part from inaccurate inventories and in some cases were caused by poor internal management and careless business practices on the part of the disposal agencies.

Influence of the armed forces in the disposal program

Various programs of the armed forces were in conflict with some of the policies and procedures of the War Assets Administration. As a result there was considerable interference with the orderly disposal of some of our surpluses, particularly machine tools and industrial equipment. The failure on the part of the armed services to observe and conform to the rules and regulations laid down for the disposal of machine tools and industrial equipment was a major factor in these conflicts between the armed services and the disposal agencies.

The effect of the programs of the armed forces upon the orderly disposal of surpluses is illustrated in the operation of the joint Army-Navy machine tool program, commonly referred to as the JANMAT program. For some time prior to November 1946, various branches of the armed services had been earmarking certain surplus machine tools and had been taking them out of the surplus category for the purpose of keeping them as an industrial war reserve. This practice was being carried on although no formal authority seems to have

existed for such action. On November 9, 1946, the Director of War Mobilization and Reconversion authorized the earmarking and withholding of surplus machine tools which were required for the Army-Navy stand-by program. This authorization, however, was specifically limited to tools which were not in short supply in the domestic economy and which were not essential to the operation of Government-owned plants that were to be disposed of as operating units.

The subcommittee held hearings on this matter after it was learned that service teams, under the JANMAT program, were moving through the accumulation of machine tools in Chicago, Detroit, and Linden, N. J. These teams were tagging all of the best tools without regard to the needs of our civilian economy and in apparent violation of the directives authorizing the program. Numerous witnesses testified that the JANMAT program was halting all sales of these tools because the War Assets Administration did not permit sales until the JANMAT teams had an opportunity to select the tools which they desired to withhold.

Representatives of the War Assets Administration testified that the JANMAT program was not intended to interfere with sales to civilian industry and under the established procedures any tool which had been tagged for the JANMAT program was available for sale if any bona fide purchaser desired it. This, of course, was contrary to the experience of many prospective purchasers who were seeking to buy these tools.

After hearing a number of witnesses the subcommittee found that while top level personnel in the War Assets Administration and the armed services understood the program, many of the War Assets Administration field personnel and armed forces representatives in the lower echelons misunderstood the directives and apparently were of the opinion that the mere tagging of the tools by the armed services removed such equipment from surplus categories. These misunderstandings concerning the JANMAT program had the effect of seriously bogging down sales of surplus machine tools and industrial equipment. The manner in which the JANMAT program was handled seriously disrupted the sales of surplus machine tools and industrial equipment and prevented much of this surplus material which was urgently needed in our civilian economy from moving into civilian channels where it was in urgent demand for use in civilian industry.

Another conflict between the War Assets Administration and the armed services was involved in the inclusion of the so-called national security clause in the sale of surplus plants. The Army-Navy Munitions Board had established lists of plants which it considered, in varying degrees, to be essential to the national security. Therefore, this Board directed the War Assets Administration to include national security clauses in the documents of sale covering such plants. This clause provided, among other things, that the buyer could not substantially alter the plant to be purchased in such a manner that it could not be utilized for the purpose for which it was originally constructed, and that in the event of another national emergency the plant would revert to the ownership of the Government. The inclusion of this national security clause limited the utility of the plant and had the effect of reducing the amount for which the plant could be sold and made it much more difficult to make disposition of the

plant involved. Because of these reasons the War Assets Administration objected to the national security clause. As a matter of fact until the passage of Public Law 364 on August 5, 1947 it appeared that the Army-Navy Munitions Board had no legal authority to require the inclusion of such clauses in the sale of surplus plants by the War Assets Administration. However, this issue was resolved after the enactment of Public Law 364. It then became the responsibility of the War Assets Administration to dispose of their plants as quickly as possible, in accordance with existing regulations, notwithstanding the limitation imposed by inclusion of national security clauses. The subcommittee does not criticize the principle embodied in the inclusion of national security clauses, but it is of the opinion that this entire matter could have been handled more effectively had there been better coordination between the armed services and the disposal agencies.

The disposal of surplus property, as has been previously pointed out in this report, is primarily a merchandising job which should be handled by persons trained and experienced in the specialized business of merchandising. This has not been the case. Many of the delinquencies in our surplus-disposal program are attributable to the fact that much of the program has been directed and administered by persons with little or no merchandising experience. The Congress, in enacting the Surplus Property Act of 1944, was aware of the need for experienced merchandising and businessmen in this program when it provided that the program should be directed by a civilian agency rather than by the armed services, which owned the great bulk of our surplus property. We find, however, that in actual practice many men of military and naval experience and background have been selected to direct and administer much of our disposal program.

The first two Administrators of the War Assets Administration were Army generals who had been career men in that branch of the service. A survey of the top-ranking positions in the War Assets Administration reveals that during the tenure of the first two administrators from March 1946 to November 1947, 35 high-ranking officers of the armed services held top-policy positions. Of this total 11 were generals, 19 were colonels, 2 were admirals, two commodores, and one was a captain in the Navy. Similarly, in the Office of Foreign Liquidation Commission where many of the top positions were held by career men from the armed services, from September 20, 1946, to March 31, 1948 the Commissioner was a major general who had served as a career officer in the Army.

The subcommittee is of the opinion that it was unfair not only to the Army and Navy personnel who were given these positions in an unfamiliar field, but unfair also to the public to have placed men in responsible positions who were not thoroughly qualified by training or experience to carry out this job in the best interests of the Government and the public.

