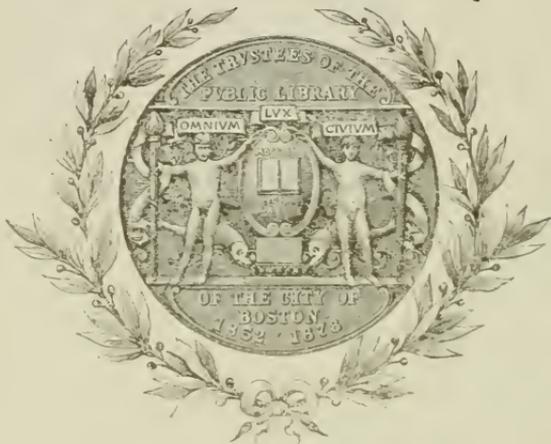


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MUNITIONS INDUSTRY

NAVAL SHIPBUILDING

PRELIMINARY REPORT OF THE SPECIAL
COMMITTEE ON INVESTIGATION OF
THE MUNITIONS INDUSTRY

PURSUANT TO

S. Res. 206 (73d Congress)

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

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1935



Printed for the use of the
Special Committee on Investigation of the Munitions Industry

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1935

5179



74th Congress }
1st Session }

SENATE COMMITTEE PRINT

Part 1

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*Pan American Union
Sept. 12, 1950*

THE SPECIAL COMMITTEE ON INVESTIGATION OF THE MUNITIONS
INDUSTRY

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MUNITIONS INDUSTRY

JUNE —, 1935.—Ordered to be printed

Mr. NYE, from the Special Committee on Investigation of the Munitions Industry, submitted the following

PRELIMINARY REPORT ON NAVAL SHIPBUILDING

[Pursuant to S. Res. 206, 73d Cong.]

The Special Committee on Investigation of the Munitions Industry, authorized by Senate Resolution 206 of the Seventy-third Congress to investigate the munitions industry, to review the findings of the War Policies Commission, and to inquire into the desirability of creating a Government monopoly in respect to the manufacture of munitions, submits the following report:

FINDINGS

In submitting this preliminary report on naval shipbuilding, the committee wishes to emphasize that it is interested mainly in two things:

The first of these is that the naval defense shall be provided for without profiteering or collusion.

The second of these is that the national necessity for a purely defensive Navy shall not be confused with the private necessity of the shipbuilders for continuing profits as a consequence of the present close interdependence of the Navy Department and these private shipbuilders.

The Navy is an instrument of national policy. Its growth and activities are watched abroad and take part in changing the foreign policy of other nations. Such changes work back to reshape our own national policy. The growth of a Navy contains within it the seeds of armament races and wars as well as the legitimate seeds of a purely defensive national life insurance.

Because of this fact the naval shipbuilders are in a different position from road or building contractors who may move in on a Government, hungry for "plunder", as one shipbuilder's lobbyist described a naval appropriation. These private shipbuilders are part of the private system of national defense which has grown up. Their activities ultimately have a bearing on our foreign policy.

Whenever the Navy becomes closely tied up to private shipbuilding interests and asks for and is dependent on their support either in the securing of appropriations or in the construction or designing of necessary ships or in the crippling of our foreign policy, a dangerous and delicate situation has been created, and one which the country should go to full lengths to avoid and stop.

The technical developments of the present years are rapidly making the armaments of this Nation, particularly in regard to naval vessels and naval aircraft, approach those of European countries in their effects. In Europe almost every major defensive weapon can be used offensively, and is regarded by other European nations as a distinctly offensive weapon. With recent developments we are rapidly approaching that situation ourselves.

This is an additional reason for providing for a cessation of any dependence by the Navy on those who may be primarily interested in their own profits and who may be unscrupulously glad to be in a position where they can wrap the flag around those private interests.

Congress must never allow the people of this Nation to let themselves be confused between the actual needs of the country in national defense and the needs of the private shipbuilding and supplying interests for continuing profits.

The record of our shipbuilders in the war, in the post-war period, and in the days from 1927 on, before and after the cruiser program was begun, has not been an entirely pleasant or wholesome story. Some of them are certainly not above suspicion of willingness to wave the flag or to circulate war scares in the plain and simple interest of their own pocketbooks, regardless of results.

It is clear that these results are not to be trifled with. Mr. Eugene Grace, president of Bethlehem Steel Corporation, questioned on the possible effect of another war on western civilization, testified:

I should think it was possible to destroy it; if not in its entirety, certainly in its effectiveness. Just an anticipation of it is too terrible even to think of (galley 74 VW, Feb. 26).

With these possible results in mind, it is clear that the private shipbuilders should very definitely be policed in any and all moves made by them or through them to confuse public-defense needs with their private profits, or should be cut off entirely from the building of ships for the Navy.

The committee is not unmindful of the naval race prior to the World War between England and Germany and the self-interest part played in it by Krupp and other steel interests, and their *Flottenverein*. It is not unmindful of the fact, demonstrated in that naval race, that few elements of international competition can be used more effectively to scare other people into building larger fleets and spending more money on them than a Navy which has clearly outgrown the purposes of national defense. The committee is not unmindful of the part played by Vickers and the Electric Boat Co., an American company, in such a naval race in South America in the early twenties. (See vol. 1, Committee Hearings.) It is not particularly impressed with the thought that companies which have engaged in this sort of activity, or in the business of trying to make the United States Government remit just taxes or to pay admittedly exorbitant claims, are exactly the right people to allow to hang around very close to the powder keg of international relations.

If it were clear that the rush and pressure of the shipbuilders and their associated subcontractors and suppliers toward a constantly growing Navy had resulted in savings and economies to the Government in the construction of these cruisers and other naval ships, a case might be made for allowing them to live as close to the danger zone as they do now. While the evidence is not all in, the indications are, on the contrary, that the private yards cost the Government from one to two million dollars more per cruiser than the navy yards.

I. AGREEMENTS ON NAVAL BIDDING

Specifically, the committee finds, under the head of Agreements on Naval Bidding:

The Navy has become a big business. It is one of the largest governmental contractors in the world.

During the years 1933 and 1934 it gave out to private companies contracts totaling over \$180,000,000.

The committee heard 9 companies, 67 witnesses, largely on the subject of these contracts. It spent 38 days, and took 4,036 pages of testimony.

The committee finds that the evidence indicates clearly that:

(1) In most cases the Navy wishes work to begin as soon as possible. The result of this is that there is often not time to prepare designs, let alone examine figures or to analyze the bids put before it by private companies.

(2) The rush has made it impossible for the Navy to use its own navy yards as current up-to-date yardsticks of private bids. The navy yards do not even know such essentials of the bids of private yards as the speed guarantees or oil guarantees until after the private bids are opened.

(3) The Navy has never examined the underlying costs or profits of the private builders. It makes no pretense of doing this. It has no staff for it. The figures studied by the Munitions Committee were all news to it.

The Navy makes no attempt to examine the costs of the private companies to determine whether the profit limitation of 11.1 percent in the Vinson-Trammell Act is enforced or evaded. That is left to the Treasury to do after 3 years, after a job is done.

(4) This rush, this lack of staff, this lack of acquaintanceship with the strange ups and downs of bidding by the private companies on the part of the Navy, leaves the Navy at the mercy of the shipbuilders. A series of bids are put before the Navy, and the Navy has to take the low one, and the taxpayers have to hope and pray that the low one is somewhere within a few million dollars of being reasonable and proper.

(5) The evidence presented to the committee showed that in 1933 on contracts worth \$130,000,000 to the private shipbuilders, there was no hard-hitting competition among equally desirous bidders able to take on the work: On the aircraft carriers, worth \$38,000,000; on the two light cruisers, worth \$24,000,000; on the heavy cruiser, worth \$12,000,000. There was no competition of that character on the heavy destroyer leaders, worth \$30,000,000, nor on the light destroyers, worth \$18,000,000. On the submarines there may have been honest competition, but one competitor possessed all the patents and would not tell the other company how much those patents would

cost them. That is the way \$130,000,000 worth of work was given out in 1933.

(6) From 1927 on when the cruiser program started, the record is the same. If there was no collusion, there was a sympathetic understanding among the big companies of each other's desires.

If there were no conversations about bidding among them, there was telepathy.

In 1927 the shipbuilders made profits of 35 and 25.4 and 36.9 percent on the cruisers. That was too good to spoil by hard competition. In 1929 the Navy asked for bids on two cruisers. Not one of the "Big Three" yards obliged. They bid on 1 each, and got 1 each. Their profits on these were around 22 percent.

The record is the same in 1931.

(7) In 1933 two shipbuilders knew and wrote down lists of the low bidders weeks in advance of the time the bids were opened. Mr. Bardo was one of them. Mr. Wilder was another. Mr. Bardo admitted discussing his desires for certain ships only with his two main competitors.

(8) The fact that many bids are submitted by shipbuilders does not mean that there is real competition. It does not mean lower prices. In fact, quite the contrary is true. When there is lots of work to go around the charges go up. The shipbuilders know that the Navy feels it has to have the ships, and they raise the prices. They admitted this frankly.

II. EXCESSIVE PROFITS

The committee finds, under the head of Excessive Profits, that the profit figures on the only naval vessels on which such figures are available were 35 percent (Newport News, 2 cruisers); 36.9 and 33.4 percent (New York Ship, 2 cruisers); 25.4 and 21.8 percent (Bethlehem Shipbuilding, 2 cruisers); 23.1 percent (Aircraft Carrier *Ranger*, Newport News).

III. PRICES INCREASED WITH BIG NAVY

The committee finds, under the head Prices Increased with Big Navy, that the need of the Navy for many ships in 1933 was the main cause for the increase in prices charged by the private shipbuilders, and that they frankly admitted this, and that the Navy recognized the fact.

Q. They (the shipbuilders) were frank enough to say they were putting up prices because of the great amount of work at the time?—A. (Admiral Robinson) There is no question about that.

IV. NAVY YARDS AS YARDSTICKS

The committee finds, under the head of Navy Yards as Yardsticks, that preliminary studies show the cost of building cruisers in navy yards to have been \$2,116,304 lower than in private yards in 1927 and \$1,569,090 lower in 1929. It also finds that in 1933 the low navy-yard estimate was \$1,122,000 below the lowest private-yard fixed-price bid and \$5,351,000 below the highest fixed-price bid. It also finds that the navy-yard estimates on the cost of building light destroyers averaged \$1,240,459 lower than the average bids of the

private yards and \$943,460 below the lowest private-yard bid on a fixed-price basis.

The committee finds, further, that Navy officials have been transmitting to congressional committees figures on comparative costs of private and navy yards showing the profits on a privately built ship, the cruiser *Chester*, as \$983,000, whereas the New York Shipbuilding Corporation informed the Munitions Committee that its profit on this cruiser was \$2,946,706.

The committee finds, further, that the opposition of the private shipbuilders to navy-yard construction has been intense, reaching the point where the vice president of Newport News thought it better "to kill the Navy bill entirely" than to spend part of it in navy yards.

The committee notes the language used concerning a naval appropriation in 1931 by the Washington representative of Bath Iron Works:

I understand the morning after the (appropriation) bill went through every East-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing ready to fight for their share of the plunder, and the only thing that stopped the West-coast yards from being here was the fact that they couldn't come bodily by telegraph.

V. THE NAVY'S DEPENDENCE ON PRIVATE YARDS

The committee finds, under the head of The Navy's Dependence on Private Yards, that at present light cruisers, aircraft carriers, light destroyers, destroyer leaders, and submarines are being built largely or entirely from the plans drawn by private companies, and that there are very definite disadvantages to a system in which the Navy has to depend on private companies for such an important part of the national defense.

The committee notes the awareness of several of the shipbuilding companies of the fact that the Navy is completely dependent on them for this work.

The committee notes the statement by Commander E. L. Cochrane:

The Navy's developments of 15 years were—handed to the Electric Boat Co. on a silver platter, so to speak, on the conviction that it was desirable to keep at least one commercial company in the submarine game * * *

and also notes the statements of Sun Shipbuilding officials who wanted to build submarines that they could not find out what the Electric Boat patents would cost them prior to entering a bid. The committee finds this apparent monopoly an unwholesome and unsatisfactory situation, especially in view of Electric Boat Co.'s foreign connections.

The committee finds further that a very considerable delay followed the allocation of \$238,000,000 of P. W. A. money to the Navy in 1933, and that a large amount of this was due to delay in the planning work by these shipbuilding companies which had contracted to do this part of the work for the others and for the navy yards. The committee notes that this delay took place in spite of pledges by all shipbuilders to begin work as soon as possible for the benefit of the unemployed.

The committee finds, further, that while the Navy is dependent on the private shipbuilders for ways and plans, the private shipbuilders are dependent on the Navy for special favors, and have received a considerable number of them. Most notable among these are the

adjusted price contracts of 1933 and 1934, the failure to use the navy yards as yardsticks, the failure to make itself independent of the private yards in planning work, and the Navy's opposition to profit limitation in 1934.

The committee finds indications of the use by the Navy of the shipbuilders as a lobby for its interests.

VI. INFLUENCE AND LOBBYING OF SHIPBUILDERS

The committee finds, under the head of Influence and Lobbying of Shipbuilders, that the Navy contractors, subcontractors, and suppliers constitute a very large and influential financial group.

The committee finds that three big shipbuilding companies had \$53,744,000 of work at stake in the Geneva Disarmament Conference which the Navy had given to them a few months before the opening of the conference in 1927. It notes the admitted interest of the companies in the unfavorable outcome of that Conference. It notes Mr. Shearer's testimony that he was urged to go to the conference by Admiral Pratt, and was supplied with secret Navy information. It notes the secrecy of his employment by the shipbuilders, and the explanation for that secrecy. It notes his activities in the promotion of a war scare with England in 1928 and 1929, while being paid by the shipbuilders. It notes certain discrepancies between testimony given by the shipbuilders at the Shortridge hearings and the hearings of the Munitions Committee. It notes Mr. Shearer's claim that "as a result of my activities, eight 10,000-ton cruisers are under construction." Further, that owing to the failure of the tripower naval conference at Geneva, there is now before the Seventieth Congress a 71-ship building program costing \$740,000,000. It notes Mr. Shearer's further testimony of his activities at the request of various Naval officials. It notes his description of his Geneva campaign as "fast and vicious." It notes his report at the "delight" of the shipbuilders at the result. It notes the payment by the shipbuilders of the costs of a pamphlet he wrote attacking certain private citizens, including Newton D. Baker and Franklin D. Roosevelt. It notes the payments he received from Mr. Hearst of \$5,000 in 1929. It notes the spreading through a friendly newspaper syndicate of an alarmist story concerning alleged Japanese intentions by the president of the Bath Iron Works, with the intent and result of activity by a Senator and Representatives from Maine in connection with an appropriation bill in 1932.

The committee finds, on the basis of this and other testimony, that there is a clear and definite danger in allowing self-interested groups, such as the shipbuilders and their allied interests, to be in the close position of influence, as they are at present, to such an important instrument of national policy as the Navy is, and the danger in allowing them to remain in a position where it is to their financial interest to confuse public opinion between the needs of the country for a purely defensive Navy and their own continued needs for profits.

The committee finds, further, that there has been a large amount of bipartisan political activity on the part of the shipbuilders locally, in Congress, and also at the national headquarters of the two parties. It makes no claim to have gone into this field thoroughly. The committee notes the claims of the Washington representative of United Drydocks in 1934 that he could get a bill through Congress for \$50,000,

and that "there is no virtue in being Quixotic at this state." It notes the placing of Congressmen on certain committees at the request of the shipbuilders. It notes their claim to have helped the Navy on certain bills and to have elected Members to the House Rules Committee. It notes the reference to United Drydock Co. securing through Dave Hogan, secretary to Mr. McCooey, prominent Brooklyn democrat, the award of \$6,800,000 in destroyers in 1933.

The committee finds that the matter of national defense should be above and separated from lobbying and the use of political influence by self-interested groups and that it has not been above or separated from either of them.

The committee finds, further, under this head, that the main lobby for the Merchant-Marine Act of 1928 was conducted by the shipbuilders under the leadership of Mr. Laurence R. Wilder, then president of American Brown Boveri (New York Shipbuilding Co.), and that a sum of over \$140,000 was spent in putting that bill over.

The committee finds further that New York Shipbuilding Co. was acquired as a speculative investment by the Bragg-Smith-Cord interests just prior to the 1933 naval awards; that the present owners are not experienced shipbuilders and have since tried to divest themselves of the ownership, and that it is not a satisfactory situation to have such an important part of our potentially necessary national defense in the hands of people who are willing to sell it to the first bidder. Speculators and speculation should have no place in our national defense.

The success of the shipbuilders in securing an allocation of \$238,000,000 for shipbuilding from P. W. A. funds has been their most recent demonstration of power. In this their purpose was aided by labor groups who later, when the expected employment failed to materialize, spoke of the matter as a "double cross" to the Navy officials who had solicited their support for the measure.

VII. ATTEMPTS TO LIMIT PROFITS

The committee finds, under the head of Attempts to Limit Profits, that the failure of the Navy Department to turn the navy yards into effective yardsticks by which the charges of private shipyards could be measured and kept down has resulted in leaving the profits of the shipbuilders practically uncontrolled.

The committee finds that the Vinson-Trammell bill of 1934 limiting profits to 11.1 percent of cost cannot be enforced without a huge police force of accountants and that disputes concerning its interpretation, similar to those which delayed the payment of war-time taxes by the companies for 12 years may confidently be expected.

The committee finds that the Navy's grant of adjusted price contracts in 1933 with limitations on the amount of risk the Government assumed for the benefit of the shipbuilders and in 1934 without any limitation on the Government burden for increased costs has resulted, in effect, in cost-plus contracts. It finds these cost-plus contracts more profitable than the war-time contracts when only a 10-percent profit over cost was allowed.

The committee finds that in the case of the 1934 adjusted-price contracts on light cruisers, destroyer leaders, light destroyers, and submarines, the Government has assumed all the risk of increasing

prices, and has lowered the risk for which the companies received 11.1-percent profit by an enormous amount.

The committee finds that the Navy, which has no responsibility for enforcing the act, and which has no reliable figures about private costs, is in a position to allow—and according to one company has actually allowed—increased overhead charges, which can invalidate the whole attempt by Congress to limit profits. The committee notes that it was by the allowance of such theoretical overheads during the war-years above actual overheads that New York Shipbuilding Corporation was paid \$2,152,976 more by the Government than it actually paid out itself.

The committee finds that the shipbuilding industry and its subcontractors and suppliers have united in efforts to find ways to avoid the incidence of this law, and that Mr. Gillmor, president of Sperry Gyroscope, Navy suppliers, told them, "If the shipbuilders, boiler manufacturers, and electrical manufacturers act in accordance with uniform rules, it will be so strong I think the Income Tax Bureau will have a hard time resisting it." The committee notes the unreliability of the shipbuilders' figures as indicated by the wide differences between their war-time reports and the audits of those reports by the Treasury (sec. VIII). It notes also in this matter of reliability the recent discrepancy of almost \$2,000,000 out of a profit of \$2,900,000 in the reports furnished by the New York Shipbuilding Co., passed on by the National Council of Shipbuilders and circulated recently among congressional committees by Navy officials. It also notes in this matter the evidence tending to show that the Bath Iron Works transferred an item of \$60,000 incurred on a lighthouse tender to the costs of the destroyer *Dewey*.

The committee finds that there is no enforcement of the profit limitation law in effect until 4 years after the beginning of a cruiser. It finds, from war-time experience (sec. VIII) enough evidence of the difficulty of auditing thousands of old vouchers and of properly allocating overhead which the companies may have improperly saddled onto Navy vessels, to declare that there is no effective profit-limitation law today.

It finds the price of real enforcement of the attempts of Congress to limit profits to be a costly policing force of accountants and auditors who would be in the yard for at least 3 years, and a series of costly lawsuits after those audits have been completed. It finds that the only way to prove that a company had not improperly allocated overheads from commercial jobs onto Navy jobs would be to audit all the commercial jobs being done by a private yard as well as the Navy work; in short, to audit all the work done by the yard and to establish uniform accounting.

The committee questions whether this additional cost for auditing and policing, plus the cost of lawsuits after such audits, on top of the 1 to 2 million dollars extra cost of private construction, and the \$300,000 spent by the Navy for inspection of the privately built cruisers, justify the continuance of private yards as naval contractors. They have the appearance of being expensive luxuries.

The committee reserves decision on this phase of the matter until the completion of its investigation of the costs of governmental construction.

VIII. WAR-TIME ATTITUDE OF SHIPBUILDERS

The committee finds, under the head of War-Time Attitude of Shipbuilders, that the record of the present shipbuilding companies during the war, wherever examined, was close to being disgraceful.

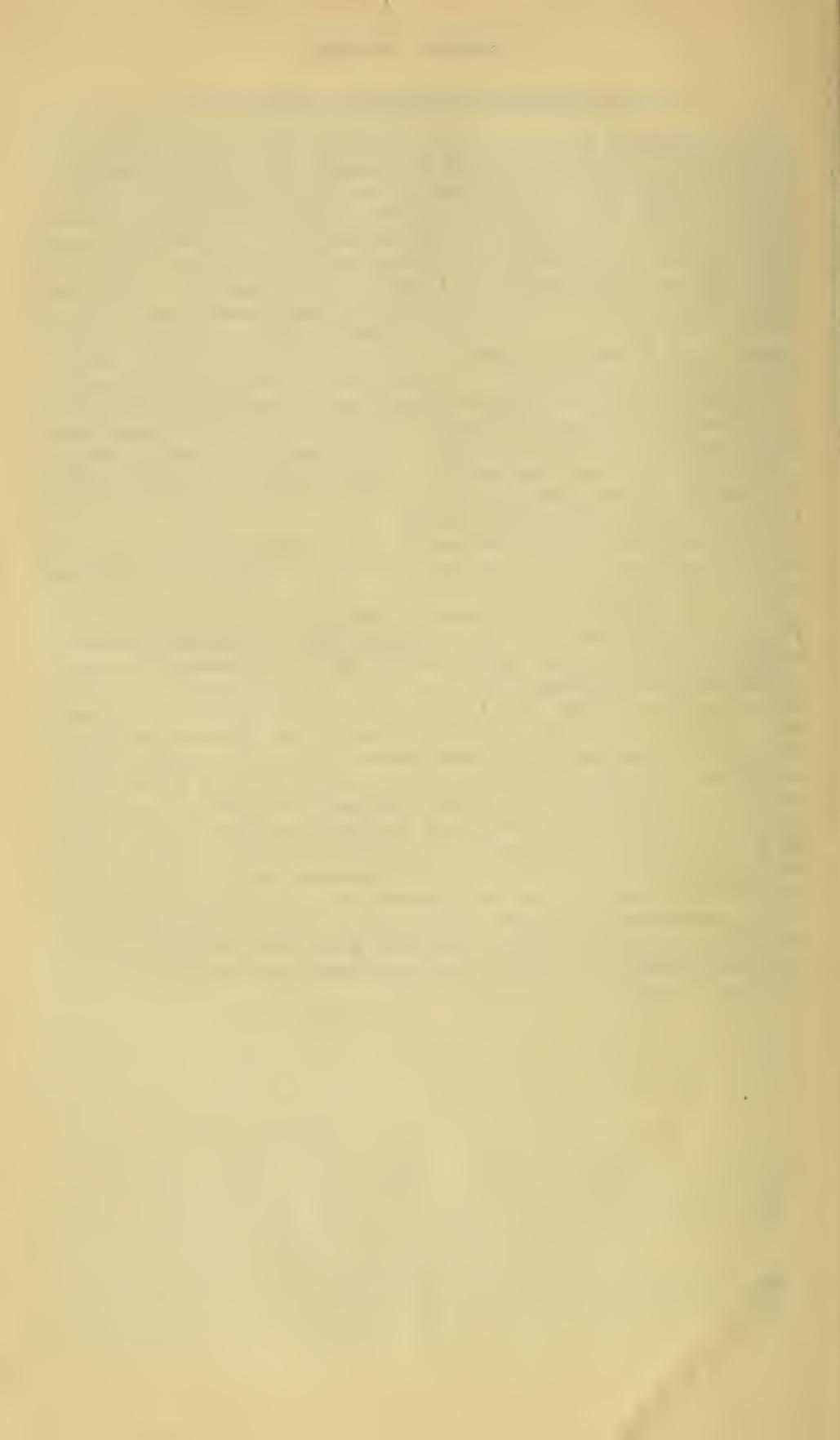
They made very considerable profits. On Treasury audits they showed up to 90 percent. They secured cost-plus contracts and added questionable charges to the costs. They took their profits on these ships after the war-time taxes had been repealed. They secured changes in contract dates to avoid war taxes. They bought from the Government, very cheaply, yards which had been built expensively at Government costs. In one case this was prearranged before the yard was built. One yard did not build necessary additions until it was threatened with being commandeered. Knowingly exorbitant claims were filed against the Government for cancelation. Huge bonuses were paid to officers. Profits were concealed as rentals.

After the war was over keels for \$181,247,000 worth of destroyers were laid, which was probably the largest post-war favor done by any Government to any munitions group.

The committee finds no assurance in the war-time history of these companies to lead it to believe that they would suddenly change their spots in the case of another war.

