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Statistical
Reports on
DEFENSE PROGRESS
Number 2
August 16, 1940

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Issued to The President

Prepared By:

Bureau of Research and Statistics
Defense Commission
Stacy May, Director

- C O N F I D E N T I A L -

Statistical
Reports On
D E F E N S E P R O G R E S S
Number 2

Editorial Note: Available information is sufficient only for a sketchy and incomplete picture of the Defense Program. Nonetheless it has been thought best to present what is available now, and to make additions as rapidly as possible.

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Recent Contract Awards, Obligations Incurred,
and Cash Expenditures for Defense

Revised figures on contract awards for construction and for the purchase of materials, supplies, and equipment by the War and Navy Departments during July are shown in Table I below. Revision of the War Department figures for July represents in part the omission of \$136 million airplane and equipment contracts withdrawn at the request of contractors. These contracts were included in the figures reported last week in Tables I and II. The table below includes also preliminary figures on contract awards during the first ten days of August. For the Navy these figures are incomplete and are based upon press releases on individual awards.

TABLE I

CONTRACTS LET BY THE WAR AND NAVY DEPARTMENTS
DURING JUNE, JULY, AND AUGUST 1940
(In Millions of Dollars)

	<u>Total Since June 1</u>	<u>July</u>	<u>First 10 Days of August</u>
Total	\$1,939.5	\$1,023.7	\$90.8
War	503.3	310.3	71.4
Navy	1,436.2	713.4	19.4

The above information on contract awards represents reports from purchasing officers of the War and the Navy Departments. Over-all accounting information covering the activities of the department is now available for the month of July and is shown in Table II as obligations incurred. A number of contract awards, particularly for naval construction, are included in Table I and not in Table II, since several days may elapse between the award of a contract and the actual completion of signatures. Table I refers only to contract awards for construction and purchases of materials, supplies, and equipment. Table II includes all obligations incurred by the two departments. Thus pay roll, travel, and various other items are included in Table II which are not included in Table I.

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TABLE IIObligations Incurred During July 1940
by the War and the Navy Departments

(In Millions of Dollars)

	<u>June 1940</u>	<u>July 1940</u>	<u>July 1939</u>
Total	\$211.3	\$ 760.3	\$ 163.3
War Department (military) ^{1/}	127.6	313.4	62.2
Navy Department	83.7	446.9	101.1

Obligations incurred during the month of July under various other appropriations which bear on the Defense Program are shown in Table III.

TABLE IIIObligations Incurred During July 1940
Under the Defense Program, Other Than
For The Army and Navy^{1/}

(In Millions of Dollars)

Civil Aeronautics Authority - Civilian pilot training	\$ 6.7
Immigration and Naturalization - Registration of Aliens	.4
Coast Guard	1.1
Acquisition of strategic and critical materials by the Treasury Department	13.8
Panama Canal - Protective works and third set of locks	2.8
Federal Security Agency - Training of industrial workers	3.0
Federal Works Agency - Navy and Munitions Bldgs.	1.4
Total	\$ 29.2

Table II - ^{1/} Excludes River and Harbor Work, Flood Control and Panama Canal
Table III - ^{1/} Furnished through courtesy of the Bureau of the Budget.

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Cash expenditures have increased much less rapidly than have funds obligated. Defense expenditures during July totalled \$177 millions, about \$25 million more than in June and about \$68 million more than in July 1939.

TABLE IVDEFENSE CASH EXPENDITURES 1/

(In Millions of Dollars)

	<u>1940</u>		<u>1939</u>
	<u>June</u>	<u>July</u>	<u>July</u>
War Department (Military) 2/	\$ 64.4	\$ 79.1	\$ 48.8
Navy Department	<u>88.5</u>	<u>98.1</u>	<u>60.5</u>
Total	\$152.9	\$177.3	\$109.3

Table V gives revised figures for contract awards by the War Department during July and preliminary figures for contract awards during the first ten days of August. The figures for July differ from those shown in the first issue of Statistical Reports on Defense Progress primarily under Item 6. This item has been reduced by \$108.8 millions for airplanes and engines and \$27.0 millions for airplane equipment, representing contracts which were withdrawn at the request of the contractors.

1/ Daily Treasury Statement Basis.

2/ Excludes River and Harbor Work, Flood Control, and Panama Canal.

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TABLE VCONTRACTS LET BY THE WAR DEPARTMENT DURING JULY AND AUGUST 1940
(In Millions of Dollars)

Object	Month of July	First 10 Days of August
1. Construction, arsenals, and industrial facilities	\$ 34.2	-
2. Construction, all other (not including River and Harbor Improvements and Flood Control)	12.0	\$ 4.3
3. Airplanes, Parts and Equipment	1.2	.6
4. Fuel and Oil	5.7	-
5. Machines and Tools	3.5	.9
6. Artillery, Small Arms, and Ammunition (Including Chemicals)	129.3 <u>1/</u>	18.1 <u>1/</u>
7. Automotive Vehicles and Equipment	33.2	33.5
8. Personal and Quarters Equipment	39.8 <u>1/</u>	3.9
9. Other Equipment	26.9 <u>1/</u>	6.0
10. Subsistence	3.2 <u>2/</u>	1.1 <u>2/</u>
11. All other	21.3	3.0
Total	\$310.3	\$71.4

1/ Includes \$37,575,000 for July and \$191,000 for August under item 6 and \$433,326 divided equally between items 8 and 9, one-half of reported force account manufacturing assigned to government arsenals. It is assumed that approximately one-half of the cost of such work is for pay roll.

2/ Estimated at 41¢ per man per day.

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STOCKS OF STRATEGIC MATERIALS

Stocks of strategic materials are being acquired in several ways, with the approval of the Army and Navy Munitions Board. Under an Act of Congress of June 7, 1939 (Public Number 117), the Procurement Division of the Treasury is authorized to purchase such stocks. \$10,000,000 was appropriated for the fiscal year 1940 and \$60,000,000 has been appropriated for 1941 to the Procurement Division for this program. Under an amendment to the Reconstruction Finance Corporation Act, approved June 21, 1940, the Reconstruction Finance Corporation is authorized to acquire stocks of strategic materials. For this purpose it has established two subsidiaries, the Rubber Reserve Company and the Metals Reserve Company, to which loans totaling \$165,000,000 have been extended to finance acquisition of stock piles. In addition, the Commodity Credit Corporation, on the basis of negotiations conducted by the Department of State, has acquired stocks of rubber under a rubber-cotton barter agreement concluded June 23, 1940, between the United States and Great Britain.

The status of the stock pile program as of August 3, 1940 may be summarized as follows:

	<u>Estimated Cost</u>	<u>Per Cent</u>
1. Actual and proposed stock piles	\$290,000,000	100
2. Stocks delivered	20,000,000	7
3. Stocks delivered or contracted for	62,000,000	21

To date, 85,000 long tons of rubber either have been delivered or are under contract.

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EMPLOYMENT AND HOURS IN DEFENSE INDUSTRIES

Preliminary figures which are now available for July for four industries especially affected by the defense program indicate continued expansion in wage-earner employment. The number employed in the aircraft industry increased 11 percent during July as compared with June 1940; employment in private shipbuilding increased 5 percent; employment in the production of engines also increased 5 percent; and machine tool employment increased 3 percent. The number of wage earners employed in these industries during June was included in issue Number I of Statistical Reports on Defense Progress. The increases in employment from a year ago were very large on a percentage basis; employment in the production of aircraft doubling, shipbuilding employment increasing by 37 percent, and employment in the production of engines increasing by 73 percent, and machine tools increasing by 60 percent.

The average hours worked per week in six defense industries is shown in the table below. In general the average number of hours worked per week in June 1940 was higher than the average for 1937, 1938, or for June of 1939. Inasmuch as these are averages, a very large number of employees in each industry has worked in excess of the number of hours shown. Since October 24, 1939, the maximum number of hours which may be worked by any wage earner without the payment of overtime rates has been 42 hours a week. Consequently the high average number of hours worked per week in the machine tool industry (47.9), in the aircraft industry (42.7), and in the production of engines (43.8), means that there has been extensive overtime work.

Average Hours Worked Per Week in Defense Industries

	Machine Tools	Aircraft	Ship- Building	Aluminum Manufacturing	Explosives	Engines
1937	45.1	42.3	37.1	40.4	39.6	40.5
1938	36.3	40.1	36.6	36.3	36.9	36.2
June 1939	42.4	42.0	38.5	39.1	38.4	39.2
June 1940	47.9	42.7	39.2	39.7	39.9	43.8

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LABOR SUPPLY

The Bureau of Labor Statistics preliminary figure for manufacturing employment in July showed a small increase of .3 percent from June. Total non-agricultural employment likewise probably increased by a small percentage during the month, with the result that non-agricultural employment in July was from 900,000 to 1,000,000 higher than a year ago.

The total number of unemployed in July is estimated at from about 8 million to about 10½ million, depending on the estimate used. This means that although shortages may be developing in certain skilled occupations, the total labor supply of the Nation is very large.

Defense orders to industry to date have apparently had only a moderate effect on the voluntary separation rate in manufacturing industries. The quit rate for manufacturing as a whole during February was .62 per 100 employees on the payroll. Each month since February has shown a slight increase, the June rate being .78. However, in only two months, May and June, did the rate exceed that for the corresponding months of 1939.

As job opportunities increase in defense industries, it is to be expected that the quit rate will rise. However it is probable that there will be only moderate increases during the balance of the current calendar year.

Of the 36 industries for which the Bureau of Labor Statistics compiles separate turn-over rates, 20 showed increases in the quit rate in June 1940 as compared with June 1939, 13 showed decreases, and 3 showed no change. The most pronounced rise in the quit rate occurred in the aircraft; brass, bronze, and copper; cast iron pipe; hardware; and machine tool industries.

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Statistical
Summary of
DEFENSE PROGRESS

Number 3

August 23, 1940

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Issued to The President

Prepared By:

Bureau of Research and Statistics
Defense Commission
Stacy May, Director

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Statistical
Summary of
D E F E N S E P R O G R E S S
Number 3

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Note: All figures are to be regarded as preliminary. Revised and fuller information will be incorporated in this Summary as rapidly as it becomes available.

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CONTRACT AWARDS UNDER THE DEFENSE PROGRAM

Revised figures on contract awards for construction and for the purchase of materials, supplies, and equipment by the War and Navy Departments during July are shown in Table I below. Revision of the Navy Department figures for July represents in part the omission of \$13 million airplane and equipment contracts withdrawn. These contracts were included in the figures reported last week in Table I. The table below includes also figures on contract awards during the first half of August.

TABLE I

CONTRACT AWARDS BY THE WAR AND NAVY DEPARTMENTS
DURING JUNE, JULY, AND AUGUST 1940 ^{1/}

(In Millions of Dollars)

	<u>Total June 1</u> <u>Through August 15</u>	<u>July</u>	<u>First 15 Days</u> <u>of August</u>
Total	\$1,968.8	\$1,012.5	\$131.3
War	535.5	310.3	103.6
Navy	1,433.3	702.2	27.7

^{1/} These figures include an allowance for subsistence, as noted in Issue Number 1 of Statistical Summaries of Defense Progress. Further, one-half of the reported force account manufacturing assigned by the War Department to Government Arsenals, as reported by the War Department, is omitted on the assumption that approximately one-half of the cost of such work is for force account pay roll. For the Navy Department certain awards are included under 1940 appropriations and contract authorizations which are not included in reports by the Navy Department.

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Detailed figures for the War and Navy Departments for July and the first half of August are presented in Table II. The figures for the Navy Department for July are revised.

TABLE II

CONTRACT AWARDS BY THE WAR AND NAVY DEPARTMENTS
DURING JULY AND AUGUST 1940
(In Millions of Dollars)

	WAR		NAVY	
	July	First 15 Days of August	July	First 15 Days of August
1. Construction and Purchase of Ships (including equipment)	---	---	\$620.3	\$ 1.4
2. Other Construction	\$ 46.2 <u>1/</u>	\$ 10.8 <u>1/</u>	34.9	1.5
3. Airplanes and Engines (including parts & equipment)	1.2	.6	15.8 <u>2/</u>	<u>3/</u>
4. Artillery, Small Arms, and Ammunition	129.3 <u>4/</u>	23.2 <u>4/</u>	3.1	19.7
5. Automotive Vehicles and Equipment	33.2	41.6	<u>5/</u>	<u>5/</u>
6. Personal and Quarters Equipment	39.8 <u>4/</u>	5.7	<u>5/</u>	<u>5/</u>
7. All Other Supplies, Equipment, etc.	<u>60.6 4/5/</u>	<u>21.7 6/</u>	<u>28.1 6/</u>	<u>5.1 6/</u>
Total	\$310.3	\$103.6	\$702.2	\$27.7

1/ Excludes river and harbor work, flood control, and Panama Canal.

2/ Contracts totaling \$13,356,730 for the Navy, reported in previous Statistical Summaries of Defense Progress, have been withdrawn and are not included in the figures shown above.

3/ \$14,706

4/ Includes \$37,575,000 for July and \$772,400 for August under item 4 and \$433,326 divided equally between items 6 and 7, one-half of reported force account manufacturing assigned to Government Arsenals. These figures represent one-half the amounts reported by the War Department.

5/ Not available separately, included in item 7 "All Other Supplies, Equipment, etc."

6/ Includes subsistence estimated at 41¢ per man per day for the Army and 47¢ per man per day for the Navy.

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DEFENSE LOANS MADE BY THE RECONSTRUCTION FINANCE CORPORATION 1/

As of August 17th the Reconstruction Finance Corporation had authorized loans and made loan commitments totaling over \$344 millions under an amendment to the Corporation's organic Act approved June 25, 1940, providing for loans for defense purposes. In addition, the Corporation had authorized loans of nearly half a million dollars under its general powers for purposes connected with National Defense.

TABLE IDEFENSE LOANS AND LOAN COMMITMENTS BY THE
RECONSTRUCTION FINANCE CORPORATION, JUNE 25 THROUGH AUGUST 17

(In Thousands of Dollars)

	<u>Commitments</u>	<u>Authorizations</u>	<u>Total</u>
Under Defense Amendment	\$304,975	\$39,579	\$344,554
Under General Powers	---	496	496
Total	\$304,975	\$40,075	\$345,050

Of the total loan commitments, \$173 millions are to two corporations established by the Reconstruction Finance Corporation for the purchase and storage of strategic materials.

Airplane manufacturers and related enterprises represent the most important single type of borrower from the Corporation to date. An analysis of Reconstruction Finance Corporation defense credit by type of borrower is shown in Table II.

1/ Based on material furnished through courtesy of the Reconstruction Finance Corporation.

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TABLE II

RECONSTRUCTION FINANCE CORPORATION DEFENSE LOANS AND
LOAN COMMITMENTS TO VARIOUS TYPES OF BORROWERS
JUNE 25 THROUGH AUGUST 17

(In Thousands of Dollars)

UNDER THE DEFENSE AMENDMENT

Airplane Manufacturers and Related Industries	\$143,192
Corporations Engaged in Stocking Strategic Materials	175,000
Machine Tool Manufacturers	10,000
Semi-Finished Metal Manufacturers	15,800
Automatic Vehicle Manufacturers	390
Ordnance Manufacturers	15
All Other	157

Total	<hr/> \$344,554
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UNDER GENERAL POWERS

Flying Services and Schools	\$ 461
Miscellaneous	35

Total	<hr/> \$ 496
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Grand Total	<hr/> <hr/> \$345,050
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PILOT TRAINING IN THE ARMY AND THE NAVY ^{1/}

As of August 1, 1940, the United States Army and Navy had approximately 6,575 pilots on active duty, with an additional 2,375 trained pilots in an inactive duty status. Approximately 3,150 men were receiving pilot training as of the same date. Pilot training has been accelerated as a part of the aviation expansion program. The number in training by October will have increased to about 4,150.

During the year preceding June 1940, the Army accepted a monthly average of about 300 men for pilot training, the Navy an average of about 150 men. As additional training facilities are made available, the Army will increase the number of men entering training to 1,000 per month by mid-September. The Navy, whose additional facilities will be made available at a somewhat later date than those of the Army, will be accepting 300 men per month by January 1, 1941, and 800 men per month by October 1, 1941. Due to the length of time required for the several training stages (elementary, basic, and advanced), the full effect of these expanded training programs will probably not be felt until the late spring or early summer of 1941.

