

RENEGOTIABLE SALES AND PROFITS

WILBER G. KATZ*

BUSINESS SUBJECT TO RENEGOTIATION

IT HAS been suggested in the articles by Senator Walsh and Mr. James that the basic purpose of the Renegotiation Act is the avoidance of public scandal incident to exorbitant war profits; that the distinctive features of renegotiation result from the effort of Congress to prevent profiteering without discouraging production or putting a premium on waste and inefficiency. It was to be expected that the categories of business subject to the act would be determined by consideration of the purpose of the act and of problems of administration. The history of the legislation and of its interpretation has been one of continuous controversy as to the proper scope of renegotiation. No attempt will here be made to discuss the subject comprehensively. Instead, a few of the disputed areas will be considered, in order to illustrate the problems of policy involved.

With a few exceptions, the original act was expressed as covering all contracts with the Army and Navy Departments and the Maritime Commission and "subcontracts" thereunder. The act contained no definition of "subcontracts," but the Departments soon adopted an interpretation of the term as including not only subcontracts under which production of some or all of the articles contracted for is delegated to a subcontractor, but also purchases by the contractor of component parts and of supplies, materials, machinery, or equipment "required" for the performance of the contract. A similar definition of "subcontract" was inserted in the act in October, 1942, a definition which has been amended in minor respects only by the Revenue Act of 1943.¹ (The amendments effected by this act are referred to in this article as "the 1944 amendments.") This definition is obviously very broad, and it is proposed to examine its scope first by considering the principal proposals for limitation or exemption.

Standard commercial articles.—The contention has been almost continuously made that sales of standard commercial articles should not be subject to renegotiation. It is pointed out that standard products are not like new types of heavy artillery, as to which costs of production defy estimate. The pricing of standard products is not a matter of guess. It is

* John P. Wilson Professor of Law, The University of Chicago.

¹ Subsec. (a) (5).

also emphasized that prices for standard products are subject to OPA ceilings and that in many lines there is a large number of producers. The conclusion is drawn that with excess profits taxes at present levels renegotiation is not necessary for sales of these products.

These arguments were vigorously opposed, particularly by the Maritime Commission and the Navy, whose spokesmen pointed out that a large part of the cost of ships represents components which are standard commercial items. They flatly denied that excess profits taxes can be relied on to remove all exorbitant profits from such sales. They showed the effect on profits of enormously increased volume of sales, volume expanded sometimes ten to twenty fold, and insisted that prices reasonable for a normal volume of production may be grossly excessive when the volume is multiplied. Where the quantity demanded is so large, competition cannot be expected to bring about price reductions. Furthermore, price regulation by the OPA scarcely touches the problem. None of the techniques worked out by the OPA in fixing prices takes account of the effect of expanded volume on the costs of an individual firm. When the OPA showed some signs of approaching its problem as a problem of profits, the congressional reaction was so violent that the approach was hastily and completely abandoned.

These arguments are so persuasive that it is difficult to understand the War Department's original support of the exemption of standard articles. Under Secretary Patterson urged the exemption in 1942, and testified in June, 1943, that he was still personally in favor of it. This position may have resulted from concern over the volume of administrative work involved in renegotiation, for until the end of 1943 it was by no means clear that the task could be handled with the staffs available. But whatever may have been the reason for the War Department's original position, in the interests of a uniform policy the Department deferred to the opinion of the Navy and the Maritime Commission.²

An exemption of standard commercial articles would of course require a definition of such articles, and the difficulty of framing such a definition furnished an additional argument against the exemption. The difficulty is illustrated by the definition inserted by the 1944 amendments. Here "standard commercial article" is defined as an article "identical in every material respect" with an article in general use prior to 1940.³ The defini-

² See Hearings, Sen. Com. on Finance (and Subcom.) on Sec. 403 of Pub. Law No. 528, 77th Cong., 2d Sess., Sept. 22-23, 29-30, 1942; Hearings, House Com. on Naval Affairs (78th Cong., 1st Sess.) pursuant to H. Res. 30, Vol. 2, June 10-30, 1943, at 925.

