

BOARD OF ECONOMIC WARFARE  
OFFICE OF EXECUTIVE DIRECTOR  
WASHINGTON, D. C.

June 29, 1943

Mr. Marriner Eccles  
Chairman, Board of Governors  
Federal Reserve System  
Washington, D. C.

Dear Marriner:

I should like to call your attention  
to a statement just released by Vice President  
Wallace.

Sincerely yours,



Executive Director

Enclosure

STATEMENT BY VICE PRESIDENT WALLACE,  
Chairman, Board of Economic Warfare,  
June 29, 1943.

Vice President Wallace today made public a statement originally prepared for the Senate Committee on Appropriations. In releasing this statement he said:

"On June 4 my good friend, Senator McKellar from Tennessee, said certain things about the Board of Economic Warfare on the Floor of the Senate which moved me to prepare a statement. After sleeping over the matter for several nights I decided not to make it.

"Milo Perkins, Executive Director of the Board of Economic Warfare, recently appeared before the Senate Committee on Appropriations to discuss the work of the Board. During his testimony he indicated that, in the interest of unity, he was reluctant to discuss the failure of the Reconstruction Finance Corporation to build adequate government stockpiles of strategic materials as authorized and directed by the Congress nearly 18 months before Pearl Harbor.

"Since his appearance before the Senate Committee on Appropriations, the effort to misrepresent the facts concerning the work of the Board of Economic Warfare has continued. Some of these misrepresentations which have been called to my attention during the past week have been of such a nature that I have decided to release the statement as originally prepared. I am asking Senator McKellar to make it part of our hearings.

"It seems to me that on a matter such as this, I, and only I, as Chairman of the Board of Economic Warfare, can make the kind of presentation that will set the record straight.

"There are times when the sense of public duty outweighs the natural, personal reluctance to present facts of this nature. This is such a time."

(The Statement continues on the attached page.)

STATEMENT BY VICE PRESIDENT WALLACE,  
CHAIRMAN OF THE BOARD OF ECONOMIC WARFARE  
AS ORIGINALLY PREPARED FOR  
THE SENATE COMMITTEE ON APPROPRIATIONS.

On June 4, 1943, the Chairman of this Committee discussed the work of the Board on the floor of the Senate. His statement contained certain inaccuracies for which the Senator was not responsible. He was basing his comments on testimony which he said Mr. Jesse Jones had given before the Joint Committee on the Reduction of Non-Essential Federal Expenditures.

I realize that when the distinguished Senator from Tennessee made his remarks on the floor of the Senate he felt he had been correctly informed by the Secretary of Commerce. The actual facts are at variance with the information given the Senator, however, and I feel compelled to state the correct information for the record.

Senator McKellar said on June 4th: "No Congressional appropriation has ever been made for the payment of a single person employed in the Board of Economic Warfare. The Senate Appropriations Committee, of which I happen to be temporarily the head, has never appropriated any money for the Board of Economic Warfare".

On May 30, 1942, the President transmitted for the consideration of Congress an estimate of an appropriation for the salaries and expenses of the Board of Economic Warfare for the fiscal year 1943 (Document No. 760, 77th Congress, 2nd Sess.). After hearings before the House

Appropriations Committee, during which we gave detailed testimony, that Committee favorably reported HR 7319, which contained an item for salaries and expenses of the Board of Economic Warfare (Report No. 2295, 77th Congress, 2nd Sess.). The bill passed the House on June 30, 1942, and was reported by Senator McKellar, for the Senate Committee on Appropriations, on July 10, 1942. The report suggested changes in some other items in the bill but left unchanged the item for salaries and expenses of the Board of Economic Warfare (Senate Report No. 1542). The bill as passed by the Senate on July 16, 1942, and approved by the President on July 25, 1942, contained an item in the amount of \$12,000,000 for salaries and expenses of the Board of Economic Warfare (Public Law No. 678, 77th Congress). Mr. Perkins was not called upon to testify with regard to the item when it was considered by the Senate Committee on Appropriations. However, on October 12, 1942, Mr. Perkins appeared before the sub-committee of the Senate Committee on Appropriations, with Senator McKellar presiding, to explain the need for certain amendments in the appropriation language, primarily to take care of the payment of living and quarters allowances to employees stationed abroad. These amendments were included in an item entitled "Board of Economic Warfare" in Public No. 763, 77th Congress, approved October 26, 1942.

In the same statement on the floor of the Senate on June 4th, 1943, Senator McKellar said: "Mr. Jesse Jones testified a day or two ago before the so-called Economy Committee, that Mr. Milo Perkins absolutely ran the entire establishment of 2,620 employees; that his word was law, even over him, Mr. Jesse Jones and that he had received a directive from Mr. Perkins to furnish the money to pay all these employees."

The Board has never obtained money for administrative purposes from the Reconstruction Finance Corporation, nor has the Board ever directed Mr. Jesse Jones or any Reconstruction Finance Corporation subsidiary to furnish money to pay the salaries of any of the Board's employees or any of its administrative expenses. All such salaries and expenses are paid from funds appropriated by the Congress to the Board of Economic Warfare.