DISPOSAL OF DOMESTIC SURPLUS REAL PROPERTY

As previously indicated in this report, the net acquisition cost of our surplus domestic real property amounted to \$9,277,000,000, which constituted 23 percent of our total domestic surpluses. This real property consisted of plants, airfields, shipyards, military and naval

training bases, and other types of real property acquired by the Government during the war. The bulk of our surplus real property consisted of industrial plants which had been built or acquired by the Government during the war for the purpose of increasing our productive capacity in aluminum, steel, magnesium, and other types of war goods. A total of 1,257 war plants, having an acquisition cost of \$5,527,433,000, have been declared surplus in our domestic surplus disposal program. Disposition has been made of 770 of these plants which cost the Government \$2,702,368,000. These plants, including 92 plants which had been partially disposed of, have been sold for \$1,066,115,000. As of March 1, 1948, 487 plants acquired at cost of \$2,825,065,000 remained in the surplus category. As indicated above, partial disposition had been made of 92 of these plants although the reported cost of the remaining plants does not include that portion of the 92 plants which have been sold. In the sale of these surplus plants the Government realized 39 percent of acquisition cost. Over one-half of the total value of our undisposed-of domestic surplus is represented by surplus real property.

The disposal of these war plants has been one of the slowest and most difficult phases of the domestic surplus disposal program. The nature and large size of many of the plants have necessarily limited their use and have made it difficult to interest prospective purchasers in them. The subcommittee is cognizant of the many problems involved in disposal of the surplus war plants. However, the subcommittee believes that most of these problems could have been solved had the disposal agencies approached the problem in a more efficient and businesslike manner. The lag in the disposal of surplus plants resulted from the failure or inability of the disposal agencies to overcome or minimize the various problems involved in the disposition of each of the separate plants. The subcommittee realizes that these various problems were not simple ones which could be readily or easily solved. However, it is believed that had more attention been given to the specific problems involved in each particular plant the disposals could have been made more acceptable to prospective purchasers and could have therefore been accomplished with greater ease and at better prices.

On April 8, 1948, the President, by Executive order, prohibited the disposal of all remaining surplus plants for a period of 30 days, except those which were subject to the national-security clause. During the 30-day freeze period, the status of each of these surplus plants will be examined for the purpose of determining which of the remaining plants should be disposed of under the terms of the national-security clause.

The results of the failure of the disposal officials to solve these problems was aptly illustrated in the disposal of the Basic Magnesium plant at Henderson, Nev. This plant, which was the world's largest magnesium plant, was built during the war at a cost of about \$140,000,000. This facility ceased the production of magnesium in 1944 and from that time on the disposal agencies were put on notice that this plant would have to be sold as surplus. It was apparent to all concerned that the only probable economic use of the plant would be for the manufacture of chemicals. It was further developed and should have been known by the disposal agencies that in order to operate this plant economically and efficiently it would be necessary

to obtain low-cost electrical power for the operation of the plant. Notwithstanding these readily apparent problems involved in the disposal of this large facility, the subcommittee found that more than 3 years after the plant had ceased its magnesium-production operations no adequate steps had been taken by the disposal agencies to secure the low-cost electrical power which was necessary for the efficient and economical operation of the plant by any prospective purchaser. The War Assets Administration had attempted to lease the plant on a multiple-tenancy basis, but even this effort to keep the plant occupied was done poorly inasmuch as leases setting forth the specific terms of tenancy were not in existence at the time of the subcommittee's hearings in August 1947, although many of the tenants had been in possession at the plant for a considerable period of time. It was determined that this plant, since it had stopped operating its magnesium-production facilities, had been maintained by the Government at an annual cost of approximately \$2,400,000. It was apparent that more efficient methods of maintenance and operation could have substantially reduced costs at this plant. As a matter of fact shortly after the subcommittee's hearings, the cost was reduced to a point where the operation was almost breaking even. At the last subcommittee hearings on this case in January 1948, it was also determined that steps had finally been taken to secure a source of long-term low-cost electrical power for this plant.

As was found to be the case in the disposal of other types of surpluses the subcommittee has found that poor, inefficient, slipshod business practices existed in the handling of the plant-disposal program. One of the most flagrant cases of maladministration and mismanagement in the handling of our plant-disposal program was involved in the disposal of the Dodge-Chrysler plant in Chicago. This subcommittee initiated its investigation of the disposal of the Dodge-Chrysler plant in April 1947. At that time the records of the Special Senate Committee Investigating the National Defense Program were made available to this subcommittee. In the fall of 1946 that Special Committee conducted an investigation and held public and private hearings concerning the disposition of this plant.

This plant, which was originally built by the Government at a cost of approximately \$200,000,000 is the largest industrial plant in the world. In the early summer of 1946 the War Assets Administration began negotiations with the Tucker Corp., a new automobile-manufacturing firm, for the lease and contemplated eventual sale of that plant. Representatives of the Tucker interests actually began negotiations for obtaining this plant prior to the incorporation of the firm which was incorporated on July 8, 1946.

Representatives of the Tucker interests acquired possession of the plant in July 1946. Under the terms of the first letter of intent dated July 12, 1946, the corporation was to enter into a lease with an option to buy. The corporation was to deposit \$1,000,000 with the War Assets Administration within a period of 4 months. This payment was to be made in four installments, as follows: (1) \$25,000 initial payment on or before July 3, 1946; (2) \$150,000 on or before August 1, 1946; (3) \$150,000 on or before September 1, 1946; (4) \$675,000 on or before October 1, 1946. The lease and option of purchase further provided that the Tucker Corp. must have to its credit as the result of private financing the sum of \$10,000,000 no later than March 1, 1947.