³ Subsec. (a) (7).

tion contains added requirements that the article be one sold in competition and subject to an OPA ceiling or at a price not in excess of the January 1, 1941, price. The 1944 amendments, however, did not themselves grant the exemption; they merely authorized the War Contracts Price Adjustment Board to do so "if in the opinion of the Board, competitive conditions affecting the sale of such article are such as will reasonably protect the government against excessive prices."⁴ If this power is exercised, the action may, of course, be taken for limited classes of "standard commercial articles" rather than for the entire class as defined in the act. If standard articles were to be exempted in terms of the statutory definition, a host of questions would be inevitable as to the phrase "identical in every material respect." Government specifications for "standard" articles commonly provide for slight changes in design or quality of materials or acceptable tolerances. Questions as to the materiality of such deviations would be constantly met and difficult to resolve.

Materials.—Suppliers of certain raw materials raised not only all of the arguments urged for the "standard product" exemption, but also an argument based upon the exhaustion of their ore, oil, or timber reserves. They urged that their business was not being increased but merely anticipated by the war boom. Perhaps on the basis of this argument, an exemption was inserted covering sales of the product of mines, oil wells, or timber, which has not been processed beyond the first state suitable for industrial use.⁵ The application of this exemption has presented many close questions and the Secretaries have issued a joint regulation interpreting the language and listing many exempt products. An exemption for agricultural products in similar terms has been inserted by the amendments of 1944.⁶

The 1944 amendments also include a provision for the benefit of contractors who produce (or acquire) materials in an exempt state and process them for sale in a form not exempt.⁷ In computing renegotiable profits, such contractors shall have the benefit of a cost allowance approximating the amount which the contractor would have realized if he had sold the materials in their exempt state. In other words, in computing the profit from the operations subject to renegotiation, the "cost" of the materials in their exempt state is not to be determined by their actual cost to the contractor but by the proceeds of the hypothetical sale in the exempt state. This provision carries into the statute the substance of the administrative practice. It permits the contractor to adjust the valuation of his

⁴ Subsec. (i) (4) (D).

⁵ Originally subsec. (i) (1) (ii), now subsec. (i) (1) (B).

⁶ Subsec. (i) (1) (C).

⁷ Subsec. (i) (3).

opening inventory of work in process as well as the cost of materials put into production during the year. It is apparent, of course, what difficulties are encountered in applying this rule, particularly in the absence of an active market for the materials in their exempt state.

Machinery, equipment, and supplies.—Throughout the history of the Renegotiation Act, there has been agitation for its limitation to prime contracts (sales directly to the renegotiating agencies) and subcontracts for component parts (and non-exempt materials). Such a limitation was embodied in the 1944 amendments as they originally passed both the House and the Senate, although the limitation was eliminated in conference.⁸ This exemption would, of course, eliminate renegotiation of sales of machine tools and other equipment of long life, and the producers of such equipment not only urged this general limitation of renegotiation to final war products and component parts but also, in the alternative, a specific exemption of sales of durable machinery and equipment. The Senate amendments of 1944 also adopted this suggestion, exempting sales of machinery, tools, and equipment “ordinarily having a useful life of more than ten years.”

While this exemption was eliminated in conference, the argument in its favor was of considerable force. Emphasis was placed on the fact that the greatly expanded wartime sales of such manufacturers would inevitably result in a reduction of their post-war markets, that the war boom was for them largely an anticipation of their normal sales for the next decade. (In this respect the argument of the durable equipment producer was analogous to that urged, with greater success, by raw material producers. The material producers viewed the future with alarm because of exhaustion of their supply, whereas the alarm of equipment producers was based on the exhaustion of their demand. In some respects the argument of the equipment producer seems the more persuasive.)

The principal weakness of the argument for the durable tool exemption results from the wide differences in the degree to which the argument applies to individual producers. It is most persuasive for a company producing only a line of standard durable equipment (such as turret lathes) with a wide variety of uses. Apart from the possibility of developing new lines of products, the outlook of such a company for the years immediately following the war is admittedly dubious. Furthermore, with renegotiation for 1942 an accomplished fact, and with volume of sales falling off, the argument for exemption is increasingly strong.

In the case of producers of other types of equipment, however, the argu-

⁸ C.C.H. Special Reports on H. R. 3687, Revenue Bill 1943.

ment is less persuasive. Some types of durable equipment have in prospect a much more favorable post-war market, and the rejection of the proposed exemption reflects a belief that it is impossible to formulate an exemption which would not be either too broad or too narrow. The action of Congress may be understood as a preference for a case-to-case appraisal of the force of the market saturation argument and for its recognition in deciding upon the profit margin which may be considered reasonable.