In order to provide sufficient training facilities for these expanded programs, the Army is increasing the number of its elementary training centers from 9 to 18, basic centers from 1 to 3, and advanced centers from 1 to 5. The Navy is increasing the number of its elementary training centers from 13 to 20 and its basic and advanced training centers from 1 to 4.

^{1/} For the purpose of this statement, data for the National Guard are included with the Army and data for the Marine Corps with the Navy.

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STRATEGIC AND CRITICAL MATERIALS

Indexes of the status of the stock pile program, preliminary figures for July imports, and recent price data for strategic and critical materials are presented herewith.

Stockpile Program. As of August 17 the strategic material stock pile program was 25 per cent contracted for, while deliveries totaled 8 per cent of the total program.

TABLE I

STATUS OF STOCKPILE PROGRAM

<u>Date</u>	<u>Deliveries Received</u>	<u>Delivered or Contracted for</u>	<u>Total Actual and Proposed</u>
August 3	7%	23%	100%
August 17	8%	25%	100%

Imports. Preliminary figures for the five weeks ending August 3 reveal a marked increase in the imports of rubber, as compared to June, and slight decreases in the imports of tin and manganese ore.

For the first seven months of 1940 imports of antimony more than trebled, as compared to the same period of 1939, and of manganese ore more than doubled. Tin imports during this period showed an increase of 78 per cent, Manila fibre of 53 per cent, and quinine of 47 per cent. Raw silk imports were smaller during the first seven months of 1940 than in similar months of 1939.

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TABLE II

IMPORTS OF SELECTED STRATEGIC MATERIALS

Commodity	Unit	Five weeks	June	1940	1939
		ending August 3, 1940	1940	Through August 3	Through July 31
Antimony	Thousand lbs.	5,543	5,389	45,158	12,422
Manila fibre	Long tons	6,437	5,900	34,226	22,289
Manganese ore	Long tons	81,743	91,600	586,834	199,991
Quinine	Thousand oz.	190	^{1/}	2,245	1,516
Raw silk	Thousand lbs.	4,192	2,356	21,327	24,268
Rubber	Long tons	75,267	53,900	426,216	262,761
Tin, bars	Long tons	10,504	11,700	64,908	36,406

Prices.^{2/} Indexes of prices of strategic and critical materials have trended slightly downward during the past four weeks, reflecting general weakness in wholesale commodity markets.

TABLE III

INDEXES OF PRICES OF STRATEGIC AND CRITICAL MATERIALS

(August 1939 = 100)

Week ending:	<u>Strategic Materials</u>	<u>Critical Materials</u>
1940		
July 27	123.7	105.0
August 3	123.3	104.6
August 10	123.1	104.5
August 17	122.7	104.0

During the past two weeks prices of manganese ore, quinine, sulphate, and graphite have increased, contrary to the general trend. Commenting on the 3¢ increase in the price of quinine sulphate, the New York Journal of Commerce on August 13 attributed it to "advancing costs attendant upon the purchase and import of cinchona bark, the raw material, which is supplied by the Dutch East Indies." Effective August 11, the Dutch East Indies imposed a 5 per cent ad valorem tax on quinine, in addition to existing duties and taxes.

Those price quotations of strategic and critical materials showing changes during the past two weeks, are listed herewith:

^{1/} 576 ounces in June 1940.

^{2/} Based on material furnished through courtesy of the Bureau of Labor Statistics

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Table IV

WHOLESALE PRICES OF
SELECTED STRATEGIC AND CRITICAL MATERIALS

Commodity	Week Ending		
	<u>August 3</u>	<u>August 10</u>	<u>August 17</u>
Manganese Ore, per 22.4 lbs.	\$.480	\$.480	\$.490
Mercury, per flask (76#)	188.000	188.000	182.000
Quinine Sulphate, XI, U.S.P., per oz.	.640	.640	.670
Rubber, rubbed smoked sheets, per lb.	.215	.208	.200
Silk, raw, Japan, 20/22, per lb.	2.555	2.540	2.540
Tin, pig Straits, per lb.	.525	.533	.514
Aluminum ingot, per lb.	.195	.185	.185
Graphite, flake, (crucible) per lb.	.065	.070	.070
Hides, calf, packer's, city, per lb.	.175	.165	.158
" cow, packer's, light native, per lb.	.106	.106	.101
" steer, packer's, Texas, per lb.	.093	.093	.088
Wool, Argentine crossbreds, per lb.	.255	.255	.245
" Ohio, fleece, per lb.	.395	.390	.390
" staple, fine, fine and fine medium, per lb.	.885	.880	.880

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EMPLOYMENT ON ARMY AND NAVY CONSTRUCTION
MANUFACTURING, AND REPAIR OPERATIONS

Further increases occurred during July in employment in force account and contract construction, manufacturing and repair work of the Army and Navy. Total employment in these activities (exclusive of Corps of Engineers and Work Projects Administration work) was 167,800 in July, as compared with 156,100 in June, and 114,000 in July 1939.

	<u>Number of Persons Employed</u>		
	<u>July</u>	<u>June</u>	<u>July</u>
	<u>1940</u>	<u>1940</u>	<u>1939</u>
<u>Army</u>			
Manufacturing Arsenals	25,300	22,800	13,800
Construction (excluding Corps of Engineers)	8,500	8,200	12,900
<u>Navy</u>			
Construction (including Naval Construction)	92,900	86,000	65,600
Other Work--repair and servicing	<u>41,100</u>	<u>39,100</u>	<u>21,700</u>
Total	167,800	156,100	114,000

Work Projects Administration employment on defense projects declined during July as a result of the temporary closing down of various projects at the end of the fiscal year.

WORK PROJECTS ADMINISTRATION EMPLOYMENT ON DEFENSE WORK

	<u>July</u>	<u>June</u>
	<u>1940</u>	<u>1940</u>
Army Work	51,600	63,600
Navy Work	16,200	17,600
National Guard	6,900	6,100
Municipal Airports	<u>16,300</u>	<u>12,900</u>
Total	91,000	100,200

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THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

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THE WHITE HOUSE

AUG 27 2 55 PM '40

RECEIVED

August 26, 1940

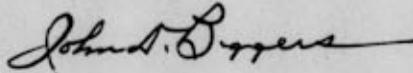
My dear Mr. President:

At the meeting of the Defense Commission in your office last Thursday, you inquired about a two thousand horsepower motor which had been exhibited on some occasion by the War Department.

I have not been able to ascertain just which motor you had in mind, but am attaching a list of our various airplane engines of two thousand horsepower and over. Also, pictures which may help you identify the one you had in mind.

If you desire any additional information, please indicate your wishes and I shall endeavor to comply.

Sincerely,



John D. Biggers

The President
The White House

As yet, we have not been able
to obtain a picture of the Wright
Tornado, 42 cylinder engine, but
will send it in a day or so.

ENGINES OF 2,000 HP. AND OVER

Production Engines

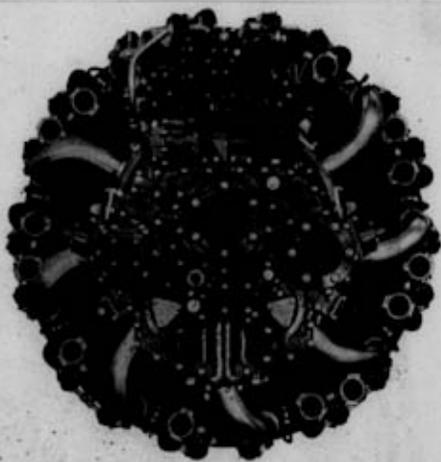
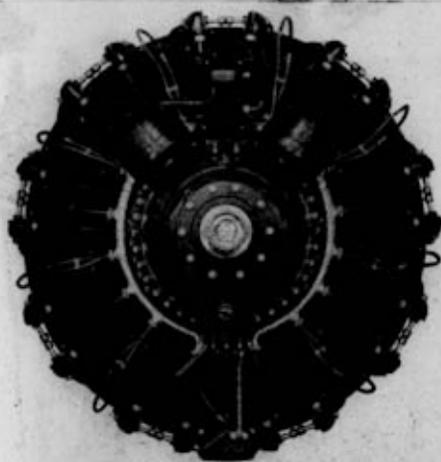
Pratt & Whitney R-2800	18 cylinder radial engine, aircooled	2,000 horsepower
Wright R-3350	18 cylinder radial engine, aircooled	2,000 horsepower

Experimental Engines

Pratt & Whitney X-1800	24 cylinder H engine, liquid cooled	2,000 horsepower
Pratt & Whitney H-3130	24 cylinder H engine, liquid cooled	2,650 horsepower
Wright Tornado	42 cylinder multi-bank radial engine, liquid cooled	2,350 horsepower
Lycoming H-2470	24 cylinder H engine, liquid cooled	2,400 horsepower

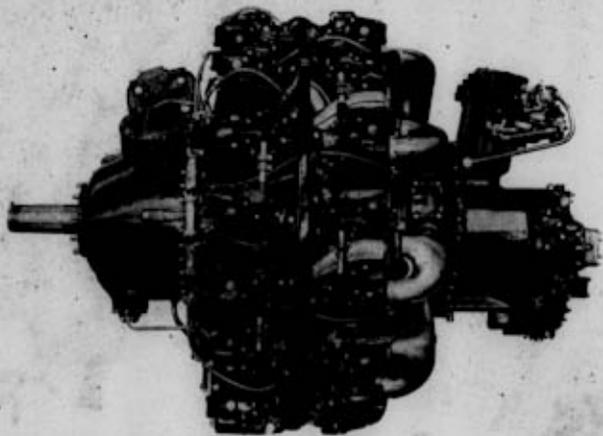
August 23, 1940

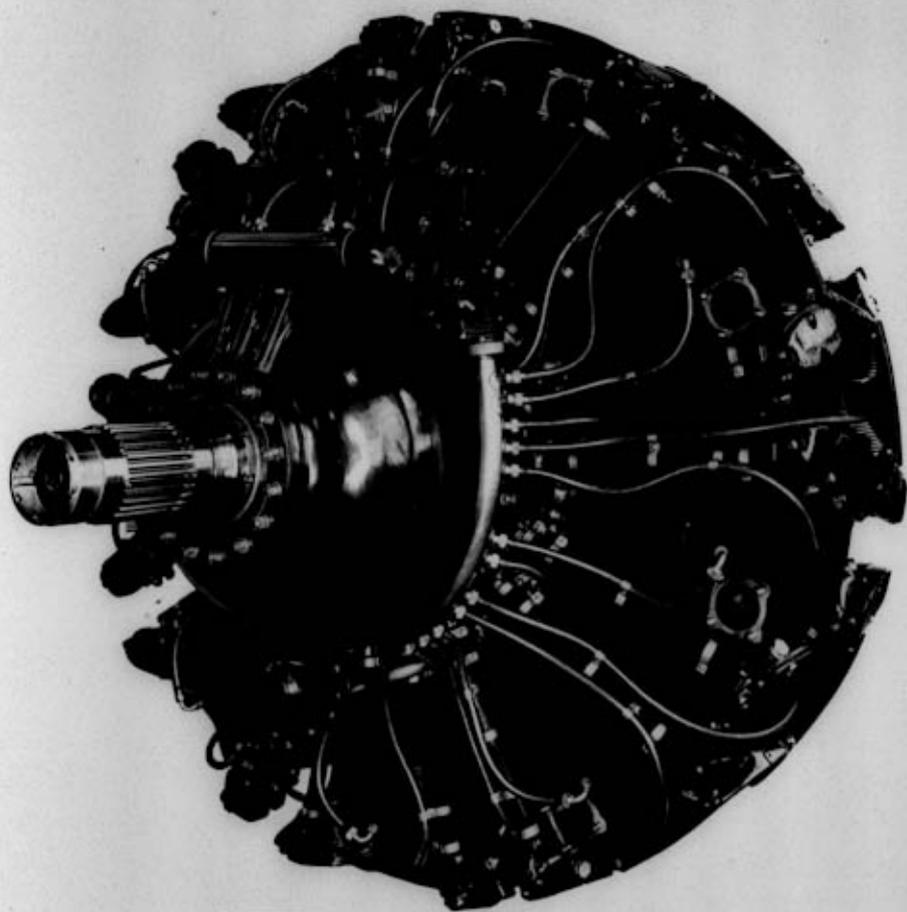
*National Museum
BP*



GEARED A6 DOUBLE WASP

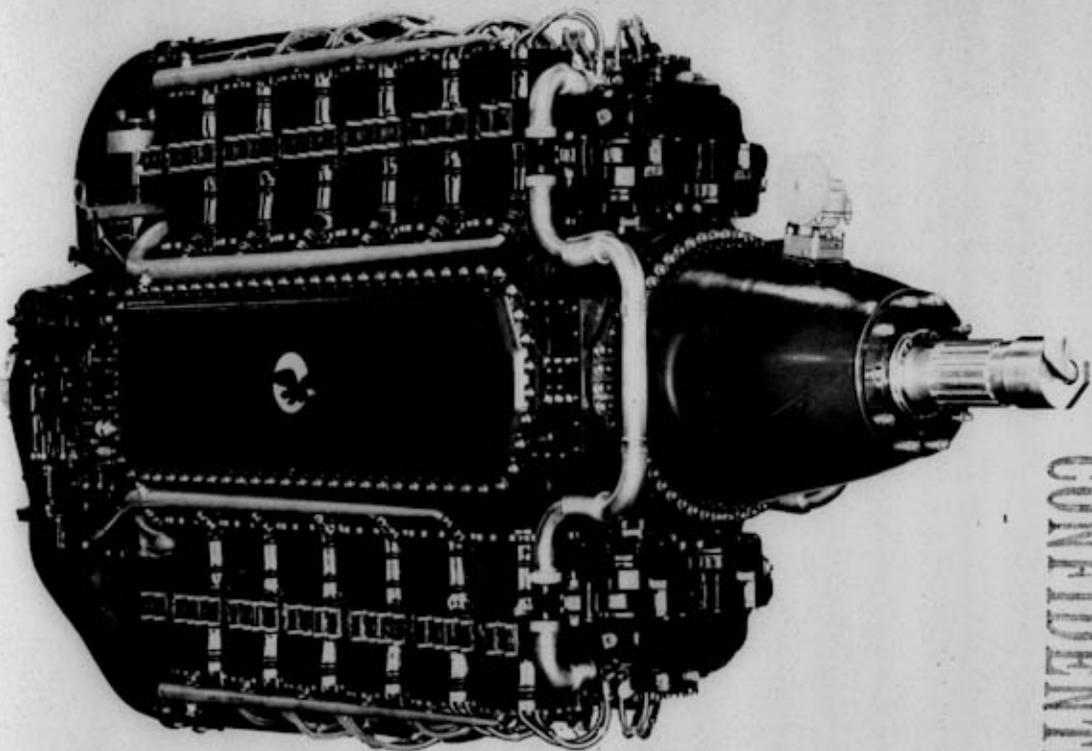
Pratt & Whitney R-2800
18 cylinder radial engine, aircooled