Mr. Preston T. Tucker, president of the corporation, gave a Western Union check in the amount of \$25,000 to the War Assets Administration on July 3, 1946, as the first installment under the letter of intent dated July 12, 1946. However, there was an alleged misunderstanding as to the conditions of sale in the letter of intent. This check therefore was never cashed by the War Assets Administration and was subsequently returned to the Tucker Corp. On August 1, 1946, when the second installment in the amount of \$150,000 was due, Mr. Tucker mailed to the War Assets Administration his personal check in the amount of \$150,000 drawn on the Ypsilanti Savings Bank, Ypsilanti, Mich. This check was misplaced in the War Assets Administration and several days later Mr. Tucker forwarded another personal check to the War Assets Administration in the amount of \$150,000, drawn on the same bank. At that time inquiries by Oscar H. Beasley, Chief of the General Manufacturing Branch of the War Assets Administration, who was handling most of the negotiations with the Tucker Corp., revealed that Preston T. Tucker had only \$2,000 or \$3,000 in his account at the Ypsilanti Savings Bank. Mr. Beasley stated, however, that he determined from officials of the bank that the Ypsilanti Machine and Tool Co., in which Preston T. Tucker was alleged to have some financial interest through his mother, had about \$12,000 in the bank and was in a position to meet the payment of the \$150,000 check. At the time representatives of the War Assets Administration were carrying on these extended negotiations with Tucker, they had no definite information on the financial status or net worth of Mr. Tucker or the corporation. As it eventually turned out, the above-mentioned check in the amount of \$150,000 was never cashed by the War Assets Administration, inasmuch as a new letter of intent dated September 18, 1946, was drawn up extending the period of time for obtaining the necessary financing.

In addition to these highly unorthodox financial manipulations in connection with the initial payments of the Tucker Corp., it was later determined by this subcommittee that the above-mentioned Mr. Beasley, who took a leading part in the negotiations, left the War Assets Administration and was hired by the Tucker Corp. at a substantial salary. Three other representatives of the War Assets Administration who were not known to have taken any part in the Tucker transactions were also hired by the corporation.

Under these unusual circumstances, the Tucker Corp. was not only allowed to take over possession of the plant, but the War Assets Administration allowed some \$24,000,000 worth of machine tools to remain in the plant in the possession of the corporation. Apparently, this was done on the theory that the Tucker Corp. had a right to purchase whatever tools it might desire under the terms of the letter of intent.

Although the Tucker Corp. had been in possession of the plant and the machinery for some 10 months and was obligated to pay \$500,000 rental for the first year on the plant alone, nothing had been paid by the corporation to the War Assets Administration at the time of the subcommittee's investigation. During the same time, the \$24,000,000 worth of machine tools in the plant, which were in possession of the Tucker Corp., were frozen and for that reason could not be disposed of by the disposal agencies.

It was also determined by the subcommittee that after the Tucker Corp. acquired possession of the plant previous contracts with the War Assets Administration for the protection and maintenance of the plant and for the warehousing of machinery had been canceled and new contracts had been entered into with the Tucker Corp. on April 1, 1947, for the same service on a cost-plus-fixed-fee basis. As a result of the subcommittee's investigation of these contracts, they were ultimately canceled and the operation was carried out on a civil-service basis, thereby reducing the personnel involved and effecting a savings in the cost of plant operation estimated to be about \$300,000 a year.

As a further result of the subcommittee's investigation, action was taken to remedy the situation whereby the Tucker Corp. was allowed in possession of the plant without any cash payments. On June 18, 1947, the letter of intent was again amended and the Tucker Corp. made an immediate payment of \$600,000 to the War Assets Administration. Four hundred thousand dollars of this amount was to be held as a good-faith deposit to be forfeited in the event of any default under the letter of intent and the remaining \$200,000 was to cover the payment of rent on the plant and machine tools for the plant from September 18, 1946, to July 1, 1947. This amendment also provided for another 4 months' extension of time to comply with the conditions set forth in the original letter of intent and specified that the sum of \$300,000 should be paid as rental for this extended period.

The subcommittee believes that the War Assets Administration has been guilty of gross mismanagement in its relationship with the Tucker Corp. in the lease and disposal of the Dodge-Chrysler plant. The subcommittee cannot conceive of any efficiently operated Government agency handling a business transaction in the lackadaisical manner that the disposal of this large and important facility has been handled by the War Assets Administration.

Prior to entering into any agreement with the Tucker Corp., the War Assets Administration should have made a thorough study and should have reached definite conclusions concerning the present and prospective future financial status and business ability of the corporation and its representatives. This was not done. Furthermore, the War Assets Administration should have insisted that the Tucker Corp. live up to its agreements in connection with the lease and sale of this plant, particularly after it was determined that the corporation was persisting in not meeting its obligations. If at some later date it is found that the Tucker Corp. cannot fulfill its agreements in connection with the purchase of this plant, the subcommittee is of the opinion that the primary responsibility for the failure to make the proper disposal of this large industrial facility will rest primarily with the War Assets Administration.

It is important to our present economy as well as to our future national defense that orderly and intelligent disposition be made of our surplus war plants. It is conceivable that the inept handling of disposal of surplus plants or the sale of these plants to irresponsible or unreliable purchasers can result in serious economic dislocations and will lessen their value for use in any possible future national defense program. These serious implications involved in the plant-disposal program should be given careful consideration by those responsible for the program in order that they may effect the prompt and orderly

disposal of the important industrial facilities which remain as surplus property.

DISPOSAL OF SURPLUS PROPERTY ABROAD

As a result of our wartime operations abroad, American-owned surplus property was to be found in all parts of the world. As previously indicated in this report, over 10½ billion dollars worth of the approximately 11 billion dollars worth of property which was declared as surplus abroad has now been disposed of by our foreign disposal agencies.

There were many problems peculiar to our foreign surplus disposal program. Much of this property was located in areas where it was necessary to use our troops to guard and warehouse the property. This in itself created a difficult problem inasmuch as our armed forces began to demobilize soon after VJ-day and it became increasingly more difficult to find the necessary manpower for warehousing and guard duty on foreign soil. After the demobilization program was accelerated, the disposal agencies abroad were faced with the alternative of making quick sales at sacrifice prices or holding up the return of the military personnel which was being used to maintain and guard the surpluses. The only other course of action was to abandon some of this valuable property, or for the disposal agency to assume the task of guarding and storing this property with civilian help. Obviously the latter courses of action were impossible from a standpoint of economy.