There have been a few occasions where, in connection with the joint operations of the Board of Economic Warfare and the Reconstruction Finance Corporation field staffs in foreign countries, arrangements have been worked out jointly for the payment of certain joint staff expenses by either the Board or the Corporation. In these cases reimbursement by the one agency or the other has been made in accordance with established government procedures.

On June 4, Senator McKellar also said: "The Board of Economic Warfare was not created by the Congress."

The Board of Economic Warfare was established by the President on July 30, 1941, by executive order, as were other war agencies. From time to time additional functions have been transferred to the Board of Economic Warfare by the President pursuant to authority vested in the President by the Congress, particularly by the First War Powers Act of December 18, 1942 (Public Law No. 354, 77th Congress). Congress has appropriated the monies which the Board is using to discharge these responsibilities. Furthermore, Congress has specifically directed in Public Law No. 638, 77th Congress, approved June 30, 1942, that unless the President shall determine otherwise, the Board of Economic Warfare shall administer the Export Control Law.

It is not enough to make these corrections. The false impression which Mr. Jones created before the Byrd Committee is similar to the impression he created in early December before the Senate Banking and Currency Committee. It is time to prevent further harmful misrepresentations of this nature.

On April 13, 1942, the President vested in the Board of Economic Warfare complete control of all public purchase import operations. Mr. Jones has never been willing to accept that fact. He has instead done much to harass the administrative employees of the Board in their single-minded effort to help shorten this war by securing adequate stocks of strategic materials.

The report of the Truman Committee, dated May 6, 1943, has set the proper pattern for dealing with situations of this kind. Two brief paragraphs from that report are of particular relevance:

"Energetic, aggressive men, striving to meet war needs, will tend to clash when their duties bring them into conflict. But destructive, wasteful feuding must be suppressed.

"The task of control and guidance is of utmost importance. Clear leadership in strong hands is required. The influence from above must be always towards unity. Where necessary, heads must be knocked together."

The President's Order of April 13, 1942, provided for "clear leadership" in programming the import of strategic materials. As a consequence of Mr. Jones' reluctance to accept that leadership there has been too much "destructive, wasteful feuding." The Board of Economic Warfare has tried for over a year now to do its job in spite of the obstructionist tactics Mr. Jones has employed from time to time.

The Congress showed great foresight, very early, in authorizing government stockpiling of strategic materials by passing legislation and by making funds available for this purpose way back in 1939 and 1940. In June of 1939, the Secretary of the Treasury was empowered to purchase and stockpile strategic materials as directed by the Secretary of War and the Secretary of the Navy. This program was comparatively small. Then in the summer of 1940, the Congress made substantial funds available to the Reconstruction Finance Corporation for carrying out a program for purchasing and stockpiling all critical and strategic materials.

From the summer of 1940 until well past December 7, 1941, the Reconstruction Finance Corporation failed dismally, so far as the import field was concerned, to build the government stockpiles authorized and directed by the Congress nearly eighteen months before Pearl Harbor.

During this period, of course, private purchasing of imports continued on a somewhat increased scale due to better business, and the Reconstruction Finance Corporation entered into various under-writing agreements with some countries under which we agreed to take surpluses if they were not bought privately. This seems to us to have been a timid, business-as-usual procedure; at least it was a "far cry" from the aggressive government stockpiling which the Congress directed and authorized so that this Nation might have a margin of security in its imported raw materials inventories.

On December 8, 1942, Mr. Perkins and I testified before the Senate Banking and Currency Committee and gave partial evidence of the delays to our work for which we felt Mr. Jones was responsible. We gave

testimony on his failure to meet the Office of Production Management's directives to stockpile industrial diamonds and block mica. We gave evidence on the extent to which he had delayed the foreign rubber program and cited specifically his stalling in the gathering of wild rubber in South America and the planting of rubber plantations in Africa and in the planting of cryptostegia for natural rubber in the Caribbean. We also presented evidence on the months of delay in starting a preclusive buying program in European neutral countries to prevent strategic materials from going to the Axis. These delays took place before Pearl Harbor and extended beyond Pearl Harbor right up to the 13th of April, 1942, at which time the President transferred import powers from the Reconstruction Finance Corporation and its subsidiaries to the Board of Economic Warfare.

The evidence which we presented on December 8, 1942, to the Senate Banking and Currency Committee was only partial evidence. It is a matter of public record in Hearings on S. 2900.

I now desire to present additional evidence on government stockpiling -- commodity by commodity, for consideration by this Committee, by the entire Congress, and by the public at large.