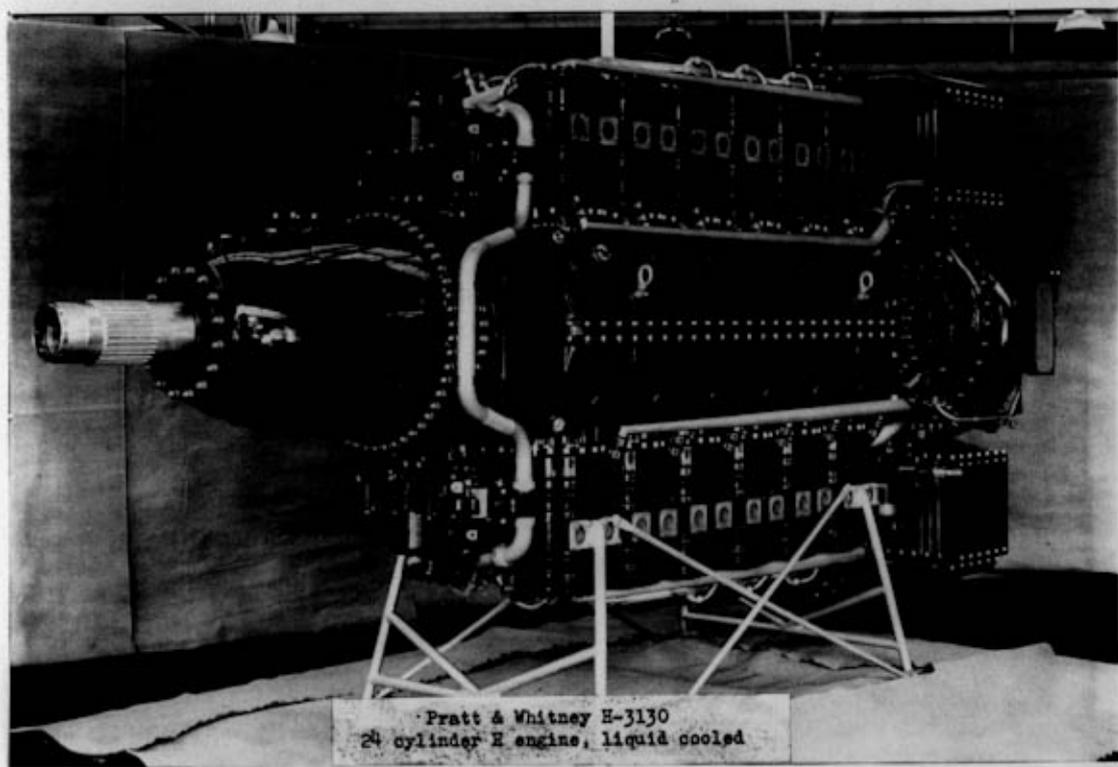
Wright R-3350
18 cylinder radial engine, airooled

WA-

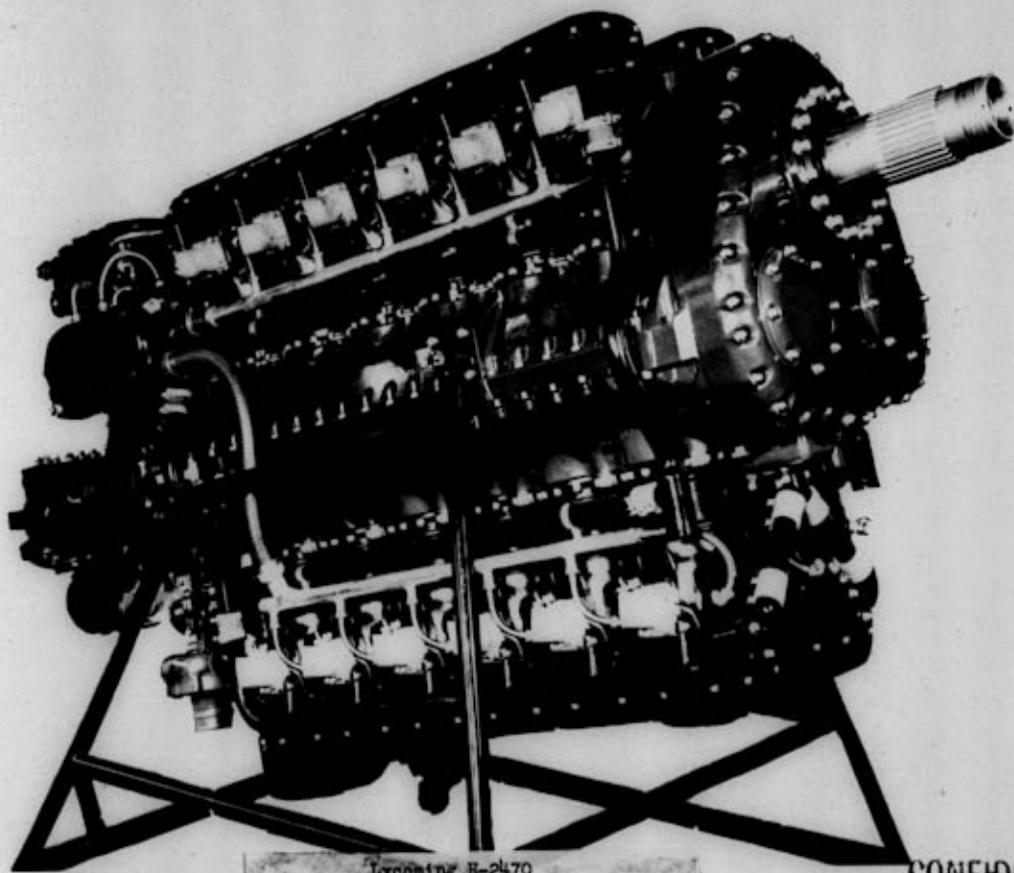


Pratt & Whitney X-1500
24 cylinder H engine, liquid cooled

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Pratt & Whitney H-3130
24 cylinder H engine, liquid cooled



Lycoming H-2470
24 cylinder H engine, liquid cooled

CONFIDENT

*PST
National Defense*

Statistical
Summary of
DEFENSE PROGRESS

Number 4

August 30, 1940

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UNCLASSIFIED

Copy No. **1**

Issued to The President

Prepared By:

Bureau of Research and Statistics
Defense Commission
Stacy May, Director

- C O N F I D E N T I A L -

Statistical
Summary of
D E F E N S E P R O G R E S S
Number 4

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Note: All figures are to be regarded as preliminary. Revised and fuller information will be incorporated in this Summary as rapidly as it becomes available.

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CONTRACT AWARDS BY THE WAR
AND NAVY DEPARTMENTS

During the week ending July 22 the War Department made contract awards for construction and for the purchase of materials, supplies, and equipment of about \$96 million. Incomplete preliminary data show that the Navy Department made contract awards for approximately \$25 million during the same period.

Including the above data the War Department has made contract awards of about \$630 million since June 1, while the Navy Department has made contract awards for about \$1,458 million.

Detailed revised figures for contract awards for June and July and preliminary figures for the month of August will be included in issue number 5 of Statistical Summaries of Defense Progress.

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DEFENSE LOAN AND STOCK PURCHASE AGREEMENTS
BY THE RECONSTRUCTION FINANCE CORPORATION

SUPPLEMENT FOR WEEK ENDING AUGUST 24, 1940

During the week ending August 24, 1940, the Reconstruction Finance Corporation, under the defense amendment to the Corporation's organic act, authorized loans and stock purchases and made conditional agreements for loans and stock purchases totaling over \$108 millions. This brings the total of these three items to more than \$455 millions.

In addition, the Corporation, under its general powers, for purposes connected with National Defense authorized loans totaling \$228 thousands. The total of such authorizations is now \$600 thousands.

TABLE I

DEFENSE LOAN AND STOCK PURCHASE AGREEMENTS
BY THE RECONSTRUCTION FINANCE CORPORATION

SUMMARY FOR WEEK ENDING AUGUST 24, 1940

(In Thousands of Dollars)

	<u>Conditional</u> <u>Agreements</u>	<u>Authorizations</u>	<u>Total</u>	<u>Previously</u> <u>Reported</u>	<u>Grand Total</u>
<u>Under Defense Amendment</u>					
Loan	\$104,088	\$ 673	\$104,761	\$334,554	\$439,316
Stock Purchases	4,000	1,000	5,000	10,000	15,000
<u>Under General Powers</u>					
Loan	_____	228	228	601 1/	828
Total	\$108,088	\$1,901	\$109,989	\$345,155	\$455,144

The most important single type of borrower represented by loans made by the Corporation is that of airplane manufacturers and related enterprises. An analysis of Reconstruction Finance Corporation credit by type of borrower is shown in Table II.

1/ Information made available after last week's report shows the loan authorizations under general powers for the period prior to the week ending August 24 to be \$600,820, instead of the \$496,000 previously listed.

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TABLE IIRECONSTRUCTION FINANCE CORPORATION DEFENSE LOAN
AND STOCK PURCHASE AGREEMENT TO VARIOUS TYPE OF BORROWERSUNDER THE DEFENSE AMENDMENTJune 25 through August 24

(In Thousands of Dollars)

Airplane Manufacturers and Related Industries	\$177,680
Corporations Engaged in Stocking Strategic Materials	250,000
Machine Tool Manufacturers	10,000
Semi-Finished Metal Manufacturers	15,900
Automotive Vehicle Manufacturers	451
Ordnance Manufacturers	15
All Other	<u>269</u>
Total	\$454,315

Excluding funds for the purchase and storage of strategic materials by corporations established by the Reconstruction Finance Corporation, the most important single purpose for which credit has been committed has been for plant expansion. An analysis of the Reconstruction Finance Corporation credit by purpose is shown in the following table.

TABLE IIIRECONSTRUCTION FINANCE CORPORATION
DEFENSE LOAN AND STOCK PURCHASE AGREEMENTS BY PURPOSE 1/June 25 through August 24

(In Thousands of Dollars)

Plant	\$ 97,759
Working Capital	60,786
Machinery and Equipment	22,782
Plant, Machinery and Equipment 2/	23,588
Refunding	<u>229</u>
Total	\$205,144

1/ Purchase and storage of strategic materials by corporations established by the Reconstruction Finance Corporation are not included.

2/ Allocation not possible.

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STRATEGIC AND CRITICAL MATERIALS

Indexes of the status of the Stock File Program and recent price data for Strategic and Critical materials are presented below.

Stockpile Program. As of August 24, the strategic materials stock pile program was 33 per cent contracted for, while deliveries totaled 10 per cent of the total program.

TABLE I

<u>Date</u>	<u>STATUS OF STOCKPILE PROGRAM</u>		
	<u>Deliveries Received</u>	<u>Delivered or Contracted for</u>	<u>Total Actual and Proposed</u>
August 3	7%	23%	100%
August 17	8%	25%	100%
August 24	10%	33%	100%

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Prices. 1/ The indexes of prices of both strategic and critical materials declined slightly in the last week as the result of slightly lower prices for mercury, silk, rubber, and calf skins. Prices of all other strategic and critical materials showed no change from August 17 to August 24.

TABLE II

INDEXES OF PRICES OF STRATEGIC AND CRITICAL MATERIALS

(August 1939 = 100)

<u>Week Ending</u> <u>1940</u>	<u>Strategic Materials</u>	<u>Critical Materials</u>
August 17	122.7	106.5 2/
August 24	122.5	106.2

The declining price of mercury is attributed to a restriction of United States exports to Japan through the operation of license control of exports (Act of Congress July 2, 1940). The price of domestic calf skins has fallen steadily in August partly as a result of large stocks of second-grade cattle hides in Argentina (resulting from reduced Argentine exports to Europe).

Price quotations of mercury, silk, rubber, and calf skins showing changes in the last two weeks are given in Table III.

-
- 1/ Based on material furnished through courtesy of the Bureau of Labor Statistics.
2/ Revised to include cork.

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Table III

WHOLESALE PRICES OF
SELECTED STRATEGIC AND CRITICAL MATERIALS ^{1/}

(Underscore indicates price changes of last week)

Commodity	Unit	Week ending		
		Aug. 10	Aug. 17	Aug. 24
Mercury	per flash(76 lbs)	\$ 188.000	\$ 182.000	\$ 180.000
Rubber, ribbed smoked sheets	per lb.	.208	.200	<u>.199</u>
Silk raw, Japan 20/22	per lb.	2.540	2.540	<u>2.535</u>
Silk raw, Japan, white 13/15 D. 78%	per lb.	2.53	2.53	<u>2.510</u>
Hides, calf, packers, city	per lb.	.165	.158	<u>.145</u>
Hides cow, packers, light native	per lb.	.106	.101	.101
Hides steer, packers Texas	per lb.	.093	.088	.088

^{1/} Based on material furnished through courtesy of the Bureau of Labor Statistics.

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REPORT OF HOUSING SHORTAGES IN ELEVEN CITIES 1/

Housing surveys in 11 cities, undertaken at the request of Mr. C. F. Palmer, Coordinator of Housing, reveal that in 10 of the cities the vacancy rate is less than 2 percent. The cities surveyed were:

Quincy, Massachusetts
Bath, Maine
Kearney, New Jersey
Camden, New Jersey
Chester, Pennsylvania
Newport News, Virginia

Baton Rouge, Louisiana
Rock Island, Illinois
Moline, Illinois
East Moline, Illinois
Davenport, Iowa

A new system of surveys has been developed to obtain essential information quickly. The survey procedure includes a sample vacancy count, a reconnaissance survey of prospective gains in employment, volume and type of additional housing needed, construction and rental trends and similar matters.

In the cities thus far surveyed, it is estimated that during the next 12 months there will be an increase of at least 30,000 employees in defense industries. Although not all of these prospective employees will need new housing, since some will be already residing in the cities named, the need will be considerably greater than the 2,000 vacant rental units now available at suitable prices and conditions suitable for occupancy. In a number of the cities, some of the additional workers may be housed in other cities within the same metropolitan area, if these cities themselves do not face similar housing problems due to defense activities.

Temporary makeshifts in the form of trailer camps and tent cities are out of necessity now being used in some places; renting rooms in shifts has been resorted to; rents have risen in some areas; and the rental of substandard properties is increasing. In many instances workers have found it necessary to commute from as far as 40 or 50 miles away.

1/ These surveys were conducted and this report was prepared by the Division of Research of the Work Projects Administration, Federal Works Agency.

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It has also been found that there has been an increase in the normal demand for housing because of improved conditions in non-defense industries, making the problem of housing defense workers even more acute.

Apparently the immediate problem will be largely that of providing rooms for single workers and rental units for families. In some instances a shortage of housing for men constructing new defense facilities also exists.

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INDUSTRIAL PRODUCTION DURING JULY AND AUGUST

Industrial activity during July and August failed to extend the sharp gains made in May and June. The new Federal Reserve index remained substantially unchanged for July, after seasonal adjustment, at 120--121 (1935-39=100). Automobile production, an important element of the index, dropped very sharply in July, primarily because of plant closings preparatory to an early shift to new model production. The July-August level of industrial production is as high as the best month of 1937 and is not far below the all-time high of 126 reached last December. The index was 111 in April, the low for this year.

There is some evidence of a temporary leveling off of industrial production, following the anticipatory covering initiated when the defense program was announced. New orders for capital goods failed to advance in July and some slackening appeared in orders of non-defense industries.

Steel operations averaged 90 per cent of capacity for the first four weeks of August--slightly higher than July. Backlogs of unfilled orders are heavy although production is substantially in excess of consumption. The machinery industry and the nonferrous metals industry, both of which are affected by defense needs at the present time, showed substantial increases in July.

Automobile production for the week ending August 17 rose to 20,475 assemblies as compared with 11,635 during the previous week. This increase was more rapid than is customary following the change over to new models. Output during the rest of the year will probably exceed the large production of the corresponding period in 1939. Textile production is holding steady. Carloadings are running about 10 percent above those at this time last year. In the latest week (August 17) 747,000 cars were loaded. The railroads are expanding equipment purchases, which may equal or exceed the heavy purchases of last year. Shoe production is increasing but it is still below a year ago. Seasonally adjusted indexes of copper, zinc, and tin deliveries increased during July while rubber consumption was reduced.

Barring an early end to the war, the outlook for industrial production in coming months is good. August will probably show little change in the Federal Reserve index but September should see an increase.

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EMPLOYMENT IN DEFENSE INDUSTRIES DURING JULY

In six manufacturing industries producing war materials, wage-earner employment in July increased 5.5 per cent over June, representing about the same percentage increase as in June over May. For all manufacturing industries employment increased about 1 per cent in July as compared with June.

Employment in the aircraft and private shipbuilding industries showed the greatest absolute gain during the period. Employment in the aircraft industry increased by 7,000 and in shipbuilding by 4,700. Employment in the aircraft and engine industries showed the greatest percentage gain. The number of persons employed in the aircraft industries increased by almost 10 per cent and in the engine industry by over 6 per cent.

NUMBER OF WAGE EARNERS EMPLOYED IN DEFENSE INDUSTRIES

Industry	July 1940	June 1940	Increase from June 1940
Shipbuilding, Private ^{1/}	93,300	88,600	4,700
Aircraft ^{2/}	77,300	70,300	7,000
Machine tools	66,400	64,800	1,600
Engines	53,700	50,600	3,100
Aluminum Manufacturers	27,300	27,000	300
Explosives ^{2/}	7,900	7,500	400
Total	325,900	308,800	17,100

^{1/} Includes employment on government contracts to private concerns but does not include shipbuilding in Navy Yards.

^{2/} Does not include employment in government force account manufacturing.