After the committee's hearings on shipbuilding had closed, Gen. Hugh Johnson, at one time connected with the War Industries Board, later with B. M. Baruch, and later Director of the National Recovery Administration, explained that the N. R. A. had grown out of the plans developed by the War Department for the conduct of a future war. It was, he stated, developed directly from the war plans and was not shown to the industrialists for their approval until practically completed. In view of this statement, the committee finds significance in the testimony of a Department of Labor official concerning the unwillingness of the New York Shipbuilding Co. to observe the N. R. A. rules, with the result of a serious labor dispute in 1934. The company did not raise the question of constitutionality, and all that was involved was the question of observance or evasion of the law.

The committee finds in this evidence, taken together with the actual war-time experience of the Government with these companies, little hope for obedience by them of more stringent war-time provisions in the case of another emergency.



RECOMMENDATIONS

1. The committee postpones its final recommendations on the problem of removing or rendering harmless to the public interest the close interdependence of the Navy and the financially interested shipbuilding interests. The final report on this subject will be rendered immediately upon the completion of its study on Government costs in private and navy yards and on the cost of purchasing necessary private yards for public use.

In the interval the committee recommends an unusually strict reporting of the activities of all the representatives of the shipbuilders and allied interests. This is contained in section 2, paragraph 3, of the attached bill.

2. In the matter of collusion and profiteering, the committee recommends the immediate adoption by Congress of the following bills "to prevent collusion in the making of contracts for the construction of naval vessels in private shipyards, to safeguard military secrets of the United States, to make public the activities of the shipbuilding lobby, and for other purposes," and to prevent profiteering in the construction of naval vessels in private shipyards.

S. 3098

The main purpose of the first bill (S. 3098) is to prevent collusion by the shipbuilders and to prevent their taking advantage of the Navy.

It does this by directing the Comptroller General to examine the navy yard estimates and the private yard estimates and bids before the Navy makes any awards. He is directed to analyze them on the basis of past bids and estimates and on the basis of the bids and estimates of all other companies and navy yards. (The studies of the Senate Munitions Committee on this subject are in this way to be utilized, maintained, and made permanent by the Comptroller General.) He is charged finally with the duty of recommending to the Navy whether bids shall be readvertised or not before any awards are made by the Navy Department.

This bill includes a provision for the registration of shipbuilding lobbyists and a statement of their income and expenditures. It includes a provision forbidding the sale abroad of naval inventions for a period of 5 years. It includes a provision to make the Navy independent of the private shipyards in the matter of designing and planning.

The committee recommends the adoption of all of the provisions in this bill as urgent and necessary to the public interest.

A copy of this bill (S. 3098), introduced June 19, is printed below as part of the committee's recommendations.

(S. 3099)

The main purpose of this second bill is to prevent profiteering.

It is provided in this bill that the Navy shall be allowed to pay to private shipyards a premium of no more than \$500,000 per cruiser,

\$1,000,000 per aircraft carrier, or \$300,000 per destroyer or submarine over and above the cost of building such a vessel in navy yards.

The committee believes that this is an adequate premium to pay to the shipbuilders, subject to its further studies of Government costs.

Since the Navy Department has at present assumed most of the risk of the shipbuilding industry in the form of adjusted-price contracts, and since the Vinson-Trammell Act was based on the assumption of risks by the industry instead of by the Government, the committee recommends that whenever the Government assumes the risk the profit be cut in half, i. e., to 5 percent instead of 10 percent of the total cost to the Government. The idea of having the Government assume all the risk of increasing prices for labor and material and in addition pay a profit of 11.1 percent on top of cost is preposterous.

This bill provides therefore that whenever the Government assumes all or a share of the business risk, as it does in the adjusted-price contracts of 1933 and 1934, that the shipbuilders, instead of being allowed a 11.1-percent profit as they are under the 1934 act, be allowed only one-half of that amount.

A copy of this bill (S. 3099) introduced June 19, is printed below, as part of the committee's recommendations.

3. The committee recommends further that Congress refuse in any way to weaken the provisions of the profit-limitation bill of 1934, but, on the contrary, strengthen them as much as possible.

The bills containing the constructive recommendations of the committee to effect these results were approved by the committee, and are as follows:

[S. 3098, 74th Cong. 1st Sess.]

A BILL, To prevent collusion in the making of contracts for the construction of naval vessels in private shipyards, to safeguard military secrets of the United States, to make public the activities of the shipbuilding lobby, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no vessel, the commencement of which is authorized by the Act entitled "An Act Making Appropriations for the Navy Department and the Naval Service for the Fiscal Year ending June 30, 1936, and for other purposes", approved _____, 1935, or by any subsequent Act, shall be built in any private shipyard unless (1) the Navy Department shall have prepared, prior to the advertising for any bid therefor, estimates of the cost of construction of such vessel in each of the navy yards; and (2) such private shipyard shall have agreed that all books, records, memoranda, documents, correspondence, and papers of such shipyard and of its subsidiaries and affiliates shall be subject to examination, during the usual hours of business, by representatives of the General Accounting Office and/or of the Navy Department. The word "subsidiary" as used in this subsection means any person, corporation, trust, or business unit over whom or over which such private shipyard has actual or legal control, whether by stock ownership, contractual relation, or otherwise; and the word "affiliate" means any person, corporation, trust, or business unit who or which has actual or legal control over such private shipyard whether by stock ownership, contractual relation, or otherwise.

SEC. 2. No part of any appropriation made by such Act of 1935, or by any subsequent Act, shall be expended under any contract hereafter entered into with any private shipyard unless the bid of such private shipyard, upon the basis of which such contract was entered into, has been certified to by the Comptroller General as (I) fair, reasonable, and not excessive in amount, and (II) lower than any bid that could reasonably be anticipated upon readvertisement for bids. Such certification shall recite that it has been made after due consideration by the Comptroller General of (1) the Navy Department's estimates of the navy-yard cost of construction of the vessel covered by such bid; (2) estimates and

reports prepared by the Navy Department and by the Comptroller General of the costs of construction in navy yards and in private shipyards of similar vessels; (3) previous bids and estimates made by private shipyards for similar vessels; and (4) the likelihood of changing costs of construction during the period of construction contemplated by such bid. Nor shall any part of any appropriation made by such Act of 1935, or by any subsequent Act, be expended under any contract with any private shipyard unless the Comptroller General shall, prior to each payment under such contract, certify that such shipyard has complied with all applicable provisions of the Act of March 27, 1934 (Public, Numbered 135, Seventy-third Congress), and of all similar Acts hereafter enacted, relating to repayment of profits, insofar as previous contracts of such shipyards with the United States, or of any agency thereof, are concerned; and as a basis for such certification the Comptroller General shall cause examinations to be made of the books and records of such shipyard relating to actual costs of construction of the vessel or vessels built by such shipyard pursuant to such previous contracts, and such actual examination of such books and records as is made shall be recited in such certification.

SEC. 3. No part of any appropriation made by the Act entitled "An Act making appropriations for the Navy Department and the Naval Service for the fiscal year ending June 30, 1936, and for other purposes", approved _____, 1935, or by any subsequent Act, shall be available (1) for payment to any contractor of the Navy Department which sells, or in any way imparts, to any person not in the employ of such contractor or of a subcontractor thereof, any design, plan, patent, machinery, or other equipment used by the Navy Department at any time prior to five years after the first use thereof by the Navy Department; (2) for expenditure under any contract with any private shipyard unless such contract, and each modification thereof, shall have been approved by the Comptroller General; (3) for payment to any contractor of the Navy Department unless such contractor shall have filed with the Secretary of the Senate on July 1, 1935, and on each succeeding July 1, a list containing the names of all officials, agents, and representatives of (a) such contractor, (b) all subcontractors engaged by such contractor in the performance of any contract with the Navy Department, including insurance companies and insurance brokers, and (c) any association of which such contractor is a member or of which such subcontractors are members or to which such contractor or subcontractors contributes or contribute, who during the preceding year have interviewed, whether in person or by telephone, or corresponded with any Member of Congress or any employee or relative of any Member of Congress or any officer of the Navy or any official or employee of the Navy Department or of any other Government department or agency upon the subject of legislation relating to naval, military, or merchant marine matters, or upon the business of such contractor or of such subcontractor, such list shall contain statements of the subjects of such interviews and correspondence, the total compensation, itemized by sources, received by each such official, agent, or representative during the preceding year from all sources, the itemized disbursements of such official, agent, or representative, including itemized statements of amounts expended for entertainment or for the benefit of any Member of Congress, or of any employee or relative of any Member of Congress, or of any naval officer or of any official or employee of any Government department or agency. The Navy Department shall also file on January 1 of each year with the Secretary of the Senate a list of the names of all officials, agents, and representatives of any private shipyard, and of any subcontractor, including any insurance company or broker, of any private shipyard, which has submitted to the Navy Department a bid for the construction of any vessel, who have interviewed, whether in person or by telephone, or corresponded with any officer of the Navy or with any official or employee of the Navy Department with respect to legislation or to the business of such shipyard, or of such subcontractor, during the preceding year; such list shall contain statements of the subjects of such interviews and correspondence and shall include detailed accounts of all entertainment or benefit received by naval officers and by officials and employees of the Navy Department from any such official, agent, or representative; all such lists shall be published annually in full by the Secretary of the Senate as a Senate document; and (4) for payment to any private shipyard for plans and designs for vessels, whether as a part of the contract price for construction of a vessel or otherwise.

SEC. 4. There shall be available for expenditure by the Secretary of the Navy from the appropriations under the caption "Increase of the Navy" in the Act entitled "An Act making appropriations for the Navy Department and the Naval Service for the fiscal year ending June 30, 1936, and for other purposes", approved ———, 1935, such sums as the Secretary of the Navy may from time to time determine to be necessary for the establishment in the Navy Department of a section of design and planning which shall prepare the plans and designs for vessels constructed by or for the United States; and the Secretary of the Navy is authorized to appoint and fix the compensation of such technical assistants, clerks, and employees, without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States, and to make such expenditures (including expenditures for personal services and technical services in the Navy Department and in the field, and for drafting and other supplies, printing and binding, books of reference, and periodicals), as he may deem necessary for carrying out the provisions of this section: *Provided*, That, notwithstanding any other provision of this section or of such Act of 1935, the President may by Executive order expend all or any part of the appropriations made under the caption "Increase of the Navy" in such Act for the expansion of existing navy yards.

[S. 3099, 74th Cong., 1st sess.]

A BILL To prevent profiteering in the construction of naval vessels in private shipyards, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no vessel, the commencement of which is authorized by the Act entitled "An Act making appropriations for the Navy Department and the Naval Service for the fiscal year ending June 30, 1936, and for other purposes", approved ———, 1935, or by any subsequent Act, shall be built in any private shipyard unless such private shipyard shall have agreed to build such vessel for an amount not greater than the Navy Department's lowest estimate of the cost of construction of such vessel in a navy yard plus (a) \$500,000, in the case of a cruiser, (b) \$1,000,000, in the case of an aircraft carrier, and (c) \$300,000, in the case of a destroyer or of a submarine; and unless in the contract for such vessel, except in the case of a fixed price contract, such private shipyard shall have agreed (A) to pay to the United States Treasury all profit in excess of five per centum of the total amount of the contract covering such vessel, such excess profit to become the property of the United States, and (B) to insert a like clause in all subcontracts, whether of purchase or of construction, in excess of \$10,000 made by such private shipyard in the performance of such contract.

NOT COVERED

For lack of funds and because of the other duties laid upon it by the Senate, the committee reports no findings on the following subjects:

The possibility of monopoly and collusion among the big shipbuilders in the field of merchant-marine work was covered only in part by the committee. Inasmuch as the many millions of dollars that have been spent by the Government to build up its merchant marine, have been obtained largely on the basis of national-defense needs, this subject is germane to the investigation.

Some evidence is in the record showing the absence of competition on important merchant work, the probability of resulting high costs and inadequate ships. There was no opportunity for the committee to make a complete inquiry in this matter.

Tie-ups between shipbuilders and shipowners constitute one phase of the subject of collusion on merchant work. Preliminary studies indicate that such relationships exist and that they may not be for the best interests of the public.

The influence of the National Council of American Shipbuilders was not fully revealed. An examination of the files of the council were made by committee investigators and enough material was found to indicate that the council, in cooperation with the Steamship Owners Association, is able to influence public opinion in all parts of the country. The council is affiliated closely with powerful trade groups and has on its active membership list industrial groups with combined assets of several billions of dollars. The council maintains a statistical department which disseminates information of benefit to the shipping interests. Some of this information is turned over to the Navy and the Shipping Board, from whence it is sometimes issued as official data. Its accuracy is seriously open to question. Its influence on the public and on Congress can only be estimated.

Powerful interests other than shipbuilders are engaged in the business of supplying materials and parts for ship construction. These interests, which include United States Steel, Bethlehem Steel, Westinghouse Electric Co., General Electric, Sperry Gyroscope, Babcock & Wilcox, and many others, have much to gain by advancement of shipbuilding. Their part in the activities of the shipbuilding fraternity has been touched upon. A thorough examination of the files of the important subcontracting firms would add considerably to the sum of information already obtained. These subcontractors are members of the National Council and work in close harmony with the "Big Three" and certain of the smaller shipbuilders.

Only a preliminary examination was attempted in the field of ordnance supply. This includes armor, armament, and ammunition. In point of money the ordnance on a naval ship is equivalent to approximately one-third of the total cost. Thus it constitutes an important phase of the general problem of building and equipping ships of war.

In the field of ordnance it is interesting to note that the Government, shortly after the war, constructed a large armor plant to enable it to procure steel armor at a reasonable cost. This plant was abandoned after a comparatively short period of operation. It is within the scope of this committee's functions to determine the reason for this abandonment, particularly as to whether undue influence was brought to bear to attain that end.

Any investigation of armor, shell, and gun making would be incomplete without an analysis of the war orders; these materials, not only the war orders of the United States but also those of the European belligerents, made and filled before this country entered the war. This subject is one closely identified with the causes that led the United States to enter the war, partly by reason of the huge sums that were spent for ordnance during the years from 1914 to 1917, and partly by reason of the apparent influence of the steel manufacturers and their financial associates and backers.

Influence of the shipbuilders through campaign contributions was not investigated in full. There is reason to believe that all possible information on this subject was not unearthed. The reason for this is that few records of such contributions are kept by the shipbuilders. Witnesses, in at least two cases, were frank in saying (when not under oath) that these contributions were made by their firm in cash, and that no receipts were given.

Other "donations" by shipbuilders were in the form of jobs for constituents of public officials. Entertainment also provided a means of paying off obligations. This was especially true in connection with trial trips, keel layings, and launchings, the bills for which were included in the cost of the ship and hence were paid by the Government.

Proof of large-scale "influencing" could not be established without examination of the financial records of individuals and this the committee did not feel justified in attempting.

An important field of inquiry touched upon only lightly is that which concerns itself with the quality of the ships turned out under monopoly conditions. Evidence was introduced to show that the Government frequently receives inferior quality by reason of the absence of hard competition in the industry. Testimony on the faulty construction of the *Morro Castle* indicates that American shipbuilding might be improved, but no fair conclusions could be reached without far more thorough study.

Likewise, a comprehensive investigation was deemed impracticable in the field of labor conditions and wages in the shipyards of the "Big Three". Sufficient evidence was introduced to indicate that such a study might well be made. An incidental examination of the comparative treatment of men in Government yards and private yards indicated that the navy yards pay a higher wage than the private yards and that the conditions of employment in the navy yards are better. There is also evidence of concerted efforts by certain shipbuilders to bring down navy-yard wages.

REPORT ON NAVAL SHIPBUILDING

From the time of the 1922 Naval Disarmament Conference to the 1927 Geneva Naval Disarmament Conference the United States contracted for the following ships: Cruiser *Salt Lake City*, Cruiser *Pensacola*.

The interests of American naval shipbuilding companies in the 1927 disarmament conference, and their influence on it, are described in section (VI) below.

After failure of the Geneva Conference a naval building program was undertaken which resulted in the addition of the following ships to the fleet,¹ according to years of award:

1926: Cruisers *Pensacola* and *Salt Lake City* (which were re-awarded in 1927).

1927: Cruisers *Northampton*, *Chester*, *Louisville*, *Chicago*, *Houston*, *Augusta*.

1929: Armored cruisers *Portland*, *Indianapolis*, *Minneapolis*, *New Orleans*, and *Astoria*.

1930: Aircraft carrier *Ranger*.

1931: Cruisers *Tuscaloosa* and *San Francisco*; destroyers *Dewey*, *Farragut*, *Hull*, *MacDonough*, *Worden*; submarines *Cachelot* and *Cuttlefish*.

1932: Armored cruiser *Quincy*; destroyers *Dale*, *Monaghan*, and *Aylwin*.

1933: Armored cruiser *Vincennes*; light cruisers *Savannah*, *Nashville*, *Brooklyn*, and *Philadelphia*; destroyers *Porter*, *Selfridge*, *McDougal*, *Winslow*, *Phelps*, *Clark*, *Moffett*, *Balch*, *Mahan*, *Cummings*, *Drayton*, *Lamson*, *Flusser*, *Reid*, *Case*, *Conyngham*, *Cassin*, *Shaw*, *Tucker*, *Downes*, *Cushing*, *Perkins*, *Smith*, and *Preston*; submarines *Porpoise*, *Pike*, *Shark*, and *Tarpon*.

1934: Armored cruiser *Wichita*; light cruisers *Phoenix*, *Boise*, and *Honolulu*; destroyers 380-393 (not named); submarines *Perch*, *Pickrel*, *Pinna*, *Plunger*, *Pollack* and *Pompano*.

The amounts paid or promised to private shipbuilders for their work on these ships amounted to \$305,265,000, plus several millions for changes, extras, and bonuses.

The estimated total cost of building and equipping these ships including those built in navy yards including their armament is \$778,393,000, of which a considerable amount on the 1933 and 1934 program has not yet been paid.

¹ Totals: Cruisers, 25; aircraft carriers, 3; destroyers, 46, and submarines, 12. In addition there has been modernization of battleships and construction of gunboats, patrol boats, etc.

SECTION I.—AGREEMENTS ON BIDDING

SUMMARY.—AGREEMENTS ON NAVAL BIDDING

The Navy has become a big business. It is one of the largest governmental contractors in the world.

During the years 1933 and 1934 it gave out to private companies contracts totaling over \$180,000,000.

The committee heard 9 companies, 67 witnesses, largely on the subject of these contracts. It spent 38 days, and took 4,036 pages of testimony.

The committee finds that the evidence indicates clearly:

(1) In most cases the Navy wishes work to begin as soon as possible. The result of this is that there is often not time to prepare designs, let alone examine figures, or to analyze the bids put before it by private companies.

(2) The rush has made it impossible for the Navy to use the navy yards as current up-to-date yardsticks of private bids. The navy yards do not even know such essentials of the bids of private yards as the speed guarantees or oil guarantees until after the private bids are opened.

(3) The Navy has never examined the underlying costs or profits of the private builders. It makes no pretense of doing this. It has no staff for it. The figures studied by the Munitions Committee were all news to it.

The Navy makes no attempt to examine the costs of the private companies to determine whether the profit limitation of 11.1 percent in the Vinson-Trammell Act is enforced or evaded. That is left to the Treasury, after 3 years, after a job is done.

(4) This rush, this lack of staff, this lack of acquaintanceship with the strange ups and downs of bidding by the private companies on the part of the Navy, leaves the Navy at the mercy of the shipbuilders. A series of bids are put before the Navy, and the Navy has to take the low one, and the taxpayers have to hope and pray that the low one is somewhere within a few million dollars of being reasonable and proper.

(5) The evidence presented to the committee showed that in 1933 on contracts worth \$130,000,000 to the private shipbuilders, there was no hard-hitting competition among equally desirous bidders able to take on the work: On the aircraft carriers, worth \$38,000,000; there was no competition of that character on the two light cruisers, worth \$24,000,000; there was no competition of that character on the heavy cruiser, worth \$12,000,000. There was no competition of that character on the heavy destroyer leaders, worth \$30,000,000, nor on the light destroyers, worth \$18,000,000. On the submarines there may have been honest competition, but one competitor possessed all the patents and would not tell the other company how much those patents would cost them. That is the way \$130,000,000 worth of work was given out in 1933.

(6) From 1927 on when the cruiser program started, the record is the same. If there was no collusion, there was a sympathetic understanding among the big companies of each other's desires.

If there were no conversations about bidding among them, there was telepathy.

In 1927 they made profits of 35 and 25.4 and 36.9 percent on the cruisers. That was too good to spoil by hard competition. In 1929 the Navy asked for bids on two cruisers. Not one of the "Big Three" yards obliged. They bid on 1 each, and got 1 each. Their profits on these were around 22 percent.

The record is the same in 1931.

(7) In 1933 two shipbuilders knew and wrote down lists of the low bidders weeks in advance of the time the bids were opened. Mr. Bardo was one of them. Mr. Wilder was another. Mr. Bardo admitted discussing his desires for certain ships only with his two main competitors.

(8) The fact that many bids are submitted does not mean that there is real competition. It does not mean lower prices. In fact, quite the contrary is true. When there is lots of work to go around the charges go up. The shipbuilders know that the Government has to have the ships, and they raise the prices. They admitted this frankly.

CRUISER AWARDS—1927

When cruiser building was resumed after the break-down of the 1927 Naval Disarmament Conference, only three big companies felt in a position to bid. These three were: Newport News Shipbuilding & Drydock Co., Bethlehem Shipbuilding Co., and New York Shipbuilding Co.

On the first series of cruisers, the 26-31 class, for which awards were granted in 1927, the following bids were submitted:

	1 cruiser	Each of 2 cruisers
Newport News Shipbuilding Co.....	\$10,642,000	\$10,480,000
Bethlehem Shipbuilding Co.....	10,675,000	10,540,000
New York Shipbuilding Co.....	10,815,000	10,708,000

Newport was awarded U. S. S. *Augusta* and U. S. S. *Houston*. Bethlehem was awarded U. S. S. *Northampton*, and New York Ship was awarded U. S. S. *Chester*.

At the same time the navy yards were given two ships on the basis of their estimates of the cost, U. S. S. *Louisville*, U. S. S. *Chicago*.

These navy yard estimates were lower than the bids of the private yards.

The Puget Sound Yard was given U. S. S. *Louisville* on the basis of an estimate of \$8,599,250.

The Mare Island Yard was given U. S. S. *Chicago* on the basis of an estimate of \$7,782,785.¹

The prices on the cruisers bid by the private yards in 1927, 1929, 1931, and 1932, were later taken by the Navy as a fair base on which to judge later price increases in later cruiser building (galley 26 YD and 32 YD, Apr. 10.)

It is, therefore, important to point out certain facts concerning these 1927 cruiser awards which, taken together, nullify the Navy's proposition that the 1927 bidding was a fair basis on which to justify later cruiser awards.

¹ Owing to the fact that at the time of the preparation of this preliminary report the hearings had not been printed, it was necessary to refer to the galley sheets rather than to the final printed pages. Dates have been given so that the sources may be located later.

(a) Some evidence of the fairness of the prices bid for these cruisers is given by the profits made by the companies on them. Newport News made \$5,601,851 or 35 percent profit over cost on U. S. S. *Augusta* and U. S. S. *Houston* (Feb. 14, galley 91 ZO); Bethlehem Ship made \$2,200,000 or 25.4 percent profit over cost on U. S. S. *Northampton* (Feb. 27, galley 26 QD). New York Ship made \$2,946,706 or 36.7 percent profit over cost on U. S. S. *Chester* (Exhibit No. 1540, p. —).

Due to changes made by the Navy after the awards were granted, both the cost of the cruisers in the private yards and in the navy yards ran over the original figures, including the changes.

The navy yards completed the ships for less than their estimates excepting for those changes. The Puget Sound Yard was \$1,084,267 under its estimate on U. S. S. *Louisville*. The Mare Island Yard was \$182,389 under its estimate on U. S. S. *Chicago*.

Mr. Homer S. Ferguson, president of Newport News, said:

I was perfectly amazed that we made so much, referring to the cruisers *Houston* and *Augusta* (Feb. 14, galley 92 ZO).

Nobody on this committee is more surprised that I am on the profit we made on those ships. I would not believe it because we had not done that before * * *. I think it is rotten business in addition to not being right, so that the amount of profit was a surprise to me for fair.

Mr. S. Wiley Wakeman, manager of Bethlehem Shipbuilding, said:

We figured our profit would be \$938,000. It actually turned out to be \$2,200,000 (galley 26 QD). We estimated we would make a profit of 10.2 percent and we actually made a profit of 25.4 percent—which surprised us very much, because we expected we were going to be stuck on weight. (Feb. 27, galley 27 QD.)

These figures make it clear that in 1927, at the beginning of the cruiser-building program which developed so rapidly and on such a large scale in the following years, the bids of the Big Three shipbuilding companies were not only calculated to give a very large profit to the companies but actually did give such a large profit that the use of those figures as a fair base by the Navy Department to judge later bidding (Apr. 10, galleys 26 and 32 YD) was completely unjustified, even leaving out of consideration the other aspects of the bidding in that year.

These other aspects should, however, not be left out of consideration for a proper understanding of later cruiser contracts.

Prior to the 1927 awards when only three cruisers were contemplated, Ferguson wrote Huntington, Newport News owner, that he was trying to get New York Ship and Bethlehem Ship to bid on only one each (Feb. 14, galley 90 ZO, "Exhibit 1574").

Mr. RAUSHENBUSH. You would say it did not. Back in October 1926, Mr. Ferguson, you were writing a letter to Mr. Huntington—and I call your attention to it—which I offer for the record as "Exhibit No. 1574."