Payment for these foreign surpluses involved another problem. Most of the prospective purchasers of our surplus abroad were foreign nationals or foreign governments. In many parts of the world where surpluses were located, there was a question of dollar scarcity and in many places unstable foreign exchange. Our disposal agencies were further hampered in their disposal of this property by restrictions which various foreign governments placed on the sale of surpluses in the areas under their control.

Because of these many problems inherent in the disposal of foreign surpluses, time was of the essence in this program. In order to make rapid disposals, the Office of the Foreign Liquidation Commissioner and its predecessors adopted the policy of making bulk surplus sales whenever possible. The latest available figures on the sales of surpluses abroad are set forth in appendix V.

Many of the inefficiencies which were found to exist in our domestic surplus program also occurred in the disposition of foreign surpluses. Here again the lack of proper inventories, poor and inefficient business methods, and inadequate supervision of sales resulted in considerable criticism of our foreign disposal program and had the result of cutting down the over-all monetary return to our Government. Some of the shortcomings in our disposal of foreign surpluses are aptly illustrated in the bulk sale of surplus property in Iran. The subcommittee undertook an investigation of this sale and found that a large quantity of various types of movable surplus property located in Iran was sold in bulk to an Iranian syndicate for \$7,000,000. The sales contract provided that \$2,500,000 of the total agreed sales price was to be in American dollars and the remaining \$4,500,000 was to be in Iranian rials. The contract provided for the sale of property in bulk "as is, where is," and contained a specific clause providing that no refunds would be made under any circumstances.

Witnesses testified before the subcommittee that in spite of this contract, representatives of the Office of the Foreign Liquidation Commissioner refunded one-million-five-hundred-and-sixty-five thousand-odd dollars in the same proportion in dollars and rials as the contract price to the Iranian syndicate on its claim that some of the property supposedly included in the sale was missing. It was further testified that no adequate inventory of the property existed at the time of the sale and the claim of overcharge was not made by the purchasers until several months after the property had been delivered to them. The only justification for the action of the Office of the Foreign Liquidation Commissioner in making this substantial refund was the fact that an alleged oral understanding existed between the purchasers and representatives of the Foreign Liquidation Commissioner to the effect that the clause concerning refund did not apply. In other words our Government representatives took the position that although the contracts specifically provided in writing that no refund should be made, the contract did not actually mean what it said, but had been revised by oral agreements. Our representatives explained that no change was made in the written contract because the sale was made in great haste due to the withdrawal of the American troops from Iran, and the officials handling the sale did not want to begin changing the written contract for fear that the entire transaction would fall through and they would not have any buyer for this property.

As far as the alleged shortage of material is concerned, witnesses admitted before the subcommittee that they had no record of the amount of property involved and merely took the statement of the purchaser that the claimed shortage did, in fact, exist. It was further developed by the subcommittee that the legal representative of the Office of the Foreign Liquidation Commissioner who had drafted this contract, was said to have recommended the alleged oral agreement changing its terms, and to have made a spot check of the alleged shortage, was also involved in another apparently irregular transaction involving the disposal of surplus property, which transaction had been referred to the Department of Justice. The Government witnesses before this subcommittee took the position that notwithstanding the facts involved, they were justified in making this substantial refund of Government money to the foreign purchaser.

The subcommittee believes that this transaction was handled very poorly by our representatives who should be subject to severe censure for their neglect and failure to adequately protect the financial interest of our Government.

Other committees of the Congress have severely criticized various phases of our foreign surplus disposal program and this subcommittee, based upon its investigation, is inclined to agree with these criticisms. This Nation, in the disposal of foreign surpluses, embarked upon a haphazard course of action which undoubtedly cost the Government many millions of dollars. The fact that this surplus was located abroad resulted in fewer complaints being received as against the complaints concerning the handling of our domestic disposal program, but a sufficient number of complaints has come to the attention of the subcommittee to indicate the degree to which the program was mishandled. In view of the present international situation and because of the leading part which the United States is now taking in inter-

national affairs, it is the considered opinion of the subcommittee that had sufficient planning and thought been given to the disposal of our large amounts of foreign surpluses, this program could have been used to great advantage in our Nation's current international dealings.

THE REMAINING DISPOSAL PROBLEM

Although the bulk of our World War II surpluses have now been disposed of, the job is not yet finished. About 11½ billion dollars worth of foreign and domestic surpluses, which amounts to approximately 23 percent of our total war surpluses remain to be disposed of as of March 1, 1948. Disposition has been made of the cream of our war surpluses. Although some highly desirable property may remain in the surplus category, much of the remaining surplus property is of the hard-to-sell type for which there is no great buyers' demand. Most of the remaining personal or movable property in our domestic surplus inventory consists of heavy industrial machinery, metalworking equipment, and purely military-type equipment. A great deal of this property has been used, or is not in first-class condition. Actually most of the desirable civilian-type consumers items in our surplus inventory have now been sold. Our domestic disposal program reflected the following inventory as of March 1, 1948:

	<i>Billions</i>
Consumer and producer goods.....	1.3
Real property, including 1.1 billions on lease ¹	4.6
Aircraft.....	.2
Aircraft components.....	.9
Electronics.....	.2
Ships.....	4.8
Total.....	12.0

¹ Disposal agencies include as disposals leased property.

It will be noted from the above recapitulation that there is still remaining about 4.6 billion dollars worth of real property. This includes 487 surplus industrial plants and other pieces of real estate which have not as yet been disposed of by the War Assets Administration. Among some of the large and valuable plants which still remain in the surplus category are the Consolidated-Vultee aircraft plant at New Orleans, La., the Gary Armour plate plant at Gary, Ind., and the United Aircraft Corp. plant at Southington, Conn. It is not only necessary to dispose of the remaining surplus plants and other real estate, but there are a number of leases to be supervised and administered. This is a property-management job which will have to be carried on over a period of time, in order to protect adequately the Government's interest in this property.