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FOREIGN TRADE DURING JULY

Exports. Despite the virtual elimination of shipments to France, total exports of United States merchandise in July were \$312 million-- a decline of only \$32 million from June. This is a relatively favorable showing since in June exports to France were \$46 million. It can be largely accounted for by the substantial rise in shipments to the United Kingdom from \$77 million to \$107 million. In the case of some commodities, the rise in exports to the United Kingdom directly compensated for the loss in trade with France, as indicated in the following table. This result, however, was not achieved in the case of aircraft and metal-working machinery.

<u>Commodity</u>	<u>VALUE OF SELECTED EXPORTS TO-</u>			
	<u>France</u>		<u>United Kingdom</u>	
	<u>June</u>	<u>July</u>	<u>June</u>	<u>July</u>
	(In thousands of dollars)			
Raw cotton	732	--	1,394	3,190
Iron and steel semi-manufactures	1,375	46	9,282	14,450
Steel-mill products	480	--	452	1,545
Refined copper	808	--	3,242	4,825
Metal-working machinery	6,751	--	5,419	8,575
Automobiles, including parts and accessories	2,714	--	177	792
Aircraft	17,196	27	5,008	14,338

With exports to Canada dropping from \$64 million to \$62 million, and exports to all other principal trade areas declining (except Asia and Oceania), the total export figure is the lowest it has been since last November. Exports, however, were \$85 million above July, 1939.

Exports of important war and related materials, including aviation gasoline, metal-working machinery, aircraft, and firearms and ammunition fell off in July as compared with June. This decline is partly due to smaller shipments of surplus stocks which had been initiated in June. Shipments of explosives were substantially smaller in both quantity and value, while exports of iron and steel scrap increased slightly. Among other commodities, exports of certain food products, wood pulp, lumber, and refined copper were larger in July than in the previous month. Declines were reported for a broad list of articles, particularly manufactures.

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Imports for Consumption. Imports for consumption rose during July to \$218 million from \$205 million in June. The gain of \$13 million for the month was largely concentrated in crude products such as rubber, which was up more than \$6 million. It reflected increased domestic requirements for foreign raw materials, as well as, to some extent, the building up of inventories.

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PROGRESS REPORT
ON
NATIONAL DEFENSE PROGRAM

October 31, 1940

Prepared by
Bureau of the Budget
Executive Office of the President

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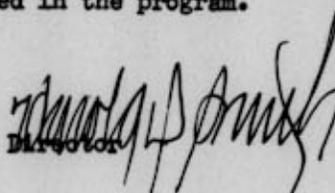
EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

November 13, 1940

MEMORANDUM TO THE PRESIDENT

This is the first of a series of monthly reports by the Bureau of the Budget summarizing the progress of the national defense program. Additional features of the program will be considered in future reports.

The objective has been to bring together and consolidate in an over-all picture of the Government's defense work the most pertinent and reliable data available in the War and Navy Departments, the National Defense Advisory Commission, and other agencies involved in the program.


Director

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I. DEFENSE APPROPRIATIONS AND AUTHORIZATIONS

Including the estimated cost of naval vessels to be started during the present fiscal year, the total authorized for national defense purposes in the fiscal year 1941 is \$18,790,000,000. Of this sum appropriations and contract authorizations amount to \$12,839,000,000:

	<u>Appropriations</u> (In Millions of Dollars)	<u>Contract</u> <u>Authorizations</u>	<u>Total</u>
War Department (Military)	5,637	2,913	8,550
Navy Department	2,512	789	3,301
President's Emergency Fund	100	100	200
Civil Agencies and Activities	<u>601</u>	<u>187</u>	<u>788</u>
Total	8,850	3,989	12,839
Excess of estimated cost of 1941 naval vessels over appropriations			<u>5,951</u>
Grand Total Authorized			18,790

In addition, the Reconstruction Finance Corporation had outstanding commitments of \$620,000,000 for national defense purposes on October 15, bringing the total made available for defense to \$19,410,000,000.

II. AERONAUTICAL PROGRAM

Army Planes

The Army had 1,638 training and 1,782 tactical planes on October 15, but only 612 of the latter were classed as suitable for their tactical purpose.

On the same date, the Army had under contract 19,900 planes, of which 9,034 were training and 10,866 tactical. Less than 800 planes remained to be ordered under the financed program, and 714 of them were under option.

Navy Planes

The Navy had 2,241 planes on hand at the end of September --

424 training and 1,817 tactical. Of the tactical planes 1,388 were considered suitable for their purpose. At the beginning of October the Navy had contracts for 2,975 additional planes and placed contracts during that month for 2,197 more. Funds are available for 2,519 not yet on contract. About 5,500 remain to be financed to reach the authorized strength of 15,000 planes exclusive of overage and obsolete types.

Airplane Production

Aircraft production increased at a relatively uniform rate from 279 complete planes per month in January 1940 to 770 in September. During the same period engine production rose from 856 to 2,642 per month. Employment in the airplane industry was about 108,000 in September according to preliminary figures -- more than double the number for the same month in 1939.

Distribution of September Production

	<u>Army</u>	<u>Navy</u>	<u>British</u>	<u>Others</u>
Airplanes (complete)	252	71	151	296
Engines	372	185	986	1,099

The Army Air Corps reports the following schedule for deliveries on contracts outstanding September 30, 1940 for complete airplanes - cumulative from October 1, 1940.

	<u>Army</u>	<u>Navy</u>	<u>British</u>	<u>Others</u> *	<u>Total</u>
For October 1940	218	184	366	355	1,123
Through December 1940	679	606	1,124	934	3,343
Through June 1941	5,444	2,280	3,616	1,698	13,038
Through December 1941	11,876	2,805	6,387	1,847	22,915
<u>Later</u>	16,649	2,975	7,369	2,112	29,105

* Three-fourths commercial and one-fourth foreign.

Aviation Personnel

1. Army

The 54 group program adopted for the Air Corps requires 15,967 officers (pilots and navigators) and 148,792 enlisted men, as compared with an active duty strength of 3,933 officers and 60,502 enlisted men on September 30. This program will provide personnel for 12,835 planes of the 24,108 on hand or in process of procurement.

To meet the pilot training objective of 12,000 per year, the Army has increased the number of civil contract schools for elementary training from 9 to 18 and is contemplating 10 additional. The number of Army training schools is being increased from 2 to 12 and plans are being made for 8 more. In September, 1,123 men entered pilot training. The program calls for 2,383 to enter training every five and a half weeks beginning in February.

2. Navy

The 15,000 plane program involves building an aeronautical organization of 14,091 pilots and 120,207 other personnel. At the end of September the Navy and Marine Corps had 3,247 pilots and 30,515 other aeronautical personnel.

To provide the pilots required for the 15,000 plane program, about 800 aviation cadets must be enrolled per month, as against 150 entering training in September. Training facilities are being developed to meet the enrollment objective by about January 1942. The school at Pensacola is being expanded to handle an entrance rate of 300 per month and new schools are being established at Miami, Jacksonville,

and Corpus Christi. The school at Miami opened in early October.

3. Civilian Pilot Training Program

The number enrolled for the summer and fall college programs of the Civil Aeronautics Administration is:

	<u>Preliminary Training</u>	<u>Secondary Training</u>
Summer program	15,718	1,170
Fall program	15,300	3,280

The objective is an enrollment of 15,000 in the elementary course and 5,000 in the secondary course. Experience indicates that about 90 percent of the enrollees complete their course. Of 9,217 enrolled in the college preliminary course for the 1939-40 program, 8,345 have been certificated.

Sixty-six students who have finished the secondary course were approved by the Air Corps and ordered to report to Randolph Field October 19 to enter the second of the three phases of Air Corps training.

III. ARMY

Critical Materiel

The following table shows the Army's objective and the status of procurement for a selected list of the most critical items of materiel.

	Require- ments for 2,000,000 Man Army	Deferred (Not Fi- nanced)	On Hand Septem- ber 30	To be Procured Septem- ber 30 *	Percent of Procure- ment program on order October 30
<u>Antiaircraft</u>					
Guns, 37 MM	3,322	191	70	3,061	100
Guns, 90 MM	1,819	40	462	1,317	41
Height finders	587	18	174	395	100
Searchlights	2,844	353	484	2,007	100
<u>Combat Vehicles</u>					
Tanks	6,554	365	396	5,793	88
Scout cars	2,890	-	477	2,413	100
Half track vehicles	9,358	-	None	9,358	100
<u>Artillery</u>					
Guns, antitank, 37 MM	4,828	-	398	4,430	100
Howitzers, Field, 75 MM	847	-	59	788	100
Howitzers, 105 MM	2,727	-	14	2,713	100
Howitzers, 155 MM	1,909	-	684	1,225	100
<u>Small Arms</u>					
Semiautomatic rifles	470,700	-	66,623	404,077	100
Mortars 60 MM	9,555	-	353	9,202	100
Mortars 81 MM	3,211	-	334	2,877	100

* Includes procurement from 1941 and prior years' funds.

Increase in Military Personnel

The number of enlisted men in the Regular Army increased from 249,000 on June 30 to 336,000 on September 30 and neared the authorized strength of 375,000 at the end of October. The National Guard had an active strength of 252,000 on September 30 and the Organized Reserves a strength of 110,000 exclusive of ineligible and inactives.

In September, 67,000 National Guardsmen were inducted into the Federal Service, bringing the number of enlisted men in the Army to 403,000 at the end of that month. Inductions of additional National Guard units and of selectees under the draft are expected to raise this to over 560,000 in November. Present plans contemplate a total manpower of 930,000 in January and 1,418,000 in June, exclusive of officers. (See chart)

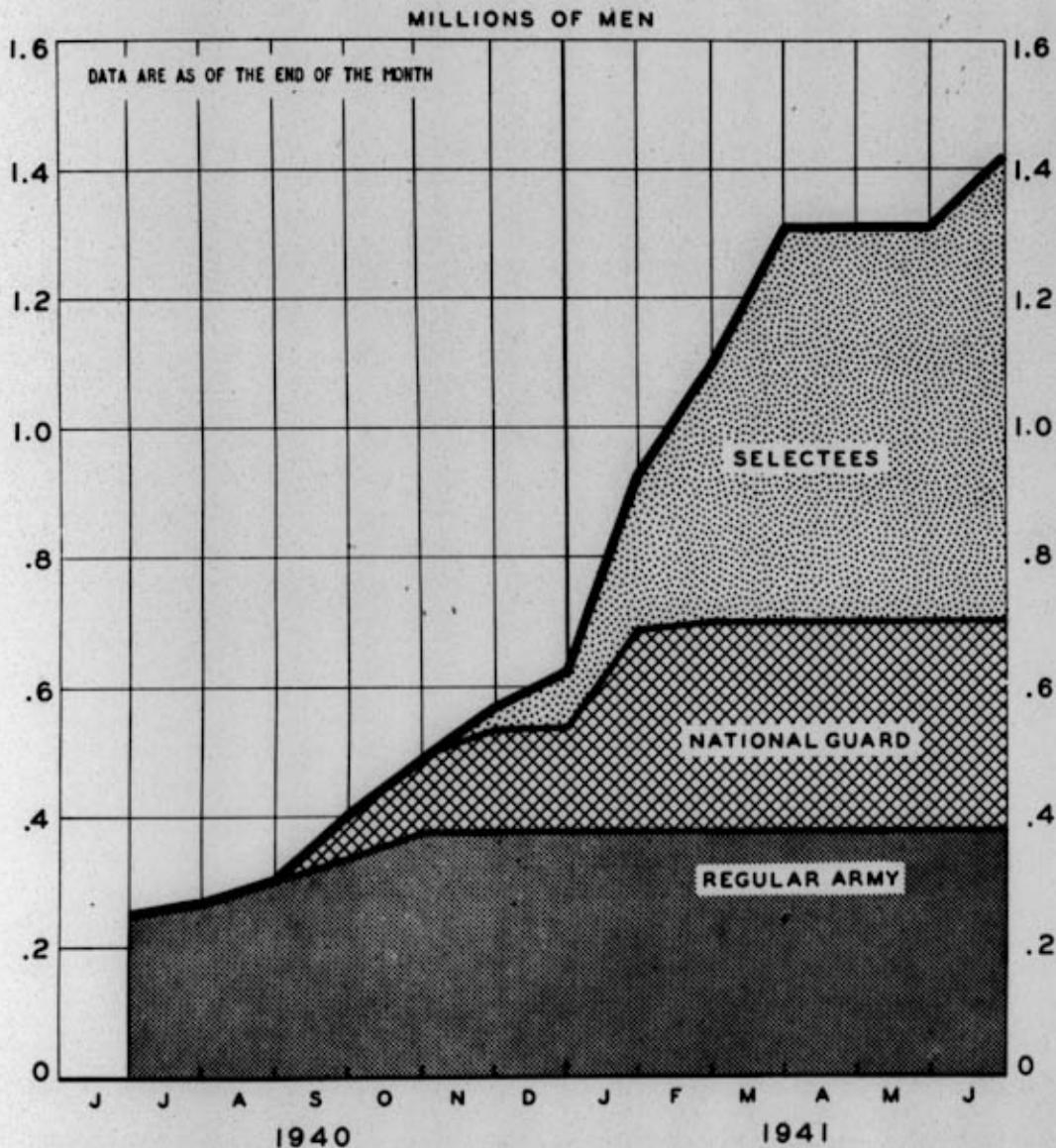
Housing the Troops

The War Department is building temporary housing for 1,033,000 men in addition to other facilities at military posts.

<u>Type of Facility</u>	<u>Men to be Housed</u>
31 camps and cantonments	667,900
29 reception centers	29,250
21 replacement centers	209,700
Other station increases	<u>126,000</u>
	1,032,850

Eighteen camps and cantonments are scheduled for completion before the end of December and most of the others by early January. On the basis of progress to date, most projects are expected

ESTIMATED MAN POWER OF THE ARMY TO JUNE 30, 1941



NOTE: EXCLUDES OFFICERS, WARRANT OFFICERS, NURSES, AND FLYING CADETS

SOURCE: STATISTICS BRANCH - GENERAL STAFF
WAR DEPARTMENT

PREPARED BY
BUREAU OF THE BUDGET

to be completed on time and not over two weeks' delay is now anticipated on those behind schedule. The replacement centers, which are not to be occupied until early spring, are to be ready by March 15.

IV. NAVY

Combatant Ships

The Navy has under contract 336 combatant ships of 2,172,020 tons displacement. Including overage vessels, it now has in service 315 combatant ships of 1,240,420 tons.

Assuming that overage ships are retained in service, the anticipated strength of the Navy in combatant ships will be as follows, based on present schedules for delivery by the builder:

	<u>Number</u>	<u>Tonnage</u>	<u>Percent of Present Tonnage</u>
September 30, 1940	315	1,240,020	100
December 31, 1942	348	1,486,500	120
December 31, 1943	499	1,965,880	158
December 31, 1944	596	2,484,240	200
December 31, 1946	651	3,412,440	275

(See Chart)

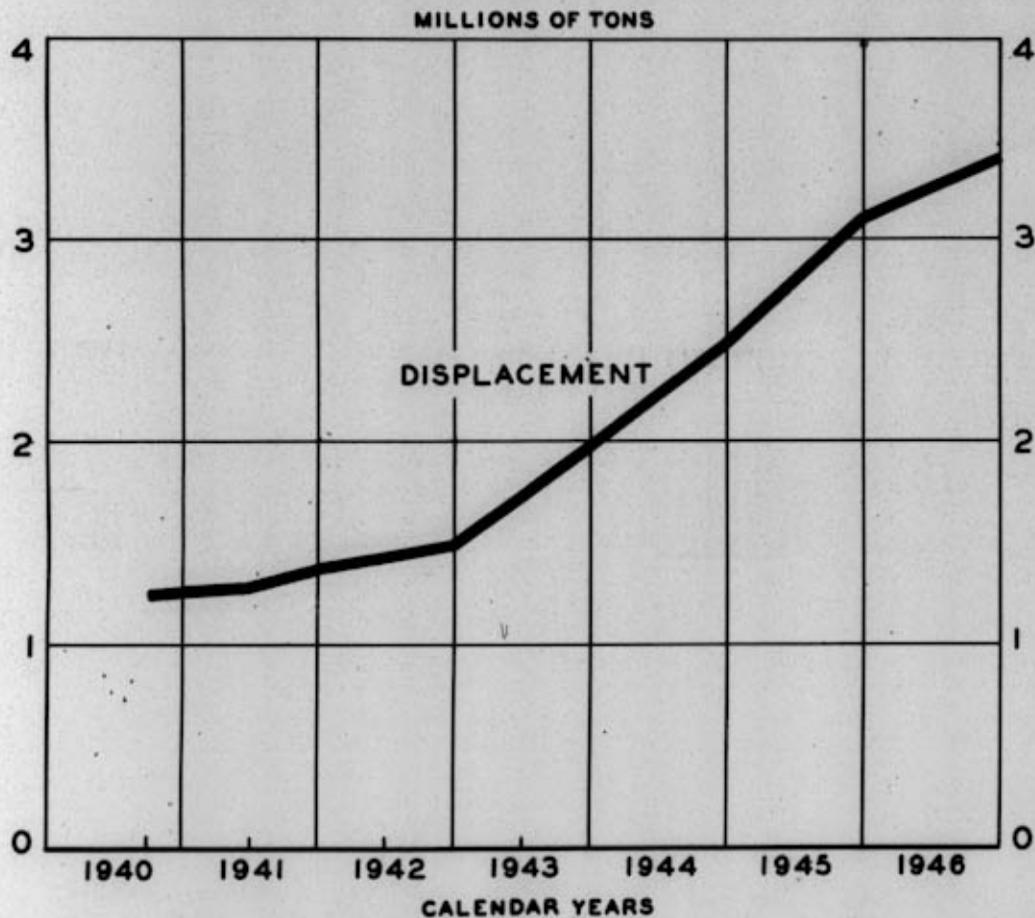
Auxiliary Ships

The Navy had 179 auxiliary ships totaling 525,643 tons at the end of September and was purchasing 32 large vessels to be converted into auxiliary ships. Of these, 21 had been acquired by the end of October.