Mr. RAUSHENBUSH. In which letter you say:

"About the first of the year bids will be opened for 3 scout cruisers. I think we ought to get 1 and believe we will only bid on 1 if all of the big builders will do the same."

Do you remember about that?

Mr. FERGUSON. I remembered it when I saw it here. I had forgotten it until you got these letters.

Mr. RAUSHENBUSH. Is there not a supposition there that the idea of having the big builders agree on putting in bids for 1 ship or 2, or what have you, was not preposterous?

Mr. FERGUSON. I did not, so far as I can remember, go any further with it. There were 4 big builders at that time, and 1 other builder who was in position to undertake the work; and we later, the 4 of us—and I may have been the representative of the fifth—went to see the Secretary of the Navy in regard to the 3 cruisers. Whether we asked him to—I do not think we did, because we did not get that far—I do not remember discussing it with anybody, but what actually happened was that when 3 cruisers were contemplated, the bids called for 1 cruiser and 2.

In the meantime, before the bids were opened, the Cramps shipyard, which had been operating for many years, building warships, got in financial difficulties, and the Department asked for bids on 1 and 2 cruisers. That used to be written in the law, but it has been more or less discretionary with the Navy Department as to how many ships they would like each person to build, each bidder.

The cruisers were later increased from 3 to 6, and the builders were asked to bid on 1 or 2 cruisers.

Mr. RAUSHENBUSH. But at the time when you were writing only three were under consideration, and you were making this suggestion:

I think we ought to get 1 and believe we will only bid on 1, if all of the big builders will do the same.

Then the situation changed later, and 6 cruisers were allowed, and everybody bid on 2, did they not?

(b) There was discussion among the Big Three prior to the 1927 awards which apparently involved certain of the factors making up prices (galley 20 AS, Wilder, Jan. 31).

The following testimony is in point, in the course of which Mr. Laurence Wilder, who in 1927 was president of New York Ship, one of the Big Three, corrected his testimony of the previous day, and stated that there was an understanding concerning the 1927 cruisers.

Mr. WILDER. The second point was that some of my associates have pointed out that in relation to the 1927 program, the new cruiser program, it was generally understood that we were to get, that is, New York Ship was to get, a cruiser, a new cruiser in consideration of taking over that Cramp job.

I would like to correct that testimony.

Mr. RAUSHENBUSH. Among whom was it generally understood, Mr. Wilder?

Mr. WILDER. One of my associates, who was in the yard at the time, said that it was generally understood in the organization. I presume, although I do not definitely recall it, among the shipbuilders and the Navy.

Mr. RAUSHENBUSH. One cannot have an understanding that the yard is to get a cruiser ahead like that without also having an understanding among the other two big yards as to price, can one?

Mr. WILDER. That would be true.

Mr. RAUSHENBUSH. You are speaking of the 1927 scout-cruiser program?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. It was in that connection that Mr. Bardo was asked a series of questions concerning the fixing with Bethlehem of the oil guarantees. A letter from you to Mr. Bardo, labeled "Exhibit No. 1464", was entered in the record, and I ask you to look at that and see what you remember about it. [Handing paper to witness.]

Mr. WILDER. That had to do with the oil-consumption rate of those cruisers.

Mr. RAUSHENBUSH. The oil-consumption rate was an important part of the valuation?

Mr. WILDER. Yes, sir; there are very high penalties on that.

Mr. RAUSHENBUSH. And had an important part in the price situation, did it not?

Mr. WILDER. In evaluating the bid; yes.

Mr. RAUSHENBUSH. The point I am trying to make, Mr. Wilder, and get a check from you on, is this: That if in 1927, in connection with the bids on the scout cruisers, when the bidding was comparatively low related to bidding later on, it developed that those bids were arranged between you and Bethlehem and Newport News, as they must have been, if you had the advance understanding that you were going to get one of these cruisers; then the bids in the following years, which show what New York Ship has brought out in earlier testimony, had an estimate of about \$700,000 lower than it had in the year 1927, that therefore the bidding in

1929 must have been equally prearranged, or New York Ship would not have been able to jump over its 1927 bid and still count on getting the ship.

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. Do you follow that?

Mr. WILDER. Yes, sir.

Mr. RAUSHENBUSH. Do you agree with it?

Mr. WILDER. I agree with it.

There were numerous meetings of the "Big Three" before the 1927 awards (Jan. 24, galley 66 GP).

Mr. RAUSHENBUSH. Leaving that aside at the moment, it does seem to be the case that in shipbuilding you were trying to get Newport News, Federal, and Bethlehem, and not only trying to but did get them, to promise to go along on certain bidding. You were not startled, were you, at this apparent agreement on the part of the four big companies, or startled on your part on being asked to be the fifth in that arrangement? It was not so unusual, was it, that you remembered it at all?

Mr. BARDO. I do not think I was asked. I am trying to make it perfectly plain to you that I do not think that letter reached me, if that letter was ever written. That is the point I am trying to make clear to the committee.

Mr. RAUSHENBUSH. This is the first time you ever saw this?

Mr. BARDO. This is the first time I ever saw that letter; yes, sir.

Mr. RAUSHENBUSH. Now, Mr. Bardo, we want to go into the question of the bidding further on the cruisers 26 to 31 class in 1927. Will you recall for us any meetings you had with other shipbuilders, the other members of the "big three" group, about this bidding by date and place and time?

Mr. BARDO. I recall no conferences we ever had as to the question of bidding. The invitations to bid on those ships specified a new requirement, and that is that a very large part of the propelling and auxiliary machinery of that type of ship was to be identical duplicates, which was the first time in the history of the industry that that sort of a provision had ever appeared in the inquiries for ships.

That immediately raised the question as to just how our engineering forces could be organized in order that we might carry out the requirements of the invitation to bid, or the requirements of the contract when it was finally executed.

We had a number of conferences about that. We had conferences with the admirals in charge of the Bureau of Construction and Repair and of Engineering, and I think it was Admiral Buret in charge of the Construction and Repair, and Admiral Halligan, in charge of Engineering. We had conferences with them in order that we could find an accommodation point between the Navy and the shipyards.

Senator VANDENBERG. Whom do you mean by "we"?

Mr. BARDO. The shipyards.

Senator VANDENBERG. All the shipyards?

Mr. BARDO. The shipyards who were interested and who were capable of building these two ships.

Senator VANDENBERG. Is that just the three big ones?

Mr. BARDO. Just the three yards.

Senator VANDENBERG. No conferences with Federal or Sun in this connection?

Mr. BARDO. No. Sun definitely was not interested in Navy business and Federal at that time was not.

So that the obligation really rested upon the three yards to find a way in which we could carry out these requirements.

Senator VANDENBERG. When you speak of "we", you are speaking of the three big yards?

Mr. BARDO. I am speaking of the three big yards.

Mr. C. L. Bardo, then vice president of New York Ship also testified (galley 70 GP, on Jan. 24) concerning such discussions.

Mr. RAUSHENBUSH. Does even this brief discussion, Mr. Bardo, bring to your mind further discussions that took place between the other shipbuilders and this company about these bids between the time they were prepared and the time they were finally awarded?

Mr. BARDO. There may have been discussions, and probably were—I would not say there were no discussions, because there probably were. Here was a new field and neither Bethlehem nor Newport News had built any cruisers for a long time, and we were new, and I was particularly new in the shipbuilding business.

It is perfectly obvious that I would and did, no doubt, discuss with them a good many phases about this thing, for the purpose of educating myself so that I might more intelligently supervise the job I had to supervise, because I lost the benefit of the vice presidents who were there, and who had been familiar, and I lost the works manager, and I had a new organization practically from top to bottom, and I was new at the business myself.

Specifically there was an agreement on oil guaranties between New York Ship and Bethlehem. These are an important factor when the bids come before the Navy for an evaluation. A bid price which is lower than others, but which is based on a ship constructed to use more oil per knot of speed, would be evaluated to have the increased cost of the oil offset the price advantage.

The following letters indicate that agreement ("Exhibit Nos. 1464 and 1465"):

EXHIBIT No. 1464

[Interoffice correspondence]

AMERICAN BROWN BOVERI ELECTRIC CORPORATION,
New York, N. Y., April 21, 1927.

To: Mr. C. L. Bardo.

From: Mr. L. R. Wilder.

I had a very interesting discussion with Mr. Grace this afternoon, although very difficult to begin with.

Wylie, I think, is guilty of having put us in rather a nasty and untenable position with Mr. Grace as regards the outcome of our understanding at a meeting which I attended some time ago. I wish you would send back to me the chart which I gave you on cross-section paper, as well as the details, particularly as to oil consumption guaranties, which were finally presented by all three of us. I am afraid when you talked to Wylie you were not well informed, as he has used what you said, i. e., that you had made a mistake and that you had correspondingly raised the price, as a serious argument not only against you but against the good faith of this company. The center-field figure for oil consumption at cruising speed was to have been within plus or minus 1 percent of 494. From report of your telephone conversation from Washington of April 5 I understand the figures submitted by the center field was 475 instead of this 494. If these facts are correct, you should have attacked rather than been on the defensive.

I want to go over this matter with Mr. Grace and should, therefore, appreciate full detail.

L. R. WILDER.

LRW/HWS

EXHIBIT No. 1465

APRIL 22, 1927.

Scout cruisers.

Mr. L. R. WILDER.

Mr. C. L. BARDO.

Your confidential memorandum from New York:

The oil guarantes as submitted in the bids for the three companies were as follows:

Estimate X-2040, Scout Cruisers Nos. 26-31.

Guaranteed fuel consumptions, lbs. per knot, submitted by bidders:

Trial	ABBEC	Beth.	Newport News
b.....	3,015	3,133	3,113
c.....	1,836	1,950	1,859
d.....	1,095	1,117	1,150
e.....	643	726	756
f.....	449	475	456

You are correct regarding the cruising radius guarantee of 494 as discussed in our meeting in New York. This was later changed by a conversation which I had with Mr. Wakeman, to 475. There were one of two other changes in the upper parts of the scale.

The guarantee as submitted by Newport News was above the guarantee specified by the Department's general board and it was my understanding that the guarantees in the new contract with the News will be modified downward.

As a matter of fact, the guarantees as submitted by the three companies in their proposal for these new cruisers has had no bearing whatever on the decision of the Department in making the award, since the Navy Yards were without information as to the matter of guarantees the Department could not evaluate price and guarantees. The award of the cruisers has therefore been made first, as a matter of price to Newport News and to Bethlehem for one ship, and the award to us, in my opinion, has been made in order that all of the yards might have some support in this cruiser-building program and that their organizations might be kept together for the benefit of future Navy work.

There was no disposition on our part to take any advantage. As a matter of fact, upon a basis of evaluation, Bethlehem and ourselves were on a par as between one and two ships insofar as evaluated value applied.

C. L. BARDO.

Mr. Bardo admitted that the alleged change in the oil guarantee arrangement on the 1927 cruisers, made before the bids, involved more than Bethlehem. When he was asked about the challenge to the "good faith" of the New York Ship Co. he stated it was raised as against the other two companies (Jan. 24, galley 68 GP).

Mr. RAUSHENBUSH. Let us see whether you cannot remember something about this, please, Mr. Bardo [continuing reading]:

I wish you would send back to me the chart which I gave you on cross-section paper, as well as the details, particularly as to oil-consumption guarantees, which were finally presented by all three of us.

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. There was certainly some discussion about oil-consumption guarantees, was there not?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Which is a large part of the bidding, because the evaluation of the bids goes up or down according to the oil guarantees, does it not?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH [continuing reading]:

I am afraid when you talked to Wylie—

Mr. Wakeman—

You were not well informed, as he has used what you said, i. e., that you had made a mistake and that you had correspondingly raised the price, as a serious argument not only against you but against the good faith of this company.

Meaning the good faith of this company as against the other two companies?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH [continuing reading]:

The center field figure for oil consumption at cruising speed was to have been within plus or minus 1 percent of 494.

By "center field" may we take it that is the middle bid?

Mr. BARDO. The oil consumption runs from 10 knots, 15, 18, 20, 24, and up to the top speed of the ship, and there are a number of spots on the chart which run through the list.

Mr. RAUSHENBUSH. It turned out later, did it not, that Bethlehem was the middle bidder, Newport News was the low bidder, so that Bethlehem was the middle or center field, and you were high?

Mr. BARDO. I do not recall the details.

Mr. RAUSHENBUSH. I will read off these figures which we put in the record yesterday:

Newport News bid \$10,642,000, Bethlehem bid \$10,675,000, and your bid was \$10,815,000 for one ship.

The oil guaranties were important, for later when the Comptroller General questioned the award of a cruiser (U. S. S. *Chester*) New York Ship, which was the highest bidder, on the ground that Bethlehem was a lower bidder, the lower oil guaranties of New York Ship were shown to have resulted in a valuation by the Navy which made the award to New York Ship proper (exhibits 1468 and 1469).

The evaluated bids and the awards were as follows:

	One cruiser	Evaluated	One of two cruisers	Evaluated
Newport News.....	\$10,642,000	-----	¹ \$10,480,000	-----
Bethlehem.....	² 10,675,000	-----	10,540,000	-----
New York Ship.....	² 10,815,000	-----	10,708,000	-----

¹ Awarded two.

² Awarded one.

At the time of the awards, Mr. Bardo wrote Mr. Wilder (exhibit 1465):

The award of the cruisers has, therefore, been made, first, as a matter of price, to Newport News, and to Bethlehem for one ship, and the award to us, in my opinion, has been made in order that all of the yards might have some support in this cruiser-building program and that their organizations might be kept together for the benefit of future Navy work.

This thought, that price had little to do with the award to New York Ship, was continued in the Comptroller General's protest. It was directed to Bethlehem's bid of \$10,540,000 for each of two. If that bid had been accepted, the two cruisers (*Northampton* and *Chester*) would have cost \$21,080,000 instead of \$21,490,000, as indicated on the face of the award of one to Bethlehem plus one to New York Ship at the higher price, a difference of \$410,000. Actually the Navy induced New York Ship to cut its price on the *Chester* from \$10,815,000, as bid, to \$10,675,000. Furthermore, Bethlehem, on the basis of its estimates, could have reduced its bid on two ships considerably below \$21,080,000, as is revealed by Wakeman's testimony. (This is discussed in detail on p. 13 of this section.)

Mr. RAUSHENBUSH. We had a situation with regard to the 1927 bidding on cruisers that we talked about at various times. We have had testimony of certain witnesses here about conversations on fairly important things, and in the course of some correspondence Mr. Wilder referred to having talked with you about that bidding. What can you tell us about that?

Mr. GRACE. I remember the memorandum, I think, which you have in front of you, and where Mr. Wilder speaks of a conference which he had with me, and where I called him down for some kinds of engineering feature with respect to oil consumption which was in his bidding; I cannot recall such a discussion with Mr. Wilder. It may have taken place. I do recall Mr. Wakeman telling me, after the results of the opening of those bids there, what he regarded a ridiculous representation made by the New York Shipbuilding Co. for oil performance, and if I had that in mind when Mr. Wilder came in to see me I very likely did just what he said.

Mr. RAUSHENBUSH. What was the idea of talking over oil guaranties together?

Mr. GRACE. I do not know anything about it. I do not know that they did. I know Mr. Wakeman just told me—and I recall it just hazily—that New York Ship has made a representation in an engineering feature of the ship with respect to oil consumption which in his judgment was ridiculous of obtaining. That is all I know.

Mr. RAUSHENBUSH. It seems to be a good deal more than that in some cases. There was apparently a left-, right-, and center-field arrangement on that.

Mr. GRACE. I know that was referred to in that memorandum. I have no idea what Mr. Wilder was referring to there.

Mr. RAUSHENBUSH. Which turned up in the bidding, and since the oil guaranties are part of the evaluation and an important part of the final price, I want to know about them.

Mr. GRACE. He does not associate me, apparently, with the knowledge of what he means. Although I was an old baseball player, I do not know what he refers to there. I have no idea.

Mr. RAUSHENBUSH. Your best memory of your conversation with Mr. Wilder is what? Did it have to do with these oil guaranties or not?

Mr. GRACE. If what Mr. Wilder said took place with us in that conference—and I am not denying that it may have taken place—I simply told him of the instance that Mr. Wakeman had informed me of, that their company had put in a ridiculous oil performance in their bid. That is all. That is the only part that I could possibly have played in that, because that is all I could have known about it, and I am basing that upon what I casually remember Mr. Wakeman told me of the incident; and I may have said just what Mr. Wilder said, I called him down for it, or referred to it with him and not called him down.

As I recall it at the moment, the purpose of Mr. Wilder's visit to me there, if you want to know what I recollect, was that the discussion which took place was for Mr. Wilder's seeking patronage from our company on new lines of business, which they were going into, electrical machinery and mechanical blowers and that sort of thing.

Mr. RAUSHENBUSH. As far as your memory goes, that is all on this oil-guaranty business?

Mr. GRACE. Absolutely. Mr. Wakeman can go into that in his examination, and whatever he had in mind when he told me of it, and he will have to tell you of that himself; but that is all that I had in mind.

Newport News admitted discussions about the oil guaranties on these cruisers, which turned out to be the determining factor when the Comptroller General questioned the awards. (Ferguson, Feb. 14, galley 90 ZO).

The president of the company wrote before the opening of the bids (galley 90 ZO, exhibit 1574).

About the first of the year bids will be opened for three scout cruisers. I think we ought to get one and believe we will only bid on one if all of the big builders will do the same.

After the bids were in, Newport News secured the summaries of the estimates used by New York Ship on these cruisers (galley 91 ZO).

(c) At about this time the Cramp Ship Co. (Philadelphia) defaulted on its contract for the cruiser *Salt Lake City*, and machinery for the cruiser *Pensacola*, and New York Shipbuilding Co. took over the contract. In reply to questioning on the relationship between New York Ship's taking over that contract and securing an award for one of the 1927 cruisers, Mr. Wilder stated (9 AS. Jan. 31, Wilder):

Mr. WILDER. The keel had been laid for the cruiser, but she was done, if I remember—do not hold me to that, because it is just a rough guess—she was 6 to 9 months late.

I told Mr. Wakeman and Mr. Ferguson that if they defaulted I was prepared to take that contract over at the Navy's contract price with Cramp.

Senator CLARK. You mean you told the Bethlehem and Newport News executives that, on behalf of the New York Shipbuilding Co., that you proposed to take over this cruiser?

Mr. WILDER. From Cramp, if Cramp defaulted, at the Navy contract price, less the amounts paid by the Navy toward the construction. I would probably get something out of the bondsman, because it is costly to pick up the keel and move it across the river.

In addition to giving this information to possible competitors, it is clear that New York Ship did its best to make its taking over of the Cramp contract contingent upon receiving from the Navy the award of one of the 1927 scout cruisers.

Mr. C. L. Bardo, then vice president of New York Ship, later president, testified on January 24 (galley 67 GP):

Mr. RAUSHENBUSH. And you had practically, or were in the process of making a bargain with the Navy that you would not take that Cramp cruiser unless they gave you one of the new scout cruisers. Is not that true?

Mr. BARDO. I would not go as far as that, because there was not such an understanding. The Navy were very greatly embarrassed by reason of the Cramp default. It was the first cruiser under their new program, and, as I recall it, neither Newport News nor Bethlehem would take over the contract. Finally, it rested in the discussion with us.

We finally reached a conclusion with the Cramp Co. and their sureties as to a basis upon which we could undertake the job.

I transmitted that to Secretary Wilbur, and he was very much pleased to know that the thing would be taken over and would be carried on and the Department would not be embarrassed by reason of this default.

I do not have any hesitancy in saying that I think that did have a very sudden effect, possibly, on the decision of the Department in the awarding of these contracts which came along, in awarding to us one of those, although I do not now recall what the relation to price was, that is, as between ourselves and the other yards. I do not recall that.

The last paragraph seems clearly to admit that there was an intimate connection between the agreement of the New York Ship to take over the contract on the *Salt Lake City* and the Navy's desire to give it one of the 1927 cruisers, the *Chester*.

Such a desire could not have been carried out without the cooperation of at least one other private yard in addition to New York Ship.

The company addressed the following wire to Secretary of the Treasury Mellon (exhibit 1454):

EXHIBIT No. 1454

[Outgoing telegram]

AMERICAN BROWN BOVERI ELECTRIC CORPORATION,
Camden, N. J., April 15, 1927.

To: A. W. MELLON,
Secretary of the Treasury,
Washington, D. C.

(Copy to 18 St. & Massachusetts Ave., Washington.)

On April fifth we submitted bid for two scout cruisers out of six to be constructed; the understanding was that this construction would be done by three remaining private yards. Acting in good faith and on this assumption we expended large sums of money in preparation for this work. Very unexpectedly the Department announced after opening bids that Mare Island and Puget Sound Navy Yards had submitted estimate for one each of these cruisers. These estimates are much below their actual cost. Navy engineering bureau admits neither navy yard or Navy Department are now or ever were equipped or manned to engineer these jobs for themselves but must depend entirely on engineering skill of the private yards. Chairman Butler vigorously protested as did others without avail. Today Department announced awards giving two cruisers to Pacific coast navy yards and only one to Bethlehem and ourselves. As you know all private yards for last four years show an operating loss and we will continue such loss with but one cruiser contract awarded us. The navy yards have more than sufficient repair and rebuilding work to keep their forces fully occupied. It is very poor policy for our Government thus to discourage private yards which admittedly are an indispensable asset to our national security at the time of greatest need. The recent default of Cramps and the elimination of their engineering talent from shipbuilding is a clear indicant of what we remaining shipbuilders will be forced to do if the Navy Department does not support us at this time.

NEW YORK SHIPBLDG. CORP.,
By Secretary.

In questioning on this "understanding" no satisfactory explanation of the building up of the yard in advance of the award was secured from the company officials (galley 75 GP, Jan. 24).

Senator CLARK. There was an understanding, to which you referred in your telegram, Mr. Bardo.

Mr. BARDO. That was not to my understanding.

The CHAIRMAN. What was the understanding to which you referred?

Mr. BARDO. It was not to that understanding, and I want to be sure of it.

Senator CLARK. What was the kind of understanding to which you were appealing to Secretary Mellon to make the Navy Department refrain from giving the awards to the navy yards?

Mr. BARDO. I think that may have had its genesis more or less in the fact that the private yards had gone on their standardization of engineering in the organization of the Marine Engineering Corporation, and that on the things which we had done were entitled to get this work.

Senator CLARK. You say here:

A. W. Mellon, Secretary of the Treasury, Washington, D. C. (copy to Eighteenth Street and Massachusetts Avenue, Washington).

On April 5 we submitted bid for 2 scout cruisers out of 6 to be constructed the understanding was that this construction would be done by three remaining private yards.

With whom did you have the understanding?

Mr. BARDO. If there was an understanding—and that may have been the unfortunate use of language—

Senator CLARK. I would say so, Mr. Bardo.

Mr. BARDO. I only want to clear up the point that you are trying to put something into their hands or into the Navy here, that would be unfortunate because I do not want that impression to prevail.

Senator CLARK. What impression do you intend to create on Secretary Mellon's mind by saying that the understanding was that this construction would be done by the three remaining yards?

Mr. BARDO. Because I think, that is probably an unfortunate use of certain language. I want to make clear that the Navy had nothing to do with it, so far as I am concerned.

Senator CLARK. You did have an understanding?

Mr. BARDO. I do not know just what that particular language means.

Senator CLARK. You go on and say:

Acting in good faith and on this assumption we expended large sums of money in preparation for this work.

You must have relied on that understanding or you would not have spent large sums of money.

Mr. BARDO. We had to rehabilitate the yard, as it had gone down since that time.

Senator CLARK. You certainly must have known with whom the understanding was or you would not have spent the money.

Mr. BARDO. I want to make sure it was not with the Navy Department on the Cramp cruiser.

Senator CLARK. With whom was it?

Mr. BARDO. I cannot say whom it was with.

Senator CLARK. You were not in the habit of spending large sums of money on understandings when you did not know with whom the understanding was, were you?

Mr. BARDO. I will grant that is true, Senator. It is something that I do not want to misinterpret.

The CHAIRMAN. If the understanding was not with the Navy Department, was it with Mr. Mellon?

Mr. BARDO. No; I never talked to Mr. Mellon—I say I never did; I did just meet him once, incidentally.

The CHAIRMAN. Did Mr. Mellon reply to your telegram at all?

Mr. BARDO. I do not think he did.

Senator CLARK. Did you understand he had control over the Navy Department?

Mr. BARDO. No.

Mr. RAUSHENBUSH. But you did receive one cruiser, and the other two yards did not bid on the Cramp cruiser. You got the one scout cruiser, although you were high and the other two yards did not bid on the Cramp cruiser.

Mr. BARDO. That is true. The record is clear, but I have no apologies to make on that.

The suggestion of Mr. Bardo's that the work done by the three big yards in combining on the Marine Engineering Corporation might have "entitled" New York Ship to one of the cruisers is extremely interesting.

(The matter of the Marine Engineering Corporation is covered in sec. V on design.)

Neither Newport News nor Bethlehem put in a bid to take over the Cramp job in 1927, which confirms the evidence that New York Ship had arranged with Navy to take over this work (Jan. 24, galley 68 GP).

Mr. RAUSHENBUSH. Anyhow, you were the only bidder on this Cramp contract, were you not?

Mr. BARDO. I think that wants to be cleared up.

