

**DEFENSE AID SUPPLEMENTAL
APPROPRIATION BILL, 1941**

HEARINGS

BEFORE THE

**SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES**

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON THE

**DEFENSE AID SUPPLEMENTAL
APPROPRIATION BILL, 1941**

MAKING APPROPRIATIONS TO CARRY OUT AN ACT
TO PROMOTE THE DEFENSE OF THE UNITED
STATES (H. R. 1776—PUBLIC LAW NO. 11),
APPROVED MARCH 11, 1941

Printed for the use of the Committee on Appropriations



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UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1941

300706

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1941

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Also participating: Messrs. SCRUGHAM and POWERS

11

HEARINGS CONDUCTED BY THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, IN CHARGE OF DEFICIENCY APPROPRIATIONS, MESSRS. EDWARD T. TAYLOR (CHAIRMAN), CLIFTON A. WOODRUM, CLARENCE CANNON, LOUIS LUDLOW, J. BUELL SNYDER, EMMET O'NEAL, GEORGE W. JOHNSON, LOUIS C. RABAUT, JOHN TABER, RICHARD B. WIGGLESWORTH, WILLIAM P. LAMBERTSON, AND J. WILLIAM DITTER; ALSO PARTICIPATING, MESSRS. SCRUGHAM AND POWERS; ON THE DAYS FOLLOWING, NAMELY:

THURSDAY, MARCH 13, 1941.

STATEMENTS OF HON. CORDELL HULL, SECRETARY OF STATE; HON. HENRY L. STIMSON, SECRETARY OF WAR; HON. FRANK KNOX, SECRETARY OF THE NAVY; GEN. GEORGE C. MARSHALL, CHIEF OF STAFF, UNITED STATES ARMY; REAR ADMIRAL R. E. INGERSOLL, ASSISTANT CHIEF OF NAVAL OPERATIONS; AND HAROLD D. SMITH, DIRECTOR OF THE BUDGET

BUDGET ESTIMATE

Mr. WOODRUM. This is a hearing before the Deficiency Subcommittee on House Document 139 an estimate, in the amount of \$7,000,000,000, to carry out provisions of an act to promote the defense of the United States, approved March 11, 1941, as follows:

THE WHITE HOUSE,
Washington, March 12, 1941.

HON. SAM RAYBURN,
Speaker, House of Representatives,
Washington, D. C.

MY DEAR MR. SPEAKER: This Nation has felt that it was imperative to the security of America that we encourage the democracies' heroic resistance to aggressions, by not only maintaining but also increasing the flow of material assistance from this country. Therefore, the Congress has enacted and I have signed H. R. 1776.

Through this legislation our country has determined to do its full part in creating an adequate arsenal of democracy. This great arsenal will be here in this country. It will be a bulwark of our own defense. It will be the source of the tools of defense for all democracies who are fighting to preserve themselves against aggression.

While the defense equipment produced under H. R. 1776 remains under the control of the United States until it is ready for disposition, it is the fixed policy of this Government to make for democracies every gun, plane, and munition of war that we possibly can.

To accomplish these objectives I am transmitting an estimate in the amount of \$7,000,000,000, the details of which are set forth in the accompanying letter from the Director of the Bureau of the Budget. I strongly urge the immediate enactment of this appropriation.

Respectfully,

FRANKLIN D. ROOSEVELT.

SPECIAL DEFENSE FUND

To enable the President, through such departments or agencies of the Government as he may designate, to carry out the provisions of the act entitled "An act to promote the defense of the United States," approved March 11, 1941, and for each and every purpose incident to or necessary therefor there is hereby appropriated out of any money in the Treasury not otherwise appropriated:

(a) For the procurement, by manufacture or otherwise, of defense articles for the government of any country whose defense the President deems vital to the defense of the United States, including services and expenses in connection therewith, as follows:	
Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof.....	\$1, 343, 000, 000
Aircraft and aeronautical material, including engines, spare parts, and accessories.....	2, 054, 000, 000
Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts, and accessories.....	362, 000, 000
Vessels, ships, boats, and other watercraft, and equipage, supplies, materials, spare parts, and accessories.....	629, 000, 000
Miscellaneous military equipment, supplies, and materials.....	260, 000, 000
Facilities and equipment for the manufacture or production of defense articles, including the construction, acquisition, maintenance and operation thereof, and the acquisition of land.....	752, 000, 000
Agricultural, industrial, and other commodities and articles.....	1, 350, 000, 000
(b) For testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense articles for the government of any country whose defense the President deems vital to the defense of the United States.....	200, 000, 000
<i>Provided</i> , That not to exceed 20 percent of any of the foregoing appropriations may be transferred by the President to any other such appropriation, but no appropriation shall be increased more than 30 percent thereby; <i>And provided further</i> , That any defense articles procured under the foregoing appropriations may be allocated by the President to any department or agency of this Government for the use of such department or agency.	
(c) For necessary services and expenses for carrying out the purposes of said act not specified or included in the foregoing.....	40, 000, 000
(d) For administrative expenses.....	10, 000, 000

In all, \$7,000,000,000, to remain available until June 30, 1943: *Provided*, That the President may transfer from the foregoing appropriations to appropriate current appropriations of any department or agency amounts equivalent to the value of defense articles disposed of by such department or agency to the government of any country whose defense the President deems vital to the defense of the United States, not exceeding in total \$1,300,000,000.

STATEMENT OF HON. CORDELL HULL, SECRETARY OF STATE

Mr. Secretary Hull, the committee is very happy to have you here today, sir, and we will be very glad to have you make such statement as you feel appropriate to be made upon this occasion.

GENERAL STATEMENT

Secretary HULL. Mr. Chairman and members of the committee: It always gives me satisfaction and stimulation to revisit these scenes

of so many years of association and of what I thought were very important activities on my part.

When I appeared before the Committee on Foreign Affairs on January 15 last, I said that the proposed lend-lease bill was designed to promote the defense of the United States. I also stated in substance that that measure would set up machinery which would enable us to make the most effective use of our resources for our own needs and for the needs of those nations whom, in our own self-defense, we are determined to aid; that the measure would make it possible for us to allocate our resources in ways best calculated to provide for the security of this Nation and of this continent in the complex and many-sided conditions of danger with which we are and are likely to be confronted; that above all, it would enable us to do all these things in the speediest possible manner; and that, overwhelmingly, speed is our greatest need today.

During the 2 months that have elapsed, other areas have been added to those overrun by the brutal forces of conquest and destruction. Several more are on the list for immediate seizure and subjugation. Upon the seas the menace of death and disaster has grown. This country by now should have no longer any illusions as to the nature or magnitude of the dangers which confront us.

The United States has desired and has overwhelmingly approved a foreign policy based on the safety, integrity, and the free institutions of the country. It has no association with European political disputes. But it has recognized and must recognize that a force has arisen transcending the disputes which were formerly the subject of European wars. It has seen a combination of forces come into being which, step by step, has challenged the right of every nation, including our own, to exist save at the dictation of alien masters. In every case, the nation whose turn had not come up was told that there was no danger; that it needed to do nothing but sit still and all would be well. And, with deadly certainty, the governments which have swallowed this bait have been, in their turn, destroyed. Only those which devoted every ounce of their energy toward immediate defense, and which were ready to cooperate with others, have escaped destruction.

But these other nations which endeavored to avoid danger by inaction had an excuse which we do not have. They could at least indulge the hope that the conqueror might respect their lawful integrity. They perhaps were entitled to hope that the rules of international law might somehow save them. They perhaps could plead surprise. We can do none of these things.

Our immediate business is to see to it that the would-be conquerors of the world shall not be in a position in which they can command the seas, attack any country in this hemisphere and, when they are able, attempt to deal with us as they have been dealing with Europe and with Asia.

In the clear light of the repeatedly avowed purposes of conquest without limit and of the striking harmony of their acts and their words on the part of the rulers of the lawless nations, the fact is well-nigh inescapable that, if they succeed in securing control of the high seas along with that of the other continents, they will without material delay move to secure domination of some of the rich undeveloped foodstuffs, raw materials, and other natural resources of this Western Hemisphere, in those parts least prepared for self-defense. I must, in

all conscience, say to the American people that in my judgment this hemisphere and this Nation are in serious danger and that every possible step for national defense must be taken with the utmost rapidity.

In the presence of such dangers, our safety and security lie in creating for ourselves impregnable means of defense and in utilizing these means whenever and wherever they may be most effective.

The country has overwhelmingly accepted the view that the rendering of the greatest practicable material aid to those nations which are actively resisting the forces of conquest is an essential part of our own defense effort. Through the enactment of H. R. 1776, this has become a settled and decided policy of the Nation. The measure now under consideration by your committee is the next and indispensable step in the carrying out of that policy. It appropriates funds necessary to furnish in adequate amounts and with adequate speed planes, ships, guns, and food for the nations which now heroically endeavor to stop the movement of conquest.

There is no need now for me to discuss in detail the necessity for this entire course in the defense of our own security and vital interests. All the reasons have been advanced and tested in the full freedom of debate. We are united upon it, we have set our hands to the plow—the people, the Congress, and the Executive.

The war which is being fought in Europe and in Africa together with the hostilities and the moves of conquest which are going on in Asia have become, under the Tripartite Agreement, closely interrelated. In the light of this situation, we are sending materials to several countries, in various parts of the world, whose defense is essential to our defense. The effort which we make will have to be on a large scale, because the needs which it is intended to meet are and will be large needs. Some of these countries cannot manufacture for themselves the complicated machinery and the great variety of munitions for which they now have urgent need. This country is fortunate in being able to produce vast quantities of most of the things that are called for. This country will have to produce them—we will produce them.

I advocated the passage of the lend-lease bill and I now urge prompt action on this appropriation as essential for the execution of sound foreign policy for the United States. The object of that policy is to assure the safety, the independence, and the interests of the United States against all threats. That cannot be successfully done unless we ourselves are strong and are in a position to share our strength with other nations which are helping to defend our interests.

If we have to find protection through our foreign policy, we must be strong. Today, as ever, the essential basis of the strength of a nation is the spirit and courage of its people. But no matter how great the spirit and courage, it cannot sustain itself without adequate arms. The production of adequate arms requires the coordination of finance, industry, labor, sacrifice, and brains of the whole people. Our unity and our purpose must express themselves in the continuous and combined industry of all of those who play a part in production.

Our safety and the success of the course upon which we have set ourselves demand the courage and the wisdom to go full out in furnishing adequate material aid to the nations whose defense is necessary to our defense. When we do this, we take the most effective step

possible in the circumstances to keep war away from our hemisphere, from our own Nation. Doing this, we act in defense of our homes, our institutions, our liberties, our way of life.

In this task, half measures will not suffice. There is much to be done and the task is urgent. We must strive with all our will, all our power, and all our resources. To be content with less would be to invite disaster. No people in history have had such opportunity to learn from the tragic example of others. We cannot stint and we must not falter.

Mr. WOODRUM. Mr. Secretary, the committee appreciates your statement and, in executive session, before you gentlemen came in, we decided, if agreeable to you, we would first like to have a statement from you, Secretary Stimson and Secretary Knox and then perhaps the committee would like to ask you some questions.

Now, Mr. Secretary Stimson, the committee will be very glad to hear from you.

STATEMENT OF HON. HENRY L. STIMSON, SECRETARY OF WAR

GENERAL STATEMENT

Secretary STIMSON. Thank you, Mr. Chairman. The Secretary of State has admirably summarized the broad reasons for the bill and, as I reflected over your request, I thought probably I could be most helpful if I gave, as tersely as possible, the nature of this bill as it relates to the War Department and the reasons for the necessity of the broad and flexible items of appropriation which the estimates have set forth.

Of course, this set of estimates is vitally different from the ordinary requests for appropriations for our Army in time of peace. These are for an estimated amount necessary to enable a number of other nations, whose defense the President deems to be vital to our defense, to make a successful defense in a war which is now actually going on. Thus, we are making estimates for the appropriations necessary for the defense of a number of nations.

First, these nations are already engaged in a gigantic war. This war covers an area of many portions of the world, from Great Britain to the Far East, containing many very different terrains, such as northeast Africa and Malay Asia, in addition to Europe. The character of the weapons vitally necessary for success in such a war are constantly changing and developing and, finally, the time necessary for the construction of such modern weapons is very long—from 1 to 2 years.

In the next place, these nations are fighting a very powerful enemy which has great power of secrecy itself, with the constant power of surprise attack. And this same country which has been able to maintain such complete secrecy over its own actions, has shown an intense and meticulous effort to spy out the resources and powers of its enemies.

Finally, the British Isles which are now the pivot of the defense on which our own defense is based, are at a special disadvantage. They are a small terrain, surrounded by a huge semicircle of attack. They are, therefore, under constant reconnaissance. Germany has an unusual power to learn Britain's defense and for the element of

the morale of Great Britain, which is one of the most vital elements which have entered into her defense thus far, it is important that such elements of secrecy as she has been able to maintain under these most adverse conditions should not be broken, if possible, while she is undergoing that attack.

These preliminary points which I have shown by this analysis show the reasons why an appropriation bill, and the estimates for that bill, must necessarily have as much flexibility in the breadth of the items and the contents of the bill and as much freedom from publicity as is compatible with free government. That, however, of course does not mean that this bill has abandoned all safeguards in favor of purely uncontrolled Executive action. The bill itself contains very great changes over the situation which has existed hitherto and these are in the direction of the interests of American defense. When you contrast the situation which has existed, you can see the advantages of these changes.

Hitherto, all efforts by the various democracies which were seeking weapons in our market were separate, were competitive, and were entirely in their own hands, the supervision which we could exercise being very slight. That was disruptive to our own defense and that placed in the hands of others the power of interference with our own facilities for manufacture.

This bill places in the hands of the representatives of this Government the decision as to what, if any, weapons are to be transferred and the amount of such transfers. And, what is more, it postpones the transfer, leaving the entire matter in our hands of the decision of which shall go to which place until the weapons are completed and the knowledge is in our hands as to where they will do the most good. And, furthermore, the bill requires, as of course you gentlemen know, periodic reports to the Congress of what has been done during each 90 days of its operation.

But the essence of the new situation is that the bill has placed in the hands of representatives of the United States, responsibly devoted to the defense of the United States alone, the entire decision upon all of the activities in the making of munitions which take place in this country, and that is an enormous change for the benefit of the United States in the situation which we now are facing.

Now I want to enumerate the efforts which we have made to supervise and systematize these efforts, in this situation which is so novel and so extraordinary. It has not been a haphazard effort at all. We have endeavored to exercise all of the care, so far as the War Department is concerned, which we do over the ordinary estimates which we lay before you gentlemen every year.

In the first place, the British submitted a confidential list some months ago of their requirements. That list was placed in the hands of our supply officers who held long conferences with the British as to that list. During those conferences the supply officers of the Department matched the estimated unit costs of the British requirements as against the unit costs with which we were familiar as to our own weapons. Then they determined the amount which, according to their best judgment, it was advantageous to produce and finance at this time.

In this task which I have thus described, each of the supply arms and services of the War Department worked over the British data—

and their work was coordinated through the office of the Undersecretary of the War Department and the Chief of Staff of the War Department in the same way which is done regularly with our regular estimates. And after that came the review of the Budget in the ordinary way.

In summation of this, I wish to make it clear that the British requirements as now presented have gone through the normal course of War Department procedure in respect to appropriations which we now ask for and present.

Now, as to some further characteristics which come up: Of the War Department items, practically all or 95 percent are those which can be used for our own Army purposes and which would be vitally useful in case Britain should fall. Only 5 percent represent purely British types of weapons, including the facilities to be erected for such weapons, as distinguished from our American types and their facilities. And even in the case of this last 5 percent, the plant facilities necessary for construction, that is, the tools and the plants for these purely British items, could be used by us on very short notice.

In other words, as you are doubtless familiar, I might give as an example that the British use the .303 caliber rifle. The facilities for the construction of that rifle which they are using in this country today, under their contracts for its creation, could be transferred so as to manufacture the .30 caliber rifle which we use, I am informed, in about 2 months. And, in the same way, the facilities for the ammunition could be transformed. And that is true largely of other British items.

Then, finally, there is this thing to be remembered. There have been great benefits accruing to this country in the cooperation which this bill and the formulation of these items have involved. There has been a standardization of weapons to a very large extent between the two countries, and such a standardization would be vitally important if, in the exigencies and contingencies of the future, this war should spread to this hemisphere while the British were engaged in fighting in other parts of the world.

In the second place, vital improvements have been secured for our own weapons in this free exchange of information which has passed between the two countries. Most of those improvements are such that it would not be in the national interest to make them public, but I think it is already known, for instance, that one of the examples has been that we are now using in our planes and tanks a revolving turret which is of the utmost importance, and which came to us from Great Britain.

To sum up the estimates with relation to this bill, I can put it in a very few words. The Army has already made a large contribution from its stores to the British defense when, last June, it largely re-equipped the British Expeditionary Forces after the defeat at Dunkirk. It can contribute further a number of vital articles and munitions during the year 1941. But the majority of the items of appropriation requested in this bill are for the equipment of the forces of Great Britain in 1942.

With wonderful courage in this hour of crisis and suffering, she is planning to continue the fight until she has not only saved the British Isles but has rescued Europe from the subjugation which it is now

under, put an end to the rule of force, and restore free government among the nations.

The defense of South America, if we were alone, would be a far more difficult and expensive task than to render this aid to Great Britain now. In such an event, practically every item contemplated here would be vitally useful to us.

That, Mr. Chairman, in a few words, or as briefly as I could make it, represents my view of the scope of the bill from the standpoint of the Army.

Mr. WOODRUM. Thank you, Mr. Secretary. We will now hear Secretary Knox, of the Navy Department.

STATEMENT OF HON. FRANK KNOX, SECRETARY OF THE NAVY

GENERAL STATEMENT

Secretary KNOX. Mr. Chairman, you have listened to such excellent statements touching the general features of this situation, particularly the statement of the Secretary of War as to some of the details, that I will not burden you with anything save a very brief statement.

The estimates for naval material which are incorporated in the various subdivisions of this bill were made by our regular naval officials after consultation with representatives of the British as to their requirements. These conversations created a picture in the minds of our naval representatives of the most urgent needs of the British Admiralty for defense articles. On this basis we then prepared estimates of the cost of procuring these needs. In addition, we also prepared estimates of the cost of facilities necessary to produce them, the administrative cost of procurement, and a necessarily very rough estimate of the cost of testing, repairing, and so forth. The figures so prepared were presented to the Director of the Budget.

It should be remembered that, in appraising the needs, it was necessary to take into consideration the possibility that particular items of ordnance or airplanes, for example, might have to be produced to designs quite different from those at present in use, to keep pace with the developments of the war. This factor was, of course, taken into consideration in preparing the estimates. Likewise, it might happen during the progress of the war that more articles in a certain category and less in another would be required. In order to meet this difficulty, the bill before the committee permits limited transfer between categories.

The articles to be procured are suitable for transfer to a foreign country and, with minor exceptions, are also suitable for our own use should circumstances, when they are completed, dictate that they should be retained.

That concludes my statement, Mr. Chairman.

Mr. WOODRUM. Thank you, Mr. Secretary. We will now hear Mr. Smith, the Director of the Budget. Mr. Smith, we will be glad to have your general statement, and then the members of the committee may want to ask you some questions.

STATEMENT OF HAROLD D. SMITH, DIRECTOR OF THE BUREAU OF THE BUDGET

PROCEDURE IN PREPARATION OF THE ESTIMATES

Mr. SMITH. Mr. Chairman, in developing this estimate, the Bureau of the Budget was confronted with a special situation. The needs to be met by this estimate are not those of Federal departments and agencies operating in the regular framework. Normally, a department or agency would present its requests and justify them in considerable detail. But this estimate deals with the needs of other countries whose defense is vital to our own. Obviously, it could not conform to the traditional pattern of budgetary procedure.

We started with a general outline of the requirements of the British Government. These requirements were segregated and distributed to appropriate Federal departments and agencies for study and processing. The main problem was to relate them to plans for the production of our own defense articles. For example, where the requirements concerned the Departments of War and Navy they were analyzed by those Departments with the aid of the Office of Production Management. Where raw materials were involved, it was ascertained through the Office of Production Management whether or not these raw materials were available for disposition to other countries. We also discussed with that Office the requirements for machine tools, steel, and iron. The requirements for food and other agricultural products were discussed with the Secretary of Agriculture. The amounts set forth in the estimate represent the considered judgment of the various agencies and of the Bureau of the Budget. In short, we have a program that is closely related to our own needs and effectively responsive to the needs of the other democracies.

FORM OF THE ESTIMATE

In setting these estimates into a framework of appropriation language we have not been able to use the traditional form. We are providing defense articles for countries at war, and a considerable degree of flexibility is necessary. New emergencies arise, conditions of warfare change, and a weapon that is in use today may be obsolete tomorrow. In this estimate we are attempting to forecast the needs of other nations for their war efforts in the months to come. We have endeavored, therefore, not only to identify as clearly as possible the broad categories of aid to be furnished, but to provide at the same time a reasonable degree of flexibility in meeting the need for such aid.