In the field of foreign surplus, disposition has been made of all but about \$400,000,000 worth of our surplus property abroad, which amounts to only 4 percent of the grand total of our foreign surpluses generated as a result of the war. Most of these foreign surpluses are also hard-to-sell items and consist for the most part of small craft and other maritime equipment in the Philippines, and aircraft and aircraft parts in various countries. There is, however, a relatively large amount of work remaining to be done in connection with agreements and commitments which have been previously made by our

foreign-disposal agencies in connection with the sale of our surpluses abroad. Our work abroad in the surplus field cannot be terminated until these agreements and commitments are completed.

The orderly completion of the war surplus job cannot be accomplished in a short period of time. The disposal of the least desirable types of surplus property, both here and abroad, presents several difficult problems for the disposal agencies. The handling of this final phase of our disposal program could prove very costly to the Government by incurring unnecessary administrative costs and in the loss of revenue in the sale of our remaining surplus property. It can be readily seen from an examination of the records of the War Assets Administration that in the past 18 months the total disposals of domestic surpluses have dropped over 70 percent since the peak disposal period in the latter part of 1946. Notwithstanding the sharp decline in sales, we find that the personnel of the War Assets Administration has been reduced only about 45 percent in the same 18-month period. This wide differential between the decrease in personnel, in the opinion of the subcommittee, indicates an overstaffing in the War Assets Administration. The Administrator of the War Assets is apparently aware of this situation and he has indicated that by the end of June 1948 the personnel of the War Assets Administration will be reduced by 10,000 persons, to a total of 19,000. This subcommittee cannot overemphasize the necessity of drastically reducing administrative costs in carrying out the remainder of our disposal program, particularly in view of the inevitable and increasing decline in the rate of recovery from surplus sales.

This situation in rising administrative and operating costs is further illustrated by examining the steady increase in operating costs. In the fiscal year of 1947 the War Assets Administration spent approximately 25 cents of each dollar realized from sales on administrative and operating expenses. However, in the first 2 months of 1948, over 52 cents of each dollar realized from sales was spent on administrative and operating costs. It was a foregone conclusion that the cost of disposal will take more and more of each dollar realized from sales until the cost of sales will eventually exceed the amount realized from the sale itself. This situation is further reflected by the fact that the percentage of recovery as compared with the acquisition cost has dropped steadily for the past 2 years. In the first quarter of 1946, the War Assets Administration was selling personal property for 37.6 percent of acquisition costs, while in the first 2 months of 1948, the rate of recovery in surplus property sales amounted to only about 11 percent of acquisition cost. A proportionately sharp decline has also taken place in the rate of recovery in the sale of real property.

It is therefore the responsibility of those charged with the disposal of our remaining war surpluses to be ever alert to this situation of diminishing returns so that the Government will not find itself in a position of disposing of surpluses in such a manner as to run up excessive costs to the Government. As time goes on, and as the quality and salability of our surpluses sharply decreases, our administrative and operation costs must be drastically reduced by planning for and putting into effect more rapid and less costly disposal methods.

The full membership of the Senate Committee on Expenditures in the Executive Departments is now holding public hearings on a proposed bill to reorganize the procurement, utilization, and disposal of

Government property. Among other things this proposed bill provides that as of July 1, 1948, the War Assets Administration will be abolished and all of its property, personnel, and funds shall be transferred to the Bureau of Surplus Property which is to be set up in the Federal Works Agency. With minor exceptions the bill would repeal the Surplus Property Act of 1944, but the existing priorities and preferences for the disposal of real property would continue in effect until December 31, 1949. Under this proposed bill the remainder of our foreign surpluses, together with the personnel and functions of the Office of the Foreign Liquidation Commissioner would be transferred from the State Department to the other Government-owning agencies to be designated by the Bureau of the Budget.

If this proposed bill is enacted into law, it will have a pronounced effect upon the remaining surplus disposal program. For that reason and in view of the fact that the bill is being considered by the full committee, this report will be made part of the record of the full committee, so that information contained therein may be considered in the committee's deliberations on this proposed legislation.

CONCLUSIONS AND RECOMMENDATIONS

1. With the exception of some surplus plants the remaining 11½ billion dollars worth of surplus property, which represents about 22 percent of our total surpluses, is for the most part hard-to-sell types of property which will net a small return to the Government. Plans should be considered now for utilization of more rapid and less costly disposal methods. If this is not done, excessive disposal costs cannot be avoided.

2. As most of the readily salable types of surplus property have been sold, there has been a steady increase in the cost of surplus sales and a similar decrease in the rate of recovery from sales. If immediate steps are not taken to reduce operating and administrative costs, the Government will find itself in a position of spending more money to sell its surplus than will be received from the sale of this property. At the present time about 52 cents of each dollar realized from domestic surplus sales is being spent on administrative and operating costs.

3. Although the sale of surplus war plants was handled more effectively than most disposal programs, too little attention was given to solving or minimizing the particular problems involved in the disposal of individual plants. Had the disposal agency made a concerted effort to solve these problems involving the various plants which were offered for sale, these plants could have been disposed of more rapidly and with better returns to the Government. Because of the number of important industrial facilities which are still in the surplus category this phase of the disposal program must continue to receive the careful attention of the disposal agency. This is particularly true because of the relation of these plants to the economy of the areas in which the plants are located and the economy of the Nation as a whole, and in view of their importance to any future national defense program.

4. The frequent transfer of surplus disposal functions from one agency to another during the period from 1944 to 1946, was one of the major causes for many of the deficiencies in the war surplus dis-

posal program. These frequent organizational changes made it almost impossible for Government-owning and disposal agencies, as well as the buying public, to become sufficiently familiar with disposal policies and methods to carry out an orderly disposal program.

5. Since the enactment of the Surplus Property Act of 1944, the disposal agencies have consistently taken the position that the many objectives and provisions of the act, together with the regulations promulgated under the act, have made it difficult, if not impossible, to effect a prompt and orderly disposal program. This subcommittee does not agree with these views. Had the disposal agencies given proper consideration to the worth-while objectives which the Congress sought to accomplish under the Surplus Property Act of 1944, there is little doubt that the disposal program could have been conducted more effectively and efficiently.