Mr. RAUSHENBUSH. All right.

Mr. BARDO. After we had made this agreement with the Cramp Co., which was approved by the Secretary of the Navy, it then became apparent, from a decision, I think, of the Judge Advocate General, that that contract could not be transferred and that, therefore, it would necessarily have to be rebid.

He said:

In view of that, I shall have to ask for bids on this ship over.

And he asked for bids, and with a very short period, and we bid essentially the amount that we had agreed with him and with Cramps.

(d) The question of whether these bids were as low as possible for honest forthright competition has been treated in part of the above section on the profits made on these ships.

There was some questioning of witnesses on this point.

It was developed further that Bethlehem had not been trying hard to get the award for two cruisers, although its yard could easily have taken them at the time. The Bethlehem Shipbuilding Co. estimates showed this (galley, 21 QD, Feb. 27).

	Estimate 1 cruiser	Estimate each of 2	Difference
Bethlehem Shipbuilding Co.....	\$7,492,800	\$7,097,200	\$395,600
Newport News Shipbuilding Co.....	7,585,000	7,220,000	365,000
New York Shipbuilding Co.....	7,950,180	None	-----

Bethlehem's estimates for labor and material for building two cruisers were actually lower than Newport's estimates, by \$122,800 per cruiser, or \$245,600 for the two cruisers. They were \$395,600 per cruiser lower than their estimates for one cruiser, or a saving of \$791,200 on the two. Yet instead of making a real reduction in price to the Government, Bethlehem lowered its bid for each of two, below its bid for a single one, by only \$135,000. If it had lowered its bid by only a little more it could have secured the award for both ships. It did not choose to do so.

Mr. Wakeman, vice president of Bethlehem Ship, testified (Feb. 27, galley 22 QD):

Mr. RAUSHENBUSH. Your evidence is, Mr. Wakeman, that you dropped less, let us say, than Newport on the bid for two, because you were really concentrating on the bid for one. Is not that a fair summary?

Mr. WAKEMAN. That is the truth; yes, sir.

Again (galley 24 QD) Feb. 27, he testified. (Mr. Raushenbush, continuing:)

Mr. RAUSHENBUSH. * * * I want to get back, Mr. Chairman, to the question of the expectation of Bethlehem getting one cruiser in 1927. Will you tell us once more what the status of your yard was? You said a ferry and oil barge, car floats, and the *Lexington*?

Mr. WAKEMAN. Yes.

Mr. RAUSHENBUSH. Is that all that you had in the yard?

Mr. WAKEMAN. That is all we had in the yard.

Mr. RAUSHENBUSH. And yet, with only that, there were several ways for cruisers, but you only really counted on, and bid on, one?

Mr. WAKEMAN. No; we bid on one and bid on two.

Mr. RAUSHENBUSH. Yes; but you only counted on one?

Mr. WAKEMAN. We bid on one and then we bid on two. Your point is that we did not make enough drop to reflect the second one?

Mr. RAUSHENBUSH. You did not try for the second one very hard.

Mr. WAKEMAN. No.

At this time when Bethlehem was not trying hard for a second cruiser, it had in its yards the conversion job on the *Lexington*. New York Ship, which had not even prepared an estimate on two cruisers expected to secure for its yard at the time the defaulted contract on the *Salt Lake City*, and did receive it. Newport News had no naval work. The bidding and the consequent award of two cruisers to Newport News and one each to the other two big yards evened up the situation somewhat.

Bethlehem made plant extensions before the 1927 awards indicating a prior knowledge that it would receive a contract. These plant extensions amounted to \$115,000 in a period of 6 months before the awards (Feb. 27, galleys 24 and 25 QD).

The fight of the so-called Big Three against navy yards is covered in section IV—B.

It was the opinion of Mr. Metten, at the time head of the Marine Engineering Corporation that in 1927 only the "big three" yards could have built the cruisers awarded them.

Senator VANDENBERG. I would like to get this clear in my mind. That is in 1927. Were there any other shipbuilders in the country competent to build these ships besides the big three?

Mr. METTEN. They would have had to put in considerable additional equipment. I think that those three were perhaps the only ones who could have undertaken the work without modifying the plan.

Mr. RAUSHENBUSH. You say that neither Federal nor United could have built a cruiser in that year?

Mr. METTEN. I do not think so.

CONCLUSION—1927 BIDDING

The committee find that there is enough evidence of prearrangement to the cruiser bidding in 1927 to justify a statement that it was collusively arrived at by at least two of the three bidders. No arrangement to give New York Ship one cruiser could have been carried out without the connivance of at least one other company on price.

The Navy was not necessarily a party to this collusion, although New York Ship officials definitely had an impression that there was a clear understanding in advance on the part of the Navy that it would give New York Ship one of the 1927 cruisers as part of the bargain by which New York Ship took over the defaulted contract on the *Salt Lake City*.

The collusion, whenever it exists, consists of an arrangement before the bids are submitted by which certain companies are low for one or two ships and other companies are high, in accordance with a possible rotation of awards worked out by them ahead of time. This leaves the Navy, which may or may not have been aware of this situation, in the position where it can point to the fact that it has always given the award to the low bidder, and is therefore blameless for the continuance of the situation.

The committee finds further that the prearrangement in the 1927 bidding was such, and the profits on the 1927 cruisers were such as to completely nullify the awards of those years as a basis for justification of the awards of later years.

Denials by the company officials of any arrangements about the 1927 bidding were extended generally to the bidding in other years and should be given the same weight throughout.

CRUISER AWARDS—1929

In 1929 the Navy let awards for the cruiser *Portland* to Bethlehem Ship at \$10,753,000, for the cruiser *Indianapolis* to New York Ship at \$10,903,000.

To the New York Navy Yard it awarded cruiser *New Orleans* on an estimate of \$10,159,467. To the Puget Sound Navy Yard it awarded the cruiser *Astoria* on an estimate of \$9,046,055, to the Philadelphia Navy Yard it awarded the cruiser *Minneapolis* on an estimate of \$10,851,925.

The combined 1927 and 1929 awards gave each of the "Big Three" yards two cruisers.

There are certain circumstances surrounding the bidding on these cruisers which bear out the evidence of prearrangement existing in 1927 and warrant the same characterization applied to the bidding in that year.

(a) The record shows that the three big yards had effected a joint arrangement for the successful promotion of merchant marine subsidies during 1928. During that year and into part of 1929 they jointly retained the services of their Geneva lobbyist in this country. They were still working together in the Marine Engineering Corporation, jointly owned by all three of them. They had the same financial interests in opposing the extension of navy-yard work, and expressed those interests to Congress. In these matters there was no competition. They were acting as a unified industry rather than as separate competitors.

In addition, whatever prearrangement there was in the 1927 bidding was working out to a very handsome profit for them all on the 1927 ships, and by 1929 this must have been clear to them. No criticism by the Navy had been made of the prices charged by the three yards on the 1927 cruisers, although by 1929 the Navy must also have known that the navy yards were building their ships at costs even below their estimates, which estimates had been lower than the bids of the Big Three by considerable sums.

(b) In its call for bids on the 1929 cruiser program the Navy asked each company to bid on one and two cruisers (exhibit 1575). Not one of the Big Three companies accepted that invitation. Each bid on only one cruiser. The committee finds it difficult to characterize such unanimity of action either as that consistent with hard-hitting competition or calculated to give the Government the benefit of the lowest price possible. It points out that it is much cheaper to build each of two ships in one yard than a single ship by amounts ranging into hundreds of thousands of dollars. Failure of the three companies to bid on each of two cruisers deprived the Government of such savings.

Mr. Ferguson, president of Newport News, stated (galley 95 ZO, Feb. 14):

We were not in a position at that time to undertake 2 cruisers and we were hardly in a position to undertake 1. * * * We had only one way at that time which was available for cruisers.

He was asked:

But you did not expect to get the work?

He replied:

I did not * * *.

New York Ship was also asked about this matter. The following testimony was given on January 24 (galley 74 GP):

Mr. RAUSHENBUSH. The 1929 bidding, in which you were able to jump \$1,000,000 over your 1927 estimate, had this peculiar characteristic further about it, did it not, Mr. Bardo, that although the Navy had requested the shipbuilders to bid on one and two ships, they actually none of them did so? They only bid on one.

Mr. BARDO. Now, that may be. I would have to go back and refresh my memory a little as to that. I think it was in 1929 I had made a firm contract with the Dawson people to build five ships for them, contingent upon their being able to do certain financing, and I gave them, as I recall it—the contract was made possibly in April or May—and I gave them until August or it may have been later—I extended it once I know—to exercise their option on that building space. My recollection is that with that over our head, I could not afford to compete on more than one Navy ship, if I had the contract, if I had a firm contract to build five ships with relatively short deliveries.

Mr. RAUSHENBUSH. And then the *Manhattan* and *Washington* were also coming along?

Mr. BARDO. If they were not awarded until 1930, they were under discussion, but I do not think they had gotten to any point where they were reasonably imminent.

Mr. RAUSHENBUSH. You testified a little while ago that you were expecting a very lowered overhead on that. Actually, by the way, I see, Mr. Bardo, in 1929, that you were expecting a lower overhead and the addition is a 52-percent increase over your estimate, where the addition for profit and overhead in 1927 is only 35 percent.

So that if you were expecting a decreased overhead, that excess which you were adding on to your 1929 bid leads to this question, Mr. Bardo, How could you have ventured to have added on that much unless you had had some conversations with Bethlehem and Newport News as to what they were going to bid?

Mr. BARDO. I want to make sure that we had no conversation with the Newport News or the Bethlehem as to what they were going to bid, and I want to make equally sure that they did not know what I was going to bid.

I want the record perfectly clear on that. As to that particular question, I could rather expect the situation was just the reverse from what you say it is, and that is that the outlook in 1929 for new business was very light, and that is one reason why we got the larger percentage of overhead applying to that particular business.

Mr. RAUSHENBUSH. It is contrary to what you said a little while ago, that you expected a lowered overhead on account of coming business. I said—

Mr. BARDO. I said we may have expected it. I would have to go back. My recollection is not keen enough to remember what particular things we discussed when giving that price.

Bethlehem Ship was also asked about its reason for not bidding on more than one cruiser. The following reply was made on February 27 (galley 31 QD):

The CHAIRMAN. Attention ought to be called to the testimony of Mr. Ferguson, recorded when he was under oath before the committee a week or two ago. It reads as follows:

Mr. RAUSHENBUSH. But, did you not expect to get the work?

Mr. FERGUSON. I did not. If we had gotten it, we would have been very glad. We put in a bid usually in these cases so that if we do not get it, we do not mind it, and if we do get it, we are not overly elated.

Mr. RAUSHENBUSH. You spoke of it as a complimentary bid?

Mr. FERGUSON. No; I said, "protective bid."

Mr. Wakeman, you did not know that Newport's practical withdrawal from the field by a bid of \$11,130,000 would leave the field free for New York Ship and Bethlehem to take one cruiser each?

Mr. WAKEMAN. I did not; no, sir.

The CHAIRMAN. You had no reason to believe that there would not be a case of the three companies bidding intently with the purpose of getting the contract?

Mr. WAKEMAN. No, sir; I did not.

The CHAIRMAN. The second question that arises, Mr. Wakeman, is as to how it happened that none of the Big Three bid on more than one cruiser in that year, although the Navy had called for bids for two. Could you not have used a second contract in 1929?

Mr. WAKEMAN. No, sir; we did not have the ways. We had a merchant program which brought our productive force up here to 4,700 people. Our designing departments were jammed up chock-a-block full. We could not have built another cruiser, within the time, and carried out our obligations to our merchant contracts. There was a tremendous amount of bidding going on at that time in the commercial vessels.

Mr. RAUSHENBUSH. Mr. Wakeman, this morning in explaining the bidding on two cruisers, you pointed to that dropping line of productive force in the spring of 1927, and said that in spite of that you were not particularly anxious to get two cruisers then, as I took it. Now you are pointing to an ascending line.

Mr. WAKEMAN. It is an entirely different situation.

Mr. RAUSHENBUSH. Would you explain that?

Mr. WAKEMAN. In the first case, with the *Northampton*, it was a treaty cruiser. There were conditions there that we had not had before in design of hull and machinery, which we never had met before. We were going into something that we did not know but very little about. It was the first of the 10,000-ton cruisers.

Mr. RAUSHENBUSH. Would you look for us there at the beginning of the summer of 1929, when you were bidding on the *Portland*, what ships you had on the ways, what merchant ships you had contracts for?

Mr. WAKEMAN. It was not so much a question of what was on the ways as it was the question of the obligations that we had in our design department. We were absolutely limited in our engineering and technical forces.

Mr. RAUSHENBUSH. Doing what sort of work?

Mr. WAKEMAN. Designing merchant work. We had the two Matson contracts.

Mr. RAUSHENBUSH. That is what I want to get at.

Mr. WAKEMAN. I think we were in a position—I am not just sure what the rest of the work was, but we got some United Fruit boats. We had *Borinquen* for the Puerto Rican Steamship Co. And we had two tankers for Sinclair. Our design department was just chock-a-block with work. We could not take any more work.

Mr. RAUSHENBUSH. Your ways were so crowded that—

Mr. WAKEMAN. Our ways were not crowded at that time, but they were going to be crowded so that we could not put a second cruiser in our yard and get it out within the contract time.

(c) The actual bidding in 1929 had little relationship with the estimates of the companies for labor and material as compared with their estimates and bidding for 1927.

The following table, compiled from the companies' records and entered into the committee record on February 14 (galley 93 ZO),

shows the estimates and bids for the two years and the differences between them:

1927 estimates and bids

	1927 estimate	1929 estimate	1927 bid	1929 bid
Newport:				
(1)-----	\$7,585,000	\$7,995,000	\$10,642,000	\$11,130,000
(2)-----	7,220,000	7,590,000	10,480,000	None
Bethlehem:				
(1)-----	7,492,800	7,495,000	10,675,000	10,753,000
(2)-----	7,097,200	7,124,570	10,540,000	None
New York Ship:				
(1)-----	7,950,180	7,173,000	10,815,000	10,903,000
(2)-----	None	None	10,708,000	None

DIFFERENCES

Newport:				
(1)-----		+\$410,000		+\$488,000
(2)-----		+630,000		
Bethlehem:				
(1)-----		+2,875		+78,000
(2)-----		+27,370		
New York:				
(1)-----		+777,180		+88,000
(2)-----		None		

Awards: 1927—Newport, 2; Bethlehem, 1; New York Ship, 1. 1929—Bethlehem, 1; New York Ship, 1; total—Newport, 2; Bethlehem, 2; New York Ship, 2.

The Newport News bid was \$488,000 higher for a single cruiser in 1929 than it was in 1927. The company officials contended that this was because it was a different cruiser than was built in 1927 and more expensive. Yet this table shows that Bethlehem thought the 1929 cruiser would cost only \$2,875 more than the 1927 cruiser, and New York Ship thought it would cost \$777,180 less.

The question was raised whether such an increase by Newport News over its bid in 1927 did not result in protecting the bids of the other two companies. The following testimony was given on February 14 (galleys 95 ZO and 96 ZO):

Mr. RAUSHENBUSH. What I was interested in, Mr. Ferguson, was your statement that you were hardly in a position to take one. That is exactly what you have been saying, is it not?

Mr. FERGUSON. We felt in dealing, and always do, with an old customer, whether the Navy or other people, that being in the business, that it is our job to give them a bid, and as we make our living off of the customer, the so-called "protective bid" which we give is a bid that protects the customer. People frequently get prices when they have no idea of placing the work.

The point I wish to make is that this bid in 1929, and every other bid we have ever placed with the Navy Department, was a bid that under the circumstances it would be justified in accepting.

Mr. RAUSHENBUSH. But you did not expect to get the work?

Mr. FERGUSON. I did not. If we had gotten it, we would have been very glad. We put in a bid usually in those cases so that if we do not get it we do not mind it, and if we do get it we are not overly elated.

Mr. RAUSHENBUSH. You spoke of it as a complimentary bid.

Mr. FERGUSON. No; I said "a protective bid."

Mr. RAUSHENBUSH. A protective bid. I am sorry. You spoke of it as a protective bid and made, it seemed to me, the rather amazing statement that it protected the customer. It protected the other competitors, did it not?

Mr. FERGUSON. I beg your pardon?

Mr. RAUSHENBUSH. It protected the other competitors, did it not?

Mr. FERGUSON. It had nothing to do with the protection of other competitors. They mean nothing to me. They do not pay us any money. I have spent my life fighting them.

The man who is entitled to protection in dealing with a responsible contractor is the man who has the money to pay for the job, and he is the man I am thinking of. Of course we do not get all the bids. We have estimated on how many ships? [Conferring with associates.] We get about 1 job out of 15 which we estimate on.

Senator VANDENBERG. Mr. Ferguson, when you put in a bid on a contract which you do not expect to get, does not that statement of the matter indicate that your bid was higher than it would be if you did expect to get it?

Mr. FERGUSON. This bid was on a low basis.

Senator VANDENBERG. That is not the question. I am asking abstractly.

Mr. FERGUSON. Abstractly; if you want work, you bid lower, and if you are not so anxious for it you bid higher, certainly.

Senator VANDENBERG. All right. When you bid on a job which you do not expect to get, it is higher than the situation would warrant if the contract were going to be let to you?

Mr. FERGUSON. No; we bid higher than we would bid, if we were particularly after the contract. In bidding on anything, if you need the work, in open bidding, if you want the job, if it is required in the operation of the plant, your bid is naturally lower—

Senator VANDENBERG. That is correct.

Mr. FERGUSON. Than it would be if you just as soon have it, but for a better price.

Senator VANDENBERG. All right.

Mr. FERGUSON. Yes, sir.

Senator VANDENBERG. This is what I cannot understand: If when you make a bid on a job which you do not want it is higher than it would be if you did want it, in what respect can that higher bid be said to protect the customer?

Mr. FERGUSON. Because it is a fair bid.

Senator VANDENBERG. Is it a fair bid when it is higher than the job would warrant?

Mr. FERGUSON. No; it is not higher than the job would warrant. You can bid all the way from cost, as I did on the *Leviathan*, to our sorrow, to 10- or 12-percent profit. That is our range. When we want a job, as on the last cruiser, as on the two airplane carriers, we cut our percentage of profit.

Of course in bidding, you did—I have for 25 years—solely in accordance to what I conceive to be the necessities of our own business.

Senator VANDENBERG. Why certainly.

Mr. FERGUSON. Yes, sir. Therefore it is almost as bad to have more work than you can do, Senator, as to have too little.

Senator VANDENBERG. I understand that.

Mr. FERGUSON. Because in the operation of our plant we have to know, or we think we have to know today, how many men of various kinds we are going to need and 12 months from today. And that means a predicted schedule. We deliver our ships on time, under heavy penalties, and therefore it frequently happens that we do not want a lot of work that we bid on, but with a customer like the Navy Department, when they ask us to bid, we always bid. They asked us for one or two ships in this case, and we bid on one because that was all we wanted, and did not want that too badly. But the basis of that bid was about 60 percent overhead and 10 percent profit.

Senator VANDENBERG. If you were bidding, let us say, \$11,000,000 for a cruiser which you wanted to build, how much would you bid at the same time for a cruiser that you did not want?

Mr. FERGUSON. Maybe \$11,500,000. * * *

In view of this last testimony, it can be seen clearly that bids submitted to the Navy Department are not all to be classified as bids from companies actually wanting the ships they are bidding on. They may be courtesy bids. Whatever the intent of such bids is, either that of pleasing the Navy or keeping a hand in, the result of such a courtesy bid is a false picture of competition between equally desirous bidders.

At the same time when the bidding for the 1929 cruisers was being carried on, it was known that in 1930 the Navy would advertise for bids on an aircraft carrier, the *Ranger* (galley 97 ZO, Feb. 14). Newport News was interested in this ship and later received the award for it.

The Bethlehem Shipbuilding Corporation increased its estimates by only \$2,875 over 1927 on a single cruiser and yet increased its bid by \$78,000 over 1927 (see table above on p. 19). The company officials denied advance knowledge of Newport's increase (Wakeman, Feb. 27, galley 31 QD).

The New York Shipbuilding Co. decreased its estimates by \$777,180 and in spite of that increased its bid by \$88,000 over 1927.

It was pointed out that in 1927 the company had added on to its estimates \$2,864,820 for overhead and profit, while in 1929 it added on \$3,730,200 for these items. This was an increase for profit over estimated cost of \$865,180.

The following discussion took place on January 24:

MR. BARDO. I think if you will go through all the bids we have submitted, you will find they have been very consistent all the way.

MR. RAUSHENBUSH. In what respect?

MR. BARDO. One following the other.

MR. RAUSHENBUSH. Is that your information?

MR. BARDO. I am quite sure it is.

SENATOR VANDENBERG. You mean consistent as between the Big Three?

MR. BARDO. No; consistency of bids as we ran along over this cruiser program. We built the *Salt Lake City*, the *Chester*, the *Indianapolis*, and the *Tuscaloosa*, and the new ships.

A little later on the same day the question was raised again in Mr. Bardo's testimony (galleys 73 GP and 74 GP).

MR. RAUSHENBUSH. Coming back to your statement a moment ago, Mr. Bardo, that the additions which you made were always uniform—do you remember the statement?

MR. BARDO. I did not say they were uniform.

MR. RAUSHENBUSH. Or consistent with each other. Was not that it?

MR. BARDO. Yes. You are talking now about our bids?

MR. RAUSHENBUSH. Yes, sir.

MR. BARDO. Yes, sir.

MR. RAUSHENBUSH. Always consistent with each other?

MR. BARDO. I say relatively so.

MR. RAUSHENBUSH. Let us look at the word "relatively." Here on the *Chester* in 1927, which we have been discussing, your estimate, referred to by Mr. Langell, was \$7,950,180, and you added \$2,854,820 and put in a bid.

Now in 1929, 2 years later, your estimate was way below your estimate on the *Chester*.

MR. BARDO. Surely.

MR. RAUSHENBUSH. This is the *Indianapolis*. It was \$7,173,000. That is almost \$700,000 lower.

MR. BARDO. That is right.

MR. RAUSHENBUSH. And yet, in that year, you added on \$3,730,200.

MR. BARDO. That is right.

MR. RAUSHENBUSH. With an estimate down \$700,000 you added on \$900,000.

MR. BARDO. That is right.

MR. RAUSHENBUSH. A spread of \$1,600,000.

MR. BARDO. That is correct.

MR. RAUSHENBUSH. What is there consistent in that?

MR. BARDO. In one case—I do not recall the precise details—but I would say in one case we probably had 1 ship, and in another case we had 3 or 4 ships, or a lot of work in progress, over which we could allocate the overhead.

MR. RAUSHENBUSH. In 1929, did you have a lot of other work in prospect?

MR. BARDO. I think it was in 1929, some time in that year, that we took on the *Manhattan* and the *Washington*; I am not sure.

MR. RAUSHENBUSH. It was not until 1930, was it, that the awards were made for the *Manhattan* and *Washington*?

MR. BARDO. It may have been 1930. I would not be sure.

MR. RAUSHENBUSH. You knew ahead of time that you were going to get the *Manhattan* and *Washington*?

Mr. BARDO. We did not know until the contract was awarded.

Mr. RAUSHENBUSH. We put in the bid of Bethlehem and Newport News \$9,750,000 each in 1930, and your bid was below that. Now you come along with an explanation for an inconsistency of \$1,600,000 between estimate and final bid on these 1929 cruisers on the ground that you knew ahead of time that your overhead was going to be lower during that period of construction. That all seems to work together, does it not, Mr. Bardo?

Mr. BARDO. Here are other factors. In 1929 we were on a rising flood. Prices, as I recall it, were going up, and likely to go, and we certainly knew that labor was dissatisfied. It was a contract running over a period of 3 years. You have got to make the best estimate and best guess you can as to what is going to happen to you in 3 years. As to the particular details upon which that final plan was built up, I do not know that I could say now. I should have to go back and review, if they are available, the figures which were used at that time in setting it up.

The evidence does not substantiate Mr. Bardo's claim of consistency in bidding. Reversely, inconsistency of bidding (the absence of a close and continued relationship between estimates and bids) indicates that the final bids were offered with an eye to what the other companies were doing rather than with an eye to what New York Ship could afford to build the ships for.

AWARD OF AIRCRAFT CARRIER—"RANGER"—1930

In 1930 the only ship awarded was the aircraft carrier *Ranger*, which went to Newport News at a price of \$15,528,000.

The estimates and bids of the Big Three companies were as follows:

	Estimate labor and materials	Bid	For overhead and profit
Newport News.....	\$9,815,000	\$15,528,000	\$5,713,000
Bethlehem.....	11,522,150	16,760,000	5,238,000
New York Ship.....	10,819,000	16,334,000	5,515,000

On the face of these figures it might seem at first glance that there was competition between three equally desirous bidders, and that the Navy had properly chosen the lowest of these. There are several other features of this bidding to be considered before any such conclusion is drawn.

(1) Newport News, which received the award, made a profit of 23.1 percent on the job even on its low bid. At the time it put in this bid it must have known that its bids on the 1927 cruisers were rich in profit (35 percent on the *Augusta* and *Houston* combined).

(2) Bethlehem Ship testified that it could not have taken the *Ranger*. The condition of its yards precluded it (Wakeman, Feb. 27, galley 33 QD).