The proposal to limit renegotiation to sales of products furnished directly to the Government and of component parts thereof would have exempted sales not only of durable equipment but also of consumable tools and factory supplies. Producers of some of these products have had a striking increase in volume of sales and profits, and they do not have the serious problem of market saturation faced by producers of many types of durable equipment. The Departments have therefore consistently opposed the restriction of renegotiation to end-products and component parts.

Articles "required" for performance of war contract.—The foregoing discussion has dealt largely with controversies concerning proposals to reduce the scope of renegotiation. It remains to comment briefly on the limits of the term "subcontract" as defined in October, 1942. In this definition, which continues in force without substantial change, the crucial words are "agreement . . . to . . . furnish any article, required for the performance of any other contract or subcontract."⁹ As Mr. Berling has pointed out,¹⁰ the word "required" might have been given a very broad interpretation, subjecting to renegotiation all sales (to prime contractors or subcontractors) of office equipment and supplies, factory maintenance items, and articles entering into factory construction. The Departments ruled, however, that such items were too remote from factory operations to be considered "required" for the purchaser's war production. Thus there arose a distinction between processing equipment and supplies (renegotiable) and general equipment and supplies (non-renegotiable). For a period before the administrative interpretation became settled it was thought that sales of articles which became part of the realty were for that reason exempt, although constituting direct processing equipment. This notion was not finally adopted, although in most cases sales of building materials, and other articles becoming part of the realty, are exempt as sales of general, rather than processing, equipment. It is to be noted that we are dealing here only with the limits of the concept "subcontract." All sales direct to one of the Departments covered by the act are renegotiable,

⁹ Subsec. (a) (5).

¹⁰ See ante, p. 224.

without regard to the character of the item sold, subject to the exemptions listed in the act or promulgated pursuant to its terms.

The definition of "subcontract" has in practice been limited in other directions. Where component parts are concerned, there is no limit to the number of tiers of subcontracts, all subject to renegotiation. But a more restricted interpretation is given to the concept of "articles required" for the production of machinery the sale of which is a renegotiable subcontract. Contracts for components of such machinery are also renegotiable, as are sales of machinery necessary for such production. The limit is set at that point, excluding lower tier transactions and sales of supplies used in making war production machinery. This limitation reflects an understandable desire to find some cut-off in the house-that-Jack-built series.

Another close question was presented by sales of equipment which is to be used only partly for war production. The seller is permitted to treat as renegotiable only the portion of the sale price which is proportionate to the equipment's use in war production. As a matter of literal interpretation of the act, it might well have been ruled that since the equipment was "required" for war production the entire purchase constitutes a subcontract. Such a ruling would also have been defensible from the viewpoint of the general purpose of the act. Its rejection is probably to be understood as a minor concession to producers of durable equipment, justified by the force of their general argument summarized above.

Procedure to determine renegotiable sales.—It has already been suggested that interpretation of the definitions of renegotiable contracts and subcontracts is only a small part of the problem of determining the business of any contractor subject to renegotiation. The working out of a procedure for applying these definitions presents even greater difficulties which can only be briefly suggested in this article. Here, even more than in elaborating the definitions, there is need for practical adjustment.

The problem is simple where the contractor has relatively few sales and where the purposes for which its products are purchased are known or easily ascertainable. Sometimes efforts are made to secure such information by circularizing customers. It is often exceedingly difficult, however, to formulate a questionnaire which will secure information which is relevant in terms of the criteria for renegotiability. More useful information can usually be secured by informal inquiries. In cases where customers are numerous, information is sometimes secured as to the more important customers and the remainder of the sales segregated by application of the percentages indicated by analysis of the larger accounts.

In some cases, the contractors have already available analyses of their

sales according to the industries to which the customers belong. Particularly where a large number of small accounts is involved, a reasonable method of sales segregation may be through the use of percentages for each industry. Percentages suggested by reports of trade associations or government agencies or by the experience of the renegotiating department are frequently accepted by the parties where more accurate methods of segregation are not practicable.

In other classes of cases, resort must be had to information given on purchase orders pursuant to WPB regulations. These regulations, however, are different in different industries, and the requirements have been frequently changed. The information is given in the form sometimes of priority ratings and sometimes of "end-use" classification symbols. While a tabulation of such information may furnish a satisfactory basis for the segregation of sales, this will be true only where the nature and the uses of the products suggest some correspondence between the particular WPB symbols and the categories of renegotiable business. It must be remembered, for example, that high priority ratings have been given for purchase of items necessary for maintenance of operations in many plants and institutions not engaged in war production.