Flexibility in the administration of an appropriation of this character is also a primary necessity. It was believed that maximum flexibility in administration could be attained by making the appropriation to the President for allocation to the several departments and agencies. For obvious reasons it would be difficult if not impracticable to catalog the separate requirements of the individual agencies with respect to a program of this nature, or determine in advance which agency at a given time might be best equipped to handle a particular item. In the form adopted the agency best fitted to do a particular job can be given the money with which to do it, and effective over-all direction of the program will be facilitated.

In item (a) funds have been requested to carry out the purpose of section 3 (a) (1) of the bill, which provides for the manufacture and procurement of defense articles, including facilities for production and manufacture. These funds have been classified according to major categories of expenditure, and the classifications used will facilitate procurement and accounting in the departments. From a budgetary point of view, adequate control is achieved without unduly restricting freedom of operation.

In item (b) provision is made for the testing, repairing, and reconditioning of defense articles as contemplated by section 3 (a) (3) of the act.

With respect to the articles provided for in items (a) and (b) it is realized that any estimate of future need is subject to almost constant change. Under categories as specific as those set forth in the above items, the determination of requirements can only be approximate. An emergent situation might develop with respect to any one of these categories. We have, therefore, provided for interchangeability between the various items included in (a) and (b) by adding a proviso for that purpose.

With this proviso, it would be possible either to take an amount from a single appropriation item under which the need might not be so great as originally estimated, or to take smaller amounts from several appropriation items. In no case can a single appropriation be reduced by more than 20 percent, nor can any single appropriation be increased by more than 30 percent. It is believed that the percentages suggested will provide sufficient flexibility to meet any emergencies. Should any further shifting between categories be necessary, we can come back to the committee for necessary adjustments.

A question was raised as to the right of this Government to use articles procured under the authority of section 3 (a) (1) of the act. To remove any doubt on this point, a further proviso has been added under which the President would be clearly authorized to allocate any such articles to the appropriate department or agency of this Government.

In items (c) and (d) provision is made for administrative expenses and for any other necessary services and expenses not previously specified. Item (c) is also available for unforeseen contingencies and to carry out other provisions of the act to which items (a) and (b) do not apply.

Instead of providing under each category for the necessary administrative expenses incident thereto, it was believed that these expenses could be better controlled if there were a definite limitation as to the total amount and the several departments and agencies were required to justify their requests to the Bureau of the Budget.

In the final paragraph, there is a proviso authorizing reimbursement to agencies and departments which dispose of defense articles under section 3 (a) (2) of the act. This proviso will permit immediate replacement of defense articles which were originally procured for our own Government but subsequently transferred to another government. For example, it would permit the President to transfer to the Army's current ordnance appropriation an amount equal to the value of Army ordnance matériel which might be disposed of to a foreign government. In this way we shall not only have a clearer

picture of the cost of this program, but the program of ordnance procurement for our own Army can be kept intact. Of course this might be done by making subsequent appropriations, but that would mean either changing our procurement schedules because of the intervening time until a new appropriation was made, or the continuous submission of piecemeal requests for appropriations for necessary replacements. The reimbursable feature is not limited to appropriations heretofore made, but will be also available for reimbursement, if necessary, of regular appropriations subsequently authorized to be used for the purposes of this act.

We have in mind that requests for allocation of funds from these appropriations will be made by the departments and agencies to the President through the Bureau of the Budget. The Bureau will process these requests and prepare them for review and approval by the President. After his approval, the appropriate departments and agencies will undertake to procure the defense articles through their regular channels.

This whole process of review and approval of allocation of funds will, of course, operate within a broad framework of policy determined upon by the President. We plan to keep a careful record of the allocations for procurement and for reimbursement. This information will, of course, be available to this committee. In brief, it is felt that the enactment of the appropriation in this form will permit the most effective utilization of the departments and agencies in carrying out this program, and will retain in the President the necessary fiscal control.

Mr. WOODRUM. Thank you, Mr. Smith. You will please remain, because the members of the committee may wish to ask you some questions.

QUESTIONS PROPOUNDED BY MEMBERS OF THE SUBCOMMITTEE TO SECRETARY HULL, SECRETARY STIMSON, AND SECRETARY KNOX

At this time, I will request the members of the subcommittee, in their order, to ask such questions as they may desire of Secretary Hull, Secretary Stimson, and Secretary Knox. Unless there is some other suggestion, we will proceed in that order.

COUNTRIES TO BE AIDED

Mr. CANNON. Mr. Secretary, you referred to "other countries" it was proposed to assist. What are those other countries?

Secretary HULL. If you will keep in mind that, according to all appearances, the world is faced with a movement of invasion and conquest through force without limit as to area, and our assistance would contemplate any country that is carrying forward a movement of resistance against the three invading forces, which, under the tripartite agreement, are rather closely interrelated countries. Our assistance would be to countries whose defense would be essential to ours, as was stated here. You will find that that will be determined by day-to-day developments. This situation is moving so rapidly that nobody knows from one week to another or from one day to another what nations may be swallowed up or what nations

may resist. It would be any country that would thus get into that picture.

MR. CANNON. Would it include Asiatic countries?

Secretary HULL. We have been dealing with a world-wide situation. We have been cooperating with China to quite a little extent, that country coming within that same category.

REALLOCATION OF DEFENSE ARTICLES BY ONE AIDED COUNTRY TO ANOTHER

MR. LUDLOW. Mr. Secretary, is it your construction of the lend-lease bill that we can furnish materials to Britain to be re-allocated by Britain to the other democracies, or must our furnishing of materials to those other democracies be direct?

Secretary HULL. These gentlemen would tell you perhaps more accurately on the technical side; but I think you will find that this means that any of those things would be done by consent of each country concerned—ours, Britain, Greece, or whatever the other country may be. It might be much more convenient, for example, for some express agreement to be entered into which would facilitate transportation. Sometimes we are in a very difficult position with regard to transportation, whereas Great Britain might not be. Such considerations might arise.

MR. LUDLOW. I take it that the disposal of this vast store of material would be on a program that would be sanctioned by Britain throughout.

Secretary HULL. We would keep our hands on this thing when it comes to going to third countries until we were satisfied, and each country, by mutual agreement, worked out.

MR. WOODRUM. Mr. Secretary, under section 4 of the act it is specifically provided that if any of these materials are given to any country they cannot be transferred to anyone else without the specific consent of America.

Secretary HULL. As I say, we will keep our hands on it. You understand that I followed my friend Ludlow when I was in Congress, and we still agree on most things, though not quite all. So I made it clear when I came over here that I would endeavor to supply any information possible with respect to the foreign-relations side, the diplomatic side, of the conditions under which this state of danger developed. The technical side, the production and distribution side, I would leave to these other Departments.

MR. WOODRUM. Thank you, Mr. Secretary.

LIST OF BRITISH REQUIREMENTS

MR. LUDLOW. Mr. Chairman, I have one or two questions that I would like to ask of Secretary Stimson.

MR. SECRETARY. You stated that the British furnished a list of British requirements, which was considered by your Department. As of what date was that list furnished?

Secretary STIMSON. About a month ago, as I recall it, sir.

MR. LUDLOW. Is that list presumably the list of British requirements at this time?

Secretary STIMSON. I understand it was altered.

MR. LUDLOW. I mean, if they were submitting another list, would they submit substantially that list?

Secretary STIMSON. I do not think so; because, as I told you, the mere comparison of those lists with the lists of what we were doing in many other ways served to change what they had brought out.

AMERICAN MANPOWER

MR. LUDLOW. Mr. Secretary, you stated that the aid to the democracies that is contemplated by this bill is hard to visualize now, but mainly takes the form of equipment. You used the word "mainly." You do not see anything in the picture now to indicate that the British will require our manpower?

Secretary STIMSON. No, sir; there is nothing in this that refers to manpower.

PROPORTION OF MATERIAL TO BE ACQUIRED THAT WILL BE USABLE BY UNITED STATES

(See p. 20)

MR. SNYDER. Mr. Secretary, I was very much impressed with your statement that 95 percent or more of the equipment, material, and articles that we are building and will build for the aid of Britain could in an emergency be used in our set-up here at home. Is that right?

Secretary STIMSON. That is true; and that did not happen by accident. That happened as a result of the efforts of the agents of the War Department to accomplish that, and the consent of the British to do so.

MR. SNYDER. I commend the Secretary of War and his staff for bringing that about. I think it is an excellent procedure.

AGRICULTURAL PRODUCTS

(See pp. 20, 32, 35, 39, 51)

MR. O'NEAL. Mr. Chairman, I have a couple of questions that I would like to ask both the Secretary of War and the Secretary of the Navy, for the reason that I am uncertain as to whether the subjects I have in mind have been covered in drafting the bill.

The bill attempts to set out the categories under which this money shall be spent, and I wondered if that might be interpreted as exclusive of any category not mentioned in the bill. For instance, is there some saving clause which would entitle you or enable you to spend money for foodstuffs, which are a very vital defense item, in my opinion? I see no category that might include food.

MR. SMITH. Agricultural commodities.

Secretary STIMSON. There is a category there, is there not?

MR. O'NEAL. I just called that to your attention because I do not see it offhand.

MR. SMITH. It very clearly mentions agricultural commodities.

MR. O'NEAL. Thank you. If it does, I had not noticed it.

Another category would be services. I can see very well where services might be very much needed. Also chemicals; I do not see any chemical warfare, unless it may come under some other defense item.

Secretary STIMSON. Under miscellaneous military equipment. The chemicals would certainly come under that.

Mr. O'NEAL. Then where do we find the provision with regard to food?

Mr. SMITH. It is the last item under (a).

Mr. O'NEAL. Now, as to the question of services, I wonder whether that might not be very important? I merely wanted to call that to the attention of the committee. It is not necessary to answer it now, but it can be considered.

DISPOSITION OF MATERIAL AFTER DEFENSE EFFORT HAS CEASED

(See p. 43)

Mr. JOHNSON of West Virginia. Mr. Secretary, under this lend-lease bill, suppose we should turn over to England a great number of guns, tanks, and maybe ships. Does that mean that after the war is over, if those ships are still in existence, they will be returned to us?

Secretary STIMSON. I think you can judge of that fairly by what has been done in the past in the disposal of the spare stocks of weapons which were transferred and sold to Great Britain before the drafting of this bill. In all those cases there was an effort made to obtain a substantial and fair quid pro quo.

Under the Lease Lend Act the terms and considerations for the transfer are made broader and more flexible, but I think you can count upon the interests of the United States being fully protected.

Mr. JOHNSON of West Virginia. In other words, if we send a lot of tanks and a lot of guns and even some ships over there, and this war results in favor of Great Britain, and they have all our material over there, then is it your understanding that that material is to come back to this country, or as much of it as possible?

Secretary STIMSON. I think you will find as full an answer as can be made to that question was forecast in the President's speech when he originally proposed this method of transaction.

Mr. JOHNSON of West Virginia. This is a pretty big undertaking, and sometimes when these materials get across the water it may not be convenient, for some reason, to send them back. Now, I want this stuff returned if it is in existence when they get through with it. If you lend a thing, you want it returned when the borrower is through with it.

Mr. WOODRUM. Try to get all of it back that you can, Mr. Secretary.

NEW PLANT FACILITIES

(See pp. 37, 58)

Mr. TABER. With reference to these major items in this Budget estimate that is up here, are you able to segregate for us as to each one the portion thereof that could be currently procured from existing facilities over the period that will be required for delivery and what proportion would require the creation of additional facilities?

Secretary STIMSON. I think it would be a rather difficult question to answer in extenso; details are very difficult to present. It would necessarily be subject to change as other changes come from the war.

Mr. TABER. There are \$752,000,000 set up here for additional facilities. I can see why there might be some special items that would require some small amount of facilities. On the other hand it is

rather difficult to follow the provision for a lot of additional facilities superimposed upon the facilities that have already been provided for or appropriated for for the Army and the Navy, especially in view of the fact that months are required for the setting up of some of the facilities; on some of them production comes in quantities months later, and that means a long time before some of these things can begin to be produced. I would like to have some kind of a comment from both the Secretary of War and the Secretary of the Navy on that subject if I could get it.

Mr. WOODRUM. Secretary Stimson.

Secretary STIMSON. I am not sure that I understand Mr. Taber's request; I do not know that I understand how much he is asking for details. I can say this, to guide us as to what my feeling is as to it: I think that it would not be in the interest of this country, or this country's defense, to indicate what weapons or what munitions are going to what countries.

Mr. TABER. I was not asking for that at all; that is not what I was getting at. I will try to repeat the question.

Secretary STIMSON. I may have misunderstood it.

Mr. TABER. We have a set-up of \$750,000,000 for proposed additional facilities.

Now, considering the fact that it takes months to provide some of these facilities, and considering the fact that we have already provided probably \$2,000,000,000 for that sort of thing in previous bills for the Army and the Navy, and considering the fact that those facilities require months in some cases to come into production, are we not getting to a point where we are providing for facilities, to the point where the provision for facilities is delaying this defense program rather than a means of accelerating it?

Secretary STIMSON. I think not, sir. But I cannot go into details here now. I do not have them before me.

I know this, however; I know that every effort has been made both in the Department and in the Office of Production Management to keep going at the fastest possible production the facilities which we have now, and without impairing the production of those we now have to bring into production as rapidly as possible the facilities which we have contemplated or under construction. In other words, that we are going as fast as we can in regard to the creation of these facilities.

I think nothing is included in this—although I should like to have the opportunity to correct myself if I find afterward I am wrong—I think nothing is included in this which will not come into production in the time stated in the bill, and have its effect on the defense of these other countries to whom the weapons are intended before that time. General Marshall tells me that he can add to the details of that if you care for him to do so.

Mr. TABER. Will someone later on give us more of a break-down of what actually will have to go into new facilities?

General MARSHALL. If I may interject this statement: This has been very carefully calculated against the time element, having in mind what we already have in the way of facilities, what has already been authorized, and money provided for, and what would be required to produce the mass of matériel on the British list, to produce the facilities for the requirement of the list. There is also the necessity

for facilities against the possibility of emasculation or destruction of existing facilities of Great Britain. That is very important in this matter. They have these standing plants that this week are in full production and next week cease to exist, and some facilities in this country to meet that possibility, that may in some cases be a probability, would be in here as one of the corrective measures.

This data on production cost of certain facilities being presented for appropriation was only composed after a careful investigation by the Office of Production Management, under Mr. Knudsen, and other similar officers, to see what was going to be required, also having in mind the time element, and that it has to be gotten out as quickly as we can. If it were not for the time element it would be more economical to allow the existing plants to turn out the matériel over a long period of time, but time is the costly item in this particular, with the necessity of having certain plant facilities provided against the possibility of British plants being destroyed.

PERIOD OF USE OF FUNDS

(See p. 17)

Mr. TABER. Within what time is it anticipated that this fund will be used?

General MARSHALL. It has to be used before June 30, 1943.

Mr. TABER. I understand that, but has it been laid out so that it is expected that this fund will last until June 30, 1943? Would anyone of you be able to answer that; and I would rather ask that for the moment of either of the Secretaries.

Secretary STIMSON. Will you repeat your question?

Mr. TABER. Has the program of getting these things been laid out, to get the things you have in mind, or is it expected that you will have to supplement this later?

Secretary STIMSON. That is subject, Mr. Taber, to so many contingencies of war that it is almost impossible to answer it exactly.

Mr. TABER. I appreciate it. Let me frame the question in this way: Has this estimate been prepared with the idea of covering what the British needs are, as you can envisage them at this time, without taking into consideration contingencies that might result as the progress of the war develops. Can you answer that?

Secretary STIMSON. We think that can be answered "yes."

BRITISH FINANCES

(See p. 65)

Mr. WIGGLESWORTH. I will address this question to Secretary Stimson. In the testimony on the lend-lease bill, by Secretary Morgenthau, it was indicated that the gold and dollar exchange assets of the United Kingdom as of August 31, 1939, amounted to \$4,483,000,000; as of December 31, last, \$2,167,000,000.

Are those dollar exchange assets considered in any way in determining the total of the request before us or is that something entirely for the future as defense weapons are provided?

Secretary STIMSON. I do not think those estimates were taken into consideration in the preparation of these requirements.

Mr. WIGGLESWORTH. In other words, that is a matter for negotiation in the future.

Secretary STIMSON. Yes.

PERIOD OF USE OF FUNDS

(See p. 16)

Mr. WIGGLESWORTH. I assume that you contemplate that the production covered by this \$7,000,000,000 appropriation can in fact, if necessary, be produced prior to July 1, 1943?

Secretary STIMSON. That is the fact.

Mr. WIGGLESWORTH. Can you say what proportion of that \$7,000,000,000 would be necessary for expenditure?

Secretary STIMSON. May I interpose this statement?—that I have been speaking not as to the whole of the \$7,000,000,000, but merely as to the War Department's share. And I think that is true as regards the Navy.

Mr. WIGGLESWORTH. May I ask Secretary Knox if that is true as to his Department?

Secretary KNOX. I think so.

Mr. WIGGLESWORTH. Is it possible to state what portion of this \$7,000,000,000 under the contemplated program would be actually required for expenditure in the fiscal year 1942?

Mr. WOODRUM. You mean contract authorizations or cash, Mr. Wigglesworth.

Secretary STIMSON. I was going to say that question involves contract authorizations.

Mr. WIGGLESWORTH. If there is no objection I would like it to cover both.

Secretary STIMSON. Then you mean, is it susceptible of being covered completely, when you take in both cash payments and contracts?

Mr. WIGGLESWORTH. I mean how much of the \$7,000,000,000 which is before us will be required for (a) cash payments, and (b) obligations in the fiscal year 1942 under the contemplated program?

Secretary KNOX. I do not think anyone could answer that question until the contracts have been negotiated.

Mr. WIGGLESWORTH. You do not plan to expend or obligate all of this \$7,000,000,000 in the fiscal year 1942, do you?

Secretary STIMSON. I think I can say that it is intended, so far as the War Department's share is concerned, it would be under contract or completed by that time.

Mr. WIGGLESWORTH. And is that also true, Mr. Secretary, of your Department?

Secretary KNOX. With respect to the allocation of the \$7,000,000,000 for expenditure by the Navy Department, the obligations will be incurred very soon, as soon as possible.

CONTRACT AUTHORIZATION FOR PART OF NEEDS

Mr. POWERS. Mr. Secretary of War, my first question has been fairly well covered by Mr. Taber and Mr. Wigglesworth. From January 3, when Congress convened, until the present time, the Appropriations Committee of the House has been appropriating at the rate of about a billion and a half a week. This seven billion, of course, will raise the average considerably. I am just wondering, in view of Mr. Taber's question, and in view of Mr. Wigglesworth's question, whether it would be advisable, instead of appropriating

\$7,000,000,000 at this time, to cut this down to a much lower figure and allow you to pay out in cash what you can for the fiscal year 1942, and then come back again for another appropriation, or to have the balance on a contractual basis. What would you think of that?

Secretary STIMSON. For reasons that have already been given by others here, I think it would not be.

Mr. POWERS. It would not make a particle of difference in the ultimate result, would it?

Secretary STIMSON. Yes; it would have a great effect on morale and probably would make a great difference in the negotiations and in the planning. The more you can plan for, the more cheaply and more quickly you can procure, and in that way you cannot plan.

Mr. POWERS. Yes; if you had contractual authority, you could still make your plans, could you not?

Secretary STIMSON. Under your question, I would say that would be limited. However, I believe the Director of the Budget can answer that question more completely than I.

Mr. POWERS. Well, the contractual authority would allow you to do the same thing as cash.

USE OF AMERICAN PLANES BY THE BRITISH

Another question: Is there any truth to the rumor that some of us hear that England is not using the planes we are sending to her?

Secretary STIMSON. I do not think that is true as the question is asked; no. There may be delays because of the necessity of education in the use of them and the necessary adaptation to the situation of warfare, but any implication that the planes will not be used is false.

Mr. POWERS. No; I do not imply they will not be used, but I understood the great majority of the planes we are sending to England are not being used. And, if such is the case, I wanted to find out from you if you knew why they are not being used.

Secretary STIMSON. I do not think that is the case, sir.

Mr. POWERS. Is it not?

Secretary STIMSON. No.

MATERIAL FURNISHED BRITAIN AFTER EVACUATION OF DUNKERQUE

Mr. POWERS. Someone mentioned the fact, Mr. Secretary, that we had transferred or sold war materials to England after the Dunkerque evacuation, and that we helped England considerably by doing that. Could you tell us how the sale or transfer of those materials was made and under what authority?

Secretary STIMSON. I was not Secretary at that time, and I do not know.

General MARSHALL. It was made under the existing law on the basis of obsolescence or surplus, and it was done, in the main, through the United States Steel.

Mr. POWERS. Do not misunderstand me; I am happy it was done, but I wanted to find out how.

General MARSHALL. We turned over in each case the material to one or another firm, some to the Curtiss people, but the main bulk was to the United States Steel; in turn for which the Chief of Ordnance received contracts for other material at a rate determined

upon. As the Secretary of War previously outlined in some cases, it was for the original cost of the article, and in other cases it was the cost of selling to citizens. It went from 100 percent, to 20 percent.