Mr. WAKEMAN. Now on the question of estimating at this particular time on the *Ranger* we were in no position as you see here. We have only a certain capacity in our district around Quincy. There are only so many shipbuilders. The minute we go beyond a certain number of men we have to dilute our labor to a point where our costs go right up in the air. We had about reached the maximum there. We could not have taken the *Ranger*. We could not have designed it.

Mr. RAUSHENBUSH. Then this was just a protective bid?

Mr. WAKEMAN. There was no protective bid about it.

Mr. RAUSHENBUSH. If you could not have taken the *Ranger* and put in a bid Mr. Wakeman what was it but a protective bid?

Mr. WAKEMAN. We always bid on everything Mr. Raushenbush. We bid on every ship in 1933 and 1934. We always bid on everything.

Mr. RAUSHENBUSH. When you cannot take a ship?

Mr. WAKEMAN. It does not make any difference. We bid on it. We want to be in the picture. It is a matter of business.

Mr. Wakeman of Bethlehem Ship repeated the reasons why his company did not want the *Ranger* (Feb. 26, galley 34 QD).

Mr. RAUSHENBUSH. Just stay with your own company for a minute. You knew with that mounting line ahead of you that you did not particularly want that ship. When you do not particularly want a ship, why bid?

Mr. WAKEMAN. I bid because I would have taken it at that price.

Mr. RAUSHENBUSH. If you had bid \$20,000,000, you would have taken it at that price, too?

Mr. WAKEMAN. Certainly; yes.

Mr. RAUSHENBUSH. But that still is not the thing I am driving at.

Mr. WAKEMAN. I have told you that this *Ranger* was a brand-new design. There was nothing like it at all in the United States Navy. The *Lexington* and *Saratoga*—the *Lexington* which we built—were converted originally from battle cruisers. While we had the redesign of the *Lexington*, there was nothing insofar as we had any engineering skill or anything else in connection with airplane carriers. I am pointing out to you that we were right in the middle of a great big program, and we had some very serious problems on our hands to get out in time and satisfy our customers.

Bethlehem's bid was \$1,232,000 higher than Newports, although in the cruiser bidding in 1929 it was \$377,000 lower than Newport's cruiser bid.

Bethlehem cannot be considered as an equally desirous competitor on this bid.

(3) New York Ship found itself able to underbid Newport News on the 1929 cruiser by \$227,000. On the *Ranger* it was \$806,000 above Newport News.

(4) The New York Navy Yard had put in an estimate of the cost of the *Ranger*. Later certain changes were made and the navy yard asked for permission to rebid on the job in view of those changes. This permission was refused.

(5) It was known to the Navy in advance that the cost of this ship, when the armament was added, would exceed the \$20,000,000 appropriated for it by Congress. Nevertheless, construction of the ship was proceeded with, after many changes had been made from the original design intended to lower the cost. The contract price was lowered \$32,000 without rebidding. Nevertheless, a further appropriation of more than \$2,000,000 was later asked by the Navy to furnish the ship, which was granted by Congress.

The significance, in part, of the bidding on the *Ranger* is that the company receiving the award, in addition to making a 23.1-percent profit on the job, learned enough about the construction of aircraft carriers and their designing, so that in 1933 when 2 aircraft carriers were advertised it did not receive any substantial competition from the other yards.

Later (galley 34 QD):

Mr. RAUSHENBUSH. It was a big job to undertake a new type of construction like that, was it not?

Mr. WAKEMAN. Yes.

Mr. RAUSHENBUSH. A big designing job, a lot of trouble.

Mr. WAKEMAN. It was a big designing job.

Mr. RAUSHENBUSH. You had your yards pretty well planned ahead and full at that time?

Mr. WAKEMAN. We were chock-a-block full, as far as engineering was concerned.

Mr. RAUSHENBUSH. There is a further question that comes up along that line. From that time on, Mr. Wakeman, Newport got all later aircraft carriers, did it not? It got the only other award there was, in 1933, for aircraft carriers 5 and 6, the *Yorktown* and the *Enterprise*. Do you remember that?

Mr. WAKEMAN. 1933, that was?

Mr. RAUSHENBUSH. In 1933.

Mr. WAKEMAN. Yes.

Mr. RAUSHENBUSH. When Mr. Ferguson was on the stand, he testified to the general effect that they had the experience, that they had worked at this difficult problem, and felt themselves at a very decided advantage, naturally, over the other companies which had not gone through the problem of designing and constructing this new type of aircraft carriers. The question is this: Following along the aircraft carrier line: Did you in 1933, when you bid on the aircraft carriers, expect to get them at all?

Mr. WAKEMAN. Expect to get them?

Mr. RAUSHENBUSH. Yes.

Mr. WAKEMAN. I do not think that we put in a figure where we knew what we were going to get in 1933. That was the biggest naval program that had ever been put out, and there were a great many different classes of ships.

In order to get our picture you have to go back and consider not only the aircraft carriers but you have to take into consideration the destroyers, the leaders, the heavy cruisers, and the light cruisers. I cannot say what I expected to get or did not expect to get. I did not know what I was going to get.

Mr. RAUSHENBUSH. I am talking particularly about the aircraft carriers.

Mr. WAKEMAN. I put in a figure on the aircraft carriers which was high and I knew it was high, or at least I assumed it was high. On the other hand, if we had gotten the aircraft carriers, we had enough money to turn around and go over all of the design work and all of the ground that Newport News had covered.

There is another interesting phase of the bidding on the *Ranger*. Both Bethlehem and New York Ship had had experience in aircraft-carrier construction, while Newport News had had none. Bethlehem built the *Lexington* and New York Ship the *Saratoga*, both of which had been begun as battleships and were finished as aircraft carriers. Here we have a situation which the two firms most experienced in this type of work fail to bid lower than the inexperienced yard. This is particularly significant in view of the fact that the Newport News, without experience, made a profit of 23.1 percent.

There has been a great deal of evidence showing the money advantage possessed by a yard which has had experience in a certain type of construction. This advantage has been estimated as high as a million dollars on an aircraft carrier. Thus it appears that the bids of Bethlehem and New York Ship were actually far higher than necessary in view of the probable savings from experience.

It is an assertion of the shipbuilders that these two earlier aircraft-carriers were much different than the *Ranger* and later carriers. Nevertheless it is a fact that the *Lexington* and *Saratoga* provided the only experience in aircraft carrier construction in this country and obviously gave Bethlehem and New York Ship a considerable advantage in experience over Newport News.

The Navy, therefore, received no financial benefit from the experience gained by Bethlehem and New York Ship on the construction of the *Lexington* and *Saratoga*, although these ships were under construction nearly 10 years and cost more than \$35,000,000 apiece.

It is a logical inference that Bethlehem and New York Ship, for reasons of their own, were not seriously competing for the *Ranger*, or else that the "advantage" theory offered by Bethlehem does not hold.

CRUISER AWARD—"TUSCALOOSA"—1931

At the time of the bidding on the cruiser *Tuscaloosa* in 1931, each of the "Big Three" yards had received awards for two cruisers, and in addition Newport News had received the award in 1930 for the aircraft carrier *Ranger*.

The following bids were submitted by the three companies on the *Tuscaloosa*. The estimates were taken by the committee from the companies' records.

	Estimate, labor and material	1931 relation to—		Bids, 1931	Relation to 1929 bid	Relation to 1927 bid
		1929 esti- mate	1927 esti- mate			
Bethlehem.....	\$7,741,000	+\$246,000	+\$248,200	\$10,695,000	-\$58,000	+\$20,000
Newport.....	7,640,000	-355,000	+55,000	11,300,000	+170,000	+658,000
New York Ship.....	7,249,280	+76,280	-700,900	10,450,000	-453,000	-365,000

It is difficult to study the changes in the cruiser bids of the three big companies from 1927 through 1929 and 1931 without coming to the conclusion that if there was no prearrangement in 1931 there was, at least, amazingly fortuitous coincidence.

Newport News, which had made a profit of 35 percent on its 1927 cruisers, now bid \$658,000 more than it bid on one cruiser in 1927 and \$170,000 higher than in 1929, when it did not in the least expect to get the award. (See 1929 section, Testimony of Ferguson.) It increased the bid price in 1931 by this \$170,000 over 1929 at a time when its estimates for labor and material dropped by \$355,000. Considered on the basis of its estimates for labor and material alone there was every excuse for a lower bid and none for a higher bid. With such a bid Newport, which had been able to underbid New York Ship in 1927 on one cruiser by \$173,000, was now unable to underbid New York Ship by \$850,000 (the difference between the 1931 bids of the two companies).

Senator Vandenberg questioned company officials on the character of this bid (Feb. 19, galley 35 FS).

Senator VANDENBERG. Sometimes you bid to get a job and sometimes you bid without the expectation of getting it. Was this a bid to get the job?

Mr. FERGUSON. You cannot tell what the end is going to be, Senator. Of course, we bid 15 times to get one job.

Senator VANDENBERG. I mean your own specifications, Mr. Ferguson. You told us last week that frequently, when you did not have work you bid to get it, and when you did have work, you bid pro forma.

Mr. FERGUSON. Not exactly that, either. You bid on a basis so that if you get it, you are all right, and if you do not get it, you are not particularly disappointed.

Senator VANDENBERG. Which was this?

Mr. FERGUSON. As I remember it, this was just a bid made on the usual basis, and does not indicate a desire or any particular anxiety to get it. If we had bid on net cost on this job, it would have been in the neighborhood around \$10,300,000 or \$10,400,000.

Company officials offered to explain the increase in bid price on the ground that the calculation on overhead was increased from 60 percent in 1929 to 75 percent in 1931 (Feb. 19, galley 34 FS).

Mr. RAUSHENBUSH. The question was interjected there as to whether you had less work in your yards than in 1929, and therefore the overhead had to be higher. How did you answer that?

Mr. FERGUSON. I should say that we did not have. What date was that?

Mr. RAUSHENBUSH. In 1931 we are talking about bidding on the *Tuscaloosa*.

Mr. FERGUSON. This was in 1931?

Mr. RAUSHENBUSH. Yes, sir.

Mr. FERGUSON. The situation in 1931 was that we had a lot of work then. We had the *Acadia* and *St. John*, and our production, as the data showed to you indicates, was high. It was above the 1928 period. And there was a good deal of work in contemplation. We still had tentative acceptances on bids to build four or five ships, which fell off in that period, but we were busy then, and the bid was a perfectly normal bid. I had no idea what Mr. Bardo was going to bid.

Mr. RAUSHENBUSH. You were explaining it a moment ago, as I understood you, that you raised your estimated overhead from 60 to 75 in 1931. Is that correct?

Mr. FERGUSON. Yes; I bid 75 percent overhead and 10. I do not pretend to bid perfectly uniformly in every bid, do you not know? I certainly did not bid with the idea of having to explain it. It would have been easy enough to go down, if I had.

It is obvious that the overhead would be lower in 1931 than in 1929 on the basis of Mr. Ferguson's own testimony.

At the same time that Newport News was going down on its estimate \$355,000 and up on its bid by \$170,000, Bethlehem was following a different course. It went up \$246,000 on its estimate and down \$58,000 on its bid. That bid, however, was still \$245,000 above New York Ship, the low bidder. The Bethlehem officials claimed very emphatically that they wanted this ship (Wakeman, Feb. 27, galley 36 QD). The company did get an award for one destroyer and prepared the plans for it.

Bethlehem's estimate and bid history on the cruisers is now as follows:

	Estimate (1)	Bid (1)	Profit and overhead
1927.....	\$7,492,800	\$10,675,000	\$3,182,200
1929.....	7,495,000	10,753,000	3,258,000
1931.....	7,741,000	10,695,000	2,954,000

This contrasts with New York Ship's history on estimating and bidding almost as sharply as it contrasts with Newport's history.

New York Ship's history on cruisers shows:

	Estimate (1)	Bid (1)	Profit and overhead
1927.....	\$7,950,180	\$10,815,000	\$2,864,820
1929.....	7,173,000	10,903,000	3,730,000
1931.....	7,249,280	10,450,000	3,200,720

On the 1931 cruiser Bethlehem lopped off \$304,000 from the margin which it had in 1929 for profit and overhead. That put its bid on a level with its 1927 bid. New York Ship, on the other hand, lopped off \$529,280 from its margin for profit and overhead, or \$225,-

280 more than Bethlehem lopped off. It was by a little more than that margin that it got the award from Bethlehem. The difference between the Bethlehem and New York Ship bids was \$245,000.

On the other hand Bethlehem's fuel guarantees were not so good as New York Ship's, and the evaluated price, calculated by the Navy, on the bids of the three companies was (Jan. 30, galley 6 QD):

New York Ship.....	\$10,450,000
Bethlehem.....	10,804,475
Newport News.....	11,544,375

While the most amazing feature of these figures is the fact that Newport, which was so much below the other two companies in 1927 was now \$1,094,375 more than New York Ship and \$739,900 more than Bethlehem, it is also important to note that the difference between Bethlehem and New York Ship is shown to be larger than on the flat figures before oil guarantees are taken into consideration (\$245,000). On an evaluated basis the difference between the bid of the two companies is \$354,475.

Looked at from the basis of what the three companies were offering the Navy in actual comparable value of performance, the margins of the companies in the years 1929 and 1931 show:

	Bid on comparable value	Margin of this bid over estimate
Newport:		
1929.....	\$11,130,000	\$3,134,400
1931.....	11,544,375	3,904,375
Bethlehem:		
1929.....	10,753,000	3,258,000
1931.....	10,804,475	3,063,000
New York Ship:		
1929.....	10,903,000	3,730,000
1931.....	10,450,000	3,200,720

In the course of discussion of Newport's 1931 bid on the *Tuscaloosa* of \$11,300,000, Mr. Ferguson stated the difference between a job wanted and one not wanted in the following language (Feb. 19, galley 35 FS):

Mr. RAUSHENBUSH. This is the first time that the high and low bidders have been as much as \$1,000,000 apart, and we wondered if this was another protective bid, such as you described in 1929.

Mr. FERGUSON. Whose protective bid?

Mr. RAUSHENBUSH. Whether this was a protective bid, as the one you described in 1929.

Mr. FERGUSON. Protective of what?

Mr. RAUSHENBUSH. You described it as being protective for the Government, the customer.

Mr. FERGUSON. This is a perfectly fair bid, on our basis, to the Government.

Mr. RAUSHENBUSH. That was not the question. The question was whether you expected to get the bid, or was it a protective bid in that sense? That is, if you got it, you would not lose money, but you did not particularly want it.

Mr. FERGUSON. It was not protective of anybody else's bid.

Mr. RAUSHENBUSH. Leaving that aside for the moment, I am asking whether it was protective of the Government in the same sense, whether you describe it as a protective bid in the same sense you described the 1929 bid as protective of the Government.

Mr. FERGUSON. I think it was protective to the Government. I think a bid of 75 percent overhead and 10 percent profit is protective of the Government interest, certainly.

Senator VANDENBERG. Sometimes you bid to get a job and sometimes you bid without the expectation of getting it. Was this a bid to get the job?

Mr. FERGUSON. You cannot tell what the end is going to be, Senator. Of course, we bid 15 times to get one job.

Senator VANDENBERG. I mean your own specifications, Mr. Ferguson. You told us last week that frequently, when you did not have work you bid to get it, and when you did have work, you bid pro forma.

Mr. FERGUSON. Not exactly that, either. You bid on a basis so that if you get it, you are all right, and if you do not get it, you are not particularly disappointed.

Senator VANDENBERG. Which was this?

Mr. FERGUSON. As I remember it, this was just a bid made on the usual basis, and does not indicate a desire or any particular anxiety to get it. If we had bid on net cost on this job, it would have been in the neighborhood around \$10,300,000 or \$10,400,000.

The evidence in 1931 indicates that Newport News took itself out of the picture very definitely and that there may have been honest competition between Bethlehem and New York Ship, both having had an equal amount of work since 1927. When New York Ship got the award Bethlehem automatically became entitled to the next contract.

CRUISER AWARD "QUINCY" 1932

The bidding on the *Quincy* in 1932 is significant in that for the first time since the post-disarmament conference naval building, a competitor to the "big three" companies entered the field. That competitor was United Dry Docks, Inc.

Its bid on the *Quincy* was considerably below the low bids of the "big three" during the previous years. 1932, was, however, a depression year and labor and material costs were lower.

The low bids on one cruiser for the earlier years were:

1927 (Newport News).....	\$10,642,000
1929 (Bethlehem).....	10,753,000
1931 (New York Ship).....	10,450,000
1932 (Bethlehem).....	8,196,000
1932: Next low, United.....	9,525,000

The award was given to Bethlehem at \$8,196,000, which was \$2,264,000 below the low bidder in 1931; \$2,557,000 below the low bidder in 1929; and \$2,446,000 below the low bidder in 1927.

United, with a bid of \$9,525,000 for the *Quincy*, was lower in its bid than the low bidder in 1931 by \$925,000; lower than the low bidder in 1929 by \$1,228,000; lower than the low bidder in 1927 by \$1,117,000.

A certain amount of the decrease in cost to the Government of this cruiser is due to the depression. The committee, however, after considering the evidence, believes that a very considerable proportion of this saving to the Government is due to the active competition of a fourth company, and that this competition was of an entirely different character than the competition, such as it was, which may have existed among the "Big Three" themselves from 1927 through 1929 and 1931.

The following figures give an indication of the extent to which the drop in bid prices was due to the depression in the prices of labor and material (Feb. 27, galley 37 QD).

	Estimates labor, and materials		
	1931	1932	Difference
Newport News.....	\$7,640,000	\$6,990,000	-\$650,000
New York Ship.....	7,249,280	6,813,000	-436,280
Bethlehem.....	7,741,000	6,615,000	-1,126,000
Average "big three".....	7,543,427	6,806,000	-737,427

The average drop from 1931 in prices of labor and material for the "big three" was \$737,427. The drop for the low bidder, Bethlehem, was \$1,126,000 (revised figures, Feb. 27, galley 38 QD).

The bids declined from 1931 by considerable sums.

	1931	1932	Difference
Newport News.....	\$11,300,000	\$9,650,000	-\$1,650,000
New York Ship.....	10,450,000	9,616,000	-834,000
Bethlehem.....	10,695,000	8,196,000	-2,499,000
Average.....	10,815,000	9,154,000	-1,661,000

The reason for the far greater drop in bid prices than in estimates is difficult to explain satisfactorily on any other ground than that a new form of active, arm's length competition of a new and able interest had entered the field for the moment.

To emphasize this it is interesting to note the relationship of bids with estimates of the "Big Three" companies in earlier years.

NEWPORT NEWS

	Estimate, labor and material	Percentage of change over pre- vious year	Bid	Percentage of change over pre- vious year
		Percent		Percent
1927.....	\$7,585,000		\$10,642,000	
1929.....	7,995,000	+5.4	11,130,000	+4.58
1931.....	7,640,000	-4.37	11,300,000	+1.5
1932.....	6,990,000	-8.5	9,650,000	-14.6

BETHLEHEM

	Estimate, labor and material	Percentage of change over pre- vious year	Bid	Percentage of change over pre- vious year
1927.....	\$7,492,800		\$10,675,000	
1929.....	7,495,000		10,753,000	+0.73
1931.....	7,741,000	+3.2	10,695,000	-.53
1932.....	6,615,000	-14.5	8,196,000	-23.3

NEW YORK SHIP

	Estimate, labor and material	Percentage of change over pre- vious year	Bid	Percentage of change over pre- vious year
1927.....	\$7,950,080		\$10,815,000	
1929.....	7,173,000	-9.77	10,903,000	+0.81
1931.....	7,249,280	+1.06	10,450,000	-4.15
1932.....	6,813,000	-6.01	9,616,000	-7.98

In no other year prior to the entrance of United into the field did the "Big Three" companies get so far away from a logical connection between their estimates and their bids.

Bethlehem officials insisted that the desperate need for work made their bid as low as it was, rather than the factor of new competition (Feb. 27, galley 40 QD).

Mr. RAUSHENBUSH. You knew United then, and possibly Federal, were in the picture, and that that was competition?

Mr. WAKEMAN. I would not necessarily say that. That did not influence this situation. The thing that confronted me was to get that contract or fold that plant up. As to what the other shipyards did, what their reasoning was, I do not know, but I knew I was going to have stiff competition, there was no question about that. Everybody—

Mr. RAUSHENBUSH. Everybody knew there was going to be stiff competition, did they not?

Mr. WAKEMAN. Everybody knew there was going to be stiff competition, if you want. That was at the lowest point of the whole thing, and our outlook was particularly dark.

Mr. Eugene Grace, president of Bethlehem Steel, was questioned on February 26 (galley 10 QD):

Mr. RAUSHENBUSH. Mr. Grace, do you remember reasonably well the naval bidding of 1933 with relation to the fact that for the first time a competitor, a fourth competitor, we will say, got into the picture on cruiser bidding, the United, Powell's company, and that Bethlehem dropped about \$3,000,000, as I remember their bid, and got away down to \$8,916,000, I think on its bid for a cruiser there, and United was away down, and all the other companies dropped. Do you remember the situation roughly at that time?

Mr. GRACE. I remember generally the instance of taking the cruiser *Quincy*—was that the name?

Mr. RAUSHENBUSH. I think it was the *Quincy*.

Mr. GRACE. It was a cruiser taken at a little over \$8,000,000.

Mr. RAUSHENBUSH. That is right.

Mr. GRACE. Yes, sir.

Mr. RAUSHENBUSH. Do you remember the instance?

Mr. GRACE. I remember the situation at the time, and I remember what prompted it, if that is what you are asking me. I mean, on whatever phase you want me to comment, I remember the instance.

Mr. RAUSHENBUSH. How much were you in the calculation of these final bids? How much did you have to do with them?

Mr. GRACE. I had nothing to do with them, only Mr. Wakeman consulting me on general policies of what the policy should be in respect to the bidding, in a general way. I knew nothing about the final figure, even, which was put in on it.

Mr. RAUSHENBUSH. When you say the policy on bidding, what do you mean by that?

Mr. GRACE. I mean that Mr. Wakeman consulted me in respect to our policy in anticipation of keen competition, what our policy should be, and I remember very clearly in my discussion with him that the policy was defined that he should use his very best judgment to obtain the contract for that particular ship offering at that time. I went even so far as to say to him that the question of profit or loss on the contract was to be entirely ignored; that he, from my standpoint, was instructed to use his best judgment to make sure to get that particular contract. And that was prompted by the necessity of having the work in our yard to keep our organization employed, when we were right down to practically no work in the yard.

Mr. RAUSHENBUSH. That was not the first time in late 1932 when your yard was down to rock bottom, was it? You had very much the same situation in 1926 and 1927, and so on, there? You did not have much work to do?

Mr. GRACE. We were doing everything we could to get work for the yard. In that particular case I remember distinctly Mr. Wakeman asked me about the general policy of what we should do, and I said, "Go the limit, in your judgment, whatever it may require, of making sure of getting the work to hold our organization together."

Mr. RAUSHENBUSH. Take it without regard to profit?

Mr. GRACE. Yes, sir.

Mr. RAUSHENBUSH. Were there any other times when you told that to Mr. Wakeman?

Mr. GRACE. I have no concrete instance in mind like that, when he would consult me with respect to general policies. Of course, we were always hopeful of getting work for our shipbuilding company.

Mr. RAUSHENBUSH. A statement like that, "to take it without regard to profit." Do you remember any other times you ever told him that?

Mr. GRACE. With respect to naval work, I could not remember. I may have. But that was so impressed upon me at the time, the extreme necessity of getting the work to hold our organization and "know how" and the men depending upon the operation of our Quincy plant, the Fore River plant.

Mr. RAUSHENBUSH. This is the first time in many years—in fact, since the war—was it not, that a fourth competitor, or fourth company, had come into the field for bidding on cruisers? You knew ahead of time that the United was going to bid?

Mr. GRACE. Mr. Wakeman told me that he anticipated that the United was going to bid, but I think there had been other bidders, more than three, prior to that. Had not Bath been in?

Mr. RAUSHENBUSH. Not after 1926 when Cramps went bankrupt.

Mr. GRACE. Did not the Bath Iron Works bid?

Mr. RAUSHENBUSH. We are talking about cruisers.

Mr. GRACE. You are talking about cruisers? Mr. Wakeman can tell you about that particular feature.

Mr. RAUSHENBUSH. I wanted to know about your own knowledge, how much you knew ahead of time that United was going to come in and put in a bid which would be a great deal lower than the bids of the other companies had been putting in? He told you about that, had he?

Mr. GRACE. He had told me that there was another anticipated bidder in the field, but, as far as I remember, he painted to me that everybody was so hungry that there was going to be very keen competition for that boat. It was not just a question of United, but he anticipated the keenest kind of competition, with a new factor in the light of United, being very uncertain as to what they might judge that class of work worth.

Mr. RAUSHENBUSH. Did you see any objection to having a competitor, another one in the field, besides the "big three"? Did you see anything regrettable about that at all?

Mr. GRACE. From the business man's standpoint, I should say that it is regrettable to continue to overcapacity an industry which is already way in excess of capacity necessary to accomplish the work. I think it would be all in the same category as building another railroad from New York to Washington today, to parallel the Pennsylvania or the Baltimore & Ohio. Nobody would consider that a sound project or a desirable one.

Mr. RAUSHENBUSH. Supposing that it were not a project like that one, of United being unequipped to do it, but having the ways and saying that they wanted to bid, and making a bid that would save the Government several millions of dollars on cost, in comparison with the other bids which had come in during 1927 and 1929. From a business man's angle, you do not like the angle of competition to the extent it produces overdevelopment?

