Rough Estimate of Population Distribution in Fiscal 1943

<table>
<thead>
<tr>
<th></th>
<th>Number of Consumer Units</th>
<th>Number of Persons</th>
<th>Average Number of Persons per Consumer Unit</th>
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</thead>
<tbody>
<tr>
<td>Military personnel</td>
<td></td>
<td>4,500,000</td>
<td></td>
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<tr>
<td>Civilian population</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family members</td>
<td>119,100,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single consumers</td>
<td>9,500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>128,600,000</td>
<td></td>
<td></td>
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<tr>
<td>Institutional</td>
<td>1,400,000</td>
<td>130,000,000</td>
<td></td>
</tr>
<tr>
<td>All Civilian</td>
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<td></td>
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</tr>
<tr>
<td>Total Population</td>
<td></td>
<td>134,500,000</td>
<td></td>
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<tr>
<td>Families of two or more persons</td>
<td>32,800,000</td>
<td>119,100,000</td>
<td>3.63</td>
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<tr>
<td>Single consumers</td>
<td>9,500,000</td>
<td>9,500,000</td>
<td>1.00</td>
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<tr>
<td>All families and single consumers</td>
<td>42,300,000</td>
<td>128,600,000</td>
<td>3.04</td>
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</tbody>
</table>

Treasury Department, Division of Monetary Research

March 10, 1942
March 17, 1942
10:46 a.m.

HMJr: Hello.

McCabe: Good morning, Mr. Secretary.

HMJr: Mr. McCabe.

Mc: Yes.

HMJr: Good morning. I wanted to ask you, Mr. Stettinius told me that he was preparing a report for the President, giving him a summary so that the President could let Mr. Stalin know where we have or have not fallen down on this protocol.

Mc: Yes, sir.

HMJr: Has that been given to the President?

Mc: No, I tell you. Here's what we've done. Since your meeting, our fellows have been working night and day with first the War Department to get out from the War Department actually what they could deliver of each specific item from now to June 30.

HMJr: Yeah.

Mc: Then we've been clearing with War Production Board - Bill Batt's organization - to do the same thing.

HMJr: Yeah.

Mc: Now the question arises there before we submit to the President a complete report, it's going to be necessary for the President to get out a general letter directing what he wants done about the protocol.

HMJr: Yes.

Mc: Do you understand what I mean?

HMJr: I understand.

Mc: Because Bill Batt makes quite a point of the
fact that if the President wants the protocol items put first, then they want a directive to that effect. Now.....

HMJr: Well how long is it going to take to get this out? My heavens!

Mc: Well, now, I'll tell you what we have here. We have lined up - we were going to Harry Hopkins at eleven thirty this morning.....

HMJr: Yeah.

Mc: .......with a letter for the President to sign if this meets with his approval. And if you're interested, it's a short letter.

HMJr: Yes.

Mc: I'll be glad to read it to you.

HMJr: All right. I am interested.

Mc: "My dear Mr. Stettinius:

"Compliance with the Moscow Protocol is of first importance. All finished munitions to meet the original protocol must have first priority, and shall be supplied by June 30, 1942, ahead of all other needs. The protocol commitment for raw materials shall also have first priority, except where to do so would result in an extraordinary interference with domestic production of finished munitions.

"The protocol items shall have a first priority on shipping and the ships required to deliver them shall be supplied before ships are made available for any other purpose." Now, just a second. I changed this next paragraph.

"You will please be responsible in following through with all the departments and agencies concerned, and report to me promptly of any lag in carrying out the protocol by June 30, 1942."

HMJr: Yeah.
"There shall be no exceptions whatsoever except those that I myself may make after receiving your report. As soon as possible, I want you to submit to me schedules showing availability dates of both the protocol and non-protocol items between now and June 30, 1942, with recommendations for meeting or exceeding the protocol amount and for supplying any other items of which the Soviet Union is in special need.

"Copies of this letter are being sent to War, Navy, State, Treasury, and Agriculture Departments, the War Production Board, and to the War Shipping Administration.

Sincerely yours,"

HMJr: Well, of course, if he'd sign that, I'd be very happy.

Me: Well, now, that's the thing that this letter I just finished, and I was going to read it first to General Burns and then show it to Harry at eleven-thirty at our conference.

HMJr: Yeah.

Me: And then have Harry give it to the President to sign if he will.

HMJr: Well, if you do.....

Me: Now, if we get that, then we'll proceed to immediately we have the Army material, have the War Production Board then to compile their material in line with this letter.

HMJr: Yeah.

Me: And it seemed to us that that must be done in order to have the necessary data for the President then to cable Stalin and tell him exactly what's what.

HMJr: Well, if he signs that, as I say, that would cheer me up a lot.
Mc: All right. Well, now, could I tell Harry this morning that this meets with your approval?

HMJr: Hearty approval.

Mc: Hearty approval.

HMJr: Yeah. And I'll be terribly disappointed if they don't sign it.

Mc: Well, then, I'd like to do that, because that will help this along materially.

HMJr: No, and you can go further and say, "Without such a letter, why you might just as well stop."

Mc: That's exactly what we want; and with your full approval there, I'm sure this will go through.

HMJr: Hearty approval, is what you can say.

Mc: Hearty approval.

HMJr: Yeah.

Mc: And I'll tell Harry if there's any doubt in his mind on that to give you a ring.

HMJr: That's right.

Mc: All right.

HMJr: I'd say you've got to have it.

Mc: Well, that's the way we feel.

HMJr: Yeah.

Mc: And we feel strongly about it.

HMJr: You might give me a ring and let me know what luck you have.

Mc: Indeed I will.

HMJr: And the other thing, don't forget that - I don't know what the color was on our chart - thirty-three
to thirty-five days, which shows up on our chart that that's where the thing is hung up in your organization.

Me: Well, now, look, Mr. Secretary. I've checked into that very thoroughly.

HMJr: Yeah.

Me: And there was a question of where the Russians put in their first request and the specifications.

HMJr: Yeah.

Me: .....were cock-eyed; and we had to clear with them and clear with War Production Board and with your people before we dared process those requisitions.

HMJr: Yeah.

Me: Do you see what I mean?

HMJr: Well, wherever it is - I don't care where it is - thirty-five days, I think, is thirty days too long.

Me: It is entirely too long.

HMJr: Yeah.

Me: But in many of those instances they had to cable back to Moscow.

HMJr: Well. There's another thing, if that's true - and I'm not questioning you - then the President ought to send a cable to Stalin to give somebody authority here to settle it in Washington.

Me: Well, now, I'll show you as soon as he signs this.....

HMJr: Yeah.

Me: .....and we get the other - we have it all prepared - a cable for the President to Stalin - and that's in the cable.
Right.

So I'll clear that with you before we actually send that to the President.

Good. Well, we're sending out a telegram today to all the manufacturers who have steel on order for us.

Yes.

And telling them, "Now, you have such and such an allocation — so many tons."

Yes.

"How much of this would you deliver on or before the twenty-first, the twenty-eighth, and the thirty-first."

Yes.

Because we've run into some very funny things, that just don't make sense. I don't want to say anything until we get the answer to the telegram, but it looks as though some of these manufacturers may have got out from under these allocations and that we've never been informed.

I see.

But I don't want to say anything about it until we get the answers; but when we get the answers, we'll let you know.

Right.

But we're doing it on those three dates, you see?

Now, look, there are two other things that are concerning me.

Yeah.

One is that the Maritime Commission definitely
promised us forty-five ships for February.

HMJr: Yeah.

Mc: They later said that the last one of the forty-five could not berth before the fifteenth of March.

HMJr: Yeah.

Mc: Now, they've fallen down terribly on that number of ships. They've written a long letter of explanation on each ship and what happened.

HMJr: Yeah.

Mc: The fact of the matter is that we've only gotten out seventeen ships so far this month, which is about one a day.

HMJr: Yeah.

Mc: And it takes nearer sixty to come - to meet the protocol.

HMJr: Yeah.

Mc: So that's a serious thing.

HMJr: Yeah.

Mc: Now, the next serious thing....

HMJr: Well, before you - what I would do is - I'd get this letter by; then I think, if I might suggest that you have the President sign a letter to the Maritime.

Mc: I think we'll have to.

HMJr: I think you ought to do that this week.

Mc: Yes. Well, we'll do that definitely.

HMJr: This week. Putting it right on the line.

Mc: Now, the second thing is....
Of course, if you get - excuse me - if you get the first letter signed, the over-all letter, then you could get the other.

Yes. Now the second thing is, this shipping thing that you and I thought was settled....

Yeah.

.....in Bob Patterson's office.

Yeah.

I understand that that's snarled up.

Well, what I've done is this. I had my administrative assistant call up Bob Patterson's office and asked him for a copy of the order.

Got a little devilish on that, you see.

And they said we couldn't get the order because the thing hadn't yet been settled.

So we're calling up each day asking for the copy of the order.

Wonderful.

And they said - they promised it to us today.

So each day they're going to get a call, "Where is the order setting that up?"

Wonderful. I think that's great.

And I'm not going to let it rest until I get the order. They sent me a reorganization of the War Department, but that isn't what I want.
No.

No, I'm having Norman Thompson in my office call up each day and say, "Mr. Morgenthau is sitting there waiting for the order under which General Somervell's going to operate."

Fine. Now, that's, to me, that's just losing precious minutes and days, and I feel it's one of the most serious things in Washington.

I'll call up Patterson myself on it.

Do you see what I mean?

Right. I agree with you.

And that, I feel, just must be settled.

Right.

All right. Thank you, Mr. Secretary.

Well, I'm following that up with Patterson's office. We're calling them once a day.

Fine. I'm so glad you called, and I'll.

Let me know what luck you have.

I'll call you after I see Harry.

And what do you hear from Ed Stettinius?

Well, I was talking to him last night. He said they put him through the tortures of the damned yesterday.

Yeah.

You know the examination of the kidneys is no fun.

Well, I never had it.

And he said that outside of the torture he went through, everything was all right.
HMJr: I see.

Mc: I don't think it's - you never know in this thing how serious - but I think with the proper treatment that he'll get out of it probably without an operation.

HMJr: Well, I hope so. If you speak to him again, say I was asking after him.

Mc: Indeed I will.

HMJr: Thank you.

Mc: Thank you.
March 17, 1942
11:00 a.m.

HMJr: ....memo that they haven't yet got a copy of General Somervell's orders.

Norman Thompson: Yes, sir.

HMJr: Now, I want you to call them up each day until you get it.

T: I'll do that.

HMJr: And if by Thursday you don't get it, then I will call up Mr. Patterson myself.

T: I see.

HMJr: See?

T: Well, I'll keep right back of it.

HMJr: Call them up again now, will you?

T: I'll do that, yes, sir.

HMJr: Say, "Where the hell is it?"

T: Yes, sir.

HMJr: Can you talk like that?

T: Oh, yes. (Laughs)

HMJr: Well, try it.

T: Okay.

HMJr: Okay.

T: Good-bye.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 17, 1942.

TO Secretary Morgenthau
FROM Mr. Thompson

There is attached a copy of an order obtained from the Under Secretary of War with reference to the organization of the Services of Supply in the War Department. This order places the Division of Transportation for the War Department under the jurisdiction of General Somervell.

I am advised as follows with reference to the meeting held last Friday in Under Secretary Patterson's office: This meeting was attended by Patterson, Somervell, Lewis Douglas, and Turney of the Interstate Commerce Commission. They discussed a proposed order with respect to the consolidation of all of the transportation functions but this order was not finally approved. General Somervell wanted to have charge of all shipments for the Army as well as for Lend Lease. As soon as the order is finally approved, I will get a copy for you.

[Signature]
From: Commanding General, Services of Supply

To: Chiefs of all Supply Arms and Services, Corps Area Commanders, and other offices, agencies, boards and committees of the War Department coming under the Jurisdiction of Services of Supply.


1. Reorganization of the War Department has been directed by the President and Secretary of War in orders attached hereto, Appendices A and B.

2. The Services of Supply will be organized initially and conduct their operations in accordance with these instructions.

   a. The mission of the Services of Supply is to provide services and supplies to meet military requirements except those peculiar to the Air Force.
   b. In carrying out his duties pertaining to the mission of the Services of Supply, the Commanding General will report to the Chief of Staff on the military phase of this mission, and will act under the direction of the Under Secretary of War on the procurement and related phases.
   c. In carrying out their mission, the Services of Supply will apply the determinations of, and utilize to the fullest extent, the services afforded by the War Production Board in procurement matters, and will render to the Board such services as it requires.

4. Commanding General, Services of Supply.
   The undersigned having been appointed Commanding General, Services of Supply, hereby assumes command of the Services of Supply.

5. Guiding Instructions for Organization of Services of Supply.
   In connection with these guiding instructions, it must be realized that there are many matters which will require clarification by further instructions. These will be issued as promptly as conditions permit or as the need arises. Until changed by further instructions, operations will be carried on in accordance with present procedures, except insofar as these are modified by these instructions and by the orders of the Secretary of War. See Appendix B. It is desired that necessary details be settled locally to the fullest extent practicable and in the best interests of the services. Operations must continue without delays or interruptions. The Office of the Commanding General, Services of Supply, should not be bombarded with inquiries, requests for interpretations, decisions, etc., in connection with minor matters.

   The general organization of the Services of Supply will consist of the Commanding General, the Executive Office of the Commanding General, including a Chief of Staff; a Chief of Procurement and Distribution with necessary assistants; a functional staff and operating divisions generally as shown on chart entitled "Organization of the Services of Supply" included in Appendix B.

7. Functional Staff.
   The staff organizations will include the following:
   a. Administrative Assistant.
   b. Public Relations and Information.
   c. Operations.
   d. Control.
   e. Training.
   f. Personnel.
   g. Budget and Financial Administration.
   h. Requirements.
   i. Defense Abs.
   j. Resources.

8. Director of Procurement and Distribution.
   The Director of Procurement and Distribution, with such assistants as may be re-
...will handle matters pertaining to the functions of procurement and distribution for the Commanding General, Services of Supply. The Director of Procurement and Distribution is responsible for the direction, supervision and coordination of the procurement and distribution of supplies and equipment, in accordance with approved programs and directives. He is charged with the following:

1. Receive the program requirements, disseminate this information to all concerned, and take appropriate action in reference thereto, including coordination with the War Production Board, as may be prescribed.
2. Direct, supervise and coordinate design, development, procurement, and distribution of equipment and supplies.
3. Purchasing policies and procedures.
4. Contractual policies and procedures.
5. Review and approval of contracts, proposals for award, letters of intent, supplementary agreements, change orders, and other agreements, when designated.
6. Formulation of policies for and coordination of insurance and advance payments.
7. Arrangements for cost analysis.
8. Research, development and engineering.
9. Production planning.
10. Scheduling of production.
11. Acceleration of production.
12. Storage and distribution of supplies and equipment.
13. Operation of branch and general depots.
14. Maintenance, repair and salvage of supplies and equipment.

6. Units of the Functional Staff.

a. Administrative Assistant.

1. Perform functions of office management and office service.
2. Take action in the name of the Chief on all routine administrative matters pertaining to the office.

b. Public Relations and Information. Subject to policies, procedures and clearance of the Bureau of Public Relations of the War Department:

1. Provide a means for common meetings among the General Public and the Services of Supply.
2. Foster cordial relations and liaison with the General Public, other agencies of Government, the Press and Radio.
3. Collect, classify, analyze, prepare and disseminate appropriate information.
4. Establish and maintain an informational service by telephone, correspondence, and direct contact.
5. Promulgate policies for the guidance of Operating Divisions and Corps Areas in matters pertaining to public relations and information.
6. Establish and maintain necessary arrangements for censorship.

7. Operations.

1. Preparation of plans and instructions on projected and current operations where coordinated action in required between two or more of the various Operating Divisions and the Corps Areas. Such matters to include:
   a. Troop Movements.
   b. Movement of supplies and equipment.
   c. Supply matters in connection with specific tactical or strategic operations, or other War Department activities.
2. Maintain close liaison with Divisions of the War Department General Staff and those of the Army Ground Forces and Army Air Forces.

8. Control.

1. Inspection or supervision of inspection of activities under the jurisdiction of the Commanding General, Services of Supply for the purpose of discovering lack of progress, delays, deficiencies and unsatisfactory conditions, and determining where improvements in operations and methods can be made. Inspections will be of a positive nature, such that they will result in corrective action and improvement.
2. Keep the Commanding General, Services of Supply, and the Staff and key assistants, and higher authority, continuously informed concerning the status and progress of the Supply Program and other work under his jurisdiction.
3. Technological and economic analysis and evaluation of是一项重要的任务。
1. **Collaboration of programs and requirements of the Army, including items peculiar to the Air Force in this instance only, with the programs and requirements received from Defense Aid and the Navy.**

2. **Prepare policies, plans and directives on changes in types or specifications resulting from deficiencies developed by usage, and on changes in types or specifications resulting from production possibilities.**

3. **Preparation of directives to the Operating Divisions to execute the Supply and other Programs.**

4. **Prepare and distribute preliminary forecasts or requirements to give advance notice of anticipated changes.**

**Defence Aid.**

1. Collect and consolidate the supply requirements, as to types, quantities and time schedules, of the other United Nations.

2. Furnish Requirements the data indicated in paragraph (1) above.

3. Prepare data for directives with respect to the transfer and shipment of supplies and equipment to the other United Nations.

4. Reconcile types of supplies and equipment with available standards.

5. Represent the Services of Supply on inter-departmental boards and committees on matters pertaining to Defence Aid.

6. Coordinate and insure shipments of Defence Aid allotments.

**Resources.**

1. will act as the Army side of the Army-Navy Munitions Board and will perform the functions heretofore performed by the Resources Branch of the office of the Under Secretary of War.

**Operating Divisions.**

The operating divisions of the Services of Supply will comprise:

a. **Procurement and Distribution.** (Initially to operate as indicated in paragraph 8 above.)

b. The **Supply Arms and Services.** (Less units and functions transferred to other jurisdiction, see paragraph 14 below.)

c. **Transportation.**

A division, in charge of a Chief of Transportation, is hereby established to direct, supervise and coordinate all transportation functions for the War Department, and is charged with the operation of all Ports of Embarkation, Staging Areas, and Regulating and Reconsignement Stations for overseas shipments.

d. **General Depots.**

A division, in charge of a Chief of General Depots, is hereby established and charged with the operation of all General Depots.

e. **Administrative Services.**

A division, in charge of a Chief of Administrative Services, is hereby established to direct, supervise and coordinate the functions and activities of the following agencies:

1. Adjutant General.
3. Chief of Special Services.
4. Post Exchange Services (Chief of Post Exchange Services).
5. Chief of Finance.
7. Statistical Services (Chief of Statistical Services).
8. Chief of Chaplains.

**Corps Areas.**

Corps Areas will function as field agents on designated functions which, until changed by further instructions, are the same functions as those heretofore performed by the Corps Areas.
12. Appointments to Key Positions.
The following appointments to key positions (or continuation of existing appointments) are announced:

e. Chief of Staff - Colonel W. D. Styer
b. Deputy Chief of Staff for Requirements & Resources - Colonel L. D. Clay
c. Director of Procurement & Distribution - Colonel Charles D. Young
(1) Deputy Director of Procurement & Distribution - Douglas C. MacKeachie
(2) Assistant for Production - Major General T. J. Hayes Assistant - A. R. Clancy.
(3) Assistant for Purchases - Albert J. Browning
(4) Assistant for Distribution - Colonel F. A. Helleman, Acting.
d. Army Member, Executive Committee, Army-Navy Munitions Board - Brigadier General Charles Hines

e. Functional Staff.
(1) Administrative Assistant - Colonel Joseph N. Dalton
(2) Public Relations and Information - Colonel A. Robert Ghinasturgh
(3) Control - Colonel Clinton F. Robinson
(4) Operations - Brigadier General Leroy Lutes
(5) Training - Brigadier General Clarence R. Baabner
(6) Personnel - Colonel James E. Wharton
(7) Budget and Financial Administration - Brigadier General Arthur H. Carter
(8) Requirements - Colonel Cyrus H. Searcy
(9) Defense Aid - Brigadier General Henry S. Arrand
(10) Resources - Brigadier General Charles Hines

f. Operating Divisions.
(1) Quartermaster Corps, The Quartermaster General - Major General Edmund B. Gregory, (no change)
(2) Corps of Engineers, The Chief of Engineers - Major General Eugene Reibold, (no change)
(3) Ordnance Department, The Chief of Ordnance - Major General Charles M. Wesson, (no change)
(4) Medical Department, The Surgeon General - Major General James C. Magee, (no change)
(5) Signal Corps, The Chief Signal Officer - Major General Dawson Olmstead, (no change)
(7) Transportation, The Chief of Transportation - Colonel Charles P. Gross, (no change)
(9) Administrative Services, Chief of Administrative Services - Major General John P. Smith.
(a) Adjutant General - Major General James A. Illino, (no change)
(b) Provost Marshal General - Major General Allen W. Gullion, (no change)
(c) Chief of Special Services - Brigadier General F. H. Caborn, (no change)
(d) Post Exchange Services, Chief of Post Exchange Services - Brigadier General F. H. Caborn
(e) Chief of Finance - Major General Howard K. Loughry, (no change)
(f) Judge Advocate General - Major General Myron C. Cramer, (no change)
(g) Statistical Services, Chief of Statistical Services - Brigadier General Leonard P. Ayres, (no change)
(h) Chief of Chaplains - Brigadier General William R. Arnold, (no change)

g. Corps Areas.
No change in Commanding Generals of Corps Areas, except for IV Corps Area.
(1) Commanding General, I Corps Area - Major General Sherman Miles.
(2) Commanding General, II Corps Area - Major General Irving J. Phibipson.
(3) Commanding General, III Corps Area - Major General Milton C. Reckord.
(4) Commanding General, IV Corps Area - Major General William Bryden.
(5) Commanding General, V Corps Area - Major General Daniel L. Van Voorhis.
(6) Commanding General, VI Corps Area - Major General Joseph M. Cummings.
(7) Commanding General, VII Corps Area - Major General Frederick E. Uhl.
(8) Commanding General, VIII Corps Area - Major General Richard Donovan.
(9) Commanding General, IX Corps Area - Major General Jay L. Benedict.

The Director of Procurement and Distribution, and each key assistant appointed to take charge of a staff function or a newly created operating division will take immediate steps to effect the organization with which he is charged.

The process of organization will include a consolidation, amalgamation and reorganization of certain similar or related functions now performed in a number of different offices or agencies of the War Department, and which will be transferred as indicated in paragraph 14 below.

The combination of these and their amalgamation and development into an efficient operating organization will be accomplished by successive planned and coordinated stages. The completion of the organization process will be effected with the least practicable delay and without disruption of the prosecution of the work of the War Department.

Each key assistant charged with organization as indicated above will prepare and submit for approval, with the least practicable delay, the following data:

a. A position chart.

b. A functional chart.

c. Personnel requirements.

d. Space requirements for offices, etc.

e. Equipment requirements for offices, etc.

The charts indicated in a and b above may be combined. The charts and data are for use as a guide and will necessarily be of a preliminary and tentative nature. They will be subject to modification from time to time, as conditions require.

14. The various organizations comprising the Services of Supply, as shown on the chart included in Appendix B, will include units and functions from the former organization of the War Department as indicated below, and jurisdiction over, or relationships with, certain schools, boards, committees, etc. as indicated in Appendix B.

ASSIGNMENT IN THE SERVICES OF SUPPLY

a. Director of Procurement and Distribution.

b. Staff.

   (1) Administrative Assistant

   (2) Public Relations and Information

FORMER ASSIGNMENT

Contract Division, Procurement Branch, Office of Under Secretary of War.

Development Branch, Supply Division, War Department General Staff.

Supply Arms Divisions, Procurement Branch, Office of Under Secretary of War, (Geas Air Corps Division and Defense Aid Division).

General Office, Procurement Branch, Office of Under Secretary of War.

General Supplies, Special Supplies, and Arms and Ammunition Sections of the Supply Branch of G-4 War Department General Staff.

Administration, Executive Office, G-4 War Department General Staff.

Office Service Division, Administrative Branch, Office of Under Secretary of War.

Military Personnel and Civilian Employees Division, Administrative Branch, Office of Under Secretary of War.

Industrial Information Division, Administrative Branch, Office of Under Secretary of War.

Page 6
(3) Control
Control Section, Construction and Real Estate Branch, G-4 War Department General Staff.

(4) Operations
Reports and Controls, Executive Office, G-4 War Department General Staff.

Operations, Executive Office, G-4 War Department General Staff.

Part of Planning Branch, G-4 War Department General Staff.

Motor Section, Transportation Branch, G-4 War Department General Staff.

(5) Training

Appropriate part of G-3 War Department General Staff.

Appropriate part of G-1 War Department General Staff.

Personnel in the Offices of the Chiefs of the Combat Arms engaged in matters pertaining to officer candidates.

Joint Army and Navy Selective Service Committee.

War Department Decorations Board.

War Department Uniform Board.

(6) Personnel

Fiscal Branch, G-4 War Department General Staff.

Accounting and Finance Divisions, Administrative Branch, Office of Under Secretary of War.

Tax Amortization Division of the Administrative Branch, of the Office of the Under Secretary of War.

Financial and Budget functions of the Budget and Legislative Branch of the War Department.

Functions of Chief of Finance as Budget Officer of the War Department.

Budget Advisory Committee of the War Department.

(7) Budget and Financial Administration
(8) Requirements

Part of Planning Branch, G-4 War Department General Staff.

Planning Section, Supply Branch, G-4 War Department General Staff.

Planning Section of the Construction and Real Estate Branch, G-4 War Department General Staff.

Military Requirements and Supply, Procurement Branch of the Office of Under Secretary of War.

Defense Aid Section of Supply Branch, G-4 War Department General Staff.

Defense Aid Division of the Procurement Branch, Office of Under Secretary of War.

Office of Defense Aid Director, War Department.

Resources Branch, Office of the Under Secretary of War.

(9) Defense Aid

(10) Resources

c. Operating Divisions.

(1) Quartermaster Corps

Quartermaster Corps, G-4 War Department General Staff. (Less Transportation Division.)

Corps of Engineers. (The Chief of Engineers will deal directly with Secretary of War on Civil functions.)

Construction and Real Estate Branch, G-4 War Department General Staff.

(2) Corps of Engineers

Transportation Branch, G-4 War Department General Staff. (Less Motor Sec.)

Transportation Division, Office of the Quartermaster General.

Ports of Embarkation, Staging Areas, and Recommission Stations for overseas shipments.

(3) Transportation Division

Ordinance Department, plus procurement functions of Chief of Coast Artillery.

Ordinance Department, and Office of Chief of Coast Artillery.

(4) Ordnance Department

Medical Department

Medical Department

(5) Medical Department

Signal Corps

Signal Corps

(6) Signal Corps

Chemical Warfare Service

Chemical Warfare Service.

(7) Chemical Warfare Service

All General Depots.

(8) General Depots Division

General Depot Section, Supply Branch, G-4, War Department General Staff.

Page 8

(9) Chief of Administrative Services.


Chief of Chaplains.

Chief of Finance (less functions as Budget Officer of the War Department).

Judge Advocate General (deals directly with the Secretary of War with respect to Court-martial and certain legal matters).

Statistics Division, Office of Under Secretary of War.

Adjutant General, including Executive for Reserve and ROTC Affairs, and the National Guard Bureau.

Provost Marshal General.

Chief of Special Services, G-4 Post Exchange) plus Joint Army and Navy Committee on Welfare and Recreation. (See Appendix B.)

Post Exchange Services.

Military Police Board, (Placed under the Provost Marshal General.) (See Appendix B.)

Corps Areas.

d. Corps Areas. (Under Commanding General, Services of Supply.)

c. Exempted Stations not otherwise assigned come under the Commanding General, Services of Supply.

15. Procedure governing transfers and assignments.

a. Units and functions of the former War Department organizations are transferred and assigned to organizations within the Services of Supply as indicated in paragraph 14 above. (Note - the same information is shown in a different form in Appendix C to facilitate its use.)

b. The officer or official in direct charge of the unit or function to be transferred, will report to the officer or official appointed to take charge of the organization to which assignment is made. (See paragraph 14 above and Appendix C.)

c. This transfer of units and functions includes the transfer of civilian and military personnel, except such as is to be retained in the War Department General Staff appropriate office equipment, files and records, until further instructions are issued, there will be no physical transfers of personnel or equipment. Units will continue to carry out their normal functions, but they will perform these under the direction, supervision and coordination of the officer or official in charge of the new organization to which they are transferred.

16. Procedure for Handling Communications within the Services of Supply.

Until further instructions, the following procedure will govern the handling of communications within the Services of Supply:

a. Communications among agencies of the Services of Supply located in Washington.

(1) Communications among the office or agents of the Services of Supply located in Washington (i.e. Commanding General, Headquarters Staff, Operating Divisions, etc.) will be in the form of memoranda or endorsements thereto. Maximum use will be made of the telephone and personal conferences to expedite the transaction of business.

(b) Communications to the Commanding General, Services of Supply, from the Operating Divisions will be addressed to the Commanding General, Services of Supply, except those from the administrative agencies grouped under the Chief of Administrative Services. Communications from these administrative
agencies will be addressed to the Chief, Administrative Services.

(3) In general, correspondence relating solely to procurement or distribution, or relating solely to transportation, or relating solely to General Depots, will be addressed to the Director of Procurement and Distribution or to the Chief of the appropriate Division.

(4) The Director of Procurement and Distribution, and the heads of the various Staff organizations of the Commanding General, Services of Supply, may issue, by command in the Commanding General, Instructions to the Operating Divisions with respect to matters pertaining to the function for which they are responsible. In case the instructions pertain to functions of, or affect two or more Staff organizations, they will be issued by the Staff organization having the most primary direct interest after clearance with the others concerned.

(5) Direct communication among Operating Divisions is authorized and will customarily be used wherever appropriate in carrying out the mission of the Services of Supply, or assigned tasks thereunder, except:

(a) In cases involving differences of opinion which cannot be settled except by decision of the Commanding General.
(b) Cases involving substantial departures from approved policies.
(c) Cases involving major decisions which should be rendered by the Commanding General, Services of Supply.

b. Communications to or from the Commanding General, Services of Supply, and agencies of the Services of Supply located outside of Washington:

(1) Communications to or from the Commanding General, Services of Supply, and the Corps Areas and exempted stations not under the jurisdiction of Operating Divisions will be in the form of letters. Telephone, teletype, telegraph and radio will be used wherever appropriate, to expedite the transaction of business.

(2) Communications to the Commanding General, Services of Supply, from the Corps Areas and exempted stations not under the jurisdiction of Operating Divisions, will be addressed to the Commanding General, Services of Supply.

(3) In general, communications not involving decisions which should be rendered by the Commanding General, and relating solely to the operating functions of an Operating Division, or to one of the administrative agencies under the Chief of Administrative Services, will be addressed to the Chief of the appropriate Division or agency.

(4) The Director of Procurement and Distribution, and the heads of the various Staff organizations of the Commanding General, Services of Supply, may issue, by command of the Commanding General, Instructions to the Corps Areas and exempted stations not under the jurisdiction of Operating Divisions, with respect to matters pertaining to the function for which they are responsible. In case the instructions pertain to functions of, or affect two or more Staff organizations, they will be issued by the Staff organization having the most primary direct interest after clearance with the others concerned.

c. Communications between Operating Divisions and Field Organizations under their jurisdiction:

(1) Communications between field organizations under the jurisdiction of Operating Divisions and the Operating Divisions will be addressed to and handled directly between such organizations and the Operating Divisions.

d. Communications among Corps Areas and exempted stations:

Direct communication among Corps Areas and exempted stations is authorized and will customarily be used wherever appropriate in carrying out the mission of the Services of Supply, or assigned tasks thereunder, except:

(1) In cases involving differences of opinion which cannot be settled except by decision of the Commanding General.

(2) Cases involving substantial departures from approved policies.

(3) Cases involving major decisions which should be rendered by the Commanding General, Services of Supply.

e. Certain routine correspondence may be addressed to The Adjutant General

(See Appendix E.)

f. All communications will bear an identifying file number, including a symbol (as the symbol system for identifying specific place of preparation within the original office is in use in that office).

g. All replies to communications will make specific reference thereto by identifying file number (and symbol, if used) and date in the opening sentence of the reply, except in the case of coded messages.

3 Inci: Appendix A (Executive Order)
Appendix B (Cir. No. 59 WD March 3, 1942)
Appendix C (Tabulation)

Page 10

Major General
APPENDIX A
EXECUTIVE ORDER

REORGANIZATION OF THE ARMY OF THE UNITED STATES AND TRANSFER OF FUNCTIONS WITHIN THE WAR DEPARTMENT

Under and by virtue of the authority vested in me by Title I of the First War Powers Act, 1941, approved December 18, 1941 (Public Law 364, 77th Congress), and as Commander-in-Chief of the Army and Navy and as President of the United States, it is hereby ordered as follows:

1. The Army of the United States is reorganized to provide under the Chief of Staff a ground force, under a Commanding General, Army Ground Forces; an air force, under a Commanding General, Army Air Forces; and a service of supply command, under a Commanding General, Services of Supply; and such overseas departments, task forces, base commands, defense commands, commands in theaters of operations, and other commands as the Secretary of War may find to be necessary for the national security.

2. The functions, duties, and powers of the Chiefs of the following-named branches of the Army of the United States are transferred to the Commanding General, Army Ground Forces; Infantry, Cavalry, Field Artillery, and Coast Artillery Corps (except those relating to procurement, storage, and issue).

3. The functions, duties, and powers of the Commanding General, General Headquarters Air Force (Air Force Combat Command) and of the Chief of the Air Corps are transferred to the Commanding General, Army Air Forces.

4. The functions, duties, and powers of the Chief of Coast Artillery relating to procurement, storage, and issue are transferred to the Commanding General, Services of Supply.

5. Any officers holding offices the functions, duties, and powers of which are transferred by this order shall be reassigned to suitable duties but shall continue to hold their respective offices until vacated.

6. The Secretary of War is authorized and directed to prescribe such functions, duties, and powers of the commanders of the various forces and commands of the Army of the United States and the agencies of the War Department and to issue from time to time such detailed instructions regarding personnel, funds, records, property, routing of correspondence, and other matters as may be necessary to carry out the provisions of this order. Such duties by the Secretary of War are to be performed subject always to the exercise by the President directly through the Chief of Staff of his functions as Commander-in-Chief in relation to strategy, tactics, and operations.

7. This order shall become effective on March 9, 1942, and shall remain in force during the continuance of the present war and for six months after the termination thereof.

THE WHITE HOUSE,
February 28, 1942.
WAR DEPARTMENT REORGANIZATION

1. The President has approved a reorganization of the War Department and the Army, effective March 9, 1942. Pending the issuance of detailed instructions and changes in regulations, a summary description of the new organization is furnished for the information and guidance of all concerned.

2. a. The War Department and the Army will be organized so as to provide under the Secretary of War and the Chief of Staff a War Department General Staff, a Ground Force, an Air Force, and a Services of Supply Command, all with headquarters in Washington, D. C., and in addition thereto such number of overseas departments, task forces, base commands, defense commands, commands in theaters of operations, and other commands as may be necessary in the national security. Charts A, B, C, and D, illustrate the organization of the War Department, the Army Ground Forces, the Army Air Forces, and the Services of Supply. It is anticipated that the experience of the first three months under the new organization will indicate the desirability of minor modifications within the principal subdivisions. Recommendations will be submitted accordingly.

b. The functions, duties, and powers of the chiefs of the following arms are transferred to the jurisdiction of the Commanding General, Army Ground Forces: Infantry, Cavalry, Field Artillery, and Coast Artillery Corps (except those relating to procurement, storage, and issue).

c. The functions, duties, and powers of the Commanding General, GHQ Air Force (Air Force Combat Command) and the Chief of the Air Corps are transferred to the jurisdiction of the Commanding General, Army Air Forces.

d. The functions, duties, and powers of the Chief of Coast Artillery relating to procurement, storage, and issue are transferred to the jurisdiction of the Commanding General, Services of Supply.

e. Supply arms and services and War Department offices and agencies will come under the direct command of the Commanding General, Services of Supply as indicated below:

1. Those parts of the office of the Under Secretary of War engaged in functions of procurement and industrial mobilization.

2. The Budget Advisory Committee.

3. The Surgeon General.

4. The Chief of Engineers (except with respect to civil functions, for which he will report directly to the Secretary of War).

5. The Chief Signal Officer.

6. The Quartermaster General.

7. The Chief of Ordnance.

8. The Chief of Chemical Warfare Service.

9. Present supply functions of the Chief of Coast Artillery, and the military and civilian personnel assigned thereto.

10. The Chief of Finance.

11. The Judge Advocate General. (Except with respect to courts martial and certain legal matters for which he will report direct to the Secretary of War.) The Commanding Generals, Army Ground Forces and Army Air Forces may request legal opinions from The Judge Advocate General direct.

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Regraded Unclassified
(12) The Adjutant General.
(13) The Provost Marshal General.
(14) The Chief of Special Services.
(15) The Chief of Chaplains.
(16) All corps area commanders.
(17) All general depots.
(18) Ports of embarkation, staging areas, and regulating and reconsignment stations for overseas shipments.

3. War Department General Staff (chart A).—

a. The Chief of Staff is the immediate adviser of the Secretary of War on all matters relating to the military establishment and is charged by the Secretary of War with the planning, development, and execution of the military program.

b. The War Department General Staff under the direction of the Chief of Staff will coordinate the development of the armed forces of the United States and insure the existence of a well-balanced and efficient military team. The War Department General Staff assists the Chief of Staff in the direction of the field operations of the Army of the United States.

It is specifically charged with the duty of providing such broad basic plans as will enable the Commanding Generals of the Army Ground Forces, Army Air Forces, Services of Supply, defense commands, task forces, and theaters of operations to prepare and execute detailed programs.

c. The War Department General Staff will include the following divisions, each division being under the immediate control of an Assistant Chief of Staff:

1. Personnel Division (G-1) which is charged, in general, with those duties of the War Department General Staff relating to the personnel of the Army as individuals.

2. Military Intelligence Division (G-2) which is charged, in general, with those duties of the War Department General Staff relating to the collection, evaluation, and dissemination of military information.

3. Organization and Training Division (G-3) which is charged, in general, with those duties of the War Department General Staff relating to the mobilization, training, and organization of the military forces.

4. Supply Division (G-4) which is charged, in general, with those duties of the War Department General Staff which relate to the supply of the Army.

5. War Plans Division (WPD) which is charged, in general, with those duties of the War Department General Staff relating to the formulation of plans and the strategic direction of the military forces in the theater of war.

6. The Secretariat, War Department General Staff is charged with the administration of the office of the Chief of Staff and will maintain a Message Center for the Chief of Staff and the War Department General Staff.

4. Other War Department agencies (chart A).—

a. The Legislative and Liaison Division, War Department is charged with supervising the preparation of legislation requested by the War Department, with preparing reports to Committees of Congress, and with the maintenance of liaison necessary thereto. Preparation of reports on legislation affecting the Army Ground Forces, the Army Air Forces, or the Services of Supply may be assigned to the command concerned.
5. The Military Intelligence Service, under the direction of the Assistant Chief of Staff, Military Intelligence Division, War Department General Staff, will operate and administer the service of the collection, compilation, and dissemination of military intelligence. The activities and personnel of the Foreign Liaison Section of the Air Staff are transferred to the Military Intelligence Service.

c. Barcaw of Public Relations.—(1) Under policies prescribed by the Secretary of War and the Chief of Staff, the War Department Bureau of Public Relations is the agency for the dissemination of military information to the public from the War Department, for the establishment of public relations policies and practices, and for liaison with other Government agencies on matters of mutual interest in the field of public relations.

(2) The War Department Bureau of Public Relations will be the agency for the distribution to the public of all War Department Informative material of general public interest.

(3) The War Department Bureau of Public Relations, subject to the review of the Director thereof, will refer to the Public Relations Officer, Services of Supply, publicity and censorship on all matters pertaining to procurement, contracts, production, matériel, labor relations and morale, speeches to workers and commendations of their efforts, plant visits by the press, and on activities relating to the office of the Under Secretary of War.

(4) Public relations offices of the Commanding Generals of the Army Ground Forces, Army Air Forces, and Services of Supply, and other agencies in the War Department will maintain direct contact with the War Department Bureau of Public Relations, and their dealings with the public will be under the supervision of that Bureau.

(5) In the field, commanders are responsible for carrying out established War Department policies of public relations within their own commands. Dealings with the public at any one station will be coordinated through the station public relations office. Direct contact between the War Department Bureau of Public Relations and commanders and public relations officers in the field is authorized.

d. The Inspector General’s Department is charged in general with the inquiry into, and the report upon, all matters which affect the efficiency and economy of the Army of the United States, and to make such inspections, investigations, and reports as may be prescribed by law or directed by the Secretary of War, by the Chief of Staff, or requested by the Commanding Generals of the Army Ground Forces, of the Army Air Forces, and of the Services of Supply.

5. Army Ground Forces (chart B).—a. Under policies prescribed by the Chief of Staff, the Commanding General, Army Ground Forces, is charged in general with the functions, responsibilities, and authorities of command authorized by law, Army Regulations, and custom over individuals and units assigned to the Army Ground Forces.

b. The mission of the Army Ground Forces is to provide ground force units properly organized, trained, and equipped for combat operations.

c. The following duties are specifically assigned to the Army Ground Forces:

(1) The operation of Infantry, Field Artillery, Coast Artillery, and Cavalry replacement training centers and schools for the Army Ground Forces, including officer candidate schools for the Army Ground Forces.
(2) The provision of basic training for individuals in the Army Ground Forces inducted in excess of replacement training center capacity.

(3) The organization of tactical units as directed by the War Department.

(4) The training of all tactical units assigned to the Army Ground Forces.

(5) The organization, equipment, and training of such task forces as are directed by the Chief of Staff.

(6) The development of tactical and training doctrine, tables of organization, tables of basic allowances, military characteristics of weapons and equipment, and operational changes needed in equipment for the Infantry, Field Artillery, Coast Artillery, Cavalry, and specialized combat units. Under the Chief of the Requirements Division, a separate section will be established for each of the combat arms of the Army Ground Forces. Headed by a general officer from the arm concerned, each such section is charged with the responsibility of furthering the orderly continuity and progressive development of its arm. The Chief of the Requirements Division will coordinate the various sections in the interests of the Army Ground Forces as a whole.

(7) The review with the Commanding General, Services of Supply of the tactical doctrine, military characteristics of weapons and equipment, tables of organization, and tables of basic allowances of Services of Supply units assigned to the Army Ground Forces.

(8) The discharge of personnel functions formerly performed in the offices of the Chiefs of Infantry, Field Artillery, Coast Artillery, and Cavalry, less those now engaged in the procurement of officer candidates.

(9) The assignment of officers of the Army Ground Forces including Army Air Forces and Services of Supply personnel on duty therewith.

(10) The supply of Infantry, Field Artillery, Coast Artillery and Cavalry personnel to the Army Air Forces, Services of Supply, defense commands, theaters of operation and overseas forces in accordance with policies announced by the Chief of Staff.

(11) The submission to the Commanding General, Services of Supply, of such recommendations on construction, shelter, training aids, movements, supply, equipment, real estate, estimates of funds needed for field training and travel, and such other matters as may be necessary.

(12) The control of the expenditure of funds allocated to the Army Ground Forces.

(13) The development jointly with the Commanding General, Army Air Forces, of ground-air support, tactical training, and doctrine in conformity with policies prescribed by the Chief of Staff.

(14) The minimization of the administrative activities of the Army Ground Forces by utilizing the services available in the Services of Supply to the maximum degree consistent with proper control of the Army Ground Forces.

(15) The use of judicious shortcuts in procedure to expedite operations.

6. Army Air Forces (chart C).—a. Under policies prescribed by the Chief of Staff, the Commanding General, Army Air Forces, is charged in general with the functions, responsibilities, and authorities of command authorized by law, Army Regulations, and custom over individuals and units assigned to the Army Air Forces.

b. The mission of the Army Air Forces is to procure and maintain equipment peculiar to the Army Air Forces, and to provide air force units
properly organized, trained, and equipped for combat operations. Procurement and related functions will be executed under the direction of the Under Secretary of War.

c. The following duties are specifically assigned to the Army Air Forces:

(1) The operation of Army Air Forces replacement training centers and schools, including officer candidate schools, for the training of personnel in pilot functions and specialist nonpilot functions of combat and ground crews and in all duties involving the care, supply, and maintenance of aeronautical matériel.

(2) The provision of basic training for individuals in the Army Air Forces inducted in excess of replacement training center capacity.

(3) The organization of air force tactical units as directed by the War Department.

(4) The training of all tactical units assigned to the Army Air Forces.

(5) The organization, equipment, and training of such task forces as are directed by the Chief of Staff.

(6) The development of tactical and training doctrine, tables of organization, tables of basic allowances, military characteristics of aircraft, weapons, and equipment, and operational changes needed in equipment, aircraft, and weapons peculiar to the Army Air Forces.

(7) The discharge of personnel functions pertaining to the Army Air Forces.

(8) The assignment of officers of the Army Air Forces including Army Ground Forces and Services of Supply personnel on duty therewith.

(9) The supply of air force personnel and equipment peculiar to the Army Air Forces, to the Army Ground Forces, Services of Supply, defense commands, theaters of operation, and overseas forces in accordance with policies announced by the Chief of Staff.

(10) The approval of general plans governing the construction of stations of the Army Air Forces.

(11) The submission to the Commanding General, Services of Supply, of such recommendations on construction, shelter, training aids, movements, supply, equipment, real estate, estimates of funds, and such other matters as may be necessary.

(12) The control of the expenditure of funds allocated to the Army Air Forces.

(13) The development jointly with the Commanding General, Army Ground Forces, of ground-air support, tactical training, and doctrine in conformity with policies prescribed by the Chief of Staff.

(14) The installation of such specialized air force equipment and matériel as may be provided by the Services of Supply and the maintenance of such portion thereof as is not maintained by the Services of Supply.

(15) The preparation of proposals and recommendations for conducting the design competitions authorized by law.

(16) The command and control of all Army Air Forces stations and bases not assigned to defense commands or theater commanders and all personnel, units, and installations thereon, including station complement personnel and activities.

(17) The supervision of all air force activities in connection with the research, development, procurement, storage, supply, maintenance, and final disposition of military aircraft, accessories, supplies, facilities, and appurtenances used in connection therewith, including technical inspection and the issuance of pertinent technical instructions.
(18) All aerial operations of the Army Air Forces except for those units thereof assigned or attached to other commands.

(19) The minimization of the administrative activities of the Army Air Forces by utilizing the services available in the Services of Supply to the maximum degree consistent with proper control of the Army Air Forces.

(20) The use of judicious shortcuts in procedure to expedite operations.

7. Services of Supply (chart D).—
   a. The duties and responsibilities placed on the Secretary of War by Section 5a of the National Defense Act, as amended, shall continue to be performed by the Under Secretary of War. The Director of Production shall continue to perform his present services reporting direct to the Under Secretary of War.

   b. The Commanding General, Services of Supply, shall, on procurement and related matters, act under the direction of the Under Secretary of War and shall, on military matters, report to the Chief of Staff. The Commanding General, Services of Supply, is charged in general with the functions, responsibilities, and authorities of command authorized by law, Army Regulations, and custom over individuals and units assigned to the Services of Supply.

   c. The mission of the Services of Supply is to provide services and supplies to meet military requirements except those peculiar to the Army Air Forces. Procurement and related functions will be executed under the direction of the Under Secretary of War.

   d. The Services of Supply consolidates under the jurisdiction of the Commanding General, Services of Supply, the supply arms and services, certain administrative services of the War Department, certain parts of the office of the Under Secretary of War, certain boards and committees, general depots, ports of embarkation and auxiliaries, and corps areas, with such amalgamation, reallocation of duties, and reorganization as is necessary or advisable.

   e. The following duties are specifically assigned to the Services of Supply:

      (1) The direction and supervision of engineering research, development, procurement, storage, and distribution of supplies and equipment, except those peculiar to the Army Air Forces.

      (2) The establishment of purchasing and contractual policies and procedure.

      (3) Transportation and traffic control.

      (4) Construction for the Army.

      (5) The consolidation of programs and requirements of the Army with the programs and requirements received from Defense Aid and the Navy and procured by the Army.

      (6) The securing of War Department funds, the arrangement for their defense and justification before the Bureau of the Budget and Congress, and the control of fiscal policy.

      (7) The administration of all functions which are Army-wide in scope and which pertain to personnel as individuals, both military and civilian, to include premilitary training, mobilization of industrial manpower, and labor relations.

      (8) The operation of replacement training centers and schools for the supply arms and services, including officer candidate schools.

      (9) The provision of basic training for Individuals in the Services of Supply inducted in excess of replacement training center capacity.
(10) The operation of all reception centers.
(11) The organization of Services of Supply units as directed by the War Department.
(12) The training of all units assigned to the Services of Supply.
(13) The assignment of officers of the Services of Supply, including Army Air Forces and Army Ground Forces personnel on duty therewith.
(14) The supply of Services of Supply personnel and units to the Army Air Forces, Army Ground Forces, theaters of operations, and overseas forces in accordance with the policies announced by the Chief of Staff.
(15) The development of tactical and training doctrine, tables of organization, tables of basic allowances, military characteristics of weapons and equipment, and operational changes needed in equipment for the Services of Supply subject to the qualification listed in paragraph 5c(7).
(16) The command and control of all stations except those assigned Army Air Forces, defense commands, and theaters of operations.
(17) The use of judicious shortcuts in procedure to expedite operations.

The following boards, exempted stations, military missions, and commissions are placed under the jurisdiction of the authority indicated after their respective names:

<table>
<thead>
<tr>
<th>Title</th>
<th>Responsible authority</th>
</tr>
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<tbody>
<tr>
<td>Air Corps Board</td>
<td>Commanding General, Army Air Forces.</td>
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<tr>
<td>Battle Monuments Commission</td>
<td>The President.</td>
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<tr>
<td>Beach Erosion and Shore Protection Board</td>
<td>Chief of Engineers.</td>
</tr>
<tr>
<td>Board of Commissioners, United States Soldiers’ Home</td>
<td>Secretary of War.</td>
</tr>
<tr>
<td>Board of Engineers for Rivers and Harbors</td>
<td>Chief of Engineers.</td>
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<tr>
<td>Budget Advisory Committee</td>
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<tr>
<td>California Debris Commission</td>
<td></td>
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<tr>
<td>Command and General Staff School, Fort Leavenworth, Kans.</td>
<td></td>
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<tr>
<td>Director of Defense Aid</td>
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<tr>
<td>Industrial Mobilization Board</td>
<td>Commanding General, Services of Supply.</td>
</tr>
<tr>
<td>Military Missions</td>
<td>Chief of Engineers.</td>
</tr>
<tr>
<td>Military Police Board</td>
<td>Commanding General, Services of Supply (curriculum and doctrine under supervision of G-3, W. D. G. S.).</td>
</tr>
<tr>
<td>Mississippi River Commission</td>
<td>Commanding General, Services of Supply.</td>
</tr>
<tr>
<td>Motion Picture Review Board</td>
<td>Under Secretary of War.</td>
</tr>
<tr>
<td>National Board for the Promotion of Rifle Practice</td>
<td>War Plans Division, War Department General Staff.</td>
</tr>
<tr>
<td>Photo News Board</td>
<td>Provost Marshal General.</td>
</tr>
<tr>
<td>United States Military Academy, West Point, N. Y.</td>
<td>Chief of Engineers.</td>
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<td>Bureau of Public Relations.</td>
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<td>Commanding General, Army Ground Forces.</td>
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<td></td>
<td>Bureau of Public Relations.</td>
</tr>
<tr>
<td></td>
<td>Commanding General, Services of Supply (curriculum and doctrine under supervision of G-3, W. D. G. S.).</td>
</tr>
</tbody>
</table>
Title
War Department Decorations Board
War Department Uniform Board
Harbor Defense Board

Responsible authority
Commanding General, Services of Supply.
Commanding General, Services of Supply.
Abolished.

9. War Department relationship with joint activities will be maintained by the authority indicated:

Title
Aeronautical Board
Army and Navy Munitions Board
Joint Army and Navy Board and Planning Committee.
Joint Army and Navy Committee on Welfare and Recreation.
Joint Army and Navy Selective Service Committee.
Joint Military Communications Board.

Responsible authority
Under Secretary of War.
Under Secretary of War.
Chief of Staff.
Commanding General, Services of Supply.
Commanding General, Services of Supply.
Commanding General, Services of Supply.

10. Administrative procedure in the new organization will conform to the following:

a. Routing, custody, and method of addressing communications.—(1) In both the War Department Communications Center (Sig. C.) and War Department Post Office, mail will be delivered as addressed.

(2) In the future, mail and dispatches, except as provided in (4) below, will no longer be addressed to The Adjutant General, but to the—

(a) Chief of Staff, United States Army.
(b) Commanding General, Army Ground Forces.
(c) Commanding General, Army Air Forces, and
(d) Commanding General, Services of Supply
or to such subdivisions of each thereof as may be appropriate.

(3) Mail and dispatches addressed to The Adjutant General will be received, sorted, and delivered to the proper agency.

(4) Correspondence relating to the following will be addressed to The Adjutant General:

(a) Permanent personnel records (officers, enlisted men, Organized Reserves, Reserve Officers Training Corps).
(b) Classification of skills, abilities, and aptitudes.
(c) Machine personnel records.
(d) National Guard Bureau affairs.
(e) Conformance to personnel allotments.
(f) Publications.
(g) Initial procurement and assignment of officers and enlisted men.
(h) Transfers of personnel between any two of the following: War Department General Staff, Army Air Forces, Army Ground Forces, and Services of Supply.
(i) Separations from the service of officers, warrant officers, and enlisted men.
(j) Archives.
(k) Administration relating to appointment and admissions of cadets to the United States Military Academy and their separation therefrom.
(1) Government and control of the United States Disciplinary Barracks and of all offenders sent thereto for confinement and detention.

(m) Army Postal Service and Army Courier Service.

(5) The Chief of Staff, the Commanding General, Army Ground Forces, and the Commanding General, Army Air Forces, may forward to the Adjutant General of his command or to The Adjutant General, routine messages for action and answer.

(6) Custody of communications.—(a) The Adjutant General is the custodian of the permanent records of the War Department. The Chief of Staff, the Commanding General, Army Ground Forces, the Commanding General, Army Air Forces, and the Commanding General, Services of Supply may establish files of temporary record which will be transferred to The Adjutant General when no longer current.

(b) The Chief of Staff, the Commanding General, Army Ground Forces, the Commanding General, Army Air Forces, and the Commanding General, Services of Supply, will report to The Adjutant General the files that are to remain in their permanent custody, and that are to be exempted from control of the Adjutant General.

(c) Records of the General Headquarters, the Chief of Infantry, the Chief of Field Artillery, the Chief of Cavalry, and the Chief of Coast Artillery will be transferred to the Commanding General, Army Ground Forces for suitable disposition. Records of the Chief of the Air Corps and of the Commanding General, Air Force Combat Command, will be transferred to the Commanding General, Army Air Forces, for suitable disposition.

b. Organization of message centers.—(1) The Chief of Staff, the Commanding General, Army Ground Forces, the Commanding General, Army Air Forces, and the Commanding General, Services of Supply, will establish such message centers as may be deemed necessary to distribute mail and dispatches, reporting to the War Department Post Office the location of the message center and the agencies and offices to be served therefrom.

(2) Message Center organization and procedure will provide special handling for the following classes of mail and dispatches:

(a) Messages relating to command and combat operations.

(b) Other coded messages.

(c) Classified mail to include secret, confidential, and restricted mail and dispatches.

(3) Commanding Generals, Army Air Forces, Army Ground Forces, and Services of Supply will, as soon as practicable after receipt, furnish War Plans Division, War Department General Staff, with a copy of all messages received by them from services outside the continental limits of the United States pertaining to current or projected combat operations whenever the original does not indicate that the War Department Communications Center has sent a copy direct. The foregoing commanders will, as soon as practicable after receipt furnish the Assistant Chief of Staff, G-2, War Department General Staff, with a copy of all messages received by them from sources outside the continental limits of the United States pertaining to combat intelligence whenever the original does not indicate that the War Department Communications Center has sent a copy direct. Safeguarding measures, as prescribed in AR 380-5, will be taken in the preparation, transmission, and custody of these copies.
(4) All War Department telegrams, radiograms, and cables will include an identifying symbol of five letters, the first two of which will identify the sending agency and the last three of which will identify the subdivision of the sending agency.

(a) Symbol letters are assigned as follows:

1. War Department General Staff .............................................. WD
2. Army Ground Forces ........................................................ GN
3. Army Air Forces ................................................................ AF
4. Services of Supply ................................................................ SP

(b) Each agency in (a) above will assign appropriate third, fourth, and fifth letters to identify subdivisions of their command.

(c) War Department General Staff symbols are assigned as follows:

1. Chief of Staff, U. S. Army ..................................................... WDCSA
2. Assistant Chief of Staff, G-1 ............................................... WDGAP
3. Assistant Chief of Staff, G-2 ............................................... WDGBI
4. Assistant Chief of Staff, G-3 ............................................... WDGCF
5. Assistant Chief of Staff, G-4 ............................................... WDGDS
6. Assistant Chief of Staff, WPD ............................................. WDWPD

(d) General instructions:

1. When replies to messages are desired, the term “reply requested” will be incorporated into the body of the message or letter.
2. Letters will bear an identifying symbol if the symbol system for identifying the specific place of preparation within the originating office is in use. In telegrams, radiograms, and similar messages sent in the clear, the message will close with the word, “end”, followed by the identifying symbol.

By Order of the Secretary of War:

G. C. MARSHALL,
Chief of Staff.

Official:

J. A. ULLO,
Major General,
The Adjutant General.
ORGANIZATION OF THE ARMY GROUND FORCES

CHART B (1-1943)

1. MILITARY CHARACTERISTICS:
   a. Equipment development
   b. Equipment maintenance
   c. Training of basic arms
   d. Publications and reports

2. INDUSTRIAL LOCATIONS:
   a. Armories
   b. Machine shops
   c. Repair facilities

3. COMMISSIONS AND AGENCIES:
   a. General staff
   b. Senior staff
   c. Field staff

4. OPERATIONAL REQUIREMENTS:
   a. Training
   b. Transportation
   c. Construction

5. HOSPITALIZATION AND DISCHARGES:
   a. Medical services
   b. Rehabilitation
   c. Discharge procedures

6. SUPPLY:
   a. Materiel
   b. Resources
   c. Distribution

7. COMMANDS:
   a. Armored forces
   b. Artillery
   c. Infantry
   d. Replacement & school command
   e. Tank destroyer command

8. SPECIAL SERVICE SCHOOLS:
   a. Officer candidates
   b. Non-commissioned officers
   c. Officers

9. ADJUTANT GENERAL:
   a. Records
   b. Personnel
   c. Administrative support

10. INSPECTOR GENERAL:
    a. Inspection
    b. Investigation
    c. Compliance monitoring

11. JUDGE ADVOCATE GENERAL:
    a. Legal services
    b. Criminal investigation
    c. Legal advice

12. BUDGET:
    a. Financial planning
    b. Budgeting
    c. Financial management

13. MILITARY RELATIONS:
    a. Public relations
    b. International relations
    c. Liaison

14. STATISTICS:
    a. Data analysis
    b. Research
    c. Information management
APPENDIX C

TABULATION SHOWING TRANSFERS AND ASSIGNMENTS
WITHIN THE SERVICES OF SUPPLY

FORMER ASSIGNMENT

1. Supply Division, G-4 (Less personnel retained in G-4 War Department General Staff.)
   a. Planning Branch (Parts of)
      Planning Branch (Parts of)
   b. General Supplies, Special Supplies and Arms & Ammunition Sections of Supply Branch
   c. Planning Section of Supply Branch
   d. Defense Aid Section of Supply Branch
   e. Depot Section of Supply Branch
   f. Fiscal Branch

2. Construction & Real Estate Branch. (Less Planning & Control Sections.)
   h. Planning Section of Construction & Real Estate Branch
   i. Control Section of Construction & Real Estate Branch

3. Transportation Branch. (Less Motor Sec.)
   k. Development Branch
   l. Executive Office
      (1) Operations
      (2) Administration
      (3) Reports & Control

4. Office of the Under Secretary of War.
   a. Resources Branch
   b. Statistics Division
   c. Supply Arms Divisions and General Office, Procurement Branch. (Less Defense Aid Division and Air Corps Division.)
   d. Contract Division, Procurement Branch
   e. Defense Aid Division
   f. Military Requirements and Supplies
   g. Administrative Branch
      (1) Accounting and Finance Divisions
      (2) Reception & Information Divisions
      (3) Industrial Information Division
      (4) Military Personnel & Civilian Employees Divisions
      (5) Office Service Division
      (6) Tax Amortization
      (7) Advance Payments
      (8) Delegated Duties

ASSIGNMENT IN THE SERVICES OF SUPPLY

Staff - Requirements
Staff - Operations
Director of Procurement & Distribution

Staff - Requirements
Staff - Defense Aid
General Depots Division
Staff - Budget and Financial Administration
Chief of Engineers

Staff - Requirements
Staff - Control

Transportation Division
Staff - Operations
Director of Procurement & Distribution

Staff - Operations
Staff - Administrative Assistant
Staff - Control

Staff - Resources
Chief of Administrative Services
Director of Procurement and Distribution

Director of Procurement and Distribution
Staff - Defense Aid
Staff - Requirements

Staff, - Budget and Financial Administration
Remains in O.U.S.W.
Staff, - Public Relations and Information
Staff, - Administrative Assistant

Staff, - Administrative Assistant
Staff, - Budget and Financial Administration
Director of Procurement and Distribution
Remains in O.U.S.W.
### FORMER ASSIGNMENT

1. Office of the Defense Aid Director
2. Financial & Budget functions of the Budget & Legislative Branch
3. Functions of the Chief of Finance as Budget Officer of the War Department
4. Budget Advisory Committee
5. Office of the Executive for Reserve and ROTC Officers
6. National Guard Bureau
7. Ports of Embarkation, Staging Areas and Regulating and Reconsignment Stations for overseas shipments.
8. Ordnance Department
9. Quartermaster Corps (less Transportation Division)
10. Transportation Division, Office of the Quartermaster General
11. Chemical Warfare Service
12. Corps of Engineers
13. Medical Department
14. Signal Corps
15. General Depots
16. Appropriate part of G-1, General Staff
17. Appropriate part of G-3, General Staff
18. Chief of Finance (less duties as Budget Officer of the War Department)
19. Judge Advocate General
20. Provost Marshal General
21. Adjutant General
22. Chief of Special Services
23. Chief of Chaplains
24. Post Exchange Services
25. Corps Areas
26. Exempted Stations, not otherwise assigned.
27. Joint Army & Navy Committee on Welfare & Recreation
28. Joint Army & Navy Selective Service Committee
29. Military Police Board
30. War Department Decorations Board
31. War Department Uniform Board
32. Personnel in the Offices of the Chiefs of the Combat Arms engaged in matters pertaining to officer candidates.
33. Command and General Staff School, Fort Leavenworth, Kan.
34. United States Military Academy, West Point, N.Y.
35. Joint Military Communications Board
36. Procurement functions, Office of Chief of Coast Artillery
37. Functions relating to Harbor Defense Projects, Office of Chief of Coast Artillery.