BRITISH POTASH AND BORAX PLANTS IN UNITED STATES

Mr. DITTER. I have two or three questions I would like to address to the Secretary of State and ask him, first, whether in his reason and judgment an answer to the question that was asked or the type of questions that were asked by Mr. Scrugham off the record would in any way be embarrassing or inimical to our interests?

Secretary HULL. I think I made clear that our Government should give all practical attention to those matters.

Mr. DITTER. Then would it be disturbing, Mr. Secretary, if Mr. Scrugham were to reframe those questions and have you answer them with reference to the specific financial interests to which he referred?

Secretary HULL. I think Governor Scrugham would want to confer with these people—

Mr. WOODRUM. Do you want that on the record, Mr. Ditter?

Mr. DITTER. Yes; I should like it on the record. I cannot see that it would in any way be embarrassing.

Secretary HULL. I think you would want to discuss it with the people who will deal with the contracts relating to production and distribution and the business relations that are involved between us and Great Britain. I deal with the diplomatic phases only.

Mr. SCRUGHAM. May I inject an observation, Mr. Ditter? I presume the point you wished to emphasize there was the fact that the questions I asked showed that the potash industry and the borax industry in the United States, was largely owned by British interests, and which, in my opinion, the United States Government should control instead of the British Government. Their value, which I estimate to be \$20,000,000, should be applied as a payment on this seven billion advance of money.

Secretary HULL. As I say, there is almost an infinite number of relations of a commercial nature between us and the British Empire and we have been untangling some of them and, if this trouble had not come on, I think we would have been making more progress still; but everything has been interrupted and we have chaos, disruption, and dislocation in our whole international and economic structure, and it has taken an awful lot of time. I notice my friend Joe O'Mahoney spent 2 years here carrying on investigations in just a few phases of a similar or another situation and, as I say, there is almost an infinite number of questions like these that will be up, and we naturally should, and I hope will, amply take care of our interests as these developments are reached and action is taken on them.

TRANSFER OF COAST GUARD TO NAVY

Mr. DITTER. Now, I should like to ask a question of the Secretary of the Navy: Mr. Knox, is it anticipated at this time that the Coast Guard is to be transferred from the Treasury Department to the Navy?

Secretary KNOX. Not at this time; no, sir.

Mr. DITTER. In other words, nothing has been done toward that end?

Secretary KNOX. No, sir; except that we have the plans all ready, in case of war, whereby the Coast Guard will become a part of the Navy. That is a part of the law.

Mr. DITTER. Yes; that is part of the law; but it is not anticipated, under the present emergency rather than actual war, that such a transfer will be made?

PROPORTION OF MATERIAL TO BE ACQUIRED THAT WILL BE USABLE BY UNITED STATES

(See p. 13)

Secretary KNOX. There is no present plan for it.

Mr. DITTER. Then I should like to address one question to the Secretary of War. Mr. Stimson, during the course of your statement to the committee, you emphasized that a very considerable part, in fact I think you said 95 percent, of these things that are to be bought could be utilized by our Army. Is that right?

Secretary STIMSON. Yes, sir. More than that they are to be of our standards.

Mr. DITTER. And I suppose the emphasis was laid on that in order to show that, if necessary, the funds that are presently being appropriated could be used for our own Army, rather than being transferred to those that we seek to aid?

Secretary STIMSON. What I meant was that if by the misfortune of fate we should be compelled to be drawn into a war to defend this hemisphere, we would find in these weapons means with which we could arm ourselves for that purpose.

Mr. DITTER. Well, has any attention, then, been given to the limitation placed in the Constitution with reference to the time within which appropriations may be made for the armies?

Secretary STIMSON. No, sir; because these are not being made primarily for the armies, or at all for the armies, except in such an unpredictable contingency as I just mentioned. They are made for the purpose which is stated in the bill, namely, for the reason that the defense of these democracies is vital to our defense.

Mr. DITTER. Is it contemplated that any of the funds that are being presently appropriated will be used either for the expansion or emplacement of facilities or plants in any countries other than the United States?

Secretary STIMSON. Not so far as I am aware, at all.

Mr. DITTER. That is all.

AGRICULTURAL PRODUCTS

(See pp. 13, 32, 35, 39, 51)

Mr. CANNON. May I ask Secretary Hull one more question? Mr. Secretary Hull, the Budget recommends \$1,350,000,000 for agricultural, industrial, and other commodities and articles. In a broad way, what proportion of the industrial commodities will be food and what proportion will be raw materials?

Secretary HULL. That is a matter with which I am not very familiar. As I say, I am supposed to keep up with all of the conduct of our foreign relations and to trace the relationships that have led up to this condition of danger and to make that as clear as I can, without going into the production and distribution side of the situation. I had left that to the Army and the Navy and the Treasury and the Budget people, because it did not really come within the function of our foreign affairs over at the State Department, and I apologize for not being able to answer your question intelligently now. But I do hope, on account of my interest in the agricultural situation, to familiarize myself thoroughly with every phase of it at a very early date.

Mr. CANNON. I wonder if either Secretary Stimson or Secretary Knox could give us any information as to what proportion of the agricultural products provided for in this item will be in the form of food and what will be in the form of raw materials?

Secretary STIMSON. I think the Director of the Budget can answer that question.

Mr. CANNON. Let me ask one question of either of the Secretaries: Will such foodstuffs as are contemplated be for the civilian population, or for the armies?

Secretary KNOX. I do not know.

Secretary STIMSON. I do not know, either.

TITLE TO DEFENSE ARTICLES

(See p. 39)

Mr. O'NEAL. Is it determined, or has it been agreed upon as to when title will vest in England or any other country getting materials of this character? Is it upon delivery from this country some place else, or when contracted for?

Secretary STIMSON. Not when contracted for, that is, not when the construction is contracted for, and not until after the construction is completed. After that, I do not think there has been any commitment.

Mr. O'NEAL. In other words, when you make a contract today or agree to do something for so much, the title remains in this country until after delivery takes place either at the point of manufacture or some other point?

Secretary STIMSON. That is as I understand it. Title, of course, in case the article was loaned, would never vest.

Mr. O'NEAL. Yes; I understand.

Mr. LUDLOW. Mr. Secretary, I understand the initial distribution is to be to Great Britain and Greece. Can you give any information as to what other countries you think are likely to be finally included in the distribution?

Secretary HULL. I wish I knew. Nobody knows, over there in some parts of the Balkan area, what may happen any day, or any hour.

PROCUREMENTS IN FOREIGN COUNTRIES

(See pp. 40, 42)

Mr. DITTER. I would like to ask one question of the Secretary of War: Mr. Secretary, do I understand this, that expansions or emplacements would take place in foreign countries under the terms of the bill, in your opinion?

Secretary STIMSON. Original emplacements?

Mr. DITTER. Do you say that original emplacements or facilities for plants cannot take place outside of the United States?

Secretary STIMSON. I do not think the bill authorizes that.

Mr. WOODRUM. Let me quote section 8 of the Lend-Lease Act on that point:

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

Mr. DITTER. That is the reason I asked the question, whether it is contemplated to purchase matériel that might be made in plants outside of the United States, or whether funds provided in this bill would be available for making the original emplacements or expansions of any such plants.

Secretary STIMSON. That is a provision for most unusual situations and that the Department does not contemplate of creation of any such facilities, is, I think, evidenced by the fact that I have forgotten that such a provision was in the act.

Mr. DITTER. It is a matter that the committee should have given some consideration to.

TUESDAY, MARCH 13, 1941.

STATEMENT OF GEN. GEORGE C. MARSHALL, CHIEF OF STAFF,
UNITED STATES ARMY

GENERAL STATEMENT

Mr. WOODRUM. General Marshall, do you have a statement you would like to make?

General MARSHALL. I do not have any prepared statement. I am here at your disposal.

Mr. WOODRUM. General, from what you know of this bill, please tell us what you think about it.

General MARSHALL. Mr. Chairman, since hearing the testimony that has already been given this afternoon, I believe there is little I can add except to repeat what Mr. Stimson, in particular, has already made to clear to you—that there are definite complications involved in the consideration of this bill, because it concerns a nation that is actually at war. As you know, in making our own estimates for matériel, everything is kept open and aboveboard. Lists of the actual matériel for which appropriations are desired are printed in the record with quantities and approximate cost—all available to the public. In this bill, the matériel is listed as concisely as possible, with barely enough details to permit intelligent consideration; nevertheless it involves the possibility of adverse effect on Great Britain if it discloses all her needs, and these are very apparent from the deficiencies which you are considering today. In other words, we must avoid statistics which are completely revealing.

As Mr. Stimson stated, we have followed a very careful procedure in preparing this list. A great many conferences have been held,

not only with the British but also within our own staff, to determine how best to put these estimates on the same carefully considered basis as our own. Then, in cooperation with the Under Secretary of War's Office and that of Production Management under Mr. Knudsen, we considered the production demands involved and the possibility of interference with our own program. As a result of our investigations we arrived at a determination of the amounts of the several items you now have under consideration.

Mr. WOODRUM. General, you are thoroughly familiar with the items in this bill and their purposes?

General MARSHALL. I have gone over the various break-downs of the matériel involved.

Mr. WOODRUM. Are you able to say to the committee, from your knowledge, having made an investigation of them, that you think these items are vitally and critically necessary and should be included in the bill?

General MARSHALL. Yes, sir; very much so.

Mr. LUDLOW. General, I want to ask whether, in your opinion, providing these articles in aid to Britain will in any way endanger our own defense?

General MARSHALL. No, sir; on the contrary I think that as we now have matters arranged, the result will be to our advantage. Our own actual resources will not be diminished until the finished products come off the production line and are ready for shipment. Increased production will add to our strength until the time for distribution begins. I will go further and say this—that I would be a much happier man today if I thought we had reached a point in our production development where we actually had more capacity than we required. That would be the most favorable situation possible for us, in view of present conditions.

Mr. CANNON. General Marshall, these estimates have been made on the basis of definite inventories, apparently, and I presume you have some data as to the cost of each class of matériel.

General MARSHALL. Yes, sir.

Mr. CANNON. How do these costs compare with costs of matériel in similar classifications during the World War?

General MARSHALL. I will have to ask someone else to answer that.

Mr. CANNON. In a general way, are we paying more or less, than was paid for similar matériel during the last war?

General MARSHALL. Probably the only specific item susceptible of that comparison is the Springfield rifle. The cost of this rifle is less today than it was during the last war. In this instance, manufacturing facilities already existed when we resumed production recently. Most of the other equipment involved, particularly anti-aircraft matériel and tanks, is so entirely different; so new; and so much more complicated than corresponding items used during the World War, that no accurate comparison can be made. For example, the tanks used in the World War were "tin lizzies" compared with what we have today.

Mr. CANNON. What determines the price? Are they manufactured on the cost-plus-fixed-fee plan, or through negotiation? Do you contract for them, or do you manufacture them yourself?

General MARSHALL. Most of the ordnance contracts to date have been on an advertised bid basis, but I might mislead you badly if I answered your question in detail. I would rather refer you to our procurement experts.

Mr. CANNON. What are the agricultural products referred to in this list of matériel?

General MARSHALL. That does not come within my province. Mr. Smith can give you that information.

Mr. CANNON. Are you familiar with the difference in prices that would be paid now as compared with World War prices?

General MARSHALL. No, sir. As a matter of fact, during the World War I was for two and a half years in France and out of touch with the economic situation in this country.

Mr. SNYDER. England today has many guns of different calibers and they have a number of factories manufacturing ammunition for those guns. Now, suppose the Germans should destroy some of those factories, and that would put those guns out of commission entirely. Would we build factories under this appropriation to manufacture ammunition required for those guns?

General MARSHALL. Some of the facilities recommended could be used for that specific purpose.

Mr. TABER. How much, would you say, is for that purpose?

General MARSHALL. I cannot give that data.

Mr. JOHNSON of West Virginia. General, you are trained in the art of war, and seem to know something about South American countries and the British Government and the German Government. I want to ask you this: If we make this appropriation that has been asked for, and do it rather promptly, what will be the effect on morale, looking at it purely from a war standpoint, on England, on South America, and on Germany?

General MARSHALL. I believe it will have a tremendously stimulating effect in England, where it will be felt that their heroic effort is recognized and that we are doing everything we can to help them. I think it will be very beneficial in its effect throughout the Western Hemisphere, where it will be realized that we mean business in this matter. Undoubtedly it will have a very disturbing effect on the nations opposed to Britain.

Mr. TABER. In other words, General, you want them to realize what we are doing this for?

General MARSHALL. Yes, sir.

Mr. TABER. Because we want them to know that we are going the limit; is that it?

General MARSHALL. That we mean business.

Mr. JOHNSON of West Virginia. What effect will this have upon the army itself?

General MARSHALL. Our Army, sir?

Mr. JOHNSON of West Virginia. No; I mean the British Army.

General MARSHALL. I think it will have a tremendously stimulating effect on the morale of the British Army.

Mr. JOHNSON of West Virginia. What effect will it have on the soldier himself, from your experience?

General MARSHALL. My experience has been that when the soldier lacks things he actually needs, only the highest type of discipline and the most able leadership will pull him through a crisis. If there is

any mediocrity in leadership or any deficiency in discipline, the first realization of its lack of essential matériel gives a military unit the tendency to dissolve. Matériel is of vast moment to the morale of an army.

Mr. JOHNSON of West Virginia. And the morale means 50 percent of the battle?

General MARSHALL. Well, Napoleon said that morale is to matériel as three is to one, and somebody remarked the other day that under many circumstances the correct ratio is more nearly 10 to 1. We have seen a nation collapse. Those who have attempted to explain the debacle have talked a great deal about lack of matériel, but it is quite evident now that the failure was primarily in morale.

Mr. WOODRUM. Are there any other questions of the General? If not, we thank you very much, General. We always enjoy having you with us.

FRIDAY, MARCH 14, 1941.

STATEMENTS OF HAROLD D. SMITH, DIRECTOR, BUREAU OF THE BUDGET; MAJ. GEN. JAMES H. BURNS, EXECUTIVE TO THE UNDER SECRETARY OF WAR; F. J. LAWTON, ADMINISTRATIVE ASSISTANT TO THE DIRECTOR OF THE BUDGET; LT. COL. HENRY S. AURAND, GENERAL STAFF CORPS, WAR DEPARTMENT; AND COMMANDER A. P. H. TAWRESEY, ASSISTANT BUDGET OFFICER, NAVY DEPARTMENT

Mr. WOODRUM. If it is satisfactory, we will proceed. I have several general questions I would like to ask Mr. Smith. You made a general statement yesterday, Mr. Smith, and if there is anything you wish to add to that before we proceed with questions that the committee may wish to ask, we will be glad to hear it. Is there anything you wish to add to your general statement?

Mr. SMITH. I think not, Mr. Chairman.

Mr. WOODRUM. I have two or three questions I would like to ask, and, if it is agreeable to the committee, we will proceed as we did yesterday.

PROCEDURE IN ADMINISTRATION OF FUNDS

(See p. 42)

Is it anticipated, Mr. Smith, that it will be necessary to set up any new administrative agencies in connection with the funds which we are asked to provide for, or will they be handled by the regular Government machinery now set up? In that connection, when you answer that, let me say I have this in mind, that under the procedure, as I understand it to be, the President, under the terms of the lease and lend bill and under the terms of the appropriation, will allocate to the Army, Navy, or other Government agency, a certain amount of money for the procurement of certain defense articles. Now, will that money be processed down through the agencies purchasing those articles?

Mr. SMITH. The program will be processed by the regular agencies.

Mr. WOODRUM. Now, as to the administrative expenses necessarily incurred by those agencies, in processing these orders under the lend-lease bill, will they be paid for out of funds provided here, or in every appropriation bill that comes up hereafter, will we meet with the situation of every agency coming in and saying, "We will have to have 100 extra clerks, because of this lend-lease program"?

Mr. SMITH. It was our plan under these estimates to have every request for additional administrative expenses on account of the lease-lend bill reviewed by the Bureau of the Budget. This assumes that a part, and a considerable part, of the administrative expenses can be taken care of under existing appropriations, but where there are real difficulties, and where there is a need for additional help on the administrative side, that request would come through the Bureau of the Budget, and would be reviewed as any other request for estimates would be reviewed—that is, in the light of what administrative provision the department or agency already has. A recommendation for an allotment would then be submitted to the President for his approval. In that way, I think we can keep the administrative costs of this program definitely segregated from the administrative costs incident to our own defense program.

Mr. WOODRUM. They will be or can be segregated so that when you take your cost sheet for planes, you will be able to tell how much was for planes and how much for the item of administrative expense?

Mr. SMITH. Yes, sir.

Mr. WOODRUM. If a department has additional administrative costs, it will be paid out of the lease-lend fund.

Mr. SMITH. Yes, sir; that is provided for in item (c).

NEW OVERHEAD ORGANIZATION

(See p. 34)

Mr. WOODRUM. Is it anticipated that any overhead organization will be set up in any of these departments?

Mr. SMITH. I assume that, at least, in the Army and Navy, some persons would have to be designated specifically to guide this program in those departments.

Mr. WOODRUM. Outside of the Budget—and I understand all of these things will clear through the Budget—and outside of the additional set-up you will have to have on account of this, will there be an over-all agency that will handle it?

Mr. SMITH. I do not think that has been finally determined, but it is my understanding that there will be some kind of a policy committee, probably consisting of Cabinet officers, who will look at this program in its relation to our own program.

Mr. WOODRUM. Now, the policy to be carried out, as we understand it, is that these funds will be allocated by the President to different agencies of the Government, and, in making these purchases, they will proceed in exactly the same manner and form, and according to the same rules, regulations, restrictions, and so forth, that they follow in making purchases for their own agencies.

Mr. SMITH. Yes, sir; in the same manner as they proceed under existing appropriations.

BUREAU OF BUDGET TO COORDINATE DATA ON PROGRAM

(See p. 38)

Mr. WOODRUM. You will recall that a suggestion was made at the White House conference the other day that it would be very helpful, and from my viewpoint it seems necessary, that there be set up somewhere, preferably in the Bureau of the Budget, some unit that will know from day to day the intimate details of this program as it develops, so that when committees of Congress wish to be informed, either informally or on the record, exactly what has been done, the expenditures made, and the contracts and commitments made, the types of material or facilities being contracted for, and so forth, all of the details will be ready in one compact agency that will know all about it, and to which they may come and find out the information they wish to have. Will that plan be followed?

Mr. SMITH. We will try to meet your wishes on that. It will be necessary for the Bureau of the Budget to assemble this information in any event. It must be processed through the Bureau, and we can make it available to you, if it is desired.

Mr. WOODRUM. I think that certainly would be the wish of the committee.

Mr. JOHNSON of West Virginia. If you have this central organization created, how large will it be? Do you have any idea how large it will be?

Mr. SMITH. I do not at this time.

Mr. JOHNSON of West Virginia. Would it be composed of two, three, four, five, or six people?

Mr. SMITH. Are you speaking now with respect to the organization in the Bureau of the Budget?

Mr. JOHNSON of West Virginia. Yes.

Mr. SMITH. I think that, so far as we are concerned, it will take a very small staff, because we will depend upon the other departments and existing accounting facilities and records.

Mr. JOHNSON of West Virginia. If there should be such a committee set up, do you contemplate taking the Secretary of War and the Secretary of the Navy, or someone representing those departments?

Mr. SMITH. While, as I pointed out, so far as I know, a definite decision has not been made by the President, there would probably be a policy committee to advise the President. So far as the records are concerned, or in making an accounting for what has been done, that is an entirely different matter, and it can be handled by the existing agencies of the Government, with, perhaps, some little increase in the staffs.

APPLICATION OF EXISTING LAW TO PROCUREMENTS

(See p. 43)

Mr. WOODRUM. In the matter of this program, Mr. Smith, what procedure will be followed by those different agencies in placing contracts, and so forth? Will the lease-lend money be subject to all of the laws applicable to the departments in carrying out their own procurements and purchases?

Mr. SMITH. It is my understanding that that is true—that the lease-lend bill does not expand the authority under existing appropriations except insofar as it may be contained in the act.

Mr. WOODRUM. Will there be any conditions under which the various laws covering the procurements and purchases now made will have to be set aside in this program? For instance, section 3 (a) authorizes the President, notwithstanding the provisions of any other law, to authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government, to do certain things. Will you say something about that?

Mr. LAWTON. It was pointed out in the report of the Foreign Affairs Committee of the House, that the item in this authorization bill, "notwithstanding the provisions of any other law," meant notwithstanding the provisions of any other law that would conflict or interfere with the carrying out of this bill. In other words, they pointed out in that report that the purpose would be to continue, as it did not interfere with the carrying out of this bill, the Walsh-Healey Act or wage-hour law. The War Department and the Navy Department have exemptions from section 3709, and statutes of that type, and I think it would be interpreted that this would be carried out with the same exemptions now existing under the programs of the Army and Navy.