Mr. GRACE. I am not talking particularly from that standpoint. I am talking from the policy or the principle that you said to me, "Would I regard it favorably?"

Mr. RAUSHENBUSH. That is it.

Mr. GRACE. To have some other interest coming into the naval shipbuilding game, when the interests had already been developed and the capital invested in it was capable of doing many times over the amount of work available. Certainly from the business man's point of view, I would have to say that that was quite undesirable.

Mr. RAUSHENBUSH. I am saying that that is not the situation. I am asking another question. Putting that aside and assuming that United did not have to have any new development of the yard to any extent, and it is perfectly capable, let us say, of producing that cruiser, is there any objection, just on the straight-out competitive basis, of having a fourth competitor in the field that three companies had held tightly prior to that time?

Mr. GRACE. From the business man's standpoint, the more competition he has the harder it is to get a piece of business. That is inherent in the conduction of business, in competing for business. You have got 1 chance out of 3 in one instance, and you have got 1 chance out of 4 in another instance.

Mr. RAUSHENBUSH. You did not want to welcome him with open arms into the picture?

Mr. GRACE. Certainly not. It just made the competition that much harder. I do not recall, but I wonder what was the final result of Mr. Powell's company's bid in that particular instance.

A little later the question of competition was raised again (Feb. 26, galley 11 QD).

Mr. RAUSHENBUSH. Was it not really a matter, Mr. Grace, of showing United that it had better not stick its nose into this cruiser business?

Mr. GRACE. Not from my standpoint, Mr. Raushenbush, and I am sorry to hear you say that because I have really said to you what prompted us. We could not afford to miss the getting of that ship, because of the very bad effects it would have had on our employment situation at Fore River and the loss of our personnel. We just had to have it, and that is all that prompted me in declaration of that policy.

Mr. RAUSHENBUSH. It just seems a strange coincidence, Mr. Grace, that all of these bids should shoot down, and yours should drop as much as \$3,000,000 from what is usually a \$10,000,000 job, or \$11,000,000, I think was the last bid, something like \$3,000,000 at a time, and only at a time when United got into the picture.

Mr. GRACE. It was certainly an uncertain factor in it; and Mr. Wakeman comes to me and says, "Here is an additional uncertain factor, additional competition on this job." I said, "Wakeman, you are authorized to use your judgment, and be sure to get the work."

Mr. RAUSHENBUSH. You wrote Mr. Bardo to that effect on August 4, 1933, after the 1933 bids were opened, Mr. Grace?

Mr. GRACE. Expressing regret that anybody else had come into the business? Mr. RAUSHENBUSH (reading):

It's unfortunate to see some new interests getting their hand on naval work when there is so little normally to be distributed.

Mr. GRACE. It was only the outpouring of my heart and my belief at that time.

Mr. RAUSHENBUSH. The whole practice of people who are in the business of keeping out competitors—I am not applying this directly to you at the minute, but keeping out competitors in general—is an old one. We have seen it in selling gasoline and the like or in butcher-shop competition with the chain stores. If you can cut under enough to prevent a new competitor coming in, the chances are they will stay out.

Mr. GRACE. Frankly, the only thing I had in mind was to get that project against everybody, and here was another man, whom we were advised was going to quote low, because he was new at it, and that made just that much more competition for us. That is all.

In discussing the factor of a new competitor in the field, Mr. Ferguson, president of Newport News, testified concerning the situation created (Feb. 18, galley 39 FS).

Mr. FERGUSON. * * * In a case of this kind, of where a new bidder comes in, who does not know the costs, and who cannot know the costs, that is, he can know the price that has been bid, but he has no way of knowing how much it will cost him, and to show you how little we knew of what it would cost us, whereas in the 1927 bids—with a new competitor coming in, who does not know the cost of bidding for ships, or post offices, or anything else, if he is responsible, the bids are apt, some of them, to be lower on that account, not with the object of particularly keeping him out of the business, but for the reason that when you know that he does not know the cost you also know that he is liable to go below cost.

In other words, a competitive situation is introduced where a competitor has come in who, through lack of knowledge of the costs, may go to almost any point to get the job.

The shipyards did not want new competition, and the Navy supported them in this contention.

Mr. Bardo (Ex. 1489) speaking for the industry, protested to the N. R. A. administration the awarding of any P. W. A. money to Gulf Industries on the Gulf coast. Admiral Land, in the same exhibit stated to the N. R. A. administration:

The Navy Department is of the opinion that some provision should be included in the code such that it will avoid establishment of new shipbuilding yards, reopening of those long since inoperative, or expansion of small yards and repair plants for shipbuilding purposes.

Captain Wyman concurred, and stated that this was the sentiment of the Department. Mr. Bardo utilized the good offices of Mayor Hague of Jersey City, Governor Moore of New Jersey and others to obtain assurance from President Roosevelt that the Gulf loan would not be granted (Exs. 1493-1520).

In 1932, one of the company officials (N. R. Parker, New York Ship, Feb. 6, 1935, galley 27 ZO, exhibit 1528) wrote in regard to a possible merger with Newport News that "governmental policy has generally distributed the work fairly equitable between the three active yards."

Mr. RAUSHENBUSH. Mr. Parker, in July of 1932 we find that you were considering the matter of a proposal of a merger with Newport News Shipbuilding & Dry Dock Co. Could you tell us who was interested in that proposed merger?

Mr. PARKER. The proposal was considered by the board of directors of the New York Shipbuilding Corporation, and I was directed to furnish certain information to engineers making a survey for merger purposes.

Mr. RAUSHENBUSH. Why was that proposal dropped?

Mr. PARKER. Because the board of directors, I assume, did not believe that it was a feasible or advantageous proposition.

Mr. RAUSHENBUSH. I show you a copy of one of your comments on it, dated July 20, 1932, which I offer for appropriate number. [Handing paper to witness.]

(The document referred to was marked "Exhibit No. 1528" and is included in the appendix on page —.)

Mr. RAUSHENBUSH. I call your attention to the second paragraph:

It is, of course, impossible to ascertain the general attitude of the Government toward the merger of two companies out of three available to afford reasonable competition on Government contracts. This is believed to be a controlling matter in the consideration of the method of the merger. The governmental attitude is indirectly connected with the possible distribution of new business. With but three shipbuilding yards available for competition and the announced desire on the part of the Government to maintain those yards as an independent but nevertheless part of the national defense system, governmental policy has generally distributed the work fairly equitable between the three active yards. A merger of two of these yards might very well divide the work into two parts rather than three, so that while no Newport News Shipbuilding & Dry Dock Co. independently obtains one-third and New York Shipbuilding Corporation independently obtains one-third, or a total of two-thirds under independent operation, a merger might very well reduce the combined distribution to one-half for the combined yards. It is reasonably certain that if this was the result the loss in combination would far offset any possible benefits through merger.

Do you remember that statement?

Mr. PARKER. Yes, sir.

One possible explanation of the fact that Newport News and New York Ship dropped their bids so much more than they dropped their estimates is that they knew that this year it was Bethlehem's "turn" to be awarded a cruiser, that they also knew that Bethlehem and United would bid very low, and that they did not want their own bids to stand out as high by contrast, as they would have stood out if they had lowered their bids by no more than their estimates for labor and material warranted.

It is also to be noted that this ship, the cruiser *Quincy*, will cost the Government more than Bethlehem bid for it. Shortly after the award, the N. I. R. A. was passed and all governmental contractors were allowed to add to their awards increased costs due to that act.

NAVAL AWARDS—GENERAL—1933 ¹

In 1933 the Navy went into big business. It awarded \$130,000,000 of contracts to private yards, out of a total of \$280,000,000. In the course of awarding this program it obligated itself to an additional expenditure of \$55,000,000 to finish the ships, which sum it did not have appropriated or allotted to it at the time.

Of the total sums obligated by the Navy in the 1933 awards, \$238,000,000 was secured by a direct allocation of P. W. A. funds at the direction of the President.

The following ships were awarded to various yards under the 1933 program:

Name or number of ship	Class	Yard	Estimated cost of construction
Yorktown and Enterprise.....	Airplane carriers..	Newport News Shipbuilding & Dry Dock Co.	¹ \$19,000,000
Vincennes.....	Cruiser.....	Bethlehem Shipbuilding Corporation	11,720,000
Savannah, Nashville	do.....	New York Shipbuilding Co.....	¹ 11,677,000
Brooklyn.....	do.....	New York Navy Yard.....	
Philadelphia.....	do.....	Philadelphia Navy Yard.....	
Hull.....	Destroyer.....	New York Navy Yard.....	
Aylwin.....	do.....	Philadelphia Navy Yard.....	
Porter.....	do.....	New York Shipbuilding Co.....	3,965,000
Selfridge.....	do.....	do.....	3,965,000
McDougal.....	do.....	do.....	3,965,000
Winslow.....	do.....	do.....	3,965,000
Phelps.....	do.....	Bethlehem Shipbuilding Corporation, Fore River.	3,896,000
Clark.....	do.....	do.....	3,896,000
Moffett.....	do.....	do.....	3,896,000
Balch.....	do.....	do.....	3,896,000
Mahan.....	do.....	United Dry Docks, Inc.....	3,400,000
Cummings.....	do.....	do.....	3,400,000
Drayton.....	do.....	Bath Iron Works Corporation.....	3,429,000
Lamson.....	do.....	do.....	3,429,000
Flusser.....	do.....	Federal Shipbuilding & Dry Dock Co.	3,410,800
Reid.....	do.....	do.....	3,410,800
Case.....	do.....	Boston Navy Yard.....	
Conyngham.....	do.....	do.....	
Cassin.....	do.....	Philadelphia Navy Yard.....	
Shaw.....	do.....	do.....	
Tucker.....	do.....	Norfolk Navy Yard.....	
Downes.....	do.....	do.....	
Cushing.....	do.....	Puget Sound Navy Yard.....	
Perkins.....	do.....	do.....	
Smith.....	do.....	Mare Island Navy Yard.....	
Preston.....	do.....	do.....	
Porpoise.....	Submarine.....	Portsmouth Navy Yard.....	
Pike.....	do.....	do.....	
Shark.....	do.....	Electric Boat Co.....	2,566,000
Tarpon.....	do.....	do.....	2,566,000

¹ Each.

The size of this program created a situation where the Navy needed the use of every private and navy yard instead of the private and navy yards needing the Navy work to keep themselves going. The usual picture was completely reversed. It was no longer a buyer's

¹ See appendix, for chart showing the rise in fixed-price bids by the various companies from 1927 to 1934.

market as it was from 1927 through 1932. It was now a seller's market.

The first result of this was a very considerable increase in the bid price of cruisers, i. e., their cost to the Government.

The second result was that the private yards, in many cases, divested themselves of practically all the risk of losing money, a risk which had theoretically been involved in the earlier bidding. They used the possibility of increased prices for labor and material under the N. R. A. to have the Government carry that increase in case it should take place.

The two subsidiaries of steel companies, i. e., Federal, the subsidiary of United States Steel Corporation, and Bethlehem Shipbuilding, the subsidiary of Bethlehem Steel Corporation, were in a slightly different relation to the other bidders than the independent companies were to each other.

In 1933, before bidding on the big program, W. A. Irvin, president of United States Steel, advised the President of his subsidiary that an expression should be secured from the regular shipyards before Federal entered the bidding.

The regular shipyards could penalize the steel companies for any unfriendly acts on the part of their subsidiaries by ordering steel from one and not the other steel company. The letter is Exhibit No. 1767 as follows:

EXHIBIT No. 1767

UNITED STATES STEEL CORPORATION,
71 Broadway, New York, April 20th, 1933.

MR. L. H. KORNDORFF,
President Federal Shipbuilding & Dry Dock Company,
Kearny, N. J.

DEAR SIR: We have your favor of the 18th, relative to the possibility of Federal Shipbuilding Company getting into the Navy construction program. This is a question that will have to be decided shortly. It is one that I think should be handled carefully and that we should get an expression from the regular shipyards who have had to do with Navy construction in the past, to see just where we will stand with respect to the steel used in such construction as compared with the possible profit Federal would make out of going into this business.

I will be glad to discuss this matter with you some day next week.

Yours very truly,

(Signed) W. A. IRVIN,
President.

EXPECTATIONS OF "ALLOCATION"

In 1933 the Navy's largest peace-time program was awarded in a great hurry. There was enough work for practically every contractor. The Navy needed practically every contractor. During the days before the opening of the bids the shipbuilders were constantly conferring on the provisions of their N. R. A. code. They talked about the "allocation" of ships to various yards. That "allocation" could have been accomplished by the Navy's designating certain yards to build certain ships. Or it could have been accomplished by the various shipbuilders engaging in a process of bidding high on all jobs except those they wanted, and obtaining reciprocity from other shipbuilders in this procedure. The Navy was not allowed to use the first method, since it was obliged to advertise for bids and to grant awards to the lowest bidders. There was, however, nothing to stop

the shipbuilders from arranging the bids to be presented to the Navy in such a way as to secure the ships which each of them preferred to have.

Some idea of the fact of the discussion of allocation is given below in (a). The fact that Mr. Wilder, president of Gulf Industries, knew ahead of time of the low bidders is indicated below in (b). The fact that Mr. Bardo, president of New York Ship, wrote his chairman, W. L. Flook, on June 22, a month prior to the opening of the bids, exactly what jobs would go to each of the "Big Three" is given below in (c). Mr. Bardo's admission that he had discussed the ships he wanted with his competitors is given below in (d). The evidence of Mr. Yard concerning discussions among the "Big Three" prior to bidding is indicated in (e). Mr. Bardo's explanation of his letter to Mr. Flook is given in (f).

(a) Certainly the shipbuilders discussed possible allocation of the available sums in 1933 (Feb. 19, galley 41-42 FS).

Mr. FERGUSON. * * * I heard, of course, that this work was to be allocated. It was common talk that the work would be allocated by the Department to the people who could do the work.

But I wish to say that no responsible officer of the Government told me that we would be allocated certain jobs.

It was also common talk that this program would naturally give, for instance, a chance or an advantage to Newport News in the building of airplane carriers.

Later (galley 42 FS).

Mr. RAUSHENBUSH. Mr. Ferguson, let me interrupt you there. You have said several things. You said there was common talk about this allocation. Could you tell us specifically who talked to you about that matter then?

Mr. FERGUSON. Yes; I think nearly everybody.

Mr. RAUSHENBUSH. Did Mr. Wakeman?

Mr. FERGUSON. Mr. Wakeman; yes.

Mr. RAUSHENBUSH. Did Mr. Bardo?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. Did Mr. Williams?

Mr. FERGUSON. Yes. I mean it was talked generally. It was talked in the code meetings, it was talked all around that under P. W. A. the President had the power to place this work where it would meet the purposes of the N. R. A. and would spread employment. In fact, that it should be carried out in connection with N. R. A. as stated in the proposal to bid.

But the thing which I could not understand was this: As to how price would be fixed. For instance, when there was talk of securing these funds, this \$238,000,000 from the Public Works Administration, and applying it to Navy building, there went along with it, I think, some ships that were under the regular naval appropriation acts. I believe I am correct in that. But the thing that I did not understand was how they were going to fix price, and in the beginning, when it was just talked of and had not become a settled thing, the question of allocation was mentioned, and I asked, "How do you settle price?"

And, as a matter of fact, the only discussion on the means of this work being distributed, that I had with any official, responsible official of the Navy Department, was in the beginning, before the bids were out, before the money had come, Admiral Land talked to me about this work and about its allocation, but I said, "How do you determine price?"

I said, "If it can be allocated, we are sure hard up for work. We have got the *Ranger* and we have got nothing to do otherwise, and that if this work can be allocated, I am perfectly willing, on the part of my company to take it at cost, if you can determine what that formula is."

In other words, we were faced in our business with a very desperate situation, because with wages going up and with costs going up, the cost of doing merchant work simply evaporated, and has been evaporated ever since.

Later (galley 43 FS):

Mr. RAUSHENBUSH. The talk about allocation was apparently going on here in June and July.

Mr. FERGUSON. I think that the time when I made this statement, my recollection is, was after the receipt of the proposals on June 24 at Newport News. That was a month and 2 days before the bids were opened.

Mr. RAUSHENBUSH. Then it was in July sometime that you talked this over with the shipbuilders, privately and in open meeting?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. It was in July?

Mr. FERGUSON. I just stated what I thought about it.

Mr. RAUSHENBUSH. I am trying to locate the dates. It was in July?

Mr. FERGUSON. I do not know the particular dates.

Mr. RAUSHENBUSH. Did you on June 20 or 21, when you were here, talk to anybody in the Navy about it?

Mr. FERGUSON. I do not remember.

Mr. RAUSHENBUSH. You see, we are interested in that date because it was on June 22 that Mr. Bardo wrote the chairman of his board that there had been an allocation and Newport News would get two aircraft carriers for about \$36,000,000.

Mr. FERGUSON. Yes; I have seen the letter.

Mr. RAUSHENBUSH. Did you not have a pretty confident feeling before the bids were opened that you were going to get the aircraft carriers?

Mr. FERGUSON. Yes.

How talk about allocation could have gone on without a very thorough explanation by each company as to what it would like to have allocated to it, is difficult to understand.

(b) Mr. John P. Frey, President of the Metal Trades Department of the A. F. of L. testified on January 25 (galley 85 and 86 GP) that he had been given a list of the companies which would be low bidders in 1933 some 10 days before the awards were made.

Mr. FREY. When Mr. Wilder was at my office, some 10 or 12 days before the bids were opened, he made the statement that he could give the names of the yards who would be the lowest bidders on all of the category of ships to be contracted for.

I told him that that was interesting. I had heard so many rumors about various things since I had been in Washington, that I had to have something more substantial than that before I would give it any consideration. He said, "I will give it to you now, and I will seal it."

So that on my desk—

Mr. RAUSHENBUSH. Just a minute. Let me interrupt you a minute, Mr. Frey. How many days was this before the bids were opened?

Mr. FREY. Ten or twelve days before the bids were opened.

Mr. RAUSHENBUSH. That placed the date somewhere in July 1933?

Mr. FREY. It would.

Mr. RAUSHENBUSH. And that was in your office?

Mr. FREY. That was in my office.

Mr. RAUSHENBUSH. Where?

Mr. FREY. In the presence of my associate, Mr. Calvin.

Mr. RAUSHENBUSH. Mr. Calvin was also present when this happened?

Mr. FREY. He was present when this took place.

Mr. RAUSHENBUSH. Will you continue, please?

Mr. FREY. Mr. Wilder then wrote out the names of the shipyards who he held would be the lowest bidders on all of the categories of ships. I handed him an envelop, and he sealed the envelop.

Some 3 days before the bids were opened, I was with General Johnson, in connection with the Shipbuilding Code, and my personal thought as to the intention of some of the shipyards to live up to their own code, and I finally said, "Well, it is my opinion that there is going to be collusive bidding, and I have in my pocket a sealed envelop which purports to contain the names of the shipyards who will be the lowest bidders."

Senator CLARK. This was 3 or 4 days before the bids were opened?

Mr. FREY. Yes.

The CHAIRMAN. Let the record be clear. The sealed information was given 10 days before?

Mr. FREY. Yes; about 10 days or 12 days before. Three days before the bids were opened I was in General Johnson's office, discussing the Ship-building Code and my own impression as to the intentions of the shipbuilders, and I said,

"They are all in collusion." I was talking then about the code. I said, "I think they are also in collusion so far as the bids for these new vessels are concerned."

I said, "I have had given to me a list of names of the shipyards who would be the lowest bidders for one type of vessel."

I said, "It is here in my pocket", and I took it out and I said, "Here, you take this. This will be interesting to you."

Johnson said, "That is too hot. I am not going to get mixed up in anything of that kind. I have got troubles enough of my own."

And General Johnson refused to take the sealed envelop. A great deal was going on at that time to occupy my interest, and I put the envelop in my desk. The day after the bids were opened and the bids published in the daily press, I called Mr. Calvin into my office and said, "Let us find out whether Wilder was filled with hot air or whether he really knew what he was talking about."

Mr. FREY. * * * We opened the envelop and we checked them off and Mr. Wilder was accurate in every instance. He had named the lowest bidders.

Senator VANDENBERG. Who were the three lowest bidders?

Mr. FREY. There were submarines to be built, and destroyers to be built, and light cruisers, and armored cruisers, and aircraft carriers.

Senator VANDENBERG. Who were the successful bidders which Mr. Wilder identified?

Mr. FREY. There I have to depend on memory. I believe that the Bath Iron Works, the Bethlehem Shipbuilding Co., the New York Ship Building Co., the Newport News Shipbuilding & Dry Dock Co., and I think there may have been one other.

In any event, as we checked up, we find that the statement which Mr. Wilder had given to me 10 days before was right.

Senator VANDENBERG. Did you mention Bethlehem?

Mr. FREY. Yes. Afterward I asked Mr. Wilder how he could give us so accurately the information, and his reply was perhaps characteristic. He said, "I have been in the game myself."

He was president of the New York Shipbuilding Co. for a while.

Senator VANDENBERG. How many ships were involved in this contract letting.

Mr. FREY. All of the ships that were contracted for under the original \$238,000,000 appropriation.

Senator VANDENBERG. It was a large number of ships?

Mr. FREY. Yes.

Senator VANDENBERG. Thirty-odd ships?

Mr. FREY. Yes, sir.

Senator VANDENBERG. In various tonnage categories?

Mr. FREY. Yes, sir; from submarines to aircraft carriers.

Senator CLARK. The Bath Iron Works got one or two, Mr. Frey?

Mr. FREY. I think they secured two.

Senator CLARK. A very small proportion of the whole?

Mr. FREY. Yes.

Senator VANDENBERG. And with respect to all this diversified contractual structure, all of these various types of ships, Mr. Wilder's estimate as to the prophecy of who was to get the same, made 10 days before the bids were opened, proved scrupulously accurate in every respect?

Mr. FREY. In every instance. I forgot to mention that—and Mr. Calvin has refreshed my memory on this—that the Federal Ship Yard and the United Dry Docks were also bidders and also secured contracts at that time.

Mr. Wilder, who submitted in advance of the bidding in 1933 a list of low bidders to Mr. Frey, testified that the prearrangement in 1933 was known also to potential subcontractors (Jan. 30, galley 10 AS):

Senator CLARK. Referring again to this transaction in 1933, Mr. Wilder, when you supplied this list to Mr. Frey and Mr. Calvin, you say that that was a matter of general information at that time?

Mr. WILDER. Yes, sir.

Senator CLARK. Will you describe a little further what you meant by "general information"?

Mr. WILDER. General knowledge would be a better word.

Senator CLARK. General knowledge?

Mr. WILDER. Yes, sir. Such people as the Chicago Pneumatic Tool, Westinghouse, or any large corporation that is supplying the shipbuilders, knew what the arrangements were.

Senator CLARK. What were the arrangements?

Mr. WILDER. Knew where to look for the business.

He also testified that he had been informed of a joint meeting of the three big shipbuilders before the bids were submitted in 1933 at which the low bidders on major bids were chosen. This testimony was controverted by officials of the three companies later. Mr. Wilder's testimony was given on January 30 (galley 11 AS).

Mr. WILDER. Not that I know of; not that I have any knowledge of.

You asked, Senator, about the divide in 1933. Counting the cruiser that Bethlehem got down there on that particular bid, that, plus a new cruiser, plus 4 destroyers, equals 2 cruisers for New York Ship and 4 destroyers, and equals in value 2 aircraft carriers for Newport News. It was just a shuffle. Anybody could figure that out.

Senator CLARK. As I understand it, Mr. Wilder, you divided up the awards in the 1933 building program, so far as the value to the shipbuilding companies was concerned, and, as you say, Newport News, New York Ship, and Bethlehem each got approximately one-third the value?

Mr. WILDER. Counting that job, the 1932 job.

Senator CLARK. In other words, counting in the bid which you say Bethlehem took at a loss?

Mr. WILDER. I do not say that; no, sir.

Senator CLARK. I understood you to say that.

Mr. WILDER. I said a "fighting bid."

Senator CLARK. What do you mean by a "fighting bid"? I thought you said that meant they were willing to take a job for the purpose of putting a competitor out of business?

Mr. WILDER. Yes; but I do not think at that price there was any loss in it.

Senator CLARK. Counting in the low bid which Bethlehem made in 1932 for the purpose of forcing out United Drydocks, you say that the two transactions taken together worked out approximately one-third to each one of them?

Mr. WILDER. Yes; they got between \$35,000,000 and \$38,000,000 each.

Senator CLARK. Were there any other bidders on this 1933 program?

Mr. WILDER. Not on the cruisers or those destroyers—wait a minute. Did Federal come in there, or not until later?

Mr. RAUSHENBUSH. Federal did not come in until 1934 on the cruiser bidding. It was in on the destroyer.

Mr. WILDER. Now, if the Senator will permit, the reason I got that information was because the shipbuilders are reported to have had one whale of a row, and as a result of that row, this row being in the week prior to July 26, 1933—

Senator VANDENBERG. You mean the "big three" had a row?

Mr. WILDER. The "big three" had a row, and how. You had Charley Langell on the stand the other day. If you call him again, ask him what happened; why it was necessary for him to go out of the conference room and telephone Camden and urge Ernest Cornbrook to get in a plane and come right down.

Senator CLARK. Who is Ernest Cornbrook?