6. It has cost over 867 million dollars to dispose of about 39½ billion dollars worth of surplus here and abroad. The subcommittee is of the opinion that substantial savings could have been effected in the disposal of war surpluses, had the disposal agencies been operated in a manner consistent with accepted business procedures and had primary emphasis placed on the merchandising nature of the job.

7. The lack of an adequate inventory of the surplus property in possession of the Government both here and abroad was a basic deficiency in our disposal program. As a result many surplus sales were conducted, although the disposal agencies had no accurate record of the amount, kind, or condition of the goods offered for sale. This situation caused considerable confusion and in some instances almost chaotic conditions in the sale of our surpluses and resulted in many justifiable complaints from the buying public.

8. Entirely too many of the policy-making positions in our domestic and foreign disposal agencies were filled by career officers of the armed services who were not qualified by training or experience to undertake the direction of this vast and specialized merchandising job.

APPENDIXES

APPENDIX I.—*Surplus disposal fiscal record, all agencies, as of Feb. 29, 1948*

(Thousands of dollars)

Agency	Net surplus	Disposals	Realization	Percentage of cost
WAA.....	\$16,939,230	\$20,657,527	\$3,241,057	15.7
OFLC.....	11,070,924	10,549,932	1,969,083	18.7
Commerce.....	323,887	323,887	176,064	54.3
RFC.....	10,772,440	933,797	290,335	31.0
Agriculture.....	252,186	198,146	² 107,000	54.0
Maritime.....	11,160,777	6,350,545	1,886,205	29.7
Navy.....	139,850	139,850	² 800	.5
FWA.....	102,420	100,332	² 1,600	1.59
Interior.....	73,234	64,527	² 2,163	3.35
Public Housing.....	92,673	89,876	63,043	70.0
Totals.....	50,927,621	39,408,419	7,737,350	19.6

¹ Undisposed surplus transferred to War Assets Administration.

² Approximate.

APPENDIX II.—*War Assets Administration, employment, January 1946–February 1948*

	Total personnel		Total personnel
1946—January.....	21,100	1947—January.....	53,491
February.....	23,313	February.....	51,779
March.....	27,901	March.....	49,283
April.....	30,206	April.....	46,513
May.....	32,452	May.....	45,173
June.....	36,500	June.....	41,899
July.....	44,985	July.....	41,037
August.....	49,164	August.....	38,164
September.....	53,377	September.....	34,494
October.....	57,166	October.....	33,688
November.....	58,791	November.....	32,432
December.....	56,334	December.....	30,294
		1948—January.....	29,542
		February ¹	29,281

¹ Preliminary

APPENDIX III.—*Summary of OFLC personnel*

	Total OFLC personnel ¹		Total OFLC personnel ¹
1945—November (Washington only).....	202	1947—January.....	1,829
December (Washington only).....	222	February.....	1,747
1946—January.....	1,214	March.....	1,613
February.....	1,315	April.....	1,350
March.....	1,526	May.....	1,095
April.....	1,731	June.....	851
May.....	2,069	July.....	852
June.....	2,187	August.....	822
July.....	2,202	September.....	814
August.....	2,162	October.....	807
September.....	2,243	November.....	778
October.....	2,144	December.....	750
November.....	1,953	1948—January.....	736
December.....	1,882	February.....	642

Field personnel not transferred to Department of State until January 1, 1946.

26 INVESTIGATION OF SURPLUS PROPERTY AND ITS DISPOSAL

APPENDIX IV.—Administrative expenditures by agencies through Feb. 29, 1948 charged to disposal of surplus property

Thousands of dollars

Agency:	Expenditures	Agency—Continued	Expenditures
WAA-----	689,442	PHA-----	332
RFC-WAC-----	117,219	Navy-----	263
Commerce-----	25,626	PMA (Agriculture)-----	1,266
SPA-----	1,808	SWPC-----	986
Bureau of Land Management (Interior)-----	992	State-----	9,979
CAA-----	852	Surplus Property Office (Interior)-----	2,679
Farm Credit Administration (Agriculture)-----	2,564	Maritime-----	5,181
FSA-----	2,258	Army Engineers-----	5,376
FWA-----	746		
FEA-----	29	Total-----	867,598

APPENDIX V.—Surplus-property disposal data by country and class of buyer as of Dec. 31, 1947

SUMMARY

	Sales to foreign governments		Sales to foreign individuals and others		Total	
	Cost ¹	Sales realization	Cost ¹	Sales realization	Cost ¹	Sales realization
Africa and Middle East theaters-----	\$112,946,407	\$41,694,086	\$76,730,194	\$28,006,144	\$189,676,601	\$69,700,230
European theater-----	3,661,046,908	748,175,931	232,598,727	43,663,705	3,893,645,635	791,839,636
Pacific Ocean and Far East-----	2,622,319,183	445,983,380	630,569,574	89,558,111	3,252,888,757	535,541,491
Western Hemisphere-----	186,987,671	36,607,801	159,806,031	21,303,082	346,793,702	57,910,883
Aircraft (Miami sales center and Washington)-----	4,354,266	1,025,460	12,424,670	2,611,734	16,778,936	3,637,194
Subtotal-----	6,587,654,435	1,273,486,658	1,112,129,196	185,142,776	7,699,783,631	1,458,629,434
Unallocated-----					417,470,369	209,455,566
Total-----					8,117,254,000	1,668,085,000
Other disposals:						
Transfers to UNRRA-----					180,384,000	84,766,000
Military program disposals-----					162,655,000	15,708,000
Donations-----					53,022,000	
Abandonments-----					629,466,000	
Subtotal-----					1,025,527,000	100,474,000
Grand total-----					9,142,781,000	1,768,559,000

See footnote at end of table, p. 28.