### ASSIGNMENT IN THE SERVICES OF SUPPLY

- **Staff, - Defense Aid**
- **Staff, - Budget and Financial Administration**
- **Staff, - Budget and Financial Administration**
- **Adjutant General**
- **Transportation Division**
- **Commanding General, Services of Supply**
- **Commanding General, Services of Supply**
- **Commanding General, Services of Supply**
- **Commanding General, Services of Supply**
- **Staff - Personnel**
- **Staff - Training**
- **Chief of Administrative Services**
- **Chief of Administrative Services**
- **Chief of Administrative Services**
- **Chief of Administrative Services**
- **Chief of Administrative Services**
- **Commanding General, Services of Supply**
- **Commanding General, Services of Supply**
- **Chief of Special Services**
- **Staff, - Personnel**
- **Provost Marshal General**
- **Staff, - Personnel**
- **Staff, - Personnel**
- **Commanding General, Services of Supply**
- **Commanding General, Services of Supply**
- **Chief Signal Officer**
- **Ordnance Department**
- **Commanding General, Services of Supply**

(Definitions assignment to be determined).
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 17, 1942

TO Secretary Morgenthau

FROM W. N. Thompson

I have finally succeeded in obtaining (through Mr. Eastman's office) a copy of the tentative draft of the proposed order on transportation which was recently discussed in Under Secretary Patterson's office. It has not been agreed to by the War Department and I am told that another meeting will be held in the next day or two. When the final order is agreed to, I will obtain a copy for you.
COORDINATION OF DOMESTIC AND OCEAN TRANSPORTATION

To expedite movement of overseas shipments through ports of transshipment by coordinating the land and marine transport agencies:

IT IS DIRECTED:

1. Each Government agency making or controlling overseas shipments will file and maintain currently with the War Shipping Administration a periodic moving forecast of its requirements thereof;

2. War and Navy Departments, with respect to vessels owned by them, and the War Shipping Administration, appropriately coordinated with the B.M. of W.T. through the Combined Shipping Adjustment Board and with other shipping authorities, will from time to time allocate shipping space so far as available for such requirements, in accordance with established priorities;

3. Authorization to move articles for export from point of production or storage to any port will be required from the Office of Defense Transportation in collaboration with the War Department and the shipping authorities controlling the ships in question; authorization will be issued in accordance with the shipping allocations and will only be withheld in cases where congestion necessitates such action.

4. Transportation of such shipments to the port when so authorized shall be arranged by the exporting Government agency or, if and so long as nominated by such agency, by the War Department as its agent, and under such directions of movement as may be given by the Office of Defense Transportation; commercial export shipments being arranged under regulations to be established.

5. This Directive shall be effective as to all shipments made after April 1, 1942.

*British Ministry of War Transportation.

Administrator,
War Shipping Administration.

Director,
Office of Defense Transportation.
March 17, 1942
11:05 am

AID TO RUSSIA

Present: Mr. Mack
           Mr. Haas
           Mr. Tickton

H.M.JR: Now give me the Philadelphia story.

MR. TICKTON: There was a meeting called yesterday by the Quartermaster's agent to which I was invited, because I accidentally happened to arrive before the meeting started. At that meeting were the Pennsylvania, Reading, and the Baltimore and Ohio. Not the big shots, but the freight agents, the men who actually handled the cars. Representatives of Amtorg, also the freight men of Amtorg. Representatives of Moore-McCormack and representatives of the dock companies, the people that run the docks. The meeting was to try to thrash out some mechanics whereby it would be possible to get these cars to the ships quicker than they have been doing. The situation last week was as bad as the week before, if not worse. There were six hundred cars that were ordered between Thursday at six p.m. and Friday at six p.m., which were supposed to have arrived on Saturday, and as of Monday morning only two hundred out of those six hundred cars had been brought to shipside. There were three ships in Philadelphia yesterday that were actually idle. Nothing was being loaded on them, absolutely nothing.

H.M.JR: Wait a minute, let me just get this. Six hundred--

MR. TICKTON: Six hundred freight cars.
H.M. JR: Cars ordered--

MR. TICKTON: Ordered for shipside. Those cars are in the Philadelphia area. They were ordered for shipside between six thirty on Thursday and six thirty on Friday.

H.M. JR: Between six thirty Thursday and--

MR. TICKTON: Six thirty Friday. Those cars should have all arrived some time on Saturday. On Monday morning only two hundred had arrived.

MR. MACK: Those were ordered in from Harrisburg?

MR. TICKTON: Those were in the Philadelphia environs.

H.M. JR: Philadelphia area?

MR. TICKTON: All right.

H.M. JR: What do they call it?

MR. TICKTON: Philadelphia and environs. That is, that covers a hundred miles around Philadelphia.

H.M. JR: Is that how they speak of it?

MR. TICKTON: Yes. That covers Altoona and Northumberland and those places. Those cover all three railroads, and no railroad had delivered anywhere near fifty percent of its requirements. Yesterday morning there were three ships idle, one at Pier 78, and one at 84, and one at--

H.M. JR: Monday a.m. three ships were idle.

MR. TICKTON: And ten ships were loading. The three ships were idle because of lack of cars. Ten ships were loading cargo, but on those ten ships they had thirty-five gangs of stevedores working, whereas a normal load would be fifty gangs of stevedores.
MR. TICKTON: To two-thirds capacity, let us say, thirty-five out of fifty. That was the situation yesterday morning. Those figures were quoted by the Amorgman, and were not disputed by the railroads, and were admitted by Moore-McCormack. That was the situation as of yesterday morning. Now, as a result of the very bad situation last week, the Maritime Commission suggested a plan whereby the Russians refrain from designating cars to go in a particular ship, but instead designate cargo and the railroads would agree to put on certain tracks all lines of aluminum on one track, all lines of steel on another track, all lines of brass on another track, machinery on another track, so that if Amorg should say in boat number so and so put in three cars of brass, one car of steel, the railroad would only have to pick those off of that line. If that plan had been set up six weeks ago, they might have made a lot of progress by now, but it is only within the last three or four days that the plan has been worked out, and the Pennsylvania told us last night they would have all their cars sorted out. Up until now if you wanted - Amorg would specify a car and that car would be in a string of fifty other cars, all with similar commodities, but because Amorg happened to specify that car and the car was in the middle of the line, they would have to break the line apart, pull out thirty-five cars to get that middle one, and ship them all back in again. The railroads didn't know enough to tell Amorg that those cars were all the same kind of commodity, and Amorg didn't know where the cars were because the railroad never was able to tell them in what specific yard a particular car was.

H.M.JR: Who called this meeting?

MR. TICKTON: This meeting was called by the Army's representative at the specific request of Amorg, who asked that the big shots be eliminated, because the big shots had a meeting two weeks ago in which they promised that everything could be delivered within ten hours. Actually now, the operating men think twenty-four
hours is going to be a tough job. This, after they have already sorted out all the cars. In other words, on the basis of the old system where the vice-president of the railroad promised ten hours, the best performance that they usually got was about three days. Now they hope to be on a twenty-four hour basis, but the Moore-McCormack line people are not sure they will be able to deliver the stuff within twenty-four hours. Part of the problem has been the fact that the railroad people - I can't say for myself that they are incompetent, because I don't know anything about railroad freight management, but it appeared that they are inept. That is, they don't have the facility for making a hard job any easier. There have been, for example, a group of cars--

H.M.JR: Well, don't give me too much--

MR. TICKTON: Well, I mean, the cars--

H.M.JR: Well, that is enough. I can't get too many details. Well now, is that the story?

MR. TICKTON: That is the story as of yesterday morning.

H.M.JR: Well, it is no better, is it?

MR. HAAS: He says there is jealousy between the roads.

MR. TICKTON: The railroads are competing with each other terribly. Reading shoots something into Pennsy when Pennsy hasn't any facilities to take care of it.
H.M. JR: If they would send me up there, I would straighten it out in twenty-four hours.

MR. HAAS: Sure.

MR. MACK: The other morning you recall a remark made by one of the Office of Defense Transportation men that everything had been straightened out in accordance with an order of the vice president of Pennsylvania.

MR. TICKTON: The operating men admitted that the vice president's promises were incapable of being carried out. They were just good promises.

MR. MACK: They had a meeting yesterday afternoon, I understand, at the War Department, still talking about this matter of who is going to handle transportation.

MR. TICKTON: Part of it - one detail that you might be interested in, Mr. Secretary, a lot of cars were put up at the front part of the dock three or four weeks ago, and then for some reason or other they weren't used. There were too many or something. Nobody had authority to pull those cars away from the front part of the dock. The Amtrong people didn't know they were there and neither did Moore-McCormack, and the railroad people didn't know what to do with them, and those cars up at the front part of the dock could have been clogging up the dock so that cars didn't have any room to come in.

H.M. JR: If they would send me up there for twenty-four hours, I would straighten it out and a couple of heads would fall.

MR. MACK: How many piers are they loading from?

MR. TICKTON: They are loading fourteen ships, and I think it is about six piers, six or seven piers. One of the problems is that they put eight ships at one pier, but there are only railroad trackage facilities to load four ships at one time. That is, you have got room for eight ships, but you can't load eight ships if you haven't got freight lines.
MR. MACK: As I understand it, the reason they are loading two-thirds capacity is that they don't have sufficient stevedore crews.

MR. TICKTON: Oh, no, they don't have sufficient--

MR. MACK: I mean on those that are loading.

MR. TICKTON: They haven't got sufficient cargos for the fifty crews to work on. They can't get the cargo fast enough for these ships to warrant using any more stevedore crews. It just isn't there; and, while there is a stevedore problem in Philadelphia, a Maritime man said, "It is no use talking about the problem of stevedores when I can't keep as many as I have got fully occupied." I said, "Well, we will take that problem we--

MR. MACK: It is a lack of cargo?

MR. TICKTON: It is a lack of cargo, and the railroad men admit it all the way along. They admit they can't get the stuff to the ship.

H.M.JR: How many ships have sailed?

MR. TICKTON: I didn't see the one you brought in yesterday, Mr. Haas.

MR. HAAS: Three, I think, since Monday.

H.M.JR: The way to do the thing, George, I would just run one chart. I would run the Russians as it was when you first showed it to me, you see.

MR. HAAS: In Philadelphia?

H.M.JR: Yes, just run it for Philadelphia, and then when you put that red line through saying they sailed, put down the date it sailed, and if there are any other Russian ships at any other port, have it on another page.
MR. TICKTON: They are solving the problem one way, Mr. Secretary. Ten ships are being routed to New York that would have otherwise come into Philadelphia this next week. They are being shifted into New York so that they don't have to worry about them in Philadelphia, and four or five ships are going into Baltimore for the same purpose.

MR. MACK: General Aurand was the fellow over here with Patterson at the last meeting.

H.M.JR: I think I had better talk to Patterson himself. I was going to say, "I want one page from where we started," you see, "for Philadelphia," and then that would go - never mind two - I mean, wherever we started, the first ships as you gave it to me, George, and then a red line through if she has sailed, and if they add any more ships to Philadelphia, put it at the bottom of the page. Any Russian ships anywhere else at another port, I would like to watch it by ports.

MR. HAAS: And you don't care about the Lease-Lend total, the British and all that stuff?

H.M.JR: Yes, I want that on one page, but I would like to follow it. For instance, I can say there are so many ships in Philadelphia and they moved to New York, and we will see what they are doing. In other words, one page for Russia for Philadelphia, giving me the things that you first showed me. If they sailed, a red line through, sailed such and such a date.

Now, if they have any other ships at any other port, give it to me, and then if the ships have sailed, a red line through. If any ships have sailed from that date that we started.

MR. HAAS: Monday?

H.M.JR: Yes. And the other thing--

MR. HAAS: That would be in a separate--
H.M.JR: But all the other places on one sheet. All right?
MR. HAAS: Yes, sir.
H.M.JR: That is all. Thank you.
March 17, 1942
11:26 a.m.

This is Morgenthau.

Morgenthau there. (Laughs) They want you to speak at a great insurance meeting that they're having. Jack Kelley telegraphed me and asked me if I would ask you....

Who is Jack Kelley?

He's the Philadelphia Jack Kelley, you know.

Oh, you mean the ping-pong fellow?

Yeah. He said he wants you or Mr. Nelson - wanted you first - at a huge meeting of insurance federations on June 10th and 11th.

Well, he'd better get Nelson, I think.

You don't believe you could do it?

Oh, I wouldn't know what to talk to - to insurance fellows.

(Laughs) All right.

What?

All right. I didn't promise to get you.

Tell them thanks for the compliment, but my price is ten thousand dollars for a speech.

Well, I wouldn't go any lower than that either.

No.

I'll tell them that you're asking now ten thousand dollars.

Yeah, that's what I want for a speech.

I see. That's got to be a short one, too, doesn't it?
RMJr: Yeah, not more than five minutes.
W: (Laughs) All right.
RMJr: Well, thanks for the compliment.
W: All right. All right, thank you.
March 17, 1942
11:40 a.m.

RE CONVERSATION WITH SENATOR BROWN

Present: Mr. Sullivan  
Mr. Bell  
Mrs. Klotz

H.M.JR: This is an easy way for me to tell you what Senator Brown wants. It affects three of you. Paul isn't here, so I don't know if it affects Paul.

Senator Brown says he cannot deduct a sales tax from the income tax in Michigan under an Internal Revenue ruling. You can do it in other states, but you can't do it in his state, and why not. He hopes that we can do it for 1942 taxes to be paid on March 15. He says he is running for office.

MR. SULLIVAN: He has got a hard fight on too.

H.M.JR: But I don't know what it is. Then he asked me, was I really serious about trying to get both future issues and outstanding issues on states and municipals, and I said, "Yes." He said he wished we would confine it to future. I said, "We can't." He said he thought he could get future issues.

MR. BELL: He has got a Detroit situation.

H.M.JR: Then would we please lift the receivership of the First National Bank of Detroit.

MR. BELL: I am going to talk to you about that in
a day or two.

H.M.JR: Preston Delano is ready to recommend it.

MR. BELL: It has been approved all along the line, and it hasn't come to me except informally, except by Foley. Foley's people down the line have seen it, and it ought to be explained to you rather fully.

H.M.JR: Yes, sir.

MR. BELL: Before it goes through.

H.M.JR: Yes, sir.

MR. BELL: It is really Delano's responsibility under the law, but you ought to know about it.

H.M.JR: Yes, sir.

Well, there are three things that he was interested in, you see, and you (Reporter) give the follow-up to Mrs. Klotz to make it easy for these people to report to me. Class is dismissed.

MR. BELL: Nothing about--

MR. SULLIVAN: May I speak to teacher?

MR. BELL: Nothing about savings?

H.M.JR: Oh, he mentioned that. He thought that would be kind of nice, and he thought the labor unions - he came out on the train with Frankenstein, and Frankenstein would accept it, and he talked about it as he walked out of the room, so I didn't - Graves is opposed to it a hundred percent, and I don't know whether Graves is right or not.

MR. BELL: That will require legislation to do it.

H.M.JR: What do you want?
MR. SULLIVAN: Two things. Mr. Doughton called while I was in the nine-thirty, and I called him back when I got out. He thought he would have to call the President and tell him that he can't handle any tax legislation so long as Treasury and Army and Navy are not in accord on these bills, and he wanted to know why I didn't come in and testify before House Ways and Means as I did before Rules yesterday. I told him that we had notified the Committee, that we were opposed to the passage of the bill and were standing on the report. I had urged that somebody appear there, but I didn't tell him that. I was home in bed at the time this took place.

He said, "Well, I can't go on like this any more. This is just what happened when the President wrote the letter last summer, and I am going to talk to the President about it."

H.M.JR: Good.

MR. SULLIVAN: So I thought that you should know about that.

H.M.JR: Fine.

MR. SULLIVAN: In case the President brings it up.

H.M.JR: I am delighted.

MR. SULLIVAN: Item number two. The figures are on the way over from George Schoeneman on collections and estimates. I think you told the newspaper fellows yesterday there might be some figures for them by noon today. Dan and I are very much scared of releasing that.

H.M.JR: Didn't you say in your memo to me you would have something by noon?

MR. SULLIVAN: For you.

H.M.JR: Well, you can tell them what is in the shop can't you, no estimates, just what has come in? It is
already on the ticker.

MR. SULLIVAN: We can tell them how much has already been collected.

H.M.JR: That is all right, give them that.

MR. SULLIVAN: All right.

MR. BELL: I think they ought to get their information from the daily statement.

H.M.JR: Well, give them that.

MR. BELL: It goes out every day.

H.M.JR: Just do it this once. You know, just once.

MR. SULLIVAN: Like last year, just once.

MR. BELL: Don’t give them an estimate.

H.M.JR: No, just what has come in.

MR. BELL: In '37 we had the market all disturbed because we were two hundred million short. This might be two hundred million over and it might make a good market.

H.M.JR: At Cabinet, the President said something about tax business, and he said, "We are way ahead," and I said, "Yes, about five minutes worth." He says, "Is that nice?" (Laughter)

MR. BELL: They went down yesterday. We lost part of that "ahead" business.
March 17, 1942
12:05 p.m.

HMQr: How are you?

Robert Patterson: Did you call me?

HMQr: Yes, I did.

P: Right.

HMQr: Bob, I told you I was going to send my man up again Monday to Philadelphia.

P: Yeah.

HMQr: And I was very much disturbed by the report he brought back.

P: Yeah.

HMQr: And I'd like to pass it along to you. I'm not - and I'm.....

P: Have you got a written report?

HMQr: He's going to write me up a report.

P: I'd like to get it.

HMQr: Well, I'll tell him to write it up and I'll send it over to you late this afternoon, because the situation, if anything, is worse.

P: Yes. Somervell told me that under this new arrangement he made with Land and Eastman that he was confident the thing will be in hand.

HMQr: Well, when you see this report, you'll see that if anything it's worse.

P: I want to get it.

HMQr: And I'm working with you and I'm not - I mean, I'm not bothering the President with this, because I'm putting my faith in you.
P: Right, right. I appreciate that.

HMJr: Now.....

P: Will you get it over to me today?

HMJr: I'll tell him to write it, and I ought to get it over in a couple of hours.

P: Right. I'll get it.

HMJr: Now, let me - while I've got you - well, I'll just do that one thing and I'll have it over there.

P: Thanks, Henry.

HMJr: Thank you.

P: Good-bye.
March 17, 1942.

Dear Bob:

I am sending herewith a copy of Mr. Tickten's report concerning the transportation situation involved in the movement of Land-Lease material for Russia from the Philadelphia port.

Sincerely,

(Signed) A. Mergenthaler, Jr.

Honorable Robert F. Patterson,
Under Secretary of War,
Washington, D. C.

(Handwritten) "P. S. I hope you can have this situation cleared up promptly."

OCHick

By Messenger Yeak 2:54

cc. Mr. Thomas B. McCabe
copies to Head Office
On Monday afternoon, March 16, I visited Mr. Louis Klein, Vice President of the Moore-McCormack Lines, at his Philadelphia office, to discuss the problems of moving lend-lease materials for Russia from the railroad yards to shipside. Mr. Klein introduced me to Mr. C. W. Gray, Commercial Traffic Manager for Philadelphia for the War Department's Office of the Quartermaster General, who was on his way to preside at a meeting on this very subject. Mr. Gray invited me to attend the meeting. Present at the meeting, in addition to Mr. Gray and Mr. Klein, were:

(1) Mr. James E. Wagner, the War Shipping Administration's coordinator for the Port of Philadelphia.

(2) Traffic representatives of the Artery Trading Company.

(3) The freight traffic manager of Moore-McCormack Lines.

(4) The freight traffic managers for the Philadelphia area for
   (a) the Pennsylvania Railroad
   (b) the Reading Railroad
   (c) the Baltimore & Ohio Railroad

(5) The managers of the Philadelphia Piers Company, the operators of the piers on which Russian cargo is placed.

The following facts were brought out during the course of the meeting:

(1) There were 13 ships assigned to the Russians in the Port of Philadelphia yesterday; three of these ships were absolutely idle because of a lack of cargo at shipside. Leasing on the other ten ships was moving at only 70 percent of capacity because of the lack of a sufficient volume of cargo at shipside.

(2) The lack of cargo at shipside yesterday existed because of the inability of the railroads to move freight cars that were in storage in Philadelphia and environs (including yards at Harrisburg, Northumberland, and Altoona) with sufficient dispatch. Some 600 freight cars had been ordered moved to shipside by the Russians between 6:00 P.M. on Thursday and 6:00 P.M. on Friday. The movement should have been completed within a maximum of twenty-four hours, yet at 9:00 A.M. on Monday (63 hours after the last order had been given) only 200 of these cars had been placed on the decks.
The shipping bottleneck in the Philadelphia area has been in existence since the middle of January. No physical progress on reducing the extent of this bottleneck had been made by yesterday. A plan has been worked out between the War Shipping Administration, the railroads and the Russians, however, and this plan was expected to be placed in effect today, March 15.

(a) changes the routing of about a dozen incoming ships assigned to the Russians so that they will be loaded at New York and Baltimore instead of Philadelphia;

(b) requires the Russians to specify only the commodity and not the car number when ordering car movements to shipside. This will permit the railroads to sort their cars out by commodities, place all cars containing a given commodity on a separate piece of track, and move the first cars in line to shipside when an order for a car of a specific commodity is received.

(c) requires the railroads to tag their cars with colored tags so that Russian freight will not get mixed with other freight;

(d) requires the railroads to deliver cars to shipside within twenty-four hours.

(4) The responsibility for the present traffic bottleneck in the Philadelphia port area is shared by most of the parties concerned with the movement of materials to the Russians. There should be included herein:

(a) The original shippers, because in many cases they failed to send covering papers ahead at the time the freight cars left their factories. As a result, cars come to Philadelphia before the papers arrive and they must be stored in the Philadelphia area until the paper work has been completed.

(b) The War Department, because its freight traffic managers failed to order shippers to route shipments to Philadelphia over the Baltimore & Ohio and Reading Railroads when traffic congestion became serious along the Pennsylvania.

(c) The Maritime Commission's local coordinator, because he placed more ships at Pier 96 than could be loaded conveniently with the railroad trackage available to that pier; and because he has not liquidated stevedore problems. The stevedore situation has not
actually held up the loading of ships but it has failed to do so only because the cargo was not placed at shipside promptly.

(d) The Pennsylvania Railroad, because it has congested some of its yards nearest the piers with empties and cars that have not been assigned to ships. Some of these cars have remained in the yards for two or three weeks and have tied up the railroad's best facilities. Until yesterday, the Russians had not been notified that these cars were standing idle.

(e) The Pennsylvania Railroad, because it has not been able to meet its commitments with respect to the rapid locaton of cars; and because it was not prepared to meet a heavy load of dock traffic in a port area where it is the strategic carrier into the piers.

(f) The Baltimore & Ohio and Reading Railroads, because they have overloaded the Pennsylvania with dock traffic at times when the Pennsylvania was completely congested with its own cars; and because they have failed to work out with the Pennsylvania some of the primary problems that arise when three carriers serve the same port area.
March 17, 1942
2:15 p.m.

HJr: Hello.

Thomas B. McCabe: Hello, Mr. Secretary.

HJr: Hello, McCabe.

Mc: I discussed that very thoroughly with Harry....

HJr: Yes.

Mc: ....left that letter with him....

HJr: Yes.

Mc: He's going to take it up with the President this afternoon.

HJr: Good.

Mc: And he's going to call me as to what the President's reaction will be to it.

HJr: Good.

Mc: He said that the - of course, it's so obvious that the number one thing is ships, and that he was debating with me while I was there as to what might possibly be done to correct that phase of the situation, because that's the - as far as the rate at which the ships are clearing now, which is so far in March, one a day, and in February it was eighteen - eighteen in February and so far it's averaged about one a day this month.

HJr: Oh, one ship a day is left United States?

Mc: Yes, that has been loaded and cleared the port.

HJr: Oh, are you sure of that?

Mc: Well, so far this month it's.....

HJr: Because my records don't show anything like that.
It shows seventeen.

Having cleared? Having been assigned.

Oh, no. There were seventeen on berth.

What's that?

There were seventeen on berth....

Yes.

.....right now loaded.

Yes.

There's seventeen that have cleared.

Oh, really?

And at the beginning of the month, there was about either seventeen or eighteen at the beginning of the month on berth, so that the clearance so far has been about at the rate of one a day.

Yes.

Now the - so to meet this protocol, you see, we've got to get up to nearly two ships a day, around two ships a day....

Yeah.

.....to meet the protocol.....

Yeah.

.....so that the number one problem, as you can readily see, is shipping.

Yeah.

And that was the one that Harry is so concerned about. He wanted to weigh that as to what the President might do to better that situation.

Yeah.
Mc: And, of course, the second one is the problem we discussed in your office - the regulating at the ports.

HMJr: Yeah.

Mc: Because the ships could be cleared faster.....

HMJr: Yeah.

Mc: .....if that regulation was better.

HMJr: That's right.

Mc: So that's the number two problem.

HMJr: Yeah.

Mc: He debated all phases of the letter, because he said this letter was quite strong.

HMJr: Yeah.

Mc: Really what the President was saying in the letter, that the Russian Protocol should come ahead of everything else.

HMJr: Yeah.

Mc: And he was weighing that - the implication of those words - in view of our own Army's needs, you know.

HMJr: Yeah.

Mc: And the final word he said to me, "Well, now," he said, "after all we've said here, do you still say the President should sign this?"

HMJr: Yeah.

Mc: And I said, "Yes, we won't change on that, and if he signs that, then we'll submit to him a complete list of items that will be available and can be shipped by June 30 so that he can shape his balance like that."
RMJr: I see.

Mc: "Well, now," he says, "it comes back to shipping." He said, "Is this letter strong enough from that side because it covers not only shipping but the war material items and the War Department items and the general items - should he have a special directive on shipping." And I said, "Well, we'll have to leave that to his discretion as to whether he wants that or not," but he said forcing this that shipping is paramount, and he states in this that the ships to carry the Russian Protocol must have first call.

RMJr: Yeah.

Mc: So he got up from the desk and walked out with it and he said, "Okay." He said, "I'll recommend that he sign it."

RMJr: Good.

Mc: "And tell him that that's your expressed wish." And then he said, "I'll call you - telephone you - the moment he does act on it, whatever he decides to do."

RMJr: Did you tell him how I felt?

Mc: I told him emphatically that - I told him first of the conference in your office. Well, he said, "When Henry gets back of something, he never lets go." And he said, "I'm delighted that he is doing it."

RMJr: Yeah.

Mc: And then the second thing - I told him that you had called this morning, that you were very much concerned about this, and I told him I'd read the letter to you and conveyed your message to him; and he said, "Well, that's fine, because," he said, "I'm glad that he's in it, because," he said, "He never lets go of anything." (laughs) They were his words.

RMJr: Good. Okay.
Me: So the moment I hear anything, I'll.....

HMLJr: You let me know.

Me: .....I'll let you know.

HMLJr: And in the meantime, I spoke to Patterson and he asked me to send over the report I got on the shipping conditions in Philadelphia.

Me: Yes.

HMLJr: And I'm sending him that over.

Me: Good.

HMLJr: Because he said if he could have it, he'd act on it.

Me: Right.

HMLJr: He was surprised that everything wasn't beautiful in Philadelphia.

Me: Yes.

HMLJr: I told him it was worse this Monday than last Monday.

Me: Yes.

HMLJr: So that's going over to him this afternoon.

Me: Yes. Well, we can't expect anything else, you see, with the - we're counting on so much shipping, and we've got to have the cargo there to meet it.

HMLJr: Yes. Well, there were three ships there alongside that weren't being loaded at all because there was no cargo yesterday. Three ships.

Me: Well, there's plenty of cargo there.

HMLJr: Well, it isn't alongside.

Me: No, it's not alongside. It's in the yard.
HMJr: That's right. And a hundred miles back.
Mc: That's right.
HMJr: Okay.
Mc: All right, Mr. Secretary.
HMJr: Thank you.
Mc: Good-bye.
Mc: Good-bye.
LEND-LEASE IN REVERSE

March 17, 1942
3:00 p.m.

Present: Captain Hendren
Mr. Cairns
Mr. Rostow
Mr. Wickard
Mr. Wheeler
Mr. Dutmore
Mr. Locke
Captain Rose
Colonel Taylor
Mr. Viner
Mr. White
Mr. Hicks
Mr. Acheson
Mr. Hendrickson
Mr. Cox
Mr. McCabe

H.M.JR: Well, gentlemen, the last time you were here we asked Mr. Acheson if he would work out a formula for us on how to pay for articles bought in the British Empire. That is one part of it. The other part of the problem is, we have got an obligation to keep England in sufficient funds so that she won't be worried, and I wonder if Mr. Acheson would care to outline to these gentlemen the formula that you have worked out and how you would like to proceed.

MR. ACHESON: Yes, I will be glad to.

H.M.JR: Please.

MR. ACHESON: This was put in a memorandum which the Secretary has had. The Secretary's question at the last meeting was whether it was advisable to deal with the United Kingdom for the whole of the British Empire or
whether we ought to deal with each dominion separately. After working on it over at our place for quite a while, we thought that the thing to do was to take a position which had as little effect as possible on the relations with the British Empire, that we shouldn't attempt in any way to tell them with whom we ought to deal, and the best formula seemed to be to deal with both the United Kingdom and the dominions in a way which we would have to discuss with them and which would be satisfactory.

(Mr. Cox, Mr. McCabe, and Mr. Rostow entered the conference.)

The method seemed to be to adopt the Lease-Lend agreement which we have already made with the United Kingdom as one which would be applicable to all the dominions and then get each one of the dominions, either by an exchange of notes or by a formal agreement, to adopt that as binding between itself and us. In that way we would have uniformity with the United Kingdom agreement and all the various sub-agreements so that there would be no difference in our treatment of any one of them, and we would try to get the consent of the United Kingdom Government to that arrangement with the dominions.

Now, if we could do that, it again seemed to us that the actual administrative machinery would - could be worked out by supplemental understandings, and that probably the sound thing from the British point of view and our own would be to have all their requests go through a common British source so that the United Kingdom Government would know what the dominions were asking for and there wouldn't be duplication or overlapping, and that when those requests were then presented by the dominion with the approval of whatever the British agency was, it would go through the regular procedure which is now established in the Army and Navy and Lend-Lease for the approval of requests. The transfer would either be through the British or directly to the dominion, whichever they preferred, and when an article was transferred to a dominion, it would be charged up against the dominion and not against the U. K.
That is the formula that we worked out on the granting of Lease-Lend aid. Then on the receiving of reciprocal aid, we suggest in this memorandum that it be decided that this Government will pay in dollars to the British or wherever our troops are for the actual wages of the troops. We will not ask them to give us the money to pay our soldiers or sailors. So far as supplies are concerned, we attempt to adopt the principle that--

H.M.JR.: What did you say about payment of troops?

MR. ACHESON: That we pay the troops.

H.M.JR.: That is right.

MR. ACHESON: If we want to pay them in local currency, the Treasury would, I suppose, make arrangements with the Australians or New Zealand or--

H.M.JR.: But we would pay our own troops?

MR. ACHESON: Yes, we would pay our own troops. So far as supplies are concerned, we say to each one of the dominions or the U. K., wherever our forces might be, that the principle should be that whatever there is in the locality should be supplied by that government to our forces by way of reciprocal aid, that that be true whether it is food or whether they are putting up works for our men, barracks or flying fields or roads or whatever it is, or if they are furnishing munitions, armaments, and such things. We also adopt the principle that we will send within the limits of shipping and our own capacity whatever is not present in the locality, so that we will build up the stocks so far as they don't already exist, and that the local government will give us whatever they have there. So much for the supply of the troops.

There may be some situations, we point out in the memorandum, where flexibility is necessary because the thing that the local government was called upon to do might be so extensive that it would prevent it from getting foreign exchange by selling what it previously had been accustomed to sell, and we might have to make some payment
to keep its economy in order. So far as imports are concerned, we suggest that - that is, imports into the United States from the British area, that we start out with the idea that military imports, anti-aircraft guns, planes, or whatever they might be supplying, should be supplied as a matter of reciprocal aid, and we should not pay for those, so for the time being we should pay for all commercial imports, wool or metals or things of that sort, because otherwise it is going to be impossible, the Treasury, I believe, thinks, for the British to get sufficient cash to pay their dollar obligations here. I think that covers the general formula, Mr. Secretary. We drew attention at the end to some matters that the Treasury would want to consider in dealing with this whole matter.

H.M.JR: Well, I have got a list here, and I think it dovetails. Let me read off mine and see whether it dovetails with yours. As I say, there are two problems. We have got to get enough money to keep the British supplied with working dollars, and we have sort of set a figure of six hundred million dollars in their Treasury as what they would like to have. I mean, that is their figure.

Now, the first thing we have is the purchase through the RFC of the remaining British war plants in the United States. We have had a directive from the President on this, for no one knows how long and we just haven't got anywhere, and we may have to ask the President to send another directive. That amounts to a hundred million dollars. Then the second thing I had on my list, the payment of American troops in the sterling area, that amounts to a hundred and fifty million dollars, which we would have to pay. Then the question comes up of their gold production, which I don't think interests these gentlemen, but I think would interest you, Dean, in South Africa. They used to send that gold here, but they don't any more. In '41 they mined six hundred seventy million dollars. Any part of that that they would sell to us would be just that much toward their six hundred million dollar balance. But they have got their troubles, and I think we will have to--
MR. ACHESON: Yes.

H.M.JR: And when we take up that South Africa thing, it will pretty well settle the question whether we work with South Africa or with England. Then the other thing we have done is payment for Army planes, materials taken from the British. The Army took a hundred million dollars' worth of planes away from the British which they had paid for in this country. You people have never reimbursed them. I put that down as number one. I really think that, if I may say so, that is even more glaring or pressing than Mr. Jones and his hundred million dollars' worth of plants. You just picked up a hundred million dollars' worth of planes and gave them to the Russians, and you have never reimbursed the British for them. Originally the British wanted to be reimbursed and given another hundred million. I said, "Well, let's get the reimbursement first."

COL. TAYLOR: I think, sir, there is more to it than that. The British have taken credit as against their promised aid to Russia of that number of planes, or of certain of those planes, at least.

H.M.JR: Well, if they have, I don't think the British Treasury knows about it, and if we could work with you--

COL. TAYLOR: Yes, sir, certainly.

H.M.JR: Is this out of Mr. Patterson's office?

COL. TAYLOR: No, out of Aurand's office.

H.M.JR: Does that come under Mr. Patterson?

COL. TAYLOR: For all intents and purposes, yes.

H.M.JR: If I look to somebody, who do I look to--

MR. COX:McCloy, shouldn't he?

COL. TAYLOR: Yes, I think so.
MR. ACHESON: Yes.

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H.M.JR: If I look to somebody, who do I look to--

MR. COX: McCloy, shouldn't he?

COL. TAYLOR: Yes, I think so.
H.M.JR: Anyway, we want to get a hundred million dollars for England, and the British Treasury, the last I have heard, have no offset against that.

COL. TAYLOR: As a matter of fact, sir, we are trying to run the thing down right now to see about those planes in particular.

H.M.JR: Then the next thing we have on our list is payment in dollars to civilian natives working on American projects. We think that should be in sterling and that amounts to three hundred million dollars.

MR. ACHESON: That would be for the works that they were doing for our troops?

H.M.JR: For our troops, where they employ natives. We think those should be paid in sterling.

MR. ACHESON: By them as reciprocal aid? That is what I suggested here in the memorandum.

CAPT. ROSE: I think the reciprocal means by us. They pay their own then?

H.M.JR: Well, I mean if we need three hundred million dollars' worth of assistance, part in Australia, the Australian Government should furnish that work and pay for it.

MR. ACHESON: Yes.

MR. WICKARD: Yes.

H.M.JR: To the civilians. Do you check on that?

MR. ACHESON: Yes.

MR. WICKARD: But does that offset anything we furnish them?

H.M.JR: Well, I have got seven things here. "Purchase
by the United States of equipment ordered by the British prior to Lend-Lease." Well, I am not going to raise that today. We have been over that so much.

"Payment in dollars for supplies used by and for Americans in sterling area and obtained locally, a hundred million dollars." We think that that should be furnished, again using Australia as an example, by the Australians. Does that answer you? I mean, that is as far as - are we apart at all, Dean?

MR. ACHESON: No, I think that is - these are all items which could be used to build up the British balances.

H.M.JR: That is right.

MR. ACHESON: On some of them you don't believe they should be so used?

MR. WICKARD: That is what I am asking, are they items that are used to bring up the British balance or are they items that you credit against things you send in under Lend-Lease?

MR. WHITE: There are two categories.

H.M.JR: Let me go over it again. The hundred million from the RFC, that would go to their credit against the six hundred million balance, that is number one.

MR. ACHESON: Yes.

H.M.JR: Do you agree on that?

MR. ACHESON: Yes.

H.M.JR: Two, the hundred and fifty million to pay for our troops in the sterling area would also go into the British Treasury toward the six hundred million. Check on that?

MR. ACHESON: Yes.

H.M.JR: Mr. Acheson and I have had no dress rehearsal, it is obvious. (Laughter) As much of the gold as we can get from South Africa to be paid for in dollars would go toward the six hundred million.
MR. ACHESON: That is right.

H.M. JR.: Payment for--

MR. WHITE: As much of the gold that we get or as much of the gold that either we or the British get.

H.M. JR.: Well, any way you figure it. "Payment for Army for planes and other materials from British dollar contracts, a hundred million." We figured that would go into the six hundred million. Now, the rest - now we get on a different kind. The next thing - am I going too fast?

MR. ACHESON: No, that is all right.

H.M. JR.: Now, the three hundred million dollars of work to be done by natives in the various areas, well, that would be just - that would be work that they furnish us - that would be the first Lend-Lease in reverse.

MR. ACHESON: Yes. And you could use that as a flexible item if there were no other way of getting them dollars. You could pay that.

H.M. JR.: But if--

MR. ACHESON: But we don't want it if we don't have to.

H.M. JR.: But if they had enough dollars and if there is an agreement here, I think there should be somebody - I don't know who gives the orders, but somebody ought to issue orders to the Army and Navy. I don't know whether Lend-Lease will do that or the State Department. We expect these various countries to furnish the work.

MR. WHITE: At present they are being paid for by the services, and it may be necessary to provide the services with sterling. That is, rather than have the respective governments pay directly, I imagine the way
the work is set up that it would have to be done through services. They hire the men and pay them. The only change would be that they are provided with funds from the Treasury of the particular country or the U. K. Treasury rather than from this Treasury.

H.M.JR: Well, that is the difference between black and white.

MR. WHITE: No, I mean it goes from - it would go from the Australian Treasury to whoever is in charge of the works I presume, rather than have the Government itself pay for and arrange the work. I don't know how they have got it set up, but it seems to me they would want the money and do the rest themselves.

H.M.JR: Now, wait a minute, Harry, you are making this thing, I think, more difficult than it is.

The Army wants to build an air field in Australia. It is going to cost five million dollars in work. The suggestion we are making is that the Australian Government build this air field for us and pay for it.

MR. WICKARD: And Australia pay for it?

H.M.JR: Yes.

MR. WHITE: If that is possible. I thought the services built it, but the money is provided by Australia.

COL. TAYLOR: I don't believe there is a hard and fast rule on it. I know in the case of the Middle East, a depot set up there, why native labor was to be provided by U. K. and at their expense. Now, there undoubtedly have been other agreements elsewhere.
H.M.JR: That would follow the suggestion that I am making, but don't you think that well, I don't know whether this should be done by Lend-Lease or by the Army or by the Navy, so you can get some kind of uniformity, because otherwise you are going to have all kinds of agreements, Dean.

MR. ACHESON: I think that is being straightened out. I am told that the Army and Navy have set up a joint purchasing board in Australia with Colonel Roop, who used to be Director of the Budget, and at the direction of the President he was appointed a member of the Allied Supply Council in Australia, and I assume that they will work out the details as to whether the cash should be furnished by Australia to the Army and Navy and spent by them or whether the requisition would just be made on the Public Works Division of the Australian Government and they would do it themselves.

H.M.JR: But is it clear that it will not come out of the United States Treasury?

MR. ACHESON: Now, that is the thing that we have not yet taken up with the Australians, although we have told them that we have some bad news coming to them soon, so you are now deciding that at this moment.

H.M.JR: Pardon?

MR. ACHESON: That is what we are sort of deciding now, and if you approve of that, we will take it up with them.

COL. TAYLOR: In that connection, sir, there has just come in something to do with the militarization of the bases. In other words, the Army is to take over the construction of these bases as of May 1st or something like that, with the exception of existing contracts which can not be voided. Now, if that is correct, that will perhaps complete the answer to the proposition that has been raised.

MR. COX: No.
MR. AGHESON: With these bases in Australia.

COL: TAYLOR: All over.

MR. COX: All over, but you can't answer the construction point until you get agreements with the foreign governments, can you, as to the whole policy, and then the coordination of the construction job is reasonably easy, whether it is the militarization of bases or construction of bases or the acquisition of food for troops, but it seems to me you ought to get an agreement with the foreign governments first and then send through central instructions to all the procurement agencies involved.

MR. WICKARD: But are we proposing—aren't we trying to get a proposal that we would make, is that what you are saying here?

MR. COX: Yes.

H.M. JR: Well, wouldn't this--

MR. WICKARD: I mean, what would we think would be fair and practical. Is that what you are asking here? And then it would be taken up as a policy of this Government for consideration by the dominions and U.K.?

H.M. Jr.: Well, this is something that has to be taken up. I should think it would be through diplomatic channels to work out the formula.

MR. AGHESON: I should think in the first instance we would take it up with them and see if this generally was acceptable. Then I think they will want to come over here, for instance the Australians and the British, and the Australians will want to talk with you about their sterling debts. They may say they won't have any way to pay for those, because with a war in Australia there won't be any exports; and, therefore, they will want you to pay some of this three hundred million dollars to take care of their obligations.
MR. WICKARD: Are there three possibilities on this three hundred million dollars?

MR. ACHESON: That is what will have to be negotiated out.

MR. WICKARD: Do I see three, or are there only two; one, we pay for them in dollars and leave the money in there; or second, they pay for all of it and we don't give them any credit at all; or third, we give them credit on the things we are furnishing them?

MR. ACHESON: Well, I think we are always ready to give them credit on Lend-Lease.

MR. WICKARD: Pardon?

MR. ACHESON: I think it was intended that they should have credit on this Lend-Lease.

MR. WICKARD: For the construction of bases and things of that kind?

MR. ACHESON: For what they did at the request of our military forces.

MR. WICKARD: Is that what you are recommending now?

MR. ACHESON: That is what we call reciprocal aid, and would be chalked up to their credit.

MR. WICKARD: That is what your proposal is, then?

H.M.JR: Well, it is three hundred and a hundred million for supplies for Americans in sterling area, so we are talking about four hundred million dollars.

MR. WICKARD: Now, did you say that after April first or some time--

COL. TAYLOR: Some date in there.
MR. WICKARD: We are going to build our own and pay for our own, and pay them for building them.

MR. COX: No, that is just for militarization, so it would be done by military operation in the whole thing, construction and operating. Isn't that intended to take out the private contractors and personnel?

COL. TAYLOR: You probably know more than I do. I have just gotten back from London, as you know.

MR. WHITE: Who is going to pay the workers?

MR. WICKARD: That is what I am trying to find out.

MR. COX: One or both. Either the foreign government will construct and make the labor available, or if it is more efficient to have the American military personnel than civilian - native civilian labor and pay them sterling from the local Government, it would be a transfer of sterling.

H.M.JR: But the thing that I don't quite understand that Mr. Acheson said was this, that these various governments agree in the sterling area that they will furnish workers and foods to the extent of four hundred million dollars, that they will pay for in sterling in their various countries. Then you say they will come right around to me and get a loan.

MR. ACHESON: No, I say that is the proposition that we will put up to them.

H.M.JR: But you are going to suggest that they come around and get a loan?

MR. ACHESON: Oh no, I was saying their comeback will be that in Australia, for instance, they have three million dollars, I think, of external obligations. Now, they will say the war has made it impossible to export and that sort of thing, and, therefore, they won't be in a position to pay for all of this themselves.
MR. WHITE: I don't see how the two have anything to do with it. They pay domestically. If it is a domestic proposition, they pay with local currency. The fact that they have certain debts to England payable in British sterling, which they are unable to pay by virtue of the shipping situation and war situation, doesn't affect adversely their ability to finance the local expenditures. If anything, it makes it easier.

MR. ACHESON: Well, Harry, I wasn't defending this position, but since I heard them state it, I was just saying that that is what they will state. I don't think we need to go into it.

H.M. JR: Well, I just want to get it, because it bothers me, because at present Lend-Lease can go in if it wants to. I mean, I just want to know what I am getting into. Lend-Lease could go in today and pay for this stuff in Australia up to the amount that Congress authorized. That is one way to do it. Now, what we are talking about here, I find myself talking about it is, we say, "No, we won't do it that way, because we want Australia to pay as much as she can toward maintaining our troops and building the facilities. So we want something in reverse for window dressing." Then after they do that, Australia says, "Well, I have got to borrow fifty million dollars in the United States for the Australian Government to pay for this." Well, if that is where we are going to end, then I would rather say right now, "Hell, let Lend-Lease do this in the first instance, because I don't want to make any governmental loans unless it is really desperate."

MR. ACHESON: I didn't mean to suggest that they were going to ask for governmental loans. What I--

H.M. JR: Because Congress can say to me, "Well, what is Lend-Lease for? Here you ask so many bills for Lend-Lease and then you come up and want to get authority to lend Australia the money to feed our troops when you could pay for it in the first instance."
MR. ACHESON: I think you misunderstood me.

H.M., JR.: Did I?

MR. ACHESON: Yes. What I meant to say was that our proposition to them would be, "You pay for this work in Australia which is going to cost four hundred million dollars." Their answer would be, "We can't afford to pay four hundred. We will pay two hundred, and you pay the other two hundred," or something of that sort, but we can wait until it does come up.

H.M., JR.: But don't encourage them to think they are going to be able to borrow the money when we have unused Lend-Lease funds.

MR. ACHESON: I don't think anybody - they have never suggested that.

H.M., JR.: Or Army and Navy appropriations to carry on. I mean, the Army has got enough money to build the airfields, and they have got enough money to feed their troops.

MR. COX: But there, Secretary, I don't think you ought to exclude as a very remote possibility that if they are willing to throw in their full productive facility in terms of Australian supplies that you may have a - possibly a case like you had in China. How would you answer that in terms of Congress?

H.M., JR.: Well, that is entirely different.

MR. COX: Well, this may possibly and remotely--

H.M., JR.: No, because China has pledged every dollar's worth of exportable stuff that they have got, that they can get out, to pay off their Export-Import Loan. Jones, in the case of China, as I remember it roughly, loaned them a hundred and thirty million dollars. The Chinese agreed to do so and so much to pay off the Export-Import Loan, which up to date they have been able to do. Now,
they have got everything pledged. Australia has got nothing pledged to us.

MR. COX: No, but the reason I say a remote possibility, if they pledge all their productive capacity and supplies for use internally in Australia and for use externally in the United States, you may possibly have a situation analogous to the Chinese one, where internal--

H.M.JR: What I am saying is, I would much rather pay them cash. I don't like to lend money. I would much rather pay them cash, pay our own way, and then if they need money, because like China they have gone broke, to carry on their missions, factories, and so forth, we will lend them money for that, but I don't want to lend them money to pay for the Navy to buy a boat. I think that would be silly. What do you think, Claude?

MR. WICKARD: I think that is true. I don't know as far as Australia is concerned, though. I don't think there would be much difference, would there?

H.M.JR: Oh, yes, just as soon as you lend a fellow money, you know, he begins not to like you.

MR. WICKARD: Well, I wasn't talking about the Treasury.

MR. ACHESON: That loan has not come up. It is just a question of whether they give everything, or whether you have to pay for some of it. There hasn't been any talk about a loan.

MR. WHITE: I think there is some misunderstanding. There is no limit to the ability of Australia to finance
expenditures on her own soil, except either certain legal limitations which she can avoid or when she reaches a stage of rapid price rises due to an over-issue of currency, which is the Chinese situation, in which case you may have to come to her aid, but she is very far from that position now.

MR. COX: That is right. All I said was, "You mustn't exclude that remote possibility if it gets there."

MR. WHITE: It is a remote possibility.

H.M.JR: They are not analogous.

MR. COX: I don't think they are, but it is conceivable. I can't foresee a year from now what the situation will be, and I think, frankly, you ought to consider it as a very remote possibility.

H.M.JR: But it is one thing to do it on that basis, and it is another thing to have to lend them money to pay us.

MR. COX: I don't think there was any intention of the latter case.

H.M.JR: I hope not. Well, Dean, would you assume the responsibility for negotiating with these various countries where the Army and Navy are located to find out whether they will furnish the civilians to do the work which is necessary and pay for them?

MR. ACHESON: Yes.
H.M., JR.: And furnish us with the food which is necessary to feed our troops?

MR. ACHESON: Yes, I will be glad to.

H.M., JR.: I think that is the thing.

MR. WHITE: There is one point of difference there, I believe, that has come, Mr. Secretary.

H.M., JR.: Just a minute, Mr. Wickard has something.

MR. WICKARD: I just want to be clear on this last one. They feed our troops just like they furnished the labor, and they pay the groceries, in other words, as well as paying the labor, is that right?

H.M., JR.: Yes.

MR. WICKARD: For our troops?

H.M., JR.: Yes.

MR. ACHESON: That is out of what they have. If they haven't got anything in the place, then we would supply it under—either directly to our own troops or under Lease-Lend.

MR. WICKARD: Now, what I am trying to find out, do we give them any credit for any of these operations, for either the labor—

MR. COX: Oh, for both.
MR. WICKARD: It is all right.

H.M.JR: By credit you mean--

MR. WICKARD: On reciprocal aid, that is what you call it. Yes, sure.

MR. COX: You didn't mean to exclude munitions where, for example in Australia they have a .303 ammunition capacity which is supplied to our troops.

H.M.JR: Fine.

MR. COX: Or whatever the munitions happen to be.

H.M.JR: I take it we would use their railroads. We would pay for that. Well, isn't that about as much as you want today?

MR. WICKARD: I want to talk about the civilian supplies. Let's take Australian wool. Did I understand you to say that we pay them dollars for any importations of Australian wool regardless of what use it is put to here, or if we put it to military use to soldiers we send it over there. Would there be any difference or is there complete credit for that?

MR. ACHESON: The suggestion was, what we put up to them at the start, is that so far as imports into this country are concerned that they will give us merely military equipment at the outset, and that we go ahead purchasing for dollars as we have in the past our actual imports into this country of commercial goods. Otherwise, if we don't do that, we will just simply have to increase some other way of finding dollars for them.

MR. WICKARD: Well, that might contribute quite a little bit here if we can get some of our ships coming back and I think there is a necessity for bringing a lot of wool back and there might be an opportunity for bringing a lot of wool back. Now, that might amount to quite a little sum. Now, do you want to pay dollars for
that or do you want to apply that to the hundred million something or other you were talking about a while ago?

MR. COX: They are both connected, aren't they? If they get a dollar balance of six hundred million dollars two months from now then you can very well say, pursuant to the fundamental agreement, that they supply it without dollars.

H.M.JR: That is right.

MR. WICKARD: In other words, you only supply it up to the six hundred million dollars and after that it is without dollars? Is that what you propose?

MR. ACHESON: Well, I just wasn't going that far this morning. We don't know - this afternoon - we don't know what the whole dollar situation is going to be.

MR. WICKARD: Well, I understood you to make that statement.

H.M.JR: It wasn't on my list. I don't think we were ready.

MR. ACHESON: No.

MR. WICKARD: You read that, didn't you? I understood you to make that statement a while ago.

MR. ACHESON: Yes. What I said a moment ago was that so far as imports into this country were concerned that reciprocal aid at the present time should be restricted to military imports; if they furnish us anti-aircraft guns or anything of that sort they would do that on a reciprocal aid basis, and that so far as what have been commercial transactions in the past, that they should continue to be so.

MR. WICKARD: Well, now--

MR. ACHESON: I think the Treasury will tell you that the commercial exports to the sterling area which the
British have to maintain, and do not get under Lend-Lease, will be as much, or more than the commercial imports for which we would pay dollars so that we will have to go on doing that.

Mr. White: We ruled out any imports from Australia, Burma, and Ceylon in our calculations for the rest of the year, merely taking a conservative assumption that the shipping situation, the blockade, may be such that we would get no imports. Any dollars that they get from their commercial exports from Australia to the United States would give them dollars and would go toward the six hundred million.

Mr. Wickard: Would go toward the six hundred?

Mr. White: Go toward the six hundred.

Mr. Cox: Isn't the movements in May make available more ships for exports out.

Mr. White: It is possible but we wanted to be very conservative--

Mr. Wickard: I think the next time I go up on Lend-Lease somebody may ask this question. I suppose I will have to turn it to you (Secretary) or somebody else, but you can understand there are a lot of people who would say, "Well," - I think I said there was more opportunity to buy wool than there is at the present time and if we keep up the relationships with the Australians that we would like to, I wonder what I should say about it. Should I duck it entirely? There are other things I can talk about.

H.M.Jr.: Well, I would give Mr. Acheson and Mr. White a little more time on it.

Mr. Wickard: Oh.

H.M.Jr.: Just give them a little more time on it.

Mr. Wickard: All right.
MR. ACHESON: I think so.

MR. WICKARD: Mr. Acheson brought up the matter in my mind a while ago, I am pretty sure. That is the reason I was trying to find out.

MR. WHITE: There is one problem that I don't know whether it is clear and it is important. Lend-Lease just got in touch with us a few days ago with respect to a request by the South African Government for Lend-Leasing certain iron and steel which formerly private corporations had wanted and were taken off the priority list and they are confronted with the question as to whether or not they shall Lend-Lease to South Africa, which raises at once the question of the gold which they produce. In your discussion with the United Kingdom I gather that that will be one of the points you will discuss. If United Kingdom is not going to count the gold which they receive from South Africa as part of their assets, then it may be necessary if you want to do business with South Africa in exchange for gold or something.

MR. ACHESON: I think that is a question which they will have to take up with you and us.

H.M. JR: Well, on these items like the RFC and writing somebody in the War Department about the hundred million dollars for the planes, those things - I will write letters to Mr. Jones and Mr. Stimson about them, you see, and I will keep pushing on that and then Mr. White will work with you, Dean. Now, does the Army or Navy want to ask any questions?

CAPT ROSE: Mr. Secretary, we are paying now in Australia and in most of the other points for everything we get for the Navy. I don't know of any instances where they are furnishing us labor or supplies without paying for them. I don't know just how we stand on it.

H.M. JR: Was it the Army or Navy said they were giving them chits?
CAPT. HENDREN: Army. Mr. McCloy made that statement.

MR. WHITE: Mr. McCloy sent a letter in response to that request in which he ascertained that the number of chits that were used were very much smaller than he thought, and that in fact what it at present amounts to is cash.

CAPT. ROSE: That is, the chits are being paid after they are issued?

MR. WHITE: Yes, the practice is very much the same as the Navy's except for some procedure differences.

MR. ACHESON: May I ask one more question? In your discussions with the British about this balance, whether it is six hundred million or something else, have you told them that some way would be found to provide them with that balance?

H.M. JR: What is our position, Harry?

MR. WHITE: Well, we have never told them definitely and I think there is possibly some reason to avoid telling them specifically the amount, but you did say this--

H.M. JR: I know what I said. When Lord Halifax and Sir Frederick Phillips came in, I said I would do everything possible within my powers as Secretary of the Treasury.

MR. WHITE: To see--

H.M. JR: I know. To see that they kept comfortable as far as their balancing, but I made it very plain that Washington was a big place and there are lots of departments and I said within the scope of the Secretary of the Treasury, I would do everything possible, and that was about a month ago. Does that answer you?

MR. ACHESON: Yes.
H.M.JR: Comfortable is the word I used, wasn't it, carry?

MR. WHITE: To see that they had enough - yes, I think you used the word - no, you did not.

H.M.JR: What?

MR. WHITE: No, I don't think you did.

H.M.JR: Did I say happy?

MR. WHITE: No, I think what you said is that you would see that they would get as much as they would need for their war effort. Comfortable, I think, was the word you used earlier, but they weren't here at the time.

H.M.JR: That was the word Mr. Viner objected to, wasn't it? Anyway we indicated to them that I, within my limitations as Secretary of the Treasury, would do everything possible to see that they had enough money to carry on the war.

MR. WHITE: That is right.

H.M.JR: See? Not mentioning anything. I have been burnt several times.

MR. WHITE: But this figure of six hundred million you will remember is something that they mentioned a long time ago.

H.M.JR: All right, Claude?

MR. WICKARD: Yes.

H.M.JR: O.K. Thank you all very much for coming.
Dear Henry:

At the meeting on February 12 of the group considering procedure for reciprocal aid, you asked me to give you the views of this Department as to whether the arrangements should be made with the United Kingdom for the British Empire as a unit or whether we should deal directly with the Dominions. We have been at work upon this question and have consulted Lease-Lend officials and Mr. Harry White as to the practicality of various suggestions.

I am enclosing a memorandum which gives our views upon your question and elaborates to some extent the operation of the method proposed. The question arises as to future procedure. One course would be for you, after you have considered the enclosed memorandum, to call a meeting of the group to get their views and, if it

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.
it is generally acceptable, to have us talk with the British Embassy and the Dominion Legations to get their ideas before a final decision is made.

I shall be glad to talk the matter over with you at your convenience.

Very sincerely yours,

[Signature]

Dean Acheson
Assistant Secretary

Enclosure:

Memorandum.
February 28, 1942.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

At the meeting of February 12 on demands for effecting reciprocal aid, or Lend-Lease in reverse, the Secretary of the Treasury asked the State Department to consider and inform him whether in its view all arrangements for aid and reciprocal aid should be worked out with the United Kingdom for the whole British Empire or whether there should be direct Lend-Lease relations with the Dominions.

The following plan is submitted for consideration with the idea that, if the various departments and agencies believe that the plan as outlined is practicable, the State Department might take it up with the British and Dominion representatives for approval of the general approach after which the financial and administrative aspects can be worked out by the appropriate agencies.

The plan is intended to apply to the United Kingdom and the Dominions, other than Canada or any other not seeking Lend-Lease aid. It provides for dealing both with
with United Kingdom and the Dominions under a procedure which is designed not to interfere with the political or financial relations between them.

1. **Lend-Lease Agreements.** Either by an exchange of notes or by agreements auxiliary to the British Lend-Lease Agreement, the United States, the Dominion and the United Kingdom would agree that the provisions contained in the British Agreement are applicable between the United States and the Dominion and that aid transferred to the Dominion shall be so recorded.