Cost of Ship Expansion Program

The estimated cost of ships to be started under the 1941

**U. S. NAVY
COMBATANT SHIPS - OVERAGE AND UNDERAGE
SCHEDULED INCREASE IN TONNAGE**



NOTE: CHART BASED ON THE ASSUMPTION THAT OVERAGE SHIPS WILL BE RETAINED IN SERVICE
COMPLETION DATES BASED ON INITIAL DELIVERY TO OPERATING CREWS

SOURCE: BUREAU OF SHIPS - U. S. NAVY
FORM NO. 101 - 9/30/40

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BUREAU OF THE BUDGET

program is \$6,297,000,000. This figure includes \$4,695,000,000 for construction and machinery and \$1,602,000,000 for armor, armament, and ammunition. It is estimated that expenditures for ship construction (Replacement of Naval Vessels), including those authorized in previous years, will amount to \$802,000,000 in the fiscal year 1941 and \$1,310,000,000 in the fiscal year 1942.

Increase in Personnel

The number of regular enlisted men in the Navy increased 9.5 percent between June 30 and September 30, and the total active-duty personnel, including officers and reserves on active duty, increased 13.5 percent.

	<u>Regular Enlisted Men</u>	<u>Total Active-Duty Personnel</u>
June 30	139,544	157,826
September 30	152,808	179,140

In the same period the total active-duty strength of the Marine Corps, including officers and reserves, rose from 28,239 to 37,113.

V. PLANT EXPANSION

The most vital feature of the national defense program at this time is the expansion of facilities to produce the ships and munitions under contract. The War and Navy Departments have set aside \$1,137,000,000 to finance such expansion. In addition, on October 15 the Reconstruction Finance Corporation had outstanding commitments of \$278,000,000, under its defense loan authority, for production facilities and working capital.

The funds for production facilities have been allocated almost entirely for airplane factories, ordnance plants, and shipyards.

	<u>Funds Allocated</u>		<u>Commitments by R.F.C.</u>	<u>Total</u>
	<u>War</u>	<u>Navy</u>		
	<u>(Millions of Dollars)</u>			
Airplane Plants	271	60	239	570
Ordnance Plants	444	145	12	601
Shipyards	-	185	-	185
Other	<u>32</u>	<u>—</u>	<u>27</u>	<u>59</u>
Total	747	390	278	1,415

Contracts awarded against these funds amounted to 35 percent of the total for the War Department on October 25 and 75 percent for the Navy as of October 31.

	<u>Percent of Plant Expansion Funds Obligated</u>	
	<u>Army (October 25)</u>	<u>Navy (October 31)</u>
Airplane plants	5	41
Ordnance plants	55	82
Shipyards	-	80
Other	<u>23</u>	<u>—</u>
Total	35	75

The small percentage of obligations against Army funds for airplane plant expansion is largely due to delay in enactment of legislation and to the fact that two-thirds of the funds were not provided until October 8.

Among the major contracts awarded in October for munitions plants are the following:

Smokeless powder plant addition, Charlestown, Ind.,
Du Pont de Nemours Co. - \$26,000,000

Smokeless powder plant addition, Radford, Va.,
Hercules Powder Co. - \$10,000,000

Toluol plant, Baytown, Tex., Humble Oil Co. - \$11,857,000

Shell machining plant, Gadsden, Ala., Landsdowne Steel &
Iron Co. - \$8,000,000

Airplanes, Seattle and Wichita, Boeing - \$11,253,000

VI. STRATEGIC AND CRITICAL MATERIALS

Purchases have been confined almost entirely to strategic materials, which must be obtained from outside continental United States. Measured in dollar value, purchases up to October 19 amounted to 39.3 percent of the stock pile requirements for strategic materials as fixed by the Army and Navy Munitions Board and deliveries, to 12.1 percent. For certain leading commodities the percent of stock pile purchased was:

Chromium	35.7	Rubber	38.8
Manganese	155.1	Tin	27.1

On the advice of the National Defense Advisory Commission, the R. F. C. has fixed a goal for manganese equal to 180 percent of that proposed by the Munitions Board. Quinine purchases also exceed the Board's objective. Further increases in stock pile objectives are probable as a result of studies by the National Defense Advisory Commission.

APPENDIX TABLES

- I. War Department Appropriations and Contract Authorizations -
F. Y. 1941
- II. Navy Department Appropriations and Contract Authorizations -
F. Y. 1941
- III. Defense Appropriations and Contract Authorizations for Civil
Agencies - F. Y. 1941
- IV. Schedule for Ship Expansion - U. S. Navy
- V. Stock Piles of Strategic Materials as of October 19

TABLE I.

WAR DEPARTMENT APPROPRIATIONS AND CONTRACT AUTHORIZATIONS, F.Y. 1941

	Appropriations 1941	Contract Authorizations 1941	Total 1941
Pay of the Army	\$ 575,364,662	-	\$ 575,364,662
Quartermaster Corps	1,779,209,498	\$ 81,130,000	1,860,339,498
Signal Corps	142,327,432	49,131,644	191,459,076
Air Corps	1,190,014,961	1,275,159,597	2,465,174,558
Medical Department	73,022,914	3,900,000	76,922,914
Corps of Engineers	47,301,955	27,500,000	74,801,955
Ordnance Department	986,665,324	1,125,860,199	2,112,525,523
Chemical Warfare Service	39,569,532	17,436,910	57,006,442
Seacoast Defenses	49,385,014	30,518,047	79,903,061
National Guard	88,466,967	-	88,466,967
Organized Reserves	129,332,699	-	129,332,689
Expediting Production	400,500,000	302,500,000	703,000,000
Other	136,329,330	-	136,329,330
GRAND TOTAL	\$5,637,490,228	\$2,913,136,397	\$8,550,626,675

TABLE II.

NAVY DEPARTMENT APPROPRIATIONS AND CONTRACT AUTHORIZATIONS F.Y. 1941

	Appropriations 1941	Contract Authorizations 1941	Total 1941
Bureau of Navigation	\$ 33,307,833		\$ 33,307,833
Bureau of Ships	179,573,180	\$ 26,230,000	205,803,180
Bureau of Ordnance	244,226,478	43,560,000	287,786,478
Bureau of Supplies and Accounts	342,024,107	-	342,024,107
Bureau of Medicine and Surgery	7,007,261	-	7,007,261
Bureau of Yards and Docks	280,320,575	172,205,612	452,526,187
Bureau of Aeronautics	355,937,650	500,000,000	855,937,650
Marine Corps	62,640,606	-	62,640,606
Alteration of Naval Vessels	115,912,000		115,912,000
Replacement of Naval Vessels	845,770,351	47,000,000	892,770,851
Naval Emergency Fund	25,000,000	-	25,000,000
Other	20,598,465.86	-	20,598,465.86
GRAND TOTAL	<u>\$2,512,318,506.86</u>	<u>\$788,995,612</u>	<u>\$3,301,314,118.86</u>

TABLE III.

DEFENSE APPROPRIATIONS AND CONTRACT AUTHORIZATIONS
TO CIVIL AGENCIES, F.Y. 1941

Agency and Purpose	Appropriation	Contract Authorization	Total
<u>Departments</u>			
<u>Agriculture</u>			
Rubber investigations	\$ 500,000		\$ 500,000
<u>Commerce</u>			
Bureau of Foreign and Domestic Commerce	50,000		50,000
Bureau of Standards	121,000		121,000
Bureau of Patents	23,320		23,320
<u>Civil Aeronautics Administration-</u>			
Civilian Pilot Training	37,000,000		37,000,000
Air Navigation	2,091,000		2,091,000
Flying Fields	40,000,000		40,000,000
Coast and Geodetic Survey	1,560,000		1,560,000
Weather Bureau	500,000		500,000
Total	81,345,320	-	81,345,320
<u>Interior</u>			
Bonneville Dam	7,850,000		7,850,000
Bureau of Mines	380,000		380,000
Geological Survey	100,000		100,000
Total	8,330,000	-	8,330,000
<u>Justice</u>			
Alien Registration and Border Patrol	5,300,000		5,300,000
Federal Bureau of Investigation	6,346,800		6,346,800
Lands Division	500,000		500,000
Other Salaries and Expenses	470,000		470,000
Total	12,616,800	-	12,616,800
<u>Labor</u>			
Division of Labor Standards	345,000		345,000
Bureau of Labor Statistics	125,000		125,000
Total	470,000	-	470,000
<u>State</u>			
Emergency Diplomatic work, and other increased salaries	1,617,500		1,617,500
<u>Treasury</u>			
Coast Guard	27,118,695		27,118,695
Foreign Owned Property Control	700,000		700,000
Strategic and Critical Materials	60,000,000		60,000,000
White House Police	52,500		52,500
Total	87,871,195	-	87,871,195

Agency and purpose	Appropriation	Contract Authorization	Total
War			
Cemetery Expenses	850,644		850,644
Panama Canal, Protective Devices	19,000,000	4,500,000	23,500,000
Panama Canal Third Lock	15,000,000	99,000,000	114,000,000
Panama Canal TransIsthmian Hedgeway	325,000		325,000
Rivers and Harbors	8,127,000		8,127,000
Total	43,302,644	103,500,000	146,802,644
<u>Independent Establishments</u>			
Council of National Defense	1,000,000		1,000,000
Federal Communications Commission	175,000		175,000
Federal Security Agency			
National Youth Administration-Occupational Training	32,500,000		32,500,000
Office of Education-Occupational Training	75,500,000		75,500,000
Public Health Service	47,340		47,340
Social Security Board-Employment Service	2,000,000		2,000,000
Total	110,047,340		110,047,340
Federal Works Agency			
Public Buildings Administration-Office buildings for defense activities	10,917,000	2,400,000	13,317,000
Defense Housing	75,000,000	75,000,000	150,000,000
Total	85,917,000	77,400,000	163,317,000
Housing-for allocation by President	100,000,000		100,000,000
Maritime Commission-Marine War Risk Insurance	40,000,000		40,000,000
National Advisory Committee for Aeronautics-research facilities	3,200,000	6,400,000	9,600,000
Tennessee Valley Authority	25,000,000		25,000,000
GRAND TOTAL	601,392,799	187,300,000	788,692,799

TABLE IV

COMBATANT SHIPS-NUMBER AND TONS DISPLACEMENTSchedule for Ship Expansion September 30, 1940

(Completion dates based on initial delivery to operating crews)

(Chart based on the assumption that overage ships will be retained in service)

	Total	Battle-ships	Aircraft Carriers	Cruisers (Heavy)	Cruisers (Med. & Light)	Destroyers	Submarines
	148	3			2	75	68
Overage 9-30-40	230,310	80,100			14,100	85,370	50,740
	167	12	6	18	17	79	35
Underage 9-30-40	1,010,110	284,200	134,800	171,200	143,675	123,440	52,795
1940-Sept. 30	315 1,240,420	15 464,300	6 134,800	18 171,200	19 157,775	154 208,810	103 103,535
1940-Dec. 31	322 1,251,635	15 464,300	6 134,800	18 171,200	19 157,775	160 218,550	104 105,010
1941-Dec. 31	348 1,357,855	17 534,300	6 134,800	18 171,200	19 157,775	174 241,370	114 118,410
1942-Dec. 31	384 1,486,500	18 569,300	7 154,600	18 171,200	23 181,775	191 271,390	127 138,235
1943-Dec. 31	499 1,965,880	22 719,300	7 154,600	20 197,200	37 305,775	260 411,120	153 177,885
1944-Dec. 31	596 2,484,240	25 854,300	11 260,600	22 223,200	47 405,775	318 531,980	173 208,385
1945-Dec. 31	640 3,089,450	30 1,118,300	14 340,100	29 356,200	57 505,775	325 542,380	185 226,685
1946-Dec. 31	651 3,412,440	32 1,234,300	18 446,100	32 437,200	59 525,775	325 542,380	185 226,685

TABLE V
STOCK FILES OF STRATEGIC MATERIALS AS OF OCTOBER 19

Commodity	Unit of Measure	Munitions Board Stock Pile	Purchases	Deliveries	Percent of Stock Pile	
					Purchased	Delivered
Antimony	S.T.	None	6,250	—		—
Chromium	L.T.	451,000	160,880	32,513	35.7	7.2
Coconut Shell Charcoal	S.T.	1,000	—	—	—	
Manganese	L.T.	1,000,000	1,551,500	92,247	155.1	9.2
Manila Fiber	Bales	395,257	32,390	25,590	8.2	6.5
Mercury	Flasks	18,000	5,000	—	27.8	—
Mica	S.T.	3,500	—	—	—	—
Nickel		None	—	—	—	—
Quartz Crystal	Lbs.	102,000	19,700	18,295	19.3	17.9
Quinine	Oz.	6,400,000	7,223,280	723,280	112.9	11.3
Rubber	L.T.	388,393	150,911	55,252	38.8	14.2
Silk	Lbs.	None	3,910,800	3,910,800		
Tin	L.T.	100,000	27,079	11,720	27.1	11.7
Tungsten	S.T.	15,000	9,144	6,909	60.9	46.0

PSF
FEDERAL INTERRACIAL COMMISSION *file persons*

National Defense

Under broad emergency powers vested in him for National Defense, it is suggested that the President, independent of any requirement of legislative enactment or approval, create a Federal Interracial Commission; that said body function as a clearing house for the candid, impartial consideration of problems directly affecting Negro citizens, and to serve as conciliator for the amelioration and solving of such problems.

Among the immediate and urgent questions for consideration would be: Cooperation with governmental agencies to facilitate the normal integration of Negroes in the Army, Navy, Air Force, industry and labor; to give consideration to other important questions inevitably arising from time to time with respect to the part to be played by Negroes in the National Defense program; to give consideration to the utilization of qualified Negroes as Federal agents to uncover fifth column activities, and to utilize Negro citizens in the making of valuable contacts with Negroes of Central and South America in the furtherance of the government's good neighbor policy.

The Commission to be composed of members of both races, the chairman and the secretary to be Negroes.

Memorandum respectfully submitted to the President by Lester A. Walton.

THE WHITE HOUSE
WASHINGTON

PSF
National
Defense

December 23, 1940.

MEMORANDUM FOR

THE DIRECTOR OF THE BUDGET

This from Mr. Knudsen.

The President said to tell you that even though it is quite old, it is worth your looking at.

M. A. Le Hand
PRIVATE SECRETARY

P.S. Please return when you have finished with it.

(Enclosure - Confidential Memorandum
Having To Do With
National Defense.