It is apparent from the foregoing paragraphs that there is no uniform method of segregating sales subject to renegotiation; nor is there a limited number of methods whose application to different classes of production can be standardized. Informal conferences between the contractor and the renegotiators are necessary to reach agreement on the practicable method which will give the fairest approximation to the total of renegotiable sales. It is apparent also that the task of segregating sales is a most important one. The responsibility is placed upon the contractor to make the segregation, but the methods employed must be scrutinized with the greatest care by the renegotiator if the policy of the act is not to be defeated.

DETERMINATION OF RENEGOTIABLE PROFIT

The original act was worded in terms which made individual contracts, rather than the operations of a fiscal period, the focus of renegotiation.¹¹ Whenever the Secretary deemed that the profits from any contract or subcontract might be excessive, he was directed to renegotiate the contract price. While a review of operations under individual contracts would be highly desirable as a means of reaching sound prices on future contracts for similar articles, two important objections to this approach were recog-

¹¹ Subsec. (c) (1).

nized early in the administration of the act. Contractors were quick to urge that refund of excessive profits from individual contracts should not be asked without adjustment for losses or inadequate profits on other contracts. It soon appeared, furthermore, that the individual contract approach was impracticable as a matter of administration. The "overall" approach, however, was incorporated in the statute only gradually. By the 1942 amendments, the Secretaries were merely empowered in their discretion to renegotiate some or all of the contracts as a group. While overall renegotiation for a fiscal year was almost universal practice from the outset, it was not until the 1944 amendments that this method was made mandatory, except by agreement of the parties.

The fiscal year approach, however, raises difficulties of its own, difficulties inherent in efforts to judge the profits of business enterprise for an arbitrary period of time. Writers on economics and accounting have often remarked that a satisfactory determination of profits is possible only after the enterprise has ended and its assets been liquidated. The effort to ascertain profits for a shorter period is an effort to match items of revenue and cost. In accounting practice this process is largely one of applying conventional rules, rules which may be fairly satisfactory when applied over a period of years. Some of these accounting rules, however, are open to serious question if they are relied upon to secure a fair measure of a year's profits for renegotiation purposes.

The general problem of annual profits has also arisen under the income tax law. Especially with rising tax rates, it has been thought necessary to make increasing use of various averaging devices, devices to carry forward and to carry back losses in order to avoid inequitable taxation in years where application of conventional rules results in high profits. In renegotiation, contractors have often urged that the only war profits which they should be asked to refund are those which appear excessive when their entire war production has been completed. It is somewhat surprising that their representatives before congressional committees have not urged concrete proposals for making renegotiation tentative, with "excessive profits" impounded (perhaps in the form of war bonds) but subject to offset against later losses. Under the present act the board may agree to a renegotiation period longer than one year, but there has apparently been little use of this device. In the 1944 amendments, Congress introduced a provision for recomputation of excessive profits and possible return of renegotiation refund, but only in connection with recomputation for tax purposes of the amortization of investment in emergency equipment. With this single exception, a renegotiation agreement represents a final

determination, in spite of doubts as to important items of cost and as to the resulting profits. The situation has not become acute, largely because of the substantial time lag between the accrual of profits and the determination of the refund. In most cases generous profits accrued since the end of the fiscal year, renegotiated, have furnished a comfortable margin of safety.

From the beginning, in the determination of renegotiable profit, allowance has been given for deductions recognized in income tax procedure. Under the 1942 amendments, the Secretaries were required to recognize exclusions and deductions "of the character" allowed under the Internal Revenue Code.¹² The 1944 amendments eliminated the quoted phrase and required the allowance of cost items "estimated to be allowable" under the code.¹³ No attempt will be made in this article to review the treatment of even the most important items of cost. Instead, two or three cost problems will be discussed, in order to illustrate the dangers in tying the concept of renegotiable profits too closely to that of taxable income. It must be remembered, of course, that allowance of an item as a cost in computing renegotiable profit does not preclude consideration of the cost thus allowed as a factor bearing upon the reasonableness of the resulting profit. Examples of such consideration often occur in connection with executive salaries. While the salaries paid may not be so high as to lead to disallowance by the Bureau of Internal Revenue or in renegotiation, a high level of salaries is a factor entitled to consideration in determining excessive profits. Such consideration is obviously necessary in fairness to contractors with unusually low overhead costs.