What transfers are to be made would be determined upon the joint requisition of the United Kingdom and the Dominion and by the decision of one or another of the agencies of Joint High Command or by agreement between this country, the British, and the Dominion. Items so transferred to a Dominion and recorded as such should not be entered upon the United Kingdom account.

2. **Aid to American Forces in the Field.** Under the provisions of the Lend-Lease agreements relating to reciprocal aid, the United Kingdom and the Dominions should work out (by exchange of notes or otherwise) a plan of assistance for American forces in their respective territories or waters.
The general plan suggested is that this Government buy its forces and other American personnel by purchasing local currency with dollars; and that whatever it is possible to supply locally should be supplied as reciprocal aid.

Housing, roads, landing fields and works of various sorts, repair of ships and material (where facilities are available) should be done by and at the expense of local authority. Stores, provisions, munitions and equipment, so far as local stocks are available and technically usable, should also be supplied by the local authority. The method of provision may be either by requisition upon the authorities or by provision to United States authorities of local currency or both, whichever is agreed upon as most practical.

It should be reiterated, in this connection, that the United States will continue its policy of maintaining essential supplies and materials, subject to its own shortages and shipping limitations, and that we will provide whatever materials needed for such purposes are not obtainable locally. Furthermore, it will be clear that final control over local priorities in supply will remain with the local authorities.

In
In working out the details of such a plan, some flexibility would be necessary. In case it should be found that provision by way of reciprocal aid of certain items deprived the providing government of exchange necessary to meet some obligation essential to the common effort, adjustment could be made.

Reciprocal aid should be recorded as received from the government providing it. The receiving agency should report the articles, services, facilities, or other benefits received and their cost as furnished by the providing authorities. Where money is received, the equivalent amount in dollars should be paid into the Treasury by the agency concerned in accordance with Section 6 (b) of the Lease-Lend Act.

3. Aid by Exports to the United States or upon its Order. Military equipment transferred to the United States by the United Kingdom or a Dominion receiving Lease-Lend aid should be transferred as reciprocal aid. Whether other items exported to this country should be so treated must depend in large part upon the British dollar position. If the British dollar position is or should become such that all the dollar proceeds of imports into this country are needed.
needed to meet essential dollar requirements here, the possibilities of reciprocal aid by furnishing us with imported materials as reciprocal aid are limited. This requires continuous study of the facts.

In some cases it will doubtless be necessary, regardless of exchange considerations, to continue to purchase for dollars in order to stimulate production and obtain the products which we require.

4. Maintenance of British Dollar Resources. The British have dollar obligations here and elsewhere which will continue. So it is not possible to get far in a discussion of reciprocal aid without considering the British dollar needs and assets. Such a consideration requires conclusions on the following points:

a. The amount of the dollar balance which the British need to maintain as a working balance for the needs of the sterling area, or that part of it which operates through the pool. We understand that Mr. Keynes advanced the figure of $600,000,000.

b. The amount of the drain upon the dollar funds over specified periods, including decision upon pre-Lend-Lease contracts.

c. The amount of the income to the pool over the same periods.
periods from payments for imports or services, gold transfers, and other sources.

d. The possibility of some guarantee by this country that, if necessary, dollars will be available within the limitations of a plan embodying the conclusions reached on a, b, and c above.

If conclusions can be reached on these points after discussion with the British and the Dominions, methods by which they could be effectuated are:

1. The British should continue their efforts to maintain the account themselves, by sale to us of supplies and services not received on a reciprocal aid basis, by dollar payments for the pay of troops and personnel in British or Dominion areas, and by some understanding on gold transactions;

2. If those efforts prove inadequate, or if it seems desirable, through further war-conversion of the British or Dominion economy, to eliminate certain transactions which now produce dollars, such as the production and sale of gold or whiskey, or the sale for dollars of material which might be furnished as a matter of reciprocal aid, the dollar position of the sterling area might be built up and maintained at the desired level through the use of one or more of the following methods alone or in combination;

   a. Buying
a. Buying pounds with dollars, and holding the pounds through the Exchange Stabilization Fund. Probably no new legislation would be needed, although if there are pre-war commitments to Congressional committees, to the effect that the Fund would not purchase the currency of a belligerent, it may be desired to clear with the Congressional committees before instituting such action.

b. Take-over by the Army and Navy of B.P.M. contracts now in process; this is a temporary, but probably not a full solution or an adequate one.

c. Enlarge or contract the scope of Lend-Lease financing for British dollar purchases in the United States, within the limitation of present categories of permitted purchases, to the extent needed to achieve the $600,000,000 figure. It may even be desirable to reduce the British need for dollars by buying certain South American materials for dollars, and Lend-Leasing them to the British, although this process is subject to great abuse, and should be safeguarded.

d. Increase in British dollar receipts, through payment with dollars of some of the expenses of our troops.
troops which we have above proposed to be met locally as reciprocal aid.

6. A dollar loan, with or without interest, if permitted by law.

We suggest that the ultimate burden of long run imbalance in the trade and exchange relations of the United States and the sterling area, occasioned by war-time transactions, be borne by the Lend-Lease account, not the Stabilization Fund, although the Fund can act quickly and in the first instance.

The adjustment of accounts needed to maintain the British dollar position, and otherwise to administer an agreement covering the points in this memorandum, requires first, an understanding with respect to British and Dominion policy in maintaining the gold and dollar position of the sterling area, and in spending the dollars provided by us, and, second, a small standing financial committee, representing both the British and the Dominions, and the Treasury, the Lend-Lease Administration, the State Department, and, upon special problems, Army, Navy, and Agriculture.

5. Administration. The plan proposed, involving both our guarantee for the dollar position of the sterling area, and
and the establishment of reciprocal aid relations between the United States, the United Kingdom and the Dominions, should permit a solution of the political and diplomatic as well as the financial problems presented by the proposals. Our guarantee should relieve possible British fears that separate Lend-Lease agreements with the Dominions would break up the dollar pool. The mechanism for reciprocal aid should meet the requirements of the situation from our point of view, so far as the limitations inherent in it permit.
At a meeting in my office attended by Messrs. Noyes and Hostow of Lend-Lease and Messrs. Viner, Cairns, Kades, Kistler, and Hicks of the Treasury, it was agreed that the maintenance of a British Treasury cash balance of $600 million (including available gold) was a reasonable goal to shoot at.

The appended report presents the picture as it is now and as it is likely to be at the end of this year. (See summary of report.)

We estimate that the British will have less than $100 million by the end of this year unless certain decisions are made now. We need, therefore, to find about $600 million for the British during the remainder of this year. This $600 million can be obtained out of the following items. It is important to note that these items are listed below in the order of their desirability. In other words, the first one listed is the most desirable source from which to obtain the dollars, the second item next desirable, etc.

1. Purchase through R.F.C. of remaining (British) war plant facilities in U.S. ...... $100
2. Portion of wages of American military forces spent in the sterling area........... 150
3. Current gold production in the sterling area ($670 in 1941) ...................... 400
4. Payments by Army for planes and other materials taken from British dollar contracts.......................... 100
(The amount involved is uncertain but it is probably at least $100 million)
5. Payment in dollars to civilians working on American projects in sterling area...... 300
Division of Monetary Research

6. Purchase by the United States of equipment ordered by the British prior to Lend-Lease and not yet delivered exclusive of goods the Army wants to take over which are listed in No. 4 above. $700

7. Payment in dollars for supplies used by and for Americans in sterling area and obtained locally. 100

$1,850

The above items total about $1,850 million, about $800 million of which are from sources which we would be reluctant to tap.

Reliance upon Item No. 3 (current gold production) would raise a problem of Intra-Empire relations that would have to be discussed with the British and probably with their approval with South Africa.

Copies of the appended report have been sent to Cox and Acheson.
BRITISH DOLLAR POSITION IN 1942

U. S. Treasury Department
Division of Monetary Research

Report prepared by
J. E. Hicks
T. M. Kistler
The appended report on the British dollar position during 1942 was prepared by E. Hicks and T. M. Kistler of the Division of Monetary Research. The material presented in the report raises a number of questions which call for some discussion.

Before it can be stated, even approximately, what are the available gold and dollar balances that the British Treasury now has and will have by the end of 1942, decisions on several doubtful points are necessary.

1. What is to be included in the category of available gold and dollar balances?

If we include in the British Treasury "available gold and dollar assets" only those items which the British Treasury recorded in that category, we find that —

(a) On February 1, 1942, United Kingdom gold and dollar balances were $458 million.

(b) On May 1, 1942, the total of British gold and dollar balances should be approximately $218 million.

(c) By the end of the year 1942 the balance will have disappeared and the British will be in the red by about $260 million.

The above estimates should be evaluated in the light of the following omissions:

(a) They do not include about $197 million that are certain to be paid over to the British Treasury during the next few months in payment for various purposes.
(b) Current gold production of the British Empire is excluded by the British Treasury from the category of gold and dollar assets available. If the bulk of such gold production were included, probably $400 million would be added to the British Treasury cash balance by the end of 1942.

(c) If "scattered gold" and the market value of British-held United States marketable securities available for sale were included in the above estimates, another $100 million would be added to the British Treasury cash balance.

If the above items totalling almost $700 million are included among its available dollar assets, the British Treasury will have about $450 million by the end of 1942 instead of being in the red by $260 million.

2. What procedure are we going to follow with respect to the expenditures for and by American troops in the sterling area?

(a) If the United States Treasury pays American troops in the sterling areas dollars which they will spend in those countries (or buys with dollars the sterling equivalent for them from the British Treasury), then an additional $150 million should be added to British Treasury net receipts in 1942.

(b) Expenditures in sterling areas for local civilians working on American projects in those areas will total about $375 million during the last eight months of 1942. If the United States Treasury is to purchase from the British (or Dominion) Treasury the sterling with which to pay these civilians, the British Treasury will acquire an additional $300 million by the end of the year.
(c) The supplies needed for American troops to be acquired locally total over $100 million. If these supplies are not to be provided by the British as part compensation for Lend-Lease shipments, they would provide dollars.

3. Are we going to acquire certain British-owned American facilities?

The British have already received $45 million and will shortly receive an additional $12 million from the transfer of plant facilities; there remains, however, $79 million worth of plant facilities whose purchase was recommended to the R.F.C. by the Army and by the President eight months ago, an additional $22 million worth of plants whose sale the British have proposed to the R.F.C., and a final group of miscellaneous capital facilities aggregating about $25 million. If all these remaining facilities, whose cost to the British totalled $126 million were taken over, the British would receive probably about $90 million. The R.F.C. has from time to time indicated that these transfers require much investigatory work, but we believe that nothing is being done at present to further these investigations.

4. Is the U. S. Army going to turn over dollars to the British Treasury for equipment paid for by the British but taken over by the United States?

The most recent information we have seems to indicate that the British Treasury is going to receive $100 million for some plane takeovers. There are some other items about which negotiations have been going forward for some time but the likely results are still in doubt.
To sum up: There are the following sources of dollar exchange which total $2,150 million. A decision will probably soon be reached as to which of these items are to be depended upon to help make up the British cash balance deemed adequate.

(In millions)

1. Non-recurrent receipts certain to be paid over to the British Treasury in the next few months ........................................ $ 200

2. Remaining war (British) plant facilities in the United States that could be purchased ........ 100

3. Current gold production in sterling area ($670 million in 1941) ..................................... 400

4. Pay in dollars to American military forces in sterling area ............................................ 150

5. Pay in dollars to civilians working on American projects in sterling area ............................ 300

6. "Scattered" gold and remaining marketable securities ..................................................... 100

7. Purchase by Army for planes already paid for by British ................................................ 100

8. Payment in dollars for supplies used by and for Americans in sterling area and obtained locally .......................... 100

9. Purchase by United States of equipment ordered by British prior to Lend-Lease and not yet delivered .................................................. 700

TOTAL $2,150

A tentative decision has been reached which would eliminate item 9 as a source of dollars, but no decision has as yet been made with respect to other items listed.

H. D. White,
Director of Division of Monetary Research
1. On January 31, 1942, available gold and dollar balances of the United Kingdom, reported by the British Treasury as "available", amounted to $458 million as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. K. Government dollar balances</td>
<td>$55</td>
</tr>
<tr>
<td>Gold held by U. K. Government</td>
<td>$403</td>
</tr>
<tr>
<td>Total</td>
<td>$458</td>
</tr>
</tbody>
</table>

(See Appendix A for details.)

2. In a memorandum submitted to the United States Treasury on February 3, 1942, the British Treasury estimated that during the three months from February 1 to May 1, 1942, the Sterling Area, principally British Empire countries other than Canada and Newfoundland, will have a net dollar outgo, on current account, of $240 million, as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar expenditures of Sterling Area</td>
<td>$410</td>
</tr>
<tr>
<td>Dollar receipts of Sterling Area</td>
<td>$170</td>
</tr>
<tr>
<td>Deficit on current account</td>
<td>$240</td>
</tr>
</tbody>
</table>

(See Appendix C for a detailed estimate of the British Balance of Payments on current account.)

Thus, it is expected that, if no gold or dollar balances are acquired from other than current sources, their "available" gold and dollar balances by May 1, 1942, will fall to $218 million.
3. However, the British Treasury will recover during the next three months, certain dollar receipts which should be added to the $218 million. These receipts are as follows:

a. The sale of Australian wool, which has already been arranged, should amount to about $50 million within the three-month period. Most of this wool is already in the United States. The figure of $50 million does not include current imports of wool on private account. 

(See Appendix D.)

b. Of the $75 million balance still due on the R.F.C. loan, $65 million should be available in the next three months. 

(See Appendix E.)

c. Transfer of the Todd Shipbuilding facilities, according to the Maritime Commission, will yield from $12 to $15 million within a month. 

(See Appendix F for detailed account of "Take Outs".)

d. Dollar expenditures in Sterling Area for military, naval and civilian personnel (including $20 million of payments for supplies and services) will amount to at least $70 million in the next three months. 

(See Appendix G.)

Total $197

(In millions)
These virtually certain receipts of $197 million should be included in the potential dollar assets of the British Treasury on May 1. If all these receipts are realized, the total of British "available" dollar assets as of May 1, will be approximately $415 million.

4. This figure of $415 million does not include all the actual or potential gold and dollar assets of the British Treasury and should not be used without qualification. There are additional gold and dollar assets which the British Treasury already has or which it will acquire within the next three months. Whether, as a basis for policy decision, any or all of these additional items should be added to the $415 million, is a matter to be decided by top-ranking officials.

These additional assets and receipts include the following:

a. Gold scattered in various parts of the world....$52 million

It is not wholly clear why this item should be excluded from the available gold and dollar assets. Presumably it is a matter of transportation difficulties. The gold may be located in areas from which it would be difficult to transport it to London or New York in less than two or three months. Such a lag would justify excluding the $52 million from the assets which the British Treasury has available for sale as of February 1. Provided it is solely a matter of transportation, it would seem that this gold could reasonably be included in the figure of "available" assets of the British as of May 1, 1942. If, however, this gold is included in the item called "scattered gold", not because of shipping difficulties but for other reasons, then the decision might be different. But so far as we know, the problem is one of transportation.
b. A more important item is current gold production. For the first time in reporting on their dollar position, the British Treasury has asked us not to include gold from current production. In September 1941, the British estimated their receipts from newly-mined gold production to be about $145 million for a three-month period. Actual gold production of these areas during 1941 averaged about $170 million for a three-month period, but the British Treasury did not acquire all of it. Some of it remained in the producing countries. It is likely that during the three months from February 1 to May 1, the production of newly-mined gold in Australia, South Africa, and other areas of the British Empire, exclusive of Canada, will be less than $170 million. A shortage of glycerine and mining machinery, increase in transportation difficulties, Japanese capture of small Pacific producing areas and the possible loss of other areas will doubtless reduce production. Nonetheless, it is certain that gold production in the British Empire, outside of Canada, will be greater than $100 million during the next three months and probably will exceed $125 million. (See Appendix H for table of gold production of the Sterling Area.)

The request of the British Treasury that gold acquired from current gold production be excluded from the category of available assets was based on the ground that such gold is held not against dollar liabilities alone but against their total liabilities. They refer particularly to the increase of sterling balances which are resulting chiefly from their intra-Empire arrangements.
It is not clear why this gold, if it is acquired by the British Treasury, should be so excluded. Why should that gold be held against general liabilities any more than is the gold or dollar assets which they have already included as among their available assets? There may be a question as to the ability of the British Treasury to acquire the bulk of the gold that will be produced in the Sterling Area. If the British Treasury cannot obtain that gold either because of the unwillingness of the producing countries to accept more sterling, or of the inability to repatriate securities, it would, of course, be justified in excluding it from its receipts. But if that be so, the question arises whether, in matters involving dollar position and Lend-Lease, the United States Treasury should deal with the United Kingdom Treasury as representing the Empire, or whether it should deal separately with each of the Empire units, as it now does with Canada.

The importance of the decision on this point rests on the fact that newly-mined gold production of the Sterling Area totalled over $670 million last year and may well amount to over $400 million during the next year.

c. Dollar securities available for sale.

The British sale of American securities has virtually ceased during the past few months. Their reports indicate they still have some $150 million of such securities, but almost a half of them are not marketable either because they are held in small lots or are not easily available. It would seem to be not unreasonable to estimate this item as capable of easily yielding $65 million during the next three months.
d. Belgian gold.

About a year ago, the British Treasury informed us they had borrowed $105 million of gold from Belgium. The British Government feels that it will have to return this gold when called upon to do so and, therefore, does not wish to include it among its "available" assets. The above items total about $320 million. How much, if any, of this amount should be added to the $415 million which we estimate that the British will have on May 1, 1942, is a matter for decision by top officials.

5. The situation after May 1, 1942, changes drastically. We estimate that, during the last eight months of the year, the dollar deficit on current account for the British Treasury may be as high as $475 million. (Details of this estimate are given in Appendix I.) This estimate of $475 million is based on the assumption that imports into the United States from India, Ceylon, Australia and New Zealand will be virtually eliminated because of enemy interference with shipping. If our imports for consumption from these countries are cut only to half their 1941 level, the deficit will be roughly $65 million less.

This figure of $475 million deficit does not include dollar expenditures for and by American troops in the Sterling Area. We estimate, on the basis of Army and Navy figures of their contemplated expenditures, that net dollar receipts of the British Treasury on this account for the eight-month period, will total at least $150 million. (See Appendix C.) This net figure of $150 million consists almost entirely of the dollars that will be spent by American forces in the Sterling Area and allows about $25 million to cover dollar imports into the Sterling Area engendered by
these expenditures and not covered under Lend-Lease. It includes neither expenditures for supplies for the troops or construction, nor expenditures for pay of civilians in the Sterling Area. The deficit, therefore, will be $325 million rather than $475 million. This estimate of a deficit of $325 million is more apt to prove too high than too low.

The deficit on current account of $325 million assumes further that the British Treasury will not acquire any gold out of current production, (gold produced and acquired is not ordinarily included in a balance of payments unless it is exported. For our purpose this distinction between exported gold and gold acquired by the British Treasury need not be made.) actually, as indicated earlier, if the output is maintained at present levels, gold production outside combat areas during the last eight months of this year will amount to about $400 million. If output declines by virtue of lack of labor, or glycerine and other materials, then this estimate of gold production will have to be reduced accordingly.

Gold production in the Sterling Area, outside of Australia and India, is not likely to decline by more than a fourth. If this is so and if current gold output of these countries, exclusive of Australia and India, is made available to the British Treasury, British holdings of "available" gold and dollar assets at the end of the year are likely to be over $500 million, or $100 million or more higher than on May 1, 1942. This does not include scattered gold, gold borrowed from Belgium, or receipts from sale of U. S. securities referred to above on pages 3-6.

The above estimate also does not include U. S. Government expenditures for supplies for American troops in the Sterling Area nor does it include expenditures to pay civilians in the Sterling Area. If it is
desired to increase the dollar balances of the British Treasury, it might be possible to arrange to pay some or all of the local civilians with sterling purchased with dollars by the U.S. Government from the British Treasury. Judging from the Army and Navy estimate, this item alone during the last eight months of the year, may run as high as $250 million. If the U.S. Treasury were to provide dollars for these sterling expenditures, there would still remain supply needs of American troops which could be left to the British to provide as part compensation for Lend-Lease shipments.

One word about the outlook for the British dollar position in 1943. There are so many uncertainties at this moment — such as, the areas that will be in enemy hands, and the shipping situation — that British dollar requirements and receipts cannot be forecast with any degree of accuracy. However, certain observations may be helpful in giving a general idea of what is likely to be the situation. Firstly, outpayments on past commitments, which in 1942 will have amounted to over $600 million, will have virtually ceased by the end of the current year. Secondly,
Lend-Lease machinery will have been improved and expanded to cover more transactions, with a probable resultant decrease in British dollar expenditures. Thirdly, United States troop dollar expenditures in the Sterling Area will have substantially increased. These three changes should make for a considerable improvement of the dollar position of the British Treasury. On the other side of the scale are the decreased production of gold, which will very probably take place during 1943, and further intensification of the war effort, which may still further reduce the export capacity of the Sterling Area. On balance, it appears that the British position will grow no worse during 1943 and may substantially improve.
APPENDIX A

U.K. GOLD AND DOLLAR EXCHANGE ASSETS

(The categories in this table are explained in the pages following)

"AVAILABLE"

<table>
<thead>
<tr>
<th></th>
<th>Official Dollar Gold Balances</th>
<th>Marketable U.S. Securites</th>
<th>Direct Investments</th>
<th>Less Securities and direct Investments</th>
<th>Pledged to the R.F.C.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1939</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 1</td>
<td>2,038</td>
<td>50</td>
<td>2,083</td>
<td>883</td>
<td>610</td>
<td>3,586</td>
</tr>
<tr>
<td><strong>1941</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 1</td>
<td>256</td>
<td>54</td>
<td>310</td>
<td>554</td>
<td>610</td>
<td>1,474</td>
</tr>
<tr>
<td>Feb. 1</td>
<td>119</td>
<td>116</td>
<td>235</td>
<td>485</td>
<td>610</td>
<td>1,330</td>
</tr>
<tr>
<td>Mar. 1</td>
<td>102</td>
<td>82</td>
<td>184</td>
<td>436</td>
<td>610</td>
<td>1,220</td>
</tr>
<tr>
<td>Apr. 1</td>
<td>92</td>
<td>69</td>
<td>161</td>
<td>375</td>
<td>530</td>
<td>1,066</td>
</tr>
<tr>
<td>May 1</td>
<td>-7</td>
<td>59</td>
<td>152</td>
<td>330</td>
<td>530</td>
<td>1,012</td>
</tr>
<tr>
<td>June 1</td>
<td>23</td>
<td>115</td>
<td>138</td>
<td>304</td>
<td>495</td>
<td>937</td>
</tr>
<tr>
<td>June 30</td>
<td>54</td>
<td>107</td>
<td>161</td>
<td>310</td>
<td>495</td>
<td>966</td>
</tr>
<tr>
<td>July 31</td>
<td>97</td>
<td>49</td>
<td>146</td>
<td>321</td>
<td>495</td>
<td>962</td>
</tr>
<tr>
<td>Aug. 30</td>
<td>141</td>
<td>54</td>
<td>195</td>
<td>310</td>
<td>495</td>
<td>(345)</td>
</tr>
<tr>
<td>Oct. 3</td>
<td>142</td>
<td>96</td>
<td>238</td>
<td>309</td>
<td>495</td>
<td>(475)</td>
</tr>
<tr>
<td>Oct. 31</td>
<td>220</td>
<td>139</td>
<td>359</td>
<td>297</td>
<td>495</td>
<td>(600)</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>296</td>
<td>90</td>
<td>386</td>
<td>287</td>
<td>495</td>
<td>(600)</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>363</td>
<td>88</td>
<td>451</td>
<td>270</td>
<td>495</td>
<td>(650)</td>
</tr>
<tr>
<td><strong>1942</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 31</td>
<td>403</td>
<td>55</td>
<td>458</td>
<td>290</td>
<td>495</td>
<td>(650)</td>
</tr>
</tbody>
</table>

Regraded Unclassified
### U.K. Gold and Dollar Exchange Assets

(The categories in this table are explained in the pages following)

<table>
<thead>
<tr>
<th>Date</th>
<th>Gold held +</th>
<th>Trusts in U.S. held</th>
<th>Other U.S. held</th>
<th>Belgium held</th>
<th>Dollar Liabilities</th>
<th>Dollar Benefits</th>
<th>Securities</th>
<th>Total Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>1942</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Feb. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Mar. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Apr. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>May 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>June 30</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>July 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Aug. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Sept. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Oct. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Nov. 30</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>105</td>
<td>52</td>
<td>10</td>
<td>307</td>
<td>290</td>
<td>58</td>
<td>822</td>
<td>1,415</td>
</tr>
</tbody>
</table>

**Appendix A-2**
**U.S. GOLD AND DOLLAR EXCHANGE ASSETS AS OF JANUARY 31, 1942**

(excepting where noted, these are British Treasury figures)

"AVAILABLE" DOLLAR ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gold</td>
<td>403</td>
</tr>
<tr>
<td>2. Official dollar balances</td>
<td>55</td>
</tr>
<tr>
<td>3. Sub-total</td>
<td>458</td>
</tr>
<tr>
<td>4. U.S. securities</td>
<td>290</td>
</tr>
<tr>
<td>5. Direct investments</td>
<td>495</td>
</tr>
<tr>
<td>6. Deduct: Securities and direct investments pledged to the R.F.C.</td>
<td>-650</td>
</tr>
<tr>
<td>7. Total - &quot;available&quot; dollar assets.</td>
<td>593</td>
</tr>
</tbody>
</table>
**U.K. Gold and Dollar Exchange Assets**

*Appendix A-4*

(excepting where noted, these are British Treasury figures)

"UNAVAILABLE" DOLLAR ASSETS

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Belgian gold</td>
<td>105</td>
</tr>
<tr>
<td>(Gold borrowed from Belgium and said to be unavailable because of the equal liability to the Belgian Government.)</td>
<td></td>
</tr>
<tr>
<td>9. Scattered gold</td>
<td>52</td>
</tr>
<tr>
<td>(The British state that this gold is scattered in various parts of the world and therefore not available.)</td>
<td></td>
</tr>
<tr>
<td>10. Gold held against immediate liabilities</td>
<td>10</td>
</tr>
<tr>
<td>(The British state that this is a reserve set up in accordance with the terms of clearing agreements between the U.K. and other countries, and that, because of the terms of those agreements, the gold is not available.)</td>
<td></td>
</tr>
<tr>
<td>11. Private dollar balances</td>
<td>307</td>
</tr>
<tr>
<td>(These are U.S. Treasury data. The British state that these private balances are at a minimum necessary to the conduct of business and are thus not available to the British Government.)</td>
<td></td>
</tr>
<tr>
<td>12. Trusts in U.S. held for U.K. beneficiaries</td>
<td>290</td>
</tr>
<tr>
<td>(These trusts are established under U.S. law and hence the assets may be unavailable to the British Government.)</td>
<td></td>
</tr>
<tr>
<td>13. Other U.S. securities</td>
<td>58</td>
</tr>
<tr>
<td>(The British state that of the $143 million of U.S. securities held on January 31, $58 million was not readily marketable.)</td>
<td></td>
</tr>
<tr>
<td>14. Total - &quot;unavailable&quot; dollar assets</td>
<td>822</td>
</tr>
<tr>
<td>15. GRAND TOTAL - &quot;available&quot; plus &quot;unavailable&quot;</td>
<td>21,415</td>
</tr>
</tbody>
</table>

*Regraded Unclassified*
### APPENDIX B

#### THE DISPOSITION OF BRITISH DOLLAR SECURITIES

*(in millions of dollars)*

<table>
<thead>
<tr>
<th></th>
<th>Sales</th>
<th>Placed to R.F.C.</th>
<th>Standard's Index of Prices of 402 Stocks</th>
<th>Remainder after taking account of sales and of changes in market value 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1939</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept. 1939 to Mar. 1940</td>
<td>▼ 155</td>
<td>▼ 91</td>
<td>▼ 99</td>
<td>▼ 5098</td>
</tr>
<tr>
<td>1940</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>31</td>
<td>92</td>
<td>827</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>33</td>
<td>93</td>
<td>803</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>18</td>
<td>83</td>
<td>592</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>7</td>
<td>73</td>
<td>617</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>4</td>
<td>76</td>
<td>628</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>6</td>
<td>78</td>
<td>666</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>7</td>
<td>81</td>
<td>670</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>5</td>
<td>81</td>
<td>658</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>22</td>
<td>82</td>
<td>626</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>29</td>
<td>85</td>
<td>616</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>52</td>
<td>85</td>
<td>547</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>29</td>
<td>80</td>
<td>498</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>70</td>
<td>80</td>
<td>437</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>18</td>
<td>78</td>
<td>392</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>37</td>
<td>77</td>
<td>366</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>8</td>
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<td>372</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>6</td>
<td>83</td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>7</td>
<td>83</td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>2</td>
<td>84</td>
<td>166</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>3</td>
<td>86</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>4</td>
<td>77</td>
<td>144</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>2</td>
<td>72</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>1942</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>1</td>
<td>72</td>
<td>143</td>
<td></td>
</tr>
</tbody>
</table>

---

* Total holdings reported by the British Government. Of the $167 million reported held on September 1, 1941, only $105 million was said to be readily marketable, and $30 million of that amount was said to be in small blocks that could not be immediately mobilized. Of the $143 million reported held on January 31, 1942, only $85 million was said to be readily marketable.

1/ The amounts held at each date other than those starred have been determined by adjusting the previously reported holding for sales and for changes in market prices each week. Since the adjustments for changes in market price were made from Standard's weekly index, the monthly index shown would not give exactly the same results. Furthermore, since changes in market value were estimated on the basis of changes in Standard's index rather than changes in the exact shares held, the estimate is only an approximate one, particularly since British holdings include an unknown amount of bonds.
The British Treasury at various times since the outbreak of war has submitted to the United States Government estimates of their expected gold and dollar expenditures and receipts. These estimates have undergone extensive revisions during the past two years. Because of rapidly changing conditions, previous estimates are no guide to the reasonableness of forecasts for the future, except in a very general sense and then only if, after the periods for which the estimates have been made, the estimates can be compared with what actually happened and a margin of error calculated. Reliability of earlier estimates submitted to the Treasury, insofar as it can be ascertained, has been one criterion used in evaluating the British forecast of the dollar position of the Sterling Area for the current three months. This memorandum is restricted to a consideration of the dollar transactions of the Sterling Area of a recurrent type and on current account. The various capital items affecting the British gold and dollar position and prospects are discussed in separate memoranda.

The British Treasury estimates that during the three months, February through April 1942, the Sterling Area will incur a net loss of dollar exchange on account of current transactions of a recurrent type, of $240 million. This estimate does not allow for the export of any newly-mined gold. Estimated dollar expenditures for the three months

Division of Monetary Research,
Treasury Department
are placed at $410 million and estimated dollar receipts on current account at $170 million. A summary table of expected dollar expenditures and receipts of the Sterling Area for the three-month period, February through April 1942, is given below:

(In millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Payments to U. S. by U. K.</td>
<td>$275</td>
</tr>
<tr>
<td>B. Payments to U. S. by other Sterling Area</td>
<td>110</td>
</tr>
<tr>
<td>C. Payments to areas outside U. S. requiring gold or dollars</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total dollar expenditures</strong></td>
<td>$410</td>
</tr>
<tr>
<td>A. Receipts from U. S. by U. K.</td>
<td>$65</td>
</tr>
<tr>
<td>B. Receipts from U. S. by other Sterling Area</td>
<td>90</td>
</tr>
<tr>
<td>C. Unidentifiable receipts of the Sterling Area</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total dollar receipts of a recurring nature</strong></td>
<td>170</td>
</tr>
<tr>
<td><strong>Deficit on current account</strong></td>
<td>$240</td>
</tr>
</tbody>
</table>

**ESTIMATED DOLLAR EXPENDITURES AND RECEIPTS OF THE STELLING AREA, FEBRUARY THROUGH APRIL, 1942**

A. Payments to U. S. by U. K.

1. Payments on British Purchasing Mission

   - Commitments                                                              | $185   |

   This figure is $15 million lower than the February 1 forecast of the British Purchasing Mission. The British Purchasing Mission forecast was lowered for this tabulation on the suggestion of British Treasury representatives to allow for possible further delays in deliveries. British Purchasing Mission forecasts of payments due on contracts are based upon delivery schedules called for in the contracts and, because of delays in shipments, have been consistently too high in the past.
According to a recent British memorandum, the above forecast apparently includes payments on contracts which the United States Government has already agreed to take over, but which to our knowledge have not yet been transferred. If these payments are included and if the contracts are taken over by this Government, the above forecast should be lower.

2. U. K. payments to U. S. for other merchandise imported outside Lend-Lease

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>outside Lend-Lease</td>
<td>$30</td>
</tr>
</tbody>
</table>

These goods consist of the so-called "hard core" of British purchases of United States goods, which for political or administrative reasons are not made through Lend-Lease procedure. Included are British purchases of defense articles which the British assert are so urgently required as to preclude the use of Lend-Lease procedure. Of the $12.4 million of British dollar commitments over $5,000 incurred for account of the United Kingdom, December 12, 1941 to February 7, 1942, $5.8 million was for items marked "urgent" by the British.

Why these expenditures for purchases outside Lend-Lease are so high, and more specifically, why these urgent supplies are not procured through Lend-Lease machinery, is not known. The Lend-Lease authorities inform us that, with rare exceptions, all requisitions are cleared completely within 48 hours and any requisition marked "urgent" is cleared in much less time than that.
This estimate is somewhat higher than the figures submitted to us by the British during the summer of 1941 when the general problem of the scope of Lend-Lease procedure was being discussed by representatives of the British and U. S. Treasuries with the Lend-Lease Administration. The Treasury has no information as to why the estimate for these purchases has been increased. Examination of the recent dollar commitments incurred by the British indicates that this estimate may include dollar payments on commitments which Lend-Lease has promised to take over if it can.

3. U. K. payments to U. S. for services
   a. For shipping services

   This figure seems high. Lend-Lease Administration has recently adopted a policy whereby practically all dollar expenses incurred in the United States on account of British shipping as well as all dollar costs of transporting defense articles from the United States to British areas are eligible for Lend-Lease procedure. Because of administrative or other difficulties, this principle may not yet be fully operative.

   Up to the beginning of 1942, the British did not submit for Lend-Lease ocean freight charges less than $5,000 in respect of any one sailing of a vessel not owned or controlled by the U. S. Maritime
Commission. In January they anticipated that in
the near future it would be possible to reduce
this ceiling.

The above British estimate for the current
three-month period is much higher than the figure
submitted to the United States Treasury in November
1941. It is as high as earlier estimates which did
not allow for placing of any shipping costs under
Lend-Lease procedure.

b. For interest and film royalties . . . . . . . . . . . . . . . . . . . $15

This figure appears low in view of the British agreement with American film
which provides for the payment in dollars, on
April 1, 1942, of $10 million of accumulated
blocked sterling balances and for the transfer
during the year ending October 24, 1942, of $20
million of current receipts, such transfers to be
made at the end of each quarterly period.

Interest and dividend payments due from the
United Kingdom to the United States have remained
relatively stable. The estimate for the current
year is $50 million.

4. All other U. K. payments to U. S. . . . . . . . . . . . . . . . . . . $20

These payments are for other goods and services which are
urgently required or ineligible for Lend-Lease procedure.
They are in addition to the "hard core" of merchandise pur-
chases mentioned above. The Treasury has little information

Regraded Unclassified
as to what this item covers. It appeared in the British estimates for the first time in September 1941.

In their November estimates of dollar payments to the United States, for the six months ending April 30, 1942, the British included $30 million for purchases of Cuban sugar and molasses on the assumption that these purchases would be ineligible for Lend-Lease; this represents one-half of the contemplated purchases of Cuban sugar and molasses during 1942. We do not know whether payments for these commodities are included in the estimate for the current three-month period; it is our understanding, however, that they are being obtained under Lend-Lease.

Among the British dollar commitments over $5,000 incurred between December 12, 1941 and February 7, 1942, are three California tax assessments totalling $3.7 million. State and local tax levies may be another item included in the $20 million estimate.

Total estimated payments to U. S. by U. K., February through April 1942 ........................................... $275

B. Payments to U. S. by other Sterling Area

1. Payments to U. S. by other Sterling Area for
   merchandise imports ........................................ $ 85

   U. S. exports to British Empire countries, exclusive of the United Kingdom, Canada and Newfoundland, during the first eleven months of 1941 have been running at an annual rate of $650 million. The above British estimate for the current three-month period is at an annual rate of $340 million. This
lower figure assumes a further expansion of Lend-Lease procedure and tightening of civilian imports of these countries as a result of the critical shipping situation. If, as we are informed by Lend-Lease authorities, Lend-Lease procedure is extended to cover all commodities essential to the war effort of British Oceanic and Asiatic countries — Australia, New Zealand, British India and Ceylon — and if the shortage of shipping leads to the restriction of imports into these countries to bare essentials, dollar expenditures on account of commodity imports of these countries may shortly fall substantially below recent levels. Such a drop, however, may not be reflected in British dollar expenditures during the current three-month period.

2. Payments to U. S. by rest of Sterling Area for services ........................................ $ 25

This estimate is much higher than previous figures submitted by the British to the Treasury, apparently due in large part to an anticipated rise in shipping expenditures. We are not clear why this estimate for shipping expenditures should have been raised, inasmuch as Lend-Lease Administration reports that they are now working on a procedure under which the great bulk of dollar expenditures for shipping services rendered British countries are eligible for Lend-Lease. They report that they are now operating on that principle, but they do not know what proportion of these expenditures are being covered by Lend-Lease procedure.
Interest and dividend payments are estimated by the British to amount to about $30 million per year.

Total payments to U. S. by rest of Sterling Area, February through April, 1942 ................................................ $110

In view of the high estimate for shipping expenditures, we believe this figure is larger than actual dollar expenditures.

C. Payments by Sterling Area outside U. S. requiring gold or dollars

1. Dollar payments for oil from U. S.-owned sources ................ $15

We do not know what proportion, if any, of the total volume of oil from U. S.-owned sources used by the British is being obtained under Lend-Lease procedure. The Lend-Lease Administration reports that any oil used by the British, no matter where purchased, is eligible for Lend-Lease. In view of this fact, the above figure, although lower than earlier British estimates of anticipated purchases of oil from American-owned sources outside the United States, seems high.

The British stated in February that the present need for greatly increased supplies of oil in the Far East which calls for dollar expenditures was cited as one factor making for a worsening of their dollar position.

2. Other dollar payments outside U. S. ............................. $10

The British have always included in the figures they have submitted to the Treasury an estimate of estimated dollar payments outside the United States. Included in various of these estimates were expected dollar expenditures for the
purchase of essential commodities requiring payment in gold or dollars, as well as gold or dollar transfers to such countries as Turkey, Iran, and Egypt. The item specifically mentioned by the British as being included in the above estimate is Bolivian tin. In the earlier estimates the British carried a figure for expected dollar expenditures for essential commodities purchased outside United States of $40 million per year.

Total estimated dollar payments by the Sterling Area outside U. S., February through April 1942 $ 25

Total estimated dollar expenditures of the Sterling Area, February through April 1942 $410

Dollar Receipts on Current Account

A. Receipts from U. S. by U. K.

1. U. K. receipts from U. S. for merchandise exports $ 25

Merchandise imports of the United States from the United Kingdom have been at a monthly rate of $11 million during the first eleven months of 1941. The above British forecast is lower than actual imports during recent months and also lower than their previous estimates. The figure has been reduced to allow for further intensification of the British war effort. It appears a little low in the light of the above U. S. import figures but not significantly so, if allowance is made for the fact that British export figures are f.o.b. and our import statistics are on a c.i.f. basis.
2. U. K. receipts from U. S. for services .................................. $ 20
   a. For shipping services ........................................... $ 15
      This is much higher than British estimates and presumably reflects higher shipping costs.
   b. For interest (not assigned against the R.F.C. loan) ........... 5
      This figure seems high. It indicates that the British expect to receive interest and dividends on their investments in the United States, at a level roughly one-half as high as they estimated a year ago they would receive during 1941. Their estimate, submitted a year ago, of interest and dividend receipts from the United States for the year 1941, was $35 million.

3. All other U. K. receipts from U. S. ..................................... 20
   The Treasury has no information as to what these receipts are.

Total estimated U. K. receipts from U. S., February through April 1942 .............................................. $ 65

B. Receipts from U. S. by rest of Sterling Area
   1. Receipts from U. S. by rest of Sterling Area for merchandise exports ........................................ 80
      This figure assumes that military and naval operations will not interfere in the near future with shipments to the United States from British Pacific and Asiatic areas still under the control of the United Nations. With the exception
of Australia, the British estimate of exports of these countries to the United States for the current three months compares closely with the level of actual shipments during the first eleven months of 1941. There is a large discrepancy between actual imports from these countries during recent months and the British estimate for the current three-month period, but this is accounted for by shipments of wool from Australia for stock pile purposes. (See Appendix D.) The above estimate of United States imports from Sterling Area countries, exclusive of the United Kingdom, may not be much, if any, too high for the current three-month period.

2. Receipts from U. S. by rest of Sterling Area for
   services ......................................... $10

   This estimate is higher than any of the previous figures carried by the British and probably reflects an increase in anticipated receipts for shipping services rendered the United States.

Total estimated receipts from U. S. by rest of Sterling Area, February through April 1942 .............................................. $90

   This figure is probably on the high side.

C. Unidentifiable receipts of the Sterling Area .................................... 15

   This is a residual item, based on the rate at which the British have been losing gold and dollars during recent months. It may represent in part capital inflow and in part such items as gifts and profits of British firms receiving dollars for exports from the United States to third countries.
Total estimated dollar receipts of Sterling Area, of a recurrent nature, February through April 1942 .............. $170

Estimated dollar deficit of Sterling Area on current account, February through April 1942 ..................... $240
APPENDIX D

PROBABLE DOLLAR RECEIPTS OF THE STERLING AREA FROM THE SALE OF AUSTRALIAN WOOL FOR STOCKPILE

Up to the middle of February 581 thousand bales of Australian stockpile wool had been received in the United States, and 65 thousand bales were then afloat. The value of this wool, both that here and afloat, is approximately $90.4 million.

The purchase agreement between the United States and the United Kingdom has not yet been signed, although agreement has been reached on price and most terms. Consequently, the British may be expected shortly to receive this $90.4 million.

The purchase agreement runs to April 30 and will probably be extended. During this period additional quantities of stockpile wool will be shipped from Australia and the dollar receipts of the sterling area will correspondingly increase. It has been estimated that some 150 thousand bales, worth £11.7 million may be shipped between now and April 30.

Return shipping from Australia is now plentiful, and, because of the limited supplies of high grade wool available, there is a danger that some ships may come in ballast. Accordingly the British have requested, and the W.F.B. has recommended, that the United States agree to accept some wool of lower grades. If this is done, some 200-250 thousand bales of second grade wool, worth £14 million, may be imported for combined stockpile and commercial use.

All of the above amounts are in addition to normal commercial imports.
APPENDIX E

HISTORY OF THE R.F.C. LOAN

On July 21, 1941 the Reconstruction Finance Corporation announced that it had authorized a fifteen year loan of $425 million to the United Kingdom. Collateral for the loan was to be provided by British-owned securities worth $205 million and direct investments worth $295 million. The earnings of these assets together with the earnings of the United States branches of British insurance companies whose net assets were worth $200 million, were to be assigned to the R.F.C. to amortize the loan. The loan was to bear interest at 3/4, and it was expected that the earnings of the assets would be sufficient to repay the loan in fifteen years.

The following disbursements have been made:

1. August 1  $100 million against $145 million of assets
2. September 22 25 million against 30 million of assets
3. October 1  75 million against 100 million of assets
4. October 23 100 million against 125 million of assets
5. December 2  50 million against 50 million of assets

Total  $350 million against $450 million of assets

There remains $75 million due, of which $10 million will be held permanently by the R.F.C. as a part of the sinking fund, and there remains $50 million of securities still to be deposited.
APPENDIX G

ARMY AND NAVY ESTIMATES OF DOLLAR EXPENDITURES FOR
AND BY AMERICAN ARMED FORCES IN THE STERLING AREA IN 1942

(In millions)

<table>
<thead>
<tr>
<th></th>
<th>Pay</th>
<th>Pay</th>
<th>Supplies and Materials</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>177</td>
<td>389</td>
<td>116</td>
<td>682</td>
</tr>
<tr>
<td>Navy</td>
<td>25</td>
<td>22</td>
<td>18</td>
<td>66</td>
</tr>
<tr>
<td>Total</td>
<td>202</td>
<td>412</td>
<td>134</td>
<td>748</td>
</tr>
</tbody>
</table>

Of the total of $748 million estimated by the Army and Navy for 1942, $134 million is for supplies and materials that may be obtained without dollar payments as part compensation for our Lend-Lease assistance. There remains, however, $614 million for military and civilian pay which, according to the Army, will presumably be paid in dollars, unless other arrangements are made.

(a) The $177 million for military pay of the Army excludes all troop savings and allotments to dependents. The same is probably true of the Navy's estimate of $25 million. Therefore, most of the $202 million will probably be spent in the Sterling area and the only offset will be the amount that those areas will have to spend upon imports from the United States to provide the quantity or type of goods the troops will buy. (Also some of the soldiers' pay will be spent on items imported from the United States by company canteens.) No data are available with which to distribute the annual total over the year, but, since American troops are only beginning to arrive in many of the areas, the quarterly breakdown for the year may be approximately as follows:
1st quarter  15 million 
2nd quarter  30 million 
3rd quarter  50 million 
4th quarter  102 million 

(b) The estimate of $412 million for civilian pay includes mostly the pay of Sterling area construction workers. Since the workers are local residents there should be only small off-sets to this expenditure for increased imports from the United States outside Lend-Lease.

Construction of many of these bases is well under way, and, consequently, large rates of expenditure on civilian pay will be much more rapidly reached. The quarterly distribution may be approximately as follows:

1st quarter  60 million 
2nd quarter  100 million 
3rd quarter  125 million 
4th quarter  127 million 

$412 million

At present the civilian pay is being made with dollars (or with sterling purchased with dollars). To what extent this will continue to be the practice we do not yet know. However, any change that may be decided upon will probably not come into effect before April 1, and possibly not before May 1. It would be conservative, therefore, to allow $40 million as an estimate of dollar receipts of the British Treasury on this item from February 1 to May 1, 1942.

(c) The $134 million of supplies and materials consists mostly of construction materials and foods bought from civilian contractors. While many of these supplies may be provided without dollar expenditure, it will be some time before these arrangements are established.
Consequently, as much as $20 million may be paid in dollars during the next three months, although some of the dollar payments may be offset by increased exports from the United States.

In summary, we believe the following is a conservative estimate of the dollar receipts that the British Treasury may obtain on account of expenditures for and by American armed forces abroad during the three months from February 1 to May 1, 1942:

1) From expenditures for military pay $20 million
2) For civilian pay 40 million
3) For supplies and materials 20 million

Deduct $10 million for increased imports not under Lend-Lease 10 million

Total $70 million

During the remainder of the year the expenditures for military pay will provide dollar receipts for the British Treasury of at least $150 million, and if civilian pay and supplies and services are not to be provided as part compensation for our Lend-Lease assistance, nearly $500 million more would have to be added to this.
### APPENDIX H

#### GOLD PRODUCTION OF STERLING AREA COUNTRIES (thousands of dollars)

#### 1941

Estimated, major countries estimated from Federal Reserve Bulletin figures

<table>
<thead>
<tr>
<th>Country</th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Guiana</td>
<td>1,347</td>
<td>1,155</td>
<td>1,150</td>
</tr>
<tr>
<td>Benin</td>
<td>602</td>
<td>572</td>
<td></td>
</tr>
<tr>
<td>Belgian Congo</td>
<td>17,312</td>
<td>19,180</td>
<td>18,000</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>27,379</td>
<td>30,833</td>
<td>31,200</td>
</tr>
<tr>
<td>Nigeria</td>
<td>896</td>
<td>897</td>
<td>900</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>1,178</td>
<td>1,144</td>
<td>1,150</td>
</tr>
<tr>
<td>Cameroon</td>
<td>543</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Egypt</td>
<td>136</td>
<td>257</td>
<td>200</td>
</tr>
<tr>
<td>Eritrea</td>
<td>1,125</td>
<td>1,100</td>
<td>1,100</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>563</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>French Equatorial Africa</td>
<td>1,401</td>
<td>1,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Kenya Colony</td>
<td>2,711</td>
<td>2,704</td>
<td>2,700</td>
</tr>
<tr>
<td>Northern Rhodesia</td>
<td>163</td>
<td>163</td>
<td>1/</td>
</tr>
<tr>
<td>Southern Rhodesia</td>
<td>27,846</td>
<td>28,927</td>
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<td>Southwest Africa</td>
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<td>52</td>
<td>50</td>
</tr>
<tr>
<td>Sudan</td>
<td>263</td>
<td>231</td>
<td>250</td>
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<tr>
<td>Swaziland</td>
<td>34</td>
<td>37</td>
<td>1/</td>
</tr>
<tr>
<td>Tanganyikr</td>
<td>4,563</td>
<td>4,973</td>
<td>4,900</td>
</tr>
<tr>
<td>Union of South Africa</td>
<td>443,753</td>
<td>491,321</td>
<td>509,900</td>
</tr>
<tr>
<td>Uganda</td>
<td>468</td>
<td>387</td>
<td>400</td>
</tr>
</tbody>
</table>

**Total**: 628,076 676,144 678,150

### I. Countries outside the war zone

<table>
<thead>
<tr>
<th>Country</th>
<th>1939</th>
<th>1940</th>
<th>1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>6,263</td>
<td>6,498</td>
<td>6,300</td>
</tr>
<tr>
<td>Australia</td>
<td>57,599</td>
<td>57,575</td>
<td>50,200</td>
</tr>
<tr>
<td>India</td>
<td>11,078</td>
<td>10,127</td>
<td>9,900</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td>662,700</td>
</tr>
<tr>
<td>Fiji</td>
<td>3,850</td>
<td>3,897</td>
<td>3,800</td>
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<tr>
<td>New Guinea</td>
<td>8,617</td>
<td>8,777</td>
<td>3,700</td>
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<tr>
<td>Papua</td>
<td>1,289</td>
<td>1,225</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td>676,400</td>
</tr>
<tr>
<td>British Malaya</td>
<td>1,441</td>
<td>1,278</td>
<td>1,300</td>
</tr>
<tr>
<td>Sarawak</td>
<td>604</td>
<td>434</td>
<td>450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>628,076</td>
<td>676,144</td>
<td>678,150</td>
</tr>
</tbody>
</table>

*1/ Included with other countries.*
Dollar Expenditures

A. Payments to U. S. by U. K.

1. Payments on British Purchasing Mission
   - commitments - net $345

   This figure is $15 million higher than the February 1 forecast of the British Purchasing Mission for the period May through December 1942. Their forecast was raised by this amount on the assumption that the lag in deliveries of British Purchasing Mission contracts at the close of the current year will be no greater than it was on February 1, 1942, when the latest forecast of payments was made. The magnitude involved in the lag will diminish in view of the fact that British contracts are now running out and most of them will expire before the close of this year.

   According to a recent British memorandum submitted to the U. S. Treasury, the above figure apparently includes payments due on contracts which the U. S. Government has agreed to take over from the British, but which so far as we can ascertain have not yet been transferred. If this is the case and if these contracts are taken over by the U. S. Government,
the amount owed by the British on British Purchasing Mission commitments, as of February 1, 1942, is about $115 million less than their forecast of that date, which was used in arriving at the above estimate for the eight-month period, May through December 1942.

In addition to the $320 million falling due on British Purchasing Mission contracts, May through December 1942, $11.7 million falls due on these contracts after the close of 1942 and $81.2 million is owed to the French by the British as reimbursements on French contracts taken over in June 1941. Payment of this latter amount, as well as $6.2 million due on British contracts after the close of 1942, is doubtful according to British authorities.

The British contemplate placing $6 million of additional contracts, May through September 1942.

2. U. K. payments to U. S. for other merchandise imports
   outside Lend-Lease .................................................. $ 80

   This is based on the British estimate for the current three-month period. The figure includes urgently needed defense articles for which the British elect to spend dollars rather than requisition through Lend-Lease. (For a more complete discussion of this estimate, see Appendix C, item A-2)

3. U. K. payments to U. S. for services ................................ 70

   This figure includes $40 million for interest payments and film royalties and $30 million for shipping disbursements.
The first figure is the British estimate carried forward. The figure for shipping is two-thirds lower than the level assumed in the British estimate for the current three-month period. The British estimate has been reduced on the expectation that, because of the recent liberalization of Lend-Lease procedure, a far larger portion of dollar costs incurred on account of British shipping will be paid for out of Lend-Lease funds than the British assumed. Our estimate of $30 million for the eight months, May through December 1942, assumes a level of expenditure closer to the British estimate submitted to us in September and November 1941, than does the British figure for the current three months.

4. All other U. K. payments to U. S. .................. $55

This is the British estimate for the current three months carried forward to cover the eight-month period, May through December 1942. These payments are for urgent or "ineligible" goods and services. The Treasury has little information concerning them. (See Appendix C, item A-4, pp. 5-6.)

Total estimated payments to U. S. by U. K., May through December 1942 ...................... $550

If the British Purchasing Mission contracts referred to in the second paragraph on page 1 are included in the British forecast of payments and if these contracts are taken over by the U. S. Government, actual expenditures during this period will be lower than the above estimate by as much as $100 million.
8. Payments to U. S. by other Sterling Area

1. Payments to U. S. by rest of Sterling Area for merchandise imports

This figure is 50 percent below the level of the British estimate for the current three-month period. It assumes that practically all exports from the United States to Australia, New Zealand, British India and Ceylon will be placed under Lend-Lease procedure, as well as a sizable proportion of our exports to the Union of South Africa. (See Appendix C, item B-1, pp. 6-7.)

We have been informed by Lend-Lease authorities that they are expanding Lend-Lease procedure to cover all United States exports of defense articles to British Pacific and Asiatic areas. Nevertheless, these countries are still expending dollars for urgently-needed war supplies.

During the first eleven months of 1941, exports from the United States to these British countries were at a rate of $32 million per month, or $260 million for an eight-month period, as follows: Australia, $57 million; New Zealand, $18 million; British India and Ceylon, $65 million; and the Union of South Africa, $120 million.

During the same period, U. S. exports to other British Empire countries, outside the United Kingdom and still under British control, were running at a monthly rate of $17.5 million, or $140 million for an eight-month period. This brings the eight-month total of U. S. exports to British countries, outside the United Kingdom and still under British control, to $400 million.
2. Payments to U. S. by rest of Sterling Area for services

This figure assumes payments by the Sterling Area to the United States of $20 million for interest and dividends and $30 million for shipping. This estimate of $30 million for shipping is only half as high as the level of the British estimate for the current three months; their figure has been reduced to allow for the probable inclusion of a substantial portion of shipping expenditures under Lend-Lease. Even so, we believe the figure of $30 million to be high in view of the recent policy decision of the Lend-Lease Administration to accept as eligible for Lend-Lease procedure practically all shipping disbursements of British countries. Although our estimate assumes a lower level of dollar expenditures than the British forecast for the current three months, it assumes a higher rate than their earlier estimates.

Total estimated payments to U. S. by rest of Sterling Area, May through December 1942

The figure seems rather high, as indicated above, in view of the recent expansion of Lend-Lease procedure.

C. Payments by Sterling Area outside U. S. requiring gold or dollars

This is the British estimate for the current three months carried forward. Of this amount $40 million is for the purchase of American-owned oil and $25 million for other purposes, including dollar payments for Bolivian tin. The estimate for
purchases of oil from United States-owned sources seems liberal, in view of the acute shortage of tankers and inasmuch as Lend-Lease Administration is now accepting as eligible for Lend-Lease procedure all oil from dollar sources used directly or indirectly in the war effort, regardless of place of purchase.

Total estimated dollar expenditures of the Sterling Area,
May through December 1942

We believe this figure overstates the actual dollar expenditures which the British will make during this eight-month period. But our preference is to overestimate rather than underestimate their dollar outlay.

Dollar Receipts on Current Account

A. Receipts from U. S. by U. K.
1. U. K. receipts from U. S. for merchandise exports
   $65

   This is the British estimate for the current three months carried forward. Although, on the one hand, further concentration of resources on the war effort will tend to reduce the export capacity of the United Kingdom, on the other hand, there will be a strong incentive to use cargo space of ships on their return voyage to the United States. The above figure allows for shipments of only $8 million per month.
2. U. K. receipts from U. S. for services
   $50

   This figure includes $10 million for interest and $40 million for shipping services. The estimate for interest is
4.5 million lower than the level of the recent British forecast. The British figure seems high in view of the large proportion of their pre-war investments in the United States which has been sold or pledged against the R.P.C. loan.

(See Appendix C, item A-2, p. 10.)

3. All other U. K. receipts from U. S. .................. $ 50

This is based on the British estimate for the period, February through April 1942. We do not know what the British include in this figure.

Total estimated U. K. receipts from U. S., May through December 1942 ................................ $165

8. Receipts from U. S. by rest of Sterling Area

1. Receipts from U. S. by rest of Sterling Area for merchandise exports ........................................... 100

This estimate is based on the assumption that ordinary commercial trade between the United States and British areas in the South Pacific and Southern Asia will be brought to a virtual halt by the close of April 1942. If trade with only Ceylon and British India is cut off, while sea lanes to Australia and New Zealand are kept open and the ability of these two countries to export remains undiminished, the above estimate of U. S. merchandise imports from Sterling Area countries, other than the United Kingdom, should be about $40 million higher, or a total of $140 million. If Ceylon and British India also remain under British control and trade is not severed with any of these four countries by reason of war
developments, the estimate for the last eight months of the current year should be $215 million.

The figure of $100 million is conservative. We have used it because we wish to underestimate rather than overestimate British dollar receipts.

2. Receipts from U. S. by rest of Sterling Area for services ........................................ $25

This is the recent British estimate projected forward until the close of 1942.

Total estimated receipts from U. S. by rest of Sterling Area, May through December 1942 .................................................. $125

This estimate of dollar receipts of Sterling Area countries, other than United Kingdom, is conservative.

C. Unidentifiable dollar receipts of the Sterling Area

The British in their estimate of dollar expenditures and receipts for the three-month period, February through April 1942, placed their unidentifiable receipts at $5 million per month. Their estimate of this residual item was based on the rate at which they have recently been losing gold and dollars. Since we have no clear conception of what the item covers, and since in projecting their latest estimates forward to the close of the year we made adjustments according to the information at hand, and since, further, we prefer to be conservative in our estimates of their dollar receipts, we have not allowed anything for this residual item in our tabulation.
Total estimated dollar receipts of Sterling Area, of a recurrent nature, May through December 1942

This estimate assumes the cessation of U. S. import trade with Ceylon, British India, Australia, and New Zealand after April 1942. Total dollar receipts of the Sterling Area on current account are expected to be $40 million higher if trade continues, at current levels, with Australia and New Zealand, but not with Ceylon and British India. They are expected to be $115 million more than the above estimate, or a total of $405 million, if trade continues with all four areas. The above figure does not include any receipts from the export of newly-mined gold.

Estimated dollar deficit of Sterling Area on current account, May through December 1942

This figure assumes that by the close of April 1942 practically all U. S. exports to Ceylon, British India, Australia and New Zealand will have been placed under Lend-Lease procedure and that U. S. imports from these countries will have virtually ceased.

On the assumption that imports from Australia and New Zealand continue at recent levels, the dollar deficit, during this eight-month period, would be at least $240 million lower, or $435 million.

On the assumption that imports continue at the current rate from Ceylon and British India, as well as Australia and New Zealand, the expected dollar deficit for the eight-month period,
May through December 1942, would be reduced a further $75 million, or to $360 million.

This expected deficit does not allow for the export of newly-mined gold from the Sterling Area. If production continues at current levels, about $400 million of gold will be mined in Sterling Area countries outside the war zones during the eight-month period, May through December 1942. (The figure of $400 million does not include the gold production of British Oceania, British India, and British Malaya.)
March 17, 1942

Dear Congressman Tolan:

Thank you for your letter of March 12, 1942 and the copy of your Committee’s Third Interim Report.

I congratulate you on the fine work you are doing.

Very truly yours,

(Signed) R. Morgenthau, Jr.

Secretary of the Treasury.

Honorable John H. Tolan,
House of Representatives,
Washington, D. C.

EHF:mdm
3/16/42

[Signature]
March 12, 1942

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Department of the Treasury
Washington, D. C.

My dear Mr. Morgenthau:

Enclosed you will find a copy of the Committee's Third Interim Report which I am sending in the belief that you will be interested in the recommendations we are making to Congress.