APPENDIX V.—*Surplus-property disposal data by country and class of buyer as of Dec. 31, 1947*—Continued

AFRICA AND MIDDLE EAST THEATERS

	Sales to foreign governments		Sales to foreign individuals and others		Total	
	Cost 1	Sales realization	Cost 1	Sales realization	Cost 1	Sales realization
Aden.....			\$11,416	\$5,236	\$11,416	\$5,236
Algeria.....	\$4,182,780	\$3,969,045	118,433	56,563	4,301,213	4,025,608
Angola.....			21,207	9,811	21,207	9,811
Belgian Congo.....	255,356	16,746	194,906	20,156	450,262	36,902
Egypt.....	32,876,214	9,804,660	19,444,145	12,026,763	52,320,359	21,831,423
Ethiopia.....	1,846,186	527,894			1,846,186	527,894
French Equatorial Africa.....			2,522	2,522	2,522	2,522
French Morocco.....	2,958,072	1,975,118	1,735,622	705,672	4,693,694	2,680,790
French Somaliland.....			19,162	206	19,162	206
French West Africa.....	549,724	241,483	177,371	124,157	727,095	365,640
Gold Coast.....	679,449	202,089	2,705,492	671,340	3,384,941	873,429
Iran.....	36,296,190	13,052,947	40,381,870	10,477,977	76,678,060	23,530,924
Iraq.....	1,724,231	1,353,453	181,794	40,139	1,906,025	1,393,592
Kenya.....			704,640	155,940	704,640	155,940
Lebanon.....	2,573,988	2,313,769	1,263,877	377,567	3,837,865	2,691,336
Liberia.....	127,336	85,000	1,628,453	221,807	1,755,789	306,807
Libya.....			43,124	28,950	43,124	28,950
Madagascar.....			1,841	1,816	1,841	1,816
Morocco (ETO).....			590	381	590	381
Nigeria.....	363,292	121,734	818,075	168,142	1,181,367	289,876
Northern Rhodesia.....			13,020	3,500	13,020	3,500
Palestine.....	181,927	93,225	2,138,407	1,596,783	2,320,334	1,690,008
Rio de Oro.....	353,994	136,698			353,994	136,698
Saudi Arabia.....	5,911,503	1,830,767	510,079	164,426	6,421,582	1,995,193
South Africa.....	12,551,366	2,389,276	2,443,091	808,066	15,024,367	3,197,342
Southern Rhodesia.....	153,725	103,632	151,693	14,000	255,331	117,632
Sudan.....	4,044,442	1,010,304	27,229	13,199	4,971,671	1,023,503
Syria.....	2,184,964	1,741,832	79,673	61,509	2,264,337	1,803,341
Tangiers.....	53,094	47,092	38,897	21,467	91,991	68,559
Tunisia.....	2,107,991	668,243	58,961	29,629	2,166,952	697,872
Transjordan.....			1,819,972	192,367	1,819,972	192,367
Trucial Oman.....	10,580	9,079	8,576	6,053	19,156	15,132
Yemen.....			6,236		6,236	

EUROPEAN THEATER

Austria.....	\$14,405,849	\$5,592,737	\$71,175	\$11,250	\$14,477,024	\$5,603,987
Belgium.....	385,877,747	24,938,499	40,874,999	3,443,531	426,752,746	28,382,030
Czechoslovakia.....	17,653,946	8,017,897	4,204	800	17,658,150	8,018,697
Denmark.....	7,257,412	732,915	1,130,535	167,346	8,387,947	900,261
Eire.....			1,840,166	243,375	1,840,166	243,375
Finland.....	27,772,609	15,258,655			27,772,609	15,258,655
France.....	1,504,062,697	328,413,038	41,487,111	21,323,273	1,545,549,808	349,736,311
Germany.....	43,675	19,823	6,033,906	1,724,534	6,077,581	1,744,357
Greece.....	147,921,264	46,403,331	991,728	425,455	148,912,992	46,828,786
Hungary.....	44,373,087	16,493,579			44,373,087	16,493,579
Italy.....	715,701,732	178,000,000	12,828,673	1,841,358	728,530,405	179,841,358
Luxemburg.....	777,507	300,078	7,210	1,700	784,717	301,778
Netherlands.....	56,546,412	16,389,664	1,813,288	774,842	58,359,700	17,164,506
Norway.....	32,042,775	3,509,513	1,178,991	285,877	33,221,766	3,794,890
Poland.....	70,762,812	31,398,725	1,136	245	70,763,948	31,398,970
Portugal.....	2,863,129	1,681,084	7,047,211	1,495,788	9,910,340	3,176,872
Rumania.....			75,881		75,881	41,177
Sicily (MTO).....	570,750	330,651	4,464,354	197,110	5,035,104	527,761
Spain.....	1,142,866	247,000	59,304	38,975	1,202,170	285,975
Sweden.....	11,552,640	3,249,535	4,873,047	1,784,759	16,425,687	5,034,294
Switzerland.....	2,138,921	1,053,899	19,351,385	4,109,545	21,490,306	5,163,444
Turkey.....	28,897,768	5,871,778	4,355,566	836,520	33,253,334	6,708,298
United Kingdom.....	588,592,117	60,203,529	84,042,367	4,880,536	672,634,484	65,084,065
Union of Soviet Socialist Republics.....	89,193	70,001	63,780	35,544	152,973	105,545
Yugoslavia.....			2,710	665	2,710	665

See footnote at end of table, p. 28.