I want to point out first that all of our administrative work on imports is done under the broad direction of the War Production Board and in some cases under the broad direction of the War Food Administration. I now feel it my duty to get down to specific cases. For reasons of military security, I shall not include figures which might be of value to the enemy. The figures I am able to use, however, have not been previously presented to the Congress. They appear in the following table which I desire to discuss, commodity by commodity:

Performance Record on Certain Public Purchase Recommendations Issued in 1941

1 Commodity	2 WPB (or QPM) Recommendation	3 Import Contracts Executed before April 13, 1942	4 Import Contracts Executed as of December 31, 1942	5 Chief Countries of Origin	6 Chief Uses
Beryl Ore	December 1, 1941: 3,000 m. t.	300 m. t.	4,118 m. t.	Argentina, Brazil, India, South Africa	In production of master beryllium-copper alloy
Castor Seeds	November 19, 1941: 178,571 l. t.	None	73,799 l. t. (spot purchases) 220,000 l. t. (future delivery)	Brazil, Central America	Castor oil used as hydraulic brake fluid
Cobalt	November 17, 1941: 2,500 s. t. of contained cobalt metal	159 s. t.	876 s. t.	Canada, Brazil, Belgian Congo	High speed cutting steels
Corundum	November 18, 1941: 6,000 l. t. (sub- sequently increased)	None	12,000 l. t.	South Africa	Abrasive for grinding optical glass and telescope lenses
Fats and Oils (General)	October, November (1941); January, February (1942): 317,499 l. t. (sub- sequently increased)	2,200 l. t. (approximate)	276,622 l. t. (spot purchases) 500,000 l. t. (future delivery)	Africa, Brazil, Canada, Central America, South America, South Pacific	Edible oils; glycerine (for explosives); manufacture of synthe- tic rubber; lubricants; paints; tin plate manu- facture
Palm Oil	October 20, 1941: 30,000 l. t.	None	23,928 l. t.	Belgian Congo, Nigeria	Manufacture of tin plate

1	2	3	4	5	6
Commodity	WPB (or OPM) Recommendation	Import Contracts Executed before April 13, 1942	Import Contracts Executed as of December 31, 1942	Chief Countries of Origin	Chief Uses
Flax Fiber	October 27, 1941: 6,500 s. t.	None	8,000 s. t. annually for duration	Canada, Egypt, Peru	Parachute webbing; industrial sewing thread
Jute	September 5, 1941: 80,000 l. t.	1,210 l. t.	88,000 l. t.	India	Marine cordage; twines and ropes
Sisal	September 5, 1941: 100,000 s. t. (subse- quently increased)	33,600 s. t.	310,000 s. t.	Caribbean Area, Africa, Mexico	Binder twine
Tantalite	December, 1941, March 13, 1942: 1,000,000 lbs.	None	322,000 lbs.	Africa, Argentina, Brazil, Nigeria	Contact points in radio tubes
Zirconium	September 5, 1941: "reasonable amounts"	None	21,575 s. t.	Australia, Brazil	Tracer ammunition; flares; signals; blasting caps

BERYL ORE

Beryl ore has very important military uses, the outstanding one being its use as an alloy with copper.

On December 1, 1941, the Office of Production Management, the forerunner of the War Production Board, recommended the purchase by Reconstruction Finance Corporation of 3,000 metric tons of beryl ore.

As of April 13, 1942, the day the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, one 300 ton contract had been made, and no deliveries effected.

As of December 31, 1942, eleven contracts calling for the delivery of 4,118 metric tons of ore from four different countries (Argentina, Brazil, India, South Africa) had been made; 640 tons had been delivered. This was done under Board of Economic Warfare directives.

CASTOR SEEDS

The oil extracted from castor seeds is vitally important for war purposes. Among other things, it is used as a hydraulic fluid for jacks and brakes in war machines, as a solvent in paint, and (dehydrated) as a special protective coating for testing airplane motors. No adequate substitute is known.

On November 19, 1941, the Office of Production Management recommended to Reconstruction Finance Corporation the purchase of 178,571 long tons of castor seeds.

As of April 13, 1942, over four months after Pearl Harbor, none had been purchased.

As of December 31, 1942, at the direction of the Board of Economic Warfare, spot purchases totaling 73,799 long tons had been made and long term contracts had been executed for another 220,000 long tons.

COBALT

Cobalt is vitally important to our military effort, its chief use being in high speed cutting steels.

On November 17, 1941, Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of ores containing 2,500 short tons of cobalt metal.

As of April 13, 1942, contracts had been made by the Metals Reserve Company for the purchase of ores containing only about 159 tons of cobalt metal.

As of December 31, 1942, government contracts for ore purchases from foreign sources totaled about 876 short tons of cobalt metal. Increased private purchases have now put us in a comfortable supply position.

CORUNDUM

Corundum, vitally important for its use as an abrasive for grinding optical glass and telescope lenses, is obtained almost exclusively from South Africa. There is practically none in the United States, although there are some interesting experiments being carried on now, in the Southeastern section of the country.

On November 18, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of 6,000 long tons of South African corundum. The recommendation was subsequently increased.

As of April 13, 1942, over four months after Pearl Harbor, no purchases had been made.

As of December 31, 1942, there were under contract (one contract; made by Metals Reserve Company in June, 1942) 12,000 long tons of South African corundum for delivery during 1943 and 1944. This was done under the Board of Economic Warfare directives,

FATS AND OILS

The fats and oils group includes approximately 25 different products, ranging all the way from sunflower seeds to ouricury nuts and whale oil. These products are critically needed in the war effort for a variety of industrial uses as well as for human consumption.

There is one large group of edible oils, needed for Army, Navy, Lend-Lease and civilian uses.