With all good wishes, I am

Sincerely,

John H. Tolan
Chairman

Enclosure
March 12, 1942

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Secretary of the Treasury
Department of the Treasury
Washington, D. C.

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Chairman

Enclosure
NATIONAL DEFENSE MIGRATION

THIRD INTERIM REPORT

OF THE

SELECT COMMITTEE INVESTIGATING

NATIONAL DEFENSE MIGRATION

HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

Pursuant to

H. Res. 113

A Resolution to Inquire Further Into the Inter-State Migration of Citizens, Emphasizing the Present and Potential Consequences of the Migration Caused by the National Defense Program

On the Need for a Single Procurement Agency

To Effect All-Out War Production and

Achieve Full Use of Labor Supply

MARCH 9, 1942
NATIONAL DEFENSE MIGRATION

THIRD INTERIM REPORT

OF THE
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MARCH 9, 1942

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

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NATIONAL DEFENSE MIGRATION

MARCH 9, 1942—Ordered to be printed

Mr. Tolan, from the Select Committee Investigating National Defense Migration, submitted the following

THIRD INTERIM REPORT

[ Pursuant to H. Res. 113, 77th Cong., 1st sess.]

The select committee of five Members of the House, appointed pursuant to House Resolution No. 63 and continued pursuant to House Resolution No. 113, to inquire further into the interstate migration of citizens, emphasizing the present and potential consequences of the migration caused by the national-defense program, submits its third interim report, a study looking to a better coordination of the Nation's war procurement problem and its effect on industrial and farm migration.

INTRODUCTION AND RECOMMENDATIONS

In discharging the obligation of the committee under its resolution to study national defense migration, it has proven necessary that we study the causes of this migration. It is required of the committee that we present to Congress the reason why this migration has been unplanned and unnecessary in many of its phases, creating community distress and hardships for these migrants. Poorly planned production in the war effort has been the primary cause of the unplanned and unnecessary migration up to the present time. This has led to an unparalleled waste of manpower and of plant resources. Therefore, this committee in its second interim report and, once again, in its third interim report, has been forced to deal with the necessary steps for the full utilization of our productive capacity and manpower. The second interim report dealt primarily with the conversion of durable consumer goods industries. This report deals with procurement, insofar as this subject relates to the war production and the subsequent planning of the use of our manpower. This third interim report should be read in conjunction with our second interim report, to which it constitutes an up-to-the-minute supplement.

It must be understood that wasteful migration is an integral part of the general waste of our manpower accompanying the failure to plan for the full use of our facilities. This is directly reflected in the haphazard, piecemeal procurement procedures employed to this date.

At the outset of our hearings on defense migration we learned of large-scale fruitless migration to the airfields and shipbuilding plants on the Pacific coast. This was a waste of manpower. At later hearings on the East coast and in the Middle West we learned of wholesale migration of industrial manpower to great production centers oper-
ated by the companies which received the majority of the defense contracts, leaving behind stranded communities and darkened plants.

This, the third interim report of the committee, appears two and a half months after this country's declaration of war. The testimony upon which this report is based was taken on November 24, 1941, in Hastings, Neb., on November 25 in Omaha, on November 26 and 27 in St. Louis, and on December 22 and 23 in Washington, D. C. It brings up to date matters treated in the second interim report, which was published 11 weeks ago, and which was based on hearings held during September in Detroit, Mich., and during October in Washington, D. C.

It remains the opinion of this committee, 3 months after the outbreak of hostilities, that we Americans—our leaders in military and civilian life as well as the general public—must apply ourselves to the common effort with a new understanding of the meaning of this war, a new realization of the urgency of our position. Failure to organize the domestic front for the battle of production has already been translated directly into serious delays for our own armed forces.

These set-backs are traceable to our inability thus far to comprehend the nature and scale of modern warfare, and the lengths to which our enemies had gone in preparing themselves. There has been no lack of speeches exhorting the American people to the utmost effort. What has been lacking is an understanding of the characteristics evolved by other nations, both friend and enemy, in the course of their adjustment to this war.

Manpower in the fighting forces is not enough. Courage is not enough. The potentialities inherent in peace-time industries are not enough. Only by a far-reaching realignment of the factories and their equipment, of the workers and their skills, of the managerial forces and their "know how," of the Government and its executive powers—only through such a realignment can we hope to get the job done—and done in time.

Japan went on a war footing in 1931; Germany in 1933; Italy in 1935. Each of these powers at once set about preparing itself for the utmost production of military supplies of which it was capable. Great stock piles were accumulated, frequently with materials provided by this country. Facilities were built for the manufacture of substitutes for critical materials. Civilian industries were curtailed. Capacity to produce raw materials was expanded. Since the attack on Poland in September 1939, the Continent of Europe has been overrun and its productive capacity converted to the use of the conqueror.

Each of the Axis triumvirates has destroyed free enterprise by subordinating all life to military necessity. This is anathema to the American people. Attempts to impose it upon us would destroy our present capacity for waging war. Steadfast in our adherence to the American way of life, but confronted at the same time by such a combination of foes, we must ask: How can we, in our democratic tradition, so organize our Nation as to oust our enemies? How can we supply ourselves and our allies with the essentials of war in such tremendous amounts as are now required?

During the first World War we encountered much the same need for temporary reorganization of our economy. We did not achieve it overnight, and we went through several partial failures during the process. We won that war, and we emerged with our liberties intact.

But if the last World War required a considerable temporary reorganization, this new conflict, with enemy nations whose economies have for years been dedicated to war, makes far more extensive demands upon us.

Germany, long one of the leading producers of iron, steel, alloy metals, chemicals, and fuels, has become by her recent conquests an even more formidable rival. Moreover, by 9 years of reorganization she has converted her entire production to war. Her industry, like ours, first tried to divide the productive task between small and large concerns so as to concentrate all war business in firms rated competitively most efficient. By trial and error this procedure proved a failure, for two reasons: First, many medium-sized and small businesses were threatened with disaster as essential supplies were withdrawn; and second and more important, the resulting output fell far short of the needs of war.

In the months just before she invaded Poland, Germany developed a comprehensive plan for pooling her productive facilities, and especially her metal-working capacity.

All attempts in America to carry out such a comprehensive use of capacity must be surrounded with safeguards for our way of life. For the last 18 months we in America have had to deal with a situation that endangers our way of life, and we have yet to solve this problem; growing numbers of our communities and their factories are losing their workers through unemployment and migration.

The difficulties affecting these communities themselves are important, but the broad, underlying situation which they reflect is far more serious. We find ourselves with growing unemployment in communities equipped for working metals into modern machinery. Our enemies are operating along the inner line, and even our defensive operations to hold them in check require deploying our forces around the world. For such warfare we shall need not merely to equal the output of our enemies, but to surpass that output by three or four times.

It is clear that to date we have not even begun to equal their output. To this committee it is apparent that if we follow prevailing procedures we shall not achieve the goals set by the President for 1942 or 1943. These procedures have been tried during 18 months, when our goals were far smaller, and were even then found wanting.

There are two current misconceptions of which our people and some of our leaders must be disabused. The first of these is the belief that to appropriate is to produce. The second is the belief that a mere reappointing of the personnel of the war-production agencies, and especially of those serving for nominal pay or without compensation, would maximize output. Changes of personnel in war agencies are prerequisite, as we can learn from previous experience. But such changes alone are not enough. These should occur within the framework of a program which has yet to be enunciated by those in charge of war production.

The heart of our problem is procurement. Those who determine procurement procedures determine the course of the war effort. To date authority over procurement operations has been divided, and output has suffered. The latest Executive order has not changed this situation fundamentally. It has merely juggled the weight of authority.
PRODUCTION GOALS AND THE WAR PRODUCTION BOARD

On January 8 the President, in his message to Congress on the state of the Union, set the Nation's war-production goals for the years 1942 and 1943. On January 16 the President issued an Executive order establishing the War Production Board and appointed Donald M. Nelson as its chairman. On January 20 Mr. Nelson made public the structure of the new Board.

The President set the victory production goals of 60,000 planes, 45,000 tanks, 20,000 antiaircraft guns, and 8,000,000 tons of shipping for the calendar year 1942; and 125,000 planes, 75,000 tanks, 35,000 antiaircraft guns, and 10,000,000 tons of shipping for 1943.

These goals were not even remotely possible under the existing procurement and production procedures. It required, the President stated, the use in the war effort of America's entire industrial plant.

Our task is hard—our task is unprecedented—and the time is short. We must strain every existing armament-producing facility to the utmost. We must convert every available plant and tool to war production. That means the way from the greatest plants to the smallest—from the huge automobile industry to the village machine shop.

When, a few days later, the President took formal steps to reorganize procurement and production planning, centralization of responsibility and authority was effected by vesting in the chairman of a newly created War Production Board the general direction of the procurement and production program. This step placed authority in the hands of an individual who had expressed determination to achieve all-out production. It failed, however, to set up a single centralized procurement agency.

Centralization of authority, and paper delineation of the task, in themselves give no assurance that the goals will be met, that tanks and planes and guns will roll off the assembly lines on specified dates. The Office of Production Management was given a mandate and responsibility virtually the same as that of the new War Production Board. At no time was it hampered by lack of authority. It is a matter of committee record that the O. P. M. did not recognize the urgency of the drastic conversion of the automobile industry or the need for direct measures to ensure the fullest participation of small plants in war production.

Production will be accelerated within the coming months by the completion of a number of new armament plants and by the partial conversion of the consumer durable goods industries. The American people cannot be satisfied, however, with routine production increases which fall short of the goals set. The test they will—and should—apply is whether we have achieved the maximum use of men and machines at the earliest possible date.

The basic reorganization of our war-production agencies by centralization of procurement in a civilian board has not yet been accomplished. Only by such reorganization can full mobilization of the production front be effected. The War Production Board, if limited by present procurement organization and procedures, can do no more than plan for the best possible way of using each particular industrial resource. Any attempt to superimpose inventory accounts and analyses of facility utilization upon the existing procurement apparatus and procedures would be, at best, a paper operation which calls attention to mistakes after they are made. Such procedures are no substitute for centralized procurement and production plan-

PRODUCTION REQUIREMENTS FOR TOTAL WAR

In order to bring into war use every producing facility at our command, we must first centralize the work of procurement in a single agency. Business as usual must be abandoned for the duration. The production of nonessential civilian goods must be curtailed. The economic mechanisms which determine the volume and character of production in peace must be superseded where necessary by plans of a military character. The responsibility and authority for procurement is now exercised by separate procurement agencies, and until the readjustment extends to this end of the job, all other changes must fall short of success.

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Mr. B. M. Baruch, chairman of the World War Industries Board, has written, "Modern war is a death grapple between peoples and economic systems rather than conflict of armies alone. In this "death grapple" there is no limit to the Nation's need for armaments. Every weapon which can be produced in time is needed. To paraphrase a great general, we must get there first with the most tanks and planes.

If, then, our fighting forces need unlimited quantities of arms as quickly as possible, our industrial and manpower capacities must necessarily be used to their utmost. With an unlimited demand for armament and a limited supply of raw materials, manpower, and fabricating facilities, the tendency of all prices and wages will be upward. In the "death grapple" of total war the National Government becomes the only valid customer. If the satisfaction of this unlimited demand were left to the prevailing market mechanisms, prices and wages would soar; the Government would be penalized; all markets would be disrupted in their operations, and there would appear the practices of hoarding of material to obtain a higher price, refusal to use plant capacity except upon the owner's terms, and many other restrictions on production in order to obtain greater returns. But this would be intolerable. The Nation at war cannot be thus jerry-rigged.

Facing the "death grapple" with the enemy, the Nation must, according to Mr. Baruch, replace the law of supply and demand with war administrative control. This centralized administrative control must encompass every phase of the economic system. In a total war, no resource is unessential. A study of past and current war econom
mies and the present course of our own war effort reveals the ever-
expanding and ever-tightening control. Mr. G. B. Clarkson, Director
of the Council of National Defense in the World War, has said that
the War Production Board must “become the virtual general staff of
the civil life of the country as applied to war industries.” It is
supreme in materials, facilities, finance, transportation, and man-
power. It is, in a democracy, a centralized authority established by
the necessity of war and by common consent. Its aim is to organize
the economy into a total coordinated, mobile whole.1

Mr. Baruch, in his Taking the Profit Out of War, has specified
five necessary steps to be undertaken by the National Government.
The first is “elimination of waste, loss, and unnecessary accumula-
tion through frantic competition by all procurement agencies, which
elimination is achieved by rigorous control and coordination of them
and the funneling of all demand through one central control agency.”
We call attention to the phrase “funneling of all demand through one
central control agency.” This has not yet been achieved in our cur-
rent war effort.

Mr. Baruch’s other necessary steps are the rationing and allocation
of materials, conservation of materials by all possible methods, devel-

dopment of substitutes and discoveries of new sources of supply.2 Mr.
Baruch recognizes, in his second step, the fact that the civilian popu-
lation must forego the luxury elements of its previous standard of
living. By the logic of total war, if our opponent converts civilian
goods industries in order to increase his supply of armaments, we must
do likewise. Our opponents have done exactly that. And thus, there
is no phase of our economic life which can be unessential in total war.
Every phase must be planned, must be guided, must be brought under
straightforward control.

Total war requires that our vast economic system be operated along
the organizational lines of a single industrial plant. Under con-

ditions of maximum war production, everyday market relationships
virtually disappear. Considerations of supply and demand, price,
investment returns, and costs in their usual sense obstruct the ef-

cient conversion of the economy to war production, and wherever
they stand in the way of victory they must be invalidated. These
mechanisms work in time of peace by responding to the independent
action of many individual industrial plants, of buyers and sellers, in
a variety of markets. They are designed to facilitate the peacetime
operation of our economy as a system of competitive free enterprise
and not as a single war plant.

Discussions have been initiated looking to the organization of the
facilities and resources of the United States as the main contributor
to a single arsenal for the United Nations. Such operation must be
based on an over-all inventory of our physical resources—men,
machines, and raw materials. They must follow comprehensive plans
based on analysis of previous failures and a chart determined
by a central authority. These master plans are an essential feature.

Of course, every detail of production cannot be handled by a single
War Production Board operating in Washington. The committee
has heard the operation of the national war plant likened to that of a
multifaceted corporation: There is planning and control in a single
central office, and general directives are given to the individual plants.
These in turn make their own detailed plans by departments.

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1 G. B. Clarkson, Industrial Armies in the World War.
2 B. M. Baruch, Taking the Profit Out of War, p. 35.
Procurement Organization Required for Incorporating Smaller Plants Into War Production

The inadequacies of our procurement procedure and personnel are probably shown most clearly in our inability to make use of the facilities of small and medium-sized plants. One production expert testified that the group of plants has a potential contribution to war production of 150 million man-hours per week. This means that full utilization of the smaller plant facilities would about double the present human and mechanical effort devoted to the production of war goods.
plants often were first surveyed by themselves, then by outside engineering firms; and then by successive procurement agencies. There was no agency with the authority and responsibility of providing work to any company which offered its facilities.

While small businesses were trying to secure war contracts by publicizing their facilities, certain large companies adopted a policy of purchasing or endeavoring to purchase the critical machines which constitute the stock in trade of the small plants. If war orders were properly distributed among these smaller companies, production backlogs could be reduced and the strain on machine-tool production would be relieved. One production expert has estimated that small plants possess at least 700,000 machine tools which could be used for war production.

Where small businesses did obtain war contracts, the committee found that they were often unable to secure necessary materials despite the fact that these contracts commanded high priority ratings. In the absence of key business connections and bargaining power, the small companies were compelled to turn to a large number of manufacturers to secure the necessary raw materials. A small manufacturer in need of a small quantity of raw materials often had to make a greater number of contacts and to wait a longer time than a large corporation, even though the smaller company may have had a higher priority rating. Such difficulties were not the result merely of material shortages; they existed with respect to the purchase of steel, where over half the supply was still available for nonmilitary purposes.

The requirements of total war production dictate that the usual competitive method of individual purchase be abandoned, and that the purchases of all small companies in a given region be channeled through the regional war production board which would obtain necessary materials, either directly from the producing companies or through the war production boards of the raw material industries.

Many of the procedures and mechanisms required in the mobilization of small plants for war activity were advanced by the Defense Coordinating Group. The Division had developed a considerable field staff and a large number of field offices in the belief that the arrangements for the participation of small business would have to be made locally. It was charged with a great deal of responsibility, both with respect to small plants and with respect to conversion generally. But even in these fields of war production where it did advance workable proposals, the Division made very little headway because it had no authority. It had no independent procurement powers. No agency which seeks to mobilize small plants can do so successfully unless it is part of the procurement machinery and has procurement authority. For the full mobilization of the smaller plants there should be only one procurement authority for each area.

Organization Required for Conversion of Large Plants to War Production

In the automobile industry the $4,000,000,000 of war contracts let prior to January 6, 1942, had resulted in conversion to war production of only 5 to 10 percent of the passenger car manufacturing facilities. On January 6, 1942, the allocation of $5,000,000,000 of additional contracts was begun by the haphazard auctioning procedure which is described in section C of this report. This item-by-item and company-by-company procedure inevitably left each automobile company in competition with the others for labor supply and machine tools. New was competition for new facilities eradicated. Hence, while this competition persists, there is still no guarantee that conversion will proceed at the maximum rate. Conversion in the automobile industry is crucial for the war effort, not only because this industry controls approximately one-third of the metal-working capacity of the country but also because its planned conversion is required in order to utilize the facilities of many small and medium-size plants outside the industry which could undertake subcontract work for it.

It is essential that for each major war industry there be a war production board to insure the best utilization of the industry's facilities in accordance with the national production plan. Such industry war production boards should be directly under the supervision of the National War Production Board and their activities should be coordinated with one another and with the regional programs previously described. These directing such a system should be responsible for pooling of the technical resources of the entire industry in such manner as to achieve maximum efficiency in the use of patents, designs, and engineering resources. Standardization of products and operating methods should be undertaken with a view to increasing productivity. The War Production Board should also undertake to increase production by means of more extensive subcontracting in cooperation with the regional boards. In the case of industries engaged in the production of essential raw materials, such as iron and steel, copper and aluminum, the industry war production board should plan the necessary plant expansions. The direction of plant expansion which is now dispersed among several agencies should be centralized under the National War Production Board. The National War Production Board in turn would make allocations and delegate responsibility to particular industry or regional war production boards.

The planning and supervisory activities of the National War Production Board also must necessarily embrace the civilian goods industries.

When a nation goes really all out for war, the regulation of its civilian goods industries is as much a part of the picture as the stimulation of its war goods industries. We have learned, to our cost, that the heat of war talk neither hardens the gung-ho resolve nor clears the business mind. The extraordinary demands at one end of our production list, scientific control must be brought into play all down the line. In all convertible civilian industries, whether partially or completely converted to armament manufacture, production must be supervised to insure the conversion of a maximum amount of machine facilities to armament manufacture (within quotas set for essential civilian production for partially converted industries). Essential civilian production should be concentrated within certain plants to be operated at full capacity. The industry war production boards in these cases should supervise the operation of the nuclear plants as well as whatever pooling of the remaining facilities is necessary in order to achieve rapid conversion.

Quotas of both military and civilian goods must be worked out for each industry. These quotas should be based upon the nature of the
industry—its convertability to war production and the importance of its products in the maintenance of civilian health and morale. Such quotas have already been set for a few industries. Industries whose facilities are convertible to war production and whose products may be dispensed with partly or altogether should thus be turned over in large degree to war production, or, if unadaptable to such use, will be curtailed or discontinued for the duration and the labor force shifted elsewhere. It should not be assumed, however, that every industry engaged in civilian goods production need be curtailed. Expansion of the total number of workers engaged in production, drawing into the labor market millions of additional workers, may dictate the expansion of production in some civilian industries. But so urgent and so varied are the needs of total war—even the civilian needs—that with proper direction and coordination it seems highly unlikely that a good use cannot be found for most of our facilities whether they are directly convertible to the military or not. Every effort must be made to assure that the civilian working population be fed, clothed, and housed well enough to at least maintain physical well-being. While war requires that a large portion of the population secure less essential goods, it dictates that millions of families who have been ill-clothed, ill-fed, and ill-housed be provided with an adequate amount of the required commodities, so that they can make their full contribution to the common effort.

Once production quotas have been set, the administrative machinery for allocating raw materials should be such as to maintain a uniform flow of raw materials, not only for war production but also for civilian production. Under our present priorities system the one has too often been in conflict with the other. Misdirected armament production has jeopardized the necessary minimum of certain supplies of civilian goods, and insistence on continued civilian production has held back the output of necessary munitions of war.

Individual industries vary widely in the degree to which pooling of machinery and plant facilities and joint plans for labor supply are necessary or feasible. These differences depend on the allocation of production, the adequacy of labor supply, and the technical problems of production, and more particularly those of conversion. All these factors have a bearing on the type of pooling arrangements, both of labor and of machinery, which must be made. For example, the conversion of the auto industry: long overdue, will depend on the pooling not only of critical tooling facilities, but also of the basic production equipment. In order to increase war production at an early date, the major automobile assembly plants converted to tank, airplane, and anti-aircraft production should have equal access to all feeder plants in the industry.

A detailed plan for the operation of the automobile industry as a single industrial pool under a labor and management war production board headed by a Government officer was suggested to the committee. This plan is described in section E of this report. Objections have been raised to it on the grounds that joint planning and pooling of facilities is not the normal method of industrial operation. But again, such comments only reflect a failure to understand the meaning and requirements of total war. Normal mechanisms of the competitive economy are not enough when we have an abnormal world-wide situation to meet, and when our failure to meet it means the end of all normality.

A single administrator for the auto industry has been appointed; but the pooling of facilities of the major companies is still to be undertaken. Without this, and without any change in procurement procedures, the mobilization war demands on the automobile industry will not have been met.

A number of the recent limitation orders issued by the War Production Board with respect to civilian production have actually set monthly quotas substantially above the production peaks of last year. The order permitted an increase of 34 percent over last year's production of medium and heavy trucks. Another order permitted an increase in the production of refrigerators over last year's high output, while a third allowed for a three-point increase of automotive replacement parts for the first six months of 1942 as compared with the record output levels of 1941. These orders are being promulgated with the intention of accumulating a substantial stock pile of civilian goods and then converting the entire industry to war production. But such methods actually divert our resources to the production of civilian goods not needed at this time and postpone the conversion of these same industries to necessary war production.

The above orders show that as long as these industries are not operated with the advantages of pooling, and as long as the concentration of civilian production within a few nucleus plants is not adopted, the conversion of civilian industries will fall short of answering our war needs. For the pooling of the facilities of entire industries and the establishment of nucleus plants for necessary civilian production makes possible the immediate conversion of a large amount of facilities which otherwise are not available.

**War Production and Utilization of Labor Supply**

Training, transfer, and other aspects of labor supply must be directly integrated with war production planning. Testimony summarized in section A and section B shows that large numbers of workers are becoming disemployed and that many will be faced with extended periods of unemployment. National interest requires that these disemployed workers be reemployed as quickly as possible in the production of military equipment. In the interim period Federal assistance must be extended to these workers.

Labor supply problems are being treated apart from production problems. During peacetime a substantial reserve of labor generally exists and production decisions are made by individual companies and corporations on the assumption that there will be a sufficient labor supply to meet production demands. Labor supply problems are treated as residual to production problems. Although requirements by types of skills are constantly changing due to changes in technology and the composition of industries, yet these changes are gradual enough to permit ready adjustment by industry in general and more particularly by individual companies.

Under all-out production, complete utilization of labor supply, active and latent, becomes the prime objective. If our production goal for 1942 is to be fulfilled, it will require the contribution of every worker. Extensive changes in types of skill required and the need for preparing large numbers of people who must be drawn into the labor market will require an extensive training program. Many of
the 12,000,000 workers who will be added to the war production for 1942 will have to be trained or retrained. Success here underlines success in the utilization of equipment. In many localities shortages of certain categories of skilled labor are stated to be a bottleneck to expansion of war production. Under such conditions every decision with respect to the use and training of labor force has a direct bearing on production. Every decision respecting production requires certain decisions with respect to labor utilization. Efficient planning of war production thus requires efficient planning of the use of labor supply. Indeed, labor supply conditions should be an important element in determining allocation of contracts.

The War Production Board should include in every conversion program whether of industrial or regional character, the retraining and transfer of every important contract, a plan for labor supply recruiting, retraining, and transfer. Training thus becomes not merely a condition for receiving the special grants now being considered, but is assurance to the worker that he can look forward to a job when he is trained. In the case of the automobile industry, for example, the produced conversion program should include a schedule of labor requirements, month by month, by types of labor, and in relation to the existing labor supply. On the basis of this schedule and the inventory of existing labor supply, a training and transfer program should be initiated.

Reorganization of existing programs relating to labor supply is needed. The committee was informed by representatives of the Governor of Michigan that training and labor supply programs were being hampered by the fact that at present there are often in single communities several organizations dealing with these problems, with overlapping jurisdiction and responsibilities. The recent nationalization of the employment service can provide the appropriate agency for administering policies in pursuance of a planned labor supply program. This organization must be closely integrated with the over-all War Production Board. For every industry and for every locality there must be but one agency responsible for labor supply. Without centralization of authority, there cannot be centralization of responsibility.

Under conditions of all-out war production, where every decision with respect to production depends on labor supply, and where every decision in the field of labor supply ultimately conditions production, there is both a duty and need for labor to participate in the planning of the war-production program. Every industry-production board should be headed by a paid Government official. Provision should be made to receive the outstanding contributions of both management and labor on production planning. The production board would embody the cooperative activity of these two elements in order to insure the greatest unity of effort in production. Representatives of labor and management, acting jointly, will insure a maximum of cooperation and compliance with the decisions of the board on the part of both labor and management organizations.

This need for the participation of labor and management in production planning and implementation exists also on a national scale. The single civilian board of the Federal Government, which should be responsible for both procurement and production planning, should be representative of the unity of management and labor on the production front. Such a board would make possible direct contributions from industry and labor to the planning of war production at the highest possible level; and it would also provide the board with the most direct contacts so as to achieve full cooperation of the important elements of production.

Labor and management can and must also serve the added function of promoting an increase in industrial efficiency as yet unknown in this country. The lines of battle extend into every machine shop. If Hitler is to be defeated, America must, first of all, defeat him on the production front. If this is a war of beaches and lakes, it is not sufficient that we have over-all planning and organization so that every worker and machine serve their place on the production front. There must be generated the greatest enthusiasm and initiative of every individual worker and employer so that production can be expanded to the utmost.

**Summary of Recommendations**

The committee reaffirms its previous recommendations on full utilization of American industrial capacity and labor supply in the war effort. The committee wishes to emphasize that the centralization of responsibility and authority in a single civilian agency, without the centralization of procurement, will not meet the production requirements of total war. The committee therefore urges the nationalization of all procurement activities in a single agency under a national war production board.

It has been answered before this committee that unless the military forces themselves allocate production to the industrial facilities of this country, the weapons of war manufactured in these plants will not function properly. It is the committee’s view that the representatives of our armed forces are especially qualified to state the requirements of the military services for equipment and supplies; they are heavily burdened with this undertaking and with their far-flung obligations for supplies may lend their abilities and using this material for training and combat purposes. We must make it possible for these representatives of the military forces to turn over their designs to a single agency for procurement and production. Such an agency can then mobilize the entire resources of the Nation to produce the maximum quantity of those armaments in the shortest possible time. This procedure will not only permit a more efficient utilization of America’s superior industrial resources, but will also permit the armed forces to concentrate on their job of winning the war.

On the basis of its investigation of production problems, both of small and large plants, the committee finds that the appropriate methods for decentralizing the operations of the proposed single production and procurement agency should be by regions and industries.

To its recommendations for a centralized procurement and production planning board, the committee would add the recommendation that this board include representatives of labor and management, and its Government head should be an individual, such as the present chairman of the War Production Board, who enjoys the full confidence of both. The central procurement and production agency should also establish subsidiary boards of similar composition on a regional and industrial basis.
The committee believes that successful mobilization of our forces will depend not only on the adoption of suitable production and procurement organization but also on personnel who recognize the urgency of use of every idle or convertible industrial facility and of every man in the war effort. The committee would recommend that no individual be placed on a war production board, national, regional, or industrial, or be given a responsible function within it, who has not demonstrated a full recognition of the urgency of use of every national facility and a will to adopt whatever methods are required to achieve this use.

We conclude that in order to prevent unnecessary migration, waste of much needed available manpower, and costly congestion of populations, with its attendant shortages of community facilities, the operations of the War Production Board need further revision. This revision in the procurement procedures will centralize them in one agency, and simultaneously decentralize the actual operations on a regional and industrial basis. It is our studied opinion that by this means alone can we retain our present strength of community life in many smaller cities and towns, preserve the great majority of our smaller businesses and industries, and make the best use of our labor supply during our all-out war effort.

We reprint below (see pp. 18A-18C) our previous recommendations in our second interim report. We stress below the need for a centralized procurement agency. This was in our opinion the most serious omission from the explicit statement establishing the War Production Board; we believe, however, that the power to centralize procurement is implicit in the order. It will be observed that many of the recommendations made in our second interim report are paralleled by provisions in the subsequent Executive order establishing the War Production Board.

In this third interim report, which both supplements and complements the above recommendations, we have stressed especially the problems of procurement. We do so because it is our opinion that the small businesses, the small communities, the one-industry towns, and the workers who make up our labor supply cannot be fully enlisted in the war effort without a revision of procurement procedures which will simultaneously centralize control over procurement in one agency and decentralize the functioning divisions so that they may reach down to the grass roots, which must be tapped for all-out production.

There are certain considerations which we wish particularly to stress in connection with the full utilization of all businesses, except the very largest, which are already participating heavily in the distribution of contracts. These considerations are as follows:

1. Contracts must be let as close as possible to the point of production if smaller business is to do its share. This means the creation of regional boards charged with the maximum of local autonomy and responsibility consonant with final authority at the center.

2. In order to utilize the small businesses of America to the fullest extent, and in the places where they are now located, the Government should specify what parts and materials shall be subcontracted for by the prime contractors. At the present time most prime contractors are subcontracting only those things which are found to be costly and difficult for them to manufacture. As an illustration, if a small, very simply equipped factory within a few hundred miles of an airplane factory could make braces or other small parts of an airplane, the Government should direct that work should be given to the small plant. The large plant with its laboratories, its skilled technicians, its precision equipment, and all other facilities should be used on those things which are difficult to manufacture and not wasted upon the simple things that can be farmed out elsewhere. The committee has previously gone on record as favoring the method known as exploding. This method has not been put into practice to any substantial scale. We feel that the foregoing suggestion as to compulsory subcontracting would bring about a measure of the same benefits to the small concern as would the exploding technique.

3. The negotiated contract should be further employed in order to incorporate small factories in the war activity. This is especially necessary in the first few orders that a small concern may obtain. Small plants just cannot secure war work under the present competitive bidding system. The result is that larger concerns that should be utilized for more difficult jobs are making things that should be made by the small concerns.

The small concern, without full-time accountants, auditors, tax experts, Washington agents or lobbyists, and other aids, cannot compete with those concerns that do have these advantages. However, with some help on the part of the Government in the way of direction and guidance they can make these articles at a cost to the larger concerns. Under the present system they are wasting a great deal of time and money attempting to bid and are securing no business, thus being unable to render the war program any material assistance.

4. The committee commends such efforts in organizing manufacturers' pools among small businessmen. In the interior of the country as they have been undertaken to date by the War Production Board and its predecessor agencies. These operations should be extended to reach all available factories that may be able to contribute to the war effort.

5. The committee recommends that the Government employ production engineers to go from plant to plant among small manufacturers to help them get started in producing war goods. These engineers should operate out of the offices of the regional boards discussed above. After having full knowledge of all articles needed, they could, upon inspection of a plant, suggest what a particular plant could best make, and how its work might be dovetailed with that of other plants in the region or the industry of which it was a part. They should provide the plant with specifications and models, allow them a short time to try their hand at producing such articles. If the firm is successful, they should then and there negotiate a contract for the manufacture of the said articles at a standard price. This same service could be extended to the manufacturers' pools that have been created.

The committee believes that by this means countless manufacturing facilities can make a direct contribution to the war effort.
This will employ people where they are, in their own home towns, thereby relieving the congested centers, eliminating the necessity for building new plants, and the necessity of using scarce materials for new machinery.

ADDITIONAL VIEWS OF HON. C. A. T. CURTIS

This report, as well as our previous reports, represents the general opinion of the entire committee arrived at by a give-and-take method. It cannot be said that each sentence is a correct statement of the complete views of each individual member. However, in addition to this latitude of interpretation that should be granted, I find it necessary to further express myself in reference to the recommendations in this report that labor as well as management take part in our war-production planning.

Aside from what might be said about labor and labor leaders in this crisis, I wish to point out that labor leadership is not qualified to speak on the decentralization of the war effort or on small businesses. Organized labor does not know the intricate problems of rural areas. They do not represent the unorganized workers who are employed in our small towns and villages. These have no knowledge of the operation of small plants employing only a few workers at the crossroads.

The opinion of some labor leaders disqualifies them as war-production planners because of their restricted, sectional, and class views. For instance, our hearings will show that certain labor leaders in the Detroit area opposed war factories at Chicago because of the alleged reason that there were no mechanisms in that great city. Those same witnesses derided the idea of locating war industries in the cornfields of Iowa or in the sticks in Kansas.

This is entirely a question of whether or not a group is qualified to plan in a field where it has no experience. It is not my purpose to pit group against group, but merely to point out that no group should be assigned the task of planning in a field in which it is inexperienced.

(Note.—While this report was in press a number of changes in procurement and war production were announced. These include: (1) A request by Donald Nelson, Chairman of the War Production Board, for the establishment of joint management-labor production committees for war plants; (2) the substitution of negotiated contracts for competitive bidding; (3) the consolidation of the several separate procurement divisions of the War Department under two divisions—one for the Air Corps and the other for the War Department. The first step is along the lines recommended in this report. The committee's recommendations, however, emphasize the need for management-labor production committees directly attached and participating in the operations of the proposed single civilian procurement agency. This participation, according to the committee's recommendations, should be at all levels of operation, including the national, industrial, and regional as well as the plant level. The partial consolidation of procurement activities within the War Department, while it may result in an improvement of the procurement activities of the War Department, is far removed from the fundamental procurement reorganization which this committee believes essential to allow war production and converting consumer-goods industries to war production to be instituted.

The committee recommends that—

1. A single civilian board of the Federal Government be charged with full responsibility for procurement and for planning war production and the production of essential civilian needs.

A. Complete schedules of military requirements shall be submitted to the board by the Army, Navy, Maritime Commission, and lend-lease authorities.

B. The board shall develop a comprehensive plan for meeting these requirements at the earliest possible date in the order of their urgency.

2. A special technical division manned by a staff skilled in engineering and in production be organized under the board.

A. This division shall compile and maintain an up-to-date complete inventory of industrial facilities, the supply of critical materials, and the supply of labor. Continuous, vigilant investigation of all hidden and surplus stocks of raw materials should be rigorously pursued.

B. Contracts shall be let on the basis of the findings by this division.

C. This division shall make a continuous check on the progress of war work in industrial establishments to insure maximum operation.

3. Regional offices be established directly under the board to execute its policies and plans on a regional basis where necessary and practicable.

A. These offices shall possess and furnish at all times full information as to the inventory of material and labor and war work contracted and to be contracted. Thus, the American people will have close to their homes all necessary information that may be available in Washington. These offices shall have full authority to negotiate contracts to the end that small firms may participate in war production.

II. UTILIZATION OF AMERICA'S INDUSTRIAL CAPACITY

The committee recommends that—

1. In accordance with a policy of full use of existing industrial capacity, a systematic plan of putting to work all idle capacity and converting consumer-goods industries to war production be instituted.

A. Under this plan, the largest facilities should be immediately converted; medium- and small-sized plants be successively converted.
B. Meanwhile, in order to protect small business, existing allocation procedure should be geared into this conversion plan by graduating supplies of raw materials for civilian production sharply in favor of small- and medium-sized companies.

2. In accordance with the previous recommendation and in order to maximize immediate war production no additional new plants or new tools for fabricating and assembly of war products be planned until existing convertible facilities suitable for this work shall be fully utilized.

3. A more forceful and comprehensive policy of plant expansion be followed with respect to critical raw materials such as aluminum, copper, steel, etc., whose supply limits, or is expected to limit, war production.

4. Action with respect to conversion and plant expansion shall be immediately undertaken by the centralized board, and the subordinate regional offices advocated in recommendation I.

A. The basis for these actions shall be the determinations of the technical division advocated in recommendation I.

III. PARTICIPATION OF SMALL- AND MEDIUM-SIZED COMPANIES IN THE WAR EFFORT

The committee recommends that—

1. The regional offices advocated in recommendation I act as clearing houses for small- and medium-sized companies both with respect to information and the actual letting of prime contracts and subcontracts. In this way small companies will have within reasonable distance a Government agency which not only can give them full information but will be able to make full arrangements for their participation in the war effort including the negotiation of contracts.

2. There be further expansion of subcontracting, of pooling devices, and other methods of incorporating small producers into the war program.

3. The technique of “exploding”, where major war products are subdivided into their components and these manufactured separately, should be pursued as far as possible. In this way, these major war products can be produced by a large number of small- and medium-sized establishments.

IV. REVIEW OF EXISTING CONTRACTS

The committee recommends that—

1. Every contract whose completion date extends beyond June 30, 1942, and that every contract greater than $500,000 be immediately reviewed. This review should evaluate the extent to which contracts can be expedited through more intensive conversion of existing facilities, through subcontracting and through use of second, third, and fourth shifts as large as the first.

2. If the contractor, upon review, refuses to take the necessary steps to accelerate production, the contract should be abrogated in whole or in part.

3. Furthermore, upon the completion of the plan of maximum war production described in recommendation I, all contracts which do not appear to be geared to the plan should be reviewed and equitable adjustment made in all cases where the contractor is unable to take the necessary steps to conform to the plan.

V. TRANSFER OF LABOR TO WAR WORK

The committee recommends that:

1. The reemployment of the unemployed and the transfer of workers from nonmilitary to war work be an integral part of the planning of production.

A. The transfer of displaced workers shall be planned in advance and not after the fact of unemployment.

B. The first prerequisite for such planning is the complete inventory of available labor supply as advocated in recommendation I, 2-A, on planning of defense production and procurement.

2. The responsibility for execution as well as planning shall be with the central and regional boards advocated in recommendation I.

3. The established procedures of collective bargaining should be employed wherever possible. The committee notes with approval the transfer agreement reached by the leading automobile companies and the United Automobile Workers of America.

4. The full influence of the Government be exercised in promoting and executing agreements by employers holding war contracts to absorb displaced workers without discrimination or delay.

VI. ALLEVIATION OF UNEMPLOYMENT AND TRAINING OF THE UNEMPLOYED FOR WAR PRODUCTION

The committee recommends:

1. The development of a national program of training and transfer of workers to war production. This program should be integrated with the production plan described in recommendation I.

Certification for training and transfer should be without regard to residence or means test.

It seems to the committee that the existing facilities of the Work Projects Administration should be completely converted for this war purpose.

2. The size of unemployment compensation benefit payments be increased and their duration extended to 26 weeks.1

1 See original report (House Report 168) for dissent by Hon. Carl T. Curtis and amendment by Hon. Frank C. Matthews, Jr.
SECTION A.—FAILURE TO USE CAPACITY OF SMALL AND MEDIUM-SIZED PLANTS FOR WAR PRODUCTION

INTRODUCTION

Appearing before the committee late in November, Mr. Peter R. Nebenski presented data showing that contracts for war production had been channeled through a few large companies. The hundred companies listed in the table below held more than four-fifths of the total contracts let. The first 10 alone held two-fifths of the total; the first 30 held two-thirds.

Proportion of total volume of supply contracts awarded

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<tr>
<td>10</td>
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<tr>
<td>30</td>
<td>67</td>
</tr>
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<td>100</td>
<td>83</td>
</tr>
</tbody>
</table>

One Hundred Corporations or Independent Companies Holding Greatest Amount of War and Navy Department Supply Contracts, Listed in Order of Amount of Contracts Awarded, June 1940 Through September 1941

Bethlehem Steel Corporation. Curtis-Wright Corporation.
General Motors Corporation.
Consolidated Aircraft Corporation.
Martin, Glenn L., Co.
Douglas Aircraft Co., Inc.
Boeing Airplane Co.
New York Shipbuilding Corporation.
United Aircraft Corporation.
Newport News Shipbuilding & Dry Dock Co.
Lockheed Aircraft Corporation.
United States Steel Corporation.
E. L. de Nemours & Co.
North American Aviation, Inc.
General Electric Co.
Seattle-Tacoma Shipbuilding Co.
Chrysler Corporation.
Beth Iron Works Corporation.
Western Cartridge Co.
Sperry Corporation.
Aviation Corporation.
Ford Motor Co.
Bell Aircraft Corporation.
Electric Boat Co.
Bendix Aviation Corporation.
Cranp Shipbuilding Co.
American Car & Foundry Co.
Baldwin Locomotive Works.
Consolidated Steel Corporation, Ltd.
Beach Aircraft Corporation.
American Locomotive Co.

Los Angeles Shipbuilding & Dry Dock Corporation.
Grumman Aircraft Engineering Corporation.
American Woolen Co., Inc.
Continental Motors Corporation.
Westinghouse Electric & Manufacturing Co.
Republic Aviation Corporation.
Western Electric Co.
Packard Motor Car Co.
Tampa Shipbuilding Co., Inc.
White Motor Co.
Diamond T Motor Car Co., Inc.
Standard Oil Co. of New Jersey.
Inghals Shipbuilding Corporation.
Studebaker Corporation.
Anaconda Copper Mining Co.
Gulf Shipbuilding Corporation.
Savage Arms Corporation.
Moore Drydock Co.
Atlas Powder Co.
Phoenix Securities Corporation.
Crucible Steel Co. of America.
Colt's Patent Fire Arms Manufacturing Co.
Fairbanks, Morse & Co.
Empire Securities, Inc.
Hercules Powder Co., Inc.
Northern Pump Co.
Firestone Tire & Rubber Co.
Armas Corporation.

1 Special assistant in the Division of Contract Distribution, Office of Production Management, represented Mr. Floyd B. O'Donnell, head of the Division.

2 H. L. Lewis hearings, exhibit 7, pt. 25, pp. 962-963.
Mr. Nehemkis testified that by August 1941:

Of the 184,000 establishments reported in the Census of Manufacturers of 1929, the 662 concerns which have received either prime or subcontract contracts represent only 3 percent of the category of potential manufacturing capacity.

A tabulation prepared in December 1941 showed that as of that date the number of companies with war-production contracts had risen to approximately 10,000, out of a total of 184,000 establishments in the mid-century, of the number were still operating at less than capacity. The failure to achieve capacity production was more pronounced among the small companies. It was also true of many of the large corporations which had been given a considerable share of the war orders. In the case of these larger companies, the bulk of their production work will be done in new plants, many still under construction, and their existing idle or convertible facilities are not yet employed.

Of the 174,000 companies which had not received war production contracts some have engaged in production for war purposes by supplying parts or doing small job lots for other manufacturers. In all but a few cases, however, they have been able to employ only a small percentage of their capacity in this way. Small companies which have been denied war production contracts are being forced out of production altogether by restrictions on the use of critical materials. These companies are being excluded from production despite their efforts to participate in the war effort. The evidence shows that as a result of inadequate production planning and procurement, many communities throughout the Nation are faced with economic deterioration and disintegration. Tens of thousands of small businesses are being forced to shut down. Pools of unemployed are gathering throughout the country. Haphazard migration of these unemployed has already begun.

Business firms are being forced to shut down. Pools of unemployment are gathering throughout the country. Haphazard migration of these unemployed has already begun.

EFFECTS OF AN INDUSTRIAL POOL OF SMALL MANUFACTURERS TO SECURE WAR CONTRACTS

The poor distribution of war contracts cannot be laid at the door of small companies or communities. As a matter of fact, the efforts and ingenuity manifest in the various attempts described below of all types of companies and communities to secure war contracts confirm the committee's belief that they are completely competent to engage in war production. The limiting of contracts to large and so-called experienced firms is the result of an entirely faulty procurement machinery.

One of the methods of achieving participation of small firms in war production is through community pools. Several small companies undertake jointly to fulfill a prime contract when individually no one of them could undertake that responsibility. This committee has previously reported on the advantages of this type of organization. According to the testimony of Mr. Nehemkis, representing the Contract Division of the Office of Production Management, 100 such pools have already been organized, and at the time of Mr. Nehemkis' testimony, 14 of these had actually obtained contracts for war production. He reported that in addition there were 116 instances of attempts to organize industrial pools.

Of the pools now organized, only one out of seven has succeeded in obtaining contracts for war production. Testimony of Mr. Lou Holland concerning the Mid-Central Defense Industries, Inc., and his efforts to secure work for small business illustrated the almost insurmountable difficulties which have been put in the way of small businesses. His testimony also substantiated the claim that small businesses are capable of making a real contribution to war production once they are given contracts.

The organization of the Mid-Central Associated Defense Industries was described as follows:

Mr. Curtis. Will you describe for the committee the functions of the Mid-Central Associated Defense Industries, Inc.?

Mr. Holland. It is an outgrowth of the Mid-Central War Resources Board, of which I am president. That board was a fact-finding organization. We made a survey of the State of Kansas and western Missouri. We have the records of 143 cities and towns in there and we know the type of work that these towns can do. After an intensive study and after repeated trips to Washington I became firmly convinced that these small communities had no place in the defense picture under the present set-up. The Mid-Central Associated Defense Industries, Inc., is an organization which I set up, composed of 16 small concerns that could handle a contract in its entirety if given an opportunity.

Mr. Curtis. Have you received any contracts yet?

Mr. Holland. Yes, we have received a contract from the Navy for barge sights to the extent of $268,000, and I have spread it out over 16 of the member shops.

The CHAIRMAN. Do you know whether your plan has been adopted in any other plants in the United States?

Mr. Holland. I don't think it has been adopted by other plants in exactly the same way. There is, of course, the York plan. And there are some others where they have a big corporation that acts as a mother ship, we might say, and takes in the smaller ones to do some of the work that they didn't do in their

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1 Statement of Peter B. Nehemkis, Jr., St. Louis hearings, pt. 2, pp. 801-806.
Mr. Holland. They might fit in very well. I think England has gone through that. About a month ago, I had the pleasure of lunching with George Thompson who is one of the heads of the British labor movement. I talked with him and William Green in Washington, and asked Mr. Thompson that very question. He said, "It has been our experience in the first place that we didn't need the tolerance that our engineers were calling for. But we have been surprised at the way these small plants could follow a tolerance if given an opportunity." I think the best answer to that is that the boys in the Midwest have been repairing tractors and old Ford cars and that sort of stuff, and they have not been compelled to come down to two thousandths, but if given a gage they soon get the feel and they can use it.

Mr. Holland. As you may know, this committee has taken the position that it is absolutely necessary to bring the small machine shops into the defense program in the production which this country needs for defense work. The committee therefore wishes to see labor dislocations and unnecessary migration held to a minimum. Have you specific recommendations to help accomplish these objectives?

Mr. Holland. Yes, and I made a suggestion to the Defense Commission on December 17 of last year. At about Christmas time they came up with a recommendation for the contract service. I had a long talk with Mr. Mehornay at that time, and I begged him to set up a plan that would use the men and their machines in the contracts where they were, and not disturb the economic condition of those communities. I talked with Mr. Dubin about it. Mr. Dubin said that my plan was very sound. I talked with Mr. Cook and he said it was very sound. I talked with Mr. Army and Navy about it, and I was told by them that the regulations would not allow them to use an organization like that. And one "brass hat" in the Army informed me that "these farmers out there couldn't work to our tolerances." I think it is thoroughly practical to distribute this work out among these shops. I think that they already have the organization that could handle it. I think Mr. Odum should be given the power through his contract distribution office to place the whole contract instead of begging these fellows to subcontract. As it is now, the subcontracts are put on something he has never seen before, there is no time allowance for educational work; the low bidder gets the contract and stands a good chance of losing money on the job. I don't care how complicated the machine is, if you take it apart and you put one piece in this room and scatter it all over and look at the pieces individually, it necessitates a complete package of machinery. It is only complicated when all these parts are put together and the machine functions as an integral whole. Many of these fellows can make these parts just as well as anybody can, and I suggested that to Mr. Mehornay.

Mr. Curtis. You mean to carry this out along the line of authorizing someone to go to these places and negotiate a contract fitted to the plant and the equipment and the labor supply that they have there?

Mr. Holland. Yes, sir. For instance, the Ordnance Department of the Army has had now in the field for years making surveys of plants. The Contract Service has made a survey. The Navy has made a survey. All they could do until now is to go in and ask to see that man's equipment and list it, and catalog it. They could advise him that Pontiac or somebody else has a job and that he should write to them to see if they want to work out a part of it to him. We would save a lot of time and effort and get some place if what I suggest were done. Most of the contractors know their business and what is required. He could work to a plant and build a part of it, and he would say, "I don't know, I think I can." And he would say, "We will find out what you can do. Let us see you make 1 or 2 and find out your cost and how we could work here. We need 10,000 units of this part."
NATIONAL DEFENSE COMMISSION,
Washington, D. C.

CIRCULAR: Many large manufacturing plants are being built in the United States as factories for the production of arms which the Government urgently needs in its extensive national defense program. Still more of these large plants will have to be built in the near future if the program is to succeed. Generally speaking, each of these extensive plants is being built with a single purpose in mind. By this, I mean that each of the plants is being built to manufacture some special item necessary to the rearming of our Army and Navy. These plants will generate large numbers of workers. Many of them are being built where the housing of these workers presents a problem which will probably only be met by building new housing facilities.

It is not possible to determine a certain percentage of the national defense work can be done by a well-organized utilization of existing plants, as the plants are not being permitted participation in the program, because of their inability to make complete the items necessary in this emergency.

The Mid-Central War Resources Board of Kansas City started last July to obtain information on the various manufacturing plants in our area. Knowing the shortage of machine tools, we have assembled facts as to location, availability, machine power, etc., to determine the possibilities of retraining the smaller plants to complete the work. To do this work has not only to be done by contract but by the plants. This arrangement was designed to meet the need for immediate production of essential equipment. Already, several hundred were being built daily by these small plants, machine equipment and skilled workers are being transferred from wholesale defense work to this emergency. These plants are free to do this work in their own communities.

In our opinion, a practical way of immediate utilization of both machine and manpower in these small plants could be to set up a local coordinating agency to handle details of contract and assembly, and to the cooperating plants the parts of the completed parts to be delivered to the coordinating agency for assembly and delivery.

This arrangement carries the defense program to the smaller towns and factories. It gives employment to idle men and idle machinery. There is no housing problem concerned—immediate production will result. There is no waiting on machine tools or plant construction and when the defense program is over, the economic structure is not as disturbed as if all the plants were to be taken over by the Government.

The Mid-Central War Resources Board is now working with the smaller plants in the area to develop plans for the most efficient utilization of this emergency, and to ensure that the smaller plants can continue to operate in the future.
owes 10 shares of stock, no more, no less, and 16 of these concerns will participate in this order. The work is going forward in fine shape and I am firmly convinced that the work turned out by this combination of shops will be entirely satisfactory.

Mr. Holland's experience shows the need for proper planning for war production. His statement emphasizes both the productive contribution of small business and the prevention of the incidental problems of migration such as shortages in housing and community facilities that would be made possible by fuller participation of small plants in the war effort.

America prides itself on its ingenuity and its great productive resources. Yet Mr. Holland shows that we are failing to make use of either.

Mr. Holland. I talked with Mason Britton, Chief of the Machine Tool Department of O. P. M. Mason told me that 5 years ago the volume of machine tools manufactured in this country was worth $29,000,000; that last year there were $66,000,000 worth; and this year it will be $80,000,000 worth. And I asked why. He said: "We have get to have them." I said: "We have thousands of machine tools that are idle. Why not use them?" He answered: "They are old machine tools. We have to have new machines." Now they found in England that they didn't have to have new machines. They used these plants where they were and the small plant in England is indispensable. First they tried lifting the machines from the plants and putting them in one big plant, and they found they were building targets for Hitler, so they devised a plan of using the machines where they were and having a truck go around and pick up the parts, to be delivered to the central base. I was in the plant of one of the leading machine-tool manufacturers in this country. He has orders on his books that will carry him for years, and I spent about 4 hours there. I asked man how many of his orders were for general-purpose machines and what percent were for single-purpose machines. By a single-purpose machine I mean for instance a huge machine built for drilling an airplane crankcase. By all-purpose machines I mean one like a lathe or a drill press or a gear cutter or something like that. So I said: "How many of your orders are for single-purpose machines?" He said: "Less than 5 percent." I asked: "Then over 95 percent of your orders are for all-purpose machines?" He said: "That is correct." So it appears that we have tied up these machine-tool industries and we are tying up our steel and we are making new machine to replace machines that are already in existence.

Two additional points brought out by Mr. Holland were:

(1) The difficulties imposed on small companies in securing defense work by the bidding procedure.

(2) The difficulties which confront small businesses in securing raw materials even though they are engaged in war production and have high priority ratings for their material requirements.

Mr. Curtis. What has been your experience in relation to your ability to bid on items offered by the Procurement Division of the Army and the Navy? Have you sent a variety of items within the range of your resources?

Mr. Holland. I might explain that this way. If you would study the Government Advertisement that comes out every Thursday—I receive it on Thursday, because I pay for it in some air mail—and you look down the list, you will find invitations to bid, numbers of them in every class. The bids must be opened in 3 or 10 days from the time you receive those advertisements. It is impossible to send to Washington and get the blueprints and bid intelligently on a job and have it done in the time allotted.

Mr. Curtis. That has been the story that we have heard throughout the entire Middle West.

Mr. Holland. It can't be done. I might elaborate on that just a moment, if you care to hear it. Shortly after the corporation came to an end I received notice from the Bureau of Supplies and Accounts that they were going to ask for bids for bore sights. I didn't know what a bore sight was, but I sent for the blueprint and after looking the blueprint over I saw that it was something that our combination of industries could make just as well as anybody could. However, I don't think there is a single plant west of the Mississippi River that could have handled this particular job. Not one plant. We had about 30 days on that. 8 days, before the bids were to be opened. We worked solid for 8 days and on Saturday I took 5 men at my house who worked from 10 o'clock in the morning until 12:30 in the afternoon, and on Monday night, I took a plane for Washington, because the bids opened at 10 o'clock Tuesday morning. That shows how closely we are working on that particular job to get in.

Mr. Curtis. If you had broken the proverbial shoestring you would never have made it.

Mr. Holland. Never in the world. * * *

Mr. Curtis. Will you be able to meet the delivery schedule under your contract with the Navy?

Mr. Holland. We will more than be able to meet it if we can obtain the materials. We are just now getting materials, though we have had the contract since September 2.

Mr. Curtis. Does the delay occur in securing priorities or in getting delivery after you get a rating?

Mr. Holland. We got a priority rating A-1-B which came with the order. Just last week, we obtained the aluminum on the order. Some 2 weeks ago we got some of the steel. We have not secured the brass yet.

Mr. Curtis. When did you make this contract with the Navy?

Mr. Holland. We opened on August 13, as I remember it, and we were notified on September 2 that we had been awarded the contract.

Geographical and Industrial Incidence of Dislocations

Testimony based on reports up to December 1, 1941, from representative companies which have been forced to curtail production shows that hundreds of communities in more than half the States of the Union have been affected by priority lay-offs and shut-downs.

In all, more than 625 communities in 39 States had reported lay-offs by December 1. Those ranged from the big cities to small single-industry towns. In large cities like Chicago, New York, Dayton, Toledo, and Trenton, the lay-offs are small compared to the total of industrial wage earners but are large in numbers. In addition to delays, because of skill factors, in the transfer of workers from contracting to expanding industries, the larger centers are also experiencing especially heavy displacement among white-collar workers engaged in merchandising durable consumer goods.

Many small industrial centers are extremely hard hit. Up to December 1, in at least 48 areas throughout the country, workers had been laid off, or were scheduled to be laid off, in numbers equal to 25 percent or more of the average manufacturing wage earners employed in those areas during 1940. Most of these 48 areas are located in the States of Indiana, Wisconsin, Michigan, and Indiana, which—unlike the exception of Michigan—have received less than their proportionate share of prime war-supply contracts. For the most part, they are small industrial cities producing consumers' durable goods, which have received little, if any, war work. But the list also includes larger cities such as Detroit, Pontiac, and Scranton. Some show promise of eventually absorbing the displaced workers in war production while in others absorption is unlikely.

Detailed data on labor displacement submitted by the Bureau of Employment Security of the Social Security Board showed that during the month of November alone employment was curtailed in—

758 manufacturing plants employing 643,000 workers scattered throughout 39 States. Annual layoffs in these firms are estimated to approximate 49,300. Anticipated lay-offs are expected to amount to 124,000 workers. Actual plus anticipated lay-offs for these firms represent more than a fourth of their employment prior to initiating lay-offs.*
The geographic distribution of these lay-offs was as follows:

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<th>State</th>
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It is important to note that this survey covered only a portion of the companies which have had to reduce their employment. The reports collected by the Bureau of Employment Security did not attempt to cover the smallest plants, those with fewer than 50 workers which, as a group, account for more than half of all manufacturing plants. It is probable that the coverage given in this survey to the smallest plants which it does include, is not as complete as that given establishments in larger brackets. An analysis of these 735 firms by size of firm is given in the accompanying table.²

<table>
<thead>
<tr>
<th>Number of firms reporting reductions of hours, lay-offs, or anticipated lay-offs, by size of firm, by State¹</th>
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² Omaha hearings, pt. 21, p. 6172.
³ Omaha hearings, pt. 21, p. 6172.

Significantly, most of these lay-offs took place in the metalworking industries. These as a group have high conversion possibilities to war production when compared with other war-affected industries, such as silk, for example, which underwent sharp curtailment of operations in the months of August and September, and rubber. Plants in the latter industry are laying off large numbers of workers at the present time.

The most important reason for these lay-offs appears to be lack of metal and metal products. About 250 of the firms visited indicated that they had laid off workers due to such shortages, and 369 firms, which undoubtedly included many of the plants in which lay-offs had already occurred, indicated that they anticipated laying off workers because of these materials. Next in importance among the reasons for these lay-offs were the limitation orders restricting production in several industries which consume vital materials and services needed by defense manufacturers. These orders, of course, arise out of the lack of materials. Up to the present time, limitation orders have been issued restricting the output of automobilia, washing and ironing equipment, silk goods, refrigerators, metal furniture, and various copper products. Deficient supplies of chemicals and lack of certain textile yarns and goods rank next in importance as reasons for curtailment of employment, with delayed delivery of equipment and machinery least frequently cited.

The geographical and industrial coverage given in this survey was as follows:

The area which appears to be hardest hit by these shortages is the Great Lakes and Ohio Valley region, particularly the States of Ohio, Michigan, Illinois, Indiana, and Wisconsin. In this region are concentrated many plants producing goods affected by limitation orders or which use vital defense materials. In Michigan the industries affected most are the automobile, parts, and accessories industries; in Indiana and Ohio, automobiles, electric refrigerators, domestic laundry equipment, and other household appliances; in Illinois, stoves and heating equipment and electrical machinery, including radios, refrigerators, and parts; and in Wisconsin, aluminum goods, rubber goods, and brass. In the South, textile firms, manufacturers of stoves, and small metal consumers are reported to be laying off workers because of the lack of certain materials. In New England, a wide variety of industries, most of which are small scale, are reported to be laying off workers; throughout the area, hardware and brass firms that are not produc-
In addition to collecting and analyzing data from individual plants reporting "priority disemployment," the Bureau of Employment Security had made 123 community surveys of dislocation. These were made in conjunction with the procedure adopted by the Office of Production Management, of certifying distressed areas for special consideration by the procurement branches of the armed forces. A list of communities is given below:

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Of 123 communities surveyed by December 1, 1941, 18 had been certified for special consideration by the production control branch of the armed forces; two others were marked for certification, and action was pending in 31 other communities which represented areas of the United States Employment Service that were being considered for certification as a critical position.

Because of limitations of the certification procedure, many communities in distress were not being certified or even being surveyed.

The certification procedure of Office of Production Management is useful, but it has serious limitations. Thus far only 18 communities have been certified for special consideration in the award of contracts, and it is clear that relief to many of these communities has been inadequate. The procedure can be applied only where existing contracts are relatively small and where the plants affected can readily be converted to war production. Auto centers like Detroit and Flint, which are extremely hard hit, are not eligible because they already have large contracts. What is needed in these areas is something to keep the working force together until the auto plants are retooled.

In other areas, such as the silk-making area of Scranton-Wilkes-Barre, areas where rubber workers predominated, or the small cotton textile centers of North Carolina, certification has not been applied because by and large the plants are not convertible. What is needed in these areas is new plants, new machine tools to reequip existing plants, or some procedure for moving workers to the active areas.