28 INVESTIGATION OF SURPLUS PROPERTY AND ITS DISPOSAL

APPENDIX V.—*Surplus-property disposal data by country and class of buyer as of Dec. 31, 1947*—Continued

PACIFIC OCEAN AND FAR EAST

	Sales to foreign govern- ments		Sales to foreign indi- viduals and others		Total	
	Cost	Sales realization	Cost	Sales realization	Cost	Sales realization
Admiralty Group.....			\$98, 019	\$24, 700	\$98, 019	\$24, 700
Australia.....	\$54, 005, 118	\$8, 897, 250	6, 019, 746	2, 018, 871	60, 024, 864	10, 916, 121
British Malaya.....	691, 855	350, 000	164, 705	84, 198	856, 560	434, 198
Burma.....	6, 163, 334	5, 068, 916	10, 698, 320	2, 324, 582	16, 861, 654	7, 393, 498
Ceylon.....	2, 090, 364	586, 360	760, 000	17, 401	2, 850, 364	603, 761
China.....	795, 430, 973	173, 413, 606	105, 754, 071	10, 838, 094	901, 185, 044	184, 251, 700
French Indo China.....	21, 974, 870	7, 905, 098	19, 408	2, 000	21, 994, 278	7, 907, 098
Guam.....			26, 949, 787	5, 163, 834	26, 949, 787	5, 163, 834
India.....	606, 620, 523	52, 449, 479	57, 567, 039	9, 679, 771	664, 187, 562	62, 129, 250
Japan.....	36, 013, 641	10, 371, 298	6, 935, 633	1, 424, 907	42, 949, 274	11, 796, 205
Korea.....	43, 997, 890	10, 792, 762	27, 759, 012	5, 154, 758	71, 756, 902	15, 947, 520
Marianas (excluding Guam).....			1, 051	150	1, 051	150
Netherlands East In- dies.....	99, 902, 361	24, 443, 652			99, 902, 361	24, 443, 652
New Guinea.....			1, 453, 740	3, 500	1, 453, 740	3, 500
New Hebrides.....	840, 383	199, 554	377, 920	44, 350	1, 218, 303	243, 904
New Zealand.....	9, 938, 000	2, 540, 434	603, 707	69, 607	10, 541, 707	2, 610, 041
Okinawa.....			3, 682	6, 328	3, 682	6, 328
Philippines.....	925, 654, 054	143, 829, 575	385, 403, 734	52, 701, 060	1, 311, 057, 788	196, 530, 635
Siam.....	18, 995, 817	6, 135, 396			18, 995, 817	6, 135, 396

WESTERN HEMISPHERE

Antigua.....	\$1, 105	\$400	\$16, 066	\$8, 457	\$17, 171	\$8, 857
Argentina.....	2, 067, 097	614, 132	54, 674	11, 163	2, 121, 771	625, 285
Aruba.....			324, 814	30, 550	324, 814	30, 550
Bahamas.....	25, 400	1, 100	467, 125	184, 145	467, 125	184, 145
Bermuda.....	99, 043	29, 537	3, 765, 302	160, 307	3, 864, 345	189, 844
Bolivia.....	118, 118	18, 544	117, 304	24, 313	235, 422	42, 857
Brazil.....	23, 865, 314	10, 518, 748	7, 208, 451	2, 434, 614	31, 073, 765	12, 953, 362
Canada.....	124, 803, 312	16, 122, 540	84, 903, 744	4, 534, 824	209, 707, 056	20, 657, 384
Canal Zone.....			9, 004, 915	2, 302, 522	9, 004, 915	2, 302, 522
Cayman Islands.....	75, 535	12, 900			75, 535	12, 900
Chile.....	183, 605	10, 509	96, 967	24, 699	280, 572	35, 208
Colombia.....	3, 320, 688	1, 358, 851	1, 617, 642	438, 222	4, 938, 330	1, 797, 073
Costa Rica.....	28, 938	11, 532	518, 551	144, 025	547, 489	155, 557
Cuba.....	2, 106, 707	1, 164, 990	2, 247, 563	346, 477	4, 354, 270	1, 511, 467
Curacao.....	7, 449, 454	1, 010, 023	3, 353	838	7, 452, 807	1, 010, 861
Dominican Republic.....	394, 647	31, 572	9, 743	3, 973	404, 390	35, 545
Ecuador.....	1, 528, 707	391, 310	345, 683	107, 462	1, 874, 390	493, 772
Guatemala.....	237, 000	126, 209	4, 842	1, 876	241, 842	128, 085
Guiana, British.....			1, 370, 449	149, 538	1, 370, 449	149, 538
Guiana, Dutch.....	689, 163	190, 546	8, 784	2, 382	697, 947	192, 928
Haiti.....			2, 102	933	2, 102	933
Honduras.....	575, 614	246, 123	7, 453	2, 637	583, 067	248, 760
Iceland.....	8, 723, 458	318, 031	34, 813	5, 938	7, 758, 271	323, 969
Jamaica.....	55, 394	30, 806	226, 224	51, 566	281, 518	112, 372
Martinique.....			8, 399	67	8, 399	67
Mexico.....			145, 836	51, 310	145, 836	51, 310
Newfoundland.....	199, 858	70, 823	1, 606, 105	859, 704	1, 805, 963	330, 527
Nicaragua.....	266, 610	129, 024	169, 965	52, 242	436, 575	181, 266
Panama.....	685, 306	310, 306	1, 242, 281	1, 233, 724	927, 587	1, 544, 030
Paraguay.....			2, 102	576	2, 102	576
Peru.....	4, 266, 110	1, 139, 458	5, 274, 987	776, 526	5, 411, 097	915, 984
Puerto Rico.....			650, 680	114, 745	650, 680	114, 745
Saint Lucia.....	387, 089	4, 035	13, 964	7, 595	401, 053	11, 630
Salvador.....	373, 638	207, 546	2, 615	753	376, 253	208, 299
Tobago.....			10	11	10	11
Trinidad.....	751, 414	380, 168	1, 895, 302	977, 295	3, 646, 716	1, 357, 463
United States.....	8, 872	7, 423	18, 485, 446	3, 603, 264	18, 494, 318	1, 610, 687
Uruguay.....	1, 542, 772	640, 986	373, 250	65, 981	1, 916, 022	706, 967
Venezuela.....	2, 157, 703	1, 009, 629	4, 579, 025	2, 497, 838	6, 736, 728	3, 507, 467

1 Cost to Government of surplus sold.