Another group, which includes babassu nuts, coconuts, palm kernels, muru muru nuts, tucum nuts, and ouricury nuts, contains a high percentage of lauric acid, from which glycerine - used in the manufacture of explosives - is derived. These products are also used for plasticizers (to reduce brittleness) and in the manufacture of soap and synthetic rubber.

Oiticica oil and linseed oil are used as solvents in paints.

There is no adequate substitute for cashew nut oil, which is used to impregnate and toughen brake linings and for magneto harness coverings.

Neatsfoot oil is used in impregnating leather.

Tallow, seal oil and whale oil are used in soap making processes, in the course of which glycerine is produced.

Palm oil is essential in the manufacture of tinplate.

Certain marine engines require rapeseed oil as a lubricant.

Sperm oil is used as a special lubricant for airplane engines (allowing the "cold" breaking in of motors), in the rifling of gun barrels, and as a high pressure smokeless lubricant in Diesel engines.

One would think, in view of the critical military urgency of going out to get these imported raw materials, that Mr. Jones would have moved aggressively to build government stockpiles of these fats and oils, and yet here are the facts:

In October, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of approximately 30,000 long tons of various types of fats and oils from foreign sources. In November this total was increased to 208,571 long tons; in January, 1942, to 308,571 tons; in February to 317,499 tons. (The total has, since April 13, 1942, been increased much beyond this last figure.)

As of April 13, 1942, the Reconstruction Finance Corporation had purchased (according to the best information we have) only 2,200 long tons (rape-seed oil); none had arrived in this country. The purchases were all spot; no development program had been even devised. There may be a minor error in this particular figure due to the inadequate commodity accounting records of the Reconstruction Finance Corporation, but we believe the figure to be substantially accurate. For all practical purposes, however, virtually nothing was done by Mr. Jones to build a government stockpile of fats and oils even after Pearl Harbor, when the Japs were conquering the Far East from which we had been getting tremendous supplies.

The Board of Economic Warfare, shortly after it was given its responsibility in the import field, on April 13, 1942, shifted the financing of the fats and oils program to the Commodity Credit Corporation, but retained general administration of it.

As of December 31, 1942:

(1) 276,622 tons of foreign fats and oils had been bought on a spot purchase basis.

(2) The Board of Economic Warfare had negotiated and the Commodity Credit Corporation had entered into development and long term purchase contracts calling for the delivery of 500,000 tons. Several additional development contracts beyond this total were subsequently negotiated.

(3) The private import trade, dealing in fats and oils, which was threatened with extinction because of distortions in the world price structure, was organized into the Emergency Group for Foreign Vegetable Oils, Fats and Oil-Bearing Materials, and its services made use of as an integrated part of the program.

(4) Agreements for joint purchasing were made with the British and Canadians, eliminating competitive buying and resulting in a substantial reduction in the prices paid for a number of fats, oils and oil-bearing materials.

#### PALM OIL

Since there is no adequate substitute for palm oil, which is used in the manufacture of tin plate, I desire to call special attention to it.

On October 20, 1941, the Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of 30,000 long tons of palm oil.

As of April 13, 1942, none had been purchased.

As of December 31, 1942, purchases (spot) totaled 23,928 long tons. This took place under Board of Economic Warfare directives.

#### FLAX FIBER

I now want to discuss flax fiber which is used for parachute webbing and which is also used as industrial sewing thread for high tension purposes.

On October 27, 1941, the Office of Production Management recommended the purchase by the Reconstruction Finance Corporation of 6,500 tons of flax.

As of April 13, 1942, the day the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, no purchases had been made.

As of December 31, 1942, contracts had been made for approximately 8,000 tons, annually from Canada, Peru and Egypt under Board of Economic Warfare directives.

#### JUTE

Jute is another commodity which must be imported from abroad.

On September 5, 1941, the Office of Production Management had directed the purchase of 80,000 long tons of jute, nearly all of which comes from India.

As of April 13, 1942, over four months after Pearl Harbor, the Reconstruction Finance Corporation had done practically nothing to fulfill this important directive, having bought only 1,210 long tons, although the situation in India during this period was highly uncertain.

As of December 31, 1942, the Board of Economic Warfare had arranged for the purchase of the full 80,000 long tons, plus another 8,000 long tons to cover a supplementary directive. Moreover, most of this jute was shipped from Indian ports by the end of 1942.

The Board of Economic Warfare's insistence on maintaining in Calcutta, India, a special agent with a full business background in this industry, has been an important factor in the establishment of this performance record.

#### SISAL

Sisal is a hard fiber needed particularly in the manufacture of binder twine for the harvesting of our grain crops.

As of September 5, 1941, the Office of Production Management had recommended the purchase of 100,000 short tons of sisal (increased to 250,000 tons on March 18, 1942).

As of April 13, 1942, the Reconstruction Finance Corporation had purchased only an approximate 33,600 short tons against this urgent directive.

As of December 31, 1942, the Board of Economic Warfare had negotiated contracts for approximately 310,000 short tons, all to be produced by June 1945, and of which 150,000 tons is expected to be produced by the middle of 1943. By December 31, 1942, some 38,000 tons had been delivered.