Mr. WOODRUM. It is not anticipated that this language would call for any drastic departure from any existing procedure, or from following any laws on the statute books that relate to the procurement and purchase of these materials?

Mr. LAWTON. No, sir; I do not think that would be contemplated, because in a great many cases those orders will be placed in the factories at the same time that orders for our own defense will be placed.

Mr. WOODRUM. All of these expenditures will have to be cleared through the Comptroller General, just as expenditures for purchases under the regular program?

Mr. LAWTON. Yes, sir.

Mr. WOODRUM. If it meets with the pleasure of the committee, I would suggest that the members of the committee ask Mr. Smith such general questions as they desire, before taking up the several categories in the estimates.

Mr. TABER. I think we should establish the question of the policies before we go into the details of the bill.

Mr. WOODRUM. Suppose we go around the committee, and let the members ask Mr. Smith such general questions as they wish. Then I will have some questions to ask about the several categories of the estimates. If that is satisfactory, we will proceed in that way, Mr. Cannon.

Mr. CANNON. Mr. Smith, your aide has just said you will follow the procedure heretofore followed in securing materials. Those materials now purchased are purchased in a routine way. These are not routine things, they are materials not generally produced, and for which, in many cases, you will have no blueprints. How much of the material indicated in this inventory will the Government manufacture, and how much will it buy? How much will be procured in the open market, and how much under contract?

Mr. SMITH. I would say, in general, that is probably a question that cannot be answered very accurately at this time, because this program, as it goes along, would have to be fitted in with the Army and Navy program. I would like to ask General Burns to comment on the question you have asked.

PRODUCTION COSTS AND PRICES

(See pp. 36, 48, 51)

General BURNS. With reference to the Army program, practically all of the items we get, with the exception of a relatively small percentage that is manufactured in our arsenals, have to be procured from industry under contracts entered into with the companies. That would be true of the British, and, by and large, we would have to procure that material from industry; although, as you know, we have supplemented industry and our own arsenals by new munitions plants which are being built, like that which is opening up today at Radford. Some might call that a Government arsenal or Government plant, but it was built by a private company and is being operated by the company.

Mr. CANNON. Will matériel be purchased direct or on a cost-plus basis?

General BURNS. They are fixed-fee contracts.

Mr. CANNON. The contract provides for a specific price per unit, or for a definite over-all sum?

General BURNS. It has to be on the basis of a fee plus cost.

Mr. CANNON. Per unit?

General BURNS. That is right.

Mr. WOODRUM. You are talking about the construction, are you not?

General BURNS. I am talking about both.

Mr. WOODRUM. I think Mr. Cannon was talking about operation.

Mr. CANNON. Both construction and operation. With regard to construction and the operation of these plants, which will be operated by a private company under contract, have you entered into any such contracts up to this time?

General BURNS. Yes, sir; we have entered into a good many of them.

Mr. CANNON. How do prices at which you have contracted for this material compare with prices on the market before the opening of the war?

General BURNS. I hate to attempt to give you a comparison of prices. I think, by and large, the prices we are obtaining are quite satisfactory. Now, of course, as you know, we have not reached the operation stage of most of these plants; so, as to what the element of cost would be per unit of product we do not know. The best we have so far is an estimate of cost.

Mr. CANNON. I misunderstood you, then. I thought you said you had already entered into definite contracts, and that the contracts specified the cost per unit.

General BURNS. No; I said that it is a cost-plus-fee contract, so you have got to pay whatever the cost turns out to be plus a fixed fee for operation. It is not a fixed-price contract insofar as the cost of the product is concerned.

Mr. CANNON. It is not a cost per ton; it is not a cost per day?

General BURNS. No, sir.

Mr. CANNON. It is an over-all cost plus a fixed fee for management?

General BURNS. Plus a fixed fee for management, that is correct. We do not know what the cost is going to be at this time, though we know what the estimates are going to be.

Mr. CANNON. Then on what basis do you estimate the cost to be fairly satisfactory? If you do not know what it is going to be, how can you determine whether it is satisfactory?

General BURNS. I think perhaps that my statement was not in order, because when you analyze it you do not know what the element of cost is going to be so you do not know how the element of future cost is going to compare with past costs.

Mr. CANNON. You do not know what the cost is going to be, but you do know the cost of the items which enter into the cost of production—labor, material, and management. How would those costs compare with similar costs during the World War?

General BURNS. I do not know that I can answer that question, Congressman.

Mr. CANNON. Well, are you familiar with the cost of similar munitions during the World War? I should think that would be one essential in negotiations preliminary to making these contracts; that you would know what had been the cost of similar services on previous occasions.

General BURNS. Of course, you are trying to get down to the element of the cost of the product, are you not?

Mr. CANNON. Exactly. That is the essential thing. We are appropriating \$7,000,000,000, but if the cost is going to be twice what it was before, we are only getting \$3,500,000,000 worth of material. The important thing at this time, is to get the full value of the money appropriated. Now, shall we spend \$2 for what cost us \$1 in the World War, or are we going to get these munitions at reasonable prices?

General BURNS. I think our prices are reasonable. These contracts are cost-plus-fee contracts, and we have not reached the element of production yet, so we cannot tell what the element of production cost is going to be.

Mr. CANNON. But you do know the price of items entering into the cost of production?

General BURNS. Yes, sir. My definite impression is that all the prices are favorable.

Mr. CANNON. What is considered favorable? Is it your impression that they are about the same prices paid during the World War?

General BURNS. No; I think they are better than the prices we paid during the World War.

Mr. CANNON. They are cheaper?

General BURNS. They are cheaper; that is right. For example, in the World War we had to pay roughly 50 cents a pound for TNT. Our recent fixed-price contracts with some of the munitions factories for TNT were in the neighborhood of 15 cents a pound.

Mr. CANNON. That is a gratifying drop; a fall from 50 to 15 cents a pound.

General BURNS. Yes, sir.

Mr. CANNON. Can we attribute that decrease to market conditions during the last war, or have they developed methods of production which enable you to effect those economies?

General BURNS. I think the prices of raw materials have gone down, and the efficiency of production has increased—both.

Mr. SMITH. If I might add to that answer, in a general way—

Mr. CANNON. Yes.

Mr. SMITH. I am no expert on prices, but I know that in general so far as materials go at least, we have had no such disturbance with respect to prices as we had during the last war. Aluminum, for example, is probably the lowest in the history of the metal, in the face of the largest demand this country has ever had for aluminum. Is not that correct?

General BURNS. That is right.

Mr. SMITH. Would you say that that, in general, is true of most of the other items?

General BURNS. That is true.

Mr. SMITH. They are fairly stable or down. There may be some special items that are up, but the general answer to that question, I think, is that the costs are nowhere near what they were, during the last war, simply because there has not been any comparable disturbance in prices generally.

Mr. CANNON. That is a very satisfactory situation.

General BURNS. I would like to sum it up to you, Congressman, in order to get the statement clear.

Where we can compare our present prices with World War prices on the basis of fixed-price contracts, I think that our prices now are very favorable. In fact, I think they are considerably below World War prices. But, of course, where we are dealing with cost-plus-fee prices, we cannot tell you what the element of cost is going to be, because we have not reached the production stage yet. But I think we have every right to believe that those costs are going to be considerably below the World War costs.

Mr. CANNON. You expect to be able to adhere, then, in your cost-plus production to the price standards at which you have contracted with private companies up to the present time?

General BURNS. On the basis of fixed-price contracts.

COMPARISON OF PRICES IN ENGLAND AND THE UNITED STATES

Mr. CANNON. You are in close contact with the English situation, and you have exchanged with their purchasing agencies all information which might be considered to be of mutual value. What information have they given you as to the cost of production in England of the commodities inventoried in these categories, up to the present time?

General BURNS. I have not received any information. Have you received any information, Colonel, as to what they are paying?

Colonel AURAND. We have found that the prices for corresponding items are lower there than they are here.

Mr. CANNON. How do you account for the fact that the prices are lower there, when they have been in the war now for several years and working under war conditions, which would naturally be expected to inflate prices, as compared with prices extant in the United States under peacetime conditions.

Colonel AURAND. I cannot account for that, sir. It must be in their domestic situation on both price and labor control.

Mr. CANNON. When you analyze prices, what comparable element in the production of standard commodities is lower in England than in the United States?

Colonel AURAND. We have not received such a price analysis as yet.

Mr. CANNON. Mr. Smith, I take for granted that every consideration is being given to securing the materials enumerated in these categories at the most reasonable prices obtainable, and at favorable prices in comparison with prices at which they are being produced in England, where they are to be consumed?

Mr. SMITH. I can only say that I am confident that everybody is working to that end.

Mr. CANNON. That is one of the most essential things for which we can make provision at this time.

AGRICULTURAL PRODUCTS

(See pp. 13, 20, 35, 39, 51)

There are also in these inventories some materials for which, so far as we know, you were not called upon to make provision in the last war. For instance, agricultural products. In the last war, agricultural products for trans-oceanic shipment were bought by the governments to which consigned. So this seems to be a departure—or is it—that our Government is buying and transporting agricultural products?

Mr. SMITH. I assume it would be a departure from the first World War.

Mr. CANNON. What plans have you developed for procuring agricultural products under this bill?

Mr. SMITH. Those products, of course, would be procured under the supervision of the Department of Agriculture. If they were surplus products, they would be procured, probably, through the Surplus Commodity Corporation. In some other cases they might be purchased through the Procurement Division of the Treasury. But in any event the processing of those requests would have to be done by the Department of Agriculture and the Defense Commission to determine what effect the release of particular sorts of food products or agricultural products would have upon our own economy.

Mr. CANNON. You are under authority to send across existing material up to \$1,300,000,000. Would that be interpreted to include existing supplies of agricultural products?

Mr. SMITH. Yes, sir.

Mr. CANNON. If you should avail yourselves of this prerogative, would you probably transport agricultural products already in the possession of the United States—for instance, cotton, wheat, corn, or other farm products already under seal in warehouses, on which the United States Government has lent money—or would you buy it in the open market?

Mr. SMITH. I assume that would have to be determined at the moment by the Secretary of Agriculture in the light of what product it was that the British wanted and the effect of releasing that upon our own situation.

PROVISIONS IN PROCUREMENT CONTRACTS

(See p. 50)

Mr. CANNON. Have you with you now, Mr. Smith, copies of contracts or forms of agreements for the procurement of material or services under this bill?

Mr. SMITH. No, sir.

Mr. CANNON. Where are these contracts on file; in the War Department?

Mr. SMITH. There are no contracts, so far as I know, prepared specially—

Mr. CANNON (interposing). You tell us you have entered into contracts for the erection of facilities and for their operation after they are completed. Where are those contracts?

Mr. SMITH. I misunderstood you.

Mr. WOODRUM. They are not under this bill?

Mr. SMITH. No; nothing under this bill.

Mr. CANNON. But you will follow the same procedure in the expenditure of the funds provided by this bill. Where are those contracts?

Mr. SMITH. Existing contracts are filed in the War Department, and in the Navy Department.

Mr. CANNON. Could you supply sample copies of them for inspection by this committee?

General BURNS. Yes, sir. We have them available.

Mr. CANNON. When would they be available for the use of the committee?

General BURNS. We could give them to you within an hour or two. All we would have to do would be to send down to the Department.

Mr. CANNON. We would be glad if you could let us have them this afternoon.

General BURNS. Yes, sir.

Mr. CANNON. In a general way, what is provided in these contracts? Can you briefly summarize the major provisions of these contracts.

General BURNS. Take a large TNT contract; we have to build the plant and then we have to operate it, and in order to do that, generally speaking, we have three contracts, one for architectural and engineering work, one for construction work, and one for operation.

Mr. CANNON. Is that the plan followed in the construction of cantonments up to this time?

General BURNS. Substantially, except, of course, you do not have the operating contract in the case of a cantonment. I am not so familiar with that, because that pertains to a part of the Army to which I am not attached; but my understanding is that they have an architectural contract and they have a construction contract. Maybe the Quartermaster General could supply that information.

Mr. CANNON. Is it possible that contracts are too flexible or too indefinite, General Burns. We are told that in the erection of these cantonments your estimates were in some instances below actual costs of construction.

General BURNS. I would not attempt to speak on that, because I do not know about that.

Mr. CANNON. In making future contracts, under this bill, would it be possible to so revise those contracts as to secure construction and operation at a definite figure? Could they be so drawn that there would be no occasion for surprise and especially no occasion for this unexpected increase when the time came to pay?

General BURNS. Yes, sir. As I say, I do not know about the cantonments, because I have not been involved in them; but when it comes to these production-construction contracts, as we call them,

I think our estimates of production are reasonably accurate, so that there ought not to be any great surprise at any time during the building as to what the ultimate cost is going to be.

Mr. CANNON. There should be some way of knowing in advance and there should be some way of agreeing in advance as to what the cost will be. In building a house for private use, as members of this committee have done, we make a contract with the builder under which we know definitely what it will cost.

General BURNS. That is right.

Mr. CANNON. Would it be practicable for the Government to use similar foresight?

General BURNS. There are two principal reasons why we cannot do that as well as you can. In the first place, we have got to do some planning as we go along. We cannot have our plans completed at the start, because we are putting up these gigantic projects that sometimes run 20 or 25 million dollars, and our first concept of the objective is not always correct, and we have got to change the objective to meet the requirements as they develop. That is one big reason. Then, of course, as you know, there is no great fixity right now in the cost of labor and in the cost of raw materials, and so forth.

Mr. CANNON. If you enter into contract for a fixed price, that contract would be enforced.

General BURNS. That is right; but if you enter into a fixed price or so-called lump-sum contract now on a lot of these things the contractor is going to protect himself by a very high fixed price, because he is going to insure himself against rising labor costs and rising raw material costs, and all the rest of it.

Mr. CANNON. He could hardly insure himself against more than he is getting now without any insurance.

NEW OVERHEAD ORGANIZATION

(See p. 26)

Mr. CANNON. Supplementing Mr. Woodrum's inquiry, we have been informed—at least the press has informed or surmised—that there will be an inner group, official or unofficial, which will expedite production and otherwise supervise activities relating to the expenditure of money provided in this bill. Can you give us any information as to that phase of this program?

Mr. SMITH. I do not think that the details have been decided.

Mr. CANNON. You understand the question is not asked in a critical mood. With this extraordinary activity, on a scale never before contemplated, it stands to reason that there should be some special agency in a position to devote time and attention to its efficient administration. You have had no information on that up to this time?

Mr. SMITH. No, sir.

Mr. CANNON. What is your impression as to the likelihood of the establishment of such an agency?

Mr. SMITH. I think that some sort of policy committee, probably consisting of Cabinet officers whose departments are especially interested in this program, such as the Secretary of War and the Secretary of the Navy, will be established. I do not see very much

in the way of an organization that is necessary beyond the use of the established agencies. I would think that in the War Department there would probably be assembled some group of officers, perhaps attached to the staff, who would give attention to this.

General BURNS. That is correct.

Mr. SMITH. And a similar situation in the Navy; the War and Navy Departments being chiefly concerned with the largest sums in this bill; and my impression would be, for whatever it is worth, that certainly no great amount of special machinery is necessary.

Mr. CANNON. In your own bureau, what special routing provision, if any, will be provided to take care of this extra work?

Mr. SMITH. We will set up the procedures for the departments in routing their requests for allocation to us. As far as I can see at the moment, although we have not actually had an opportunity to appraise it, no great amount of additional staff is necessary.

Mr. CANNON. Of course, every precaution is being taken to see that every step is carefully considered and that every operation is scrutinized? As you know, there will be a day, after the close of the war, when all transactions will be subject to review. If there is a change in party control of the Government—and I do not say that in any invidious way, because that is the natural thing—committees of investigation will be appointed. The last time there was a change of administration, we appointed a committee of investigation that spent \$1,000,000 investigating the war. They never did find anything, but that is the routine, and we would like to know if you are taking every precaution to meet that reckoning when it comes, and whether your records will be in form to supply any information such a committee may require?

Mr. SMITH. Yes, sir; we shall certainly make every effort to see that this program is properly administered. No one, of course, can make complete guarantees.

AGRICULTURAL PRODUCTS

(See pp. 13, 20, 32, 51)

Mr. CANNON. Recurring to the category for agricultural products, General Burns, do you consider the ration, as a munition of war? Which is the more indispensable; food for the soldier or the gun which he carries?

General BURNS. Do you want to know my personal opinion?

Mr. CANNON. Yes.

General BURNS. I think it is absolutely as essential. I think ammunition for the man is just as important as ammunition for the gun; that is to say, food for the man is as important as ammunition for the gun.

Mr. SCRUGHAM. It is more important?

General BURNS. Yes.

Mr. CANNON. How will that be handled? Will procurement under this item follow the usual Army and Navy channels?

General BURNS. I think Mr. Smith is better able to answer that question than I am, because that has to do with agricultural products.

Mr. SMITH. As I pointed out before, it would certainly have to be processed by the Department of Agriculture. Now, as to the particular product that may be required at the moment, under the act, the

President would indicate what would be the appropriate agency to procure that product.

PRODUCTION COSTS AND PRICES

(See pp. 29, 48)

Mr. LUDLOW. I have noted that while you were discussing prices you stated that prices were not increasing, that they were stabilized; in some cases they were actually reduced. That does not hold true with reference to lumber?

Mr. SMITH. If I left that impression I should correct it. I was making a general comparison between the price situation now and the price situation in the last World War. Prices are increasing, of course, in some items, and we can submit probably some indices that would indicate it, but there is much less disturbance in prices than took place during the last war.

Mr. LUDLOW. I understand as regards lumber prices there has been some difficulty. Have you any particular knowledge of that; are you acquainted with that situation?

Mr. SMITH. I know in general about the problem. I would say, and it is my understanding, that lumber prices now are coming down.

Mr. LUDLOW. It looked for awhile as if the price of lumber was going to impose an insurmountable burden in the various construction programs, and I was wondering whether you had gone into that question to any extent.

Mr. SMITH. We were aware of the problem and secured our information concerning it from the Defense Commission.

Mr. O'NEAL. I am amazed at that statement. I have asked every witness who has come from the Army and the Navy, and without exception each one has stated that material costs and construction costs have been higher than they were a year ago; that labor is higher than it was a year ago. That was the universal answer, and I cannot understand the statement that material costs and labor costs are not appreciably higher.

Mr. SMITH. I did not make that statement.

Mr. O'NEAL. I think some explanation of that should be made. To all of the witnesses in these hearings I have asked the specific question and have received the statement in each case, that the costs were higher depending upon the material and cost of labor was higher.

General BURNS. Mr. Smith and I answered that question in the same way. Mr. Cannon asked us about comparative costs between now and the World War.

Mr. O'NEAL. Yes.

General BURNS. And we said that costs now were considerably less than they were during the World War.

Mr. O'NEAL. Yes; but in answering the question of Mr. Ludlow it was not put that way.

Mr. SMITH. I would like to clear that up. You are asking specifically with reference to prices of lumber, Mr. Ludlow?

Mr. LUDLOW. Yes.

Mr. SMITH. I am not prepared to answer in detail. I am aware of the problem that arose.

Mr. LUDLOW. Will you put something in the record on that?

Mr. SMITH. Yes.

(The information requested follows:)

Bureau of Labor Statistics wholesale commodity price indices (1926=100)

[Annual, 1913 to 1940, both inclusive; monthly, January 1940 to February 1941, and week ending Mar. 8, 1941, both inclusive]

Period	Raw materials	Lumber	Period	Raw materials	Lumber
1913.....	68.8	54.0	1935.....	77.1	81.8
1914.....	67.6	49.9	1936.....	79.9	87.0
1915.....	67.2	48.7	1937.....	84.8	90.7
1916.....	82.6	55.1	1938.....	72.0	87.4
1917.....	122.6	72.2	1939.....	70.2	93.2
1918.....	135.8	83.5	1940.....	71.9	102.9
1919.....	145.9	113.0	1940—January.....	73.8	98.7
1920.....	151.8	165.2	February.....	72.7	97.7
1921.....	88.3	88.9	March.....	72.0	97.4
1922.....	96.0	99.1	April.....	73.0	96.7
1923.....	98.5	111.8	May.....	72.0	96.0
1924.....	97.6	99.3	June.....	70.7	94.8
1925.....	106.7	100.6	July.....	70.7	94.8
1926.....	100.0	100.0	August.....	69.8	98.4
1927.....	96.5	93.1	September.....	70.5	107.1
1928.....	99.1	90.5	October.....	71.4	114.4
1929.....	97.5	93.8	November.....	72.6	117.5
1930.....	84.3	83.8	December.....	73.6	118.8
1931.....	65.6	69.5	1941—January (estimate).....	74.6	118.4
1932.....	55.1	58.5	February (estimate).....	73.8	117.4
1933.....	56.5	70.7	Mar. 8, week ending (estimate).....	74.1	117.1
1934.....	68.6	84.5			

NEW PLANT FACILITIES

(See pp. 14, 58)

Mr. LUDLOW. Will this material be produced in plants that are existing now and producing war materials at this time or does it mean the erection of a vast number of new facilities?