Deferred costs of development.—Under the tax law, the contractor is given no discretion in the handling of developmental costs. They may be taken as a deduction in the year paid or incurred and may not be deferred and deducted in a later year.¹⁴ In renegotiation, however, it would be obviously unfair if such costs were not considered properly allocable to the year or years in which the principal production takes place. Furthermore, even where developmental costs were not deferred in the books of the contractor, where these preparations resulted in losses on war contracts in the pre-renegotiation year, this is a factor which may be urged as bearing upon the reasonableness of the profits subsequently earned.

Amortization of emergency equipment.—In many cases the principal doubt as to profits realized arises from the investment of the contractor in a plant, machinery, or equipment required for his war production.

¹² Subsec. (c) (3).

¹³ Subsec. (a) (4) (B).

¹⁴ Reg. 111, sec. 29.43-2.

The problem is one of the recovery of this investment, a problem of the amount which should be allowed against current revenue for amortization of the capital outlay.

The cost of "ordinary" capital investment is amortized by means of an allowance for depreciation based upon an estimate of the useful life of the equipment and representing a spreading of the net cost over the life by some recognized method. With respect to additions necessary for handling the large volume of war production, the chief difficulty is in estimating the period during which the contractor will be able usefully (i.e., profitably) to employ the equipment. The problem was much debated during the period of expanding defense preparations in 1939 and 1940. Finally, in order to encourage investment in increased productive capacity, in the Second Revenue Act of 1940, Congress added Section 124 to the Internal Revenue Code. This section provided for the issuance of "certificates of necessity" for investment in "emergency facilities." In computing taxable income, the holder of such a certificate may amortize his investment at twenty per cent per year regardless of the type of equipment or its probable life.

Nor is the taxpayer left, under this section, with the risk that he might not have five years of war business against which to amortize his investment. If the emergency period should end before the amortization is completed, or if the facility is certified as no longer necessary for war production, the taxpayer may re-open his tax returns for previous years and recompute the amortization on the basis of the shorter period. This solution of the difficult problem may have been a fair one for tax purposes. While it seems generous to the taxpayer, it must be remembered that if the facility continues to be used after the amortization period, taxes must be paid on the income so produced without further deduction for depreciation or amortization of the investment.

In renegotiation, however, the problem is somewhat different. Under the present act, renegotiation will expire on December 31, 1944, or not later than June 30, 1945. Recognition of the twenty per cent amortization charge as a cost in computing renegotiable profits would give the contractor a great advantage in cases where the property is likely to have value after the amortization period. Take the case of a contractor who has been operating in a plant rented on a short term lease. The contractor builds a new plant under certificate of necessity, with the intention of giving up production in the rented plant if post-war business does not require both plants. Should such a contractor be allowed the twenty per cent amortization charge as a cost of its renegotiable business?

It was perhaps with such a case in view that the renegotiating agencies agreed upon a very cautious statement of policy on this subject.¹⁵ It was first stated that in computing profits the amortization charge is not to be allowed as a cost, except to the extent of an appropriate depreciation allowance. "However, the amount of such amortization in excess of depreciation will be deducted from such profits and not considered as representing excessive profits for purposes of renegotiation." It is interesting to speculate on what may have led the draftsman of this regulation to discriminate thus between allowance of the item as a cost and its recognition as a deduction in computing renegotiable profits. The question becomes even more puzzling in the light of the next sentence of the regulation: "In determining whether and the extent to which profits remaining after deducting the amount of such amortization are excessive, consideration will be given to the extent that it appears that the contractor . . . will have residual value in the amortized facilities."

As already stated, the 1944 amendment requires the allowance *as a cost* of all items estimated as allowable for tax purposes. Presumably, therefore, the board will revise the regulation on amortization. It should still be able to consider probable residual value as bearing on the reasonable profit margin. The case supposed, however, is one of the few where residual value might confidently be asserted. In the usual case the contractor secures the full benefit of twenty per cent amortization, since residual value is impossible to establish.

In one respect the 1944 amendments destroy the flexibility of renegotiation in respect to amortization. A new provision is inserted to deal with the case in which, after a renegotiation refund has been made, the amortization period is shortened by the termination of the emergency or by a finding that the facility is no longer necessary. The contractor is given a right to a recomputation of this refund on the basis of a higher amortization charge (proportionate to the shorter period). The recomputation is apparently to be a matter of arithmetic without a new opportunity to consider residual value—at a time when a reasonable approximation of such value might perhaps be made. It is not difficult to imagine cases in which this provision might operate to give the contractor a wind-fall.