We lost many of our fibers sources in the Far East to the Japanese. By December 31, 1942, the Board of Economic Warfare had entered into contracts for the development and purchase of a number of hard fibers in Mexico and Caribbean areas as well as in Africa as part of a tremendous development program. We are planning to put 70,000 acres in these crops, 40,000 acres have already been planted. During a war we have to fight as vigorously to buy goods as we have to fight in peace time to sell them.

#### TANTALITE

Tantalite is another strategic material carrying the very highest military priorities. It is used, among other things, for contact points in radio tubes.

In December, 1941, there was an exchange of correspondence between the Office of Production Management, the State Department and the Reconstruction Finance Corporation which made clear the necessity of increasing substantially United States tantalite imports by public purchase. On March 13, 1942, the War Production Board formally recommended the purchase by the Reconstruction Finance Corporation of 1,000,000 pounds.

As of April 13, 1942, over four months after Pearl Harbor, no tantalite had been purchased by the Reconstruction Finance Corporation.

As of December 31, 1942, some 322,000 pounds had been purchased.

This increase has been due in large measure to an aggressive Board of Economic Warfare program of tracing down every possible source of an ore which occurs only in very small and scattered deposits. Most purchases have been in exceedingly small lots.

In order to open up new sources of supply which will permit fulfilling the purchase recommendations we have received from the War Production Board, the Rare Metals Section of the Board of Economic Warfare's Metals and Minerals Division has contacted private producers or government representatives in Australia, Brazil, South Rhodesia, Argentina, French Equatorial Africa, Nigeria, Portuguese East Africa, India and Uganda.

It is estimated that, very largely as the result of Board of Economic Warfare efforts, 1943 imports into the United States may be 60% above 1942 imports and ten times the total world production in 1939. This program is typical of the way in which the Board of Economic Warfare fights for every pound of strategic materials as though a soldier's life depended upon it -- which, of course, it does.

#### ZIRCONIUM

I now desire to discuss zirconium which is so important in the manufacture of flares, signals, tracer ammunition, and blasting caps.

On September 5, 1941, Office of Production Management recommended to the Reconstruction Finance Corporation the purchase of "reasonable amounts" of zirconium from Brazil.

As of April 13, 1942, the day on which the President transferred import powers from the Reconstruction Finance Corporation to the Board of Economic Warfare, no purchase contracts had been made under the Office of Production Management directive,

As of December 31, 1942, contracts had been made for the purchase from foreign sources of 21,575 short tons of zirconium ores, of which 16,500 short tons were from Brazil. This was done under Board of Economic Warfare directives.

As previously indicated, I have deliberately given figures of the Board of Economic Warfare accomplishments through December 31, 1942, only, for the purposes of military security. The progress in the foreign field for the first six months of 1943 is even more encouraging, considering the difficulties we have faced, than it was during the last six months of 1942. As an over-all figure for this Committee to bear in mind, I should like to point out that total purchases of imported raw materials subject to Board of Economic Warfare directives will run roughly a billion and one-half dollars for the 1943 fiscal year and slightly over two billion dollars for the fiscal year of 1944. Over two hundred critically needed strategic materials will be included in these public purchase programs. Contracts will be made in over thirty foreign countries.

Mr. Perkins is in position to give this Committee detailed and current information on any imported strategic material in a completely secret and off-the-record discussion if this Committee desires to have such facts placed before it in this manner. He can indicate the figures for the full fiscal year 1943 as well as contemplated figures for the 1944 fiscal year. Under no conditions would we make such current information a matter of public record. We are, however, very anxious to inform this Committee as to how such vast sums are being spent. I used the word "spent", but imported strategic materials are, of course, sold by subsidiaries of the Reconstruction Finance Corporation to our war industries. Public purchase is used to assure adequate supplies. Detailed information has already been given the House Committee on Appropriations. We want to give the fullest possible information to the Senate Committee.

Since the 13th of April, 1942, when full import powers were transferred from the Reconstruction Finance Corporation to the Board of Economic Warfare, tremendous progress has been made in stepping up the procurement of certain strategic materials, shortages of which could not adequately have been foreseen by the Office of Production Management prior to Pearl Harbor. Outstanding among these is the increased production of balsa wood and mahogany, largely in this Hemisphere. When the full story can be told, it will be one of the most dramatic successes of the war effort. Our country can be proud of having achieved what seemed to be almost impossible on this front.

Although the President, on April 13, 1942, transferred full control over the programming of imported strategic materials from the Reconstruction Finance Corporation to the Board of Economic Warfare, which operates under broad directives received from the War Production Board, Mr. Jones has never fully accepted that authority. He and his personnel down the line have thrown a great many obstacles in the way of our exercise of the powers given us to carry out our war-time assignments. "Some of these obstructionist tactics have been minor and annoying and some have been of major consequence in this gigantic job of waging total war. I now desire to inform this Committee and the Congress, and the public at large about some of these delays, which have not yet seen the light of day.