PSF National Defense

MEMORADUM -- LABOR AND NATIONAL DEFENSE

From Ralph Ingersoll

*Nat. Def
2-40
Come to file
12/23/40*

2 cu

The Problem

John L. Lewis convinced himself toward the close of the campaign that the division of sentiment was so close that he could carry the election for Willkie. For weeks he had been telling his organizers and subordinates to hold off political activity while he bargained with the President for concessions to labor -- always with the implied or explicit promise that in the end he would endorse the Democratic ticket. It now appears that he arrived at an understanding with Willkie more than two months before the election.

Having bet everything and lost, Lewis should have been stripped of his power. Instead he dominated the Atlantic City convention, browbeating old associates in the big unions, packing committees and the convention itself with delegates from the small unions he controlled and holding the allegiance of the Communists.

The Lewis crowd remains formidable for several reasons: the boss himself can retreat into the United Mine Workers and hold out indefinitely; Phil Murray must continue, for the time being at least, to keep on good terms with Lewis and therefore to listen to Lewis's advice; a plausible case can be and is being made out in support of the charge that the Administration is selling labor down the river in the defense emergency.

Memo--2

The case rests on this bill of particulars:

1. Labor law violators are still getting defense contracts. The Ford contract, awarded the day after election (apparently without the knowledge of Sidney Hillman), is exhibit A. Granting that Ford's productive capacity is needed, that Ford employes can't be organized by the government but only by the unions themselves, the Ford award nevertheless was dramatized as proof of the Administration's indifference to labor's rights. Award of Army contracts to International Shoe while there was still idle productive capacity in unionized plants also is being used. (See Robertson articles enclosed.)

2. Appointment of Harry Millis to the NLRB in place of J. Warren Madden is being represented by the Lewis group as an attempt to create a Leiserson-Millis majority against Edwin Smith. The Republican press is unwittingly helping Lewis here by accepting the left wing view that Millis is merely Leiserson's stooge.

3. Labor is being told that the national emergency is only an excuse for curtailing labor's right to organize and strike. This charge was given some substance by the Attorney General's unsupported statement that the Vultee strike was Communist-inspired and Communist-prolonged. The Vultee strikers had such a good wage case that Jackson's statement was called a red herring even in the California press. The Vultee incident intensified labor's fear that J. Edgar Hoover was about to put on the kind of union-busting campaign Dies has conducted. (See Crawford article attached.)

4. Despite Sidney Hillman's attempts to reassure labor, there still is no satisfactory system of contract review by the Defense Commission or its labor member. This permits the Army to put through contracts lacking labor provisions but assuring industry fat profits. White House and Defense Commission directives are being ignored.

5. The profits tax bill passed by Congress last summer is little understood and therefore easily criticised. The casual newspaper reader knows neither that its intent was to recapture exorbitant profits nor that Congress watered down the Administration's draft. Lewis gets away with the accusation that the President is permitting industry to make enormous profits and planning to pay the bill out of taxes on small incomes. The President's positive statement against the sales tax helped to spike this, however.

6. There are complaints of ineffective enforcement of the wage-hour law. Personnel is low-grade and the speed-up inspection system lets the big fellows out of the net while the small fry are caught.

The period of lull after the election created a vacuum into which Lewis and his associates expanded. Their propaganda was helped all along the line by the wishful thinking of the daily press, which printed columns of vague business appeasement stories to make their editors feel better. The resulting situation was ideal for the Communists. Their intellectual Fifth Column went into action and got results.

Memo--4

As matters stand, the progressive wing of the labor movement and independent liberals are suspicious of the Administration. They feel that labor won the election battle but that capital is winning the war. This has created an explosive psychology among young workers, particularly in the airplane industry, but has failed to quiet the Willkieites, who seem to be as rambunctious as ever.

The Solution

An aggressive reaffirmation of the Administration's labor policies would cut the ground from under Lewis and his allies. As the election demonstrated, labor will follow the President, abandoning its own leaders to do so, if reassured periodically that his policies have not been changed by the pressure of world events. And as Bevin has shown Britain, labor's support is more necessary in a crisis than the approval of ownership and management. The latter are more easily controlled by force of public opinion.

In this connection, it is important that American labor should understand the changes the war has made in Britain's social and economic organization -- that Churchill and Bevin, not the ~~City~~ ^{City} are England's real leaders now and that after this war, with the power of the rich actually broken, England will have a people's government. This would improve labor's morale and reduce the power of the Lewis-Communist entente to interfere with aid for Britain. #

NATIONAL COMMENT

Lesson of Vultee Strike Reviewed:
Dies and Jackson Were Both Offside.

Settlement Achieved Despite Emphasis on Communist Charges Which Obscured Real Issues

By KENNETH G. CRAWFORD
Staff Correspondent

WASHINGTON, Nov. 29.—When President Roosevelt gets Representative Dies and Attorney General Jackson together today to settle their jurisdictional dispute over investigation of subversive activities, he might well haul out the quotation he used once before: "A plague on both your houses."

Now that the Vultee airplane strike is settled and the factory once more turning out planes for the U. S. and British armies, it is apparent that both Mr. Dies, speaking for his House investigating committee, and that of investigation of subversive activities with their statements that the strike was Communist-inspired and Communist-prolonged. (See editorial on Page 9.)

That the strike was settled in 12 days in spite of their interference is a tribute to the reasonableness of everyone involved. It was no small task to negotiate an initial contract covering the wages and working conditions of some 5,000 workers in a relatively experimental industry. Several strikes in defense industries at the start of World War dragged out for weeks and months. The Vultee affair should have taught government officials some valuable lessons.

Recapitulating the circumstances were these: The United Automobile Workers, CIO, has been trying for months to get a foothold in the airplane industry in California. Employers have been holding out with the tenacity that only West Coast employers have. UAW was successful in organizing Vultee principally because the wages it paid were lower than airplane workers got elsewhere.

When the strike was called the War Department sent Maj. Sidney Simpson to act as conciliator. He dealt with Wyndham Mortimer, CIO organizer and strike leader, and Richard W. Miller, Vultee president.

The strike started Friday, Nov. 15, and by Wednesday, Nov. 20, it had been agreed that the new minimum wage would be 62½ cents an hour, compared with the old wage of 50 cents and the union's demand for 75. Then Maj. Simpson suddenly threatened to call out the Army and Marine Corps to force the strikers to heel. Thereupon strikers balked at the usual clause providing for arbitration of disputes arising under the contract although a similar clause is in the UAW contract with General Motors.

Union spokesmen explained Maj. Simpson's threat with a statement charging he was constantly intoxicated. (The Los Angeles Times reported: "Newsman found Simpson drinking black coffee. He was barely able to stand or speak coherently for more than a sentence." With Maj. Simpson incapacitated, negotiations came to a standstill.

R. J. Thomas, president of the UAW, meanwhile was tied up in Atlantic City at the CIO convention and John Steelman of the Labor Department's conciliation service, who was dispatched to Los Angeles to take Maj. Simpson's place, was delayed by bad flying weather. It was in this stalemate that the Jackson and Dies statements were dropped. When Thomas and Steelman arrived on the scene, negotiations were resumed and a settlement promptly arrived at, the union accepting an arbitration clause.

It now develops that Mr. Jackson's statement, which was intended as an attack on the Dies committee and mentioned the Vultee strike only incidentally, was based on no very definite information. Mr. Jackson knew only that the FBI had reported that certain leaders of the strike had previously been Communist Party members or sympathizers.

He had no evidence that any of them were still members of the party or that their political affiliation were responsible for the breakdown of negotiations. What he was trying to get over in his statement was that Mr. Dies habitually interposes with

every thing he knows or ever suspects. However, the daily press featured the Vultee charge and buried the denunciation of Mr. Dies.

In his own Vultee statement, Mr. Dies was more specific. He said Mr. Mortimer and certain other strike leaders were Communists. Mr. Mortimer flatly denied that he was or ever had been a Communist.

The question arises, then, whether either Mr. Dies or Mr. Jackson was justified in making a scatter-gun charge that the Vultee strike was a Communist enterprise designed to sabotage national defense. Anyone who has followed the Dies investigation knows that the committee has been irresponsible—that it has falsely accused many persons of fellow traveling with the Communists. Mr. Dies has repeatedly demonstrated that he is hopelessly confused about the distinction between Communism and liberalism.

J. Edgar Hoover, chief of the FBI, has sometimes had the same trouble. Although Mr. Hoover is secretive about his methods and operations, it seems reasonable to assume that in the Vultee case he relied heavily on Capt. William F. Hynes, of the Los Angeles police Red squad, who is acting as liaison officer between police and the FBI on the West Coast. La Follette committee hearings disclosed that Hynes has been a professional strikebreaker and stool pigeon that he has worked hand-in-hand with open shop employers on the Coast, both officially and unofficially and that he has been on friendly terms with the Silver Shirts, rightist revolutionary organization.

How much his opinion is worth when it comes to identifying violent radicals is shown by a card found by the La Follette committee in his index of alleged revolutionaries. It contains this notation: "Hillman, Sidney, Pres. of Amal. Wkrs and CIO director. A veteran pro-soviet wrk, having orgn the Russians-American industrial corp." etc. Obviously to Capt. Hynes, Mr. Hoover's West Coast aid, Sidney Hillman, the president's labor defense commissioner, is a dangerous Red.

The way Mr. Hoover's own mind works on these matters is nicely illustrated in a letter turned up by the Smith committee's investigation of the National Labor Relations Board. In it, Mr. Hoover suggested that J. Warren Madden, former Chairman of the Board, take "whatever action you deem appropriate" against Grant Cannon, the Board's field examiner in St. Louis. Mr. Cannon, Mr. Hoover wrote, "is known to have radical tendencies leaning toward Communism" and "has studied anthropology." Apparently Mr. Hoover suspected Mr.

Cannon of being on the dangerous side of the Scopes monkey-trial argument.

So the lesson of the Vultee strike seems to be that if the Administration follows either Mr. Hoover or Mr. Dies it will not only make itself ridiculous and play into the hands of the John L. Lewis faction of the labor movement but justify the charge that it is using the emergency to interfere with legitimate trade union activity. Mr. Jackson, apparently taking the Vultee lesson to heart, assured the House Judiciary Committee yesterday that he needed no new legislation to cope with the defense labor problem. Some members of the committee wanted to use the Red scare to jam through legislation outlawing organization in the defense industries.

Thus much Dies, Jackson and other Administration officials agree on: That the American Communist Party's activities should be closely watched because its leaders may think they can promote the Soviet cause by impeding this country's effort to help Great Britain fight off Germany. Some officials claim to have definite evidence that the Communist Party line now calls for industrial sabotage. This is denied by party spokesmen, and so far no evidence of Red sabotage has been published either by the FBI or the Dies committee.

Defense Dollar-a-Year Men Often Look to Own Dollars

By NATHAN ROBERTSON
Staff Correspondent

(This is the fifth of a series about the Defense Commission and rearmament.)

WASHINGTON, Nov. 23. — Dollar-a-year men on the Defense Commission are not handing out fat contracts to their own companies in the free and easy way some did during the World War, but many of them are serving the interests of their own firms and their own industries almost as effectively.

Every big industry and most of the big companies are represented on the Commission staff by dollar-a-year men or by employees on the Commission payroll. Some of them, particularly those at the top, have distinguished themselves for subordinating their selfish interest to the public interest.

Most of the dollar-a-year men on the Defense Commission have nothing to do with the award of contracts. That is handled by the Army and Navy. Donald M. Nelson, Coordinator of Purchases, formerly of Sears, Roebuck and Co., and Commissioner William S. Knudsen, formerly of General Motors, do help negotiate and approve contracts. But both are above suspicion in the minds of their fellow workers.

The Commission is primarily a policy-making body. It is in the formation of policy that most of the suspicions and charges arise. Industry is vitally affected by some of these policy decisions. And because they are experts in their own fields, the dollar-a-year men frequently participate in the making of decisions affecting their own industries.

Commissioners Knudsen and Edward R. Stettinius, Jr., of U. S. Steel, have divorced themselves from their former companies. But most of the other dollar-a-year men still retain their outside connections, and divide their time between the two jobs. One day they will be working for their company, the next day working for the Government on questions of policy affecting their company, or their industry.

Clashes of Opinion

There have been many clashes of opinion between the business men and the government officials in the Defense Commission. One came during Congressional consideration of the excess-profits-tax bill. A group of the business men of the Commission drafted a report recommending a less stringent bill than the one under consideration. But Commissioners Leon Henderson and Sidney Hillman intervened, and it never went to Congress. Nevertheless, Mr. Knudsen appeared personally before the Senate Finance Committee in support of the less drastic measure.

There are more dollar-a-year men under Mr. Stettinius than any of the other Commissioners. And it is at that division—dealing with raw materials—that most of the criticism of dollar-a-year men has been directed.

One incident, in which feeling on both sides ran higher than usual, originated in that division. It involved the participation of TVA in the expanded program for manufacturing ammonium nitrate, or synthetic ammonia, an ingredient of explosives.

Last July, the War Department sent over to the Defense Commission plans for three new ammonium nitrate plants—two of them to be operated by private industry and the third at Muscle Shoals by TVA, with the

provision for using the TVA plant after the emergency for promoting the experimental use of nitrogen fertilizers.

The proposal went to the Chemical and Allied Products Section of Mr. Stettinius's division, headed by E. R. Weidlein, a dollar-a-year man from the Mellon Institute—an outfit endowed by the Mellons and largely supported by business from the chemical industry.

The Weidlein office sent the plan back to the War Department with the intimation that the Defense Commission would not favor the location of a plant at Muscle Shoals. It returned from the War Department without the TVA plant, and soon thereafter letters of intent, or tentative contracts went out to the two private firms—duPont and Allied Chemical Corp.

Big Fight

At that point Chester Davis, member of the Commission representing agriculture, got word of what was going on, and asked for reconsideration of the whole plan. The program had been pushed through without reference to Mr. Davis' office which had a vital interest in the plan, and had participated in earlier conferences about it before the War Department first submitted it.

The Stettinius group put up a big fight, led by Gano Dunn, an old foe of TVA, who was designated by Mr. Stettinius to review the recommendations of the Weidlein group. Meanwhile, the Army renewed its original recommendation for a TVA plant. At the same time, the chemical industry and its spokesmen within the Commission charged that the Agriculture Division was delaying national defense, although the original delay had come from Mr. Weidlein's failure to approve the first Army plan.

The Stettinius group built up a case against the TVA plant on various technical and economic grounds, but frankly included also the fear that the TVA plant would be inimical to the post-war interests of private industry. As a compromise, Mr. Dunn suggested a much smaller plant at Muscle Shoals than the War Department recommended, but Mr. Davis turned it down. There were even informal suggestions from the dollar-a-year men that TVA might be permitted to operate with the old, antiquated equipment, which was installed during the World War.

Sale Increase Cited

Mr. Davis replied to all the objections, but hit hardest at the argument that the TVA plant would injure private industry. He argued that the experimental manufacture of phosphate fertilizer by TVA had increased the private sale of that product and that TVA fertilizer was not sold commercially.

The case finally went to the Commission, which decided five to two in favor of Davis and against the dollar-a-year men. Only Mr. Stettinius and Mr. Knudsen voted against the TVA plant, and they reversed their votes to make the decision unanimous.

It was soon obvious that the dollar-a-year men on the Commission staff had been representing the viewpoint of the chemical industry. The official organ of the American Chemical Society—*Industrial and Engineering Chemistry*—came out with an editorial denouncing the Commission's decision.

(A sixth article, on industry's fight against plant expansion, will follow.)

Plant Expansion for Defense Meets Industry's Resistance

By NATLAIN ROBERTSON
Staff Correspondent



WASHINGTON, Nov. 25.—The same thing that contributed to France's downfall and proved fatal in Britain—resistance by industry to the plant expansion required for the latest possible rearmament—now faces America.

And as in Britain and France, the government pressure necessary to force expansion of basic industries is slow being applied because of official and public indecision.

That's the big story in the Defense Commission and the re-armament program. America may have time. But the fact remains also is failing to build factories that might be desperately needed for national defense because she is still yielding to the fears of business men that a surplus of factories will interfere with profits after the emergency.

Industry's resistance to plant expansion reaches right into the commission through its dollar-a-year representatives on the commission staff. Some of them are openly fighting the urgent recommendations of plant expansion from government economists and statisticians on the staff.

Some Officials Resentful

This mixture of private motives with public motives is bitterly resented by some of the government officials on the commission staff. Others tend to condone it on the ground that the government itself has not made up its mind how fast it wants to move, nor given industry sufficient assurance of post-emergency security.