Allocation of costs to renegotiable business.—The problem of determination of renegotiable profit has been discussed above as a problem of allowable costs. This is only half of the problem, and usually the easier half, in

¹⁵ J-PAB-5(a), published in Joint Statement by the War, Navy and Treasury Departments and the Maritime Commission, "Purposes, Principles, Policies, and Interpretations," March 31, 1943.

any case where the contractor has a substantial portion of his sales not subject to renegotiation. In these cases it is necessary to allocate cost items between renegotiable and non-renegotiable business in order to ascertain the profit to be renegotiated. As with the problem of segregation of sales, determination of an acceptable method of cost allocation usually requires detailed study of the nature of the respective products, their methods of production and distribution, and the nature of the records kept by the contractor.

These records often make it possible to determine with some accuracy the "prime cost" (material and direct labor) of sales subject to renegotiation. This is true not only where the contractor has records of such costs by contract or job, but also where departmental, plant, or product costs are separately kept and where the renegotiable sales include all of the sales of certain departments, plants, or products. Where "prime cost" is thus known, factory overhead is usually added on the basis of standard cost records, if such a cost system is in operation, or on the basis of percentages established by experience, or by an analysis and allocation of individual items of factory expense. From these computations, together with adjustments for changes in inventories, the "cost of sales" is determined for the renegotiable business.

It is sometimes necessary to accept much less satisfactory methods of allocation. The production of the contractor's regular products and of new war products may be carried on in the same plant and without separate records even of labor and material costs. Here it may be necessary to base the allocation upon pre-war cost experience in the regular line, determining cost of non-renegotiable sales on this basis and assigning the balance of the costs to the war production.

Items of selling, general, and administrative expenses must then be allocated, a process normally involving analysis of the respective items and consideration of the appropriate allocation for each. For example, expenses of maintenance of local sales offices should be allocated entirely to non-renegotiable business where these offices have nothing to do with the sales subject to renegotiation.

In some cases where the contractor's entire business consists of sales of a single product or of a homogeneous line, it is reasonable to allocate costs in proportion to sales. If the same prices have been charged in both categories of business, the allocation may be on the basis of aggregate dollar sales. If not, there must be allocation by product units or by dollar sales adjusted to neutralize the effect of the price differential.

This brief statement of the problem of cost allocation makes it clear

that the results of renegotiation will often be very materially affected by decisions as to the allocation method. Especially in cases where the contractors' accounting records are relatively crude, there is serious danger that excessive profits on renegotiable business may remain hidden in the absence of vigorous work by analysts of the renegotiation staff.

RENEGOTIATION AND TERMINATION

The general subject of settlements on termination of war contracts (by action of the Government) is beyond the scope of this article. The relation between renegotiation and termination settlements may briefly be discussed, however, since there is in a sense a conflict between the overall approach of renegotiation and the contract by contract method of handling termination settlements.

In the first place, when termination claims are being audited it would seem important to make sure that reimbursement is not granted for costs allowed in previous renegotiations, a matter which may involve considerable difficulty. For some cases it would seem desirable to deal with the matter by insertion of a clause in the renegotiation agreement waiving or limiting the scope of termination claims.

A second aspect of the problem relates to the profit allowed in the termination settlement. The termination officers were formerly authorized to exempt the settlement from renegotiation, if satisfied that no excessive profits were involved. The exercise of this authority, however, would have required the officer to examine into the complex of factors considered in a renegotiation, a task which would greatly prolong the termination negotiations. It is not surprising, therefore, that payments in termination settlements are now made subject to overall renegotiation.

This fact might seem to justify suggesting that termination settlements may safely be made without detailed review of costs and profits. The reduction of the administrative work in connection with terminations would, of course, be a great boon. But renegotiation is slated to end with review of operations prior to December 31, 1944 (or not later than June 30, 1945), and serious questions may also arise out of the statutory provisions limiting the period within which renegotiation proceedings may be instituted where contracts have been terminated. In many cases, therefore, renegotiation cannot be relied on to "mop up" after termination, and vigilance on the part of terminations officers is essential, with respect to both items of cost and margins of profit.