First of all I desire to discuss quinine. Brig. Gen. H. C. Minton has informed us that: "Antimalarial preparations derived from cinchona are, of course, essential to adequate control and treatment of malaria, in conjunction with the accepted synthetic anti-malarials."

Far East cinchona bark contains 7 to 10% quinine sulphate; Latin America bark about 2%.

On April 14, 1942, General MacArthur wired Washington that two million seeds of a high grade strain had been brought out of the Philippines (on one of the last planes leaving for Australia); adding that they "must be planted without delay."

I am sorry to have to inform this Committee that Jesse Jones and Will Clayton stalled for months on this program. As I indicated to the Senate Banking and Currency Committee last December, there are times when what we need is more fights and fewer shortages.

Lt. Col. Arthur F. Fischer, who brought those seeds from the Philippines to the United States, came to the Board of Economic Warfare with his proposal -- to plant the seeds in Costa Rica -- on August 24, 1942. Within three weeks, the Board of Economic Warfare had worked out a detailed plan and submitted it to the other interested agencies. Reconstruction Finance Corporation representatives at first acquiesced in the proposal when it was discussed with them on September 11 and 29. Under Secretary of War Patterson approved it formally on October 7, 1942.

Then, on October 10, the Reconstruction Finance Corporation notified the Board of Economic Warfare that "the matter requires further consideration." Those "considerations" continued for four months. Mr. Jones said that our proposal was post-war planning because of the time it takes for cinchona trees to come to full maturity for profitable stripping. The Fischer trees couldn't be harvested for 2½ years at the earliest; normally, seven years pass before stripping of the bark begins.

During 1941 Mr. Jones may have felt that this would be a short war in which we wouldn't become involved; in any event he did not buy quinine during that period in adequate amounts for government stockpiles; during 1942 he acted as though the war might be over by 1944 if we can take his attitude toward this quinine project as a criterion. A United Press story in the New York Journal of Commerce of February 3, 1942, quotes Jesse Jones as follows: "Secretary of Commerce Jesso H. Jones told the House Banking Committee today that he believed the United States will be getting 'all the rubber we need from the Dutch East Indies' by the end of 1943 despite the present Japanese threat to that area". Mr. Jones may be right, but we dare

not take chances and base our imports work on any such optimistic estimate.

As a matter of fact, Mr. Jones may have been considering something else. He takes great pride in the profits of the Reconstruction Finance Corporation and some of its subsidiaries, as evidenced by his recent testimony before the Byrd Committee. If the cinchona trees which we have been discussing have to be stripped after 2½ years because of desperate military needs for quinine, they will yield about 10,000 ounces of quinine-- and a \$125,000 loss to the Reconstruction Finance Corporation. That will mean red ink on the books of the Reconstruction Finance Corporation. I do not like to assign motives, but it is difficult to escape the conclusion that a possible dollar loss held up this production project. Like many things in total war this project may, of course, prove to be an expensive undertaking in terms of dollars. It seems to us to be a wise investment in terms of saving lives, however.

Whatever his reasons may have been, the facts are that Mr. Jones disregarded the constant proddings by the Board of Economic Warfare, and for a while he ignored the fact that I, as Chairman of the Board of Economic Warfare, had personally investigated the matter and recommended immediate action. His "considerations" continued right on through the battle -- with malaria and with the Japs -- at Guadalcanal.

It was not until late January, 1943, that the Reconstruction Finance Corporation finally announced that it would spend some money for this quinine project. For all the full power the President has given the Board of Economic Warfare over imports, we are helpless when Jesse Jones, as our banker, refuses to sign checks in accordance with our directives. Finally, we have won out in all such cases, but the time lost has been precious time which there was no excuse for losing. There have been

many other times, of course, when personnel down the line in both the Reconstruction Finance Corporation and the Board of Economic Warfare have found themselves in complete agreement and have moved forward together with speed. The situation is better than it was a while back, and Mr. Perkins emphasized this fact in his recent testimony before the House Appropriations Committee.

Colonel Fischer is now in Costa Rica and the quinine project is underway. Some of his seeds have been germinating in the Department of Agriculture's experimental station in Beltsville and are about to be sent to Costa Rica. The rest will be planted there. It will be 1946 before quinine from the seeds brought out of the Philippines by Colonel Fischer can be put to work fighting malaria in the tropics. Even so, our Armed Forces may need it desperately by that time if they are still fighting in the malarial regions of the Southwest Pacific.

We and the Army would be quite willing to strip a greater part of the young trees at the end of 2½ years if we have to do so to get quinine for our soldiers, even though the R<sub>2</sub> construction Finance Corporation may lose a little money through not waiting seven years to let the trees mature for the most profitable period of stripping.

In fairness to the Reconstruction Finance Corporation I want to report that on a recent development project in Guatemala, where three hundred million cinchona trees for quinine are being planted under Board of Economic Warfare directives, we have thus far had no opposition from the RFC. We had previously won our fight in terms of principle on the Fischer project just described and Mr. Jones has not yet opposed us on the much larger project we have worked out in Guatemala.