But the dollar-a-year men with private interests involved are participating in formulation of government policy. Their participation is delaying, and perhaps temporing, the decision of the government on this vital defense problem in which the public interest should be paramount.

The issue is separate and distinct from the one of how new plants should be financed, which has been discussed previously in this series. Government already has agreed that it will put up the money, and take the risks involved in defense plant expansion when industry isn't willing to do it. The question now is merely how many plants are needed. Here, even with government paying the bill, industry men get involved in too frequent a way.

Machine Tool Industry

A good example is the machine tool industry. Here is the worst bottleneck in industrial mobilization.

The machine tool industry has been expanding its output rapidly, by utilizing idle plants, increasing shifts, and farming out work to small machine shops, but there has been little expansion of its capacity. Total output of the machine tool industry in 1932 was about \$20,000,000. Last year it was \$300,000,000. Now it is currently turning out tools at the rate of \$450,000,000 a year.

Yet there is still a bottleneck in the industry. It is working under a system of voluntary priorities, which means that defense orders get precedence over orders for peacetime industry. Remembering years like 1932, the industry is not anxious to expand further. With its present plant, it foresees years of capacity work, and capacity profits. If new plants are built, even at government expense, the peak business won't last so long. But what about the government share?

By the use of priorities, the machine tool industry can keep up with our present rate of re-armament. But suppose we get into the war by spring, or maybe England's heavy industry is bombed out by Hitler and she has to turn to us for her supplies to a much greater extent than she has heretofore? Another basic industry where the question of plant expansion is causing controversy within the commission staff is steel. This issue has not yet reached the commission for decision, but it's reaching bitterly among the economists and advisers.

Some of the government economists forecast a steel shortage within six months. But the steel industry has long suffered from overcapacity, and is expanding cautiously. The industry has been contending that it still has excess capacity and can handle any demand it might have that overcapacity, it suggests the use of priorities in an emergency, which might mean curtailing the steel supply for automobiles and other peacetime necessities.

Walter S. Tower, president of the American Iron and Steel Institute, is the commission's chief adviser of the steel industry. He is serving as a dollar-a-year man, and echoing the arguments of the industry within the commission. Government officials on the staff think he is delaying action.

Railroads Also Accused

Similar charges are leveled against the transportation of the commission, headed by Ralph Budd, president of the Chicago, Burlington and Quincy Railroad. That division is taking the position of the railroad industry that there is plenty of capacity, despite government reports warning that a war emergency would develop a shortage of rolling stock.

Mr. Budd is said to have sent one of these reports drawn up by Robert January, of the National Resources Committee—to John J. Kelly, president of the American Association of Railroads for rebuttal, and then to have signed Mr. Kelly's rebuttal without leaving Mr. January's report. Government men on the commission staff say also that Mr. Budd has failed to push the big highway building program that defense producers hold out as needed.

Some of the government economists are particularly concerned about a possible shortage of raw materials, such as copper, zinc and aluminum, all of which would be needed in much greater quantities in time of war.

During the Presidential campaign most of the business men were denouncing the theme song of Wendell Willkie that more production was the answer to all problems, and that the New Deal was blocking it with policies of deflation and scarcity.

Now some of the government economists on the commission staff are reversing the argument. They say it is the business men who are standing for a policy of deflation and scarcity, which would mean continued unemployment for millions of jobless, aside from gambling with national defense.

This controversy, with all of its implications, must soon be faced by the Defense Commission, FDR and Congress.

(This series will conclude with a discussion of the individual members of the Defense Commission and an appraisal of their work.)

NATIONAL COMMENTARY

Sprawling Defense Commission

A Mixture of Men and Motives

By NATLAN ROBERTSON

Staff Correspondent

WASHINGTON, Nov. 26.—Leon Henderson and the other New Dealers on the Defense Commission are frequently criticized by their colleagues in the Administration for accepting the business viewpoint too often. No doubt William S. Knudsen and the other business men on the Commission are just as bitterly condemned by their old pals in New York and Detroit for taking the New Deal view.

Among members of the Commission on both sides there has been a shaking off of previous prejudices and predilections. There has been much give and take, with the result that in the end decisions have been unanimous, surprisingly often considering the varied backgrounds of the men involved.

On the whole, the business men have given way more than the New Dealers. The Commission's decisions in the end have almost invariably followed the New Deal line. But they have been delayed by the necessity of settling the public viewpoint to men trained to think in other terms. And they have been tempered in application by divided authority. The result has been concessions against the public interest by industry, rather than by positive action.

Faults of the Commission are not primarily faults of the Commission members. They are faults of the pressure under which the Commission has worked, and faults of the system. The pressure was inescapable in view of the job the Commission was given to do. The system is the responsibility of President Roosevelt, who created it and personally bends it.

Co-operation of Business

In setting up the Commission, the President tried to win the co-operation of business by appointing a group of men in whom industry had confidence, and yet to keep control of the agency in the hands of people with a broad public viewpoint and experience in administering public affairs.

Realizing the magnitude of the job he tried also to avoid loading it all on one man. The result is a sprawling, unco-ordinated organization with great responsibility, about little group authority. Each commissioner has his own job to do, and is responsible directly to the President. An example is Mr. Knudsen's responsibility for negotiating and approving contracts. This is delegated to him personally by the President, and not to the Commission, as a group.

Except for the divided authority at the top, the Commission today closely resembles the NRA of 1933, with a staff of 1100 employees hurriedly chosen for a job that is almost too big for an experienced, well built staff. Scattered in government buildings all the way from the Lincoln Memorial to the foot of Capitol Hill, it dominates the scene in Washington. Like NRA, it is a strange mixture of business men and career employees of the government.

Each member of the Commission is primarily responsible for one big phase of the defense program. Mr. Knudsen has had one of the biggest jobs, so far, getting big scale production of defense materials under way. Judged by volume alone, he has been strikingly successful. More than \$9,000,000,000 of defense contracts have been cleared in five months. Government has virtually finished its work of getting the defense program under way. Mr. Knudsen is now trying to help industry get going.

Probably no one in America knows more about industrial production than Mr. Knudsen. But he is a little short on knowledge of economics and some of the broader problems of policy the Commission has faced. Those who have worked with him say that on these questions he has the usual business predilections, but is willing to discard them when convinced that they conflict with the public interest.

Much the same is true of Edward R. Steptelew, Jr., former chairman of U. S. Steel, who is in charge of the raw material supply. Ralph Budd, the commissioner in charge of transportation, has been less active than the other members. Unlike Mr. Knudsen and Mr. Steptelew, he has not given up his private job as president of the Chicago, Burlington and Quincy Railroad. He has come in for some criticism.

Donald Nelson, co-ordinator of purchases, is not a member of the Commission, but enjoys equal status. Everyone in the Commission respects him, although he has been handicapped by lack of authority. There is sentiment in the Commission for putting him, in complete charge of all defense buying instead of letting the Army and Navy handle it. Mr. Nelson was formerly purchasing officer for Sears, Roebuck, but has more sympathy for the New Deal than most businessmen. His influence in the Commission is growing.

Henderson's Post

Leon Henderson, a member of the Security and Exchange Commission, has played a bigger part in shaping Commission policies than any other New Dealer. Primarily charged with price stabilization, Mr. Henderson has had a finger in most of the big economic problems. His influence was vital in moving the Commission toward a sound policy on financing of new defense plants.

The Commission member who has been on the toughest spot is Sidney Hillman, head of the labor division. There has been a constant conflict between Mr. Hillman's organization, the CIO, and the defense Commission. Mr. Hillman has had to compromise his labor viewpoint with what he regards the more important objective—the strongest possible national defense. His effort has been to get production under way and settle the labor issues later. This has won him bitter criticism from many of his old friends, including John L. Lewis, but Mr. Hillman has succeeded in getting the Commission to adopt his labor standards. Now he has the job of getting them applied.

Least Publicized

The least publicized of the Commission members have been Chester Davis, for agriculture, and Harriet Elliott, who is charged with consumer protection. But both have been influential in shaping Commission policy. By the nature of their jobs, as well as their background, they have lined up consistently for the broad public interest.

By and large, the defense commissioners are doing good jobs. The chief criticism against them is that it has taken them too long to make some obvious decisions. There still is too much authority and lack of responsibility. The most dangerous part of the setup is the position of dollar-a-year men who serve two masters—the Government and their private interests.

This is the last of a series on the Defense Commission and the re-armament program.

NATIONAL COMMENTARY

Multi-Billion-Dollar Contract Muddle May Force Defense Commission Shake-Up

Huge Orders to Firms Violating U. S. Standards Reveal Buck-Passing and Public Loss

By NATHAN ROSENTHAL

WASHINGTON, Nov. 19.—There is confusion and divided authority in the award of billions of dollars worth of defense contracts. Labor and the public are the sufferers. Certain sections of big business are the beneficiaries.

Huge contracts are being handed out so fast that no one knows what's going on. The Defense Commission has laid down rules to protect labor and the public, but there is no check-up to see that they are observed.

Complaints get nowhere as the buck is passed back and forth between the Commission, which makes the rules, and the Army (or Navy, as the case may be), which is supposed to follow the rules, but often doesn't.

Recent awards of a gigantic \$152,353,000 airplane engine contract to the Ford Motor Co. in violation of the Defense Commission's labor policy, has brought the confused situation to a head. President Roosevelt may be forced to re-shuffle the whole defense purchasing machinery.

The Ford contract is creating the biggest stir within the Commission, but among labor leaders there is even more resentment that the Army's shoe contracts are continuing to go in back to the outstanding labor



William S. Knudsen. Photo by Harris & Evans.

they until approved by William S. Knudsen of the Commission. But no one in the Commission sees them except Mr. Knudsen, and in adding upon them he takes upon a single-page memorandum prepared by the same purchasing official of the Army or Navy who negotiated the contract. There is no machinery in the Commission for reviewing the contracts, or even reading them, to see that they comply with the Commission's orders.

Policees on labor are formulated in the Labor Division of the Defense Commission, under Sidney Hillman, and approved by the Commission as a whole. But Mr. Hillman's division has not been reviewing the contracts to see that they complied with the rules.

Where Contracts Went

WASHINGTON, Nov. 19.—Up to Nov. 1, the Defense Commission awarded contracts totaling \$7,616,650,000; its figures showed today. Nearly a third went to firms in New York, Pennsylvania and New Jersey.

Major portions went for ships—\$2,641,110,446; aircraft—\$1,499,461,000; and tanks—\$1,171,936,000.

General Rules

The public has the impression that the Defense Commission is running the National Defense program, and that it is keeping a close watch on the situation. That's far from the truth. Actually, the Defense Commission merely lays down the broad general rules and depends upon the Army and Navy to carry them out, except on the question of speeding production.

Policees on the financing of new plants were framed by a tax and finance committee, but it never sees the contracts to make sure they comply. The same thing is true of other divisions and their pet safeguards. Mr. Knudsen's primary function in reviewing the contract is to see that they are going to firms which have sufficient experience and facilities available to get them out promptly.

But the Defense Commission, under President Roosevelt's leadership, took the position that the important job at the moment was to get the armament program under way. Decisions on labor policy were postponed. Finally, after Bethlehem Steel had obtained \$1,500,000,000 worth of contracts, the Commission on Sept. 1 adopted a policy that all work under the defense program should comply with federal labor requirements, including the Walsh-Healy Act, the Wage-Hour Act and the NLRA.

A month later Secretary of War Patrick and Assistant Secretary of War Peterson notified the Commission that they

had instructed their purchasing officers to incorporate these principles in all future contracts. This calmed the labor waters a little until after the election.

Same Explanation

I also got this explanation from the Defense Commission when I inquired into the Ford contract. I was told, in fact, that Mr. Patterson, or someone in his office, was annoyed over the slip-up. In other words, the Defense Commission washed its hands of responsibility, imputed that someone in the War Department had put something over.

But when I went to Mr. Patterson to track down the story, he denied it. At first he insisted the Ford contract contained all the labor provisions included in comparable contracts. When I told him that Defense Commission officials said it did not and blamed the War Department, he expressed surprise.

"Why don't they call me about it?" he asked. "You are the first one who has ever told me about this situation."

Back at the Defense Commission, officials still were blaming the War Department, and talking of remedies. I was told that the labor division would review all future contracts, and that there was talk of setting up a committee to represent each division, with the primary responsibility of reviewing contracts before their approval by Mr. Knudsen. There said to be Ford cases that the Commission would report to the Ford case to President Roosevelt to get compliance with his policies at the War Department.

Apparently Henry Ford has won a double victory over the Defense Commission. He not only got what he wanted on the labor front, but also on the broader question of aiding England. Mr. Ford earlier turned down a defense contract because half of the money he made would go to England. Under the new contract they will all go to the U. S. Government.

(This is the first of a series on the Defense Commission and the government's rearmament program. Others will follow.)

Here's Record of Shoe Concern That Wins Fat Army Contracts

This is the second of a series of stories about the Defense Commission and the rearmament program.

By NATHAN ROBERTSON
Staff Correspondent



WASHINGTON, Nov. 20.—Labor people don't like defense contracts going to Bethlehem Steel and Ford, but they really get to tearing their hair and raving about business appropriation when they talk of the Army's shoe contracts.

The argument for giving contracts to Bethlehem and Ford, despite their defiance of the labor law, is that their plant capacity is so badly needed in the rearmament drive. Labor spokesmen say that isn't true of the shoe industry—that it has an enormous excess plant capacity.

And yet, they charge, and the figures seem to show, that the bulk of the Army contracts for shoes are going to a few shoe manufacturers most of whom are able to underbid other companies because of their wage cutting policies and subsidies from the low-wage towns where they have established their plants.

Negotiation

The Defense Commission has ruled that contractors must go to firms complying with the labor law. Labor division officials keep assuring labor spokesmen that the rule will be enforced. Both the Commission and the War Department have authorized awards of contracts by negotiation, instead of by bid, in order to keep them away from contractors. But the contracts continue to go to the same old companies.

The story of what is happening is best illustrated by the success of the International Shoe Co., of St. Louis, in obtaining Army contracts. International Shoe is the biggest shoe manufacturer in the U. S. A. and has long received the fattest share of government work because it could underbid its competitors.

There is a reason for International's ability to bid low. Several reasons, in fact. Last year, for example, International Shoe got the town of Perryville, Mo., to put on a campaign for popular subscriptions to build a \$112,500 factory for the shoe company—the second International plant in that city.

The Mayor issued a public proclamation calling upon citizens to contribute \$250 each, and an appeal was directed partly to the company's employees in the town. A statement published in the local newspaper warned them that the night shift in the first plant might be discontinued if the building fund was not fully subscribed.

Hired Labor Spies

That this was not an isolated example is shown by company reports listing annually contributions of about \$170,000 between 1936 and 1939.

Securities and Exchange Commission figures show that at the time of the Perryville campaign, International was secretly in the biggest classification. It had about \$23,000,000 on hand; its net profits for the year were in excess of \$9,500,000 and its current assets upward of \$60,000,000.

There is another reason for International's ability to make low bids on government contracts. It has a long record before the National Labor Relations Board, including testimony by its own officials that it hired labor spies—all part of the effort to keep its wage costs down.

The company has refused to comply with

a decision of the Board ordering it to stop fostering a company union and fighting organization of its workers in one of its plants where the testimony shows an organizer was beaten and driven out of town. The Labor Board has appealed to the courts to make International comply with the law.

Campaigning

Incidentally, the company was called before the Senate Campaign Expenditures Committee during the recent campaign for trying to influence the votes of its workers by threats that unless Wendell Willkie were elected, the company couldn't guarantee the employer's jobs.

When contracts were being awarded by the Army to the lowest bidders, regardless of labor policies, International naturally got the most work. But in September, the Defense Commission ruled that future contracts should require compliance with the national labor law, and Assistant Secretary of War, Patterson instructed purchasing officers to negotiate contracts if necessary instead of asking bids—in order to comply with the Commission's policies.

Yet International has continued to receive big contracts from the Army. As recently as Nov. 2, the War Department announced it had been given a contract totaling \$1,698,000, which was one of the biggest slices of the shoe pie than being cut.

Leo Goodman, research director for United Shoe Workers, went to the Defense Commission to inquire about it. Labor division officials first told him that the bids must have been asked prior to Secretary Patterson's instructions. When a check-up disclosed that was not true, the Commission officials told him they hadn't seen the contract until after it was signed, but that it included the required provisions forcing the company to comply with the labor law.