The community surveys under discussion were made prior to the declaration of war. Severe curtailment of many types of activity, such as rubber processing, was not foreseen at that time. A study of employment in rubber manufacture which covered virtually all of the plants in that industry showed that the 370 plants were distributed among 213 communities. The distribution of these plants and their employment by State as of August 1941, prior to recent curtailments, was as follows:

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<thead>
<tr>
<th>State</th>
<th>Number of Plants</th>
<th>Employment, Aug. 1941</th>
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<tr>
<td>Alaska</td>
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Reemployment prospects were poor in more than half of the important areas.

These data reveal a concentration of firms in the following States: Connecticut, Massachusetts, New Jersey, Ohio, Michigan, and Indiana, with the greatest

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1 Data submitted by Rubber Manufacturers Association exhibit 11. "Omaha hearings, pt. 22, p. 980.

2 National Defense Migration concentration in Ohio. In most of these States rubber firms were found to be located in communities which had the least amount of defense expansion and the greatest number of priority layoffs. In general, it may be said that the opportunities for reemployment in the majority of the rubber-industry communities will be scarce.

The largest plants, namely, those in the tire and inner-tube branch of the industry, are located in Ohio and Michigan. These States have already suffered severely as a result of lay-offs in the automobile and related industries and, therefore, can provide few reemployment opportunities for rubber workers.

SITUATION IN INDIVIDUAL COMMUNITIES

HASTINGS AND OMAHA, NEBR.

At Hastings, Nebr., witnesses described the plight of that community and others which had been unable to secure war contracts. The story of Hastings has been one of slow economic deterioration during the 1930's, due to drought and depression. These losses were aggravated when priorities came in to affect normal peacetime operations of the local plants, with no offset in war contracts. To take advantage of the local labor supply and the large reserve of electric power in the Hastings area, the industry has been put forward that any industrial expansion in the field of industrial alcohol and plastics should favor this locality. This would permit the use of the area's agricultural products for chemical production vital to the war effort.

The social dislocation facing Hastings was summarized as follows by one witness:

"The Comedian. Mr. Seaton, will you discuss in general the effect of the defense program on the Hastings area to date?"

Mr. Seaton. I Representative Osmars a moment ago that it seems to me that Hastings is in the same position as a man who had control of the stomach and gut and cured of that, and then got cancer and he got cured of that, and then had to have his arm amputated, and when he was finally getting well, got run over by a truck.

First, we had no prices for our crops; then we had our period of drought, and we had no crops; and then the rainfall came back, and we had a brighter agricultural picture and it looked as though we were reaching the golden trail. And then, all of a sudden, the Government began taking our young men and young women into the civil service, and the mechanics into the defense plants. And, of course, the draft has taken some of our boys, too. Now we are faced with plant shut-downs because of priorities.

I am sure, we have suffered a serious loss in population, making it difficult for us to get labor in many cases, and our manufacturers are having an increasingly difficult time in getting materials.


4 National Defense Migration
We have found that to be true even in our own business—printing. We have to have certain metals and chemicals, and we found it almost impossible to get them. These other gentlemen have had a much worse time then we have. Many have come to the defense agencies on the economic side, directly traceable to the loss of people. There is difficulty of finding labor for the trades that the people have been turned into. There are no building programs, because there are more houses there than are people to put in them. Our people living in houses they shouldn't be asked to live in. There are, in fact, no other houses, and rent is so low that it is not profitable to build.

Then, there is the problem of isolation or self-employment. The defense program has torn these people out of this territory and put the young people working on the area. Some of which we feel—perhaps it is smug of us—don't have the cultural and religious standards that we do have in the Middle West.

Mr. SEAYON. Yes, sir. The CHAIRMAN. What is the nature of those surveys? Mr. SEAYON. They have varied. Some were on the local labor market. In order to get defense manufacturing either for private manufacturers or by a public way. We have gone into the loss of population very thoroughly. The manufacturing is the province of commerce has some figures on that. We have gone into every phase of the program that has been put to us as a problem.

Mr. EINSEL, a local manufacturer of farm equipment, described his efforts to get defense work.

The greatest number of men who have been laid off in the past two years is 40. We have only 20 employed, and have not discharged anyone. According to our records, we have lost men for the following reasons: Two died from civil-service jobs, one from the military, and one was discharged, went to college; 7 took other local employment. Because of the shortage of material and because labor is scarce in a public way. We have gone into the loss of population very thoroughly. The manufacturing province of commerce has some figures on that. We have gone into every phase of the problem that has been put to us as a problem.

Mr. EINSEL. The greatest number of employees on our payroll this summer was 40. We have only 21 employees and have not discharged anyone. According to our records, we have lost men for the following reasons: Two died from civil-service jobs, one from the military, and one was discharged, went to college; 7 took other local employment. Because of the shortage of material and because labor is scarce in a public way. We have gone into the loss of population very thoroughly. The manufacturing province of commerce has some figures on that. We have gone into every phase of the problem that has been put to us as a problem.

Mr. EINSEL. The CHAIRMAN. The CHAIRMAN. Mr. EINSEL, how large is your plant? How many people do you employ? Mr. EINSEL. The height of our employment this summer was 40 men; we have 20 men in our employment now.

The CHAIRMAN. You visited the recent clinic held in Kansas City by the O.P.M., did you not? Mr. EINSEL. I didn't attend personally, but I had two representatives there. The CHAIRMAN. I think the committee would be very anxious to have your reaction to this Kansas City clinic, as to its benefits, and possibly any criticisms you might have to make.

Mr. EINSEL. Our representatives were untried in not being able to deal with the men who were hungry for, or what we had hoped to find. Our men were untried in finding anything that would fit into our program here. On the few facts that did look possible, we have entered bids, and hope that there will be some satisfactory results. But we have become rather discouraged, because...
up and help the plant get started, or are they tied too closely to rigid rules that serve no good purpose?

Mr. Einzel. There have only been two men in our place, to my knowledge, since the beginning of the defense program. Mr. Walker of Omaha was one, and I believe a lieutenant from the Omaha branch of the St. Louis Ordnance Department, was the other. We have tried to list ourselves with various agencies and have sought to cooperate and secure some of this business in every way that we have known how. Possibly we have not known how well enough.

The CHAIRMAN. You have a contract for some material now; haven't you?

Mr. Einzel. No; we are on the defense program.

Mr. L. B. Glantz, from the neighboring community of Minden, Neb., was another typical small businessman, who, despite strenuous personal efforts, had failed to obtain war contracts.

The CHAIRMAN. What is your business, Mr. Glantz?

Mr. Glantz. I operate a tool-manufacturing plant.

The CHAIRMAN. What kind of tools do you manufacture?

Mr. Glantz. We manufacture motor-maintenance tools.

The CHAIRMAN. Do you sell these tools direct or through jobbers and retailers?

Mr. Glantz. We sell some to manufacturers and some to wholesalers.

The CHAIRMAN. What tools are your principal items?

Mr. Glantz. We manufacture various types of piston-ring compressors, valve lifters, wrenches, ground clamps, and have manufactured a few garden tools.

The CHAIRMAN. Who are some of your principal customers?

Mr. Glantz. Our largest outlets are the Western Auto Supply, Montgomery Ward, and the Snap Tool Co. We have probably 12 or 15 smaller accounts.

The CHAIRMAN. Over what territory are these tools shipped?

Mr. Glantz. We cover the entire United States and part of Canada, and before the war started we were getting quite a little business.

The CHAIRMAN. Could you give the committee an estimate of the number of tools you make a year?

Mr. Glantz. Just guessing, probably 100,000 units.

The CHAIRMAN. Mr. Glantz, what has been the situation in your town since the development of the defense program? What has been the local effect up to date? What is it doing to your population and your supply of skilled workers?

Mr. Glantz. Defense work elsewhere has taken out a large proportion of our young men. I think that is chiefly because they can receive better pay elsewhere.

In fact, we have recently begun employing men 50 to 60 years of age.

The CHAIRMAN. Have many people moved away?

Mr. Glantz. Yes. I can give figures on the city, based on the number of resident native-born males of the municipal water and light plant. In 1919 we had 316 resident men; in 1920 we had 222, and in 1931 we had 182.

The CHAIRMAN. This morning some Hastings manufacturers were heard. They not only told of their problems in manufacturing, but offered some solution for the handling of defense orders, and I am afraid you have a contribution to make also. Do you have any defense work in your plant at this time? Any contracts?

Mr. Glantz. Not at the present time. We have had several from the Army on our own items, but none on a new product.

The CHAIRMAN. I wish you would tell this committee about any effort you may have made to get defense work, and the difficulties you have run into, as a small manufacturer. I think we should have it in the record. Go back to your first efforts and proceed as you like.

Mr. Glantz. I am afraid if we had to go back to that, we wouldn't be through with this afternoon. It is a long story. There were several of us who decided that we would try to organize the small manufacturers and machine-shop owners in the central part of Nebraska, and we had a little meeting at Kearney, at which half a dozen were present. We then set out to get all these men together to try to operate as a unit. We succeeded at one time in getting together at Grand Island more than 100 small manufacturers and machine-shop owners. Since we didn't have any luck in getting a contract, at the last meeting there were only 5 present.

The rest had lost interest.

I don't think it is possible for a small manufacturer to get into defense work as a small manufacturer. I was down to Kansas City a few weeks ago, to attend the exposition held there, where a display was set up for prize contractors who had items to offer. Some of the items that we saw out there were very

[Excerpt from Hastings Standard, pt. II, pg. 320-327.]
Mr. Glantz, it should be noted. In the town of Minden, we have a building 
that could house a rather large project and we have housing facilities. We 
have everything there to take care of the added people who would work on such 
projects.

The Chairman, Mr. Glantz, it may be interesting to you to know that 
the work the witnesses cited this time element as one of the things that was 
blinding them. I would like to have your idea on this proposition. If the 
Federal Government could spend a little more time in getting the small manu-
facturers started by making production engineers available to them with 
authority to enter into negotiated contracts—in other words, to agree on something 
that would fit the individual firm—do you think the small plants could come into 
greater part in this defense program?

Mr. Glantz. Yes, I think so. My contacts with the small manufacturers and 
machine shop owners show that they wanted to get in and help. They felt it 
was their duty to do so. I think they were more concerned about that than 
about the dollar-and-cent aspect.

The Chairman. In addition to these 15 or 20 trips to Omaha, and your trips 
to Kansas City and Chicago, you have spent time both during and after business 
hours studying various specifications?

Mr. Glantz. I have become pretty well familiar with them.

The Chairman. If some plan could be devised whereby someone with authority 
and the Government could give you sufficient time to demonstrate 
what you could do, and negotiate a contract by that end, that would be the 
solution for you, as a small manufacturer, wouldn’t it?

Mr. Glantz. I think it would be a great help. The trouble is that this defense 
work is so new to the average small businessman that it is really difficult even to 
send a bid. It would be a real help if such a service could be rendered to the 
small manufacturer and machine shop owner.

One Hastings manufacturer who had secured a defense contract which made partial use of his facilities observed that small plants were being asked to perform exceptionally difficult work and were 
being denied the type of contract which required less precision. The 
more exacting jobs, from the standpoint of precision, could best be 
turned out by the larger firms holding prime contracts, he contended, 
and the small business should be favored with contracts with greater 
tolerances.

The Chairman. In your manufacturing branch of the business, what defense 
work have you been able to get?

Mr. Laidson. We were successful in getting a small contract for the manufac-
ture of 518,000 37-millimeter shells. We have also made several items which 
we had made in former years for the Rock Island Arsenal, such as the shop 
guns which, I believe, they use in the arsenal itself. Then this year we have made 
2 models of guns and oil guns which are used on the 76-millimeter cannons and 
105-millimeter howitzers.

The Chairman. On this contract that you have, was it necessary to refer to 
any other authority?

Mr. Laidson. Yes; it was necessary to buy a great many new items because it is 
very close precision work.

The Chairman. Are there any details about the difficulties that you encoun-
tered in getting defense business that you would care to enumerate or that you 
feel the committee ought to know?

Mr. Laidson. You mean details of securing contracts?

The Chairman. Any criticisms or suggestions as to the treatment that the 
Government is giving the manufacturers such as yourself?

Mr. Laidson. The remarks which Mr. Elms made could also be applied to 
our firm. We have found that in many cases 5 days was all that we had to get 
in a bid. Since we are in Nebraska and away from the centers where we must 
buy our supplies, it is very often difficult for us to obtain quotations from factories 
or manufacturers that would have to be used in the bids.

Also, the specifications that come with the contract are in reality a whole book, 
and by the time one reads and studies possibly 5 or 10 or 20 of those enclosures 
that come with a bid, and assimilates them and translates them into terms of his 
own factory’s operations, of course 5 days is not adequate.

 asymmetrically balanced
Mr. J. W. Creighton, president of Hastings College, emphasized the seriousness of the threatened loss of this community's younger age groups.

The census returns of 1940 reveal a serious drop in the population of Nebraska. This decrease is especially serious in this section. Instead of a normal increase, there is an actual loss. Nebraska has been reclassified with the loss of one

The population of the state has not kept up with the normal increase of the country at large. The population of the state has decreased to the extent that revision downward of salaries of county officials has been mandatory.

The year 1941 has seen the end of the drought period and the real beginning for this general area of the effective influence of the tri-county project—two events that should materially have changed the population trends from an outgo
to a come-back basis. But this seems to have failed to occur. Instead, still more of our people are leaving.

In a sense, the latter condition is worse than the former. In the drought years many who left were the natural failures. They left because they could not succeed on the arid margin of existing agriculture. Those leaving now are the more superior individuals, those whose natural and acquired abilities are

greatly great. We are losing many fine young men and women from our farms, our stores, our schools, and our homes.

The men are attracted by the defense plants and the young women by the salaries in offices of defense

To support these statements, let me report that of 307 graduates of Hastings College during the period of 1933-40, 125 have moved from Nebraska. Of these, 89 who did not return for graduation during the 5-year period approximately 125 have left the State. Of the graduates of high school suggested as possibilities for Hastings College in the summer of 1941, 183 are reported to have left the State before the opening of college, 51 going to the one State of California.

It is obvious that the business and social life of this area will suffer even more from this later emigration than from the departure of the near-desert of the twenties. There is ground for the fear that this area is to be depopulated into an old-age home, this territory that really should be a young man's country. There is opportunity here for ambitious young people, especially with the development of power and irrigation. It is desirable that the unnatural pull away be overcome so that this region may have the normal development of properly logically following irrigation and power developments.

There is danger that these effects will be more or less permanent. The depression of the young manpower is always serious, whether through war, depression, or pronounced migration. Further, while the tendency of parents to follow

One of the proposals at Hastings was the location of a defense plant which would utilize local labor supply and local resources. Mr. George E. Johnson, general manager, Central Nebraska public power and irrigation district, testified that there was a considerable volume of excess generating capacity available for purposes of war production.8

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of the State to which the delivery of power for the purpose of defense activities would be more economical and efficient than it would be to other sections.

Mr. Johnson. Yes; it is more economical to deliver to the section in between the North Platte and Republican Rivers. Also, the location of defense industry will depend considerably on where they are located. To any place between Columbus and Lexington we can economically deliver the amount of power stated without the construction of additional transmission lines. We could not deliver

that power east of Columbus.

In our set-up we still have one large transmission line to build, and that is to be constructed by the Loop district and ourselves. We have the money for it, and we are contemplating construction. We don't know whether we will be able to get the materials at this time.

The Chairman. I have studied your figures, but not being an engineer, and being aware that a number of people who will read this record are not engineers, I want you to make a few comparisons. Do you know approximately how much power this Wahoo plant will buy from you?

Mr. Johnson. About 7,000 kilowatts, or about 9,000 horsepower.

The Chairman. What soil a plant use that power for?

Mr. Johnson. Primarily for motors and lighting.

The Chairman. Is it the type of plant, such as an aluminum manufacturing plant, that uses furnaces?

Mr. Johnson. No.

The Chairman. And you say that at the present time you have available a surplus of power of 100,000 kilowatts.

Mr. Johnson. Kilowatts; not kilowatt-hours. That is about 130,000 horsepower.

The Chairman. Can you give us an illustration to show what those would be done with that much power?

Mr. Johnson. That depends on the type of plant. An unusually large power plant takes about 25,000 horsepower. The average defense plant that they are constructing over the country at a cost of $23,000,000 or $30,000,000 is using from 9,000 to 7,000 horsepower.

The Chairman. In other words, you would have enough power at the present time to take care of about five such plants.

Mr. Johnson described how irrigation was stabilizing agricultural activity. With proper planning, he said, Nebraska would be capable of rapid economic development along manufacturing as well as agricultural lines.

Dr. Leo M. Christenson, of the University of Nebraska, submitted a prepared statement proposing that a smokeless powder plant be built, which in the post-war period could serve as a nucleus for a chemical industry such as plastics production.

The ideal defense industry for Nebraska is one that at the end of the emergency can be turned to the production of commodities for a peacetime economy. Because Nebraska has little in the way of mineral wealth, it is inevitable that such an industry must be based upon the use of farm crops, which our new irrigation facilities are making more and more profitable. Thus, such an industry is doubly useful, supplying new markets for farm crops as well as providing new pay rolls.

There are many ways of putting this desirable program into operation. The implementation of techniques of modern war are greatly dependent upon chemical industry, and the new defense industries needed and planned are largely of this type. Chemical factories are remarkably flexible and may readily be transformed from one operation to another. Thus it is not especially difficult to proceed with a program that will perform a most important service for defense and, at the same time, realize a profit in the post-war economy.

An example may be found in the case of the manufacture of smokeless powder, and here there has been a lot of recent discussion about establishing industry in Nebraska. It is pertinent to consider how it might be developed to provide an important industry utilizing that can furnish permanent employment for men both on farms and in factories.

The manufacture of smokeless powder requires cellulose, ethyl alcohol, sulfuric acid, nitric acid, and a few other raw materials. Of these, ethyl alcohol and cellulose are derived from present or possible Nebraska farm crops. If these

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The food industries, about 25 Omaha firms employing about 1,200 persons are engaged in defense work. This constitutes about 7 percent of the number of Omaha manufacturers, and about 8 percent of the present Omaha manufacturers' employment.

The Martin bomber assembly plant is located at Fort Crook, about 3 miles from the center of Omaha. Construction of the main buildings is completed, and machinery is now being installed. Production of bombers is scheduled to start in the spring of 1942. When the plant goes into operation, it is anticipated that 4,000 will be employed. Lincoln, a city of 200,000, is about the same distance from the plant.

The Omaha Steel Works has a $1,000,000 contract for manufacturing steel casings, an operation which now employs 500 men. A $425,000 plant expansion has been authorized by Defense Plants Corporation. The Jepco Construction Co. is constructing a $345,000 plant for egg drying of construction of Fort Crook over a bridge crossing the Missouri River.

The principal defense activity in the Omaha locality is at Fort Crook, about 8 miles south of the city. Included in the Omaha metropolitan district are Council Bluffs, Blair, Carter Lake, and unincorporated areas in Douglas, Sarpy, and Cass counties. Workers from Council Bluffs are within easy commuting distance of Fort Crook over a bridge crossing the Missouri River.

The employment situation in Omaha is dominated by the needs of the Glenn L. Martin Co., which will hire about 8,000 workers between January 1942 and January 1943. The needs of other employers in the locality are estimated at about 1,200 for the period July 1941 to July 1942. The labor supply available, according to the Bureau of Labor Statistics at 21,000 workers in July 1941. However, not more than 500 of these were available for administrative, professional, and skilled occupations. Thus, all demands can be met locally except for a maximum of 1,500 high-potential administrative and skilled workers, who will have to be imported. There is some unfilled discussion that the Martin plant may hire 17,000 workers instead of 8,000. In such a situation it would be necessary to increase the estimate of immigration.

The current file of unemployed in the Omaha office of the Nebraska State Employment Service was larger in October 1941 than it was in January 1941. The following letter, from the employment service office, gives some of the details of the growth in unemployment.

Mr. Frederick Zechell,
Manager, Industrial Department, Chamber of Commerce,
Omaha, Neb.

Dear Mr. Zechell: I am enclosing a statement of the unemployed in Douglas, Sarpy, and Saunders Counties as indicated by the file as of October 1, 1941, and a summary of expected layoffs by November 1. I stress the word "unemployed" because these individuals have been in our office seeking employment within the last 30 days. This figure is, therefore, a fraction of the total labor, skilled or otherwise, that will be available in this vicinity for construction or industrial purposes at any given time in the future.

We know there are thousands of Nebraska workers employed in other States because we have thousands of letters on file here from such persons wanting to come home as soon as there are work opportunities.

We know that other areas and industries concentrate recruiting efforts in Nebraska and that in many instances individual firms have found hundreds of workers in Nebraska for their plants located on the various seacoasts.

We know the Nebraska State Employment Service has clearance orders from employers in other States and that we are continually sending our unemployed to these jobs because there are no work opportunities at home.

It is a fact that last week one young man from an eastern defense plant was in our office stating that he was representing 1,500 midwestern young men who were employed in that one plant who wanted to come to Omaha to work in the aircraft-assembly plant when it starts production.

It is a fact that scarcely a day goes by in which several individuals who have been working thousands of miles from their homes in Nebraska, come into our office begging for work nearer at home.

It is a fact that the construction of the Martin bomber plant at Omaha, which will be completed as of October 25, has employed as many as 3,000 workers, and that except for a few structural steel workers, practically every man, skilled or unskilled, was supplied from the immediate vicinity of the job. This project did not cause a ripple in the normal employment conditions in Omaha, and the job has been completed and without interruption of any kind for want of workers or from labor disputes.

It is a fact that as of today there are 2,649 men, approximately half of whom represent all the various construction skills, employed at this plant. Large layoffs will start October 25.

It is a fact that some men are voluntarily quitting their employment at this plant and leaving the State for other areas where they feel they stand a better chance of having employment for a longer period of time. We do believe, however, most of these men will return to Omaha at the first indication of employment opportunities.

It is a fact that our current file of unemployed is larger today than in January 1941, and that our monthly total of new applications is approximately 75 percent greater than in September of 1940.

It is a fact that complete training programs of workers for local defense industries have been established and are in operation by the department of vocational education.

This department would now be free to organize other training programs for similar or other industries, if necessary. We would approach the problem of supplying labor for an additional defense industry in this area with absolute confidence and assurance. The necessary labor of the highest type could readily be provided. This would apply even though the labor demands were two or three times greater than labor necessary for present defense plants in the Omaha area.

Yours very truly,

M. E. Sawtelle,
Manager, Omaha Office.
By Arthur R. Parks,
Assistant Manager.
From the above it is clear that Nebraska has an adequate reserve of unskilled and semiskilled labor for manning the new bomber plant and other plant expansions. Some importation of skilled labor has become necessary.

Mr. CURTIS. Was there a scarcity of skilled workmen in this State?

Mr. BUTLER. A very large number have gone to other plants. When the Martin bomber plant was started, the company had difficulty in getting skilled labor. About 70 percent of the skilled labor used in the construction of the Martin bomber came from the outside—men like electricians, glaziers.

The Chairman. That was due to the fact that they were not available here.

While the Omaha area will be engaged in considerable war production, no provision has yet been made for the participation of the bulk of small plants. This point was emphasized by both the Governor of Nebraska and the mayor of Omaha.

Mr. ANDREWS, Governor, with two large plants going in near Omaha and Lincoln, do you think it would be better if, instead of building one or two $25,000,000 or $40,000,000 shell-loading plants or bomber plants, we broke it down into 6 to 10 $1,000,000 plants, so as to reduce congestion?

Governor ANDREWS. My answer to that is "Yes," but, even beyond that, I would prefer to see work given to plants already in existence, because in many of our smaller towns there are small plants with good machinery and equipment. I do not see just how practical such an effort would be, but I do know that all over Nebraska are fine little factories that are capable, without any new construction, of furnishing employment to a lot of people and of aiding the defense work. I think it is much to be preferred that they receive contracts, rather than that new plants be constructed.

You were out at Hastings, and you heard the story out there. Down in Beatrice, the Dampeter Mill Manufacturing Co., ships stuff all over the Nation, down through our State and Illinois and Ohio, and they are doing very little along defense lines. Right here in Omaha there are literally hundreds of small places that could be well qualified, with just a few months, to get ready to do something constructive.

Mayor BUTLER, I have always felt and feel now that we have industries here that could take over a lot of this Government work if the large contracts were allotted. I think this is true in every part of the country. There is too much awarding of large contracts which should be broken down and sublet to larger cities with industries that could take over a lot of that work. As far as our unemployment is concerned, in the last year or 18 months the certified workmen on W. P. A. have been greatly reduced. A great many of them have gone to private plants over the country and others into private industry.

A witness from the central Nebraska area indicated that not more than 60 out of approximately 1,000 plants in the State were engaged in war work.

Mr. SCASE. What is happening to Kearney under the defense program?

Mr. THOMAS. The city itself?

Mr. SCASE. And the surrounding territory.

Mr. THOMAS. Kearney is the county seat of Buffalo County. I cannot give you the exact number of factories and plants in the city of Kearney, but the number is small—probably 7 or 8, not over 10, of different sizes. None of those plants have received any defense orders or subcontracts. They have been a machine shop, quite modern, and in a new building, lost 5 employees out of 7 at the end of 1 week recently. Those employees all left to work in some defense plant in Washington or Oregon. That is a typical example. Up to date no defense orders or subcontracts have been secured by any of the plants, although we had hoped for them.

Mr. THOMAS. Our Nebraska Development Association has been endeavoring to get contracts and subcontracts for these plants.

The Chairman. In Mr. Glante's testimony, and in the panel this morning, several suggestions were made, but I have two particularly in mind. One is that the time allowed for getting bids is too short for these plants in the interior of our country. Is that true?

Mr. THOMAS. Entirely so. It is impossible for us to compete with plants in its own small organization even to digest the particulars, or to get the blueprints and other specifications in time to bid on many jobs.

The Chairman. And do you think that it would be in the interest of national defense if production engineers were made available on the part of the Government to work out what a given plant or a given territory can do best, and negotiate contracts with these plants, even though it may cost a little more to do so?

Mr. THOMAS. First, I would say absolutely. Second, we are told by the Army that they have 1,000 plants of all sizes and kinds in Nebraska, and I don't think over 60 of those have received orders. Now, I think 90 percent are anxious to get that business. First, I believe detailed surveys ought to be made by Government representatives, so that they may know just what this plant and that plant can do, and the plants should be given the help necessary to ascertain whether they can handle the particular jobs that are pointed to them; second, they should be given assistance in securing the financial backing that is necessary; and third, priority orders should be assured to them. A considerable portion of these 1,000 plants are factories in Nebraska, and we are small individually, in the aggregate could turn out a lot of defense material. One good example is the plant of Mr. Glante in Minden.

The location of a bomber assembly plant at Omaha offers an opportunity to put these small Midwestern plants to work feeding the new assembly lines with parts. However, the present plan of operation of the new bomber plant does not as yet incorporate such an arrangement.

Mr. CURTIS. How much of your work would be subcontracted to firms in this region?

Mr. SCASE. Not a great deal to firms in this region, but there will be some wherever we can find firms that are in position to take on small manufacturing.

Mr. CURTIS. Is the Chrysler Corporation the subcontracting agent for the Minden plant?

Mr. SCASE. We have three-Chrysler, Goodyear, in Akron; and Hudson, in Detroit. They handle about 60 percent of our production.

Mr. OSMUNDSEN. I would like to ask Mr. Scafe about subcontracting policy. We were in central Nebraska yesterday, and we found that a large number of small machine shops and equipment factories throughout that area are now starting to feel the pinch of this situation and the lack of defense orders. And it occurred to everyone on the committee that if a plant like your own in this area could subcontract for all parts which those factories could make, it would aid the economy of Nebraska and all the surrounding States. What plants do you have made outside your plants?

Mr. SCAFE. We have our parts made—some castings and parts of that type—and if these small industries are equipped so that they can take care of small parts, we will be very glad to have them and give them every consideration.

Mr. CURTIS. You say "equipped." Do you mean they must have precision equipment and machines with fine tolerances?

Mr. SCAFE. Not in every instance. There are such things as traces and many other parts in an airplane that could be made in lots of parts.
This area specializes in manufacture of industrial laundry equipment, which has been seriously restricted by the curtailment program. In September 1941 when the production curtailment program was being formulated, a survey by the Labor Division of O. P. M. showed that considerable unemployment already existed in this community. Of some 700 workers who were to be laid off from civilian production, only 200 were assured reemployment in defense work in that area.

Mr. John Connolly, Jr., representing the United Electrical, Radio, and Machine Workers of America, C. I. O., described the low level of industrial activity existing in the community and the resulting migration from Newton of a considerable number of workers.

The United Electrical, Radio, and Machine Workers Union, known as the U.E., represents some 1,150 workers employed in the washing machine and other industries in Newton, Iowa. This union established its first local in Newton, Iowa, in May 1937. At that time, it spoke for some 4,600 employees of the Maytag Co. and several hundred additional workers employed in plants of the One Minute and Automatic Washing Machine Co., the Newton Foundry, and the Standard Co.

At the present time, it represents workers in all of the above-named companies, with the exception of the One Minute Co., which, since that time, has liquidated. Newton is a community of 11,000 people. The town is situated in an agricultural area, and is 35 miles due east of Des Moines. At the present time the main industry of Newton is centered in the two washer plants, Maytag and Automatic. The plant has approximately 1,200 employees, and the latter has about 250 factory workers.

The city of Newton rises and falls with the fate of these two plants, and in particular, the Maytag plant. At the present time there are 1,200 workers employed in that plant, which is the second largest in the United States. The Maytag washing machine is one of the most popular in the world, and is known for its durability and efficiency.

The reduction in employment opportunities in Newton since July 1941 has been very serious. Whereas the number employed in that year at the peak amounted to some 3,300 in the washer plants, now a mere 1,400 are employed, a reduction of approximately 57.5 percent. It is true that about 600 of these workers were seasonal workers. The result is that since April 1941 employment has steadily declined to the present low point, and at the present time, the indications are that, unless major defense work is obtained, the decline will be more drastic and widespread.

The Maytag Co. has work for about 200 in defense on a subcontract for the Martin Co. The Automatic Co. is working with the Wewand and Tomsberg Associations, and will probably receive a portion of the 12,000,000 order placed with that association by the Army Ordnance Department.

It is quite obvious that, because of the lack of essential raw materials necessary to the manufacture of washers, the production of the two plants will be curtailed to some extent as a result, but the percentage amount set forth in the curtailment order. It is therefore, almost certain that at least 50 percent workers in this community will be thrown out of work, some perhaps temporarily and others permanently.

Since May 1941, approximately 200 men were laid off at the Maytag plant. Approximately 60 have been rehired, some on a temporary basis, and others on a permanent basis. Approximately 75 men and their families, since May 1941, have moved out of town. Some went to California in the aircraft industry, others to Associate in Maine, III., and others to localities offering better employment opportunities. As far as can be ascertained, only one or two have found employment in the ordnance plant at Ankeny, Iowa, because of a strict rule that preferences is given to the unemployed of Polk County, the county in which the defense project is located.

Seventy-five homes have been abandoned for lack of employment. Furniture was donated to the highest bidder to secure transportation money for these migrant workers. Family ties were broken, and friends and relatives were left behind.

The result has been tragic. Many have had to move into substandard housing, and some have had to leave the area entirely. The economic impact has been severe, and the psychological effects have been devastating. The community is in need of assistance to overcome this crisis.

Mr. Maytag described the experience of his company.

Mr. SPARKMAN: Have you bid many times on defense contracts?

Mr. SPARKMAN: We have made formal proposals on some 25 offers which have been declined. In addition to that, we have had many conferences on other jobs which did not, however, terminate in our getting contracts. Of course, we have a number of subcontracts now, the largest of which is with Glenn L. Martin Co. We have about five contracts with Dehew L. Martin which make up the overwhelming bulk of the work we now have.

Mr. SPARKMAN: Mr. Maytag, I was interested in one statement you made. You said:

"Up to the present time there have been about 25 jobs, some of them running into amounts as high as a million dollars, for which we have submitted bids or proposals which have been accepted. In a number of these situations our experience was very disappointing and debartering.

I wish you would elaborate on that.

Mr. SPARKMAN: Up to a relatively short time ago, we didn't know anything about manufacturing defense materials. We had determined, as long as a year ago, that we wouldn't actively seek defense work. We were interested in other fields, and didn't know quite where to turn, so we ran down every possible lead. We were always very courteously treated and given to understand that we would be given consideration. We compiled a complete list of all the Nation's needs, which comprised a book about an inch thick, and distributed it very widely over the

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Statement by John Connolly, Jr., U.E. Local Union No. 27, 1950-1951.
country, to various governmental agencies, prime contractors, and so forth. We would become very hopeful that some lead would develop into a contract. Then proceeding would happen. We were asked by a certain branch of the Government, which was interested in entering into negotiations for the production of some two or three million dollars worth of a certain article. We were asked to complete our bid within a period of a week or an article which prior to that time we had never seen. We were given to understand that what they sought primarily was management. That they expected us to subcontract a very large portion of the work. We recognized that we did not have the special machine tools necessary to manufacture all the parts ourselves. They also told us that they recognized that the cost under that method would be substantially higher than if we did have the right kind of equipment, that was relatively immaterial, but what they needed was the ability to produce and manage the enterprise. We got 3 weeks. Our entire technical staff scoured the country for subcontractors and at the end of the time we had an assembled bid which we submitted.

The price was substantially higher than under other circumstances because we had not even an opportunity to set potential subcontractors against each other. It was a case of leaving nobody to get the job. Our bid turned out to be embarrassingly high. We submitted our bid and were told later it was too high, with a "Thank you, goodbye." We heard nothing more about it for several weeks until we read in the press of that particular job had gone to a certain contractor at a price which was far below ours, that it proved ours ridiculous and embarrassingly high. We also read in the same story that the manufacturer had previously had a pilot order early enough in the game that he had been able to obtain very special machine tools for that particular job, so that he was able to get the maximum efficiency. We got the impression, rightly or wrongly, that we were being taken advantage of by our "friends". We saw a bid only by the manufacturer. It must have been more or less obvious from the beginning that this other manufacturer would get the job. This was a disheartening experience.

Mr. Muller. The other manufacturer had been in an educational order. You know that we have been engaged in giving educational orders to those concerns that care to take them.

Mr. Maytag. I asked about disheartening experiences and that was one. Our whole staff worked their heart out for a couple of weeks and later found that there was no possibility of our getting the job at any time."

The experience of the Maytag Co. illustrates the waste of engineering effort during the past year and a half. Multiply this by thousands of individual plants that have spent time studying production of one military item after another for which they subsequently failed to get contracts.

DECATOR AND BELLEVILLE, ILL.

In Decatur and Belleville, Ill., industrial activity began to decline with the curtailment of nondefense production. There were not enough war contracts to counteract the nondefense contractions. Some of the more aggressive workers in both communities have already left. Like Hastings, these communities are examples of economic disintegration which is going on in many parts of the country as a result of curtailment of the war effort. Testimony received by the committee shows that extensive efforts were made by the citizens of these communities to obtain war production contracts.

It is evident that in the absence of adequate planning of war production, the resources of all such communities are being overlooked. Thus, the output of military goods is limited, on the one hand, and the morale and economic well-being of the civilian population of these areas is being affected on the other.

Mr. Arnold. Are your Decatur plants working on defense contracts of any kind?

Mr. Muller. Not actual Government contracts so far as munitions are concerned. The bulk of our business has a priority rating of A-1, provided it is directed by the Government. Are your plants registered with the Division of Contract Distribution and the Government procurement agencies?

Mr. Muller. So far as I know they are registered everywhere.

Mr. Arnold. Have you made any special efforts to secure Government business for the purposes of producing ammunition boosters, but I want you to tell me about what attempts the company has made to secure defense business for the past year. We contacted the Ordnance Department in Chicago and the different agencies in Chicago. Since that time we have kept in daily contact with the Ordnance Department. We have traveled all over the country to the different arsenals to find out what their requirements were. We have traveled to different places to find out if we could obtain subcontracting. We have had perhaps more or less success with the experience which we have had in Canada and Chattanooga, we have been extremely disappointed and pessimistic about the situation.

Mr. Arnold. Will you tell us how many trips you have made to various places?

Mr. Muller. Frank Taylor is our representative on all these trips and he knows the details.

Mr. Taylor. We have made numbers of trips, mainly to Chicago.

Mr. Muller. And several to Washington.

Mr. Taylor. And other members of the company. We have members that are there now.

Mr. Arnold. In your statement, Mr. Muller, you mention an instance where a special effort was made to obtain a contract. The company advised the contractor company that they would take the contract at any price that was offered. Was this in connection with your offer to develop a process for ammunition boosters?

Mr. Muller. Yes, sir.

Mr. Arnold. Would you elaborate on that?

Mr. Muller. In Canada we have developed a process for ammunition boosters that has been very successful. We had been bidding on contracts and were not happy with the price. We had a bid of 60% higher than anybody, but the value of the contract was somewhere between $100,000 and $1,000,000. My cousin, W. W. Muller, making the contract, was to go to Chicago. At our directors' meeting we said: "You make any price that will get the order." We want to get some business. This was 6 or 8 months ago. We had to get some business. We tried to get some business. We told them, we put in a price, and we never heard about it. We were making these shells at Chattanooga, Tenn., and our engineering department was there. We made these shells at Chattanooga, Tenn., and our engineering department was there. We made these shells at Chattanooga, Tenn., and our engineering department was there. We made these shells at Chattanooga, Tenn., and our engineering department was there. We made these shells at Chattanooga, Tenn., and our engineering department was there.
mensioning this as one example. (Points to shell and small parts on table before him.) We are perfectly willing to take it on the nose on the first contract. We know, from our experience in Canada, there is no money in this thing. So for this year in Canada, and Chattanooga, we shipped out our shipments for the past 11 months, a total of $1,004,000. We have $500,000 of our capital invested, and our net profit is $4,000. Through our experience in Canada today we know what to expect and yet we are trying to hold our organization together and that does not mean that we are going to quit trying, because we are going to keep on fighting. Those are two examples of things that have happened.

Mr. Bowers. Have contracts been let on those bids?

Mr. Bowers. Yes, sir. We don't know this to be a fact but we believe that Decatur is not an emergency area, and without proof of our situation, we believe that during this period contracts were let for this material at much higher prices to those parts of the country without any experience in this, but which were listed as emergency situations on account of their labor situations.

This company is experienced in military production. It has already obtained contracts for its plants in Canada and Chattanooga, Tenn.

Mr. Bowers. I wish to say further, that on this type of business we have been supplying the British and Canadian Governments with antiaircraft shells. This [indicating] is what we are supplying the British Government for naval shells. We produce a lot of other shells and that [indicating] is what we are shipping in Chattanooga for the American Government. In the California plant we have contracted every agency that we know of, the engineering departments of all aviation companies, and we find that we cannot make materials that go into their production, and we have no contract yet with the Army or Navy.

The Chairman. How did you contact the English and Canadian Governments?

Mr. Bowers. In 1937 after a trip to South America I met a number of people and talked to them. When I came back I was convinced that there was going to be war. From May 1937 I went to Ottawa with our general manager and called on the head of the Ordnance Department. In the last war our Canadian plant manufactured munitions somewhat similar to these. We told our friends to make some changes in our equipment and if they were interested in our making munitions, wouldn't they send a commission down to look over our equipment and see where we stood.

The Chairman. In your letter to our committee will you please put a paragraph in the thing that is now selling to the Canadian and English Governments?

Mr. Bowers. Yes, sir. After that they sent several commissions there. In February 1940 we got our first order for this [indicating] booster. Of course the Government was in a lot of confusion for a few months. We combined our American engineering staff with our Canadian staff to get into production quickly. We had a certain amount of equipment in this country and we sent it into Canada. Our first order, which should have been completed in June of this year was completed in December of last year. We took our first order at 70 cents apiece and as our costs went down we voluntarily reduced the price to 53 cents, which is lower than they are paying for it in England. They have a lot of war material to give us but it is just a matter of capacity, that is all. And our relationship there has been marvelous.

The Chairman. I don't quite get that. It is a question of capacity. Do you mean your capacity to supply?

Mr. Bowers. Yes, sir.

The Chairman. If your capacity is taxed because of your orders for the English and Canadian Governments, what about your capacity for your own Government?

Mr. Bowers. I am speaking of our plant in Canada. In Chattanooga we bid on this shell [indicating] last September. We never made shells before. Now that we are under production, they want us to expand our facilities tremendously down there.

Mr. Arnold. Is that an emergency area?

Mr. Bowers. No, sir. No more than Decatur. In fact there shouldn't be any unemployment in Chattanooga.

Mr. Arnold. Is labor cheaper in Chattanooga than in Decatur?

Mr. Bowers. Not now, and in fact some of the men from Decatur, 14 of them, went down to get a job with us at the Chattanooga plant.

Mr. Arnold. You don't feel like enlarging the Chattanooga plant until the Decatur plant is operating to capacity?

Mr. Bowers. Oh, no. We would much rather spread it around in making those shells. We are making a thousand a day of those [indicating] and if they asked us to do 4,000 a day, we would rather put another 1,000 down there and another 1,000 in Decatur.

Mr. Arnold. In looking up for the contract in Chattanooga did your Decatur plant participate?

Mr. Bowers. Our engineers and toolrooms did the whole job.

Mr. Arnold. In Decatur?

Mr. Bowers. We couldn't have purchased tools down there.

The parent plant of the company at Decatur, which has the host technical and engineering facilities and a trained supply of skilled labor, is denied war work. The Chattanooga plant, on the other hand, having been initially successful in undertaking a war contract, is being asked to expand its production facilities. The Decatur plant has already laid off 200 workers and these men have had to leave Decatur to seek work, because most of the other plants in the locality have been restricted in production.

Mr. Bowers. Of the 200 people that were laid off, Mr. Taylor and our personnel man have looked into that situation and we find that they are endeavoring to find work in such cities as Peoria, Rockford, Rock Island, Chicago, Gary, St. Louis, and a few of them have gone back to the farms temporarily. In Decatur we have a rather peculiar situation. A number of our employees come from farms. About a year ago we let them have a leave of absence to go on the farms for 2 or 3 weeks at a time. The day before yesterday 14 of our men moved to Chattanooga. And that is the situation with the 200 that we have had to lay off, and they are fine men, every one of them. If we had work, we want that man to go back. We have to lose them. That is true with all the others.

Mr. Arnold. Skilled men?

Mr. Bowers. Skilled men. And while it hasn't created any hardship yet, quite a number of these men are buying houses in Decatur and buying property, and now if they move to some other place we don't know what will happen.

The effect of material shortages on industrial activity in the Decatur area generally was summarized by Mayor Charles E. Lee, of Decatur, Ill., as follows:

Within the past 30 days something over 550 lay-offs have occurred in the metal trades. The total number employed in the 17 metal trades is approximately 4,000. There have been 600 men laid off in the last 30 or 40 days with an anticipated lay-off under present conditions of nearly 2,000 by the 1st of January 1943. Those anticipations, I think, are based upon serious consideration of the material shortages and lack of defense contracts.

The representative of another company in Decatur described the difficulties his company was having in securing metals despite the fact that it held high priority rating certificates.

We have secured preference rating certificates to enable our purchase of steel on this basis, but to date (2½ months since our first preference ratings) we have secured but a negligible quantity of steel. As a matter of fact, two of the larger mills have already failed to give us even an indication that tonnage will be ready. A third mill has promised us a small tonnage in the latter part of the month or the first of next. We have received no indication whatsoever from any mill as to the temporary dropping date of our A-5 rating covering our requirements for November and December. In addition to this we have, as indicated above, several subsequent subcontracts rated from A-1 to A-2.
One of the larger mills indicated, upon our desire to furnish them with an A-1-B preference rating, that it would be impossible to get any steel for 6 to 8 months and it was problematical as to just when such might be furnished. The second mill has indicated on an A-1-B rated order that delivery will be effectuated within 24 to 3 months. A third mill has indicated shipment in about 6 weeks; unfortunately, the certificate covered by this particular order is very small.

It is possible that we are crying "wolf" prematurely in believing that our plant will be shut down within the next 50 to 45 days; hence, we have less than a 20-day supply of scrap iron, and from all indications we will not receive enough of this material by even stretching the point as to our ability to obtain additional supplies to permit our foundry operation after December 1. We do not have quite a 20-day supply of steel and from present indications we will not obtain enough steel to operate all of next month; with these two items cut off and the possibility of our pig-iron allowance being further curtailed for December, our picture is indeed a gloomy one and, of course, employment will be affected in the same degree as our success in obtaining materials and supplies.

Belleville has been a center of stove manufacturing. Many of Belleville's workers are advanced in years. Discrimination against older workers and the added risks to such workers, in moving to other centers of war production, make their prospects of reemployment rather dark. Their problem is not likely to be solved unless local manufacturing facilities are converted to military production. Younger workers in the community have already begun to migrate.

An additional factor handicapping Belleville workers outside their community is their union affiliation. Practically all Belleville workers are unionized, and nearby expanding establishments are apparently discriminating against them because of this affiliation. This is reported in the following summary of employment prospects prepared by the local State Employment Office:

There is not much likelihood that workers who are laid off can be absorbed in the Belleville community. It is likely that some of these will be absorbed by expanding industries in St. Louis, Mo., 15 miles from Belleville. This office, however, has no information concerning opportunities in St. Louis. Only one industry in the Illinois portion of the St. Louis labor market area is contemplating a considerable amount of hiring — which plans to add more than 1,000 workers during the next 12 months. Belleville workers, however, will not be acceptable to this company because they are unionized and are working under closed-shop agreements.

The experience of the placement department of the Alton office of the Illinois State Employment Service would seem to indicate that present or previous affiliation with any labor organization is a definite handicap to an applicant for employment with the company.

Another factor which has affected the stove industry in Belleville is, i.e., competition with other areas. A recent report on this subject by the Belleville Employment Office is quoted below.

"The foundries which are the principal industry of this community, have suffered considerably during the past few years due to competition with firms that have moved from this vicinity to the South where cheaper labor can be secured. It is estimated that opposed to the average wage of 90 cents per hour which is paid in this vicinity, workers may be secured in the far South for the same type of work at about 40 cents per hour. Many of the factories here have found it possible to work only 2, 3, or, at the most, 4 days per week; some have ceased operation entirely. For instance, the 1 foundry employing some 400 workers was forced into bankruptcy during the past year; and the result is that we have not been able to analyze the cost and get the bid in time. Where we have been fortunate enough to be awarded a partial bid and that seems to be the case they have — we bid at 75,000 bids. That gives us very little time to get a preference rating and subsequently very little time to get the material. In many cases our men have utilized material from their inventories and actually finished the job before we got the material, and the result is that, at this end, and at the same time another company at O'Fallon, Ill., very near Belleville, was forced to liquitate. The officers of the various concerns involved must that this is chiefly due to the wage situation mentioned above."

The wage differential between northern and southern stove manufacturing areas has imposed on the outstanding limitations on

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Footnotes:
10 St. Louis Evening Post, Dec. 29, p. 8.
In the course of testimony the efforts of local Belleville plants to secure war work were described in detail:

Mr. Curtis: At what capacity is your plant working?

Mr. Kane: About 55 percent.

Mr. Curtis. When did this slump start?

Mr. Kane: That has been our capacity since 1929.

Mr. Curtis: How many were you employing a year ago?

Mr. Kane: The same number of men.

Mr. Curtis: Have you registered your facilities with any Government procurement agency?

Mr. Kane: Yes.

Mr. Curtis: What one is that and how often?

Mr. Kane: I think Mr. Foster has that filed here better than I have.

Mr. Foster: The Army, the Navy, the Quartermaster Corps, and the Ordnance Department.

Mr. Curtis: Has your company made a list of the defense items you can turn out?

Mr. Foster: That has been done.

Mr. Curtis: I would like to ask this question to either one of you or to Mr. Eber, to what extent have you attempted to secure defense contracts? Would you tell us about your trips and negotiations in this regard? Proceed in your own way, and if one of you doesn't cover it all, the others can add to it. Mr. Foster, will you tell us about the efforts of these men?

Mr. Foster: We prepared briefs concerning our plants for all these agencies just as the Government requested. We have had very valuable service from the contract department of St. Louis. They call us up every day telling us of indications for bids. We have made 100 trips or more here to take advantage of that service, and we secured quite a number of contracts but mostly all small contracts.

Mr. Curtis: Have you made any trips to Washington?

Mr. Foster: Four trips.

Mr. Curtis: How many men went?

Mr. Foster: Once six men, and I went twice alone.

Mr. Curtis: How about your trips to Chicago and Jeffersonville and elsewhere?

Mr. Foster: I have taken a group of men from my office over there four distinct times, and I have been to Chicago three times.

Mr. Curtis: You have gotten some small business?

Mr. Foster: Yes.

Mr. Curtis: Has it come anywhere near utilizing a fair amount of the capacity of the plants?

Mr. Foster: Judging from the reports of each manufacturer. In the last year we have been doing work here.

Mr. Curtis: Judging from the reports of each manufacturer. In the last year we have been doing work here.

Mr. Kane: During this period.

Mr. Curtis: What do you make, Mr. Eber?

Mr. Eber: We make heating and cooking appliances of all kinds.

Mr. Curtis: How many people do you employ?

Mr. Eber: We have 302.

Mr. Curtis:And a year ago?

Mr. Eber: About 255.

Mr. Curtis: About 9 months ago?

Mr. Eber: About 255.

Mr. Curtis: There has been a gradual let-off in the last year. Do you know what you will be able to do in the next 90 days in offering employment?

Mr. Eber: We hope to be able to maintain the present force of 252 men. We have some Government contracts. Fifteen per cent of our workers here will be on Government contracts.

\[\text{Source: St. Louis Post-Dispatch, p. 39, June 20, 1941.}\]
More recent data collected by the Employment Service for the largest aluminum-manufacturing company in the area show further substantial reductions in employment since midsummer.

LETTER TO HARRY C. KNIGHT FROM PAUL F. CALLAHAN

December 8, 1941

Mr. Harry C. Knight,
Manager, city of Two Rivers, Two Rivers, Wis.

Dear Sir: At your request I am submitting information with respect to the number of unemployment compensation claims filed during the year 1941 against the Aluminum Goods Manufacturing Co. of Manitowoc and Two Rivers.

Two Rivers plants:

<table>
<thead>
<tr>
<th>Month</th>
<th>Claims filed since January 1941</th>
<th>Claims currently active</th>
<th>Claims in which benefits were exhausted</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>100</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>February</td>
<td>120</td>
<td>90</td>
<td>30</td>
</tr>
<tr>
<td>March</td>
<td>150</td>
<td>110</td>
<td>40</td>
</tr>
<tr>
<td>April</td>
<td>180</td>
<td>130</td>
<td>50</td>
</tr>
<tr>
<td>May</td>
<td>210</td>
<td>160</td>
<td>50</td>
</tr>
<tr>
<td>June</td>
<td>250</td>
<td>180</td>
<td>70</td>
</tr>
<tr>
<td>July</td>
<td>300</td>
<td>220</td>
<td>80</td>
</tr>
</tbody>
</table>

There are the approximate figures for the various months listed and were not all taken on the same day of each month. It is my understanding from Mr. Earl Yee, vice president of the Aluminum Goods Manufacturing Co., that this information could be released to you but is not for publication.

Very truly yours,

PAUL F. CALLAHAN

Manitowoc was the first community certified as a distressed area by the Office of Production Management for special consideration by the procurement branches of the armed forces. As the following testimony shows, the war contracts which have been let in the area have been inadequate for reabsorbing all those who have been laid off.

Mr. Abrutz: Mr. Knight, I would like to ask one question before you go on. Since Manitowoc was certified as a distressed area, have you had any defense contracts at all allocated to that city?

Mr. KNIGHT: As a direct result of the certification of Manitowoc as a distressed area, an order in the amount of approximately one-half million dollars was placed for 37 mm. cartridge cases.

1 St. Louis Beeings, pt. 21, p. 2298
2 St. Louis Beeings, pt. 21, p. 2297-2298.
At the time of the committee's hearings extensive migration from the area had not as yet begun. It was apparent, however, that any resultant migration would be far more distant areas because of the limited employment opportunities offered by the nearest industrial centers.

Mr. Knott. There is one further item: Is there any way of estimating thus far the number of people who have been unable to find jobs because they have been unable to find work in other areas?

Mr. Knight. No. We have not any exact record of that. It is difficult to obtain. We know, however, that many of the very stable families of the community have been unable to find employment in other areas.

Mr. Jones. What is the nearest city of any size, and what distance is it from Manitowoc or Two Rivers?

Mr. Choufsey. Neither of these cities are necessary in the manufacturing industry, nor do they have manufactories in Manitowoc or Two Rivers.

Mr. Knight. The labor market supply is quite ample both in Green Bay and Sheboygan.

Mr. Choufsey. It is the same thing at Milwaukee.

Mr. Jones. They are having their own labor problems there but not so had. I think that all I want to add.

As far back as June 1941, the labor market survey prepared by the bureau of employment security concluded with recommendations which, had they been properly carried out, would have made the idle equipment and men of Manitowoc and Two Rivers for the proper use of the armament required by this country.

The result of the relief program in Manitowoc County indicated that the equipment may be used only for aluminum and copper with the exception of some possibilities for very light sheet steel. Assuming that it is necessary to use these plants, equipment, personnel, and management in our defense program, it appears that steps must be taken to prevent all these activities in aluminum manufacturing for which their plants may be adapted with slight modification. It is suggested that competent engineers and operators of the plants should submit to the Office of Production Management the details of their equipment. This information should be related to the defense items which must be made out of aluminum and a list prepared of those which could be manufactured in the aluminum industries in Manitowoc. This having been done, technical experts would be made available to the aluminum industries so that they may be able to make the necessary adaptations to their plant facilities. As a first step it may be necessary to let these contracts for defense production on a cost-plus basis for it would appear that the total cost of this procedure would be far less than the cost resulting from the destruction of the aluminum industry in Manitowoc County. It would also appear desirable to secure cooperation of many of the severest manufacturers in the county to the end that a committee is formed to pool their resources and to operate somewhat as one manufacturing unit.

As an alternative suggestion in the effect that the plants are not needed in the defense program, it would appear necessary to make a job analysis of the defense program. Labor survey analysis would also show areas where the workers could be used and provided with employment. Through the facilities of the industrial educational program for national defense, workers from the Manitowoc metalworking plants could be trained preparatory to their controlled migration.
SECTION B.—EMPLOYMENT IN THE AUTOMOBILE INDUSTRY UNDER THE CURTAILMENT PROGRAM, SEPTEMBER TO DECEMBER 1941

INTRODUCTION

The evidence presented at the committee’s hearings held in Detroit during September 1941 indicated that on the basis of the production of passenger automobiles, as then scheduled, approximately 175,000 workers in the State of Michigan alone would be thrown out of civilian employment by January 1942. It was estimated that employment in defense industries would be increased by 75,000, leaving at least 100,000 without work.

With the announcement of the G. P. M. further restricting production as a result of the outbreak of war in the Far East and the possibility of complete stoppage because of a rubber shortage, the perspective as of September 1941 has completely changed. To bring this record up to date representatives of the auto industry were invited to appear at the hearings held in Washington on December 22 and 23 to present the most recent figures available on defense employment in the auto industry and to reconsider the situation in the light of the further drastic cut and the possibility of eventual complete cessation.

The committee was particularly interested, too, in learning whether, under the impact of actual curtailment of civilian production, the rate of defense employment was markedly increased. This was the expectation of the Division of Civilian Supply. The committee did not find this to be the case. The estimates of defense employment presented by individual manufacturers at the September hearing proved, on the basis of actual developments to be quite accurate. To the estimate of unemployment then made, the effects of the new cuts may be added to give prospective employment under the revised schedule. No increase in the tempo of war production in the automobile industry is apparent from the evidence to the committee.

According to Mr. Paul Stanchfield, director of research of the Michigan Unemployment Compensation Commission, complete shutdown of the industry will mean unemployment for approximately 277,000 workers in the State of Michigan alone.

About 260,000 workers will be unemployed in Michigan before the end of this year as a result of reduced production quotas and material shortages which have become more severe since the United States' entry into the war. Surveys made before December 7 had shown that large-scale unemployment would be expected in the State at about this time—but the pre-war estimate anticipated less than half of the enormous volume of labor displacement which is actually taking place at this very moment.

In the week that ended December 20, preliminary reports indicate that about 110,000 workers filed claims for unemployment compensation—an increase of about 70,000 from the preceding week. Lay-offs in the automotive industry will be at least as heavy. A special survey of the major plants in Michigan’s automotive industry, completed last week, shows that 132,000 of the 351,000 workers employed by these companies before December 7 will have been laid off by the end of the year. At least 30,000 more workers will have been laid off by other plants in the industry, and another 10,000 to 30,000 workers will probably be released by plants in other industries. To these lay-offs must be added the 40,000 workers who were unemployed and filing unemployment compensation claims before the present wave of lay-offs began—bringing the total above 350,000.

The extent and duration of unemployment after the first of the year depends primarily upon the speed with which defense work can be expanded. The most recent data we have on the prospects for expansion of defense employment were collected before war began—the actual tempo of expansion will be more rapid.

But on the basis of existing contracts in November, new jobs in military production were expected to be barely sufficient, within a year, to offset the total of about 180,000 unemployed which was then expected to result from material shortages and an average of 50 percent cut in civilian automotive output. Unless Michigan’s defense employment can be nearly doubled from its present total of about 350,000 in the very near future, the State will be faced with an extremely large number of unemployment and possible large-scale migration of workers away from the State.

My statement before your committee in September 1 mentioned a State-wide survey made in July of this year, showing that net unemployment of automobile workers and others displaced by shortages would amount to at least 93,000 in January if automobile production were curtailed by 50 percent. (This is in addition to "normal" January unemployment of 30,000 in other industries.) The same survey estimated that a 75-percent cut would mean displacement of at least 175,000 automobile workers. After recall of some of the workers now being laid off, this figure may be quite close to the actual number who remain unemployed through January if the latest announced quota is not cut further.

The number of workers who will be recalled by automotive plants to work on production of passenger cars and commercial trucks appears to be impossible to estimate at present, since civilian automobile production schedules seem to be subject to day-to-day revision on the basis of current production and the availability of materials. While the quota for January officially established at about 25 percent of the United States output of 111,258 passenger cars in January 1941, recent developments make it likely that 220,000 passenger cars will be produced in the first quarter of 1942. This would mean a reduction in the size of the next model passenger car and a completion of a two-shift operation in the first quarter of 1942.

Applying to the national picture figures derived on the basis of the Michigan survey, Mr. Stanchfield estimated that approximately 375,000 workers would be employed throughout the country in the event of complete shut-down.

We do not have data necessary for anything like an adequate estimate of the effect of curtailment of automotive production upon employment in the entire country. It is known that about one-third of the industry’s total manufacturing operations are located in Michigan, and that nearly all of these non-Michigan plants are employed on relatively short runs. It is also known that the plants located in Michigan, about 100,000 automobile-manufacturing workers outside of Michigan may be thrown out of work. In an estimate based upon figures obtained in the 1935 census of business, the Automobile Manufacturers Association reported that more than 1,175,000 workers were engaged in automotive sales and servicing. There may be little unemployment in automobile service and repair, but if the proper

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According to Mr. Paul Stanchfield, director of research of the Michigan Unemployment Compensation Commission, complete shutdown of the industry will mean unemployment for approximately 277,000 auto workers in the State of Michigan alone.

About 390,000 workers will be unemployed in Michigan before the end of this year as a result of reduced production quotas and material shortages which have become more severe since the United States' entry into the war. Surveys made before December 7 had shown that large-scale unemployment could be expected in the State as at this time—but the pre-war estimate anticipated less than half of the enormous volume of labor displacement which is actually taking place at this very moment.

In the week that ended December 20, preliminary reports indicate that about 110,000 workers filed claims for unemployment compensation—an increase of about 70,000 from the preceding week. Lay-offs this week will be at least as heavy. A special survey of the major plants in Michigan's automobile industry, completed last week, shows that 195,000 of the 351,000 workers employed by these companies before December 7 will have been laid off by the end of the year. At least 40,000 more workers will have been laid off by other plants in Michigan, and another 10,000 to 20,000 workers will probably be released by firms in other industries. To these layoffs must be added the 40,000 workers who were unemployed and filing unemployment compensation claims before the present wave of layoffs began—bringing the total above 350,000.

The extent and duration of unemployment after the first of the year depends primarily on the speed with which defense work can be expanded. The most recent data we have on the prospects for expansion of defense employment were collected before war began—the actual tempo of expansion will be more rapid, but on the basis of existing contracts in November, new jobs in military production were expected to be barely sufficient, within a year, to offset the total loss of about 130,000 automobile workers. (This is in addition to about 30,000 automobile workers who were unemployed before the war.) The survey estimated that a 10% output would mean displacement of about 170,000 automobile workers. After recall of some of the workers now on the rolls, this figure may be quite low to the actual number who remain unemployed through January, the latest announced quota is not expected to reach this figure until April 1942. The only solution to the State's unemployment problem is obviously a great expansion in the amount of military production and employment. An estimate made by the State's unemployment commission gives an indication of the rate at which this objective may be achieved in the future.