General BURNS. Some will be produced in existing plants, some will be produced in plants under construction, and a part also will be produced in the additional wave of plants that are going to be created.

Mr. LUDLOW. Will that additional wave be a large number?

General BURNS. It will be an appreciable number.

DISPOSITION OF DEFENSE ARTICLES

Mr. LUDLOW. I gather from my correspondence that one of the principal fears the people have about this lend-lease program is that it might impinge upon the requirements for our own national defense. What system have you set up or will set up to check that matter to see that it does not; that is, to see that the supplying of this material to the British to the vast degree indicated does not endanger our own defense? What will be the modus operandi to accomplish that?

General BURNS. Of course, you wrote into the law that the President had to consult the Chief of Staff before the items pertaining to the Army can be released to a foreign government.

Mr. LUDLOW. I was just wondering if the mechanics of the thing have been worked out.

General BURNS. The mechanics were started to the extent that no release of stocks or materials, or production, is being given out without the President consulting the Chief of Staff.

Mr. LUDLOW. And it is the intention to religiously follow that procedure?

General BURNS. It certainly is to be religiously followed, and the departments are gearing themselves up to do that.

BUREAU OF BUDGET TO COORDINATE DATA ON PROGRAM

(See p. 27)

Mr. LUDLOW. Where will the records of this vast transfer of material be kept; will they be kept in your office?

Mr. SMITH. I do not know exactly what sort of a system we will have, but the original records, of course, will be kept in the departments, with some provision for centralizing summaries.

Mr. LUDLOW. There will be a centralized office for records; is that the idea?

Mr. SMITH. Records will all head up at a central point; but they originate at various points—

Mr. LUDLOW (interposing). Have you any idea how many persons will be required to keep those records systematized at some central place?

Mr. SMITH. I do not know at this time.

Mr. LUDLOW. And you do not know yet how or to whom the records will be made available for inspection?

Mr. SMITH. They will be made available, of course, to the President.

Mr. LUDLOW. Will they be made available to committees of the Congress, or Members of the Congress?

Mr. SMITH. The President is to report every 90 days.

Mr. TABER (interposing). Mr. Smith, there is no question but what there is going to be an absolute record kept in some central place of all of these transfers?

Mr. SMITH. That is right.

Mr. TABER. And it is going to be kept so that it will be made available to the President and to the committees of Congress who have charge of this situation all of the time.

Mr. SMITH. That is right. Some records are of a confidential nature.

Mr. TABER. There will be some of them that you will have to keep from the public in your statement?

Mr. SMITH. That is correct.

Mr. LUDLOW. I want to ask you in that connection, do you not think that in keeping the records they will also be available to Members of Congress who have responsibility in this matter, especially to committees?

Mr. SMITH. There will be such records available.

Mr. LUDLOW. Britain has submitted a list of the requirements so far, I understand. Do you contemplate, or do you have any knowledge of any further list of Britain's requirements coming later on?

Mr. SMITH. I do not.

ADMINISTRATIVE EXPENSE

(See pp. 61, 63)

Mr. SNYDER. In setting up the personnel to take care of the added duties that will naturally come to each department, such as the Treasury, did I understand you to say you will pay the expenses of

personnel, for instance, in the Treasury in this way; that is, it would be taken out of the \$7,000,000,000 fund, or any additional fund to handle that requirement created by this demand?

Mr. SMITH. It will be taken out of the administrative expenses; yes; that is item (d) under the bill.

Mr. SNYDER. Most of this production for these various implements and materials are in the category that there will be just another production for the plants that are already in existence? For instance, you have a plant down here manufacturing certain types of shell; we have plants for those, and the same condition, the same contractual condition, will exist in putting out this order for the democracies, as exists at present?

General BURNS. I think that is correct.

AGRICULTURAL PRODUCTS

(See pp. 13, 20, 32, 35, 51)

Mr. SNYDER. My third question is with reference to the agricultural phase, Mr. Smith, in which you stated that the Department of Agriculture would have to come in on this. Have you called in the Secretary of Agriculture or anybody under him in your consultations up to the present time with reference to the commodities that are being taken up under this program?

Mr. SMITH. The Secretary of Agriculture and four or five members of his staff sat in with us in the discussion of this item as well as a representative of the Defense Commission concerned with food.

Mr. SNYDER. They can fulfill the conditions that might be asked of them in supplying these agricultural commodities?

Mr. SMITH. So far as they know them now.

Mr. O'NEAL. Mr. Smith, if any part of this should be off the record you are at liberty to delete it.

TITLE TO DEFENSE ARTICLES

(See p. 21)

This bill is not simply a lend-lease bill in that you have authority to do other things than lend and lease; that is, to make outright purchases and outright sales. In other words lend-lease is not fully descriptive of the powers conferred in the bill. Is that correct?

Mr. SMITH. That is right.

Mr. O'NEAL. I would like to ask this question: As I understand, the title to anything which the Government is transferring to some foreign power does not pass until actual delivery is made. Am I correct?

Mr. SMITH. That is my understanding. In some cases it may never vest, depending upon the agreement that is made.

Mr. O'NEAL. Now, if the war were to end very soon and delivery had not been taken the Government would be under no obligation to furnish the materials or to make them up for some foreign government; the Government would not be under obligation to go ahead, nor would the other government be required to pay; is that correct?

Mr. SMITH. I am not quite clear with respect to the last part of your question.

Mr. O'NEAL. For instance, you are under contract to deliver a certain amount of material to some foreign country, and if the war should end we would not continue to be under obligation to do that?

Mr. SMITH. Probably not.

Mr. O'NEAL. Or are they under obligation to pay for it?

Mr. SMITH. I assume they would not have to pay for things they did not receive.

Mr. O'NEAL. In other words, they would not be required to pay; and we could stop operating, and possibly salvage something from the money appropriated.

Mr. SMITH. Yes.

Mr. O'NEAL. Under this bill, title will not pass until the actual delivery takes place and no obligation to pay for it will accrue until delivery is ready. Am I correct in that?

Mr. SMITH. Obligation insofar as any foreign country is concerned?

Mr. O'NEAL. That is what I mean; yes.

Mr. SMITH. The terms of the agreement would decide that.

PROCUREMENT OUTSIDE UNITED STATES OF DEFENSE ARTICLES

(See pp. 21, 42)

Mr. O'NEAL. I would like to ask this further question: Under this law do you have authority to construct facilities both at home and abroad?

Mr. SMITH. We have authority to purchase from foreign countries.

Mr. O'NEAL. And to contract for the manufacture?

Mr. SMITH. That is not my understanding.

Mr. WOODRUM. You can purchase goods that are made abroad, but you cannot set up facilities in foreign countries.

Mr. O'NEAL. You can buy at home or abroad under the bill, but you cannot actually erect facilities outside the territorial limits of this country. Am I correct?

Mr. SMITH. That is my understanding.

Mr. JOHNSON of West Virginia. General Burns, you have stated, I believe, and it was approved by Mr. Smith, that by comparison of cost of articles that were purchased in the last war you found that prices now were lower?

General BURNS. That is correct; that is my understanding.

DISPOSITION OF PLANTS AFTER DEFENSE EFFORT HAS CEASED

(See pp. 14, 43)

Mr. JOHNSON of West Virginia. Going back to these factories, or these facilities that you propose to build, suppose the war would end, say, in 6 months or a year and England would be successful, what would be the need of these factories?

General BURNS. Well, I think the situation would have to be reviewed then and the general policy determined as to what we should do.

Mr. JOHNSON of West Virginia. But, in the meantime, we have gone into contracts to build these facilities.

General BURNS. Right.

Mr. JOHNSON of West Virginia. And they have already started construction?

General BURNS. As you know, exactly that same thing happened in the World War; we had a lot of plants under way, a lot of orders under way, and Congress passed a law in reality requiring the cancela-

tion of a great many of those projects. I presume the same thing would happen again, and we would have to work out a scheme for liquidating our war effort.

Mr. JOHNSON of West Virginia. That is what I want: Is there any cancelation clause in these contracts that would enable the Government to release itself from that obligation?

General BURNS. I do not recall whether we put in a cancelation clause.

NOTE.—When copies of contracts were produced it was found that they do contain cancelation clauses.

Mr. JOHNSON of West Virginia. So that, if the war should end within a year, we would have little or not need of these plants and their equipment?

General BURNS. No; I do not think we would need them; because, with the plants we have already started or will start with the money you have given us or will give us, I think we will have ample support for our military effort. This program is over and above that, and I have no doubt if the war stopped, with the situation reasonably favorable to us, we could liquidate a good deal of this.

SUPPLY OF ELECTRIC POWER

Mr. SCRUGHAM. Mr. Smith, a few months ago I read a statement emanating, I think, from the Federal Power Commission, that if the requirements for war munitions and such implements as are given in this lend-lease bill were continued we would face a serious power shortage in 2 or 3 years. Now, partly to rectify that situation, plans and specifications were presented to the Budget for authorizing funds for one or more power plants. I have particularly in mind the Bull's Head site on the lower Colorado River. Are you taking such factors of power shortage into consideration?

Mr. SMITH. Yes; we are.

Mr. SCRUGHAM. Has there been any action taken to prevent the power shortages?

Mr. SMITH. There has been action on several such plants. In fact, we have, with respect to every such issue that has arisen, consulted the Federal Power Commission and had their staff people in with us.

Mr. SCRUGHAM. I am interested in the Bull's Head project. You do not recall any Budget, action on that request for construction funds?

Mr. SMITH. No, sir.

Mr. WOODRUM. Any questions, Mr. Taber?

Mr. TABER. I am not going to ask any questions at this point. I have some questions with reference to the status of the British financial situation and what they would have available to pay, and I am going to ask just this one question:

I understand, Mr. Smith, you are prepared to answer those questions?

Mr. SMITH. Not at the moment, sir.

Mr. TABER. You are not?

Mr. SMITH. No, but I can get the information for you and for the record. The Treasury will furnish it.

Mr. TABER. When you come back here this afternoon, I would like to have you prepared for it, if you can do so. That information ought

to be available to the committee. I am not going to ask it, however, and I am going to suggest that we not ask it until after we get through with the detail of this bill.

PROCUREMENT OUTSIDE UNITED STATES OF DEFENSE ARTICLES

(See pp. 21, 40)

Mr. WOODRUM. Mr. Wigglesworth?

Mr. WIGGLESWORTH. I will pass also, except for one question. Under section 8, which Mr. O'Neal's interrogation referred to, it says—

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable.

I would simply like to ask if the request before us contemplates the purchase or acquisition of any arms, ammunition, or implements of war in any country other than the United States?

Mr. SMITH. It does not, so far as I know.

General BURNS. There is no plan under way to do that at all, that I have heard of.

Mr. TABER. That is not within the range of what you have brought here to submit?

General BURNS. No, sir; it is not.

PROCEDURE IN ADMINISTRATION OF FUNDS

(See p. 25)

Mr. DITTER. Now, Mr. Smith, just briefly: I confess I have not gotten into my head what the mechanics of this program will be. Let us assume we are to make 100 tanks: Will the allocation for that 100 tanks go into the War Department and be accounted for by the War Department, or will it be budgeted and carried through some new agency?

Mr. SMITH. It will be processed through the War Department exactly as our own munitions are processed.

Mr. DITTER. For instance, then, the War Department, in its supply account, or whatever the particular account might be, would have in there, first of all, the cost of these 100 tanks and then, if there were a credit established by the reason of the sale of those 100 tanks to Great Britain, that would be an offset item on the credit side of the account? Is that the way the operation would be handled?

Mr. SMITH. Yes.

Mr. DITTER. So that, to that extent, there would be a possible increase in the personnel needed by the War Department to handle this new overhead; is that right?

Mr. SMITH. Yes.

Mr. DITTER. This accounting?

Mr. SMITH. That is right.

Mr. DITTER. But, when it came to the administrative cost incident to that, it would not come out of the War Department's administrative funds, but would come out of this special administrative set-up that would be provided for under (d) in the bill?

Mr. SMITH. Right.

Mr. DITTER. Is my theory, generally speaking, correct?

Mr. SMITH. That is right. Otherwise, we would not be able to keep track of the additional amount of administrative expense due to the lend-lease bill.

Mr. DITTER. And the same thing would be true with reference to the Navy; for instance, if the Navy built a destroyer and had that destroyer transferred to Great Britain, the cost of that would be in "Construction and repair, engineering," and so on, and then whatever you sold it for would be a credit established on the other side of the ledger for it? Is that your general thought as to the way this thing will be carried out?

Mr. SMITH. That is right.

APPLICATION OF EXISTING LAW TO PROCUREMENTS

(See p. 27)

Mr. DITTER. Mr. Lawton, I confess—and this is not argumentative in any way, but in answer to one question, I think propounded by the chairman, as to the powers under this bill vested in the hands of the President, I believe you made the observation and used as an analogy the Walsh-Healey Act and said, for instance, that you felt there was no power in this bill, the lend-lease bill, for the President to set aside the terms of the Walsh-Healey Act. Was I correct in so understanding your statement?

Mr. LAWTON. I said that in its report the Committee on Foreign Relations, in interpreting this phrase—"Notwithstanding the provisions of any other law"—made that statement.

Mr. DITTER. Now for the present, we shall not set-up the Committee on Foreign Affairs as the interpretive body of what the law means, shall we?

Mr. LAWTON. Well, they are the committee that brought out the bill, and I assume are the best qualified to speak.

Mr. DITTER. Well, cannot we ask you, as a skilled expert, what your opinion is with reference to the powers here, rather than the Foreign Affairs Committee?

Mr. LAWTON. No; I am sure the interpretation of this law, in the executive branch, would have to be by the Attorney General.

Mr. DITTER. If I may pursue that further, you used the word word "conflict", "those things which would not be in conflict." There are some who feel that the Walsh-Healey Act is in conflict with the spirit and intent of the lend-lease bill. Now, would that change your opinion in any way?

Mr. LAWTON. I am afraid the Attorney General would have to decide that question; I could not.

DISPOSITION OF MATERIAL AFTER DEFENSE EFFORT HAS CEASED

(See p. 14)

Mr. JOHNSON of West Virginia. Just one question there: Pursuing Mr. Ditter's inquiry on the 100 tanks, suppose we built the 100 tanks under the lend-lease bill and then delivered them to England and they would get them over there and the war would stop, and perhaps those tanks would be intact—what would become of those tanks?

Mr. SMITH. Well, I should say it would depend on the terms of the agreement.

Mr. DITTER. It would be entirely dependent on the agreement, would it not, Mr. Smith?

Mr. SMITH. Yes.

Mr. DITTER. They might be loaned to them, or they might be sold to them?

Mr. SMITH. That is right.

Mr. DITTER. Or they might be leased to them; in fact, any one of a number of conditions might be present?

Mr. SMITH. Right.

Mr. JOHNSON of West Virginia. Well, suppose you lent them instead of selling them, what would physically become of those tanks? And, of course, what will apply to the tanks will apply to everything else, unless it be powder, which they would consume; but it would apply to airplanes, for instance.

Mr. SMITH. The agreement might provide for their return or, in the agreement, we might have traded tanks for some raw materials which we could secure from some of the British dominions. We might prefer that they keep the tanks and we keep the raw materials.

Mr. JOHNSON of West Virginia. Well, have you given that matter any thought?

Mr. SMITH. Those agreements will have to be worked out at the time articles are to be disposed of under the law.

Mr. JOHNSON of West Virginia. Well, now, you may have 100 tanks delivered in the next 90 days, and you do not know now whether you want potash, sulfur, tin, or what. Now, how are you going to take care of that situation?

Mr. SMITH. Well, the lease-lend bill provides under section 3 (b):

The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

Mr. JOHNSON of West Virginia. Well, we all admit that the success of England will be much to our advantage, and the President might come to the conclusion that, by reason of that fact, he would be justified in letting England keep the 100 tanks without repaying anything. Is not that true; could not that be so construed?

Mr. SMITH. It might be.

Mr. JOHNSON of West Virginia. In other words, we take a chance here on building all of these facilities and furnishing all of this material and, at the end of the war, England might have them without paying a dollar for them, or obligated to pay a dollar for them?

Mr. SMITH. I assume we take that chance.

Mr. JOHNSON of West Virginia. I say it is possible under this appropriation to do that?

Mr. SMITH. It is under the lend-lease bill.

Mr. JOHNSON of West Virginia. It would be possible?

Mr. SMITH. Yes.

PERSONNEL UNDER CIVIL SERVICE

Mr. TABER. Just one question. Now, these folks that are employed in the departments as the result of this bill, or anywhere else

insofar as the Government setup goes—will they be under the civil service, just like the rest?

Mr. SMITH. I assume that all existing laws with respect to personnel will be applied.

Mr. TABER. The civil-service requirements will not be waived for that purpose—for the purpose of handling this bill?

Mr. SMITH. All the present provisions would apply.

Mr. DITTER. And there will be no new bureau established, no new alphabetical agency? Is that right, Mr. Smith?

Mr. SMITH. I do not know of plans for any.

Mr. DITTER. There will be no B. A. B., for instance?

Mr. SMITH. I do not know of any.

Mr. LUDLOW. What about the ability of the Civil Service Commission to supply all of the personnel needed in this very vast expansion?

Mr. SMITH. They seem to be doing it now, and are doing a very good job of it.

Mr. LUDLOW. Up to date?

Mr. SMITH. Yes.

FRIDAY, MARCH 14, 1941.

STATEMENT OF WILLIAM S. KNUDSEN, CHAIRMAN, OFFICE OF PRODUCTION MANAGEMENT

CONTRACTS HERETOFORE PLACED FOR PLANTS AND MATÉRIEL

Mr. WOODRUM. Mr. Knudsen, the committee has before it estimates in the amount of \$7,000,000,000 for the implementing of the lease-lend bill. A very important part of that, of course, is represented by funds for expediting production and providing for extra production. The committee would be very glad to have any statement you wish to make on the subject, following which we shall ask you questions.

Mr. KNUDSEN. Mr. Chairman, would you care to know where we are today, what we have done up to date?

Mr. WOODRUM. The committee would like very much to know that.

Mr. KNUDSEN. I might start by saying that since we came down here in June, the total contracts placed for matériel, not for facilities, up to date, amount to almost \$12,600,000,000.

In order to handle this amount of work, we have spent for Government plants, or contracted for, \$1,574,000,000. That has been spent in 302 establishments.

On top of that, the British have financed 61 plants, in the amount of \$171,000,000.

We have certified privately financed plants in the number of 421 at a cost of \$393,000,000. So that the total amount that we have as of today of plant expenditure, is \$2,138,000,000. These are only prime contracts, to the largest extent. There are a number of privately financed subcontracts which we have no record of. We are only dealing, of course, with Government contractors. That is where we are today.

NUMBER AND TYPE OF PLANTS HERETOFORE PROVIDED FOR

I can tell you how the plants are distributed, if you are interested.

Mr. WOODRUM. Yes, sir.

Mr. KNUDSEN. Aircraft: We have 11 engine plants, 20 plane plants, and 66 parts and accessories plants.

Ammunition and ammunition components: We have 11 plants on explosives, 3 on small arms ammunition.

Shells, bombs, and torpedoes, 18; munitions loading plants, 9.

Guns: We have 5 plants on machine guns, 2 on other small arms, and 27 on artillery.

Ships: 40 establishments have been started or enlarged.

Tanks, 5.

Armor plate and heavy forgings, 12.

Machine tools, 20.

Optical instruments, 9.

Miscellaneous, such as chemicals, 5.

Metals, 7.

Pumps and blowers, 5.

Ship engines, propelling machinery, 3.

Miscellaneous, 5.

In addition to that, we have rehabilitated existing arsenals to the number of 19.

That totals up to 302, the figure I gave you a minute ago.

Mr. WOODRUM. Those plants are either already in operation or in the course of construction?

Mr. KNUDSEN. Yes, sir.

Mr. KNUDSEN. We expect to have all of those completed by July.

Mr. TABER. The list that you gave us includes only Government-owned establishments altogether?

Mr. KNUDSEN. Yes, sir; Government financed.

Mr. TABER. What is that?

Mr. KNUDSEN. Government financed.

Mr. TABER. That does not include the 421 private plants?

Mr. KNUDSEN. That is right.

Mr. TABER. Those are in addition to that?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. What is the total number of plants available for the various facilities enumerated, both public and private?

Mr. TABER. He has done that already; 421 private, 302 Government, and 61 others.

Mr. KNUDSEN. There is a total of 784.

Mr. CANNON. What we are interested in knowing is how many of each class; how many for explosives, how many for ordnance, how many for small arms, and in each case public or private.

Mr. KNUDSEN. I do not have the figures of the private plants. I brought Government figures here.

Mr. CANNON. Are the figures for private plants available?

Mr. KNUDSEN. Surely, we can get them for you.

Mr. CANNON. You can supply them?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. In determining the number of these plants, were you governed by the number that you needed or by the number available?

Mr. KNUDSEN. We were guided by what the schedule required.