Run-Around Charged

Mr. Goodman then tried to see a copy of the contract. He was unable to locate one either at the Defense Commission or the War Department. Officials said the only copy was out of town. Finally he found the man in the War Department who had handled the contract, and was told he had never heard of the labor provisions.

Going higher up, Mr. Goodman then talked with the Defense Commission's representative in the War Department, purchasing officer. He didn't know about the labor provisions of the contract, but assured Mr. Goodman that no contracts were going through without the approval of Sidney Hillman, labor member of the Defense Commission.

Mr. Goodman called back to Hillman's office to charge that he was getting a run-around. The next day, Mr. Goodman's informant in the War Department called him up to correct his story, and a few minutes later Hillman's office called to see if the correction had been made.

It is experience like these which have led labor representatives in Washington to suspect the high sounding statements issued by the Defense Commission in regard to labor policy.

The story of the International Shoe Co. is not an isolated case. There are several other companies in virtually the same category, which have been getting most of the defense gravy, although union officials say there are fully 200 companies capable of handling government business, most of whom are flying up to the law.

NATIONAL COMMENTARY

Nation's Big-Industry Concentrations Sped By Huge Profits on Defense Contract Awards

Curbs Upon Profiteering Weaker Than They Were In World War

This is the third of a series about the Defense Commission and rearmament.

By NATHAN ROBERTSON Staff Correspondent

WASHINGTON, Nov. 21.—America resolved after the World War never again to let men become millionaires by profiteering in time of war.

Veterans who had risked their lives at the front for \$30 a month saw red when they heard that 25,000 of their fellow citizens had become millionaires at home. Both political parties responded with pledges that next time industry would be drafted along with manpower.

That next time has come. Men again are being drafted into the military service. Billions are being spent for armaments. What is being done to prevent the creation of a new generation of war-profits millionaires? Are we again letting some men make millions while others are forced into uniform at a dollar a day?

Profits Little Curbed

The answers are obvious. There has not been the slightest application of a draft-industry policy. The question, "How much are you making on this contract?" has been subordinated to the question, "How soon can you furnish the material?" Competitive bidding has given way in many instances to negotiated contracts. Industry on the whole is getting what it demands.

Ever since the re-armament drive got started last spring the question of speed has superseded the question of cost. Defense officials got Congress to repeal the laws limiting profits on armament contracts. As a substitute, the Administration proposed a drastic excess profits tax. Industry and its spokesmen in Congress cut the heat out of the bill.

Excess profits are much less drastically curbed now than during the World War.

With legislative safeguards removed, the job of protecting the public was left to the Defense Commission and the military services. The Defense Commission, in a statement of General Principles Governing Letting of Defense Contracts, declared:

"The essence of the Preparedness Program is the getting of an adequate supply of materials of the proper quality in the shortest space of time possible. Considerations of price alone are highly important, but in the Emergency are not governing."

Soft Injunction

With this soft injunction against profiteering, the Commission turned the job of watching profits over to the Army and Navy, the agencies which had supported repeal of the profits limitations and which had never been noted for driving a hard bargain with industry.

As in the case of its other rulings, the Commission has stated its policy and left the interpretation of it to the Army and Navy, which actually do the buying. A spokesman for the Commission explained that the question of profits was "primarily with the War and Navy Departments because they have all the authority."

Reminded that William S. Knudsen, de-



"Patriotism is a Noted Refuge"

fense commissioner, had to approve all contracts, and therefore had power to see that a fair price was charged, this spokesman pointed to the pressure for speed, adding:

"There is nothing we can do in any reasonable length of time to check up on the question of profits. We will have to catch them afterwards. We are depending primarily on the excess-profits taxes to eliminate profiteering."

He said Mr. Knudsen watched the costs carefully on contracts for motors and other things of that kind, but that he had no way of judging the fairness of profits or of prices outside his own field. Mr. Knudsen's major job is not to watch prices, but to get production under way.

No Way to Tell

The Commission's chief watchman over Army and Navy purchasing is not Mr. Knudsen, but Donald Nelson, former purchasing officer for Sears, Roebuck & Co. who has been made co-ordinator of purchases. Government officials and members of the Commission staff speak highly of Mr. Nelson, but his authority over purchasing officers in the Army and Navy is nebulous. He has worked his own way into the picture, chiefly as a consultant and adviser to the less experienced military buyers, and does not have final authority.

Congress left defense purchasing officials one strong weapon for control of prices. It was the power to take over any industry which refused to co-operate for national defense on a fair profit basis. There is no evidence that this power has ever been used. Defense Commission officials say they know of no case in which it has even been used as a threat to bring down prices. Bernard M. Baruch, chairman of the War Industries Board during the World War, has testified that this power was used effectively during his regime to control prices.

There is no way for an outsider to tell at this stage of the game what effect these absences of control, and this divided authority, is having on profits. The full story, of

Packed With Facts

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Knudsen Commission's Deals Favor Speed Over Costs

course, will not come out for years. It's only fair to say, too, that even for officials inside with all the facts at their disposal there is little basis for judgment in some cases. Many of the contracts now being let are for new products, on which there is no prevailing price, and no adequate history of costs.

Nevertheless, some conclusions can be drawn even from a cursory study of the contracts. It is almost invariably true that the Government is taking all the risks and the contractors are getting guaranteed, juicy profits, often without putting up any money of their own. In many cases the Government provides the plant and equipment free, guarantees all costs, and then pays a fixed fee to the company.

Usually these management fees, which amount to guaranteed profits, run around six per cent of the total contract. They bear no relation to capital structure of the company, and therefore may constitute a high return on the company's invested capital, without any risk.

In the Government's contract with the Packard Motor Co. for Rolls-Royce airplane engines, for instance, the cost of the motors is estimated at \$51,555,000. This may prove to be somewhat higher or lower, and provision for adjustments is made. But the company is assured a fixed fee of \$3,093,000.

General Motors Contract

The General Motors contract for machine guns is a little different. The company gets \$20,250,940 to equip four plants for manufacture of machine guns, and \$41,147,932 for making the guns. This is a fixed price contract, but there is provision for adjustment of the price if costs change.

The contract includes the following vague provision:

"The contractor recognizes an obligation to reduce costs as soon as possible. The degree of success achieved along these lines will depend on the length of time required to obtain the necessary machinery and on the co-operation obtained from labor in establishing efficiency in the plant."

Still another type of contract in which the company takes no risk is DuPont's deal for making TNT at Wilmington, Del. DuPont gets \$100,000 as consultant in construction of the plant, which is paid for by the Government. When manufacture gets under way, the Government pays the cost of the powder plus one-half cent a pound profit to the company.

These are some of the obvious profit provisions in the Government's big negotiated defense contracts. It is too soon to tell, of course, what hidden profits there may be. It's an interesting sidelight, however, that the Army lets newspapermen look at these contracts only with the agreement that unit costs will not be published.

All of the pressure on the Defense Commission has been to get re-armament under way. With the country clamoring for action, it has cleared contracts for \$5,500,000,000 worth of armament. Eventually we may find out how much this speed has cost the taxpayer in unwarranted profits.

A fourth article, on the financing of new plant construction, will follow.

NATIONAL COMMENTARY

Now It's Told ... The Hidden Battle Over Defense Financing

Industries Fought
Federal Plant Owner-
ship, Caused Delay

By NATHAN ROBERTSON
Staff Correspondent

This is the fourth of a series about the
Defense Commission and rearmament.

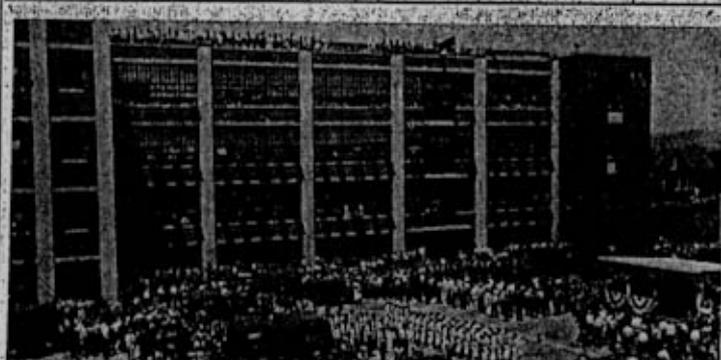
PM WASHINGTON, Nov. 21.—
Business men on the Defense
Commission staff spent their first
few weeks in Washington trembling at the
specter of public ownership. While the
country clamored for quick rearmament,
they fought the good fight against what
they seemed to consider a threat of state
socialism.

President Roosevelt and Congress were
bitterly criticized, both at the time and dur-
ing the recent Presidential campaign, for
slowing down national defense by delaying
tax concessions to industry covering the cost
of new plants.

The President insisted on holding up the
tax concessions until Congress enacted a
stiff excess profits tax bill. Steel and the
other big industries warned that they would
not expand their plants until they got the
concessions they wanted. The propaganda
campaign for action finally forced the Ad-
ministration to give in and accept a much
milder excess profits tax bill than it wanted.

This issue of "delaying national defense"
was to a large extent phony. Not that it
wasn't delayed, but what really held up con-
struction of the plants was the unwillingness
of industry, and its representatives on the
Defense Commission staff, to let the govern-
ment hold title to the plants, even techni-
cally and temporarily.

Over Their Dead Bodies



The new Wright Aeronautical assembly plant at Paterson, N. J., was marked by ceremonies. Secretary Knox announced the ordering of 17,000 plane engines from the Wright concern. Terms of the deal were much discussed.

course, was that the Government was pay-
ing not only for the materials it was buying,
but also for plants to be given to the man-
ufacturers.

The absurdity of this kind of financing,
from the public viewpoint, first gained
widespread public attention when PM dis-
closed the terms of the contract with
Wright Aeronautical Corp. for high speed
radial airplane motors.

The Army and Navy contracted with
Wright Aeronautical to turn out 12,000
motors a year, at a price high enough to
pay back the cost of the plant over eight
years. The company then arranged a \$92,-
000,000 loan with RFC to cover the cost of
plant, machinery and working capital, to be
paid off over eight years out of the money
received from the War Department.

In short, the Government was offering to
put up a \$55,000,000 factory for the com-
pany, lend it working capital and buy its

ing contracts. Both commission and RFC
officials tell of contractors who wanted to
get started long before the plant financing
problem was solved.

Finally, when the first plan was an-
nounced, it was a compromise providing for
private ownership of plants during the
emergency, but only with the proviso that
if the manufacturer wanted to retain owner-
ship after the emergency he would have to
repay the Government. But the formula still
had a catch in it. It provided that the plant
would be sold to the manufacturer for what
it was worth to him at the time, rather than
its market value.

Valuable Weeks Lost

This would have made it possible for a
manufacturer to contend five years hence
that the \$10,000,000 plant the Government
had built for him was worth only \$250,000
to him at the moment. The way the option

Public Criticism
Of 'Gift' Policy Brought
Revisions

was given the plant financing system now in
effect. Under this system, if the Government
pays for the plant in the cost of the mate-
rials it buys, it will be the owner at the end
of the emergency and the company will
have only an option to purchase. Or the
company can let the Government build and
own the plant from the outset through the
RFC. Many companies are choosing the lat-
ter alternative because it avoids complica-
tions, including the tax difficulties for which
they were blaming Congress and the Presi-
dent a few months ago.

After months of delay a new deal has
been worked out with Wright Aeronautical
for the motors so badly needed in national
defense. Now, instead of being given a
\$55,000,000 plant as a bonus, over and
above normal profits, the company will have
to buy the plant at the end of the emer-
gency if it wants to keep it. And the price
will be the original cost less an agreed al-
lowance for depreciation.

There still is plenty of room for excess
profits in such depreciation agreements. Un-
less the Government drives a much harder
bargain than its purchasing officers have
driven in the past, the depreciation rate
may be too high, and the company five
years hence may be able to buy a plant
really worth \$10,000,000 for half that
amount. These agreements are worked out
by the RFC and the Army and Navy. The
Defense Commission, which formulated the
rules, does not even review them.

Also there still is the problem of hidden
plant costs in the price paid by the Army
or Navy for the materials they buy. It has
been hard to wean some of the military
purchasing officers away from the

stiff excess profits tax bill. Steel and the other big industries warned that they would not expand their plants until they got the concessions they wanted. The propaganda campaign for action finally forced the Administration to give in and accept a much milder excess profits tax bill than it wanted.

This issue of "delaying national defense was to a large extent phony. Not that it wasn't delayed, but what really held up construction of the plants was the unwillingness of industry, and its representatives on the Defense Commission staff, to let the government hold title to the plants, even technically and temporarily.

Over Their Dead Bodies

Under the plan finally worked out over the dead bodies, so to speak, of some of the dollar-a-year men—and now widely accepted by industry itself—the government owns the plants and the tax question is not involved. Months of delays could have been saved had business been willing to accept government ownership of defense plants from the start.

The conflict grew out of the Government's normal purchasing practices. In normal times the government, like any individual purchaser, pays enough for the materials it buys to cover the overhead production costs. In buying planes, the government paid enough for them to cover its share of the cost of the plant in which they were made.

Wright Terms

But when the re-armament drive started, the government needed many new factories of all kinds. Remembering its empty plants after the World War, industry naturally insisted that if it was going to build a new plane factory it should charge enough for the planes to cover within a short period the entire cost of the plant. Then, after the emergency was over, it would not be left with a big investment in plant for which it had no use.

This called for a new kind of financing. But at first, the Army and Navy purchasing officers did not recognize it. They continued to do their buying on a single contract covering not only the cost of goods and profits, but the cost of plant. The result of

the absurdity of this kind of financing, from the public viewpoint, first gained widespread public attention when PM disclosed the terms of the contract with Wright Aeronautical Corp. for high speed radial airplane motors.

The Army and Navy contracted with Wright-Aeronautical to turn out 12,000 motors a year, at a price high enough to pay back the cost of the plant over eight years. The company then arranged a \$92,000,000 loan with RFC to cover the cost of plant, machinery and working capital, to be paid off over eight years out of the money received from the War Department.

In short, the Government was offering to put up a \$55,000,000 factory for the company, lend it working capital and buy its complete output for eight years, after which Wright-Aeronautical would not only have the profits from making the planes, but the \$55,000,000 plant as a gift from the government, all without any risk to itself.

The deal was so obviously one-sided that a public howl went up and the Wright-Aeronautical deal never went through. Plenty of others like it did, however, before the Defense Commission finally got around on Aug. 7 to issuing a set of rules governing such cases.

New Plan

Early in June, New Dealers in the Defense Commission decided that the Army and Navy practice of writing single contracts covering cost of plant as well as the materials to be bought was bad. They decided the plants should be handled in separate contracts. But the problem was to work out a formula that would protect the government interest and still be acceptable to business. It should not have been hard because Congress, meanwhile, had authorized the RFC as well as the Army and Navy to build government armament plants and operate them if the President felt this was necessary.

Those who went through the fight to work out a formula say it was a honey. The very idea of the Government actually owning the plants it was paying for made business men see red. In many cases business representatives on the commission staff were harder to convince than business men seek-

ing a formula when the first plan was announced. It was a compromise providing for private ownership of plants during the emergency, but only with the proviso that if the manufacturer wanted to retain ownership after the emergency he would have to repay the Government. But the formula still had a catch in it: It provided that the plant would be sold to the manufacturer for what it was worth to him at the time, rather than its market value.

Valuable Weeks Lost

This would have made it possible for a manufacturer to contend five years hence that the \$10,000,000 plant the Government had built for him was worth only \$250,000 to him at the moment. The way the option was written it would have been difficult for the government to overcome the buyer's own testimony. The search for a new formula started.

It was September, and many valuable weeks had been lost, before final approval

was given to the original cost less an agreed allowance for depreciation.

There still is plenty of room for excess profits in such depreciation agreements. Unless the Government drives a much harder bargain than its purchasing officers have driven in the past, the depreciation rate may be too high, and the company, five years hence may be able to buy a plant really worth \$10,000,000 for half that amount. These agreements are worked out by the RFC and the Army and Navy. The Defense Commission, which formulated the rules, does not even review them.

Also, there still is the problem of hidden plant costs in the price paid by the Army or Navy for the materials they buy. It has been hard to wean some of the military purchasing officers away from the single contract method. The government, even now, is probably giving away factories and equipment.

A fifth article, on the dollar-a-year men, will follow.