Reprinted from The Economist, December 12, 1941

NATIONAL DEFENSE MIGRATION

The automobile industry, and another 10,000 to 20,000 workers will probably be released by firms in other industries. To these layoffs must be added the 40,000 workers who were unemployed and filing unemployment compensation claims before the present wave of layoffs began—bringing the total above 250,000.

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1 Washington hearings, pt. 24, pp. 938-947
2 Washington hearings, pt. 24, p. 948.
tion of those workers who are engaged in selling corresponds to the proportion in Michigan's covered employment, more than 400,000 of these workers are engaged in distribution and, therefore, likely to experience unemployment as a result of the virtual elimination of automobile production for civilian use.

Mr. R. J. Thomas, representing the United Automobile Workers, estimated that complete cessation of civilian production would mean unemployment for 300,000 workers in Michigan and 450,000 throughout the United States.

In the automobile parts industry, Mr. C. C. Carlton, president of the Automobile Parts and Equipment Manufacturers, Inc., estimated that by January 31, 1942, a hundred thousand workers would be unemployed.

The volume of business of the industry is really very great. It is a billion dollar industry in original equipment in normal times, or it was up until the recent catastrophe. The replacement-parts business is more than a one-half billion dollar industry, and we could say, as a rough guess, that slightly over 100,000 people are engaged solely in the manufacture of replacement parts, and that probably 160,000 are engaged in original equipment. That is a rough guess which may be wide by 10 percent, but it gives you an idea of the situation.

Therefore, if no automobiles are produced, a large number of those people will be laid off—not all of them, because some are engaged in the manufacture of original equipment for trucks, and there again, we cannot give you a definite division as to how many people are engaged in the manufacture of truck parts and how many in passenger-car parts. But certainly 100,000 people, at a very minimum, are already laid off or will be laid off by January 31 in the automotive parts industry. Many of these people have no defense work of any kind.

DEFENSE EMPLOYMENT IN THE AUTOMOBILE INDUSTRY

The following table was submitted by Mr. H. W. Anderson of the General Motors Corporation showing defense and nondefense employment in the plants of this corporation by community. According to this table, defense employment has increased by 30,000 since June 1941 and is expected to increase by an additional 24,000 by February 1942. The elimination of passenger-car production would throw out of work as of that date approximately 120,000 workers who were employed by this corporation during November 1941.

General Motors total United States employment.

<table>
<thead>
<tr>
<th>United States factory location</th>
<th>Civilian</th>
<th>Military</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flint</td>
<td>42,764</td>
<td>41,234</td>
<td>10,365</td>
</tr>
<tr>
<td>Detroit</td>
<td>25,923</td>
<td>26,320</td>
<td>6,272</td>
</tr>
<tr>
<td>Dayton area</td>
<td>34,926</td>
<td>35,926</td>
<td>7,500</td>
</tr>
<tr>
<td>Foreign</td>
<td>25,528</td>
<td>24,527</td>
<td>6,377</td>
</tr>
<tr>
<td>Y. T.</td>
<td>21,324</td>
<td>22,614</td>
<td>6,000</td>
</tr>
</tbody>
</table>

1. Civilian production eliminates all passenger cars and trucks, and half of light trucks, but leaves medium and heavy trucks and replacement parts unchanged at previous established levels. The weekly work week is reduced to 62 hours.

2. Military production assumes the extension of contracts to continue at current levels of production where possible and as rapidly as possible under the limitations imposed by munitions deliveries.


4. Figures not specified.

5. To make figure comparable with November data which includes Yellow Truck 3,000 workers added on basis of June 30 data when approximately 2,500 workers were employed on defense by this subsidiary.
Mr. CURTIS. Do you agree that our procurement side of the business—the Government itself—has not been as aggressive in employing concerns to do certain things as it should have been?

Mr. CARLTON. I wouldn’t want to make that statement, Mr. Curtis, because our business has been to do whatever we could for the Army and the Navy and the Quartermaster Corps. In the Office of Production Management, in the automobile branch, we have been limited there by a curtailment program, and we have been struggling to get enough priorities and allocations to keep our factories running on the quotas that were allocated to us.

I have heard of very little planning on the question of what we could do to take over any additional business. You must always remember that the purchasing and procurement end has rested entirely within the armed forces of the country, and not any planning division.

According to Mr. R. J. Thomas of the United Automobile Workers, no change had taken place in the tempo of war production since the committee’s hearings in Detroit. The necessary decision to convert the existing facilities of the industry had not yet been made.

Mr. ARNOLD. Mr. Thomas, at our hearing in Detroit last September, we investigated the effect of the order curtailing civilian auto production by 50 percent. The figure on prospective unemployment which you submitted at that time has proved to be an underestimate, owing to the recent order further restricting production.

We are particularly interested in asking you, as we did the representatives of the automobile industry yesterday, what steps have been taken in the interval since our September hearings to meet the threat of unemployment and lagging war production.

Mr. THOMAS. In my opinion, the attitude of the manufacturers is better today than it was yesterday. I think it was comparatively late, I say, expressed yesterday by Mr. Knudsen when he said that we have been at war only 2 weeks. That is a fact, yet everybody knows, and has known for months, the direction in which we were going. I believe he did express the attitude of the industry in giving that response.

Mr. ARNOLD. At the Detroit meeting the desirability of more prime contracts in Detroit was frequently mentioned. Have additional contracts been let to the Detroit manufacturers since that meeting, to your knowledge?

Mr. THOMAS. Some tank contracts have been let, but nothing will be done on those jobs, I would estimate, for at least 6 months. That is because the manufacturers claim those contracts require the construction of new buildings. It is going to take at least that long and they will have to rush it at that, to make absolutely any showing at all within 6 months.

Mr. ARNOLD. We are particularly interested, in view of the outbreak of war, in learning whether, in your opinion, the factors which you named in September as restricting war production have since been eliminated in the war effort.

Mr. THOMAS. I don’t quite understand your question.

Mr. ARNOLD. Mr. Thomas, in the September hearing you outlined a number of factors that were prevalent in the Detroit area as being restrictive of war production. Have they been eliminated?

Mr. THOMAS. No.

Mr. ARNOLD. And particularly we would like to ask whether, in your belief, the facilities of this industry, which controls one-third of the durable metal goods capacity of the Nation, are being used in the most effective way in the national war effort.

Mr. THOMAS. Are you asking that question with regard to war material machinery?

Mr. ARNOLD. With regard to all phases of the automobile industry.

Mr. THOMAS. The productive capacity is not being used at all, if that is the question you are asking, neither in machines or buildings or men.

Mr. ARNOLD. Has there been some conversion to war effort?

Mr. THOMAS. Very little.

Mr. ARNOLD. In the existing facilities?

Mr. THOMAS. That is right.

In the case of the Ford Motor Co., the testimony did not permit construction of a similar table. Mr. Roberge testified that the company was then employing 20,000 on defense work, 56,000 on civilian trucks and other automotive parts, and said that 42,000 would be laid off assuming no more passenger cars were produced. At the September hearings the Ford Motor Co. estimated that by December 1941 employment on defense would total 13,500. The figure of 30,000 given at the last hearing would indicate either a sharp rise in the rate of production or a change in the classification of defense and nondefense work. According to the testimony of Mr. Roberge, the company expects to employ approximately 33,000 workers on defense by June 1942, 113,000 by December 1942, and approximately 120,000 by March 1943.

The Packard Motor Car Co. was not represented at this hearing.

The committee endeavored to learn whether the restrictions in civilian production effective since the September hearing had resulted in any sharp increase in the allocation of defense work to the industry. The testimony of the individual automobile manufacturers was in substantial agreement as to the degree to which the letting of contracts had been accelerated in the past few months. Mr. Carlton stated the position of the industry as he indicated that there had been the planning necessary to enable the industry to take on additional defense work.

In you r opinion.

(Regraded Unclassified)
Examples of giant manufacturing facilities making no contribution to the war effort were given by Mr. Frankenstein.

Mr. Frankenstein. I would like to give you a few statistics on the Chrysler Corporation. I was here yesterday, and I think some of the figures given were, to say the least, erroneous.

I have some specific figures on the Dodge plant, with 35,000 employees. It is not an assembly plant, it is a manufacturing plant. Only 23,000 people out of 35,000 are engaged in defense work, and they are working on the guns. That plant is a huge plant; it has tremendous floor space, a foundry, a heat-treat room, a core room, and an excellent machine shop; and yet only 23 people are engaged in defense.

According to the industry representatives it would be impossible to perform final assembly on more than one shift. Under the present system of operation the full workweek is now in effect only on bottlenecks.

Mr. Anderson. I have never heard the four shifts discussed, Dr. Lamb.

Dr. Lamb. I cannot say, because the President, in the speech which he made immediately after Pearl Harbor, mentioned the four shifts as the goal of our war industry production.

Mr. Anderson. Personally, I think four shifts would be a very efficient way of operating. The three shifts, or "swinging-shift" method, will probably attain the maximum amount of production. Four shifts would require an excessive number of labor and production facilities in the field. The three-shift operation is the method that we now have in force.

Dr. Lamb. I understand what you are driving at.

Suppose you are operating on a three-shift basis at the present time, what proportion of your employees would be on the first shift?

Mr. Anderson. That would depend entirely upon the order you are manufacturing. It would change with each type of material. As an illustration, if you produce production a on the first shift, it is to be expected that you will have an equal number of employees on each of the three shifts, because the third shift is not an assembly shift, but it is a cleaning shift. These three shifts are running in practically all cases, for 6 days a week, and on the seventh day at the present time we are picking up the lack of material that we lose during the week as a result of machine breakdowns, or giving the necessary maintenance to the equipment.

Dr. Lamb. I understand what you are driving at.

Mr. Anderson. That is not necessarily so. It is possible that the first shift would be cut down to 30 percent and the other shifts would come up.

Mr. Anderson. Dr. Lamb, we would do it in the most efficient way to get the maximum production. If that meant splitting up the assembly so we would have it on all three shifts, we would do it that way.

Dr. Lamb. I am trying to see the effect of increased production, which the Government might see, would be on the plants' present operating schedules, and what they would be under the present system of operations, and what effect it might have on the output of parts.

Mr. Anderson. If you increase the production of parts on the first, second, and third shifts, particularly the first and third shifts, then you probably could put an assembly on all three shifts; but it goes down to the item itself, as to whether you can get the maximum production by doing certain operations on all three shifts.

Dr. Lamb. Would the same situation apply to your operations, Mr. Conder?

Mr. Conder. Yes, it would. We are now operating on defense work, 6 or 7 days. We do not have the swing shift. What we are trying to do is to operate in as way that will get the greatest production in the shortest time. That is not necessarily a three-shift operation or a swing-shift operation.

Different plants, different situations, require different methods of operation. When you asked Mr. Anderson about increasing the number of parts and increasing the capacity of the plants which we are now in operation, and they do not have as many parts on the third shift as we do on the first, and that varies depending on the unit you are producing, as to how closely you can balance the productivity of those plants.

Mr. Anderson. To increase the second and third shifts to their fullest capacity, you would have to be able to operate in more equipment on your first shift, and that would never be in balance because you would be adding plants and plants of space and space.

Dr. Lamb. Mr. Conder, for the Ford Co.?

Mr. Conder. I will reiterate more or less what these other gentlemen have said about the balance of production. It is just two to point out that on November 18, in which is the latest record I have to have with me, at the River Rouge plant we had 8,281 on the first shift, 4,585 on the second, and 23,814 on the third. Of course, we are trying to step up production as fast as we can by increasing the unbalanced items of the first shift, and to do that we would have the first shift go up to 60 percent. We have to do that in order to get the maximum output.

Speaking of the Chrysler Tank Arsenal, Mr. Conder testified.

Mr. Sparkman. How many shifts do you work at that plant?

Mr. Conder. There are three shifts—on all operating, but there are three shifts at the tank arsenal, working 8 days. On the seventh day we make up production necessary to keep our operations in balance and make repairs to machinery, and the things that can't be done during the 6 days.

Mr. Sparkman. When was that plant placed in operation?

Mr. Conder. We broke ground in September of 1943, and we turned out our first tank in March, I believe, in April of 1944, as the plant was never built.

Mr. Sparkman. You haven't reached peak production yet, have you?

Mr. Conder. No, sir. We are coming fairly close to it on present facilities, but there is a lot of expansion.

Mr. Paul Stansfield testified that under the present system of operation peak employment at the arsenal would be 12,500. If final assembly were on a three-shift basis, output could be trebled. The availability of machine tools to expand bottleneck facilities is indicated in the following table based on a survey by the United Auto-
mobile Workers and submitted by Mr. R. J. Thomas. This table shows that at the present time machine-tool production would be doubled by the institution of a full 100-hour work-week.15

Table of idle machine tools—Second Tool and Die Council survey

<table>
<thead>
<tr>
<th>Machine</th>
<th>25 captive shops and departments</th>
<th>79 jobbing shops</th>
<th>111 considered shops</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>hours闲置</td>
<td>Number</td>
</tr>
<tr>
<td>Lathe</td>
<td>816</td>
<td>59.4</td>
<td>820</td>
</tr>
<tr>
<td>Planers</td>
<td>52</td>
<td>68.4</td>
<td>71</td>
</tr>
<tr>
<td>Shapers</td>
<td>391</td>
<td>61.6</td>
<td>301</td>
</tr>
<tr>
<td>Vertical mills</td>
<td>104</td>
<td>63.8</td>
<td>104</td>
</tr>
<tr>
<td>Horizontal mills</td>
<td>196</td>
<td>61.1</td>
<td>198</td>
</tr>
<tr>
<td>Boring mills</td>
<td>90</td>
<td>74.4</td>
<td>90</td>
</tr>
<tr>
<td>Kellyers</td>
<td>70</td>
<td>82.7</td>
<td>70</td>
</tr>
<tr>
<td>Sanders</td>
<td>63</td>
<td>70.7</td>
<td>63</td>
</tr>
<tr>
<td>Small drills</td>
<td>544</td>
<td>68.7</td>
<td>544</td>
</tr>
<tr>
<td>Surface grinders</td>
<td>338</td>
<td>63.2</td>
<td>338</td>
</tr>
<tr>
<td>External grinders</td>
<td>111</td>
<td>59.3</td>
<td>111</td>
</tr>
<tr>
<td>Internal grinders</td>
<td>65</td>
<td>63.2</td>
<td>65</td>
</tr>
<tr>
<td>Cutter grinders</td>
<td>201</td>
<td>54.3</td>
<td>201</td>
</tr>
<tr>
<td>Screw machines</td>
<td>27</td>
<td>70.6</td>
<td>27</td>
</tr>
<tr>
<td>Ball end lathe</td>
<td>10</td>
<td>63.9</td>
<td>12</td>
</tr>
<tr>
<td>Rigid drill</td>
<td>100</td>
<td>68.4</td>
<td>100</td>
</tr>
<tr>
<td>Jig borers</td>
<td>10</td>
<td>60.1</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>2,383</td>
<td>55.9</td>
<td>2,402</td>
</tr>
</tbody>
</table>

**SUMMARY**

<table>
<thead>
<tr>
<th>Shops and departments</th>
<th>Machine-hours available</th>
<th>Machine-hours idle</th>
<th>Percent idle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Captive (25)</td>
<td>408,175</td>
<td>197,250</td>
<td>55.0</td>
</tr>
<tr>
<td>Jobbing (30)</td>
<td>419,038</td>
<td>230,250</td>
<td>53.6</td>
</tr>
<tr>
<td>Combined</td>
<td>770,213</td>
<td>437,500</td>
<td>50.7</td>
</tr>
</tbody>
</table>

Mr. Wishart, of the U. A. W., testified that up to a few weeks ago, 7,000 tool makers in the city of Detroit were engaged in regular automobile production.

Mr. Wishart. One exception might be made there. You had at least 7,000 tool makers in the city of Detroit a few weeks ago who were engaged in regular automobile production. With the curtailment of that regular production, you will have that force of 7,000 men who are being drawn immediately over into the tool and die work involved in this conversion program.

More than that, of course, the union has worked out agreements on upgrading—that is, raising production workers or machine-shop operators to positions in the toolroom where they can contribute their services to specialized operations in turning out the tools, dies, and fixtures necessary for defense conversion. So we don’t think that labor, in that particular place, will be a bottleneck.16

**RELIANCE ON NEW PLANTS FOR WAR PRODUCTION**

The following tabulation submitted by the War Production Board analyzes the extent to which the war contracts let to the automobile industry through December 1941 depend on the production on new plant and equipment or on existing equipment.

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1 Data furnished by the War Production Board.

The above data show that a major portion of the war contracts to the industry depend on the construction of new plants and the installation of new equipment. The negligible reliance on conversion of existing facilities to the production of arms is shown particularly in the second tabulation, where contracts for items similar to the normal products of the industry have been excluded from the analysis. This tabulation shows that only 7 percent of the contracts for nonautomotive military items were allocated to existing facilities without record of new-equipment purchases. More than 80 percent of the military contracts (exclusive of automotive equipment) awarded to the industry either involved the construction of entirely new Government-financed plants (63 percent) or the purchase of new Government-financed equipment (19 percent).
SECTION C.—PROCUREMENT AND PRODUCTION PLANNING UNDER THE OFFICE OF PRODUCTION MANAGEMENT

INTRODUCTION

Prior to the establishment of the War Production Board the war agencies charged with the conversion of industry to war production were the Office of Production Management and the supply services of the War and Navy Departments. While the former was theoretically responsible for conversion, the supply services through their contract powers exercised the ultimate authority with regard to production decisions.

The Executive order which set up the Office of Production Management on January 7, 1941, assigned to it the specific duty to “formulate plans for the mobilization of the defense of the production facilities of the Nation and to take all lawful action necessary to carry out such plans.” Despite this clear-cut mandate and the shortage of raw materials forcing the increasing curtailment of the consumer goods industries, no program had been developed for the systematic conversion of any single consumer durable goods industry to war production in the 9 months since its organization. By September 4, 1941, a special division was set up, by Executive order, within the Office of Production Management to insure that small plants hitherto excluded from war production would be utilized. This division, the Contracts Distribution Division, was furthermore charged with the specific responsibility to “develop programs for the conversion of plants and industries from civilian to defense production with the assistance of the Government, if necessary,” and stated that the division was formed “to insure unity of policy and coordinated consideration of all relevant factors involved in the formulation and execution of industry conversion programs and contract distributions and subcontracting procedures. All such programs or procedures shall clear through the Division of Contract Distribution.”

A representative of the Office of Production Management appeared before the committee on December 29 and reported that only the smallest of the consumer durable goods industries had been converted and that he had no knowledge of nor had cleared plans for the systematic conversion of any other industry.

Mr. Curtis. Mr. Wheeler, I would like to call your attention to page 32 of our second interim report, which includes a list of only some of the industries which it was generally recognized would be curtailed. You will notice that the domestic industry equipment is virtually at the bottom of this list, with approximately 10,000. Would you tell us whether conversion programs have been developed by your Division or cleared through your Division, with respect to any other of the industries on this list, or in fact for any other consumer durable goods industry?

Mr. Wheeler. The O. P. M., of which we are a part, is just now approaching the question of conversion in an industry-wide manner. So far, with our limited staff, we have concentrated on distressed areas, on helping plants that have been organized, and in trying to get prime contractors to subcontract.

1 Domestic durable goods industry.
Mr. ANDERSON. I don't follow your question.

Mr. CURTIS. I understand you to say that in your case, the curtailment was effected through all the plants alike.

Mr. ANDERSON. The general scheme, under reduction, would be that first you would carry it straight through. Then a second would be to cut off our employees—those not having any particular seniority status—then we would try to run the plant on the basis of 40 hours, and then perhaps drop down to 32 hours.

Mr. CURTIS. Would that policy not make it impossible to convert some of that equipment into war production?

Mr. ANDERSON. No; because much of our equipment was converted into war production, these machines are not yet in use under that system, as if you made your curtailment in a portion of your industry and concentrated the remaining civilian production in another part?

Mr. CURTIS. Unfortunately, in our layout, what affects one department affects all departments equally, and consequently our defense work, some of it, is laid out on a 24-hour basis by plant. Since the outbreak of the war, we have had orders from the Navy to get into a 24-hour production as rapidly as possible, and that is being done.

There is a grave question as to whether that should be 6 days a week or 7. You run your automobile as many miles as you have plenty of time in there to repair that automobile. If you put three specialists on your automobile 24 hours a day, you would be put with fewer break-downs of miles; secondly, you would meet with a major break-down that would require a major overhaul job. There must be time for repairs in the 24-hour period.

Many of these machines are automatic, miscellaneous things in their production, for instance, of shell casings. They are very delicate machines. They require constant attention and watching, and without an hour, or a half an hour, or a day, occasionally, to overhaul them, these machines will break down and production will be completely lost, and everyone laid off.

Mr. CURTIS. Mr. Conder, how did your company conform to this August 90 curtailment order?

Mr. CONDER (Chrysler). We had a curtailment in each of our plants, rather than a discontinuance of operations in any particular plant.

Mr. CURTIS. And do you think it would have been possible to convert to war production in 10 days?

Mr. CONDER. I don't see how anyone could answer that question without knowing more of the facts. For example, we should know what war production you want us to do. If that war production was particularly adaptable to certain plants, naturally if you discontinued operations in that plant, you would be able to go on with defense work. On the other hand, if it were a type of work that was adaptable to several plants, and you cut your production in all those plants, you could go on, instead of at the most, to work.

Mr. CURTIS. And it was possible, or at least it hasn't been possible up to date, to know what defense business you could have at the time you were making your plans to curtail civilian business?

Mr. CONDER. That is right. I don't think that that method of computing with the order has showed up the defense work.

Mr. WADSWORTH (Hudson). We only have one set of plants; we are small.

Mr. ROBERTS (Ford). We got a late start after the cut in August and we didn't carry employment to any extent until we caught up, in fact we haven't carried employment to any extent until last week, I would say.

Now our defense contracts haven't been affected because you might call them entirely separate from the automotive operation.
The present shift applies only to the industrial branches of the Civilian Supply and Purchases Division, which are largely concerned with nonmilitary products. The conversion will be accomplished in two stages: first, a rapid conversion of war industries to peacetime production; and second, a slow, orderly transfer of peacetime industries to a war basis.

Mr. Curtis. Could you tell us this: That a study was made first of what the automobile production was going to be, and a plan was submitted to the industry by August 15 that laid out the car schedules for the entire year.

Mr. Knudsen. Yes. Whatever schedule we have of conversion is dependent on the schedule of curtailment.

Mr. Curtis. Suppose you have a complete curtailment, still you have not to ascertain what you can convert to defense production, and how much.

Mr. Knudsen. I will come to that in a minute, if you will permit me. If you plan conversion on the basis of a 50-percent curtailment, and then have to plan it on the basis of 100-percent curtailment, it wouldn't be the same program. So a schedule was furnished the automobile industry in August. This schedule was agreed to and maintained up to December, and the latter displacement was found in accordance with that schedule.

The lightest point in the schedule was copper. We thought we had some means of increasing the copper production so as to be able to meet that schedule, but we didn't. General Motors, for instance, was told the program of 100,000 tons a month wouldn't be maintained.

However, 2 weeks ago Sunday something happened that shifted the critical material from copper to rubber. The schedule for December was cut in half for the last half of the month, or 25 percent of the total month's schedule was cut. Fifty percent of the January schedule has been cut, and it is now proposed to bring the industry to Washington on the 1st of January to find out what further can be done.

Now, if we talk about conversion of an industry to war production, you are taking in an awful lot of territory.

What is war production? You can talk in terms of trades or items. There are only four main items in the program, and they are: planes, tanks, ships, and guns and ammunition. There might be 10,000 different articles in those four but those are the groups that we want.
Mr. Knudsen. Studies take a long time, and often produce very little results.

Mr. Curtis. Because the picture changes by the time your study is completed.

Mr. Knudsen. I feel that we ought to be spending our time taking each item of defense matters that we want and get that spread as much as possible.

Further emphasizing the difficulties rather than the necessity of converting the automobile industry, Mr. Knudsen stated that the Hitler regime had found it impossible to convert the war production of Germany's comparatively small automobile industry.

Mr. Curtis. Has either group taken any steps to assure that the passenger-car facilities will be converted to the maximum degree possible?

Mr. Knudsen. They will be converted as fast as the tooling can be done. Conversion means that the different fixtures have to be made for the machine if they are to be used at all.

I told your colleague here the other day in the office about our experience in Germany.

I used to be the president of General Motors up to a year and a half ago, and we had two factories in Germany. One was a truck factory in Brandenburg; the other was a car factory near Wunsdor and Rosheimheim, which made 150,000 passenger cars a year.

You would think that when the German Government took over both plants you would get the greatest example of efficiency in conversion. A lot has been told about that.

The truck factory was taken over in toto, and has been working 24 hours a day 7 days a week ever since.

The passenger-car factory that had 22,000 employees was shut down. The men were carried elsewhere; the forging machines were put to work making small forging and airplane parts, and 2,000 women were put into plants making airplane parts.

That made a total employment of about 4,000 people out of the 22,000 they had before. The balance were carried away to some other place.

Mr. Curtis. What happened to the facilities?

Mr. Knudsen. They are still there.

Mr. Curtis. Not being used?

Mr. Knudsen. No, sir.

Mr. Curtis. How recent was your report on this?

Mr. Knudsen. Three months ago.

Other witnesses expressed a contrary belief. They stated that, despite the unimportance of the German automobile manufacturing facilities as compared to American facilities, they were being fully employed.

The CHAIRMAN. What about Germany? Did they convert automobile production to defense?

Mr. Taub. Oh, yes. They knew precisely what they were going to do long before they did it, so it was just a matter of pushing buttons and deciding how to swing over. Some of the large American plants were held to the last for conversion, but that was simply because they made a pretty good truck that was easily converted to military use.

Mr. Knudsen. Is Germany or England manufacturing any automobile now?

Mr. Taub. Not that I know of, sir, except such cars as are used for carrying machine guns or military people. None is being made for export. I am sure, because the company we are associated with—that is, Opal—is making none.

Mr. Sparkman. Now, I should like to ask your comment on the statement that Mr. Knudsen made to us yesterday, that of the two General Motors plants in Germany, one of them, at the last report he had, which I believe he said was about 2 months ago, had not been converted to wartime production. That is in Germany, where we think of efficiency as being at its height.

Mr. Thomas. This is the first time I had heard of that. I would like to ask a question, if I may be permitted. Did he say anything about whether the machinery had been taken out of that plant?

Mr. Sparkman. No; that question was not asked him. We simply asked, I believe, whether it had been converted.

Mr. Thomas. Of course, the inference which I think we all fairly draw from it was that the plant had been left idle and none of it was being used.

Mr. Thomas. We are not saying that every automobile plant can be used.

Mr. Knudsen.Or, of course, the machinery which I think we all fairly draw from it was that the plant had been left idle and none of it was being used.

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Mr. Knudsen. Or, of course, the machinery which I think we all fairly draw from it was that the plant had been left idle and none of it was being used.
Wouldn’t we be able, through this method of tank manufacture, to utilize more effectively not only the big plants of the automobile industry but also hundreds of small plants throughout the country?

Mr. KNUSSEN. The only reason for this building is that we have a building with a crane to swing the units in that tank. The tank weighs 27 tons, and it is going up to 30 tons. You can’t handle it by hand. You have got to have something with a crane in it. You have six small manufacturers making the same tank now, and we decided here that we would get another big assembly plant. But that doesn’t mean the entire tank must be manufactured in that plant.

Mr. Harrison can give you a list of the subcontracts involved in it, and you will find there are plenty of them.

The assembled plant, with a crane in it, can be built in a very short time. You seem to have the idea that the entire manufacturing process of the tank will go on in that building. They will not.

Mr. Curtis. I realize that. But the only way those processes can be distributed is through subcontracting, isn’t it?

Mr. KNUSSEN. Yes, sir.

Mr. Curtis. The procurement agencies themselves do not go out and employ these smaller concerns to make a part of a tank?

Mr. KNUSSEN. No.

Mr. Curtis. What do you think of that idea?

Mr. KNUSSEN. I don’t like it.

Mr. Curtis. Why?

Mr. KNUSSEN. Because it scatters responsibility through thousands of associations and it leaves the responsibility for inspection entirely with the service. That would be a terrible job. You would have to have a thousand inspectors going around the country to follow up the execution of the direct subcontract for the services.

If you do it through the prime contractor, and you hold him responsible for it, then you get the proper coordination.

Mr. Curtis. Your suggestion has been tried. It is being done. The English have tried it. They are doing it now. It is not successful.

Mr. Curtis. The English are abandoning the system of “exploding.” They call that “exploding,” don’t they—taking a couple of machines down and using what parts can be made by various manufacturers?

Mr. KNUSSEN. They are contracting direct with the parts manufacturers. I don’t believe it will work.

Mr. Curtis. Mr. Knussen, at our St. Louis hearing, one of the witnesses was a gentleman who advised me to be typical of the small manufacturer out in the various parts of the United States, and he argued that whereas a tank was a very complicated, heavy item, and there were but a few concerns that could take care of it, on the other hand, every small manufacturer throughout the country had a tank to manufacture, and if you would break down and have an individual part on the table, and nothing else in the room, it becomes very simple.

Now, those concerns throughout the United States aren’t going to have any material for civilian production. Many of them are manned by very skilled mechanics.

Could this be worked out whereby they could be assigned some of those jobs without the necessity of getting a contract through a prime contractor? Mr. KNUSSEN. Mr. O’Burn will have a man in every procurement office in the various parts of the United States within a very few days. He has been giving approval to those appointments that he sees need for in each of the small manufacturers and the procurement office.

He will suggest them to the prime manufacturer, so that they will have a man in every procurement office or plant. They will try to short-cut the distance between subcontractor and prime contractor.

Mr. Curtis. Do you think we could reach the same volume of production by that method?

Mr. KNUSSEN. All the civilian manufacturing in the United States is done on that principle.

Mr. Curtis. Don’t you think that the system of “exploding” would enable us to increase our volume of output of war machines?

Mr. KNUSSEN. It might explode the wrong way.¹


The Office of Production Management apparently at no time had a conception of the necessity of systematically matching military requirements against inventory facilities. On the contrary, it accepted the traditional procurement purchasing methods of the military procurement agencies of securing armaments on an item-by-item and company-by-company basis. This is brought out in the following testimony of Mr. Harrison, head of the Production Division of the Office of Production Management.

Mr. SPARKMAN. Has your Division ever made a survey of existing facilities of the industry, particularly of the automobile industry, to see what convertibles and idle facilities could be used for the production of tanks, airplanes, and other forms of equipment?

Mr. Harrison. Only in the sense that we are looking for capacity for specific items. We do then contact and discuss the problem with individual manufacturers.

Mr. SPARKMAN. Specific surveys, then, rather than general surveys?

Mr. Harrison. That is right.

Mr. SPARKMAN. You never would be called upon, then, to make a survey that would show you the complete picture as to the convertibility of any particular industry, would you?

Mr. Harrison. Well, up to the present, sir, we have been taking the individual items and trying to place them in cooperation with the Army and the Navy in those plants where it was clear that we would get the quality wanted and in the necessary time, considering, likewise, the price that is involved. But from the standpoint of taking an over-all industry and analyzing and surveying its capacity it’s too big.

Mr. SPARKMAN. Your problem is not so much one of speeding up production as it is of insuring that you are going to get the product?

Mr. Harrison. I rather think our principal problem is to make certain that the armed services get what they want when they want it.

Mr. SPARKMAN. And the matter of going into productive capacity, do you have that problem up to the man who undertakes to furnish the article to you?

Mr. Harrison. No, we generally attempt to satisfy ourselves that the individual manufacturer is sound, and in the direction capable of giving us the end product under the conditions that we think are proper.

Such procedures were not designed to secure full utilization of America’s industrial resources particularly when carried out in the haphazard manner used to $5,000,000,000 of contracts in connection with the projected conversion of the automobile industry finally announced by the Office of Production Management in early January 1942.

Many of the pieces needed for the fighting forces were listed in a memorandum for the automobile makers drafted by Robert R. Patterson, Under Secretary of War. It was submitted "Items of Munitions Appropriate for Production by Automobile Industry," and included the parts necessary for the manufacture of guns, tanks, planes, bombs, and other instruments used by the Army. A similar list was made available by the Navy Department.

Mr. Knusen opened the afternoon meeting by stating that many of the firms represented already were producing many of the items on the list. He was interested, he said in the items not now under contract with automobile firms.

We want to know where some of these things will flow from, he said, "We want to know how you can make them or want to try to make them. If you can’t, do you know anyone who can?

As he read off the list he acted somewhat in the role of auctioneer.

"We want more machine guns," he would say. "Who wants to make machine guns?"

The evidence is overwhelming in showing that the Office of Production Management made virtually no contribution during the year to the existence of this problem of converting American industry to
war production. Conversion has been one of its prime responsibilities by Presidential Executive order, and the failure to discharge it was virtually admitted before the committee by Mr. Knudsen in the following testimony:

Mr. Cuenter: Do you agree in general with the finding of the committee that to date the great industrial resources of the country haven't been put to use anywhere near the extent that they might be?

Mr. Knudsen: Of course they have not. The war is only 2 weeks old.*

FAILURE OF THE SUPPLY SERVICES TO FURNISH A SCHEDULE OF MILITARY REQUIREMENTS

The Office of Production Management has operated under very definite limitations in attempting to discharge its responsibility. The supply arms and military services by their order authority ultimately control the manner in which war production is allocated. There have been further limitations. The Office of Production Management had originally been ordered by the President at the time of its organization to

survey, analyze, and summarize for purposes of coordination the stated requirements of the War and Navy and other Departments and agencies of the Government and foreign countries for materials, articles, and equipment needed for defense.

Appearing before the committee on October 27, 1941, Mr. Nelson at that time Executive Director of the Supply, Priorities, and Allocations Board, which was a policy-making board superimposed on the Office of Production Management, stated that he was endeavoring to secure from the military services a comprehensive schedule of their requirements. Mr. Nelson at that time emphasized that such a schedule was prerequisite for proper planning of war production.

The Under Secretary of War in testimony before the committee, approximately 1 year after the original establishment of the Office of Production Management, stated that his agency had as yet not prepared an over-all schedule of military requirements.

Dr. Lamb: I have one or two other questions, Judge.

The first is, in the Executive order of January 7, 1941, which I quoted before, setting up the O. P. M., there is a passage which reads: "Shall survey, analyze, and summarize for purposes of coordination the stated requirements of the War and Navy and other departments and agencies of the Government and of foreign governments for materials, articles, and equipment needed for defense."

I believe that Mr. Nelson, testifying before this committee in October, stated that as yet no such schedule had been developed.

Mr. Patterson: Well, it may not have been done at one sitting, but in considering the various items, of course, and the planning for the separate items, it has been carried out right along. That is, there are no set prices that would show the thing in consolidated form.

Dr. Lamb: I had reference to the committee's report showing the necessity for such an over-all review at an early date. Consideration would be taken of the closing down of civilian production on many fronts, which is already going on, by curtailing orders; it would require a reconsideration not only plant by plant or even industry by industry, but on a much more comprehensive basis, because of the convertibility of the metal-working capacity of the country and its transferability from one set of operations to another.3

The above testimony shows that at best there was available a piecemeal description of military needs. In the absence of fundamental comprehensive data on military requirements systematic production planning is virtually impossible. On the other hand, the necessary data might have been forthcoming had the Office of Production Management conceived of the situation as one requiring the full utilization of existing facilities.

The difficulties of fixing schedules of military requirements under the changing international military situation which has existed during the past 2 years cannot be recognized. Any schedule which would have been devised at any time during this period would have required revision. These difficulties, however, constitute no adequate reason for the failure to meet the first prerequisite for planning the most effective use of the productive facilities of the Nation.

INADEQUATE PRODUCTION PLANNING BY THE WAR DEPARTMENT4

The allocation of war production among various plants is the key-stone of production planning in the present period when the character of modern war requires that all the industrial energies of the Nation be concentrated on the production of military goods. The authority for this allocation has rested primarily with the armed services and they thus have played the determining role in the war-production program.

To meet the production requirements of modern war, it is necessary to have a comprehensive examination of our entire productive facilities and labor supply and a systematic matching of those to achieve a schedule of maximum production of military equipment. But the experience and training of the supply branch of the armed forces do not equip them for production planning. Their experience is primarily limited to the designing of military articles and to turning over for production the plants, must be recognized. The result of this procedure is a concentration of the bulk of production of military articles in large corporations, who determine conversion programs on the basis of considerations not entirely confined to matters of national necessity.

Under such conditions adequate planning is precluded as is illustrated by the following testimony with respect to the conversion of the automobile industry.

Dr. Lamb: I would like to turn back to something you said at the beginning of your remarks, and also something which is referred to on the first page of your release, the last paragraph on the last page:

In your prepared statement you state—

"The War Department did not go into what was called its defense program, starting in the summer of 1940, without plans and without consideration of the productive capacity of American industry. For more than 20 years the War Department and the Army and Navy Munitions Board have been conducting surveys of American manufacturing establishments, large and small, and with a view to the most effective use of munitions production. More than 11,000 different establishments were selected as a result of this survey to meet specific munitions requirements. The committee assumes that in your surveys you covered the major plants in the automobile industry. Could you say whether you ever determined the following questions on the assumption that the entire passenger-automobile industry would be available for war production?"

First, the proportion of facilities that could be converted to war production simply on the basis of jigs and fixtures.

1 This committee in making recommendations in its previous interim report seeking of conversion of excess production capacity of war mills and production capacity within the defense of the nation, the Office of Production Management, now in existence, can do nothing without the utilization of America's resources. It did not state of the necessity of the armed forces had at any time during the period for which the Office of Production Management is responsible.
2 Washington hearings, 19, 20, p. 1941.
3 Washington hearings, 19, 20, p. 1941.
Second, the production of major implements of war, such as tanks, airplanes, antiaircraft guns, and so forth, which could be produced on the basis of such conversion.

Mr. Patterson. I will turn that question over to Colonel Hare, who has charge of the inventory, and knows much more about the details of it than I do.

Colonel Hare. A number of years ago an effort was made by the Air Corps, the Army Ordnance Department, the Quartermaster Corps, and the Corps of Engineers to fit their war requirements to the production of automobiles and trucks. A special committee was established in 1918 in Detroit, working with Mr. Krueger, to talk with automobile and truck manufacturers. They were able to make a full-scale model of a machine-gun truck, armed with a 1500-pound tank gun. The work with that committee included a careful appraisal of the machine-tool equipment, dies, jigs, fixtures, the subcontracting process, and practically all elements of the productive set-up of General Motors. At one time, within the last 2 years, Mr. Krueger, Mr. Budd, and a number of the top executives of General Motors, came to Washington and in the office of the Under Secretary went over the completed plans for the use of the automobile industry.

Mr. Patterson. That was some years ago.

Colonel Hare. At that time there was considerable uncertainty as to just how much the tooling of the model would then be in production. The type of airframe that we were going to try to make in an actual emergency was a very fine line on the appraisal of actual machine-tool equipment; but in a general way we knew that General Motors would be in a prime position to produce such things as tanks, airplanes, engines, and things that had some similarity to the normal product.

But it wasn't possible to get too close a focus on it.

Mr. Patterson. I can add just this: it doesn't come from the inventory but from my own inquiries about it last spring. And I can't remember who told me, but I inquired of a large number of people and I got the information that General Motors would be in a prime position to produce such things as tanks, airplanes, engines, and things that had some similarity to the normal product.

Now I, of course, have no industrial knowledge of my own, but that seemed to be the consensus of opinion, and I inquired from a good many people who ought to know.

Another time I asked him this: "How much benefit are we going to get from this cut, a cut that ought to be made in the production of ordinary automobiles?"

And they said that unless the cut was very severe, the production of ordinary automobiles could be continued with the same assembly line as if they were doing the same. And they said, "If you are using the same company that was in the production of a large number of things to the government, you have got to convert the whole plant or none. You can't interrupt the assembly line and hope to produce some automobiles and some other thing at the same time out of that machinery." That seemed to me sensible.

Dr. Lamb. Returning to your next paragraph of your statement, you say:

"Accepting and at other times, I urged the establishment of passenger-automobile manufacturing as a part of the Government's program. The part of the Government's services have not had the power to control such matters."

Would you say that the situation was such that the military forces had the power to control such matters?

Mr. Patterson. Yes. It is too decentralized now; I agree with that. If you want my views, I believe in the industrial mobilization plan of 1939. That is far too centralized.

Dr. Lamb. Of course, as you point out in your prepared statement, there is a difference of opinion between the committee and yourself with respect to the question of central control of such a plan.

Mr. Patterson (interrupting). Well, the industrial mobilization plan, of course, represented the experience that had been made by the War Department and the Navy Department out of the 1918 experiences in the World War. It followed the general lines of the organization that had evolved in 1918. It established a system much like the forms of that development, but the final form that was in effect in the latter part of 1918.

In general, it seems to me that the responsibility for procurement of munitions and military equipment is placed by law on the Army and on the Navy. It is right there in the law. Of course, the law can be changed. But it is in the law, and that is the system that has been in effect.

Dr. Lamb. In your prepared statement, you say:

"But prior to the last two weeks, neither the Congress nor the people of the country were prepared to authorize a program which would utilize every factory and every scrap of equipment and every worker we can spare for the ultimate objectives in other words, we have not had enough workers to go around with respect to many commodities. The use of some of the less effective parts of civilian industry would not have produced the volume of munitions which was authorized to procure as rapidly as the facilities we did use."

Now, in normal times, the Army and the Navy don't need to worry about the fulfillment of their orders. They are an insignificant fraction of our whole industrial economy. The manufacturers, under those orders, don't have any trouble getting raw materials or labor or machine tools, and they deliver on schedule. The Army and Navy officers are very familiar and trained in the placing of those orders.

On the other hand, when you have an emergency—e.g., the manufacturers immediately do have trouble on account of the volume of the orders and the great displacement of the civilian economy that they require. They do have trouble, and it isn't just for granted that without assistance and without Government intervention of any kind, your material will be forthcoming on the promised dates; it just won't be.
Mr. Patterson. Well, Mr. Odlum went along with us on that, under pressure of time. We had to get going as fast as we could to get that tank production.

Now, Chrysler had built a plant for us—it was a Government plant, but they operated it—and their production came out ahead of schedule. It has been ahead of all the other plants. It has been ahead by at least a month or so in the bulk of our medium-tank output. They didn’t make light tanks. It was informed that they have 700 subcontractors. We were looking for sources for the tanks under the expenditure program that was passed in August 1941. The Ordnance Department thought part of that should go to an expansion of the facilities at Chrysler.

Now, bear in mind that Chrysler had proved to be a trial and true performer; they had exceeded their promises to us; they had saved their performances, and were regarded by us as an extremely strong source for tank production. They said they would handle this expanded order on the same basis; that they would subcontract to the limit of effective subcontracting.

Now, the only question there was whether we should rely on their general assurance of that, backed by what they had done, or whether we should, on the contrary, insist on seeing the contracts, and this is what must be subcontracted out, irrespective of their opinion as to whether it would be done or speed up tank production. Faced with that alternative, and with the urgent need of tanks, it seemed to me that we could safely take the assurance of this tried and true performer that they were going to turn them out for us in the way that would be quickest and best for us.

\[\text{Washington hearings, pt. 24, pp. 939-940.}\]
SECTION D.—REGIONAL PRODUCTION PROGRAMS

INTRODUCTION

Procurement on a regional basis was already practiced to some extent at the time this committee held its hearings. For example, the War Department reported that each of its 8 supply services had field offices, the number varying with the particular service. Munitions had 14 such district offices scattered throughout the country. According to Under Secretary of War Patterson, this system had been built up in the last 10 to 15 years to decentralize purchases. Instead of everyone having to come to Washington he might go to the district office in his own area which is authorized to negotiate contracts.

It has already been indicated in earlier sections of this report that the War Department's conception of military production was not designed to have a particular ordnance office responsible for mobilizing all the facilities in an area. The decentralization of procurement among several agencies and the policy of channelling military production through a few large corporations precluded such mobilization by the field offices of the War Department's supply services. On the other hand, the local ordnance district offices did have some leeway in actually placing small contracts within their area, and, in fact, were authorized to place in a district without reference to Washington contracts up to $50,000. Since the declaration of war this amount has been raised to $500,000 on the part of the War Department. However, contracts of $1,000,000 or over must still be cleared with the War Production Board.

As a result of the failure of the armed services to draw small plants into the war effort, considerable pressure developed early in the defense program for modification of existing procurement procedures, to allow and facilitate participation of small plants in war production. Early attempts along these lines were represented by the establishment within the Office of Production Management of the Defense Contract Service and later, on September 4, of the Defense Contract Distribution Division. The latter was charged not only with insuring that small plants were drawn into war production but was given the responsibility of developing and clearing industry conversion programs. However, procurement and with it the responsibility for war production remained within the armed services and consequently the organizations mentioned above were almost completely ineffective.

The O. P. M. Contract Distribution Division did set up a considerable apparatus for facilitating contacts between local manufacturers and the procurement agencies. An official of this Division reported on November 26, 1941, that at that time it had in operation 67 field offices located in 39 States.

Representatives of a number of small and medium-sized plants who had been unable to obtain any contracts for war production or contracts sufficient to utilize their facilities and labor force emphasized the limitations of the present regional procurement organizations and recommended the assignment of certain functions necessary for any effective production program. The regional office would first of all have to be assigned a volume of war production based on its industrial facilities and labor supply. Such allocation would depend on an over-all inventory of a general character of the resources within the region and a determination by the national center (War Production Board) what volume of total production might be expected from the particular area.

The first function of the regional office would thus be to maintain a comprehensive up-to-date inventory of the resources for war production within its area including potential sources for expansion of facilities. The facility inventories are already underway. A partial inventory of labor is also available through the local employment offices.

Mr. Oumers, is any comprehensive survey under way to determine the capacity of all industries to contribute to the defense program?

Mr. Naurmers, there is now being made the necessary arrangement for getting for the first time the kind of plant and inventory surveys of our capacity that we need.

Mr. Oumers. And under whose auspices?

Mr. Naurmers. By the Division of Contract Distribution.

Mr. Oumers. Is Mr. Nelson also making such an inventory?

Mr. Naurmers. Supply, Priorities, and Allocations Board is making an inventory of raw materials.

Mr. Oumers. And you are making an inventory of facilities?

Mr. Naurmers. We have been making that kind of facility inventory for some time. Our problem is to condense the information and make the information systematic. In this connection I would like to have the indulgence of the committee to show them what we have done right here in St. Louis.

Mr. Oumers. I would like to ask another question before you go into that. The committee so far has regarded the subject of an inventory as being a threefold subject; men, materials, and machines.

Mr. Naurmers. That is correct.

Mr. Oumers. Your division is making an inventory of men. Supply Priorities and Allocations Board is making an inventory of materials. Now, is any branch of the Government making an inventory of labor—manpower?

Mr. Naurmers. We have been making an inventory of manpower as well as of the idle manpower as well as of the idle machines and equipment, so of necessity for our survey to be significant it must also include idle manpower.

Mr. Oumers. Would you secure such information from the employment service?

Mr. Naurmers. We are now in the midst of working out a procedure for doing it, and utilizing various types of machinery that now exist in the field.

Mr. Oumers. Is your survey of men and machines to be directed primarily, or solely, to small enterprises?

Mr. Naurmers. Emphatically, no, for the simple reason that we are talking about all-out production; we are talking about the defeat of Nazi-ism; we are talking about a war that can be won in 1943. Therefore, this means a utilization of every available and existing piece of tool and machinery wherever it may be found, whether it is in a garage or a repair shop, or whether it is a large or small plant.

Mr. Oumers. The point I am trying to make is just that. We have just come from central Nebraska, Your machinery population will change but little there. In other words the machines and buildings will stay there, but your labor situation is one that may and is changing very rapidly. Men are leaving and going to the Pacific coast and elsewhere, and it is going to be an extremely difficult problem accurately to appraise your manpower situation.

Mr. Naurmers. And yet, sir, I know of no other way of doing the job, except to do that. In that respect, we have to borrow from the British experience, and...
the various area capacity boards with which this committee is familiar through
the testimony of Mr. Morris L. Cooke and others. I know of no other way of
doing it that is as difficult and tedious as this job, but there is no other way of doing it
and Mr. Nebenom. I was very much interested by some of the reports that the English
have made along those lines. I think they have done a better job than we have.
Their geographical situation is different from ours, but they seem to have adapted
existing facilities to a greater extent than we have been able to do.

**Allocation of Contracts**

As the testimony summarized in section A indicates, competitive
bidding has effectively barred smaller firms from participating in war
production. The disadvantages faced by smaller concerns under this
system are described by Mr. Nehemis.

Mr. Osmers. Is it your contention that—

Mr. Nehemis. I was just coming to that, sir. It has been our experience
since the defense effort got under way that the average smaller manufac-
turer is at a disadvantage in bidding on a job through competitive bidding because he has no basis of experience on which to
set his cost. In the first instance, the whole notion of competitive bidding
is a carry-over from civilian practice. Under normal circumstances it is of
course highly desirable that the taxpayers' money should be given every con-
cern the chance to bid and that the lowest possible cost for any particular military
item be obtained, but in a wartime situation competitive bidding—as this
committee well knows—works to a great disadvantage. Accordingly, Mr. Osmers
requested counsel for the Division to begin drafting legislation which would
eliminate the competitive bidding and overcome certain other obstacles
which I might as well cover at this time. For instance, it has been proved to
be an almost universal ease that the smaller enterprise cannot participate in defense
production, because in many instances they cannot meet the need for various
types of bonds and that of course eliminates them. I was interested in Mr.
Nebenom's testimony, among other things, because he has given the committee
such a clear picture of the place of the industrial pool in defense production.
Under existing law, for example, it is impossible for the Navy Department to
place a regional contract with a pool if outside of that region there is a low
responsible bid. So that type of situation has been eliminated. This
committee well knows that we could increase subcontracting tremendously throughout
America if we could call in for renegotiation outstanding contracts and speed
up the delivery date. There are certain legal as well as constitutional questions
involved in doing that.

To correct this situation the War Powers Act was passed to permit
negotiations of contracts. The substitution of negotiated contracts
for the former bidding procedure has resulted in increasing the work
in small plants if additional changes are made which include
coordination of the functions of plant survey with the letting of
contracts suited to the plant facilities. Surveys have been made but to
no purpose. Many plants have been surveyed by all the various
technicians of the armed services and by their own engineers and have
completed and distributed exhaustive handbooks of their machine
facilities, running in some instances to several hundred pages.

Only some 6,000 out of the 25,000 plants which were surveyed by
the armed forces are being employed for war production. The Defense Contract Distribution Division has facility records for some
40,000 plants.

Steps contemplated by the Defense Contract Distribution Division
were described below by Mr. Nehemis.

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1 St. Louis Star-Times, pt. 25, p. 89, 1945.
21,007, Dec. 23, 1945.
31,007, Dec. 23, 1945.
4 Approved by President, December 18, 1941.
5 It is possible that these plants are some extent the 40,000 plants surveyed by the Army-Navy
Munitions Board.

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To make permanent exhibits of industries which are being shut down or will increasingly be shut down because of the material shortages, and so forth, I think Mr. Hollen has pioneered in the effort to make the pool a program of breaking up these large orders into small parts. It is perfectly futile to go into a small shop and talk about making a machine gun or an anti-aircraft gun when the owner of that plant has only seen it in the movies. But if you could make a machine gun or anti-aircraft gun into its constituent parts and label each part and list the tools required for its production, it can be done.

Mr. Osmer, I think the committee is on record in favor of this exploding process because of the obvious inability of the small plant to make a tank. It is obvious that they must make a part of a tank or a part of some other complicated weapon.

Mr. Neher, I would like to show you a number of diagrams I have prepared for the benefit of the committee a series of exhibits showing just what can be done with an M-3 tank in the way of exploding it.

Mr. Osmer, I would like to hold the exhibit part of your report to the end. Is there any movement on foot so far as you know to make it easier for small producers to bid by regrouping or localizing the bidding facilities? You have heard the complaints here today and we have heard them before on the difficulty of getting bids on time and the distance factor that enters into it.

Mr. Neher, For the first time in the history of defense under the terms of the President's Executive order the industrial pool comes into its own, and the Division of Contract Distribution is definitely charged with the problem of maintaining the organization of those pools. I think the armed services will cooperate since we get this legislation and they have given contracts to pools. I am thoroughly persuaded that we will have a tremendous upsurge in production throughout the United States through the pool facilities of scattered machine shops and individual units of industry which are being shut down or will increasingly be shut down because of the material shortages, and so forth. I think Mr. Hollen has pioneered in the effort to make the pool a program of breaking up these large orders into small parts and I would go further than that. I would say that I know of no way to make this defense effort a truly democratic effort unless there are organized throughout the Nation pools of every type and sort to participate in defense production. You can't make this problem of priority and the problem of assuring expansion in production throughout the country feel that they are actively participating in it; and I say that it is only through the industrial pool that we will achieve the only kind of defense that is worth while—a democratic defense.

And again:

Mr. Curtiss. Do you feel there should be some changes in regard to giving small manufacturers more time to get bids and submit and negotiate contracts?

Mr. Parker. If there are not some changes, we won't get very far with the depot system or the like. After all, where are our facilities? You can spot the big plants all over the country, but when you get into a community and get 15 to 30 small firms together you have a large pool of facilities as some of the larger organizations and if you don't go in and use them you will never get the kick and push into the programs or the production you expect.

The breaking down of contracts into smaller components in order to spread them as widely as possible includes both the exploding technique as well as the more thorough planning of large prime contracts.

**Technical Assistance to Smaller Plants**

The smaller plants are limited by the lack of the technical resources which large companies have developed over the past 20 years. They lack specialized engineering and research personnel, and the little there is that they do possess has been spread over the plant. The position of the smaller plants in developing production has been helped by the fact that it has been the policy to give them the necessary technical assistance in order to secure contracts. In addition smaller companies are at a disadvantage in determining their cost of production accurately until production has been under way for some considerable time. The solution is to have the committee to have a group of technicians attached to the regional offices who would undertake systematic analyses of the facilities of a given company and determine what that particular plant is best capable of producing. Such technicians in the case of the smaller companies would not only make the initial determination of the product but would provide the necessary technical assistance in getting production under way and additional technical assistance as required from time to time.

One of the chief advantages of the regional or industrial pools is that while any one company might lack adequate engineering resources to plan the production of military items, there is usually sufficient engineering personnel to adequately plan production for the entire group among the 10 to 30 companies participating in the pool. This is particularly true when they are working on related items as would often be the case. The same considerations would apply to the technical organization of production through regional offices.
For the region as a whole there is generally adequate personnel to meet the technical needs of the small companies if its technical work were properly organized.

FINANCIAL ASSISTANCE

In the testimony before the committee there appeared to be some division of opinion between Mr. Chester Davis of the St. Louis Federal Reserve System, and Mr. Nehemias of the Defense Contract Distribution Division, Office of Production Management, as to the difficulties with which small contractors and subcontractors were faced in obtaining adequate financing. This is indicated by the following testimony:

Mr. Osmers. I wanted to appear with your testimony, Mr. Nehemias. Now as to the two questions I have left, one concerns the financial ability of small contractors and subcontractors, and the second will deal with the conversion of these various plants. Under the first heading I believe I noticed a contradiction of the statement you set forth with regard to the difficulties that small contractors are having and will have with requirements, and the statement Mr. Davis made before this committee this morning, Mr. Davis anticipated no difficulty in obtaining small contractors. That is at variance with your report.

Mr. Nehemias. I should say that is a correct statement. I think the committee will take judicial notice of the report of the Temporary National Economic Committee, which is the report of Senator O'Mahoney. That report is monograph No. 17. I believe, which deals with the problems of small business and it points out that the problem of obtaining the smaller enterprises is not a new one. Small business, by and large, has always experienced difficulties in obtaining supply and equipment, and it is true that the Subcommittee on Congressman D. M. Davis made a study of several hundred subcontractors engaged in defense production and we found that 40 percent were substantial credit risks.

Mr. Osmers. What is a substantial credit risk?

Mr. Nehemias. A risk that can't be overlooked.

Mr. Osmers. In other words, financial statement would not justify it?

Mr. Nehemias. These are the "thin-skinned" fellows who just can't get any help.

This problem has so far received little attention because few small companies have obtained contracts to date. The problems of small business in obtaining contracts are brought out fully in the following statement by Mr. Nehemias:

With respect to equity capital—Small business by and large lacks adequate equity capital which to finance its operations. In default of adequate equity capital, small business is compelled to rely largely upon mortgage and short-term credit. The reason for the inability of small business to obtain adequate equity capital lies in the fact that it does not have the same access to the capital markets as does large business, since that machinery is adapted largely to the needs of large business. Our difficulty which must be taken into consideration in considering adequately capital to small business is its resistance to changing its control or changing its equity.

With respect to credit:—(a) Long term: Small business faces the same difficulties in obtaining long-term credit as does in obtaining equity capital, since the existing credit facilities are not geared to deal with the specific and peculiar needs of the smaller enterprises.

(b) Short term: Although short-term credit appears to be more available than either equity capital or long-term credit, nonetheless, small business experiences difficulties in obtaining long-term credit from the regular commercial banking sources. Short-term credit is, however, obtained through intermediary credit agencies, and from trade creditors, at charges which are frequently high and upon terms which tend to be onerous.

1 St. Louis hearings, p. 35, pp. 99-100.
Accordingly, Mr. Olinum requested counsel to the Division to prepare a draft of appropriate legislation. Several weeks have been spent in conferring with counsel to the armed services and other interested governmental departments and agencies. The draft will be now before the Bureau of the Budget for approval prior to its submission to the Congress.  

To expedite production it is apparent that centralization of facilities for financial assistance is as essential as in the allocation of contracts and provision of technical assistance. The small plant should be able to turn to a financial division in the same office where it originally got the contract.

Provision for Raw Materials

A major difficulty faced by small companies has been their inability to secure raw materials regardless of the priority ratings that they held. It is a reflection on the priority and allocations system that small companies with high ratings were unable to secure the materials, while large companies, such as the automobile companies, engaged in civilian work and holding no priority ratings whatsoever, were able to continue production. These small companies, in endeavors to secure raw materials, are forced to turn from one producer to another, thus losing considerable time. If work is spread through small companies, there may be in one region hundreds of small companies seeking materials from one producer after another. It would then seem necessary to centralize the organization of priorities and allocation of raw materials itself within the regional organization responsible for war production within the area. In its Second Interim Report, the committee recommended that such regional offices should be prepared to supply all necessary information on availability of raw materials. In view of the difficulties encountered by the few small companies which have thus far obtained war contracts, it seems desirable to make a substantial reorganization in the provision of raw materials, by the establishment of raw material pools from which the small companies could draw their needed supplies.

Need for Regional Boards of Labor and Industry Representatives Responsible for War Production and Labor Supply

In its Second Interim Report this committee indicated that effective steps to transfer and supply labor for war production were contingent on close coordination between production planning and the labor supply agencies. At present, the same lack of centralization and planning exists with respect to the labor supply and training as exists with respect to war production. This point was made before the committee by Wendell Lund, executive director of the Michigan Unemployment Compensation Commission.

Dr. Lund. You say in individual communities and labor-market areas we need small working councils representing labor, management, and Government to establish and direct basic community policy concerning labor supply.

Would you say a word about that? You say that often we have several advisory councils in a single community at present.

Mr. Lund. Right now we find that in some communities we have a council on training within industry, and another council on vocational education, and perhaps a third council, or a group of advisers, anyway, on N. Y. A. retraining. Then the union frequently have a committee on training, and sometimes the employers, we understand, have committees working on this thing.

We think that this thing could be aided considerably if there was one central committee working with the employers, the unions, and also with the Employment Service on the problem of retraining.

The above proposal for centralization of labor supply and training activities in the various regions would appear to be essential to achieving effective utilization of this important element of war production. It is becoming clear that the progress of the war production program will increasingly depend on the efficiency with which labor is transferred from nonmilitary to war production. Important features of this transfer are the provisions for retraining and upgrading and for retraining skilled labor to the point at which it is most needed in an orderly fashion. The various unions and representatives of the Governor of Michigan have emphasized that definite machinery for labor participation is required for conversion to war production. As in the case of production, a regional board consisting of industry and labor representatives should be set up to establish policies and facilitate operations of the regional procurement office of the War Production Board.

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SECTION E.—INDUSTRY PRODUCTION PROGRAMS

Under the company-by-company and item-by-item procedures which have prevailed there have been virtually no industry-wide production planning programs.

The importance of the industry approach has been formally recognized in the organization of industry committees and branches. These committees, consisting of industry representatives, have been merely advisory. The industry branches which formed operating units within the Office of Production Management were concerned primarily with priorities and allocations. For example, the automobile-industry branch did not discuss conversion, basic to any production program. No other defense agency acted on this matter.