The other quinine programs of the Board, such as gathering wild cinchona bark in Latin America, have been pushed aggressively by the Board of Economic Warfare, and Army officers are now surveying this work in the foreign field with members of our staff. Even this work, I am sorry to report, was held up by Mr. Jones in the late summer of 1942, some nine months after Pearl Harbor.

I want to submit the following facts:

In February, 1943, the Board of Economic Warfare took over the actual import purchase negotiations under Order No. 5 which I signed as Chairman of the Board of Economic Warfare. Order No. 5 is a part of our formal budget presentation. These negotiations had previously been handled by the Reconstruction Finance Corporation subsidiaries. The 1942 record of Reconstruction Finance Corporation's purchases of cinchona bark, under Board of Economic Warfare directives, illustrates why the procedures were changed in the interest of shortening this war.

(1) On June 19, 1942, the Board of Economic Warfare gave Defense Supplies Corporation a detailed outline of a program for purchasing Latin American cinchona bark from United States importers, and directed that it be put into immediate effect. A checkup five days later revealed that nothing had been done; the Federal Loan Administrator had "objected to the tone of finality" about the letter of June 19. Another week was lost because Mr. Clayton "has apparently mislaid the directive and requests another copy." That's the way the Reconstruction Finance Corporation was handling the cinchona program for quinine three months after we had lost Bataan.

(2) The Reconstruction Finance Corporation waited one month to accept an offer of 25 tons; by that time the particular bark had been sold to Brazil. Another offer for 20 tons was withdrawn - five weeks after it had been made. Those delays meant the loss of 1,800 ounces of anti-malarial alkaloids for United States soldiers fighting in the tropics. In three months the Reconstruction Finance Corporation bought just 75 tons of bark. In the following seven weeks a single Board of Economic Warfare agent got firm commitments for 750 tons for immediate shipment, 1,500 more for future delivery. By this time, our Imports Office was better organized than in the Spring of 1942, and swinging vigorously into action.

(3) The Board of Economic Warfare learned that the Reconstruction Finance Corporation was getting firm offers on cinchona bark but referring

them to processors -- with whom the importers were then haggling about price - while the bark stayed in Colombia and Ecuador. When the Board of Economic Warfare directed the Reconstruction Finance Corporation to accept all firm offers, the Reconstruction Finance Corporation responded by calling two meetings, each after another ten day delay. Then the Reconstruction Finance Corporation explained its reluctance; it didn't want to take the risk of financial loss involved in dealing with unknown and possibly "irresponsible" suppliers.

The Reconstruction Finance Corporation thus held up the vital quinine program while it objected to the "tone" of our letters, mislaid papers, forgot about offers, and handpicked its suppliers from the "right kinds of people", instead of making a desperate fight to buy every pound of cinchona bark it could locate from any source whatsoever, regardless of the financial risks involved.

#### QUARTZ CRYSTALS

I now desire to discuss quartz crystals, the use of which is so utterly important to some of our war industries.

For two years now Brazilian quartz crystal, essential element in airplane, tank and submarine radio sets, has been in critically short supply.

During 1941 and early 1942, the Reconstruction Finance Corporation agent in Brazil bought 2,000 tons of crystals. He was paid a commission of 1½% on his gross purchases, and he bought those crystals without checking to see whether they were of the quality needed and paid for. Over 85% of them weren't. The government lost between two and six million dollars, and we have heard that United States quartz fabricators began raiding museums to get usable crystals.

Shortly after April 13, 1942, the Reconstruction Finance Corporation replaced this agent although it gave him equally lucrative work in New York.

But the situation in Brazil wasn't improved. The Reconstruction Finance Corporation had been burnt where it hurt most, by having to take a loss on a hazardous undertaking. The new Reconstruction Finance Corporation agent began eliminating dollar losses the easy way. Not a pound of quartz crystal was purchased by the Metals Reserve Company for six months. The Board of Economic Warfare finally had to send a top official to Rio to get the public purchasing resumed. I feel that Board of Economic Warfare personnel should have fought the delaying tactics of the Reconstruction Finance Corporation more vigorously in this instance.

The Board of Economic Warfare finally insisted upon inspection facilities in Rio so that crystals could be tested before payment and shipment. The Army Signal Corps has been of great assistance to us on this project by supplying 20 trained inspectors and the necessary arc-lights, inspection baths, polaroid screens, etc. The Army, of course, had a critical military stake in this phase of our work and has cooperated readily and effectively.

Reconstruction Finance Corporation policy had been to keep a staff in Rio - - and to wait for the business to come in. When the Board of Economic Warfare sent 100 engineers and qualified purchasing agents into the up-country areas where the crystals are mined, Reconstruction Finance Corporation representatives in Brazil at first cooperated in supplying purchase money and contracting authority; then they refused to cooperate - on "instructions from Washington". The Board of Economic Warfare set up a purchasing station at outlying Campo Formosa; then we had to move it back to Bahia - - so that Reconstruction Finance Corporation funds could be spent through the bank there.