Mr. CANNON. You have made arrangements for every manufacturing facility you need or desire, or that could be profitably used for the purpose; you have no need for additional facilities outside of these plants?

Mr. KNUDSEN. For the present Army program, yes.

Mr. CANNON. Does that include the entire program to be undertaken under the 7 billion dollar proposed expenditure?

Mr. KNUDSEN. No, sir.

Mr. CANNON. In what respect does it not include all of the 7 billion dollar expenditure?

Mr. KNUDSEN. I have said that the total amount of contracts that we had placed was \$12,600,000,000. That is the money that Congress granted us before the lend-lease bill came up.

FACILITIES PROGRAM UNDER FUNDS FOR DEFENSE AID TO OTHER COUNTRIES

(See p. 53)

Mr. CANNON. What expansion will be made possible by the appropriation of this money?

Mr. KNUDSEN. We have not definite quantities yet. As I know it, there is something around \$700,000,000 planned for additional plant capacity under the program of the lend-lease bill. In addition to that, we have about \$700,000,000 that is now before the House.

Mr. CANNON. Your report, then, to the committee, up to this time is a report on program expenditures and facilities heretofore provided, and which would be continued if none of these funds were expended?

Mr. KNUDSEN. That is correct.

Mr. CANNON. Now, we are interested in how you propose to expend the \$7,000,000,000.

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. What expansion of program will be undertaken and what additional factory facilities will be had as a result of the appropriation of this \$700,000,000?

Mr. KNUDSEN. A board has been set up by the Army to give us a schedule and suggestions for the plants required to handle the \$7,000,000,000 program. We have some preliminary figures that indicate that we will need a certain number of plants, and as soon as the board furnishes us with the schedule, it will be up to us to check, and we will then go ahead and provide for the facilities.

Mr. CANNON. You have not yet received the schedule and you are not in position to say what will be done with this additional fund when it is appropriated?

Mr. KNUDSEN. We have a preliminary schedule. We had the preliminary schedule for the second Army proposal. We have a sort of forecast. We generally try to find out in advance as far as possible. We have a forecast covering the \$7,000,000,000. But it is not in final form. It mentions the different items that are required to be provided.

Mr. WOODRUM. That \$700,000,000 is in the bill we are now considering?

Mr. KNUDSEN. This \$700,000,000 deals with the lend-lease bill. This deals with the facilities required to meet the lend-lease bill.

Mr. WOODRUM. That is what you are speaking of now?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. Will the plans for the expenditure of the money provided by this bill be a mere projection of the facilities already provided or will you spend this money in different avenues or in different proportion from that already provided?

Mr. KNUDSEN. You mean whether we will extend certain of the plants that we have, or expand them?

Mr. CANNON. Yes; in the same ratio.

Mr. KNUDSEN. That is, we will expand certain plants that we have now?

Mr. CANNON. Or will there be any considerable difference in the allocation of the money provided in the bill?

Mr. KNUDSEN. We will have to build more plants.

Mr. CANNON. Will you use to the fullest extent all private plants available?

Mr. KNUDSEN. Yes, sir; we will have to use, especially in machining more of the existing machine capacity. In other words, we will have to round that up.

Mr. CANNON. Then there is no plant which can be utilized in manufacturing explosives, ordnance, guns, or plants, or other matériel that will not be used for that purpose when this money is made available?

Mr. KNUDSEN. To the extent that the machinery will handle parts. You understand, we have no complete plants that will handle these things. We will subcontract orders as much as we can, for parts.

Mr. CANNON. What cooperation do you anticipate from owners of private plants?

Mr. KNUDSEN. We expect to have a greater use of subcontracting facilities than we have had to date. We are using a great many subcontractors now. But we will organize the country to get the additional machine capacity inventoried for purposes of parts making.

PRODUCTION COSTS AND PRICES

(See pp. 29, 36, 51)

Mr. CANNON. What terms do you get from private plants, Mr. Knudsen? How does the cost of material manufactured in Government plants compare with the cost of material manufactured in private plants?

Mr. KNUDSEN. I think that it compares very well.

Mr. CANNON. Does it cost more when the private plant makes it, or when the Government makes it.

Mr. KNUDSEN. Well, you understand, sir, the so-called Government plants that you are talking about are managed by private corporations.

Mr. CANNON. What is the difference in the arrangement you have with a firm that operates your own plants for you, and the contracts you make with private plants whose output you take?

Mr. KNUDSEN. There is no difference there.

Mr. CANNON. Do you have a standardized form of contract that you use as the basis for agreement with private plants and companies which operate your own plants?

Mr. KNUDSEN. There are three forms of contracts.

Mr. CANNON. What are those three forms?

Mr. KNUDSEN. The first one is a straight competitive bid.

Mr. CANNON. You go out and announce that you are in the market for certain material.

Mr. KNUDSEN. That is right.

Mr. CANNON. And the man who will agree to make it for the least money gets the contract?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. How long have you been making contracts of that character?

Mr. KNUDSEN. We are doing it every day.

Mr. CANNON. What trend do you notice in the bids you are receiving? Is the material you buy costing you more or less?

Mr. KNUDSEN. You mean over a period of time?

Mr. CANNON. Yes; from the time you made your first contract. When did you make your first contract?

Mr. KNUDSEN. The Army and Navy, of course, made contracts in June. I do not make any contracts.

Mr. CANNON. That is June 1940?

Mr. KNUDSEN. Yes.

Mr. CANNON. And your last contract, doubtless, was made today?

Mr. KNUDSEN. Perhaps.

Mr. CANNON. What trend have you noticed in the terms you are receiving from private industry?

Mr. KNUDSEN. That depends entirely on the item. On some items the cost has gone up. On some, it has remained fairly stationary. Take, for instance, food. I do not think there has been any increase at all on food. On textiles, there has been some slight increase. But in machine work I do not know of any instance that I can point out to you where the increase has been of any moment, so far.

Mr. CANNON. You are able to get products of machine work at as low a price now as you were able to get them when you made your first contracts in June?

Mr. KNUDSEN. I would imagine so, depending somewhat on the locality.

Mr. CANNON. We would be interested in knowing what was paid for machine goods in June and what is the price of the same material now.

Mr. KNUDSEN. Do you mean machine tools?

Mr. CANNON. Either tools or other machine goods.

Mr. KNUDSEN. I am sorry, sir, but I cannot answer that accurately. I can only give you my opinion of the trend. I think there has been a slight rise in the cost of doing machine work, but if it is done with the proper tooling, it does not amount to very much.

Mr. CANNON. Are you manufacturing machine guns?

Mr. KNUDSEN. Only in one plant. The other four plants will be in operation some time beginning in May and through June.

Mr. CANNON. Have you made contracts with the other four that will go into operation?

Mr. KNUDSEN. Yes; but we made the contract on an experimental basis. The first 5,000 guns would be made at an estimated cost and a fixed fee. Then after the 5,000 guns were made, a price would be set.

Mr. CANNON. How will you determine the price when it is set?

Mr. KNUDSEN. We will determine that from the cost figures we have from the company that is operating on a fixed-price basis.

Mr. CANNON. You will just take the company's price or do you have an opportunity to analyze bids and go into costs of labor, material, overhead, and depreciation, as for a price based on costs of production?

Mr. KNUDSEN. Indeed, sir; that is our job.

Mr. CANNON. You follow the latter method?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. You analyze production and you get a price based on the cost of production?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. Then the only way in which prices of goods which you will send to England under this bill would vary, would be because of a change in the cost of production?

Mr. KNUDSEN. That is right.

Mr. CANNON. What items in the cost of production are subject to variation?

Mr. KNUDSEN. Wages and the price of materials.

Mr. CANNON. What trend do you expect in those two items between now and a year from now, or any time during the life of this legislation?

Mr. KNUDSEN. We hope to hold the cost as nearly uniform as we can.

Mr. CANNON. Are you in a position to do that; will costs be subject to outside influence, over which you have no control?

Mr. KNUDSEN. Of course, we really have not any control of the price of labor. We can only negotiate and try to hold the increase down to as little as possible. But on materials, we have not any right to establish a price ceiling, so to speak. But we try to get to the manufacturers and prevent them from making any increases.

Mr. CANNON. You say that the price you have to pay for labor is subject to revision?

Mr. KNUDSEN. Yes, sir.

CANCELATION CLAUSES IN CONTRACTS

(See p. 32)

Mr. CANNON. At the close of the last war millions of dollars were paid holders of contracts with the United States, similar to those to which you refer, on the plea that the war ended unexpectedly, and that they had suffered loss on contracts. The payment of considerable amounts of money was made in order to reimburse them for losses due to the unexpected cancelations. In the course of these reimbursements a check for \$50,000 was sent to the Eastman Kodak Co. They returned the check with the statement that they were not entitled to anything. That is the only instance among many reimbursements in which a check was refused. More frequently checks were returned with the complaint that they were insufficient. The Government was at the mercy of manufacturing firms with which it had entered into contracts without provision for such a contingency. Now, in the contracts which you will enter into, under the provisions of this law, will you provide a basis on which you will settle in the event of peace and the discontinuance of the contracts before they are completed?

Mr. KNUDSEN. There is a cancelation clause. Every contract has that.

Mr. CANNON. Under the cancelation clause there is a formula on which you will be able to negotiate a reasonable settlement if the war should end before contracts are executed?

Mr. KNUDSEN. To the best of my knowledge the Government contracts have a cancelation clause in them. Mr. Smith has handed me the termination clause put in by the Government, which, of course, means that it works both ways. If the contractor fails to carry out the contract with the Government, the Government may take the plant over and turn the work over to someone else and the contractor would be liable for the excess cost that might be incurred by reason of having the articles manufactured elsewhere. I am sure that if the Government should end any contract with the termination of the war, the contract provisions deal with that separately.

Mr. CANNON. What does this contract form provide?

Mr. KNUDSEN. In other words, if the contract is incomplete, and the Government chooses to cancel it at certain points, then there is a settlement as to the disposition of the materials and other things that might be on hand. I had the negotiation of a couple of them in the last war. I came down to Washington, and they paid for the facilities what they were worth, and the Government gave a check for the balance. I do not know what you refer to, unless someone, for instance, made a 10-percent profit on an order, and claimed a 100-percent profit.

Mr. CANNON. You are making provision for such contingencies?

Mr. KNUDSEN. Yes, sir.

AGRICULTURAL PRODUCTS

(See pp. 13, 20, 32, 35, 39)

Mr. CANNON. How do you propose to acquire and transport food which, under this bill, will be sent to England?

Mr. WOODRUM. You do not have anything to do with that, do you, Mr. KNUDSEN?

Mr. KNUDSEN. No, sir; my business is that of production.

Mr. CANNON. You mentioned food, did you not?

Mr. WOODRUM. Mr. Knudsen does not handle the agricultural end of it.

Mr. CANNON. Mr. Knudsen, have you heard any comment as to how agricultural products would be acquired and transported overseas? Do you have any information on that at all?

Mr. KNUDSEN. Food is generally handled on the bid basis by the Quartermaster's Department. The Quartermaster's Department buys it under bids, and that is not within my province.

PRODUCTION COSTS AND PRICES

(See pp. 29, 36, 48)

Mr. CANNON. When these materials, guns, ammunition, tanks, airplanes, are delivered to England, what credit do we get from the English Government? Are they inventoried at the cost of production?

Mr. KNUDSEN. I have not the faintest idea.

Mr. CANNON. What record is kept of the material delivered to England? There must be some accounting for it somewhere. How do we know what it is worth. What system of bookkeeping is being followed to determine what credit we will get on the books of the English Government? If there is reimbursement, on what basis will that reimbursement be made?

Mr. KNUDSEN. I do not know anything about that at all. The value of the equipment would be known to the contracting agencies of the Army and Navy.

Mr. CANNON. Your work is limited to production alone?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. You see that the factories turn the material out?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. And you have no information as to what becomes of it after it leaves the plants?

Mr. KNUDSEN. No, sir.

Mr. CANNON. To whom do you submit your statements of cost of production? You keep an account of the cost of production, do you not? If so, where does it go?

Mr. KNUDSEN. I do not keep an account of cost of production. We check up and enter into contracts at prices which the Army and Navy may obtain for the articles.

Mr. CANNON. You know the cost of producing the material?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. With whom do you file that information?

Mr. KNUDSEN. We do not file it with anybody. The War Department or Navy Department would have the figures.

Mr. CANNON. The War Department has data in its files as to the cost of production?

Mr. KNUDSEN. Yes, sir.

Mr. CANNON. You do not know what is the cost in the plant which produces the material?

Mr. KNUDSEN. Yes, sir; but I do not carry any files, or keep any cost system.

I check that over in the light of my experience, and give my judgment as to whether it is high or low, and there it ends.

Mr. CANNON. You must have some figures in order to know whether the price the manufacturer is charging is in compliance with his contract. You must have some figures somewhere.

Mr. KNUDSEN. Documents that come to me contain figures, and we check them.

Mr. CANNON. Where do they come from?

Mr. KNUDSEN. From the procurement departments.

Mr. CANNON. Where do those documents go after they leave you?

Mr. KNUDSEN. Back to the contracting division where the contracts are made.

Mr. CANNON. Does the Army have it?

Mr. KNUDSEN. The Army negotiates it, in the first place, and sends it to me for checking.

Mr. CANNON. Do you think that under the system you are following, the Government is getting a dollar's worth of service or goods for every dollar spent? In other words, will we receive \$7,000,000,000 worth of service for the \$7,000,000,000 expenditure in the procurement of these items?

Mr. KNUDSEN. I hope so, and I imagine we will.

FACILITIES PROGRAM

(See p. 47)

Mr. WOODRUM. Mr. Knudsen, you have given a statement of what we have done up to date in the way of providing facilities.

Mr. KNUDSEN. Yes, sir.

Mr. WOODRUM. There are additional facilities that, in your preliminary estimates, you think may be necessary in order to take care of the articles that you may be required to furnish to Great Britain or the other countries coming within the purview of the lend-lease bill, on the basis provided in the bill?

Mr. KNUDSEN. Yes, sir.

Mr. WOODRUM. Of course, no contracts have been let for those facilities, and there has been nothing more than preliminary studies made.

Mr. KNUDSEN. That is right.

Mr. WOODRUM. Will you be able to get those needed facilities constructed within a reasonable time and to get prompt deliveries?

Mr. KNUDSEN. I think so. In fact, I know we can.

Mr. TABER. Mr. Knudsen, referring to the items in the bill, do you have information as to the quantity that can be procured through existing facilities?

Mr. KNUDSEN. Yes.

Mr. TABER. What about the facilities that the British are currently using? They are going to be available in some volume, will they not?

Mr. KNUDSEN. Yes, sir.

Mr. TABER. They are getting quite a lot of airplane engines and that sort of thing. The total figure is \$171,000,000. They are occupying a lot of other facilities, and are drawing on private outfits besides that.

Mr. KNUDSEN. Of course, it turns mostly on airplane engines, and, generally, the airplane plants are not complete projects, but are merely additions to some other projects. It is not a contribution that you could say would have a separate value in the production program.

Mr. TABER. You mean that in order to put the program into effect at all, and to get the stuff out within the time, you must have all these additional facilities?

Mr. KNUDSEN. That is correct.

Mr. WOODRUM. If you get these facilities, you will be able to fill the needs?

Mr. KNUDSEN. Yes, sir.

Mr. TABER. What about the details of these British items and their requirements? Are you posted on that, or would you prefer to have someone else tell us about that?

Mr. KNUDSEN. There is a gentleman here from the War Department who will explain that.

ADVANCES TO CONTRACTORS

Mr. TABER. To what extent do you know about what advance payments will have to be made in connection with the procurement of these different items, or as to whether, or not, a very considerable portion of these items will require cash, or an advancement of cash?

Mr. KNUDSEN. I think the Government contracts cover that.

Mr. TABER. You do not know how much that will be?

General BURNS. By and large, we will advance 30 percent of the contracts.

Mr. TABER. And as you go along, you will make payments besides that?

General BURNS. Yes, sir.

Mr. RABAUT. Mr. Chairman, a great many questions both on and off the record have been asked of Mr. Knudsen—questions which should not have been put to him at all. Mr. Knudsen is a production manager. His name is dynamic in my city of Detroit, and for many months it has been dynamic throughout the country. He is a getter of the first rank. He has said what his job is. His job is to have these things produced, and get them off the line. If you will leave him alone, he will get them off the line. The Ford Motor Car Co. knows how efficiently he put products off their line, and General Motors salutes his ability for production in their plants. Everyone in the United States is riding around with their feet in Knudsen's product. The whole of them are riding around with Knudsen, and the world will be riding with him soon. I am happy, as a Michigan Representative, to pay this tribute to him, in the record.

Mr. LUDLOW. In line with Mr. Rabaut's observation, I want to ask Mr. Knudsen, who is in charge of production, whether the units of production are coming off of the line as rapidly as you expected?

Mr. KNUDSEN. We are going ahead with the tooling all right. We started to make tools last fall, and it will take a good deal of time to make them.

Mr. LUDLOW. Is the program going on as well as you would like?

Mr. KNUDSEN. I would not say I am satisfied, because I would never be that.

Mr. LUDLOW. As Mr. Johnson observed awhile ago, nobody knows what will come out of this situation. There may be peace within 6 months. Is there a straight-out cancelation clause in the contracts?

Mr. KNUDSEN. Yes, sir; I am sure there is.

PERSONNEL OF WAR DEPARTMENT FACILITIES BOARD

Mr. POWERS. Mr. Chairman, Mr. Knudsen mentioned during his testimony the setting up of a new board to ascertain just what facilities are needed under this bill. Might I ask that at this point in the record there be inserted the names of the members of the board which is set up or is to be set up?

Mr. WOODRUM. Yes; it is a War Department board, is it not?

Mr. KNUDSEN. Yes, sir; for the sake of double-checking.

Mr. POWERS. Just insert it in the record.

(The statement requested is as follows:)

The War Department Facilities Board consists of the following officers:
 Brig. Gen. Harry K. Rutherford, O. A. S. W., chairman.
 Brig. Gen. Charles T. Harris, Ordnance (or an alternate designated by him).
 Brig. Gen. Thomas M. Robins, Corps of Engineers (or an alternate designated by him).
 Brig. Gen. Eugene Reybold, A. C. of S. (or an alternate designated by him) by agreement.
 Brig. Gen. Oliver P. Echols, A. C. (or an alternate designated by him).

Brig. Gen. Brehon B. Somervell, Quartermaster Corps (or an alternate designated by him).

Lt. Col. Theron D. Weaver, Corps of Engineers, O. A. S. W.

Mr. SNYDER. Mr. Knudson, you have a Site Board now, have you not?

Mr. KNUDSEN. The Army and Navy have a Site Board.

Mr. SNYDER. Do these sites come to you or are they settled before they come to you?

Mr. KNUDSEN. They come to me to be approved finally.

Mr. WOODRUM. Mr. Knudson, is it very important to get this matter settled at the earliest possible moment?

Mr. KNUDSEN. Yes, sir.

Mr. WOODRUM. Days count, do they not?

Mr. KNUDSEN. Yes, sir.

Mr. WOODRUM. Thank you very much for coming up, Mr. Knudsen.

ORDNANCE AND ORDNANCE STORES

Now, Mr. Smith, will you take this first category of ordnance and ordnance stores, \$1,343,000,000? Can you give us, either on or off the record, any kind of a break-down as between the different items in that category?

(Off the record discussion.)

Mr. TABER. Does each of these items represent a request of the United States Government by the British?

Colonel AURAND. Yes, sir.

Mr. TABER. Within what time would you expect deliveries to commence on most of these items?

Colonel AURAND. My answer is that we can begin deliveries under the \$1,300,000,000 limitation just as soon as the administration sees fit, as a matter of national policy, to commence those deliveries.

Mr. TABER. And that would apply to almost every item that is contained in this Army set-up?

Colonel AURAND. Yes, sir.

Mr. TABER. You would not want to answer for the record within what time you thought you could complete the major part of these expenditures?

(Off the record discussion.)

Mr. TABER. How much of these items will require considerable advance payments so as to permit the manufacturer to procure his material and that sort of thing to go on with the job?

Colonel AURAND. I think they will have to be completely financed for the fiscal year 1942.

Mr. TABER. That is, there will not be any substantial items that would hang over beyond that, as far as financing them goes?

Colonel AURAND. That is correct, sir.

FRIDAY, MARCH 14, 1941.

Mr. WOODRUM. We will take up the item of Ordnance and Ordnance Stores as it applies to the Navy, and we will ask you, Commander, to give us a break-down of these items.

(Off the record discussion.)

Mr. LUDLOW. What will be the dollar volume of this expenditure which would not be usable for our own Navy, approximately?

Commander TAWRESEY. About 12 or 13 million dollars.

Mr. DITTER. Out of how much?

Commander TAWRESEY. Out of the total.

Mr. TABER. How much of that can go right into our own facilities? The small item certainly can, can it not?

Commander TAWRESEY. Yes, sir.

Mr. TABER. Of the items of ordnance that are to be procured by the Navy Department, within what time can deliveries begin to be made under orders that might be placed?