Representatives of the defense agencies stated that there was no industry-wide plan for the conversion of automotive plants to war production, and that only one consumer-goods industry had been investigated with conversion in mind. This industry, the domestic laundry equipment industry, was one of the smallest consumer durable-goods industries.

The committee had obtained a first-hand report on this conversion program from Mr. Nehemias, who emphasized the compelling advantages of the industry-wide and regional approach.

The industry or regional approach to conversion means, among other things, that the better-established concerns can supplement the tools and equipment of the smaller concerns. They are also in a better position to finance the preliminary engineering, production, and cost studies that are the smaller concerns. Moreover, by dealing with the problem of conversion on an industry-wide basis we assure all the companies which may be affected by individual plant shut-downs as well as the entire labor supply of the industry. Again, the industry approach presents a composite picture of the available man-hours, machinery, tools, floor space, and related facilities of the industry. You have before you, in short, the potential of a vast factory-in-space, the walls and ceilings of which may extend over many States and embrace a large number of communities. Finally, through pooling the individual units of an industry into a single aggregate, procurement problems are simplified both for the industry and the armed services.

The industry approach is essential both because of technical considerations and the possibility it provides for the systematic planning and control of war production.

The conversion program for the laundry-equipment industry was developed by a staff of 3 or 4 workers in the O. P. M. during the period August to October 1941. The procedures employed and the results obtained are described as follows by Mr. Nehemias:

I think the one example of the conversion of an entire peace-time industry into wartime production is the conversion of the household washer and iron.

That industry like others in the consumer durable-goods field was affected by a curtailment order issued last August by the Office of Price Administration and Civilian Supply. The industry met with us for a preliminary explanation of its problem to give us a chance to get a picture of its anatomy, so to speak. We then asked the committee to appoint a subcommittee of its best production engineers. They presented a composite picture of the machine tools, facilities, man-hours, and equipment of the entire industry. Then we began working on a break-down of military requirements that would fit into that composite whole, and we discovered that there were at least 17 items ranging from bomb fuses to gun mounts which they could make. We finally determined that the gun mount job would be best suited to utilize the full facilities of this industry consisting of some 36 plants in about 20 communities. In this type of work the problem for the entire factory was to get a quantity run. The next job was to get a special gun mount. Through the aid and cooperation of the ordnance department of Chicago we obtained a gun mount from the Rock Island Arsenal and had it into Chicago. The gun mount was exploded into its constituent parts and the entire industry was called in to see how the production staff found there were no particular complications or difficulties involved in that type of work. The next thing we had to do was to work out a schedule of the man-hours which would be subcontracted and the industry determined that it would have three of its own group serve as prime contractors in the event that the award was made to the industry, as an industry, by the War Department. Through this certification procedure we have described, this whole industry was certified to the War Department as being technically capable of producing all the parts of the gun mount and the War Department awarded a contract for $12,509,000 for the production of gun mounts to these three contractors serving as prime contractors for the whole industry. The industry further decentralized its operations by having each of the prime contractors undertake a separate phase of the work. For example, one contractor is in charge of all tooling operations, another is in charge of the purchasing of all raw materials for the industry, and a third is in charge of furnishing an inspection and supervisory service for the whole industry. In addition, the three prime contractors have gone out and obtained the services of skilled workmen from outside the industry who acts as coordinator for the whole job. He is the czar. He resolves technical questions and his word is final.

The conversion program for this industry embodies a number of very significant features, although it is restricted to a single industry. It is impossible to determine what should be the appropriate items undertaken by any particular industry without determining the full requirements of all the industries. No single industry conversion program did not plan to make full use of all the facilities of this industry but contended itself with off-setting the reductions in employment resulting from the curtailment of civilian production.

Mr. Nehemias stated:

That job merely takes care of existing employment. It wasn't contemplated that it would absorb additional employment.

The program did, however, incorporate the desirable features of allocating the production of the industry by a systematic matching of equipment against military requirements on an industry-wide basis. A single coordinator was set up for the entire industry, although he did not supervise its operation for the Government. The coordinator in effect represented the industry; his authority vested on the consent of the companies.

By distributing basic operations among the three prime contractors the program avoided duplication of facilities among the various companies in the industry. By pooling of facilities, the limitations imposed by the company-by-company methods of contracting were overcome.
In the conversion of the auto industry, procurement, company-by-company procedures through the separate procurement agencies were considered. The automobile branch of O. P. M. concerned itself primarily with curtailment and allocation of scarce materials. The separate industry and labor committees were merely advisory. After the declaration of war this branch was placed by administrative order directly under the Director General and Associate Director General of O. P. M. and they were charged with the responsibility of converting the industry to war production.

A joint labor-industry advisory committee was set up by O. P. M. on January 6, but it was indicated that this was to function primarily in an advisory capacity. With the establishment of the W. P. B. this advisory committee was reconstituted. Mr. Nelson appointed Mr. Ernest Kantler head of the automobile branch with direct responsibility for converting the industry to war production still conditioned by the dispersion of procurement authority among several agencies as in the past.

The automobile companies are reported to have set up a pool of the unused machines which are to be made generally available to members of the industry. The manufacturers and the trade unions in the automobile industry agreed that the bottleneck to early conversion was the limited supply of critical machine tools aggravated by inadequate utilization of skilled labor. The importance of this bottleneck was described by Mr. Roberge, of the Ford Motor Co.

Mr. Roberge: At the present time the bottleneck of our plant is the toolroom. We are working full capacity there, and we will be for months to come. We have employed all the outside tool-hours that we can possibly get. So that any new contract would be dependent upon our ability to employ tool-hours from the outside.

Dr. Lamm: You would have to subcontract?

Mr. Roberge: Yes. We are doing that now to the extent of hundreds of tool-hours.

Dr. Lamm: I think any plan of this kind would have to include, in your estimation, a new peeling of machine-tool capacities outside of the industry?

Mr. Roberge: Exactly.

Mr. Carlton: Convert to what, would be a good question to ask right now. We are talking about converting something, in generalities, and you can only do that by actualities.

Dr. Lamm: Perhaps the only way you can determine what you can convert to is to have the contracts standing in line waiting for you, and the suggestion of Mr. Thub, I take it, calls for that, through the operations of this industry-management council, which will be in a position to solicit orders on a scale larger than any which you have been able to get so far.

Mr. Carlton: That entails a complete revolution of your whole procurement program, which is at the moment in the hands of the armed forces, to do all the buying and procurement, and these various committees have been down here last week after week, and all we are talking about is curtailment, and allocations, and priorities, and this is something entirely different.

I think we have too many committees already. We are wasting time in committees meetings. I think your own recommendation is much better.

The importance of upgrading of labor skills was emphasized by Mr. Anderson of the General Motors Corporation.

Mr. Anderson (General Motors). Indeed, at the present time we are actually making machines for production that you can't buy from the machine-tool people.

Dr. Lamm: Are your toolrooms fully utilized?

Mr. Anderson: Well, you say "fully utilized" that assumes a 7-day operation, 24 hours a day, with an adequate supply of tool makers. I don't think we have reached that schedule.

Dr. Lamm: Would you say that the bottleneck is the toolroom?

Mr. Anderson: That is right.

Dr. Lamm: Would you say that is the bottleneck?

Mr. Anderson: It is part of it. In our case we have worked out what we call an "upgrading" program, to anticipate that, and under that program men who have similar experience on production can go into the toolroom and run a machine or learn to run one in a reasonably short time. We are moving those people into the toolrooms even though they are not qualified tool makers; and that releases certain tool makers to devote their skills more nearly 100 percent to the production of tools as well as machines.

Mr. Lamm: Would you say that the automobile industry at the present time is using the available tool makers 100 percent?

Mr. Anderson: I believe it is, because there are standing orders out now to have every tool maker we can get hold of.

A representative of the U. A. W. agreed that there was a shortage of tool makers except that 7,000 tool makers who had been employed on civilian production would be available for conversion retooling. The testimony emphasized the bare to effective labor utilization encountered in company-by-company procedures.

Mr. Arnold: Do you believe, from your experience there in Detroit, that they will utilize all these men?

Mr. Thomas: Yes; they will now.

Mr. Frankenstein: The question, though, is how they will utilize them, whether to the greatest extent of their ability or not.

We have proposed a pooling of the resources of these people—in other words, utilizing the entire shop of tool and die makers, utilizing these jobbing shops to sublet the work of the plants into these shops, and thus avoid keeping these people engaged on an activity that is part defense and part nondefense.

Mr. Kanzler: It is part of it. In our case the prime contractor has a thousand and one problems dumped in his lap, and he cannot break through the bottleneck of tooling.

That is one reason why we want, this over-all top agency to be able to farm out these, get the tooling job, put the production job, into as many companies as possible.

That simplifies the engineering and tooling problem, and gets us into production much quicker, but that is not being done. There are a lot of tooling facilities that can be developed on a coordinated plan, but they will not be developed if each prime contractor is out on his own. We are going to months and months getting into production because the prime contractor can't break through this tooling bottleneck.

Concerning the upgrading that we proposed—and which Mr. Anderson of General Motors discussed yesterday—months ago the union started to push for upgrading. We said, "If we haven't enough skilled mechanics in the tool and die trade, we agree to pick out the most skilled workers on the production mills and we will give them intensive training for a few weeks and then move them into the toolroom manipulation units."

And we can do that, and we can step up our tooling considerably. It is proved by our survey that some of the tooling machinery itself—that to lathe, milling, and grinding machines, shapers, and toolroom equipment—is being utilized to only the extent of only 30 percent. We can upgrade enough people to keep that going 100 percent, and if necessary there are certain machines on production—that we will use in production machinery—that can be brought into a tooling pool until we get the tooling job done.

If we have this over-all agency we can do the tooling work in half the time that it is going to take by the present approach.

Mr. Frankenstein: Another factor that hasn't been brought out with regard to these tool and die makers is that each company tries to protect its own
Mr. Frankenstein, of the U.A.W., emphasized the need for central planning with respect to labor supply.

And may I raise another question on this training program? At the present time, when we are looking forward to what is going to come in the next year, there is a very inadequate training program among the auto workers who are not in the skilled brackets. For instance, in the trim, paint, foundry, and inspection shops, there are thousands of workers who are not being trained to go into defense work when it will become essential.

Now, we are all looking forward. The figures that were given yesterday looked forward to the utilization of the majority of these people in defense. Today is the time to start training these people for the jobs that they are going to have to do. We should not wait until the need becomes so great that another bottleneck is created.

I think there again that a central planning agency could utilize the activities of these people, hold them in the community so they don't migrate—which is one of the questions raised yesterday—keep them in a central spot by training them, giving them a sufficient wage while training them, and break them into the industry as the needs become apparent.

The same point was brought out by Mr. Reuther, also representing the U.A.W.

Mr. Spahrman. Now, Mr. Reuther, Mr. Anderson, of General Motors, yesterday stated that a shortage of skilled workers prevents the utilization of machine tools on a full week basis. Do you agree with that?

Mr. Reuther. That is because each company is shifting for itself. It is true that there have been companies which couldn't get an adequate supply of skilled mechanics, and that is why we proposed an over-all agency to supervise the general tooling problem. Even then, if the plants try to utilize all of their toolroom facilities, a shortage of skilled help will develop. But that is where we propose the use of the upgrading principle, of moving skilled people from production into the toolroom, intensifying their training for a few weeks and then using them.

We think if such a program were worked out, there is no reason why we can't man every toolroom and keep it going 7 days a week, three shifts a day.

Mr. Spahrman. Provided you have the set-up which you propose, to take care of it?

Mr. Reuther. That is right. You have a situation now where companies, because of the problems in the plant, may have a shortage of toolroom mechanics for a month or 6 weeks, and that company has those same mechanics, doing less-skilled jobs, but hanging on because their tooling program is still in the blueprint stage. This latter company's tooling program will materialize 4 months from now, and it is hanging on to those skilled mechanics because it is going to need them 4 months later.

If we had an agency that could take on this over-all reserve of skilled mechanics, they could be sent into the plants where they are needed now, and not kept in the other plants because of the fact that a program that will materialize 4 months hence. You can't approach the tremendous productive job that the war effort demands on the basis of every company operating as an individual production unit, meeting its tooling problems in its labor supply problems, its priority problems, all within its own organization. You have got to get this on an industry-wide basis.

Mr. Thomas. In this statement which I have brought with me this morning, and which I would like to have included in the record, I wonder if you have had an opportunity to read the concrete proposals that I have made. Mr. Spahrman. This entire statement will be made a part of the record, and many of these questions which we have been submitting to you have been drawn up from that statement.

Mr. Reuther, you mention the upgrading of skilled workers. Mr. Anderson also referred to that yesterday in his testimony. How far has that policy progressed?

Mr. Reuther. It hasn't progressed far enough. We are going to develop a shortage of skilled mechanics, and now is the time to prepare for that need. That job is not being done. The amount of upgrading that has been done in General Motors is very small, and I don't think any other company, at least to my knowledge, is doing any at all. I don't think the Chrysler Corporation has been upgrading at all.

There ought to be an intensive educational training program initiated to upgrade these people.

Mr. Spahrman. Why has it been slow?

Mr. Reuther. It has been slow because each company is fighting, "Well, we can go along and somehow shake the business, and get some mechanics, even though we have paid the other fellow." You have to pay the people.

Mr. Spahrman. Has there been any active opposition to it?

Mr. Reuther. No, I don't think so. We worked it out with General Motors and I think on the whole we have got a very satisfactory upgrading agreement, and I think that we ought to have the same kind of agreement for the whole industry.

Mr. Thomas. And then make the agreements work after you get them.

A number of proposals were made to expedite conversion of this industry. Mr. Varnum B. Steinhaug, special representative of the Governor of Michigan, submitted the following program:

If we go to work with all our energy on the type of program that Governor Van Wagenen has asked me to present, we can do a great deal to reduce the volume of unemployment and shorten the period during which the skilled hands and brains of Michigan's workers are idle. Here are the suggestions:

1. Eliminate every obstacle which prevents the adoption of a 52-hour, 7-day week (with the "swing shift") in those plants which are now tooled up and actually engaged in producing war materials. Certainly it is in the public interest to get more labor into the plant on a 52-hour week, and one cannot be expected to move at any rate which is consistent with Saturday and Sunday work, and to take any drastic measures that are needed to fill gaps in the equipment, need of key labor, and the requirements of defense plants where this is necessary to permit capacity operation.

2. Immediately expand and extend existing contracts (especially by "open-ended" orders) for production of items which defense plans are already at work. Many plants state that their only reason for not operating full time is the lack of sufficient orders. Let's give them the orders and produce the goods.

3. Use existing facilities where possible, rather than building new plants. There have been a good many cases in the past in which contracts for defense materials have been given to a low bidder who then has to build a new plant and obtain new machinery before he can go into production. At the same time, plants whose existing equipment is suitable have failed to get contracts. From here on, we must be sure that we are using our existing capacity to the full before we undertake the slower process of building new plants.

4. Adopt a more flexible attitude concerning some of the conomical elements in specifications for defense equipment. There are many instances in which a slight change in specifications, such as the substitution of sheet metal for casting, which would permit material to be produced with existing equipment at an idle time, would not restrict the military effectiveness of the product. In other words, specifications should be subject to major changes that are necessary to permit production with existing facilities.

Centralize the purchase of war materials and the letting of contracts in a single governmental agency with sufficient authority to make sure that we use all our available resources, and use them immediately. At present there are at least half a dozen separate procurement agencies, with the Office of Production Management supplying a supplementary advisory capacity but not directly controlling production. The separate purchasing divisions in some extent compete with one another and duplicate each other's functions. With this is set up an agency to work out a single coordinated production plan, which would determine the entire schedule of military and naval requirements and see that these needs are filled.

Give the procurement agency full authority to use productive facilities or any other factor in production in whatever way is best with the national plan. It may even be necessary in some cases to take labor, equipment, or materials away from one employer for use in another plant, if a shortage of these is interfering with the production of the other plant.
7. Set up machinery by which the Government will direct—instead of merely encourage—the use of small and medium-size plants to supplement the production of large plants. We may need compulsory or voluntary subcontracting. Voluntary pooling of facilities by employers in a given industry or area should be encouraged—but where this fails, the Government should see that pooling occurs if it will speed production and employment.

8. The Government should have a greatly expanded corps of industrial engineers and other technical experts drafted from the top ranks of industry—to guide and advise the management of smaller concerns, and to utilize their facilities for war production. This same technical group should work with military authorities in adopting their specifications to fit industrial technique. Thus far most of the initiative has been with employers, who have to learn what products are needed and then bid for the job of building them. In the future the procurement agency may have to go out in some cases and show the employer how he can build what is needed, and get him started.

9. Set up definite machinery which will give organized labor a voice in planning and accelerating the conversion to war production. Labor's stake in the creation and short-cuts, which might be overlooked by individual management—some of labor's suggestions have been overlooked in the past.

10. Even a combination of all these methods will not make work immediately for every man displaced from his usual civilian work. Since some civilian production will, of course, be used up in building defense highways and defense housing, air-raid shelters, and similar facilities, which we may not have manpower to create later.

11. If we have a labor surplus in the months ahead, we should use at least part of it in Government work projects which will be useful for defense—paying a real wage for the work that is done. Labor power that might otherwise be idle sanitation facilities, and so forth—which we may not have manpower to create later.

12. Eventually, we will reabsorb all of our displaced workers in defense production. While many for the plants and plans to be ready, we ought to train those people in the skills that will be needed. It is a good investment to appropriate funds to pay the equivalent of real wages while they are being trained.

The above recommendations on use of existing facilities, centralization of procurement within a single agency, use of the directive method in production, employment of production engineers—all support the conclusions reached in the Second Interim Report of December 18, 1941. The Governor's program adds (point 9) the recommendation that organized labor be given a definite voice in planning the conversion of the industry.

The union testimony emphasized the many technical problems underlying the conversion of the industry as well as the need for a single production board made up of Government, labor, and industry, with authority for supervising the production of war materials in the industry. The U. A. W. brought forward a plan developed last year by Mr. Reutlinger for the conversion of the industry to be administered by such a war production board.

Mr. Alex Taub, at that time chief engineer in the office of Associate Director of O. P. M., testified on the technical problems of the evacuation in the rapid conversion of the industry, and on the administrative mechanisms required.14

Dr. Lams. The committee's findings and recommendations indicate the need of a single body whose sole responsibility would be to plan and arrange for the rapid conversion of the entire automobile industry.

14 Washington hearings, 14, 15, pt. 9115-9119.
Then, there should be a committee on labor, which will have the best possible
information about how to move labor about within the industry to the best ad-
vantage of labor and industry, and, most important, to the advantage of national
defense.

Then, again, there is the extremely important assignment of a subcon-
tacting job. Dr. Lamb, does that figure of 150,000,000 man-hours per week apply to
the entire metalworking industry, or only to those plants connected with the automo-
bile industry?

Mr. Taub. I am speaking of those that we believe are convertible to defense
work, wherever they are making. We need a lot of things that are not metal.
The automotive industry, then, there are 150,000,000 man-

hours per week of small-plant capacity?

Mr. Taub. That is right.

Mr. Taub. Capable of producing defense products of some kind?

Mr. Taub. That is right, sir. And I merely bring up that point because
the use of that capacity is in the offing. That is one of our assets. Therefore,
we must have a real, upstanding contracting department, whose job is to be
honesty, keep subcontractors.

As I mentioned, subcontracting has been going on, more or less, but there are
some definite agreements where subcontracting has been ignored. I believe we have
got to pay much more attention to it.

The automotive organizations have always had outstanding purchasing agents
the ability to acquire things anywhere in the world. These men, in the past, have
done marvelous things in bringing the best parts from the outside to the inside,
on time. When you undertake to build 300,000 motor cars a year, you have
to have a tremendous amount of diversified material at a given time. The
things responsible for that are not going to be any faster than they
have been, and therefore it is that type of man that ought to be organized into
a definite subcontracting organization, so that nothing in the world can stop these
fellows from getting the stuff.

And at this point I would like to tell a short, sad story, the point of which is
that mistakes can be made, and have been made. In Toledo, where we have
attained the position of a pool, the only way we can lead Toledo up with work is by
taking in the small manufacturers there and having the factories there, which
is 3- to 5-per cent commission.

I don't know where the work came from, because I was having a hard time
finding work for them. Apparently it is in the form of subcontracts from some
of the larger companies.

Mr. Taub. Mr. Taub, would you, for the purpose of the record, describe
what you mean by "pool"?

Mr. Taub. I am speaking of a pool of small manufacturers, so organized that
together they can find tools to make a particular object, whereas individually
some of them would talk about the job.

I am trying to bring out a story with reference to the Toledo pool, a story of
carelessness on the part of people who have the job of sub-contracting, and who
probably don't know what tools are in the same desk as the other people. It is,
Toledo, it has got to be a part of the job, and so big a part of the job that I think a subcon-
tracting committee must be on a level with the technical committee.

So, we have a major committee that you mentioned. I would say that they
ought to have three major subcommittees—technical committee, labor
committee, and a subcontracting committee.

Mr. Taub estimated that with proper organization the readily con-
vertible facilities could be brought into production within 4 months
and that within less than a year these facilities could be supplemented
with the remaining facilities to complete the conversion of the
industry.

Dr. Lamb. Going back to the automotive industry and its conversion of exist-
ing equipment, what portion of the military goods now needed could be made
on the converted machinery, or perhaps put to the other way around, how
much of the converted machinery could produce military goods? In your estimation?

Mr. Taub. If I should think 50 percent of the present automobile equipment can
be used on defense work. Some of this may necessarily be of the simplified types
of defense work, and while preparation is being made for the more complicated,
we should at least be going all-out on the simplified stuff. Sooner or later we
have to recognize that the automatic industry will be carrying the major load
on it, because it can, by virtue of the use of present equipment, modified
present equipment, and the addition of new equipment.

Dr. Lamb. How quickly do you think that 50 percent could be put into effective
operations?

Mr. Taub. I would say that for most defense pieces that could be made on
these types of machines, you could make the necessary tools, jigs, and fixtures
within between 4 and 8 months.

Dr. Lamb. Take a sheet-metal works, clear it out, and use it as a shed.
Could you use that building and assemble your machines in there, in such a way, with
the proper jigs and fixtures, as to go into production within, say, 6 months' time?

Mr. Taub. Yes, indeed; I think you could. Your suggestion, I think, is
worthwhile, because if you have a large punch-press factory that you are not going
to use, you can clean it out and build the new equipment that you intend to use, or to line it up with the necessary equipment for assembly
work—the making of mobile guns or tanks. It only requires reinforce-
manship, and in most of the large punch-press shops you have
the necessary equipment right there for the handling of heavy parts.

Dr. Lamb. Taking your figure of 50 percent as a base figure, and allowing
for the conversion of the toolrooms to quantity production, whereby the tech-
ical division of the over-all committee speeds up defense production in the auto-
mobile industry, how long would it take to increase this 50 percent, and how
much could it be increased?

Mr. Taub. That is a very difficult question to answer. If I understand you,
you are asking how long it would take to get all out, if we should use the captive
toolrooms and other toolroom capacities available to the automotive industry in
the conversion of new machines as well as jigs, tools, and fixtures,

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toolrooms and other toolroom capacities available to the automotive industry in
making new machines as well as jigs, tools, and fixtures,
Dr. Lane: Four to six months?
Mr. Taft: Yes.
Dr. Lane: Would you estimate further that you could get, say, another 20 or 40 percent—something approaching the full utilization of the automotive industry for war-production purposes—by pooling the facilities of the automobile company, and to some extent, perhaps, retooling within the industry, making new machine tools, and new jigs and fixtures, and that within another year, or slightly over, the completion of that conversion process might be achieved?
Mr. Taft: If we allow ourselves 4 to 6 months to get the first part of the program on its way, and if we start the larger program now, certainly within a month we should have 75 percent of our major program on its way, and well within the year we ought to be going very strong.
But at each point we should be doing a lot of constructive work; at no time should the reorganization of our factories proceed on the assumption that they can go into production at any time. I think that is a mistake.

Subsequent to the hearing the following statement was submitted to the chairman of the Automotive Industry Advisory Committee, which was meeting with the Office of Production Management and other agencies on the conversion of the automobile industry to war production:

EXHIBIT 5.—LETTER FROM THE CHAIRMAN TO ANDREW STEVENSON, CHAIRMAN, AUTOMOTIVE INDUSTRY ADVISORY COMMITTEE.

HOUSE COMMITTEE INVESTIGATING NATIONAL DEFENSE MIGRATION.

Washington, D.C., January 9, 1918.

Mr. Andrew Stevenson,
Chairman, Automotive Industry Advisory Committee,
Office of Production Management, Washington, D.C.

Dear Mr. Stevenson:
In view of the fact that the Automotive Manufacturers Association and the United Automobile Workers have both found this conference of the industry, the union, and the Government, the gallant people of our last Washington hearing, I am enclosing a copy of our second interim report. Additional copies of the report have been sent you for distribution to all members of the conference.
In the advertisements published by both the manufacturers and the union, we have looked in vain for any recognition of the need or any proposals for a comprehensive plan for conversion of the full facilities of the industry. This morning's newspaper contains the important news that the Under Secretary of War and Navy are going to offer the automobile industry $5,000,000,000 of war contracts. The newspaper reports mention that this will enable conversion of the industry's facilities, but again there is no indication that a plan for such conversion exists.

On December 22 the Director General of the Office of Production Management and on December 23 the Under Secretary of War testified to this committee that no comprehensive plan for such conversion existed at that time.
The committee feels that no useful purpose has been served by advertisements such as those presented in the current exchanges of arguments as to who is responsible for past failures. Current discussion can only advance the war effort if it is recognized that a new understanding of the meaning of total war that is about to be made; it is not considered to be the controversy—Government officials, both civilian and military, manufacturers and organized labor—have yet set their sights too low. On December 22 the industry has received $4,000,000,000 of war contracts. Add to this the保證s of the industry's facilities, but again there is no indication that a plan for such conversion exists.

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This committee believes that the new $5,000,000,000 of contracts, like the previous four billion, will not emerge in time and sufficiently large scale deliveries if the policies followed to date are not fundamentally altered. These deliveries are indispensable to the transformation of our war effort from its present status.

Sincerely,

John H. Tolan, Chairman.
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March 17, 1942

FOLLOW-UP FOR THE SECRETARY:

Has Mr. Haas furnished you with the information which you asked for in the attached memo?
March 13, 1942.

Mr. George Haas

Secretary Morgenthau

I wonder if by Tuesday morning you can have fixed up for me a sheet arranged on the old basis—that would be monthly—showing what orders each airplane manufacturing company has for 4-engine bombers, 2-engine bombers, and then also what they have in the way of 2-engine fighters, single-engine fighters, also what orders they have for the Navy. What I have in mind—I believe in a number of cases they continue to manufacture models long after we know that they are out of date.

You had better give me a pencil sketch sometime this morning showing what I want before you go to work on it.

I also would like to have on that what planes they've delivered since the first of January of this year. I suppose you can get January and February figures.

If you have any trouble with Stacy May, let me know. I'd go directly to Stacy May on this.
Airplane Manufacturing Program of Glenn Martin Company, Baltimore, Maryland.

**Manufacturing Program as set up by War Production Board**

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Number of Airplanes for which contracts</td>
<td>3017</td>
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<tr>
<td>had been placed January 1</td>
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<tr>
<td>Number of other planes &quot;on program&quot;</td>
<td>2965</td>
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<tr>
<td>Number of other planes &quot;on file in&quot;</td>
<td>440</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>6422</td>
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<tr>
<td>Deduct program items delivered by January 1</td>
<td>208</td>
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<tr>
<td><strong>Total number of planes on Martin program on</strong></td>
<td>6214</td>
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<tr>
<td><strong>January 1</strong></td>
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<td><strong>Delivery Schedule for 1942 and 1943</strong></td>
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<table>
<thead>
<tr>
<th>Month</th>
<th>1942</th>
<th>1943</th>
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<tr>
<td>January</td>
<td>57</td>
<td>234</td>
</tr>
<tr>
<td>February</td>
<td>81</td>
<td>236</td>
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<tr>
<td>March</td>
<td>100</td>
<td>239</td>
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<td>April</td>
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<td>May</td>
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<td>November</td>
<td>222</td>
<td>263</td>
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<tr>
<td>December</td>
<td>231</td>
<td>260</td>
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<tr>
<td><strong>Total</strong></td>
<td>1926</td>
<td>2989</td>
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</table>
MEMORANDUM
March 17, 1942.

TO: The Secretary
FROM: Mr. Sullivan

At the suggestion of Miss Chauncey this afternoon I telephoned the Attorney General and told him I understood he had suggested that 567 million gallons of bootleg mash would be destroyed unless they could be converted into distilled alcohol. He immediately stated that he was afraid this figure would be too high. I told him our seizures for 1941 were 6,868,078 gallons, that we had destroyed all this and all moonshine spirits because the cost of redistillation exceeded the value of the mash and the spirits at the time of seizure.

He said it had not occurred to him that the mash was distributed over such a wide area and in such inaccessible locations, and he could readily understand that his suggestion was impracticable.

I told him I would be glad to send him our figures on the matter if he cared to have them. He said he would. Accordingly, I sent him excerpts from my memorandum to you of March 9th.
Mr. Paul talked with the Secretary about this and it isn't necessary to have a written reply.

From: MISS MORTON
March 17, 1942

Randolph Paul
Secretary Morgenthau

Now that you are in charge of this, I would like to know whether this release was spontaneous or whether the Treasury stimulated it and, if so, who was responsible.

I am delighted with these statements and hope that we can get more like them.

3/19 - memo is ready, but Paul is unco - will have it ready first thing in morning.

Follow up 3/20 - Mr. Paul wants to speak to Hoge instead of writing memo.

Follow up 3/31/42
CIO President Murray today came to the support of the Treasury's Tax proposals and assailed as "shocking" the eight per cent sales levy suggested by the National Association of Manufacturers.

He asserted the plan "would mean a wage cut for every worker in the nation not only of eight per cent but of eight per cent plus the accumulated price increases resulting from such a tax."

Murray outlined a six-point CIO tax program, which he asked constituent unions to urge upon Congress.

3/17--EG1006A
THE AMERICAN FEDERATION OF TEACHERS EXPRESSED VIGOROUS
OPPOSITION TODAY TO PROPOSALS FOR A "WAR SALES TAX" AND URGED CONGRESS
TO PATTERN THE 1942 REVENUE PROGRAM AFTER THE RECOMMENDATIONS OF THE
TREASURY.

WILLIAM WITHERS, ECONOMICS PROFESSOR OF QUEENS COLLEGE OF NEW YORK
CITY, REPRESENTING THE TEACHERS FEDERATION, TOLD THE HOUSE WAYS AND
MEANS COMMITTEE THAT SALES TAXES WOULD WORK GREAT HARDSHIP ON THE
LOWEST OF ALL AMERICAN WAGE GROUPS.

"LIBERALS AND ORGANIZED LABOR AND, I DARE SAY, A MAJORITY OF ALL THE
VOTERS, ARE BEHIND THE SECRETARY OF THE TREASURY,"
WITHERS SAID. "THE AMERICAN PUBLIC IS NOW EDUCATED EFFECTIVELY
AGAINST THE SALES TAX AND IN FAVOR OF THE ABILITY TO PAY PRINCIPLE
OF TAXATION."

WITHERS SUGGESTED ONE REVISION OF THE TREASURY RECOMMENDATIONS
--NO INCREASES IN INCOME TAX RATES IN BRACKETS BELOW $2,500 OF
NET INCOME.

BUT, HE ADDED, THE ORGANIZATION HE REPRESENTED WOULD BE WILLING
TO ACCEPT THE TREASURY'S RECOMMENDATIONS IN FULL.

3/17--R1052A
March 17, 1942

Dear Mr. Toscanini:

That was a truly magnificent concert which you conducted for us on Saturday evening. I enjoyed every minute of it, and I am only sorry that it was not possible for me to be in New York on that evening to greet you in person.

All of us are so grateful to you for your willingness to lead this series of concerts on behalf of Defense Bonds. As I told you on the evening of the first concert, we at the Treasury consider it an honor to have your cooperation and support.

I know that these broadcasts have involved much hard work for you, but you can be sure that they have given pleasure and inspiration to millions of listeners.

Sincerely,

(Signed) R. Morgenthau, Jr.

Mr. Arturo Toscanini,
254th Street & Independence Ave.,
Riverdale, New York City.

FK/cgk

M.M.C.
Copies to Thompson
TO: Secretary Morgenthau

FROM: Mr. Haas

DATE: March 17, 1942.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

1. Attached to this memorandum are tables showing (1) the number of agents qualified to issue Defense Savings Bonds, Series E, at the close of business on March 14, classified by type of agent, by Federal Reserve Districts, and (2) the number of such agents on selected dates since May 7, 1941.

2. Agents, other than post offices, qualified to issue Series E savings bonds numbered 20,511 on March 14, an increase of 155 since March 7.

3. On March 14, there were 526 corporations qualified to issue Series E savings bonds on payroll allotment plans in accordance with the instructions contained in your telegram of December 27 to the Federal Reserve Banks. This represented an increase of 63 corporations over last week.

Attachments
Number of agents qualified to issue Series E
Savings Bonds, May 7, 1941
to date

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<tr>
<th></th>
<th>1941</th>
<th>1942</th>
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<tr>
<td></td>
<td>May</td>
<td>Sept</td>
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<tr>
<td>Commercial and savings banks</td>
<td>7,676</td>
<td>11,571</td>
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<tr>
<td>Building and loan associations</td>
<td>739</td>
<td>1,461</td>
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<tr>
<td>Credit unions</td>
<td>8</td>
<td>389</td>
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<td>Other corporations</td>
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<tr>
<td>Investment industry</td>
<td>-</td>
<td>-</td>
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<tr>
<td>All others</td>
<td>7</td>
<td>27</td>
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<tr>
<td>Total other than post offices</td>
<td>8,430</td>
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<td>Post offices</td>
<td>15,812</td>
<td>16,429</td>
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<tr>
<td>Grand total</td>
<td>24,242</td>
<td>29,897</td>
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Office of the Secretary of the Treasury,
Division of Research and Statistics.

March 17, 1942

1/ In accordance with telegram of December 27, 1941.
<table>
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<tr>
<th>Corporations and associations: Federal Reserve District of:</th>
<th>Banks</th>
<th>Building and loan associations</th>
<th>Credit unions</th>
<th>Other corporations 1/</th>
<th>Investment in industry</th>
<th>All others 2/</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>Boston</td>
<td>837</td>
<td>242</td>
<td>224</td>
<td>54</td>
<td>1</td>
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<td>255</td>
<td>413</td>
<td>61</td>
<td>18</td>
<td>54</td>
<td>1,969</td>
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<td>Philadelphia</td>
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<td>121</td>
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<tr>
<td>Cleveland</td>
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<td>347</td>
<td>46</td>
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<td>36</td>
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<td>Atlanta</td>
<td>1,026</td>
<td>158</td>
<td>186</td>
<td>27</td>
<td>-</td>
<td>-</td>
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<td>Chicago</td>
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<td>St. Louis</td>
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<td>43</td>
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<td>Minneapolis</td>
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<td>76</td>
<td>5</td>
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<td>Kansas City</td>
<td>1,775</td>
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<td>176</td>
<td>19</td>
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<td>35</td>
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<td>Dallas</td>
<td>860</td>
<td>124</td>
<td>236</td>
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<td>1,293</td>
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<td>San Francisco</td>
<td>551</td>
<td>240</td>
<td>327</td>
<td>28</td>
<td>3</td>
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<td>Subtotal</td>
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<td>2,601</td>
<td>2,589</td>
<td>826</td>
<td>67</td>
<td>148</td>
<td>20,511</td>
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<td>Post offices</td>
<td>-</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Grand total</td>
<td>14,280</td>
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<td>67</td>
<td>148</td>
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</table>

Office of the Secretary of the Treasury, Division of Research and Statistics.

1/ In accordance with telegram of December 27, 1941.
2/ Except post offices.
<table>
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<th>Dallas</th>
<th>Kansas City</th>
<th>Minneapolis</th>
<th>New York</th>
<th>Philadelphia</th>
<th>Richmond</th>
<th>San Francisco</th>
<th>St. Louis</th>
<th>Total</th>
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<td>34</td>
<td>59</td>
<td>59</td>
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<td>4</td>
<td>56</td>
<td>174</td>
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<td>54</td>
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<td></td>
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**Other Corporations**

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<td>-00</td>
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<td>7</td>
<td>2</td>
<td>18</td>
<td>7</td>
<td>5</td>
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**Investment Industry**

<table>
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<th>1</th>
<th>2</th>
<th>-</th>
<th>6</th>
<th>1</th>
<th>8</th>
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<tbody>
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<td>-00</td>
<td>2</td>
<td>10</td>
<td>9</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>54</td>
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<tr>
<td></td>
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<td>-00</td>
<td>17</td>
<td>7</td>
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<td>7</td>
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<td></td>
<td>Feb. 28</td>
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<td>5</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Mar. 14</td>
<td>-00</td>
<td>17</td>
<td>7</td>
<td>2</td>
<td>18</td>
<td>7</td>
<td>5</td>
<td>54</td>
</tr>
</tbody>
</table>

1/ Other Corporations authorized as of December 27, 1941 and Investment Industry as of January 17, 1942.
## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During First Thirteen Business Days of March, February and January 1942
(March 1-16, February 1-16, January 1-15)
On Basis of Issue Price

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>Sales</th>
<th>Amount of Increase or Decrease ((\times))</th>
<th>Percentage of Increase or Decrease ((\times))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series E - Post Offices</td>
<td>$47,264 : $54,614 : $83,277</td>
<td>-$7,350 : -$28,663</td>
<td>-13.5% : -34.9%</td>
</tr>
<tr>
<td>Series E - Banks</td>
<td>138,765 : 207,044 : 224,935</td>
<td>-68,279 : -17,891</td>
<td>-33.0% : -8.0%</td>
</tr>
<tr>
<td>Series F - Total</td>
<td>185,029 : 261,658 : 308,213</td>
<td>-75,629 : -46,555</td>
<td>-25.9% : -15.1%</td>
</tr>
<tr>
<td>Series F - Banks</td>
<td>22,911 : 32,759 : 33,331</td>
<td>9,848 : 572</td>
<td>30.1% : 1.7%</td>
</tr>
<tr>
<td>Series G - Banks</td>
<td>102,970 : 160,908 : 138,014</td>
<td>-57,938 : 22,894</td>
<td>-40.0% : 16.6%</td>
</tr>
<tr>
<td>Total</td>
<td>$711,910 : $455,324 : $479,558</td>
<td>-$145,414 : $24,274</td>
<td>-31.5% : 5.1%</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. March 17, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.
<table>
<thead>
<tr>
<th>Date</th>
<th>Post Office Bond Sales</th>
<th>Bank Bond Sales</th>
<th>All Bond Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Series E</td>
<td>Series F</td>
<td>Series G</td>
</tr>
<tr>
<td>March 1942</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>$5,811</td>
<td>$15,685</td>
<td>$2,043</td>
</tr>
<tr>
<td>3</td>
<td>$2,975</td>
<td>$8,185</td>
<td>$1,629</td>
</tr>
<tr>
<td>4</td>
<td>$3,395</td>
<td>$8,033</td>
<td>$2,658</td>
</tr>
<tr>
<td>5</td>
<td>$3,659</td>
<td>$10,048</td>
<td>$1,680</td>
</tr>
<tr>
<td>6</td>
<td>$4,179</td>
<td>$10,696</td>
<td>$1,759</td>
</tr>
<tr>
<td>7</td>
<td>$3,480</td>
<td>$11,586</td>
<td>$1,586</td>
</tr>
<tr>
<td>9</td>
<td>$4,957</td>
<td>$18,636</td>
<td>$3,944</td>
</tr>
<tr>
<td>10</td>
<td>$2,804</td>
<td>$5,199</td>
<td>$1,365</td>
</tr>
<tr>
<td>11</td>
<td>$3,156</td>
<td>$10,002</td>
<td>$1,533</td>
</tr>
<tr>
<td>12</td>
<td>$2,686</td>
<td>$8,114</td>
<td>$1,333</td>
</tr>
<tr>
<td>13</td>
<td>$2,682</td>
<td>$10,594</td>
<td>$1,065</td>
</tr>
<tr>
<td>14</td>
<td>$2,797</td>
<td>$6,616</td>
<td>$1,102</td>
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<tr>
<td>16</td>
<td>$4,464</td>
<td>$13,193</td>
<td>$1,415</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$47,264</strong></td>
<td><strong>$138,765</strong></td>
<td><strong>$22,911</strong></td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. March 17, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.
### Daily Changes in the Stock of Series E Savings Bonds on Hand

**Number of Pieces Sold** | **Number of Pieces Manufactured** | **Stock on Hand at Close of Day** | **IBM Deliveries this Day**
--- | --- | --- | ---
Mar. 1 | none-closed | none-closed | 24,386 | -
2 | 304 | 500 | 24,582 | -
3 | 160 | 500 | 24,922 | 625
4 | 171 | 500 | 25,251 | -
5 | 200 | 500 | 25,551 | 625
6 | 210 | 500 | 25,841 | -
7 | 211 | none-closed | 25,630 | 625
8 | none-closed | none-closed | 25,630 | -
9 | 344 | 500 | 25,786 | -
10 | 123 | 500 | 26,163 | -
11 | 192 | 300 | 26,271 | -
12 | 157 | 300 | 26,414 | 800
13 | 193 | 300 | 26,521 | -
14 | 137 | none-closed | 26,384 | -
15 | none-closed | none-closed | 26,384 | -
16 | 271 | 300 | 26,413 | -

Office of the Secretary of the Treasury, Division of Research and Statistics.

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.
TO Secretary Morgenthau
FROM Mr. White

Subject: Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the 10-day period ending March 10, 1942.

1. Exports to Russia
   Exports to Russia, as reported to the Treasury during the ten-day period ending March 10, 1942 amounted to nearly $33,000,000. Landplanes accounted for more than 40 percent of the total. (See Appendix C.)

2. Exports to Free China and Burma
   Exports to Free China during the period under review amounted to $2,879,000. Printed matter and explosive shells and projectiles were the principal items. (See Appendix D.)
   Exports to Burma amounted to only $23,000. (See Appendix E.)

3. Exports to France
   No exports to France were reported during the period under review.

4. Exports to other blocked countries
   Exports to other blocked countries are given in Appendix A.
SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1

July 28, 1941 to March 10, 1942
(In thousands of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>July 28 to Feb. 20</th>
<th>Period ended February 28</th>
<th>Period ended March 10</th>
<th>Total Domestic Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. S. R.</td>
<td>$147,646</td>
<td>$28,063</td>
<td>$32,485</td>
<td>$208,194</td>
</tr>
<tr>
<td>Free China</td>
<td>46,835</td>
<td>2,921</td>
<td>2,879</td>
<td>52,635</td>
</tr>
<tr>
<td>Burma 2/</td>
<td>11,082</td>
<td>-</td>
<td>23</td>
<td>11,105</td>
</tr>
<tr>
<td>France 2/</td>
<td>6</td>
<td>-</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Occupied France</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Unoccupied France</td>
<td>2</td>
<td>26</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>Spain</td>
<td>2,639</td>
<td>146</td>
<td>48</td>
<td>2,833</td>
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<td>Switzerland</td>
<td>6,933</td>
<td>183</td>
<td>283</td>
<td>7,399</td>
</tr>
<tr>
<td>Sweden</td>
<td>13,849</td>
<td>5/</td>
<td>-</td>
<td>13,849</td>
</tr>
<tr>
<td>Portugal</td>
<td>6,245</td>
<td>80</td>
<td>606</td>
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<tr>
<td>French North Africa</td>
<td>6,283</td>
<td>-</td>
<td>-</td>
<td>6,283</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research
March 14, 1942.

1 Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular week. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.

2 From September 1, 1941 to date — It is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

3 Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.

4 Includes Morocco, Algeria and Tunisia.

5 Less than $500.
APPENDIX B

Exports from the U.S. to Free China, Burma and U.S.S.R. as reported to the Treasury Department
July 28, 1941 - March 10, 1942

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Week</th>
<th>Exports to Free China</th>
<th>Exports to Burma</th>
<th>Exports to U.S.S.R.</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 28 - Aug. 2</td>
<td>395</td>
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<td>4,523</td>
</tr>
<tr>
<td>Aug. 4 - Aug. 9</td>
<td>-</td>
<td>551</td>
<td></td>
</tr>
<tr>
<td>Aug. 11 - Aug. 16</td>
<td>309</td>
<td>986</td>
<td></td>
</tr>
<tr>
<td>Aug. 18 - Aug. 23</td>
<td>2</td>
<td>2,735</td>
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</tr>
<tr>
<td>Aug. 25 - Aug. 30</td>
<td>1</td>
<td>1,023</td>
<td></td>
</tr>
<tr>
<td>Sept. 2 - Sept. 6</td>
<td>204</td>
<td>4,280</td>
<td></td>
</tr>
<tr>
<td>Sept. 8 - Sept. 13</td>
<td>2,281</td>
<td>5,217</td>
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</tr>
<tr>
<td>Sept. 15 - Sept. 20</td>
<td>3,822</td>
<td>752</td>
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</tr>
<tr>
<td>Sept. 22 - Sept. 27</td>
<td>110</td>
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<td>2,333</td>
</tr>
<tr>
<td>Sept. 29 - Oct. 4</td>
<td>1,225</td>
<td>684</td>
<td>323</td>
</tr>
<tr>
<td>Oct. 6 - Oct. 11</td>
<td>5,312</td>
<td>1,157</td>
<td>6,845</td>
</tr>
<tr>
<td>Oct. 13 - Oct. 18</td>
<td>5</td>
<td>35</td>
<td>1,924</td>
</tr>
<tr>
<td>Oct. 20 - Oct. 25</td>
<td>269</td>
<td>403</td>
<td>5,623</td>
</tr>
<tr>
<td>Oct. 27 - Nov. 1</td>
<td>4,772</td>
<td>58</td>
<td>4,434</td>
</tr>
<tr>
<td>Nov. 3 - Nov. 8</td>
<td>1,672</td>
<td>342</td>
<td>4,552</td>
</tr>
<tr>
<td>Nov. 10 - Nov. 15</td>
<td>2,851</td>
<td>68</td>
<td>2,677</td>
</tr>
<tr>
<td>Nov. 17 - Nov. 22</td>
<td>1,228</td>
<td>1,021</td>
<td>3,581</td>
</tr>
<tr>
<td>Nov. 24 - Nov. 29</td>
<td>3,239</td>
<td>1,364</td>
<td>2,436</td>
</tr>
<tr>
<td>Dec. 1 - Dec. 6</td>
<td>791</td>
<td>64</td>
<td>3,609</td>
</tr>
<tr>
<td>Dec. 8 - Dec. 13</td>
<td>2,337</td>
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<td>12,040</td>
</tr>
<tr>
<td>Dec. 15 - Dec. 20</td>
<td>111</td>
<td>8</td>
<td>4,580</td>
</tr>
<tr>
<td>Dec. 22 - Dec. 27</td>
<td>1</td>
<td>196</td>
<td>1,829</td>
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<tr>
<td>Jan. 5 - Jan. 10</td>
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<td>2</td>
<td>3,993</td>
</tr>
<tr>
<td>Jan. 12 - Jan. 17</td>
<td>91</td>
<td>1,073</td>
<td>8,247</td>
</tr>
<tr>
<td>Jan. 19 - Jan. 24</td>
<td>1,695</td>
<td>447</td>
<td>5,874</td>
</tr>
<tr>
<td>Jan. 26 - Jan. 31</td>
<td>-</td>
<td>-</td>
<td>3,885</td>
</tr>
<tr>
<td>Feb. 1 - Feb. 10 4/</td>
<td>6,938</td>
<td>923</td>
<td>9,608</td>
</tr>
<tr>
<td>Feb. 10 - Feb. 20</td>
<td>4,889</td>
<td>1,054</td>
<td>13,315</td>
</tr>
<tr>
<td>Feb. 20 - Feb. 28 5/</td>
<td>4,853</td>
<td>583</td>
<td>26,174</td>
</tr>
<tr>
<td>Mar. 1 - Mar. 10</td>
<td>2,921</td>
<td>-</td>
<td>28,119</td>
</tr>
<tr>
<td>Total</td>
<td>55,238</td>
<td>9,992</td>
<td>208,627</td>
</tr>
</tbody>
</table>

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.
4. Beginning with February 1 figures will be given for 10-day period instead of week except where otherwise indicated.
5. 5-day period.

Treasury Department, Division of Monetary Research    March 17, 1942
APPENDIX C

Principal Exports from U. S. to U.S.S.R.
as reported to the Treasury Department
during the ten-day period ending
March 10, 1942

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Total Exports</th>
<th>$ 32,509</th>
</tr>
</thead>
</table>

**Principal Items:**
- Landplanes - bombers $14,400
- Motor trucks and chassis $2,261
- Military tanks - light (M-3) $1,613
- Military tanks - medium $1,275
- Cartridge brass sheets and strips $1,208
- Aviation gasoline $936
- Pork, canned $795
- Tin plate $733
- Aircraft parts and accessories, n.e.a. $701
- Landplanes - pursuit, interceptor, and fighter $643
- Wool cloth $567
- Lard $476
- Explosive shells and projectiles $457
- Marine engines $400
- Trinitro toluene (T.N.T.) $376
- Insulated copper wire $330
- Aircraft engines $306
- Sole leather $286
- Aluminum plates, sheets, bars, strips, and rods $278
- Military tank parts $265
- Machine and sub-machine guns and parts $242
- Sausage, canned $239
- Refined copper $195
- Sugar $191
- Men's boots and shoes $190
- Light reconnaissance cars (Jeeps) $186
- Metallic cartridges $182
- Brass wire $167
- Relief supplies - surgical, hospital $154
- Wheat flour $151
- Auto replacement parts $149
- Milling machines $138
- Lubricating oils $138
- Relief supplies - clothing $136
- Gun parts $132

Treasury Department, Division of Monetary Research  March 17, 1942
## APPENDIX D

Principal Exports from U.S. to Free China as reported to the Treasury Department during the ten-day period ending March 10, 1942

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Principal Items</th>
<th>Value (Thousands of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>$2,879</td>
</tr>
<tr>
<td><strong>Principal Items:</strong></td>
<td></td>
</tr>
<tr>
<td>Printed matter (bank notes)</td>
<td>632</td>
</tr>
<tr>
<td>Explosive shells and projectiles</td>
<td>355</td>
</tr>
<tr>
<td>Field artillery (pack and field howitzers) and accessories</td>
<td>217</td>
</tr>
<tr>
<td>Tires and inner tubes</td>
<td>189</td>
</tr>
<tr>
<td>Bren guns, magazines, and tripods</td>
<td>175</td>
</tr>
<tr>
<td>Aircraft engines</td>
<td>156</td>
</tr>
<tr>
<td>2½ ton trucks</td>
<td>151</td>
</tr>
<tr>
<td>Infantry support weapons (2 pounders) and parts</td>
<td>125</td>
</tr>
<tr>
<td>Zinc slabs</td>
<td>111</td>
</tr>
<tr>
<td>½ ton trucks (weapon carriers)</td>
<td>105</td>
</tr>
<tr>
<td>Metallic cartridges</td>
<td>81</td>
</tr>
<tr>
<td>Barbed wire</td>
<td>81</td>
</tr>
<tr>
<td>Steel sheets</td>
<td>67</td>
</tr>
<tr>
<td>Aircraft parts and accessories, n.e.s.</td>
<td>65</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research

March 17, 1942
## APPENDIX E

**Principal Exports from U. S. to Burma**

as reported to the Treasury Department during the ten-day period ending March 10, 1942

(Thousands of Dollars)

<table>
<thead>
<tr>
<th>TOTAL EXPORTS</th>
<th>$ 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Items:</td>
<td></td>
</tr>
<tr>
<td>Ethyl fluid (anti-knock compounds)</td>
<td>16</td>
</tr>
<tr>
<td>Other industrial chemicals</td>
<td>3</td>
</tr>
<tr>
<td>Phosphorous, elemental</td>
<td>3</td>
</tr>
<tr>
<td>Automobile parts for replacement</td>
<td>1</td>
</tr>
<tr>
<td>Drums</td>
<td>1</td>
</tr>
</tbody>
</table>

Treasury Department, Division of Monetary Research  
March 17, 1942
March 17, 1942

Mr. Ewessay
Mr. Metrich

Will you please send the attached cable to the American Embassy,
Designating "For Adler from Fox."
March 17, 1942

TO ADLER, CHUNGKING, CHINA

FROM FOX

British American Tobacco Company desires to sell tobacco stored in United States and have payment for same made to London in pounds sterling rather than into blocked United States dollar account. Amount involved is U.S.$2,500,000 or sterling equivalent. United States Treasury prefers to have Stabilization Board approve transaction before issuing license. Accordingly, Counsell of BAT is sending cable through Chinese Embassy to Chairman Ch'en asking for approval. I am not making recommendation as I would prefer to have Board act on merits of case. Approval of BAT's application does not appear to affect the Board's assets but does have bearing on China's dollar position. Decision involves primarily disposition to assist an ally.
TELEGRAM SENT

IM

This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

AMBASSADOR,

CHUNGKING, (CHINA) VIA N. B.

182

FOR ADLER FROM FOX.

QUOTE British American Tobacco Company desires to sell
tobacco stored in United States and have payment for same made
to London in pounds sterling rather than into blocked United
States dollar account. Amount involved is U.S. $2,500,000 or
sterling equivalent. United States Treasury prefers to have
Stabilization Board approve transaction before issuing license.
Accordingly, Cousins of BAT is sending cable through Chinese
Embassy to Chairman Chen asking for approval. I am not making
recommendation as I would prefer to have Board act on merits of
case. Approval of BAT's application does not appear to affect
the Board's assets but does have bearing on China's dollar
position. Decision involves primarily disposition to assist an
ally. END QUOTE

WELLES
ACTING
(FL)

FD:FL:ME
Copy:ime
3/18/42

March 17, 1942
7 p.m.
INCOMING CABLEGRAM

Date: March 17, 1942
From: Chungking

Federal Reserve Bank of New York

#2

Please pay Bank of China New York agency U. S. dollars 600,000 for credit of Bank of China, Kunming.

Stabilization Board of China

(Test correct)

(Received by telephone from Federal Reserve Bank of New York, New York, March 17, 1942)
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram No. 168, dated March 16, 1942, from the American Embassy, Ankara, Turkey, reporting that United States currency is selling throughout the Near and Middle East at a steadily increasing discount.

Enclosure:

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Secretary of State,

Washington.

168, March 16, 1 p.m.

The Department may find it desirable to invite the attention of the Treasury Department to the steadily increasing discount at which United States currency is selling throughout the Near and Middle East. As an example at the present time the Turkish State Bank which will pay 1.80 Turkish pounds on a telegraphic remittance of one dollar will only pay .90 for one dollar in United States currency. The (embarrassing situation?) reason for this striking embarrass is that United States currency in considerable amounts has been working its way down from central and eastern Europe through the Balkans to the Near and Middle East. At the same time this source is being supplemented by substantial amounts of currency brought to the Near and Middle East by United States Government and representatives of all services who are arriving in ever increasing numbers. As against the steadily increasing amount of United States currency being accumulated by the banks of the Near and
Middle East, a very limited amount thereof is being returned to
the United States by individuals, and virtually none by the
banks by reason of the risk of loss in transit which the banks
are unwilling to assume.

The desirability occurs to me of an arrangement with one
or more of the banks of the Near and Middle East whereby our
Government will assume the risk involved in returning excess
United States currency to the United States. I am persuaded
that an arrangement under which the banks would be relieved of
the very real risk involved in transferring their excess
currency to the United States would result in the disappearance
of the discount at which United States currency is now selling.
On the other hand failure to take prompt action in this matter
will result in continued embarrassment and unnecessary loss to
the increasing number of United States representatives of all
services in the Near and Middle East as personal checks,
travelers checks, drafts on governmental Departments, and other
negotiable instruments generally speaking are no longer
acceptable.

Of far more importance than the inconvenience and loss
being sustained by individual Americans as a result of the
steadily increasing discount at which United States currency is
selling, is the decline in the prestige of the United States
which in turn has created doubt among the public of all classes
as to the ultimate outcome of the War. In this connection it is
worth noting that rightly or wrongly the people of the Near and
Middle East have for centuries regarded the value of foreign
currencies in wartime as a barometer of the progress of the War.

STEINHARDT
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Moscow, Union of Soviet Socialist Republics
DATE: March 17, 1942, 11 a.m.
NO.: 73

I have been informed by Admiral Miles that he is making arrangements at the request of the Commissariat of Foreign Trade for shipment of 10 tons of gold to be made on a British warship from Murmansk. He added that Geist understood that this shipment of gold is to go to the United States by transshipment in either England or Iceland to an American warship.

This telegram has been repeated to Kuibyshev.

THOMPSON
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £29,000
Purchased from commercial concerns £2,000

Open market sterling remained at 4.63-3/4, with no reported transactions.

Accompanying further offerings of American-owned Canadian funds received from the railway bond redemption, the Canadian dollar discount widened to a current low of 13-3/8% at the close, compared with 12% on Saturday. Today's turnover was placed at 300,000 Canadian dollars, as against 500,000 yesterday. Further blocks of Canadian dollars will probably be offered in the near future, as some New York banks have sent bonds to Canada for redemption on behalf of their customers and have not yet received advice of credit.

In New York, closing quotations for the foreign currencies listed below were as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentine peso (free)</td>
<td>.2367</td>
</tr>
<tr>
<td>Brazilian milreis (free)</td>
<td>.0516</td>
</tr>
<tr>
<td>Colombian peso</td>
<td>.5775</td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2084</td>
</tr>
<tr>
<td>Uruguayan peso (free)</td>
<td>.5295</td>
</tr>
<tr>
<td>Venezuelan bolivar</td>
<td>.2825</td>
</tr>
<tr>
<td>Cuban peso</td>
<td>7/32%</td>
</tr>
</tbody>
</table>

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that $1,766,000 in gold arrived today from South Africa, having been shipped by the South African Reserve Bank to the New York agency of the Banque Belge pour l'Étranger. This gold was sold to the New York Assembly Office for account of the Bank of the Belgian Congo.

In London, spot and forward silver remained at 23-1/2d, equivalent to 42.57. The Treasury's purchase price for foreign silver was unchanged at 35¢. Sandy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.
Information received up to 7 A.M., 17th March, 1942.

1. NAVAL

RHODES. Night 14th/15th. Light Naval forces in co-operation with the R.A.F. carried out a successful attack on military establishment, port installations and shipping in the Island. The port was heavily bombarded and on completion our Forces withdrew unmolested. Shipping casualties - 13th. A 500 ton British ship was torpedoed and sunk North of BAHAMAS. 15th. A small British ship was sunk by air attack off PORTUGAL. 16th. A 4,500 ton Dutch vessel also an unknown ship were sunk off CAPETOWN possibly by submarine.

2. MILITARY

BURMA. During the withdrawal from RANGOON 1st Burma Division created a diversion by an attack on a two brigade front. Two villages and SHWEGYIN were captured and severe casualties inflicted on the enemy. The Division was reported to be returning to its former positions on the 15th.

3. AIR OPERATIONS

WESTERN FRONT. Nothing of importance.

MEDITERRANEAN. 14th/15th. In conjunction with naval operation already mentioned our bombers attacked two aerodromes in RHODES and one in CRETE.

LIBYA. 15th. Boston's destroyed five aircraft on the ground at MARTURA. Fighters shot down one ME 109 and probably destroyed two others. Three Tomahawks intercepted nine dive bombers escorted by ten ME 109's over TOBRUK. They probably destroyed one ME and prevented any damage to TOBRUK.

AUSTRALIA. 14th. Eight enemy bombers escorted by fighters attacked HORN ISLAND, fifteen miles north west of CAPE YORK, and destroyed one Hudson on the ground. Three enemy aircraft were shot down and one U.S. fighter is missing.
TO

Secretary Morgenthau

FROM

Mr. Kamarok

Subject: C.O.I. Study, "Oil and German Strategy."

The attached C.O.I. monograph, "Oil and German Strategy," I believe, should be forwarded to Monetary Research.

The C.O.I. memorandum, apparently, is based on a British study. It accepts the British verdict without the accompanying qualifications that German production of petroleum and petroleum substitutes may be increased by 2.4 million tons in 1942. Based on this, the conclusion is drawn that Germany's strategy may be more concerned with a desire to deny Caucasian or Near Eastern oil to the United Nations, than on the desire to secure this oil for herself.

The British study made in November, 1941 by a special governmental committee on the Enemy Oil Position came to the following conclusions:

(a) The German petroleum position, while very serious, is not critical as yet. In any case, the available German stocks by November 1942, would be reduced to one million tons, or less than one month's consumption.

(b) The margin of petroleum supplies available is extremely thin. Already, less petroleum is being allocated to the occupied countries than is needed for them to make their maximum contribution to the German war effort.

(c) Germany cannot afford to keep large petroleum reserves near the front lines. As a result, even temporary interference with her communications exposes her to great danger.