In April, 1943, Board of Economic Warfare representatives in Rio advised that restrictions put upon Metals Reserve Company agents' purchasing authority by Reconstruction Finance Corporation was preventing our meeting

market prices in our buying there and that purchases were coming to a halt. The Board of Economic Warfare, therefore, directed the Reconstruction Finance Corporation to relax its restrictions. Reconstruction Finance Corporation refused, stating that we didn't need quartz enough to pay any more for it. Three weeks later, after advice from their own Brazilian representatives, they reconsidered -- and changed their instructions. But not in time to head off the Special Representative of the Board of Economic Warfare in Brazil. Fed up with Reconstruction Finance Corporation obstruction to his Brazilian program, he arrived in Washington to report. It took his report, plus a morning which I spent with Jesse Jones and Will Clayton, to break this particular log-jam. Throughout the period of these bureaucratic, obstructionist tactics on the part of the Reconstruction Finance Corporation, the need for quartz crystals was critically urgent.

As I previously indicated, the reason Mr. Jones could hold up our quartz crystal and quinine programs is because he signs the checks to pay for the procurement and development of these commodities. To put it differently, he has been able to delay this part of the war effort because of his position as banker for us, notwithstanding the complete delegation of powers over imports which the President gave the Board of Economic Warfare on the 13th of April, 1942, following the failure of the Reconstruction Finance Corporation to build the government stockpiles of strategic materials which Congress authorized and directed in the summer of 1940.

The delays on the two programs just mentioned were major matters. More annoying, because there are more of them, have been the minor delays which have taken place from time to time throughout this past year. I now desire

to discuss some of these, more by way of illustration than by way of presenting any completely documented case:

Since February, 1943, the Board of Economic Warfare has been negotiating and drafting all imported materials contracts, getting them executed by the sellers, then sending them to the Reconstruction Finance Corporation subsidiaries for execution. This has been done under Order No. 5 to which I referred earlier. The purpose in establishing these new procedures was to eliminate delay and duplication.

Those purposes have been in large measure accomplished -- but only in the face of an exasperating rear guard action by Reconstruction Finance Corporation officials who are still fighting the war with peacetime red tape, corporate technicalities, and with what seems to us to be an unnecessary caution. None of the following obstructionist efforts of the Reconstruction Finance Corporation is major in itself, but the cumulative effect has been maddening to the business men with foreign trade background who have left lucrative positions in private industry to work for the Board of Economic Warfare at government salaries for the duration in a patriotic effort to help shorten this war.

The tactics are better illustrated than described. During the past four months, for example, one of the Reconstruction Finance Corporation subsidiaries, Metals Reserve Company:

(1) Took four weeks to execute a group of three metal contracts drafted by the Board of Economic Warfare which the sellers had executed and returned within ten days.

(2) Held a copper contract for five weeks because one letter had been left out of one unimportant word and because two minor clauses "could have been more clearly stated." (The seller had supplied the missing letter and had found no difficulty in understanding the two clauses.)

(3) Wrote three letters to the Board of Economic Warfare complaining because a form recital clause (without legal effect) referred to the Board of Economic Warfare's "direction" that the contract be entered into. (A similar reference to the War Production Board had always been included by the Reconstruction Finance Corporation draftsmen.)

(4) Demanded that a simple five-ton wash sale contract for tantalite be broken up into two contracts -- so that Reconstruction Finance Corporation attorneys might draft one of the two. The wash sale technique was used on this small lot in order to provide Government ownership while in transit, as it was necessary to ship the goods by air and the Air Transport Command carries only Government owned materials.

(5) Refused to sign a contract with a Nigerian tantalite producer before the producer signed it - even though the alternative meant a three-week delay in getting a new mine into production.

(6) Refused, on a legal technicality, to honor a directive authorizing the "loan or rental" of equipment to the Brazilian Government - because of information from Government representatives in Rio, received subsequent to our directive, that the equipment would be rented, and not loaned.

(7) Held a Brazilian tantalite contract for four weeks because it had been entered into without a formal approval required by the Secretary of Commerce.

All this, and I want to emphasize it, is bureaucracy at its worst; it is utterly inexcusable in a nation at war.

We are quite willing to rest our case with the Congress and stand on our record. While I realize that the suggestion which I am about to make is not a matter directly before this Committee, I should like to express a personal judgment.

It seems to me that we could end this wrangling and improve the administrative efficiency so essential to winning this war, if program money were appropriated directly to the Board of Economic Warfare for its purchase and development of all imported strategic materials, just as money is now appropriated directly to us for administrative expenses in connection with our imports work. These difficult war time jobs cannot be tackled effectively, as pointed out so truly in the report of the Truman Committee from which I read in the early part of this statement, without the full power to carry out specific assignments.

The Board of Economic Warfare is a war agency; it is not a part of the permanent machinery of Government. We have recruited what we feel to be an extremely competent group of businessmen and technical engineers with foreign trade background to carry out our job of importing strategic materials. Shortly after the war is over most of these men will be wanting to get back to their peacetime responsibilities.

For the duration, however, I feel that they should be given adequate latitude for a job which is extremely difficult even under the best of conditions. They should be free from this hamstringing bureaucracy and backdoor complaining of Mr. Jones and his employees. It is my hope that this statement has cleared up any misunderstandings which may have been caused by Mr. Jones' appearance before the Byrd Committee.