Mr. WILDER. Operating vice president of New York Ship. Bardo was getting the worst of the argument. Langell is the estimator. Langell had sense enough to go out and fly down. That was a week prior to July 26. It was reported that the row was so severe that M. Cornbrook had a heart attack at 4 o'clock in the morning, and was taken out on a stretcher at the Mayflower Hotel. That was Thursday or Friday before the bids were opened.

Senator VANDENBERG. That is at a meeting, an all-night session in the Mayflower Hotel, between the representatives of the "big three", a week before the bids?

Mr. WILDER. The week before. I cannot place it exactly.

Senator VANDENBERG. The week before the bids?

Mr. WILDER. The week before the bids, Thursday or Friday. Mr. Ernest Cornbrook flew down, and then at 4 o'clock was taken out on a stretcher. It was reported to me that the subject of the row was that Bethlehem would not accept the fighting ship and wanted something more out of it in addition. That was the reason.

Senator VANDENBERG. What else was reported out of the meeting?

Mr. WILDER. That is all.

Senator CLARK. Was this before the bids were filed?

Mr. WILDER. Before the bids were opened. It was on the basis that Bethlehem get one 8-inch-gun, 10,000-ton cruiser and 4 destroyer leaders of 1,850 tons; New York Ship, two 6-inch-gun, 10,000-ton cruisers and 4 destroyer leaders of 1,850 tons; and Newport News, 2 aircraft carriers.

Senator BONE. The bids had not yet been filed?

Mr. WILDER. No, sir.

Senator BONE. Manifestly, you could not have an understanding of that kind without knowing the attitude of the Navy Department, because it involved two different parties.

Mr. WILDER. That is just what I wanted to clear up Senator Clark on. This had nothing to do with awards. This was the filing of the bids.

Senator BONE. I understand, but the award is the important part. If they were made in that way and there was collusion, the Navy Department would have to be a part of it.

Senator BARBOUR. Awards can only be on the basis of a bid.

Senator BONE. I understand that.

Senator CLARK. Mr. Chairman, I am glad Senator Bone brought that up. Assuming collusion on any bid, the method by which that would be determined would be for the party selected by the conspirators to make the low bid and for the other parties to the understanding to make so-called "protective" bids?

Mr. WILDER. Yes, sir.

Senator CLARK. Sufficiently higher so that the selected party would necessarily be the low bidder. Is not that the customary method, Mr. Wilder?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. In other words, if at that midnight meeting it was decided that Bethlehem is to get—what does Bethlehem get?

Mr. WILDER. One 8-inch gun cruiser and four destroyer leaders.

Senator VANDENBERG. All right. If they decided at that midnight meeting that Bethlehem is to have that particular group of ships, then Bethlehem bids low on that group, and the other two bidders bid high. Is that the way it works?

Mr. WILDER. Yes, sir; that is the way, the explanation of the 1933 situation.

Senator BONE. That is the explanation I wanted.

Senator VANDENBERG. Then to reciprocate Bethlehem bids high upon whatever ships are allocated to the other builders?

Mr. WILDER. Yes, sir. They faced a rather definite situation there.

Senator BONE. They were parceling the country out? "All Gaul is divided into three parts."

Mr. WILDER. Oh, yes; it is just the "great divide." They are quite accustomed to that in Bethlehem. They used to do it, and called it "Bonus Hill."

Again, later, he developed an (Jan. 30, galley 12 AS) explanation of averaging the low bid of 1932 with the higher bids of 1933.

Senator CLARK (reading):

DEAR MR. PRESIDENT: I have been quite interested in analyzing the bids opened by the Navy Department on July 26, 1933, which were submitted by the shipbuilders on naval construction. I believe a thorough study of the matter should be made.

It is my information that—

On September 16, 1931, Bethlehem Shipbuilding Corporation bid for one 1,500-ton destroyer, \$2,728,500.

On July 26, 1933, Bethlehem Shipbuilding Corporation bid for an identical destroyer, \$2,670,000, or a decrease in price of \$58,500.

On December 14, 1932, Bethlehem Shipbuilding Corporation bid for one 8-inch gun (heavy) 10,000-ton cruiser, \$8,196,000.

On July 26, 1933, Bethlehem Shipbuilding Corporation bid for the same cruiser, \$11,720,000, or an increase in price of \$3,524,000.

There appears to have been but 4 bidders on cruisers and 8 on destroyers. Gulf Industries, Inc., of Pensacola, Fla., appears to have submitted bids on the destroyers.

It is my information that, in addition to the facts outlined above, it was known in advance which of the four concerns bidding on the cruisers would be low on each of the several items, and it appears to have been known in advance that the position of each of the said shipbuilders would be protected by bids submitted by the remaining shipbuilders, for instance:

Bethlehem Shipbuilding Corporation, \$11,720,000.

New York Shipbuilding Co., \$12,100,000.

Newport News Shipbuilding & Dry Dock Co., \$13,800,000.

United Dry Docks, Inc., \$14,800,000.

The bid of the New York Shipbuilding Corporation on the 2 light cruisers was protected by the other 3 bidders as follows:

New York Shipbuilding, \$11,657,000; Bethlehem Shipbuilding Corporation, \$12,780,000; Newport News Shipbuilding & Dry Dock Co., \$13,900,000; United Dry Docks, Inc., no bid.

I am unable to justify in my own opinion the increase in cruiser cost as indicated by the 1932 and 1933 bids, particularly when those bids are compared with the destroyer bids of 1931 and 1933. I am convinced that the cruiser bids should be rejected.

Your attention is invited to the fact that Gulf Industries, Inc., of Pensacola, Fla., in its letter to the Secretary of the Navy, dated July 29, 1933, stated that it is prepared to submit bids on the cruisers which will save the Government millions of dollars. And this is so whether the bidding is reopened by private negotiations or by a call for new bids.

I bespeak your careful and thoughtful consideration of this request that the cruiser bids be rejected.

What is that letter from you to the Secretary of the Navy referred to here? Do you have a copy of it?

Mr. WILDER. Can I get my book back?

Senator VANDENBERG. Mr. Wilder, while we are waiting for the scrapbook, I would like to get one thing clear in my mind about the advance memorandum which you made and gave to Mr. Frey. Was that memorandum based upon anything more than good guessing?

Mr. WILDER. And hearsay from those meetings at the Mayflower.

Senator VANDENBERG. Was it substantially based on what Mr. Cornbrook had told you?

Mr. WILDER. Yes; plus what I had learned from other people in other industries, and I speak of the contributing industries.

Senator CLARK. You mean the subcontractors.

Mr. WILDER. Yes, sir. They all knew because they knew whom they were going to do business with.

Senator CLARK. In other words, the suppliers of various parts and materials had information as to who was to secure these awards?

Mr. WILDER. Senator Clark, I knew it was absolutely accurate. It could not have been anything but accurate. The shipbuilders were not asking the suppliers to quote them on all the vessels. That is, New York Ship was taking no quotations on aircraft carriers, nor was Bethlehem.

In connection with Mr. Frey's testimony that Mr. Wilder had accurately predicted in 1933, before the bids were opened who the low bidders would be on each category mentioned, it is interesting to note that several witnesses (Calvin, Wilder, Kitchen), testified that Mr. A. B. Gravem, an attorney of the Washington, D. C., bar, offered to secure from 10 to 15 million dollars worth of work for one of the competitors, Gulf Industries, if he were given \$250,000. They also testified that Gravem had spoken of a friend as "the fixer".

(See Calvin testimony, January 29, galleys 2, 3, and 4 AS; Kitchen testimony, January 30, galleys 5 and 6 AS; Wilder testimony January 30, galleys 16 and 17 AS.)

Mr. Gravem denied this testimony in detail (January 31, galley 25 AS).

The record was certified to the district attorney of the District of Columbia on February 21, March 7, 1935, for his examination in regard to possible action involving charges of perjury.

Mr. A. P. Homer of Washington, D. C., one-time representative of Bath Iron Works, denied that he had agreed to secure naval contracts for Gulf Industries. His memorandum prepared in an attempt to collect \$50,000 from Bath Iron Works of Bath, Maine, for work in securing two destroyers for Bath in the 1933 awards, was entered as exhibit 1484 on January 31 (galleys 32 and 36 AS).

Mr. Charles M. Hyde, an attorney of the New York and Florida bar, filed a statement with the committee which said in part (Feb. 4, galley 52 AS):

In the summer of 1933 Mr. Wilder consulted me in reference to a project in Pensacola for which he wanted an R. F. C. loan, a drydock and shipbuilding plant.

At the time I understood he bid on some light cruisers or destroyers, and bids were low enough to warrant consideration, although that was not a matter concerning which he had consulted me.

While he was talking with me one day callers were announced and, I being about to leave, he asked me to remain.

One of the callers was A. B. Gravem, who stated that he was a lawyer associated with a Mr. La Prete with offices in the Tower Building. He was introduced by a gentleman whose name I do not remember but who I understood was a friend of Mr. Wilder.

Mr. Gravem stated that he had been with the R. F. C. and had a wide and intimate knowledge of departmental business and in position to secure contracts in the Navy Department.

He was very bold in his assertion that a man he represented was so influential that he took part in framing specifications and conditions for warship contracts. He said he was not an official but was on intimate terms with practically everybody of influence and called the President "Frank."

Personally I thought him one of those chiseling lawyers who swarm in Washington.

Wilder expressed interest and an appointment was made for another meeting, Wilder asking me to be present.

At the second meeting Gravem was even bolder. He glorified the importance of the man behind but would not identify him, although going into detail as to his personal influence with him through family connections. He said he was a high-price man and would want at least \$250,000. He was quite sure that this man could have an award made under Wilder's bid, and further stated that other ships than those presently under consideration were soon to be advertised.

Mr. Thomas M. Cornbrooks, at one time associated with Gulf Industries of Pensacola, Fla., testified that he had not furnished Mr. Wilder with the information as to who would be the low bidders in 1933. Miss Julia M. Kitchen, secretary to Mr. Wilder, testified on February 4 (galley 1 ZO-2 ZO) concerning this matter, as follows:

Senator VANDENBERG. Do you recall an interview between Mr. Wilder and Mr. Thomas Cornbrooks in which the subject of the probable successful bidders upon the 1933 naval program was discussed?

Miss KITCHEN. Yes.

Senator VANDENBERG. This was before the bids were opened?

Miss KITCHEN. Yes; it was.

Senator VANDENBERG. Did you see Mr. Wilder prepare a memorandum purporting to state who would be successful bidders on the naval contracts soon to be let, in 1933?

Miss KITCHEN. Yes. It was a green slip of paper.

Senator VANDENBERG. It was prepared on a green slip of paper?

Miss KITCHEN. Yes.

Senator VANDENBERG. Was it prepared in the presence of Mr. Thomas Cornbrooks?

Miss KITCHEN. Yes.

Senator VANDENBERG. Was this the memorandum subsequently given by Mr. Wilder to Mr. Frey?

Miss KITCHEN. Yes. I believe he made his memorandum from that slip. It was not that green slip.

Senator VANDENBERG. You know that Mr. Thomas Cornbrooks saw it?

Miss KITCHEN. Yes.

Senator VANDENBERG. Did Mr. Wilder and Mr. Thomas Cornbrooks discuss the matter together before Mr. Wilder wrote out his guess?

Miss KITCHEN. Yes; they did. I remember that Mr. Cornbrooks did not want Mr. Wilder to divulge the source of the information because he had gotten it from Mr. Ernest Cornbrooks, who was at that time works manager of New York Ship.

Senator VANDENBERG. In other words, you heard Mr. Thomas Cornbrooks tell Mr. Wilder, or you heard him give Mr. Wilder the basic information upon

which Mr. Wilder constructed his guess, and Mr. Thomas Cornbrooks indicated that inasmuch as much of the information came from his brother, he preferred that the source of the information be not divulged, lest it embarrass his brother. Is that correct?

Miss KITCHEN. Yes; that is true.

Senator VANDENBERG. Did you hear a second interview between Mr. Wilder and Mr. Thomas Cornbrooks, in which Mr. Cornbrooks again alluded to his brother?

Miss KITCHEN. Yes; I did.

Senator VANDENBERG. Was this after the naval bids were opened?

Miss KITCHEN. Yes; that was afterward. The conversation to which he referred had been before the bids were opened, but he talked to Mr. Wilder and to me afterward.

Senator VANDENBERG. Did it relate to a conference of shipbuilders in the Mayflower Hotel prior to the letting of the bids?

Miss KITCHEN. Yes.

Senator VANDENBERG. Relate what you heard Mr. Thomas Cornbrooks say in that connection.

Miss KITCHEN. He said that before the bids were opened there had been a conference at the Mayflower Hotel, at which the executives of New York Ship, Newport News, and Bethlehem Shipbuilding companies had been present, and that time they were deciding which ships the different companies were to have, who would have the aircraft carriers and the cruisers and the destroyers, and so forth. And at that meeting Mr. Bardo was present, and Mr. Langell was present. Mr. Bardo was not getting what he considered, or what Mr. Langell considered, was New York Ship's share, so that Mr. Langell went out of the office, the room, and talked to Ernest Cornbrooks at Camden, and said that he had better fly down there because Mr. Bardo was not getting New York Ship's share.

So that Mr. Ernest Cornbrooks did fly down, and the meeting became such a row that Mr. Cornbrooks was carried out of that room about 4 o'clock in the morning with a heart attack.

Senator VANDENBERG. You are now relating what you heard Mr. Thomas Cornbrooks tell Mr. Wilder?

Miss KITCHEN. Yes.

Senator CLARK. When was that conversation, Miss Kitchen, please?

Miss KITCHEN. It was after the bids were opened. I do not remember exactly the time.

Senator VANDENBERG. You are very clear in your recollection about it?

Miss KITCHEN. Yes; I am.

Mr. Wilder on April 5 (galley 82 WC, seq.), reaffirmed his earlier statement that he had been given the information concerning the low bidders in 1933 some 10 days in advance of the opening of the bids by Mr. Thomas Cornbrooks.

Mr. LAROUCHE. There has been testimony introduced here to the effect that you received certain information in advance on the 1933 bidding from Mr. Thomas Cornbrooks, with whom you were associated.

Mr. WILDER. That is correct.

Mr. LAROUCHE. And who is the brother of Mr. Ernest Cornbrooks who is employed by the New York Shipbuilding Corporation?

Mr. WILDER. Yes, sir.

Mr. LAROUCHE. Do you have any record or any evidence indicating that Mr. Cornbrooks gave you knowledge of the outcome of the 1933 bidding in advance of that award?

Mr. WILDER. Yes. I previously stated that Mr. Cornbrooks gave, oh, some week or 10 days in advance of the opening of the bids, who among the three large shipbuilders would be found on the opening of the bids to be the low bidders in certain categories, and Miss Kitchen has dug out of her files on that matter, this slip in Mr. Cornbrooks' handwriting, which carries that information [producing document].

Mr. LAROUCHE. The slip is a memorandum written by Tom Cornbrooks to you, based on information which he believed he has indicating the outcome of the 1933 awards.

Mr. WILDER. If you will read it, Mr. LaRouche——

Mr. LAROUCHE. Is that the fact?

Mr. WILDER. That is a fact.

Mr. LAROCHE. Memorandum reads [reading]:

Navy program, as lined up by Big Three: NN.

That, I take it, means Newport News?

Mr. WILDER. Yes, sir.

Mr. LAROCHE. Airplane carrier.

NYS is, I take it, New York Ship—light cruisers and four fleet destroyers (1,850 tons).

F. R.—

Mr. WILDER. Fore River.

Mr. LAROCHE (continuing reading). Heavy cruisers.

The NYS refers to New York Ship and four fleet destroyers, 1,850 tons, and indicates what?

Mr. WILDER. The light cruisers and the four 1,850-ton destroyers.

Mr. LAROCHE. F. R. refers to the Fore River plant?

Mr. WILDER. F. R. refers to the Fore River plant of the Bethlehem Shipbuilding Corporation. That is incorrect merely in that Bethlehem, in addition to the 40—heavy cruiser got four of the 1,850-ton destroyers. Otherwise it is correct, and that is the information I gave Mr. John Frey, president of the Metals Trades Department of the American Federation of Labor, and he subsequently testified he passed it on to General Johnson, prior to the opening of the bids, and I believe his language was that the general said it was "too hot for him."

Mr. LAROCHE. And the point is that you are telling us that Mr. Tom Cornbrooks had this information about the award of those cruisers in advance?

Mr. WILDER. Not about the award, Mr. LaRouche. About the bids.

Mr. LAROCHE. About the bids?

Mr. WILDER. Yes, sir.

Mr. LAROCHE. That these people mentioned here would be low for these ships?

Mr. WILDER. That is correct.

Mr. LAROCHE. When did he give you this memorandum?

Mr. WILDER. Some time before the opening of the bids on July 26, 1933—shortly before that.

Mr. LAROCHE. Shortly before?

Mr. WILDER. Yes; I imagine it was some time during the code hearings, and the code hearings, if I remember correctly, open up on the 19th of July.

Mr. LAROCHE. Did he tell you upon what his information was based?

Mr. WILDER. As I testified previously, it was rather general knowledge among the subcontractors because of the nature of the inquiries they had had from the various builders for the machinery.

Mr. LAROCHE. Did he tell you he got any information from his brother Ernest Cornbrooks, who is employed by New York Ship?

Mr. WILDER. He did not tell me direct, but I assumed that. That was Ernest Cornbrooks. We assumed that.

Mr. LAROCHE. Do you know whether Mr. Cornbrooks' predictions were fulfilled?

Mr. WILDER. Oh, yes; I would like to distinguish between the bids and the awards. Mr. Tom Cornbrooks did not claim to have any knowledge of the awards, but merely the bids which the big shipbuilders were going to put in.

Mr. LAROCHE. The point is, to your knowledge, outside of the companies involved, he told you as to who would be low on all the ships. Is that what you are saying?

Mr. WILDER. Yes.

Mr. LAROCHE. And that turned out to be that way?

Mr. WILDER. Yes.

The CHAIRMAN. In whose handwriting is that memorandum?

Mr. WILDER. Tom Cornbrooks.

The CHAIRMAN. Did you see it written by him?

Mr. WILDER. Yes; Miss Kitchen has a number of handwriting memoranda.

The CHAIRMAN. The Chair will caution against loss of that memorandum. Great care should be taken in preserving it in its present state.

Mr. WILDER. It will be found, Mr. Senator, that that reads almost exactly the same on the letter from Mr. Bardo to Mr. Flook, which was put in evidence here some time ago, the same information.

Mr. LAROCHE. You are referring now to the letter of June 22, 1933?

Mr. WILDER. Yes, sir.

Mr. LAROCHE. In which Mr. Bardo told Mr. Flook—

Mr. WILDER. What the great divide was going to be.

Mr. RAUSHENBUSH. May I interrupt?

Mr. LAROCHE. Yes.

Mr. RAUSHENBUSH. Mr. Wilder, in the testimony of Mr. Cornbrooks before us, the following colloquy took place:

Senator VANDENBERG. You never talked with Mr. Wilder about the probable outcome of the bidding?

Mr. CORNBROOKS. Oh, I may have discussed what my guess was as to who would be the lowest bidders, based on their experience.

Senator VANDENBERG. Now, do you think that you perhaps did talk with Mr. Wilder in a speculative sort of way about it?

Mr. CORNBROOKS. I do not remember it. I may have.

Senator VANDENBERG. Did you have some pretty fixed ideas about who was going to get the bids?

Mr. CORNBROOKS. No; only a guess. I think I made three guesses, if I am not mistaken.

Senator CLARK. You guessed right in each of those, did you not?

Mr. CORNBROOKS. No; I did not.

Senator CLARK. Where were you wrong in your guess?

Mr. CORNBROOKS. It is pretty hard to remember just what the guesses were, but, as I remember it, I guessed that Federal would get the 1,850-ton destroyers. That is my recollection of one of the guesses I made.

Do you recall what that was? There is no guess about Federal on that particular slip, is there?

Mr. WILDER. No; there is not.

Mr. RAUSHENBUSH. Can you identify this evidence further; what he was referring to there?

Mr. WILDER. Where he says four heavy cruisers? There was only one cruiser for private yards, as I recall, and says nothing about the 1,850-ton destroyers, so that he may have been correct in saying Federal did get them. I did not have any particular interest in the three little yards.

Mr. RAUSHENBUSH. A little later this colloquy took place [reading]:

Senator VANDENBERG. You never heard anything about a matter of that nature?

Mr. CORNBROOKS. I heard Mr. Wilder make a claim that there was. That is the only place I ever heard it.

Senator VANDENBERG. At that time you mean Mr. Wilder suggested it?

Mr. CORNBROOKS. At some time later.

Senator VANDENBERG. Mr. Wilder never said anything to you at the time about the possibility of collusion?

Mr. CORNBROOKS. I do not remember it. I said at the time—I cannot tell you what time—but he made a remark of that sort, but I do not remember just when it was.

Senator CLARK. How much later was it that you and Wilder discussed the matter and he then made a claim of collusion?

Mr. CORNBROOKS. I could not tell you that, sir.

Can you place this conversation a little better in time than he has?

Mr. WILDER. As regards the bids, as I have said, I would say a week or 10 days, sometime between July 19 and the opening, July 26.

Mr. RAUSHENBUSH. That is about when the conversation took place?

Mr. WILDER. Yes.

Mr. RAUSHENBUSH. I offer that slip for the record.

(The slip referred to was marked "Exhibit No. 1900" and is included in the appendix at p. —.)

(c) One month prior to the opening of the bids on June 22, 1933, for ships with \$130,000,000 to the private yards, Mr. C. L. Bardo, president of New York Shipbuilding Corporation, wrote to Mr. W. L. Flook, the chairman of the board of the corporation (Feb. 11, galley 62 ZO) predicting the awards made 6 weeks later:

The CHAIRMAN. I hand you, Mr. Flook, a letter dated June 22, 1933, from C. L. Bardo, addressed to yourself, and ask you if you can recall having received this letter [handing paper to witness].

Perhaps if we read it through you would better recall [reading]:

Mr. W. L. FLOOK.

DEAR MR. FLOOK: I spent the last 2 days in Washington in connection with the shipbuilders' and ship-repairers' code required by the Industrial Recovery Act. We finally worked out a code which was reasonably satisfactory to the ship repairers, although there are some questions of a more or less controversial nature which we will have to iron out between now and the time the code is made effective.

Do you recall this letter?

Mr. FLOOK. Not so far. I undoubtedly received it, but I do not recall it.

The CHAIRMAN (continuing reading):

Three or four of these smaller yards, including the Todd and United Dry Docks in New York who have never been engaged in Navy work, have had their eyes set right along upon having allocated to them some of the destroyers.

It was necessary for me to be here today and it was also necessary for Ferguson to be in Newport News, so that the shipbuilders' code could not be completed. In order, however, to set the ship repairers aright I sent the attached telegram to Mr. Smith who was presiding at the meeting. I outlined our company's position on this matter of allocation to yards not heretofore engaged in shipbuilding activities. I talked to Ferguson on the phone this afternoon and he fully approved of this position.

I know from my talks with some of the representatives of the Navy, who are keenly interested in this work, that they are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

Do you recall this letter?

Mr. FLOOK. Yes; I do, Senator.

The CHAIRMAN. You do recall it?

Mr. FLOOK. Yes; I received it.

The CHAIRMAN. I read on.

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else. The situation as it now stands is substantially as follows:

Newport News: The two airplane carriers, which while not duplicates of the *Ranger*, are of similar type.

Bethlehem: The 10,000-ton 8-inch cruiser, a duplicate of the ship which they are now building.

New York Ship: A new 10,000-ton 6-inch cruiser, and a distribution of the eight destroyer leaders.

This new work would amount approximately to the following values:

Newport News: \$30,000,000.

Bethlehem and New York Ship: \$28,000,000 each, although the final estimates may slightly change these figures.

Did the final estimates change those figures materially?

Mr. FLOOK. I do not know, Senator.

The CHAIRMAN (continuing reading):

I have a suspicion that the Department has clearly in mind ordering some additional cruisers once this first lot is out of the way, and I am also clearly of the view that they regard our cruiser output as being superior to that of the other yards.

I am now of the opinion that we will probably submit a bid for 6 of the 8 destroyer leaders, although it may be necessary to reduce this slightly in the final set-up.

We are preparing a clause to be inserted in the contract, which we think will be acceptable to the Navy, to the effect that in the event labor and material charges under these contracts should exceed the labor and material estimates of the yard to a point where losses would accrue, that the contractor will be authorized to apply to the President who in his discretion can cancel the contract and order the work completed on the basis of a cost plus a fixed fee.

Very truly yours,

C. L. BARDO.

P. S.—As near as we can figure out, the distribution of the new Navy program will run about 60 percent to private yards and 40 percent to navy yards, although this may later be changed without further notice.

C. L. B.

There was some questioning of Mr. Flook on the subject, as the allocations mentioned by Mr. Bardo a month before the bids were opened were fairly exact (Feb. 11, galley 61 ZO).

The CHAIRMAN. Mr. Flook, you have told us that Mr. Bardo never made any reports to you concerning activities with regard to bidding on these Government contracts.

Mr. FLOOK. That is right.

The CHAIRMAN. As a matter of fact, did not Mr. Bardo report to you frequently concerning visits he had had in Washington with naval officials and with shipbuilders in connection with these bids?