(d) Heavy tanker losses in the Mediterranean, more successful bombing of refineries and storage facilities, and the need for an exceptional military effort might serve to push the German petroleum position over the line which separates scarcity from disaster.

(Based on the Russian and Standard Oil studies, the conclusion was reached that the Germans would probably experience an oil crisis some time this coming summer.)
March 17, 1942

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Henry:

Attached is a brief summary
of German Home Propaganda.

Sincerely,

William J. Donovan

Attachment
1. Russia still placed consistently above Far East in German Home Propaganda, with key-note on "Mobile defense, successful defensive fighting, useless Soviet mass attacks repelled in hard fighting, some by counter-thrusts." Mention of "partial encirclement" of body of German troops in central sector, but neither Yukhnov nor Staraya Russa referred to. Possibility of defeat several times referred by Goebbels.

2. "Major landmark in history of British treachery and brutality" marks treatment of Billancourt. Germans told consistently that no factories except Sevres porcelain hit and that only civilians were attacked. The casualties were 1,000 wounded, 1,000 dead, mostly women and children.

3. Details of Hong Kong atrocities withheld from Germans. They heard the Japanese details and were told the story was labelled as smokescreen for British "atrocities" at Billancourt.

4. Except for arguments that United States cannot organize "production" on war basis and accounts of U-boat sinkings, America was played down.

5. The American press was quoted as saying that Cripps was introducing Soviet methods in British labor. "Because of lost confidence in Roosevelt's supreme might, England throws itself at Bolshevism."

6. All political leaders told to report immediately all suspected cases of typhus in February 14 issue of Medizinische Welt. Public warned of danger and origin of typhus in BNN on February 20 and Hamburger Fremdenblatt on February 1st.

7. Swedish press accused of publishing unneutral and pro-British articles, as Anti-Swedish press increases.
SITUATION REPORT

I. Pacific Theater.

Burma: Consolidation of the general line Tharrawaddy-
Toungoo-Southern Shan States continues as Chinese reinforcements con-
tinue to arrive. Australasia: Air clashes occur north of Australia as
the Allies bomb airfields at Faisaul and Dilli. In turn, the
Japanese bombed Port Darwin and Port Moresby. Prime Minister Curtin
said in a communiqué today that the 14 Japanese planes, which attacked
Darwin, the north coast base, yesterday, flew at 1500 feet and dropped
about 80 bombs.

II. Western Theater.

Nothing to report.

III. Eastern Theater.

There is no reported change in the general situation. (A
situation map will not be issued this date.)

IV. Middle Eastern Theater.

Cairo communiqué today announces an increase in the activi-
ty of General Rommel’s North Afrika Korps in the Libyan Desert. The
RAF continues to support ground troops in the forward area and has
bombed Bengazi and Sicilian airports. The Axis air forces continue
the aerial bombardment of Malta.
Trip – Wed. 3/18/42

arranged by Col. Sarnelle

1. Col. Sarnelle and Material man will be at your house at 8:30 am.
2. Travel Anacostia at 9:00 am, in V-188.
3. Arrive Mitchell Field about 10:00 am.
4. Motor to Republic Aviation Plant (about 30 minute drive).
5. Inspection and demonstration of P-47.
6. Return to Mitchell Field for lunch (General Town – Commanding General Eastern Theatre Operations – and General Bradley – Commanding General First Air Force will be present).
7. Inspect pursuit units at Mitchell Field.
8. Motor to New York Information Center (about one hour).
9. Inspect facilities at Information Center.
10. Motor to LaGuardia for return to Wash.
11. Army is furnishing transportation in N.Y.
Mr. Fitzgerald

Secretary Morgenthau

Please call up Harry Hopkins's Secretary at the White House and explain that I'm out of town and that's why I'm not calling Mr. Hopkins myself. I'd like to invite him to have lunch with me Thursday at the Treasury at 1:00.

[Signature]

Taken care of 3/8/42.
March 18, 1942

Dan Bell
Secretary Morgenthau

Please let me know Thursday what happened to the Chinese loan. I never heard whether we gave the thing to T. V. Soong, Article II revised, how he received it, what did he do with it. Where are we? Please let me know in writing Thursday morning.

Memos submitted 3/19.
March 16, 1942

George Hans
Secretary Morgenthau

I wish you would get in touch with Stacy May and see whether he can let me have a chart, fixed up just like the airplane ones; namely, "The Quantity of X Article Produced Last Year"—the Quantity of X Article in January and February, and then the Schedule for the balance of the year. What I'm interested in is various anti-aircraft guns, the ammunition to go with them, and listening devices for the Army to detect airplanes, known as "radar".

Also find out from Stacy May how many rounds of ammunition does each such gun need, on the average, when it is used under war-time conditions. He may have difficulty in giving you this figure, but try and get some kind of a figure. I'd like to have this information charted by 9:00 Thursday morning, if I'm going to have it at all, for a study which if I can have it in a week, I'd be satisfied. For each of these particular articles that I mentioned, I would like to know when the appropriations were passed, and for how many dollars.
Mrs. Klotz

Secretary Morgenthau

Any copies of what ships are loading at Philadelphia, or anywhere else, that George Haas has been furnishing us since March 9th I want burnt please. Have them burnt in your fireplace so that you can see them actually burnt yourself. The one I received today from Stephens, and the one I took on the farm, I personally had them burn them. They're dynamite, and I don't want to take any chances of their getting out. I'm having Irey's organization, at Haas's request, check everybody that handles these figures from Philadelphia through to Washington, so if there is any leak it will be somebody else's office, rather than ours. Starting with today, after I have read them I'm giving them to Stephens and asking him personally to burn them, so there will be none of them in our files.

3/19 - Mrs. Klotz checked with the Secy today and he decided not to destroy the report which he took to the President and the first complete report submitted by Haas covering the period March 9-13.
March 18, 1942

My dear Mr. Secretary:

I am enclosing copies of the President's letters of March 17 to Mr. Stettinius, Mr. Nelson and Admiral Land, which you requested in our telephone conversation this afternoon.

Sincerely yours,

Thomas B. McCabe
Deputy Administrator

The Honorable

The Secretary of the Treasury
March 17, 1942

My dear Mr. Nelson:

I find that our Protocol shipments to Russia are still far behind and that many of them are placed in preferential lists which fall behind other requirements.

I wish that all material promised under the Protocol be released for shipment at the earliest possible date regardless of the effect of these shipments on any other part of our war program.

Very sincerely yours,

/s/ FRANKLIN D. ROOSEVELT

C. in C.

The Honorable
Donald M. Nelson
Director, War Production Board
March 17, 1942

My dear Admiral Land:

I find that our Protocol shipments to Russia are still far behind. I wish to emphasize again to you that the meeting of the Russian Protocol shall have a first priority in shipping.

I wish that you would take the additional ships required from the Caribbean and South American routes regardless of all other considerations.

I am issuing similar instructions to the War Production Board and the Service Departments in regard to the release of the material promised, so you may expect additional supplies moving to the Eastern seaboard at once.

I have asked Mr. Stettinius to follow through with all Departments and to report to me promptly any delay on the part of any Department in carrying out the Protocol.

I have furthermore asked him to submit to me at once schedules showing availability dates of both material and ships through June 30, 1942.

The above is a directive from the C. in C.

Very sincerely yours,

/s/ FRANKLIN D. ROOSEVELT

C. in C.

Rear Admiral Emory S. Land,
Chairman, U. S. Maritime Commission
March 17, 1942

My dear Mr. Stettinius:

I am enclosing letters which I wrote today to Admiral Land, Chairman of the Maritime Commission, and to Mr. Donald Nelson, Chairman of the War Production Board.

I wish you would please follow through with all Departments concerned and submit to me schedules of the availability dates of materiel and shipping.

Very sincerely yours,

(Signed) Franklin D. Roosevelt

C in C.

Enclosures.

The Honorable
E. R. Stettinius, Jr.,
Lend-Lease Administrator.
Dr. White:

The Secretary would like to have you read the attached and return to me, please.

N.M. Chauncey
OFFICE OF LEND-LEASE ADMINISTRATION
515 22nd St., N.W.
Washington, D.C.

March 18, 1942

My dear Mr. Secretary:

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Sincerely yours,

(Signed) THOMAS B. McCABE
DEputy Administrator

The Honorable

The Secretary of the Treasury

STRICTLY CONFIDENTIAL
March 17, 1942

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(Signed) Franklin D. Roosevelt
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Enclosures.

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Lend-Lease Administrator.
My dear Mr. Nelson:

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I wish that all materiel promised under the Protocol be released for shipment at the earliest possible date regardless of the effect of these shipments on any other part of our war program.

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C. in C.

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(Signed) FRANKLIN D. ROOSEVELT

C. in C.

Rear Admiral Emory S. Land,
Chairman, U.S. Maritime Commission
March 18, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

We had a very harmonious discussion in New York yesterday on the new scheme of harbor protection, Waesche, Captain Parker, Harry Durning and myself participating. Durning readily agreed to go along on a plan that Waesche, Parker, Johnson and I had worked out here, which is in substance the plan which Joe Green, Supervising Customs Agent at Seattle, and Saul Haas devised, which has been applied successfully there and in San Francisco and is now being adapted to conform to the Executive Order which gives the Navy prime responsibility, to be exercised through the Coast Guard.

There is to be a port protection committee with representatives of the various Federal, local interests concerned, and a coordinator acting as liaison between the committee and the Captain of the Port. It is planned that Harry Durning will be the chairman of this committee in New York and the coordinator will either be brought in from the outside or taken from one of the Treasury enforcement agencies. The new system, of which Parker will be in general charge on the East Coast, ought to eliminate a lot of friction and obviate arbitrary and unexpected interference by the Navy, which has caused some trouble in the past.
March 18, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Waesche has at length succeeded in persuading the Navy Department to make better use of Coast Guard equipment in the anti-submarine patrol. It is a matter I have discussed with him at various times. Captain Hemmingway, gunnery and Naval warfare expert of the Coast Guard, has worked out a plan for the use of the seventy-five footers and eighty-three footers along the Atlantic Coast under Admiral Andrews, who has just been detached from the Third Naval District to give entire attention to the Eastern Coastal Patrol. These boats are all to be equipped with depth charge racks and fifty caliber guns and are to hunt in pairs from various harbors along the Coast. The eighty-three footers, one of which you saw, are coming out from the Wheeler Shipyards at the rate of one every five days. The present order is for eighty and an additional forty are being ordered.

The Navy has 1,799 sub-chasers on order; first deliveries are expected in April. The greater part of these are 110 ft. wood ships, to do about twenty knots, and the remainder are steel patrol boats for convoy work. These are around 180 feet, twin screw, Diesel boats, built on the lines of the Coast Guard 165 ft. patrol boats. They will do about twenty-four knots. The 110 ft. wood boats are to be powered with radial Diesels, laid flat pancake fashion and angle geared to the propeller shafts.
March 18, 1942.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: SS LAFAYETTE - ex NORMANDIE

The salvage operators are engaged in cutting away the top two decks of the NORMANDIE. This is regarded as necessary whether they scrap the vessel or try to raise her. It also enables the Navy to postpone decision. The probability is that the vessel will be scrapped. Waesche tells me that a considerable number of Naval architects would regard her as a death trap if she were used as a transport because of inherent structural defects. She has always had a low metacentric height, which means she is unstable, as was demonstrated by the manner in which she capsized. She is not strongly built, her plating is thin, and the water-tight hull subdivision is not regarded as adequate. Her great carrying capacity, coupled with her vulnerability to attack, would make her a poor bet as a troop transport, it is said.
Dear Dan:

This is a copy of the memorandum received this morning from Allan Sproul relative to the Treasury financing program which we discussed with you yesterday. I believe that it expresses in general the views of the Executive Committee of the Open Market Committee.

Sincerely yours,

(Signed) Marriner

Honorable Daniel W. Bell,
Under Secretary of the Treasury,
Washington, D. C.

Enclosure
ECCLES, CHAIRMAN,
FEDERAL OPEN MARKET COMMITTEE
C/O BOARD OF GOVERNORS

This is the statement which you requested I send to you:

"The general programs suggested by the Treasury seem to us to be incompatible with the primary objective of obtaining the largest possible amount of funds outside of the banking system. By pegging short-term interest rates at a low level or increasing the volume of excess reserves, or both, it would increase the inducement to the banks to invest in Government securities and lessen the inducement to other investors. This is the reverse of what we are trying to accomplish.

If the Treasury is not yet ready to decide upon a complete program for financing the war effort, and wishes to proceed step by step, we believe it should avoid taking steps such as those now proposed, which in combination and by implication would seem to commit it to a program involving:

(A) A pegged short rate of interest at a low level. The posting of a bill rate of .25 percent by each of the 12 Federal Reserve Banks would be such a pegging operation.

(B) Maintenance of a large volume of excess reserves. An attempt to increase excess reserves in New York would almost inevitably involve the maintenance in New York and in the country of a larger volume of excess reserves than is necessary or desirable."
(c) Use of open market issues rather than tap issues in seeking funds from investors other than banks.

A statement in connection with an issue of certificates of indebtedness, stressing the fact that these certificates are offered as a medium of investment for idle business funds would imply that this is the way which has been chosen to reach non-bank investors.

We would suggest that, for the present, and until a more complete program of financing has been determined by the Treasury, the most appropriate next step would be to increase the weekly offering of Treasury bills to at least $200,000,000 per week. If this were done, we are sure that the Federal Reserve System, through its Federal Open Market Committee, would begin building up its portfolio of bills as soon as the rate reached .25 percent and would increase its buying pressure until the rate reached .375 percent, at which rate it would hold the market, if necessary, until there had been a further determination of procedure in consultation with the Treasury. The explanation of the increased offering of Treasury bills would be the simple one that it is designed to give increased fluidity to the money market and to make excess reserves effective wherever they are located.

An offering of certificates of indebtedness could then be made in due course when additional funds are needed by the Treasury. If, however, the Treasury wishes to make some announcement concerning a future issue of certificates of indebtedness, at the same time that the Treasury bill offerings are increased, this could be done. We think it

Regraded Unclassified
would be better not to name the rate and maturity, however, but merely to state that the certificates of indebtedness would supplement the increased bill issue in providing the money markets of the country with a type of obligation now lacking in sufficient volume to provide the needed mobility of funds.

It is our view that until there has been a further determination of a more complete program of Treasury financing, this would be the best procedure."

3/17/42

SPROUL.
Daily changes in the stock of Series E savings bonds on hand 1/
(In thousands of pieces)

<table>
<thead>
<tr>
<th></th>
<th>Number of pieces sold</th>
<th>Number of pieces manufactured</th>
<th>Stock on hand at close of day</th>
<th>IBM delivers this day</th>
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<tbody>
<tr>
<td>Mar. 1</td>
<td>none-closed</td>
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<td>24,386</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>304</td>
<td>500</td>
<td>24,582</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>160</td>
<td>500</td>
<td>24,922</td>
<td>625</td>
</tr>
<tr>
<td>4</td>
<td>171</td>
<td>500</td>
<td>25,251</td>
<td>625</td>
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<tr>
<td>5</td>
<td>200</td>
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<td>25,551</td>
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<td>6</td>
<td>210</td>
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<td>25,841</td>
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<td>7</td>
<td>211</td>
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</tr>
<tr>
<td>9</td>
<td>344</td>
<td>500</td>
<td>25,786</td>
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<td>10</td>
<td>123</td>
<td>500</td>
<td>26,163</td>
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<td>11</td>
<td>192</td>
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<td>26,271</td>
<td>-</td>
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<td>12</td>
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<td>13</td>
<td>193</td>
<td>300</td>
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<tr>
<td>15</td>
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<td>26,384</td>
<td>-</td>
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<tr>
<td>16</td>
<td>271</td>
<td>300</td>
<td>26,413</td>
<td>-</td>
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<tr>
<td>17</td>
<td>144</td>
<td>300</td>
<td>26,569</td>
<td>-</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. March 18, 1942

1/ Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.
## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Fourteen Business Days of March, February and January 1942
(March 1-17, February 1-17, January 1-16)
On Basis of Issue Price

(Amounts in thousands of dollars)

<table>
<thead>
<tr>
<th>Item</th>
<th>Sales</th>
<th>Amount of Increase or Decrease (-)</th>
<th>Percentage of Increase or Decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March</td>
<td>February</td>
<td>January</td>
</tr>
<tr>
<td>Series Z - Post Offices</td>
<td>50,231</td>
<td>57,253</td>
<td>85,998</td>
</tr>
<tr>
<td>Series Z - Banks</td>
<td>145,149</td>
<td>211,330</td>
<td>251,175</td>
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<tr>
<td>Series Z - Total</td>
<td>195,380</td>
<td>268,582</td>
<td>340,173</td>
</tr>
<tr>
<td>Series F - Banks</td>
<td>23,925</td>
<td>33,449</td>
<td>37,650</td>
</tr>
<tr>
<td>Series G - Banks</td>
<td>105,532</td>
<td>164,219</td>
<td>152,093</td>
</tr>
<tr>
<td>Total</td>
<td>324,857</td>
<td>466,150</td>
<td>529,916</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics. March 18, 1942.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.
## UNITED STATES SAVINGS BONDS

Daily Sales – March, 1942
On Basis of Issue Price

(In thousands of dollars)

<table>
<thead>
<tr>
<th>Date</th>
<th>Post Office Bond Sales</th>
<th>Bank Bond Sales</th>
<th>All Bond Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Series E</td>
<td>Series F</td>
<td>Series G</td>
</tr>
<tr>
<td>March 1942</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>$ 5,811</td>
<td>$ 15,868</td>
<td>$ 2,043</td>
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<td>3</td>
<td>2,975</td>
<td>8,459</td>
<td>1,629</td>
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<td>3,395</td>
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<td>2,658</td>
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<td>5</td>
<td>3,869</td>
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<td>1,680</td>
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<td>4,179</td>
<td>10,696</td>
<td>1,759</td>
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<td>7</td>
<td>3,480</td>
<td>11,586</td>
<td>1,586</td>
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<td>9</td>
<td>4,967</td>
<td>18,636</td>
<td>3,944</td>
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<td>10</td>
<td>2,804</td>
<td>5,719</td>
<td>1,365</td>
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<td>11</td>
<td>3,156</td>
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<td>14</td>
<td>2,797</td>
<td>6,616</td>
<td>1,102</td>
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<td>4,464</td>
<td>13,193</td>
<td>1,415</td>
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<td>17</td>
<td>2,967</td>
<td>6,384</td>
<td>1,015</td>
</tr>
<tr>
<td>Total</td>
<td>$ 50,231</td>
<td>$ 145,149</td>
<td>$ 23,925</td>
</tr>
</tbody>
</table>

Office of the Secretary of the Treasury, Division of Research and Statistics.

Source: All figures are deposit with the Treasurer of the United States on account of proceeds of sales of United States savings bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

March 18, 1942.
MEMORANDUM
March 18, 1942.

TO: The Secretary
FROM: Mr. Sullivan

This afternoon Under Secretary Forrestal of the Navy called to advise me that he had been asked to appear before the House Naval Affairs Committee tomorrow morning to testify on the profit limiting bill.

He said he did not wish to have an open break with Chairman Vinson and his statement had been drawn up in a manner that would present all of the difficulties of any kind of profit limiting bill that had yet been devised. He stated that his conclusion was that even if a fair and effective profit limiting bill could be drafted, the problem would still remain essentially one of procurement, and that success would depend upon the care with which contracts were negotiated. He said his statement was drawn in such a way that, while not condemning profit limiting legislation (which the Navy did not feel free to do), it indicated clearly the ineffectiveness of such legislation.

I advised Mr. Forrestal that we appreciate his problem and realize that this was probably as far as he could go.
WAR TAXATION

The American Federation of Labor recognizes fully the
urgent necessity that every American shall make sacrifices to assure
victory in the present war. The members of the Federation will make
every possible effort to secure the maximum of industrial production,
and to guard against strikes and any other interruptions in carrying
cut our war program.

Taxation is the means by which our Government secures the
necessary funds to purchase the tools and services required in our
great joint war effort.

$7,000,000,000 NOW REQUIRED FROM NEW TAXES

The United States Congress is now preparing to raise from
taxation over $7,000,000,000 additional for war purposes. It is
important to review the entire government tax program to determine
what changes are necessary in order to meet the new demands adequately,
and with fairness to all groups of our population.

Taxation should increase the revenue of the Federal Gov-
ernment in a manner that will result in the minimum dislocation of
private industry and in the minimum of hardship to workers from
falling standards of living. This means that the bulk of the
nation's tax revenues should come from surplus income, and that the
minimum should come from those contributors earning less than enough
to provide a health and decency standard of living for themselves and
for their dependents.

The Revenue Act of 1941 made substantial increases in
both personal and corporate income taxes, but the United States
Treasury Department recommends the passage of a Revenue Act of 1942,
which will provide the following further increases:

Three billions from corporation income and excess
profits taxes.

Two to three billions from individual income
taxes and surtaxes.

One billion from additional selected sales
and excise taxes.

One-third billion from increased estate and
gift taxes.

One-half billion by closing loopholes in
present tax laws.

Such a program could be divided equitably among all of
our citizens. On the other hand, it may be made very burdensome to
those least able to pay, thereby cutting living standards and
reducing the efficiency and the productivity of the nation's workers.

Out of forty-six representative business corporations,
with net earnings for 1941, after taxes, of over one million dollars
each, only eight companies reported earnings after taxes for 1941 at
less than corresponding figures for 1940. Therefore it appears
self-evident that those higher corporate earnings constitute a
substantial taxable surplus.

REVISION OF EXCESS PROFITS TAX NEEDED

One way for the government to substantially increase its
tax revenue from these corporations is to withdraw the optional
excess profits exemptions base, which now permits companies to avoid
excess profits taxes on all earnings which do not exceed the earnings
of such companies in the pre-war period. This special exemption
permits companies with high pre-war earnings to escape excess profits
taxes on huge amounts of income, in some cases representing as much

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as an 18% or 20% return on capital. It would seem that the request of the United States Treasury Department for an excess profits tax on all corporate earnings above 8% or 7% on invested capital, would be both desirable and fair. Such taxes would reduce the amount which must be raised through taxation of individuals in low income groups.

**PAY ROLL TAXES SHOULD BE CONFINED TO SOCIAL SECURITY OBJECTIVES.**

Strong pressure is developing for higher pay-roll taxes because of the ease of collection, and the high volume of pay-rolls. Since we already have the machinery set up for collecting large sums in wage taxes under the Social Security law, it is argued that the rates should be increased and the Social Security machinery used as a means of collecting a wage tax for general purposes. This is unsound, and if adopted would almost surely lead to serious abuses, and to the excessive taxation of industrial workers.

It is desirable to increase total Social Security coverage and to improve the benefits. But taxes on payrolls should be reserved exclusively for Social Security purposes. The rate necessary to carry out the foregoing would increase the cash collections of the Federal Government some of which would be used temporarily for war purposes, thereby lessening the necessity for war-borrowing, and workers would be assured to the end of the run the total payroll taxes would be used for the unemployment, old age, and other benefits for which such taxes are collected.

**GOVERNMENT VICTORY BOND PURCHASE PLAN, A PARTIAL ANSWER TO THREAT OF INFLATION.**

On account of the danger of inflation, it has now become urgently necessary to curtail the expenditure of workers' payroll income for consumption goods. It would seem far better to bring about this curtailment by a voluntary bond buying plan, rather than by a payroll tax over and above the amounts necessary for Social Security benefits.

Under the Victory War Bond Purchase Plan now being introduced by the Treasury Department, a definite amount is set aside each week from the wages of cooperating workers, which is deducted from payrolls, with their consent, and invested in War Savings Bonds, maturing in ten years. This will provide an important source of revenue to meet the dislocations growing out of the change-over from a war to a peace economy, and will place in the hands of ordinary workers an important reserve comparable to the savings and war profits available to those in high income groups.

**LARGE INCREASES IN ALL INCOME TAXES ARE NEEDED.**

The Government hopes to secure through the 1942 Revenue Law an additional two to three billion dollars from personal income taxes and surtaxes during 1943. To collect any such large sum, it will be necessary to greatly increase all income taxes. In order to ease the burden on taxpayers, those in the lower brackets should be allowed the option of paying their tax in monthly instead of quarterly installments.

Another important help to the worker in meeting his Federal taxes, is in the advance purchase of tax stamps and bonds. These are available in various denominations, and by purchasing them each month, the worker can distribute his tax burden throughout the year, and when he makes up his tax return.

**FEDERAL SALES TAXES**

After other income tax sources have all been increased, there will be steady pressure to introduce higher and widely extended Federal Sales taxes in addition to the new in effect on automobiles, tires, gasoline, refrigerators, radio receivers, musical instruments, phonograph records, jewelry, furs, photographic goods, cosmetics, wines, liquors, cigarettes, cigars, tobacco, and many other commodities.

Such an increase in Federal Sales taxes, if combined with heavier payroll and income taxes, would become unfairly burdensome.
workers, who are already faced with a heavy increase in living costs due to the steadily advancing cost of nearly all commodities, particularly of food and clothing.

Furthermore, sales taxes are dependent upon by State governments. To add to the already heavy State sales taxes an additional burden in the shape of a Federal Sales tax would be undesirable and unfair.

As a substitute for the Federal general sales tax now being suggested, we propose an increase in the rates now charged on the sale of luxury products. If still more tax revenue is required other luxury articles can be made subject to sales taxes, so arranged as not to unduly burden the workers. A further suitable group of commodities, for special excise taxes, would be those articles using strategic war materials.

Anything in the nature of a manufacturers' sales tax should be avoided.

Any manufacturers' sales tax or general sales tax would tend to be strongly inflationary through resulting price increases, due to the shifting forward of the tax to the consumer. This explains why annual and corporate income taxes and inheritance taxes are to be preferred to sales taxes. It is estimated that last year total retail sales amounted to $65,600,000,000 including $12,400,000,000 of food. A 5% general sales tax including food would not approximately $3,500,000,000. This tax revenue would not justify the hardships involved in such a tax.

INHERITANCE AND GIFT TAXATION

Some further increases in Federal inheritance and gift taxes will no doubt become necessary, even though the greatest amount of increased collections will come from the middle and lower brackets.

INDIRECT TAXES

A recent study referred to by the United States Treasury Department indicates that a single person earning $750.00 per year (the present lower limit on taxable salaries) pays $150.00 per year in Federal, State and local taxes of all kinds. This is 17.5% of his income, and represents his total earnings for eight weeks. The same study indicates that a married man with no dependents and earning $1500.00 pays $250.00 per year in Federal, State and local taxes of all kinds. This is 16.7% of his income and approximates his total earnings for eight weeks.

If present indirect taxes for a man earning $1500.00 a year come to $250.00, then the 10% flat Federal income tax, without any exception, as recommended by Mr. H. L. Salzman, Chairman of the Taxation Committee of the New York Board of Trade, in hearings before a Congressional Committee, would raise the total of all taxes paid by such a man to $350.00, or approximately 23% of his income, leaving him only $1,150.00 for the support of himself and his wife. This is far below the cost of a health and decency standard of living for two adults. This nation cannot afford to tax its workers so heavily that they will be unable to maintain their health and their ability to continue efficient production.

Present exemptions of $750.00 for single persons and $1000.00 for married persons and heads of families should not be lowered.

CORRELATION OF FEDERAL, STATE AND MUNICIPAL TAXATION

The American Federation of Labor urgently advocates the calling of a joint conference of representatives of Federal, State, and local governments, to plan for the necessary correlation of the taxing powers, so that double taxation may be avoided. Each level of government should be assured of the exclusive right to

*See page 133, in part 5 of Hearings before the Committee on Ways and Means, Revenue Revision of 1942 (unrevised) at Washington on March 9, 1942.
the use of certain forms of taxation free from interference by other taxing jurisdictions.

**EXCESSIVE TAXATION A DANGER TO THE AMERICAN SYSTEM OF PRIVATE INITIATIVE.**

One important warning we all need to heed is this. No tax plan should be tolerated under any circumstances which will break down the American system of private initiative.

Incentive taxes must not be allowed to become so heavy that individuals and enterprises are driven out of business through inability to earn a profit. Profit is the life-blood of business, and if taxes are so high that there is nothing left to provide for the future growth of the business to compensate its owners for their hazards, and to gradually provide more adequate wages and expanding employment, then we must take steps to distribute the burden over a longer period of time. This will be possible only if the present war is pushed to a complete victory, making further war improbable for a generation or two.

**CAPITAL GAINS TAX**

One tax which has an important effect in slowing up investment in new venture enterprises, is the present capital gains tax. If this is not repealed by the new 1942 Revenue Act, it should be greatly modified to tax capital gains at lower rates, and to liberalize the provision for the deduction of capital losses. Failure to take such action in earlier laws has led to a sharp reduction in capital available for new ventures. Enterprises, because of the heavy taxes involved, if the business venture is successful, and because theENTIAL of reasonable credit against other profits if the new venture is not successful.

**RETROACTIVE TAXATION**

Another serious limitation to new business enterprise is the habit of the Government in passing retroactive tax bills. All legislation should avoid retroactive features so that business men may know at all times what tax burden will be involved in any transaction.

**TAX EXEMPT SECURITIES**

Much has been said and written as to the desirability of making the income from State and municipal bonds and of political subdivisions thereof. The American Federation of Labor does not favor tax exempt securities, but believes it dishonest on the part of the Federal Government to change the terms under which such income is received. With regard to taxation of future state and municipal securities and of those of political subdivisions thereof, the American Federation of Labor holds that the preservation of the sovereignty and the independence of the Federal and separate State Governments, and the indivisibility of the States, that the credit and borrowing capacity of many political divisions thereof should be taxable only by States and political subdivisions thereof should be taxable only by States and political subdivisions thereof, thus retaining to the States exclusively this field of taxation, and preventing the coercion of the States by the Federal Government and preserving local self-government.

On the other hand, the American Federation of Labor fully recognizes the right and justice of the Federal Government to make interest on all future Federal bonds subject to the Federal income tax.

**IMPORTANCE OF ECONOMY AS TO NON-WAR EXPENDITURES**

At this time of national financial strain, it is of the utmost importance that every effort be made to eliminate or postpone non-essential expenditures.

To summarize:

The American Federation of Labor makes of Congress the observance of the following principles with regard to war taxation:

1. War taxation should be levied fairly so that each group of our population shall bear only its fair share of the tax burden.

Regarded Unclassified
2. Surplus income in the hands of individuals and corporations should bear the heaviest burden of taxation.

3. An excess profits tax levy on all corporate earnings above 6% or 7% on invested capital, would be both desirable and fair.

4. Payroll taxes should be confined to Social Security purposes.

5. A Voluntary Bond Purchase Plan will reduce the danger of inflation.

6. Federal Sales taxes on food and clothing, and other necessities required by workers, are opposed. If necessary as a last resort, heavier taxes on selected luxuries should be adopted rather than a general retail sales tax or a manufacturers' sales tax.

7. An increase is recommended in inheritance and gift taxation. Such taxes are not inflationary.

8. Loopholes in the tax law unfairly benefiting small groups of taxpayers should be eliminated.

9. Capital gains taxation should be reviewed with the object of removing unnecessary hardships.

10. Federal, State and Municipal taxation should be correlated.

11. To safeguard State sovereignty and home rule of our cities, the credit and borrowing capacity of our several States and political subdivisions thereof shall be subject to taxation exclusively by the respective State Governments. Federal taxation on securities should be confined to Federal bonds, and we urge all future Federal issues shall be subject to income taxation.

12. Retroactive tax legislation is opposed.

13. Non-war expenditures should be postponed wherever possible without injuring important social services.

14. Excessive taxation which endangers the life of the American system of private enterprise should be avoided, even at the cost of paying a larger share of the war cost by borrowing, in order to apportion the total cost of war fairly over the people who will benefit through the maintenance of the freedom for which our nation stands.
TO: Secretary Morgenthau

FROM: Mr. White

SUBJECT: Silver Purchase Agreements

The table below, comparing our silver purchases from Canada and Mexico under agreement with total silver imports from these two countries, shows that we have made no purchases under the new Mexican agreement and that purchases under the Canadian agreement have declined to zero in recent months.

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<thead>
<tr>
<th>YEAR</th>
<th>FROM CANADA</th>
<th></th>
<th>FROM MEXICO</th>
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<tr>
<td></td>
<td>Imports</td>
<td>Treas. Purchases under Agreement</td>
<td>Imports</td>
<td>Treas. Purchases under Agreement</td>
</tr>
<tr>
<td></td>
<td>(in thousands of ounces)</td>
<td></td>
<td>(in thousands of ounces)</td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td>16,692</td>
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</tr>
<tr>
<td>1938</td>
<td>29,496</td>
<td>14,439</td>
<td>36,454</td>
<td>15,001</td>
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<td>1939</td>
<td>24,018</td>
<td>12,136</td>
<td>79,347</td>
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<tr>
<td>1940</td>
<td>20,550</td>
<td>11,672</td>
<td>73,536</td>
<td></td>
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<tr>
<td>1941</td>
<td>18,844</td>
<td>7,131</td>
<td>73,749</td>
<td></td>
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<tr>
<td>1941 Jan.-Mar.</td>
<td>4,501</td>
<td>1,427</td>
<td>18,581</td>
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<tr>
<td>1941 Apr.-June</td>
<td>4,789</td>
<td>1,952</td>
<td>17,624</td>
<td></td>
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<tr>
<td>1941 July-Sept.</td>
<td>5,499</td>
<td>2,852</td>
<td>19,749</td>
<td></td>
</tr>
<tr>
<td>1941 Oct.-Dec.</td>
<td>4,055</td>
<td>900</td>
<td>17,635</td>
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<tr>
<td>1942 Jan.-Feb.</td>
<td>2,252</td>
<td>0</td>
<td>12,632</td>
<td>0</td>
</tr>
</tbody>
</table>

1/ Includes import of 6,687,000 ozs., special Treas. purchases of March, April, May 1938.

2/ Includes import of 35,000,000 ozs., a special Treas. purchase of December 1937.

Regraded Unclassified
The Canadian agreement, under which we undertake to buy up to 1,200,000 ounces a month, has been in operation since March 1936. The first Mexican agreement, with a monthly limit of 5,000,000 ounces, was in operation between January 1936 and March 1938. The second Mexican agreement, with a monthly limit of 6,000,000 ounces, has been in operation since December 1941.
TO: Secretary Morgenthau
FROM: Mr. Haas
Subject: The Export Freight Situation.

The amount of lighterage freight in storage and on hand for unloading in New York harbor at the end of last week was 21,499 cars -- an increase of 1,256 cars over the previous week. (See Chart 1.) Reflecting this increase in freight accumulation, the additional storage space available was reduced, amounting on March 14 to 7,329 cars -- a decrease of 753 cars from the previous week.

The accumulation of freight was caused largely by a decline in exports from New York, which last week dropped by 861 cars to an estimated total of 5,368 cars. (See Chart 2, upper section.)

Receipts for export at New York last week remained relatively unchanged, showing a decline of 47 cars to 6,499 cars. Receipts for export at 9 other North Atlantic ports declined by 1,247 cars from last week's high to a level of 3,631 cars, Boston showing the largest decrease. (See Chart 2, lower section.) Receipts for export at 6 Pacific ports also dropped, but less sharply, reaching a level of 2,105 cars.
LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*

* Largely export freight, but about 10% represents freight for local
and coastal shipment. Figures exclude grain.
AMLEGATION,

QUITO, (ECUADOR).

173, eighteenth.

For Mr. Harold Glasser from Mr. M. D. White.

QUOTE. Joe Friedman plans to leave for Quito in a week or two. You should be in Quito to help him get started. Do you want to change your plans in view of Friedman’s expected arrival at Quito or shall Friedman postpone his departure. Reply by cable. END QUOTE.

WELLES
ACTING
(FL)

FD:FL:BagB
March 18, 1942

In reply refer to FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram No. 31, dated March 17, 1942, from the American Minister, Capetown, Union of South Africa, regarding administrative difficulties which have arisen in connection with arrangements for the cancellation of United States currency presented by the South African Reserve Bank.

Enclosure:

From American Minister, Capetown, No. 31, dated March 17, 1942.
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

SECRETARY OF STATE

WASHINGTON

31, March 17, 3 p.m.

Referring to the Department’s telegram No. 11, February 9, 9 p.m.

The South African Reserve Bank has informed the Consulate General that it will shortly have for transmission some two hundred thousand dollars in United States paper currency most of which will be notes of the smallest denominations and that the bank must obtain a receipt in full upon delivery of the notes to the Consulate General.

In view of the large number of notes involved the Consulate General will have neither the personnel nor the facilities to verify the amounts delivered to it for transmission it is conservatively estimated that the counting of the two halves of this quantity of currency notes would occupy the full time of one of the three officers of the Consulate General for at least one month and further all that work would have to be done on the banks premises as the Consulate General has no facilities for the safekeeping of what at present amounts to about two cubic yards of United States paper currency.

I suggest that the Consulate General be authorized to accept the count of the South African Reserve Bank and to issue a receipt against the banks certificate as to total value and also that authorization be given to store the sealed pouches in the vaults of the bank pending delivery to the Post Office just

Capetown

Dated March 17, 1942

Rec’d 2:33 p.m.

Regraded Unclassified
prior to sailing of carrying vessel. At the present time diplomatic pouches are delivered to the Post Office by the Consulate General against receipt and the Post Office places them aboard ship the same procedure would be followed in the case of pouches containing notes unless the Consulate General is instructed otherwise. The Consulate General will require approximately twenty strong pouches in excess of those now on hand for the first shipment.

As an alternative, it is suggested that the Federal Reserve Bank may be willing to arrange with the South African Reserve Bank for the transfer of these notes direct through the usual channels. In this case telegraphic reports from the South African Reserve Bank as to amounts shipped might be accepted as a basis for effecting dollar credits in New York since the word of the bank as to amounts sent must be accepted in any case unless a separate count is made by persons specially employed by the Consulate General.

KIA

KIA

Copy: T.W. 3-15-42

Regraded Unclassified
March 18, 1942

In reply refer to
FF 860 D.4061 Motion Pictures/14

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram no. 174 of January 31, 1942 from Stockholm, concerning attempted German pressure to prohibit importation of American films to Scandinavian countries.

Enclosure:

From Stockholm, no. 174,
January 31, 1942.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN LEGATION, Stockholm
TO: Secretary of State, Washington
DATE: January 31, 1942.
NUMBER: 174

After July 1, the showing of American Films in Finland will not be permitted under penalty of prohibition of the import from Germany of raw film and necessary cinematic equipment according to information telephoned from Helsinki and received by Paramount representative. This pressure by Germany is being opposed by Minister Procope's law partner in Helsinki, Hornborg, who has successfully persuaded Paramount in Stockholm to send to Finland five features. The ultimatum of Germany was delivered when a German agent from the headquarters office in Berlin of the International Film Chamber secretly visited Helsinki for that purpose. Later, a similar threat was delivered to the Swedish film industry when he visited Stockholm. However, the Swedes refused to submit, according to reliable information. The supply of raw film and other equipment, the Swedes hope to obtain from United States or England if they exhaust their present supply and Germany refuses to furnish them with additional supplies. Assurances have been given by British Legation.
that it will aid in arrangements for transportation, purchases and navicerts. Olof Anderson, Swedish Film Industry's managing director, has been told by Walter Washington that this Legation's press section, if the industry so desired, would endeavor to aid him in obtaining supplies in the United States.

The International Film Chamber's efforts indicate a portion of an intensified program obviously planned to exclude from the Scandinavian countries all American opinion forming agencies. The seizure in Berlin of lots of American films which, according to the Swedes, already were the property of the Swedish film industry and the prohibition placed by Germany upon the import of magazines and books arriving in Goteborg by boats are also further manifestations of this campaign.

Helsinki informed of this cable.

JOHNSON
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no. 73, dated March 17, 1942, from the American Consul, Moscow, Union of Soviet Socialist Republics, transmitting information concerning arrangements being made for a shipment of gold to the United States.

Enclosure:

From Consul, Moscow, no. 73, March 17, 1942.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Moscow, Union of Soviet Socialist Republics
DATE: March 17, 1942, 11 a.m.
NO. : 73

I have been informed by Admiral Miles that he is making arrangements at the request of the Commissariat of Foreign Trade for shipment of 10 tons of gold to be made on a British warship from Murmansk. He added that Geist understood that this shipment of gold is to go to the United States by transshipment in either England or Iceland to an American warship.

This telegram has been repeated to Kuibyshev.

THOMPSON
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Moscow, Union of Soviet Socialist Republics.

DATE: March 19, 1943, 11 a.m.

NO. 74.

The following is a secret message.

The shipment referred to in my telegram No. 75 is being made on the Kenya today.

THOMPSON
April 9, 1942

File

Mr. Dietrich

I spoke to Mr. Gromyko at the Soviet Embassy regarding the shipment of gold now en route from Russia and told him that we had been informed by the British that this shipment was due in Halifax about the middle of April. I asked Mr. Gromyko if he could tell me to whom the gold was consigned and he stated that he did not know but that he would send Mr. Toplinov of the Russian Purchasing Commission to discuss the matter with us. Late this afternoon Mr. Toplinov called and said that while he was familiar with the shipment he was unable to say to whom it was consigned but that he would endeavor to find out and let me know by Monday.

April 10, 1942

Mr. Gromyko called me today and said that the gold was consigned to the Federal Reserve Bank of New York and would I draft a letter for the Embassy to send to the Secretary.

I notified Mr. Knox that the gold was consigned to the Federal and that he would receive a letter from the Treasury regarding the transshipment of the gold at Halifax and its subsequent deposit at the Assay Office in New York for account of the Secretary of the Treasury.
Filer

Mr. Metzrich

This afternoon I inquired of Mr. Gresyke if the gold should be insured when it is shipped from Halifax to New York. He was uncertain whether the gold had been insured by his government but was inclined to think that it was not. Mr. Gresyke asked if it was customary to insure such shipments and I replied that it was. He also mentioned that he was under the impression that delivery of the gold would be taken at Halifax and I informed him that under the agreement delivery would have to be made to the Assay Office in New York.

After discussing various aspects of the insurance question Mr. Gresyke thought that he should cable his government for instructions and inquired what type of cable he should send. I advised Mr. Gresyke that a cable along the following lines should be sufficient:

"Shall we insure gold from Halifax to New York and if so for what amount?"

Mr. Gresyke said that he would advise me when a reply is received.

April 14, 1942
April 16, 1942

File
Mr. Dietrich

With reference to my memorandum of April 13 regarding the question of
insurance on the shipment of Soviet gold from Halifax to New York, Mr. Khrushchev
informed me today that his government did not desire that the shipment be in-
sured from Halifax to New York.

After receiving this information I prepared the attached letter which the
Soviet Ambassador is to write to the Secretary regarding the transshipment of
the gold at Halifax and deposit at the assay office in New York.

This letter was approved by Mr. B. Bernstein.

FD: Leg-4/16/42
April 16, 1942

To: Mr. Grange

From: Mr. Dietrich

Attached is a draft letter to be written by the Ambassador to the Secretary and a copy of a letter which the Treasury received from the British Treasury representative in Washington regarding the shipment of gold now en route.

FD: entr 4-16-42

Copy: 4-16-42
My dear Dr. Secretary:

There is on route to the United States a shipment of approximately

ten tons of gold shipped by the Government of the Union of Soviet

Socialist Republics, consigned to the Federal Reserve Bank of New

York and I understand that it will arrive in Halifax about the

middle of April. Will you please request the Federal Reserve Bank of

New York to arrange to have the gold transshipped from Halifax to New

York at our risk by all rail route and to deposit it at the United

States Assay Office in New York for account of the Secretary of the

Treasury of the United States by order of the Government of the Union

of Soviet Socialist Republics. This shipment is not to be insured

by the Federal Reserve Bank of New York from Halifax to New York.

The gold contained in this shipment is to be applied against the

amount of gold sold under the agreement of October 10, 1941. Any

expenses in connection with the transshipment will be paid by this

Department.

Sincerely yours,

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

FD:Log:cnk:4/16/42

Copy:4/20/42
April 1, 1942.

DEAR

Dear Mr. Bell,

I have been informed by my Government
that ten tons of gold bullion from the U.S.S.R. for
the United States Government are expected to arrive
at Halifax about the middle of April. I understand
that the Canadian Naval authorities are being asked
to arrange for the Bank of Canada to take temporary
custody of the bullion.

I have been instructed to inform you
of the above in order that you may make whatever
arrangements may be necessary to collect the bullion
from Halifax in due course.

Yours sincerely,

(s) F. Phillips

Mr. D. V. Bell,

Under Secretary,

United States Treasury,

Washington, D. C.

Copy: 13-3-42

Copy: 13-3-39-42
Embassy of the
Union of Soviet Socialist Republics
Washington, D.C.

April 17, 1942

My dear Mr. Secretary:

There is on route to the United States a shipment of ten tons of gold shipped by the Government of the Union of Soviet Socialist Republics, consigned to the Federal Reserve Bank of New York and I understand that it will arrive in Halifax about the middle of April. Will you please request the Federal Reserve Bank of New York to arrange to have the gold transshipped from Halifax to New York at our risk by all rail route and to deposit it at the United States Assay Office in New York for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. This shipment is not to be insured by the Federal Reserve Bank of New York from Halifax to New York. The gold contained in this shipment is to be applied against the amount of gold sold under the agreement of October 10, 1941. Any expenses in connection with the transshipment will be paid by this Embassy.

Sincerely yours,

Marin Litvinoff

/s/ Ambassador

The Honorable
The Secretary of the
Treasury
Washington

Regarded Unclassified
April 17, 1942

File

Mr. Dietrich

During my conversation with Mr. Crewe in today regarding the letter of instructions which the Treasury was to receive from his minister regarding the gold shipment coming in at Halifax, he referred to the last sentence of the letter, reading as follows: "Any expense in connection with the transshipment will be paid by this Treasury."

Mr. Crewe inquired if the expenses on the transshipment of the gold could be deducted from the proceeds of the gold. I told him that if he would write a letter to the Treasury asking such a request, the matter would receive consideration.
Stabilization Fund

APR 17 1942

Federal Reserve Bank of New York,
New York, New York.

Attention: L. V. Emke

The Treasury has been informed by the Ambassador of the Government of the Union of Soviet Socialist Republics that approximately 10 tons of gold will arrive in Halifax about the middle of April consigned to the Federal Reserve Bank of New York.

In accordance with instructions received by the Treasury from the Soviet Ambassador the Federal Reserve Bank of New York, as fiscal agent of the United States, is hereby authorized and instructed to arrange with the Bank of Canada for the transshipment of this gold from Halifax to New York, at the risk of the Government of the Union of Soviet Socialist Republics, by all rail routes and to deposit the gold at the United States Assay Office in New York for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. You are not to insure the gold from Halifax to New York. Appropriate instructions will be given by the Treasury to the Assay Office regarding the disposition of the gold. Any expense involved in the transshipment of this gold should be charged to the Treasury who will communicate with the Soviet Embassy regarding payment.

(Signed) D. W. BELL
Acting Secretary of the Treasury.

Nov. 8-19-42
April 17, 1942

Superintendent,
United States Assay Office at New York,
New York, New York.

Sir:

On or about April 20, 1942 there will be deposited with you by the Federal Reserve Bank of New York approximately 10 tons of gold for the account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics.

Upon receipt of this gold you are hereby authorized and instructed to melt and determine its value. After determination of the value you are further authorized and instructed to purchase the gold at the flat price of $35 per fine troy ounce without subtracting the one fourth of 1 percent handling charge, to prepare the deposit certificate accordingly, to issue your check for the net value of the gold (less the usual mint charges) to the order of the Federal Reserve Bank of New York for credit of "Secretary of the Treasury, Special Account", and to deliver the check to the Federal Reserve Bank of New York for the credit of the "Secretary of the Treasury, Special Account". Please prepare 10 copies of Mint Form 46-2 in the usual manner inserting in the prepared spaces at the foot of the report the total value of the gold, the melting charge, the handling charge, the total charges, and the net value of the gold, with the handling and other charges deducted. These forms are to be forwarded to the Secretary of the Treasury, Attention Frank Richter, Room 279, Treasury Department, Washington, D. C. You will observe from the instructions in this letter that you are not to deduct the one fourth of 1 percent handling charge.

(Signed) B. V. Wilt
Acting Secretary of the Treasury.
April 17, 1942

Files
Mr. Dietrich

About 9:45 a.m. Mr. Lang called and said that Mr. Kacks had received word from the Bank of Canada that the shipment of Russian gold (167 boxes valued at about $11,100,000) had left Halifax and would arrive in Montreal on the morning of April 16, and that the Bank of Canada was looking to the Federal for instructions as to the disposition of the gold.

I immediately called Mr. Cramyke at the Soviet Embassy and asked that he send to me as soon as possible his letter of instructions regarding the gold. About noon I received this letter and sent a telegram to the Federal Reserve Bank of New York. I also prepared a letter to the Superintendent of the United States Assay Office, New York, advising that this gold would be deposited, and giving him instructions as to its disposition.

About 5:40 p.m. Mr. Cramyke called and said that in the name of the Ambassador he wanted to make sure that this gold received the proper protection while in transit. I talked with Mr. Lang at the Federal regarding the facilities that the Railway Express would provide for this gold, and he told me that the gold would be placed in an armored railway express car, that in addition to the usual Express Company guard which accompanied all express trains, extra guards are provided when a car contains gold, and that the gold would move from the United States border to New York under the United States Customs seal. Mr. Lang also said that the gold is insured by the Express Company. I called Mr. Cramyke back and gave him the above information and suggested that if he had any doubt as to the safety of the gold, the Russian Embassy should have it insured. He replied that this would not be necessary as he thought everything would arrive all right.
April 20, 1942

Fido

Mr. Dietrich

This morning Mr. Long informed me that the Russian gold shipment referred to in my note of April 17 had arrived in New York and was then being transported by the Railway Express Company to the Assay Office. Mr. Long also said that the Federal had received a weight list covering this shipment.

The Federal Reserve Bank of New York took delivery of the gold at the Assay Office and, as stated on the weight list, the shipment consisted of 167 cases containing 833 bars of gold. The gross weight was given as 321,250.32 ounces and the fine weight as 321,589.10 ounces. The fine weight calculated at $35 per fine ounce equals $11,553,309.78.

The Federal took delivery of the gold at the Assay Office, supervised the opening of the cases, checked the contents of the cases and was present at the time of the preliminary weighing at the Assay Office. The Assay Office preliminary weight was 321,353.80 gross ounces.

After Mr. Long had informed me that the number of cases and the number of bars had been checked and found correct, I advised Mr. Groyske at the Russian Embassy of the arrival of the gold.
TO: Secretary Morgenthau
FROM: Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

- Sold to commercial concerns: £48,000
- Purchased from commercial concerns: £6,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

The Canadian dollar, which moved off from 12% to 13-3/8% discount in the last two days, recovered to a final quotation of 12-7/8% today in fairly small trading.

In New York, closing quotations for the foreign currencies listed below were as follows:

- Argentine peso (free) = 2367
- Brazilian milreis (free) = 0516
- Colombian peso = 5775
- Mexican peso = 2064
- Uruguayan peso (free) = 5295
- Venezuelan bolivar = 2815
- Cuban peso = 3/16% premium

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the South African Reserve Bank had shipped $1,734,000 in gold from South Africa to the New York agency of the Banque Belge pour l’Etranger, for sale to the New York Assay Office for account of the Bank of the Belgian Congo. A similar shipment, valued at $1,766,000, was described in yesterday’s report.

The Federal also reported that the Bank of the Colombian Republic shipped $318,000 in gold from Colombia to the Federal for its account, for sale to the New York Assay Office.

The State Department forwarded a cable to us reporting that the New Goldfields of Venezuela, Ltd., shipped $135,000 in gold from Venezuela to the New York agency of the Royal Bank of Canada, for sale to the New York Assay Office.

In London, spot and forward silver remained at 23-1/28, equivalent to 42.67%.

The Treasury’s purchase price for foreign silver was unchanged at 35%. Handy and Hohen’s settlement price for foreign silver was also unchanged at 35-1/8%.

We made no purchases of silver today.
The report of March 11 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $3,430,000, a decrease of $826,000 in the short position since March 4. Net changes were as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Short Position March 4</th>
<th>Short Position March 11</th>
<th>Change in Short Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Short Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>March 4</td>
<td>March 11</td>
<td></td>
</tr>
<tr>
<td>England **</td>
<td>$ 7,000 (Long)</td>
<td>$ 822,000 (Long)</td>
<td>- $815,000</td>
</tr>
<tr>
<td>Europe</td>
<td>2,405,000</td>
<td>2,367,000</td>
<td>- 38,000</td>
</tr>
<tr>
<td>Canada</td>
<td>404,000 (Long)</td>
<td>395,000 (Long)</td>
<td>+ 9,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>69,000 (Long)</td>
<td>138,000 (Long)</td>
<td>- 69,000</td>
</tr>
<tr>
<td>Japan</td>
<td>160,000</td>
<td>160,000</td>
<td></td>
</tr>
<tr>
<td>Other Asia</td>
<td>2,258,000</td>
<td>2,288,000</td>
<td>+ 30,000</td>
</tr>
<tr>
<td>All Others</td>
<td>87,000 (Long)</td>
<td>30,000 (Long)</td>
<td>+ 57,000</td>
</tr>
<tr>
<td>Total</td>
<td>$4,256,000</td>
<td>$3,430,000</td>
<td>- $826,000</td>
</tr>
</tbody>
</table>

* Plus sign (+) indicates increase in short position, or decrease in long position. Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.
Information received up to 7 A.M., 18th March, 1942.

1. NAVAL

Shipping Losses. Following reported torpedoed and sunk. Small Norwegian ship off MADRAS on 13th. A British ship of medium tonnage which struck a mine off SUFFOLK on the 16th has sunk.

2. MILITARY

LIBYA. 16th. Small enemy force occupied a locality about ten miles SSW of TAMMI. Enemy column, including tanks operated in area about 15 miles further to SSW. Movement closely watched by our patrols and one of our columns, including some cruiser tanks, attacked causing some casualties.

BURMA. 16th. The position has become stabilised on an East-West line about thirty-five miles north of THARRANADDY. Air reconnaissance located numerous boats and rafts on the river HILLING West of MAIKKI twenty-five miles south of THARRANADDY and a mixed enemy force of about 1,000 was located due East of LETPADAN. Chinese patrols met about three hundred Siamese of whom about hundred were killed, the rest retreated. Chinese casualties reported one killed, three wounded. Our demolitions in the THARRANADDY area were extensive.

RUSSIA. PIerce fighting continues in the VEILK, RZHEV, GSHATSK and YUKHNOV areas with no substantial change in the situation. The Russians are attacking in the area east of KHARKOV.

3. AIR OPERATIONS

MALTA. 17th. Sixty-four aircraft attacked. Craters were made on the aerodromes at TAKALI and LUNA, a Wellington on the ground was destroyed and four other aircraft were damaged. Our fighters claimed five enemy aircraft damaged.

LIBYA. 15th/16th. Wellingtons bombed BENGHAZI Harbour.
TO: Secretary Morgenthau

FROM: Mr. Kamarock

Subject: American Naval Victory

The Navy today announced that "combined operations of American and Australian land-based forces" had caused great damage to the Japanese naval forces off New Guinea, the details of which are given in the appendix.

(According to a reliable source, a member of the U.S. Intelligence Joint Committee, the real story of what happened to the Japanese is being kept secret because it is believed that the Japanese do not know where our planes came from.

It will be remembered that some time ago, a Japanese naval concentration was discovered north of New Guinea. An American striking force of two aircraft carriers and escorting ships was sent after it. This is the same squadron which carried out the successful raid on the Marshall Islands in January. The American squadron came down from the north, in rear of the Japanese, i.e., from the direction of Japan, and caught the Japanese completely off-guard.

The one hundred odd planes from the American carriers dropped down on the Japanese squadron out of nowhere, as far as the Japanese are concerned, and achieved the results listed in the appendix with the loss of only one plane.

The communiqué stating that the planes were "American and Australian land-based forces" is designed to throw the Japanese off the trail and to make them run around in circles trying to find our base.)
TO
Secretary Morgenthau
FROM
Mr. Kamarck
Subject: American Naval Victory

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Appendix
(Damage done to Japanese Navy)

Cruisers put out of action:

- Sank two heavy cruisers.
- Heavily damaged and probably sank one light cruiser.
- Damaged another cruiser.

Destroyers put out of action:

- Probably sank one destroyer.
- Possibly sank two destroyers.
- Damaged one large destroyer.

Auxiliary Naval Vessels put out of action:

- Heavily damaged one aircraft tender.
- Probably sank one gunboat.
- Damaged one gunboat.
- Probably sank one minesweeper.

Transport or cargo ships:

- Sank or gutted by fire five ships.
- Heavy bomb hit made on two transports.
- Damaged and left burning one transport.
- Damaged three transports.
TO: Secretary Morgenthau  
FROM: Mr. Kamarok  
Subject: Summary of Intelligence Reports

British Home Opinion

There are suggestions that the majority of the British people, after the flare-up of criticism on the Far Eastern events, have settled down to a state of war weariness, apathy and frustration. The widespread anxiety about India continues. Immediate dominion status is urged. "It is thought that we lost Malaya through lack of sympathetic help by the natives and that we are making little attempt to enlist the whole-hearted cooperation of the Indians".

The general trends shown are a willingness to accept heavier burdens, a demand for stronger leadership, and demands for more drastic punishment of "moral saboteurs", including not only "black marketeers" and slackers, but all who do not pull their weight.

(British Home Intelligence Report, Week ending March 9, 1942)

Japan

The Japanese radio broadcasts to the home population are more and more identifying the Soviet Union with the enemy. The defeat of Russia thirty-seven years ago is treated as a very recent, live event.

(Foreign Broadcast Monitoring Service, Federal Communications Commission, Weekly Analysis of Official Foreign Broadcasts, Week March 6-12, 1942)
OF POSSIBLE INTEREST

(Amusing side-lights of the war)

Secret British Weapon: Beer Bottles

Several pilots state that by dropping beer bottles near searchlight and anti-aircraft concentrations, they have succeeded in quieting the flak and shutting off the searchlights. Apparently, an uncorked bottle, when dropped from an aircraft, sometimes makes an unusual and unnatural wailing sound.

"Enemy" Whales

Experience has shown that the behavior of some whales, especially the killer whale, resembles that of U-boats and that whales have collected quite a number of anti-submarine bombs. A whale's back has several times been mistaken for a U-boat surfacing on her side or upside down before sinking. Whales snouting have been mistaken for U-boats blowing their tanks, and a projecting fin, for a periscope. In addition, oil rises to the surface from whales that have been depth-charged or bombed. A large specimen has been known to produce as much as 30 to 40 tons of oil.

(M.I.D., Air Information Bulletin, # 2)
March 18, 1942

The Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D. C.

Dear Henry:

The attached is a copy of the BBC daily directive which has just come to me.

Sincerely,

William J. Donovan
Psychological warfare of the enemy is whispering throughout Europe that Russia and Britain are ready to doublecross each other and sign separate peace. This campaign is aided by the enemy's open propaganda taunting Britain with Bolshevization to annoy us into attitude which will lend color to the suggestion that all is not well between Britain and Russia.

2. Aim to correct two main impressions:
   
   (a) That German spring offensive will be more terrific than the assault of last summer on Russia while the Allies are less, not more, prepared to deal with it and,
   
   (b) That British nation is bitten by lethargy and confusion is doing nothing to help defeat Hitler and is (alternately or concurrently) about to seek terms with the enemy or be deserted by her allies and dominions.

3. Show enormous peak Britain playing, with news of both offensive and defensive Mediterranean air operations, fresh particulars of Libyan Commando, British brunt in the battle of Java, land and air news from Burma, Ceylon preparations. Also refer to great war production of this island nearly double that of America of which great part going to Russia. Besides being springboard of invasion of Europe Britain is the main source of allied war equipment.

4. Hitlers spring attack cannot be as formidable as that of last June because of heavy losses of crack forces with gaps filled by hundreds of thousands of lukewarm non-Germans, because there is no element of surprise, because the Red Army has gained, the Germans lost confidence; and because the air position is bound to be affected by the growth of the Royal Air Force both in the Mediterranean and in the west.
I. Pacific Theater.

Burma: The Japanese are bringing up reinforcements and otherwise consolidating their position in Lower Burma. A considerable naval force was reported moving into the Bay of Bengal via the Straits of Malacca. Australasia: Aerial reconnaissance on both sides continues with little actual land fighting. Allied aircraft attacked the Japanese occupied port of Koepang on March 18. Japanese Navy planes, according to Tokyo, raided Port Moreby and an allied air base on Horn Island on March 13 and 14.

II. Western Theater.

RAF planes dropped bombs on German territory during daylight reconnaissance flights on March 17.

III. Eastern Theater.

There is no change in the situation along the general front. (A situation map will not be issued this date.)

IV. Middle Eastern Theater.

Cairo communique reports a withdrawal of Axis columns operating south of Tmimi, and a reduction in ground activity.