Commander TAWRESEY. Deliveries can begin immediately, sir. The Navy is in exactly the same situation as the Army in that respect.

Mr. TABER. Within what time can they be completed?

Commander TAWRESEY. It is contemplated that they would be completed by the end of the fiscal year 1942.

AIRCRAFT AND AERONAUTICAL MATERIAL

Mr. WOODRUM. Aircraft and aeronautical material, including engines, spare parts, and accessories.

Mr. SMITH. That is split between the Army and the Navy.

Mr. WOODRUM. Colonel Aurand.

(Off the record discussion.)

Mr. TABER. You said in many cases you could begin delivery of items specified immediately.

Colonel AURAND. In some cases; not many of them.

Mr. TABER. Would you give us an idea when you could begin delivery?

Colonel AURAND. In a relatively short time.

Mr. TABER. Can you tell us that generally a substantial part of these items can be delivered—

Colonel AURAND. I can say that in case of aircraft items we need the entire amount of money for expenditure during the fiscal year 1942.

Mr. TABER. You mean by that you will have to have advanced payments to take care of procuring the material.

Colonel AURAND. And payments on contracts as deliveries take place.

Mr. TABER. So that all of this would be required in 1942?

Colonel AURAND. Yes.

Mr. LUDLOW. Does this involve the acquisition of any land?

Colonel AURAND. Yes; a small amount for facilities.

TANKS, ARMORED CARS, TRUCKS

Mr. WOODRUM. Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts and accessories.

(Off record discussion.)

Mr. DITTER. Within what time do you need this money?

Colonel AURAND. At once.

VESSELS AND OTHER WATERCRAFT

Mr. WOODRUM. Vessels, ships, boats, and other watercraft, and equipage supplies, materials, spare parts, and accessories.

(Off the record discussion.)

Mr. DITTER. Are there any facilities in connection with that item?

Commander TAWRESEY. Yes, sir.

Mr. DITTER. How many idle ways do we have at the present time?

Commander TAWRESEY. I cannot answer that.

Mr. DITTER. Is the work to be done at Government or private yards?

Commander TAWRESEY. So far as I know, at private yards.

Mr. DITTER. Is there an item for expansion?

Commander TAWRESEY. Yes.

Mr. LUDLOW. Is all of this equipment standard equipment for our own Navy?

Commander TAWRESEY. The same type that we use in our own Navy, yes.

Mr. TABER. Now the part of this item of \$629,000,000 for vessels, ships, boats, and other water craft is in this bill belongs to the Navy. Within what time can you begin to get deliveries on those?

Commander TAWRESEY. You mean, Mr. Taber, we can begin to get deliveries of those we propose to acquire here, or begin to get delivery for somebody else?

Mr. TABER. Can you begin to make deliveries on this proposition?

Commander TAWRESEY. We can begin immediately.

Mr. TABER. And within what time will you need the last dollars that come to the Navy under it?

Commander TAWRESEY. We need it all in the fiscal year 1942.

Mr. TABER. By the end of 1942?

Commander TAWRESEY. Yes, sir.

Mr. TABER. Now, have the British requested each of those items that are involved here?

Commander TAWRESEY. Yes, sir.

Mr. TABER. Does that same thing apply to the aircraft figure; have the British requested each of those items?

Commander TAWRESEY. Yes, sir.

Mr. TABER. And, Colonel Aurand, as to the tanks and the aircraft that are coming through the Army; have the British requested each of those items?

Colonel AURAND. Yes, sir.

Mr. WOODRUM. Have you an Army item on this, Colonel?

Mr. SMITH. No; but there is a Maritime Commission item.

Mr. WOODRUM. Who can tell us about that?

Mr. SMITH. I will.

(The discussion which followed was off the record.)

Mr. TABER. As to the part of the \$629,000,000 that will go to the Maritime Commission: Each of these items that are involved has been requested by the British?

Mr. SMITH. Yes.

Mr. TABER. Within what time do you expect that money to begin to be required?

Mr. SMITH. It is expected that this money will be needed in 1942.

MISCELLANEOUS MILITARY EQUIPMENT

Mr. WOODRUM. Now, what about the item for miscellaneous military equipment, supplies, materials, \$260,000,000?

Colonel AURAND. Mr. Chairman, there are four pages here of detailed items in this miscellaneous military equipment.

(Discussion which followed was off the record.)

Mr. WOODRUM. Now, you can get all of that equipment and furnish it to them in the time they say they want it?

Colonel AURAND. Yes, sir; this equipment can, in general, be obtained in the time requested.

Mr. WOODRUM. And can be had by when?

Colonel AURAND. The funds will be required in the fiscal year 1942.

Mr. WOODRUM. And the deliveries can be made within that time?

Colonel AURAND. Yes, sir.

(Discussion which followed was off the record.)

FACILITIES AND EQUIPMENT FOR PRODUCTION

(See pp. 14, 37)

Mr. WOODRUM. Now tell us about the next item "Facilities and equipment for the manufacture or production of defense articles," \$752,000,000.

Mr. SMITH. You have had a good deal of information on that, but let me give you the break-down in the broad categories, as a matter of review.

(Discussion which followed was off the record.)

Mr. TABER. Within what time will you require all of this money?

Mr. SMITH. I would say definitely in 1942.

General BURNS. That is right.

Mr. TABER. Now let me ask you a general question to apply to every one of these items: How much of this money is going to be required for the construction of houses, if any?

Mr. SMITH. None of it.

Mr. TABER. None of the money is for houses or housing facilities?

Mr. SMITH. No; just for plants. You meant for dwellings?

Mr. TABER. For dwelling houses or housing facilities for people.

Mr. SMITH. None of it.

AGRICULTURAL, INDUSTRIAL, AND OTHER COMMODITIES

(See p. 64)

Mr. WOODRUM. Now take up the next item for "Agricultural, industrial, and other commodities and articles," \$1,350,000,000.

Mr. SMITH. The next item groups several things.

(Discussion which followed was off the record.)

Mr. CANNON. What agricultural products are being considered for purchase under this act?

Mr. SMITH. Well, as I understand it, there is cheese, dried eggs, milk, pork, and canned goods of various sorts and numerous other items.

Mr. CANNON. Is any of the money to be spent for agricultural products produced outside of the United States?

Mr. SMITH. I do not know of any, I am sure.

Mr. CANNON. Is it your impression that all of the funds from this seven billion to be spent for agricultural products, will be spent in the United States?

Mr. SMITH. This will be processed by the Secretary of Agriculture and I assume he would insist on that.

Mr. CANNON. What arrangements have been made for purchase in the United States by foreign governments of agricultural products or foodstuffs?

Mr. SMITH. I know of none.

Mr. CANNON. During the World War, consolidated purchasing agencies representing all of the Allies took over the purchasing of agricultural products in the United States, to eliminate competitive bidding. One agency bought for all and as a result, with only one buying agency, in the market they procured supplies at the lowest prices. Is any such agency functioning in the United States at the present time, or has any such agency been suggested?

Mr. SMITH. There is no agency so far as I know. Of course the situation today is much different from what it was during the World War. We have surpluses in the most of these items. Also, as I understand it, in the last war we had a Food Administrator.

Mr. CANNON. Of course, we are also in a different situation; because, in that case, foreign governments were buying and financing purchases out of their own funds, whereas in this case the United States Government is both financing and purchasing out of United States funds.

Mr. SMITH. Right. And, therefore, I take it the policies pertaining to food procurement will be sound policies that did not disturb our price situation or production situation unduly as it concerns agriculture or consumers.

Mr. CANNON. Procurement will be under the control of the Department of Agriculture?

Mr. SMITH. I should say the Department of Agriculture would have a big hand in this—in the processing of all of these items.

Mr. CANNON. At the present time, there are vast quantities of cotton, millions of bushels of wheat, large quantities of corn, and a huge surplus of practically all agricultural products under the control of the United States, either through purchase or loans. Is it your impression that any requirements of agricultural products under this bill will be taken from those supplies now in Government warehouses, under Government title, or will they be bought in the open market?

Mr. SMITH. That is up to the Secretary of Agriculture, but it would be my impression that a number of these items would be procured through Commodity Credit.

Mr. TABER. Within what time can you begin spending money out of this appropriation?

Mr. SMITH. Immediately.

Mr. TABER. Within what time will you require the last item of it?

Mr. SMITH. Within 1942.

Mr. TABER. Mr. Smith, have the British asked for all of these articles?

Mr. SMITH. They have; sir.

Mr. TABER. Is it the feeling of the War and Navy Departments, and the President, that we should furnish these things to the British at this time?

Mr. SMITH. Yes; they are asking for them.

TESTING, INSPECTING, SERVICING, ETC.

Mr. WOODRUM. Referring to item (b), for testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense article for the Government of any country whose defense the President deems vital to the defense of the United States, \$200,000,000.

Tell us about that item, Mr. Smith?

(Discussion off the record.)

INTERCHANGE OF APPROPRIATIONS

(See p. 61)

Mr. WOODRUM. The transfer provision is rather self-explanatory.

That not to exceed 20 percent of any of the foregoing appropriations may be transferred by the President to any other such appropriation, but no appropriation shall be increased more than 30 percent thereby.

General BURNS, do you regard that as an important part of this proposal, this flexible provision?

General BURNS. Yes, sir; we do.

Mr. O'NEAL. Is that sufficiently flexible?

General BURNS. I certainly think that is the minimum that we should have.

Mr. O'NEAL. Mr. Chairman, I would like to say that it seems to me, with regard to the flexible provision it ought to be more flexible than it is. I should like to see this \$7,000,000,000 go where it would do the most good. I am afraid that provision is not sufficiently flexible. The general stated that to be his opinion, and if he feels very strongly about it, I would like to have him say something more about it. It struck me when I read it, from the way these estimates have had to be prepared, that that is a very close margin on which to work.

Mr. LUDLOW. How was that percentage arrived at?

Mr. SMITH. Of course, it had to be arrived at in a somewhat arbitrary manner. As a matter of fact, we had it smaller in the beginning and raised it because, as you apply these percentage figures to these particular items, as they come out, you will see that you have obviously more leeway in the large items than you do in the small items. But no single item can be increased more than 30 percent. You might take a certain percentage of all the items and add to a particular item, in order to increase it.

Our feeling was in general that if there was to be difficulty anywhere, it would probably hit in one rather than in a number of places, and that this was probably adequate to handle it.

Mr. WOODRUM. It gives the right to increase any one article by 30 percent.

Mr. SMITH. That is right.

Mr. WIGGLESWORTH. You do have a lot of flexibility, anyway, in that you have not broken down these items very far.

Mr. SMITH. Within a single item, like ordnance, we have flexibility. But this is to provide flexibility as between the categories.

Mr. O'NEAL. For instance, you would not have more than \$200,000,000 on your repair item, irrespective of what the needs may be.

Mr. SMITH. That is right.

RETENTION OR USE OF DEFENSE ARTICLES BY UNITED STATES

(See p. 60)

Mr. WOODRUM. Explain this proviso:

That any defense articles procured under the foregoing appropriations may be allocated by the President to any department or agency of this Government for the use of such department or agency.

I take it that if any article is ordered or manufactured for use by Great Britain and it subsequently develops that that article is needed for the United States Government, this provision would enable the President to allocate that article to such department or agency of this Government that has need of it?

Mr. SMITH. Yes, sir.

Mr. WOODRUM. Does that contemplate that there should be a finding that that was needed for defense purposes? That is what that would mean, would it not? In other words, you could not take food procured under the agricultural provision and transfer it to other purposes unless there was a finding that it was needed for our emergency defense, is that right?

Mr. SMITH. That is right.

Mr. WOODRUM. That is what that is supposed to mean.

MISCELLANEOUS SERVICES AND EXPENSES

Mr. WOODRUM. The next item is:

For necessary services and expenses for carrying out the purposes of said act not specified or included in the foregoing, \$40,000,000.

Mr. SMITH. That item would cover, for example, the transfer of defense information. It would also cover any miscellaneous item.

Mr. TABER. That is simply an omnibus item that you can use for anything—travel expenses or to supplement any item that may be involved.

Mr. SMITH. Not traveling expenses. It might cover freight and transportation of articles.

Mr. POWELL. How did you arrive at the figure of \$40,000,000?

Mr. SMITH. Well, frankly, we made a rough estimate. There were not many details. It is more in the nature of a contingency item than anything else.

Mr. POWELL. It is actually a contingency item?

Mr. SMITH. Yes. In the setting up of this entire estimate, we used terminology similar to that in the appropriation bills that we now have and in turn tried to gear this estimate into the Lease-Lend Act and nowhere else in the estimate would there be any money for defense information. So we know that defense information, whatever that amounts to, would have to come out of this, plus any small items that would not come in any other place. It is really a contingency item.

ADMINISTRATIVE EXPENSES

(See pp. 38, 63)

Mr. POWELL. Mr. Woodrum has gone into the items C and D, \$40,000,000 and \$10,000,000, thoroughly. As I understand it now very definitely, you will not have to come back for any administrative

expense, any further administrative expense, or any further contingent fund.

Mr. SMITH. So far as I can see, that is true.

Mr. LUDLOW. How does this percentage for administrative expenses compare with the percentage in other Government operations?

Mr. SMITH. It is considerably less, because you already have the organization and it is merely an extension of existing organizations.

SERVICES AND EXPENSES UNDER CATEGORIES (A) AND (B)

Mr. WOODRUM. Mr. Smith, referring to page 2, paragraph (a), in connection with the funds set out in those different categories, they are available for services and expenses, and that carries on down through those several articles. Now, when you get to (b), for testing, inspecting, and so forth, you do not have that provision for services and expenses. Should not that be in that paragraph also?

Mr. SMITH. Services and expenses were largely, under (a), in connection with procurement, transportation, and any other services such as storage, that would be necessary.

Mr. DITTER. The (b) item is entirely for repair, is it not?

Mr. SMITH. Yes.

Mr. DITTER. Outfitting and conditioning?

Mr. SMITH. Yes.

Mr. WOODRUM. You think we ought to put "services and expenses" in there?

Mr. SMITH. Yes; if there is any question.

Mr. CANNON. Mr. Smith, under what terms are these goods to be delivered, and under what terms are they to be delivered charged to the consignee?

Mr. SMITH. Under the entire bill, as I understand it, the terms would be fixed in the agreement.

Mr. CANNON. When will that agreement be drawn?

Mr. SMITH. There will be a whole series of them, as I can visualize the situation.

Mr. CANNON. That is a matter of negotiation?

Mr. SMITH. That is right.

Mr. CANNON. Under the terms of this bill they can be delivered gratuitously or they can be charged or they can be exchanged?

Mr. SMITH. I would say yes.

AGREEMENTS FOR DISPOSITION OF DEFENSE ARTICLES

(See p. 43)

Mr. CANNON. Is it your impression that any of them will be delivered gratis, or are all of them to be charged? Is there to be an accounting?

Mr. SMITH. My understanding is that there is to be an agreement with respect to all of them.

Mr. CANNON. With any expectation of recovery?

Mr. SMITH. I think the agreement would include that.

Mr. CANNON. And the terms, the prices, are subject to negotiation?

Mr. SMITH. The terms are such as the President may deem to be satisfactory.

ADMINISTRATIVE EXPENSES

(See pp. 38, 61)

Mr. WOODRUM. There is an item for administrative expenses, \$10,000,000. Will you say something about that?

Mr. SMITH. That is as good an estimate as we can make. The safeguard on it is that we are establishing very definite procedures for scrutiny of the requests.

Mr. WIGGLESWORTH. The estimate is based on what?

Mr. SMITH. Well, it is a rough estimate based upon what our costs are in various departments at the present time.

Mr. LUDLOW. Is it based on a certain number of personnel?

Mr. SMITH. No. It is not built up in terms of so many personnel because we do not know what the job is.

Mr. TABER. You expect to use and to pay personnel, do you not?

Mr. SMITH. Yes. It is built on a percentage basis. For instance, under the commodity credit law at the present time there is a limit of 3 percent on administrative expenses. Assuming that some agricultural products are purchased through commodity credit, we ask them what that cost might be and they said possibly 1 percent, and somebody else said 2 percent. They pointed out that there would be some management or processing, and so forth.

Mr. WIGGLESWORTH. You have not made any estimate as to the increase in personnel in any department or agency involved, or any new agency that might be set up?

Mr. SMITH. No.

Mr. WIGGLESWORTH. You are not in a position today to tell us what additional all-over agency may be set up?

Mr. SMITH. So far as any all-over agency is concerned, the staff would, in the main, be made up of details from existing departments. For example, all of this material that would be released will have to go through export control. That will greatly increase their work. But as to how much it will increase their work, nobody knows, until the material begins to flow.

Mr. DITTER. How many new \$10,000 jobs do you think will be set up in this administrative unit?

Mr. SMITH. I assume they have to be classified under the civil service.

Mr. DITTER. Will there be some undersecretaries and assistant administrators, and so on, in the different departments?

Mr. SMITH. I do not see it in that way. As a matter of fact, you cannot foresee the load very well in advance. It is our belief that the major part of it can be taken care of by existing organizations and certainly the extension of existing organizations. What would you say for the War Department, General Burns?

General BURNS. I think that is correct. I am quite sure the plan of the War Department is to take on this load with the existing set-up. This will require some additional personnel in the War Department.

Mr. WIGGLESWORTH. You do not foresee any new agency set up to control this thing as a whole?

Mr. DITTER. I would like to have the Navy on record on that. There is an item in there for the Navy, I believe.

Commander TAWRESEY. The Paymaster General estimated that he would need about a hundred more accountants to handle the accounting.

Mr. POWELL. If these departments get many more employees, they will probably begin to hang them on hooks.

Mr. TABER. Mr. Smith, can you tell us for the record when you are going to begin to need all of these items under (b) and (c) and (d), and within what time the items will probably be exhausted?

Mr. SMITH. I should say that some part of all three of these items, will be needed immediately.

Mr. TABER. And within what time will all of those items be required, in your opinion?

Mr. SMITH. I should say 1942. I rather think this item for administrative expense probably would run through the entire program, 1943, but again there may be much more involved in this than we can see.

TRANSFER OF APPROPRIATIONS TO REPLACE DEFENSE ARTICLES DISPOSED
OF UNDER \$1,300,000,000 AUTHORITY

Mr. WOODRUM. Referring to this language on page 3, beginning in line 21—

that the President may transfer from the foregoing appropriations to appropriate current appropriations of any department or agency amounts equivalent to the value of defense articles disposed of by such department or agency to the government of any country whose defense the President deems vital to the defense of the United States, not exceeding in total \$1,300,000,000.

I would like to ask you this question, Mr. Smith. Is the reimbursement provision that I have referred to, on page 3, line 21, intended to be applicable to defense articles procured from appropriations made before lease-lend, or is it intended to cover also defense articles procured from appropriations hereafter made that may have been made available for that purpose?

Mr. SMITH. It is intended to cover appropriations made prior to the Lease-Lend Act on which there is a limitation of \$1,300,000,000. And it is also intended to cover any appropriation subsequent to the effective date of the Lease-Lend Act, in the event the Congress puts language in that particular appropriation bill allocating any material to any country whose defense is important to our own. The provision is permissive.

Mr. WOODRUM. Permissive?

Mr. SMITH. That is right.

Mr. LUDLOW. This bill is called the lend-lease bill or the British aid bill. Is there any provision that Britain shall pay any cash at all for any of this material, or do they give any security for any of the material?

Mr. SMITH. That would be arranged in the agreements that are to be signed.

Mr. LUDLOW. Is that contemplated?

Mr. SMITH. I assume so.

Mr. LUDLOW. There is no suggestion of security in the form of real estate or stock that they own in this hemisphere, is there?

Mr. SMITH. Assets will be given consideration in connection with agreements.

Mr. WOODRUM. I think we have wound up this end of it, unless you have something further to say.

Mr. SMITH. I have nothing, except to say that I have not received the other documents to answer some questions raised here. I have the index of raw-material prices. There were a number of questions raised as to the comparison between prices now and the prices during the last World War. I have here the raw-material price index of the Bureau of Labor Statistics. The index for 1917 was 122.6, for 1918 it was 135.8, and for December 1940 it was 73.6.

Mr. CANNON. That is for what class of material?

Mr. SMITH. This is the index of raw material prices.

Mr. CANNON. For all raw materials?

Mr. SMITH. Yes, sir.

Mr. CANNON. Including the material that would enter into the fabrication of these articles?

Mr. SMITH. Yes, sir; that index was set up with 1926 as the base.

Mr. WOODRUM. We asked for some information, and I will ask Mr. Taber to interrogate Mr. Smith at this time.

Mr. SMITH. The information has not been completed.

Mr. CANNON. We were also to receive copies of the contracts. Have they been supplied?

General BURNS. Yes, sir; we have them here.

SATURDAY, MARCH 15, 1941.

STATEMENTS OF HAROLD D. SMITH, DIRECTOR OF THE BUDGET,
AND FREDERICK J. LAWTON, ADMINISTRATIVE ASSISTANT
TO THE DIRECTOR OF THE BUDGET

BRITISH FINANCES AND HOLDINGS IN UNITED STATES

(See p. 16)

Mr. WOODRUM. Mr. Smith, do you have the information these gentlemen asked you for yesterday?

Mr. SMITH. Yes. Yesterday, this committee propounded a number of questions with respect to British orders for defense materials prior to the enactment of the lease-lend bill, and British assets. Those were rather specific questions to which we sought specific answers from the Treasury.

Question 1 was: It is understood that British orders up to January 1, 1941, were about \$3,000,000,000 and that expenditures were about \$600,000,000. Is that correct? What have the British spent here since that time?

The answer is that the total of the orders placed in this country by the British Purchasing Mission up to January 1, 1941, was approximately \$2,700,000,000. Up to January 1, 1941, the British Purchasing Mission had made payments of approximately \$1,300,000,000 on these orders.

Mr. O'NEAL. Cash payments, those were?

Mr. SMITH. That is right. From January 1 to March 12, payments by the British Purchasing Mission were \$382,000,000. I assume, therefore, that if you want the total to March 12, you would add \$1,300,000,000, plus \$382,000,000, or a total of \$1,682,000,000 of cash

payments on British Purchasing Mission's orders up to March 12, 1941.

Mr. SNYDER. In other words, they just have about \$1,000,000,000 yet to pay?

Mr. TABER. Now, are there any orders since the 1st of January to add to the \$1,018,000,000 left?

Mr. SMITH. I am not sure that I can answer that 100 percent correctly, but it is my impression that the British have not placed large orders for several months.

Mr. WOODRUM. What were the total orders up to January 1, Mr. Smith?

Mr. SMITH. \$2,700,000,000.

Mr. TABER. You do not know whether there are any since the 1st of January, or not?

Mr. SMITH. I am sure that there are not any substantial orders of any kind, because they have not been placing orders for some months. There have been minor orders.

Mr. SNYDER. I think that is right. I checked that the other day.

Mr. WOODRUM. So far as you know, are they up to date on payments, or are they in default on any of them?

Mr. SMITH. So far as I know, they are up to date on their payments.

Mr. LUDLOW. What do you know about the prospect of the cash running out?

Mr. SMITH. May I go on with this, because that question is covered.

Mr. WOODRUM. Yes; go on.

Question 2 was: Has the policy been to pay cash or securities for orders up to this time? The answer is that the practice of the United Kingdom has been to pay cash on all orders placed in the United States up to this time. All goods delivered have been fully paid for. A substantial portion of the value of the goods delivered was paid for in advance and a portion of the value of the goods yet to be delivered has already been paid for. Generally, they have paid 25 percent cash when orders were placed, in addition to the capital investments required. The dollars to pay for these orders have been derived by the British Government partly from the sale of British investments in the United States, partly from the liquidation of British dollar balances, partly from the sale of British gold holdings to the United States Treasury, and partly from dollars acquired from a variety of other sources.

Mr. WOODRUM. There is no reason why all this should not go in the record.

Mr. SMITH. I assumed that the committee would want all of this for the record.

Question 3 was: What is the proposal as to paying for deliveries of existing orders?

The answer is that part of the cost of the future deliveries under existing orders has already been met by advance payments. The remaining liabilities of the United Kingdom in respect to such orders will be met from her existing dollar resources and with dollars which she will acquire in the future. Such dollars will come from further sales of British holdings of United States securities, the sale of British direct investments in the United States, gold acquired by the British Government, and the net dollar proceeds of British exports of goods and services to the United States and elsewhere.

Mr. O'NEAL. That is, holdings of British citizens, in part, is it?

Mr. SMITH. Yes.

Mr. O'NEAL. Not only of the Government, but the holdings of British citizens?

Mr. SMITH. Yes.

Mr. WOODRUM. By implication, then, at least, it is not contemplated at the present time that any of this \$7,000,000,000 fund will be utilized to pay for any of these goods already ordered by Great Britain?

Mr. SMITH. No.

Mr. WOODRUM. Can that be said positively?

Mr. SMITH. Yes, it is not contemplated that any of the \$7,000,000,000 is to be used for that purpose. Orders that have been placed by the British Purchasing Mission are to be paid for, I understand, by the British out of their dollar assets.

Mr. JOHNSON of West Virginia. Do you understand that any additional orders that might come in before this act becomes effective, will likewise be paid by the British people?

Mr. SMITH. I would assume that if the British Purchasing Mission continued to place orders now, they would have the assets to pay for those.

Mr. JOHNSON of West Virginia. The same thing would apply to any future orders that has applied to orders in the past?

Mr. SMITH. Yes.

Mr. LUDLOW. Are you going to give us a rough inventory or estimate of the British holdings in this country later on?

Mr. SMITH. It is the next question.

Question 4 was: What is the value of British holdings in the United States and in the Western Hemisphere outside of the United States?

The value of British holdings in the United States, as of January 1, 1941, is, according to British estimates presented by the Treasury to Congress, \$616,000,000 of marketable securities and approximately \$900,000,000 of direct investments.

Mr. CANNON. Is that holdings by the British Government, or by its nationals?

Mr. SMITH. Except for the securities which have been vested by the British Government, that is, turned over to the Government in exchange for British Government securities, these holdings belong to British nationals. To repeat:

The value of British holdings in the United States as of January 1, 1941, is, according to British estimates presented by the Treasury to Congress, \$616,000,000 of marketable securities and about \$900,000,000 of direct investments.

Mr. TABER. What do you mean by that—direct investments?

Mr. SMITH. The Department of Commerce defines foreign direct investments in the United States as all foreign investments in corporations or enterprises operating within the United States which are controlled by a person or persons domiciled outside the United States.

Mr. TABER. Are they unmarketable securities?

Mr. SMITH. They are unmarketable only in the sense that they are not listed on our organized exchanges and for the most part no market for them has been developed in this country.

Mr. TABER. They are not readily marketable?

Mr. SMITH. They are not as readily marketable as listed securities; that is right.

Mr. WIGGLESWORTH. Held by the Government, or by its nationals?

Mr. SMITH. Except for the securities which have been vested by the British Government, that is, turned over to the Government in exchange for British Government securities, these investments belong to British nationals.

Mr. LUDLOW. What authority did the British Government have over the transfer of holdings of its nationals for the liquidation of its debt?

Mr. SMITH. I cannot tell you that.

Mr. TABER. Oh, they have taken it all over.

Mr. SMITH. The British Government at this moment, has control over the resources of that country, including assets of individuals.

Mr. O'NEAL. Is it known whether the British nationals or the British Government have quite large amounts of securities and things of value held in this country in the names of American citizens; have you attempted to find out whether or not that is a fact?

Mr. SMITH. I presume the Treasury would be cognizant of that situation.

Mr. O'NEAL. In other words, a corporation might be formed here which, in itself, is owned by British nationals but an American corporation, and it, in turn, own a great many American securities. You do not know whether that is included in this figure of the total amount of holdings estimated by the Treasury?

Mr. SMITH. I will check it, but I am pretty certain it is.

Mr. TABER. Would you like to explain that item a little bit—that \$900,000,000 of direct investments? It does not include the cost of plants for procuring ammunition or airplanes, or whatever you might call it, that the British Government has invested, does it?

Mr. SMITH. It is my understanding that it does not.

Mr. TABER. Let me ask one other question about the \$900,000,000: Does that represent the cost of the British, or an inventory value as of January 1?

Mr. SMITH. It is a rough estimate of the amount which the direct investments would probably bring if they were sold gradually over a period of time.

Mr. TABER. Go ahead.

Mr. SMITH. The nominal value of the United Kingdom's investments in Canada is nearly the equivalent of \$2,000,000,000 United States dollars and the United Kingdom's investments in Latin America is the equivalent of over \$3,500,000,000. This refers to nominal value; the market value would, of course, be much less. In the case of the Canadian investments, the market value is much closer to the nominal value than is the case with the Latin-American investments.

The United Kingdom is using a substantial amount of its Canadian investments each month to pay for war materials obtained from Canada. Some of the investments in Latin America are in complete default; many are in partial default; whereas nearly all are payable in sterling or in local currencies. The liquidation value in United States dollars of these Latin American securities, particularly in view of the widespread control of foreign exchange transfers, is very uncertain. The details of these investments will be found on page 54

of the hearings before the House Committee on Foreign Affairs on H. R. 1776.

Mr. WOODRUM. Does that complete the answers, Mr. Smith?

Mr. SMITH. No; that is question 4.

Mr. TABER. Do you want to go ahead and give the other answers?

Mr. WIGGLESWORTH. Before you do that, I call your attention to the statement you have just given us, indicating \$1,516,000,000 of British holdings in the United States as of January 1, 1941. On page 81 of the House hearings on the lend-lease bill, Foreign Affairs Committee, the total as of December 31, 1940, is given as \$2,167,000,000. I wonder if you have not omitted the gold holdings and what are referred to as official dollar balances and private dollar balances in the statement you have given us?

Mr. SMITH. Yes; that is correct. In addition to \$616,000,000 of marketable United States securities and \$900,000,000 of direct investments in the United States, the British held on December 31, 1940, \$292,000,000 of gold, \$54,000,000 of official dollar balances, and \$305,000,000 of private dollar balances.

Mr. SCRUGHAM. Speaking of gold, you mean deposits with the Federal Reserve bank?

Mr. SMITH. No; deposits are included in the official dollar balances.

Mr. SCRUGHAM. Do the British own any gold on deposit in this country?

Mr. SMITH. No; the British have no gold in this country. The gold I refer to is all the gold in the British Treasury's possession—in London, Canada, in transit, and scattered in various parts of the world.

Mr. SNYDER. My information was that the British had put on the barrel head cash for the current expansion in this country, up to March 1, of between 54 and 55 million dollars.

Mr. WOODRUM. Is it more than that, is it not?

Mr. SMITH. It is more than that.

Mr. SNYDER. For plant expansion; I do not mean building plants.

Mr. SMITH. The total of capital assistance paid out by the British is over \$171,000,000.

Question 5: What steps, if any, have been taken to meet prior commitments and what steps are to be taken as to commitments yet to be made?

The United Kingdom will meet her liabilities on existing orders from her existing dollar resources and from dollars which she will acquire in the future. The steps by which these dollar resources are being acquired have been indicated in the answer to question 3 above.

The British Government does not have funds adequate to meet additional commitments. It is for these additional commitments that the lend-lease arrangements will be required.

Question 6: What is the monthly rate of expenditure by England and its dominions for war purposes?

The monthly rate of expenditures for United Kingdom, Canada, New Zealand, Australia, South Africa, and India taken together is, according to our information, roughly the equivalent of 1½ billion dollars. Nearly 1½ billion dollars of this is the expenditure of the United Kingdom alone.

Mr. CANNON. What about the other quarter billion expenditures?

Mr. SMITH. By the Dominion of Canada, New Zealand, Australia, South Africa, and India.

Mr. CANNON. Combined?

Mr. SMITH. That is right.

Mr. WOODRUM. For what period has that been going on, Mr. Smith; is this currently?

Mr. SMITH. That is current expenditures.

Question 7: What are the British Dominions, and particularly Canada, prepared to do for aid to Great Britain?

Canada is, of course, helping directly with troops, naval and air forces, and is paying all expenses of Canadian forces operating abroad as well as at home. It is anticipated that during the coming year Canada will spend a total of \$1.4 billions on her direct war effort.

Mr. TABER. You mean in the calendar year 1941?

Mr. SMITH. In the fiscal year 1941-42.

This alone constitutes about 25 percent of her expected national income.

Mr. TABER. You mean of the whole country, rather than the Government?

Mr. SMITH. That is right. Canada with 11,000,000 people would never have an ordinary budget of that size.

In addition, Canada is supplying Britain with large increasing amounts of goods and services in return for a considerable part of which she is getting either blocked sterling in excess of her needs or repatriated Canadian securities held in the United Kingdom.

Just as in the case of Canada, Australia, New Zealand, South Africa, and India have under way and are financing themselves, a war effort of considerable magnitude in relation to their national income. In addition, these countries are acquiring excess blocked sterling in London and some are acquiring repatriated securities as payment for exports of merchandise, services and gold to the United Kingdom and to the dollar exchange areas. This is a form of economic and financial assistance of considerable value to the British war economy.

Question 8: What has Great Britain, its dominions and particularly Canada appropriated for this war?

This information is not readily available; but we have requested it for the committee. However, because of differences in budgetary practice, such figures will not be at all comparable with the defense-appropriation figures for the United States.

Mr. CANNON. With reference to the remaining quarter billion dollars, have you any information as to the proportion in which that amount is being spent by the respective dominions, of the several countries?

Mr. SMITH. No; we do not have that, Mr. Cannon.

Mr. CANNON. You do not know the proportional monthly expenditure of Australia?

Mr. SMITH. Australia is spending the equivalent of about \$50,000,000 a month.

Mr. WIGGLESWORTH. It would appear that Canada is putting up about \$100,000,000 if you split up her portion of the one-quarter billion.

Mr. SMITH. Yes; in addition Canada is rendering a variety of services that cannot be translated into dollars.

Question 9: What are the potash and borax holdings of the British in the western part of the United States?

Our preliminary information is that there are three large potash and borax companies with properties in the western United States in which the value of the British investment is estimated to be roughly more than \$20,000,000. These properties are included in the British direct investments referred to in question 4.

Question 10: What have we bought in the way of gold from Great Britain and its dominions, including Canada, since 1934, by years?

The net imports of gold from the British Empire by years are given in the table below. It should be pointed out that London has been, prior to the war, the leading gold market of the world and hence gold imports from the British Empire were not solely for British account.

The table is as follows:

Net imports of gold from British Empire, 1934-40

	United Kingdom	Other British Empire	Total
1934	\$500,000,000	\$183,000,000	\$683,000,000
1935	316,000,000	184,000,000	500,000,000
1936	174,000,000	182,000,000	356,000,000
1937	892,000,000	204,000,000	1,096,000,000
1938	1,209,000,000	144,000,000	1,353,000,000
1939	1,826,000,000	976,000,000	2,802,000,000
1940	633,000,000	2,995,000,000	3,628,000,000
Total, 1934-40	5,550,000,000	4,868,000,000	10,418,000,000

Mr. RABAUT. I take this viewpoint, Mr. Smith: Of course, if we were to force England to liquidate all of her accounts or assets at the present time, or sell such shares as she has in this country, we could not well do that without creating a tremendous effect upon our own holdings, because there would naturally be a recession in the entire market for securities.

Mr. SMITH. It all depends on how it is handled. Proper precautions, I understand, are being taken.

Mr. SCRUGHAM. I am interested in the British ownership and control of the borax and potash industries in this country. To your knowledge, are any definite steps being taken to acquire those interests by the United States Government in part payment for the proposed advance of \$7,000,000,000?

Mr. SMITH. I know of no steps to acquire that by the Government, but steps are under way to liquidate British assets here in this country.

Mr. SCRUGHAM. While advancing this vast sum of money to Great Britain, should it not be done with the distinct understanding that they will transfer their ownership and control of the potash and borax industries, which are of vital importance to this country, to the United States Government? I realize the emergency requires haste, of course, but these industries mentioned are of basic importance for obtaining purely domestic supplies. The British should promptly transfer them to this Nation, as a small repayment, as well as South American properties that are now also controlled by the British. Is there any comment you would like to make on the subject?

Mr. SMITH. My only comment respecting the industries you mention is that negotiations are under way to deal with the liquidation of assets in relation to the whole situation under this lend-lease bill.

Mr. O'NEAL. I would like to ask for the record this question: Do the holdings you have given of British nationals in this country include the indirect holdings of British nationals in this country? I mean by that, holdings through holding companies organized in this country, where the beneficial interest is in British nationals, or held through dummies of some kind or other?

Mr. SMITH. My understanding is that these holdings insofar as these are known are included in the British estimates presented to Congress in January.

Mr. LUDLOW. The British are not actually giving any security for this, in the sense that we generally understand the term "security," but it is simply a matter of good faith?

Mr. SMITH. Under the lease-lend bill, there will be an agreement.

Mr. LUDLOW. With respect to payment for this particular material covered by the bill?

Mr. SMITH. The form has not been decided upon, so far as I know.

Mr. RABAUT. Yesterday, when we were in executive session, a question came up as to whether or not the present amount of contracts which the British have in this country, and which totals somewhere between \$1,000,000,000 and \$1,500,000,000, could be paid from this amount—that is, whether or not any money from this appropriation could be used to pay the cost of those contracts. I understand that this morning, before I came into the room, that matter came up here, and I understand that Mr. Smith's answer was that this money could not be used to pay those contractual obligations.

Mr. SMITH. It is my understanding that it is not contemplated to use any of this money for this purpose.

Mr. TABER. The testimony by Mr. Smith this morning was that the British have a total cash or dollar balance to meet balances of \$1,018,000,000 of contracts that they have hanging.

Mr. RABAUT. I am asking Mr. Smith now, but I thank you for your observation.

Mr. SMITH. I meant to say it could be legally paid, but whether it would be done or not—

Mr. RABAUT. First, can it be done? And then I will ask, "Will it be done?"

Mr. WOODRUM. If it would not be done, we need not bother about the other question. I do not think there is any doubt about the fact that they could do it.

Mr. SMITH. As to the second question, it will not be done, because it is pretty clear that you would have to establish a bench mark as to where British orders left off and where lend-lease orders began. Otherwise we would be in confusion as to transactions. It is contemplated, as indicated in this testimony, that the British would make payment for outstanding orders that the British Purchasing Mission have committed themselves to up to the passage of the Lend-Lease Act.

Mr. RABAUT. That is the reason the question was advanced, and I asked about this entire situation in the terms of national defense. Now, if there is to be \$1,000,000,000 worth of orders for the British, or if they have on order \$1,000,000,000 worth of material, that means \$1,000,000,000 worth of defense material. Now, if we come along and augment that with \$7,000,000,000, that would mean \$8,000,000,000 worth of defense material, but if we pay for that \$1,000,000,000 worth

of material from funds under this bill, it would leave only \$7,000,000,000 worth of defense material that is being produced. If that is done—and you do not think it will be done—but if that should be done, we would have lessened the amount of defense material to the extent of \$1,000,000,000.

Mr. SMITH. I think the record that has been made is clear on that point. If it is not, I will make it clear.

Mr. RABAUT. There was quite a discussion about that in the committee.

Mr. TABER. You did not tell us the amount of cash balance that the British have. You gave the securities, but you did not give the cash balances. Do you know anything about that? Perhaps they do not have any. I do not know.

Mr. SMITH. At the present time the cash balance is small.

Mr. TABER. On December 31, say that the dollar assets amounted to approximately \$350,000,000.

Mr. SMITH. And since then they have paid out \$382,000,000.

Mr. TABER. Let me ask you this, and I would like you to be in a position to answer it for the record, if you can: There are a lot of these British-held securities. To a certain extent they have been liquidated, and they have been a menace to our own security market. It is impossible to dump them. In addition, there are a lot that are not readily marketable securities held by them. Now, will it be the disposition of the administration to take those securities that cannot be marketed without upsetting our own financial structure and without sacrificing those securities too seriously, as security for such defense materials as are sent to Great Britain, and that are procured as the result of the lease-lend bill? If you are not in a position to answer that now, make a note of it, and answer it in the record.

Mr. SMITH. I am in a position right now to answer in the affirmative with full assurance. It is my understanding however that the proceeds of liquidation of British-held securities and investments in the United States will be needed to complete payment on existing British orders.

Mr. TABER. Now, the result of the answer you have given me, Mr. Smith, is this, is it not, that if this Government pays out money for airplanes, tanks, repairing ships, building ships, or anything else, that may be turned over to the British, insofar as their assets will permit, upon delivery our Government will receive their securities which are not marketable and cannot be turned into cash, insofar as they are available as security for the payment of these things.

Mr. SMITH. Yes. Insofar as they are not needed for payment on existing British orders.

Mr. LUDLOW. Do we understand that there will be a segregation of the accounting of items under the lend-lease bill from items under the regular operations?

Mr. SMITH. Yes, sir.

Mr. LUDLOW. I wonder if you will find any difficulty in that, where for instance a manufacturing establishment will be partially engaged in manufacture to meet the requirements of the United States and partly in the manufacture of articles to meet the lend-lease program requirements. How will it be possible to make that segregation?

Mr. SMITH. Let me point out to you that we have the cost of the items at the time they are transferred to any other country.

Mr. LUDLOW. Do you think you could make a clean-cut segregation there?

Mr. SMITH. Yes, sir; it would be a fairly simple accounting problem.

Mr. WOODRUM. Isn't it just as important to help Britain maintain her economy as it is to furnish her weapons with which to fight?

Mr. SMITH. I certainly believe that it is. The upheaval of war is a severe blow to her economy and we must develop our relationships under the Lend Lease Act with this in mind. If these relationships are such as to unduly weaken her economy the effect will be in reality a partial cancelation of our intended aid. We must not think solely of aid in terms of defense articles, but of the problem as a whole. Back of the weapons must be an economy capable of sustaining the war effort.

Mr. WOODRUM. Thank you very much, Mr. Smith, for your statement.

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