Mr. FLOOK. Not with shipbuilders. He frequently mentioned in conversation that he had been down to the Navy Department and had seen so-and-so and so-and-so, and that the Government plans on so-and-so and so-and-so with reference to ships.

The CHAIRMAN. That was in conversation, a verbal message to you?

Mr. FLOOK. Yes, sir.

The CHAIRMAN. But no letters?

Mr. FLOOK. No; to the best of my recollection, no letters.

The CHAIRMAN. How good is that recollection, Mr. Flook?

Mr. FLOOK. Pretty good.

The CHAIRMAN. If Mr. Bardo had upon occasion written you that he had been in touch with naval officials and that the naval officials had rather suggested to him that the shipbuilders ought to get together, would you not remember having had such a letter?

Mr. FLOOK. I should think so. May I ask what year this was?

The CHAIRMAN. In any of these years.

Mr. FLOOK. While I have no recollection of it, I should not be at all surprised if that happened in 1933.

The CHAIRMAN. In 1933?

Mr. FLOOK. Because it was while I did not know. It was my clear understanding in 1933 that the Government not only wanted but demanded that the work be divided among the different yards.

Later, after the letter had been read, he was questioned further (Feb. 11, galley 63 ZO):

The CHAIRMAN. What is the meaning of the letter, "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else"?

Mr. FLOOK. The private yards are always up against the bids of the navy yards.

Senator BONE. That is not the point.

Senator CLARK. Referring to the time element mentioned by Senator Barbour, in actual practice the time element amounted to this, did it not: That the Government would depend on the New York Shipbuilding Co. to prepare the plans for the light cruisers in the 1933 program, and as far as the time element is concerned, the New York Shipbuilding Co. was so dilatory that this program has been held up from that day to this. Is not that right?

Mr. FLOOK. That is all since I left the company, Senator.

Senator CLARK. You know that as a matter of common knowledge, do you not?

Mr. FLOOK. I do.

Senator BONE. That is not susceptible of interpretation but means what it says, Mr. Flook. "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else."

That is collusion if you ever saw it. Can there be any doubt in your mind, as a business man, that that means collusion and nothing else?

Mr. FLOOK. Collusion is a word of approbrium.

Senator BONE. It makes no difference what it is, but it was an invitation for the shipbuilders to get together and fix up their bids in advance.

Mr. FLOOK. If it were done at the request of the Government, I would not call it collusion.

Senator CLARK. That is collusion, if the Navy is a party to it.

The CHAIRMAN. That makes the Navy a party to the collusion.

Mr. FLOOK. It would seem that if each shipyard bid only on the ships which it wanted—

Senator CLARK. After agreeing on which ones they want.

Mr. FLOOK. At the request of the Government—

The CHAIRMAN. The question was asked you by Senator Bone, as he read that paragraph. "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else." And he asked you if the Navy was suggesting this. You nodded your head but unfortunately the reporter cannot record a nod. Do you mean to say that that was your understanding?

Mr. FLOOK. May I have the question again?

The CHAIRMAN. That the Navy was suggesting that they should get together.

Mr. FLOOK. As I read this letter.

The CHAIRMAN. Yes.

Senator BONE. Paragraph 5 of the letter.

Senator VANDENBERG. That means not only—

Mr. FLOOK. This seems very clear "expressed to us the desire"—I assume by the Navy.

Senator BONE. It could not mean anything else.

Mr. FLOOK. Of course it could not.

Senator VANDENBERG. Mr. Flook, this says "expressed to us the desire that the shipbuilders get together upon what each would bid." Does that not include not only the categories but also the price?

Mr. FLOOK. I would not think so, Senator.

Senator VANDENBERG. Upon what each would bid?

Mr. FLOOK. I would not think so.

Senator VANDENBERG. And then bid on nothing else?

Mr. FLOOK. That is it—and then bid on nothing else. Agree as to which they would bid on, and do not bid on anything else.

Senator VANDENBERG. And, as a matter of fact, what actually happened was that after they did get together, as indicated in this letter, and did agree on what each was to have, ahead of the bidding, they did only bid in good faith upon the things that they wanted themselves, and each of the other shipbuilders in the "big three" did not put in competitive bids against those categories which had been agreed upon, but did put in so-called "protective" bids. That is what happened, is it not?

Mr. FLOOK. I do not know sir.

Senator VANDENBERG. But you were there in 1933.

Mr. FLOOK. Yes, sir; I was there.

Senator VANDENBERG. And New York Ship got the contracts upon which it actually prepared full sets of estimates and actually submitted good-faith bids. You got everything you tried to get, did you not?

Mr. FLOOK. I do not know that, Senator. Mr. Bardo will know, of course.

Mr. Flook, was questioned further concerning 1933 and Mr. Bardo's letter to him (Feb. 11, 1935, galley 64 ZO):

Senator CLARK. As a matter of fact, the company started back uphill after the failure of the Geneva Conference, accompanied by the naval building program in 1927. Is that not a fact?

Mr. FLOOK. As to date, yes.

Senator BONE. Mr. Flook, you say all this business was going on between the Navy and Mr. Bardo, in fixing up these bids, was all open and aboveboard. Am I correct?

Mr. FLOOK. No; I did not say that, Senator.

Senator BONE. Do you care to comment further on the character of it? Do you think it was open and aboveboard?

Mr. FLOOK. I do not think anything about it.

Senator BONE. Then one might be tempted to ask why it was that Mr. Bardo said the Navy or naval officials are desirous of finding some substantial reasons for awarding this work and getting the thing done, Mr. Flook, in paragraph 4.

You think Mr. Bardo and the Navy officials were anxious to find some substantial reasons for framing up the new deal? That is right, is it not?

Mr. FLOOK. It would seem so from the letter.

Senator BONE. It appears on the face of the letter.

Mr. FLOOK. Yes, sir.

Mr. Bardo testified concerning his letter to Mr. Flook of June 22, 1933, announcing in advance of the bidding what the situation would be. (Apr. 5, galleys 94 and 95 WC.)

Mr. RAUSHENBUSH. Will you explain the next paragraph, after "I know from my talks with some of the representative of the Navy" [reading]:

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else.

That seems to convey, in view of the previous paragraph, that it all came from the Navy.

Mr. BARDO. It all had its genesis in the group of men here trying to work out a code, and everybody talked about it in different ways. There was no direct information that I had from the Navy.

Mr. RAUSHENBUSH. Did somebody discuss it with the Navy?

Mr. BARDO. I do not know. I am reciting the ordinary kind of conversation which went around that table at the Mayflower Hotel, in that group, when we were discussing our code and the new program, and all the things which we thought might happen. I must apologize for using that particular kind of language, because it is not just what I wanted to convey. I was not particular enough to say where the genesis of it all was.

Mr. RAUSHENBUSH. The letter goes on [reading]:

The situation as it stands now is substantially as follows:

Then you give on June 22 a list of what every body is going to get, which later turns out to be right.

Mr. BARDO. Not what every body was going to get, but what they were going to bid on. Ordinarily in bidding on a cruiser, we have 60 days to get it in, and prepare our estimate.

Mr. RAUSHENBUSH. Pardon me. I did not understand your statement. This states [reading]:

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else. The situation as it stands now is substantially as follows:

Newport News: The two airplane carriers which while not duplicates of the *Ranger*, but of similar type.

Bethlehem: The 10,000-ton 8-inch cruiser, a duplicate of the ship which they are now building.

New York Ship: A new 10,000-ton 6-inch cruiser, and a distribution of the 8 destroyer leaders.

And then you evaluate it. My question was as to whether that was not what they bid on, but what they got. They did get these things.

Mr. BARDO. We decided we would have to divide up this work, and we could not bid on all of it, for the practical reason I have outlined. We had to make some division, and if we were going to cooperate with the Government, we had to make some decision among ourselves as to what we could do. I could not, for the life of me, and nobody else, if I wanted to be cooperative, say in this situation that I was going to get designs on more than one type of ship. The thing would be delayed interminably, and you would never get started. It was a practical matter, and we looked at it as a practical thing. Each man wanted to do the best he could, and do it the quickest, and we though we had a right to do it, and proceed on that theory. There was no question at all about it.

Mr. RAUSHENBUSH. Do we gather at the time that this more or less big idea was being discussed, that it might be up to the shipbuilders to decide about allocation, which was later revealed, I take it?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. But at the time it was being discussed the plans were that Newport, Bethlehem, and New York Ship would proceed along the line you outline here?

Mr. BARDO. That is the plan which we set up. If we were going to cooperate and be limited by the things which we could not overcome, the bonding requirements, that we had to decide the things which we could do, and do the most intelligently, so that we would get started without delay.

Later, the question of approval of the tentative allocation was raised (galley 95 WC):

Mr. RAUSHENBUSH. Coming back to the direct question, how could you write the chairman of your corporation, Mr. Bardo, that this was the situation at the time, when you were opposing the business of having the ship companies themselves allocate business, and Mr. Ferguson was also opposing it, and yet you say, in spite of that, "The situation, as it stands now, is substantially as follows", and then you discussed what seems to be the division, which later on worked out to be correct. How could you say that without having some authority for it, without having at least the approval of the Navy for that sort of thing? Who else would there be to approve it?

Mr. BARDO. There would not be anybody else to approve it.

Mr. RAUSHENBUSH. How does the situation get to be that way?

Mr. BARDO. What is the particular application you want to make of the language? Let us get that straight.

Mr. RAUSHENBUSH. I am a little confused myself. You see what I have got in my mind is this: That apparently about the time you wrote this letter, you did not think that this business of having the private shipyards do the allocating would work.

Mr. BARDO. No.

Mr. RAUSHENBUSH. And Mr. Ferguson did not think it would work?

Mr. BARDO. No.

Mr. RAUSHENBUSH. And that being the case, you are by your letter saying that if the shipyards were doing the allocation, that is the way they would allocate it. It must be a letter saying something else. I mean, I am drawing the inference. It must be a letter saying that somebody else has agreed on this sort of thing, or this is the situation, other than the shipbuilders see it.

Mr. BARDO. You miss the point entirely.

Mr. RAUSHENBUSH. I may.

Mr. BARDO. Yes; you do. As I said at the beginning this was a practical question, with the big problem of getting certain people to work. How could it be more effectively done, was the problem with which we were confronted. It would take me, or any other shipyard, 3 months to get ready and go ahead with the airplane carriers. That was not going to help to do the job at all. It would take any yard as long as that. As a matter of fact, it took us 3½ months to get the contract plans for the 6-inch cruisers, but we did have other details to work out, and I spent \$40,000 in developing those plans up to that point, which I did not want to throw away.

We did not have anything on the 8-inch gun cruiser, because it was as bad as a different ship.

Mr. RAUSHENBUSH. You bid both on the light and heavy cruiser in 1934, did you not?

Mr. BARDO. I have got it here, and I think I can tell you what I did do.

August 15; yes, sir. We bid on a heavy cruiser and we bid on the light cruiser, but I did not want the heavy cruiser and was not interested. I submitted a quotation, that is all. It is not a price; it is a quotation.

(d) Later, the discussion with competitors was testified to by Mr. Bardo (galley 96 and 97 WC):

Mr. RAUSHENBUSH. Will you explain for us, as a matter of technicality, how after the Navy threw out these bids for the armored cruiser, how you arranged with them to get the award for the light cruiser? There has been some question raised about that.

Mr. BARDO. Admiral Land called me up one day, along about noon, on the telephone, and said, "The Assistant Secretary wants to see you and wants you to come to Washington this afternoon", and I said, "Yes." And I jumped on a plane and came to Washington and went to see Admiral Land, and he said, "He wants to see you about the light cruiser." And I said, "Yes." And I went in to see The Assistant Secretary, Roosevelt, and he said:

We would like to have you build this third light cruiser, which is different from what you got, but I cannot pay you your price, and cannot pay you over \$12,000,000, because that is the limit in the appropriation for it.

We talked a few minutes about it, not over 5 at the outside, and I said, "I want to accommodate you as far as I can. In view of what you say, I will undertake to build the job for \$11,975,000", and he made the award on that basis, and that is all there was to it.

Mr. RAUSHENBUSH. How much reduction was that from your bid?

Mr. BARDO. Around \$500,000, I would say.

Mr. RAUSHENBUSH. Suppose one of your competitors did that. Suppose the Navy had, after all the bids were in, gone to one of your competitors and had said, "If you wipe off \$500,000 from your bid we will give you the ship", without taking your competitors into the situation; would you not be rather sore about that?

Mr. BARDO. No; that has happened to me before. I would not have been sore about it. Life is too short.

Mr. RAUSHENBUSH. You mean the Navy has done it?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH. On what?

Mr. BARDO. The destroyers.

Mr. RAUSHENBUSH. Who is that?

Mr. BARDO. I do not want to go into that sort of discussion.

Mr. RAUSHENBUSH. These are definite questions.

Mr. BARDO. It was done on the destroyers.

Mr. RAUSHENBUSH. When?

Mr. BARDO. On the *Farragut* and *Dewey*.

Mr. RAUSHENBUSH. When?

Mr. BARDO. 1931 or 1932, whenever those ships were ordered.

Mr. RAUSHENBUSH. You mean a certain amount of price was lopped off?

Mr. BARDO. The price was not lopped off, but something else was done which had the same effect.

Mr. RAUSHENBUSH. What was done?

Mr. BARDO. The invitation limited to a contract bid on the Navy's plan. We were submitted an alternate plan. We had one, but we were told they did not want any alternate plans. The Bethlehem submitted an alternate plan, better than the one we bid on, with higher speeds and greater guaranties, and, very obviously, the Navy took it, and I never raised any question about it.

Mr. RAUSHENBUSH. That is the only other instance you remember?

Mr. BARDO. That is the only other instance I remember in navy yards. It has happened to me in merchant work several times.

Mr. RAUSHENBUSH. Have you said everything you want to say about the 1934 bidding?

Mr. BARDO. I do not think there is anything, Mr. Raushenbush. There may be some things about which you want to know.

Mr. RAUSHENBUSH. Were there the same sort of talks as there were discussed here in this letter, or were there no such talks?

Mr. BARDO. No; there were no such talks on the 1934 program. There was no such discussion, because there was not so much there, and it was free for all, and everybody could go into it if they wanted.

Mr. RAUSHENBUSH. Coming back to 1933, there are a few questions there. You said a few moments ago that you went to your competitors and told them that you wanted to bid on the P. W. A. work and did not you have a conflict between the increase of the Navy and the P. W. A., which is understandable? Which competitor was that?

Mr. BARDO. Both Bethlehem and Newport News, because I did not know what they were going to bid on.

Mr. RAUSHENBUSH. Whether they want the P. W. A. or the increase in the Navy?

Mr. BARDO. Bethlehem's work was under the increase of the Navy work, and they wanted to bid on the leaders, the leaders being under the increase to the Navy, and his work would all be under one appropriation.

Mr. RAUSHENBUSH. As far as the actual bidding goes, how does one do that? Does one tell the Navy, "You are advertising so much, and I want those under that?"

Mr. BARDO. I could only bid on 4 out of 8, and I made it low for the 4 I wanted, and on the 4 I did not want, I just put in a complimentary bid, and I was not interested in that at all.

Mr. RAUSHENBUSH. You have read the testimony of Mr. Langell pretty thoroughly, as to what he said was wanted in 1933 and 1934?

Mr. BARDO. I do not recall reading his testimony, but I think I heard some of it.

Mr. RAUSHENBUSH. He substantiates exactly what you said here; on the things you wanted real estimates were made.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. And you got them; and on the things you did not want there were no estimates to speak of.

Mr. BARDO. If we had been required to make real estimates on all those—the practical question, as I say, closed it out at the beginning—the bids could not have been awarded before the 1st of January. You could not have done that in 3 or 4 months, the very best you could do. You just could not do it.

The CHAIRMAN. Now, Mr. Bardo, what is a “complimentary bid”?

Mr. BARDO. It is a bid put in high enough so that you know you won't get it.

The CHAIRMAN. Who is that a compliment to?

Mr. BARDO. I do not know.

Mr. RAUSHENBUSH. Here Mr. Langell says:

I was told to concentrate on the 1,850's and the light cruisers, with the distinct understanding that was what the firm would like to have.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. You have been very frank today to me, Mr. Bardo. When did you decide to do this gambling on the light cruisers and the destroyer leaders? I gathered the impression that you dated that fact in 1932.

Mr. BARDO. We did. Working on the *Tuscaloosa*, the engineering work was running out, being the only ship we had, and because we had a lot of men who must go on the street otherwise, we decided to take the gamble on that. We said, “This is a new job, a new program, and is the thing to concentrate on.”

The whole matter of 1933 discussions prior to the bidding was brought out again at the end of the hearings on April 5 (galley 3 YD).

Mr. RAUSHENBUSH. Just one more question.

Mr. Bardo, if we gather the testimony this morning correctly, you knew pretty well what every other competitor was specializing in, and presumably what they wanted. Did that apply the other way? Did they know pretty well what you were specializing in and what you wanted?

Mr. BARDO. I had to disclose the fact that I wanted to bid on the N. R. A. stuff. I went very frankly to them and told them that, because I did not want a mixup of the two appropriations.

Mr. RAUSHENBUSH. That applies to Bethlehem and who else?

Mr. BARDO. Newport News.

Mr. RAUSHENBUSH. And gave them a very good idea of what you wanted and what they wanted, did it not?

Mr. BARDO. Yes; it would not take a bright man to guess at what I wanted.

Mr. RAUSHENBUSH. They are not dumb at all?

Mr. BARDO. No; certainly not.

Mr. RAUSHENBUSH. So that the situation was, practically everybody knew what everybody was specializing in and what they wanted? Is not that correct?

Mr. BARDO. Well, you say “everybody.” I will say I know what I wanted.

Mr. RAUSHENBUSH. The others, not being so dumb, inside the “big three”, knew? Has not that been the case always?

Mr. BARDO. No, sir; it certainly has not.

Mr. RAUSHENBUSH. It began in 1933.

Mr. BARDO. That was the only time it started, and we carried out what we thought the administration wanted, and we did the best we could to carry it out.

Mr. RAUSHENBUSH. We have information on the other years.

The CHAIRMAN. Do you not consider that fixing prices, Mr. Bardo?

Mr. BARDO. How is that?

The CHAIRMAN. If you can eliminate competition, you can fix prices, can you not?

Mr. BARDO. You can, if the fellow buying considers it a fair price. You must consider the fellow buying when you talk about fixing prices.

(e) In regard to the question of whether the shipbuilders consulted with each other before putting in bids for naval vessels, there is this evidence.

Mr. Yard, secretary to Mr. Bardo, of New York Shipbuilding, for 8 years, stated it was done. Mr. Bardo admitted he did it in 1933 (infra, p. 53). The other shipbuilding officials denied having done so, except as to general discussions of allocation in 1933.

Mr. Yard's testimony was given on February 11 (galley 50 ZO).

Senator VANDENBERG. In connection with the letting of these various naval contracts from time to time—and subsequently I want to go into each year with you—what other shipbuilding corporations in the country were particularly interested in these same contracts along with New York Ship?

Mr. YARD. You mean the main competitors of New York Ship—these so-called “competitors”? It would be—Newport News, Bethlehem Shipbuilding Corporation, Sun Ship, and Federal would probably be the main ones.

Senator VANDENBERG. Did you say they were the so-called “competitors”?

Mr. YARD. They were the competitors of the New York Shipbuilding Co.; yes.

Senator VANDENBERG. When Mr. Bardo was preparing the bids of New York Ship upon these various naval contracts, was he in communication with Bethlehem and Newport at any time?

Mr. YARD. Well, yes; I imagine so.

Senator VANDENBERG. You are pretty sure of that, are you not?

Mr. YARD. Well, yes; he was.

Senator VANDENBERG. Did you ever hear Mr. Bardo communicate for example, with Mr. Ferguson, of Newport News Ship, regarding bids which were going to be submitted on these contracts?

Mr. YARD. Well, of course, the shipbuilders were all bidding on the same class of work, and they had their shipbuilders' association, and they probably talked things over, I suppose, a little bit.

Senator VANDENBERG. What was this association they had? Let us start at that point. What was the nature of this association?

Mr. YARD. That was an association of shipbuilders which was, I imagine, probably formed by the three largest shipyards, namely, New York Ship, Newport News, and Bethlehem. Of course, all the others came into the picture. The association was supported by contributions, I think on a per head basis. In other words, there was a charge; each one contributed an amount in proportion to the number of employees that that particular shipyard had.

Senator VANDENBERG. Now, you sat in Mr. Bardo's office for 8 years, and you know what was going on. Would you say that the members of this association were in more or less constant contact with each other in respect to business of bidding?

Mr. YARD. If I answer that at all—and I am under oath—I will have to say that I think that that is probably so.

Senator VANDENBERG. You are under oath, and the oath runs through the entire series of questions. Let us take, for example, the 1934 contracts. Before New York Ship's proposal was submitted in 1934, do you know whether Mr. Bardo communicated with Mr. Ferguson or Mr. Wakeman of Bethlehem, ahead of the bidding, in connection with what the bidding would be?

Mr. YARD. Well, as I say, through their association et cetera they were in touch with each other quite often.

Senator VANDENBERG. Were they not in touch with each other over the telephone?

Mr. YARD. Yes; they would call each other up over the telephone quite frequently.

Senator VANDENBERG. And would they discuss their bids?

Mr. YARD. They would discuss business in general.

Senator VANDENBERG. Would they discuss their bids?

Mr. YARD. Well, of course, that was their main line of business, Senator.

Senator VANDENBERG. The answer is “yes”, is it not?

The CHAIRMAN. They did discuss bids over the telephone, did they not?

Mr. YARD. I believe they did, Senator.

The CHAIRMAN. Do you not know they did?

Mr. YARD. Yes; I know they did.

Senator VANDENBERG. They would discuss bids before the bids were put in. Is that the situation?

Mr. YARD. Oh, yes; yes.

Senator VANDENBERG. Would they indicate to each other what they intended to bid and the particular ships they were going to bid on?

Mr. YARD. Well, I think it was pretty generally understood among themselves as to what they each preferred to receive, and I think there is not very much doubt that they tried to come to some such conclusion; that is, as to what they should want.

A little later he testified (galley 51 ZO):

Senator VANDENBERG. Would there be frequent conversations when the Government was going to open bids on one of these jobs?

Mr. YARD. They seemed to keep in pretty close touch with each other.

Senator VANDENBERG. Yes. And, so far as you know, each one of them knew pretty much what the other one knew. Is not that about right?

Mr. YARD. Most of the time I think that is so.

The CHAIRMAN. Did Mr. Bardo indicate from time to time any knowledge of what his competitor was going to do?

Mr. YARD. It was pretty common knowledge around what each yard was going to get, and it turned out that that was what they did get, almost 100 percent.

Senator CLARK. Mr. Yard, you said a while ago that there had been conversations over the telephone which indicated what each company wanted. But each company was in the habit of submitting bids on all the ships, those they did not want as well as those they wanted, were they not?

Mr. YARD. Yes, sir.

Senator CLARK. For instance, if New York wanted cruisers, they would also submit bids on destroyers and airplane carriers, which would be protective bids for the other companies, would they not? They would be so high they knew they could not get them.

Mr. YARD. If they did not want that class of work, that is probably the procedure.

Senator CLARK. If they did not want the work, they would submit a bid anyhow, but would submit a bid which would be high enough that they knew that they would not compete with the company which actually wanted the work?

Mr. YARD. Either kill that or kill it by a long-time delivery.

Senator CLARK. Do what?

Mr. YARD. Time delivery enters into the bid also.

Senator CLARK. Either as to price or time delivery, or some other condition, but they would make a protective bid, would they not, protecting the other company which was to get the work? Was not that common practice?

Mr. YARD. You might infer that, Senator.

Senator BONE. You could not draw any other inference from that sort of situation, could you? You could only conclude from the facts that that was actually done. Is not that the case?

Mr. YARD. That would be the inference you would draw.

Senator BONE. It would be a very legitimate inference from the facts, would it not, Mr. Yard?

Mr. YARD. Yes; it would.

Senator VANDENBERG. Mr. Yard, when did Mr. Kaltwasser come with New York Ship?

Mr. YARD. I think he came there towards the end of 1933.

Senator VANDENBERG. And in what capacity?

Mr. YARD. Well, he came down there, it was generally understood, as Mr. Cord's direct representative.

Senator VANDENBERG. Did he have a good deal to say about what was going on?

Mr. YARD. We all thought he had a great deal to say.

Senator CLARK. He was regarded throughout the plant as the "power behind the throne", was he not?

Mr. YARD. Absolutely.

In regard to the bidding for naval vessels in 1927, 1929, 1931, 1933, and 1934, Mr. Yard testified that the "Big Three" companies had conferred about how the bidding was to be done (Feb. 11, galley 54 ZO).

Senator VANDENBERG. Mr. Yard, now there were big contracts let in 1927, 1929, 1931, 1933, and 1934, and, as I understand it, you were in a close confidential capacity with Mr. Bardo during each of those five episodes. That is correct is it not?

Mr. YARD. Yes, sir; I was there during that time.

Senator VANDENBERG. During all of those five incidents, when the New York Ship made up its bids, you knew all about it. You sat in at the conferences when the matter was discussed?

Mr. YARD. They were discussed right in the presence of us there, and I was in his office; yes. I had nothing to do with the preparation of the bids, however.

Senator VANDENBERG. I understand that. But, based upon the knowledge that you inevitably gained in that intimate capacity, what is your answer to this question: Did the New York Ship confer with Bethlehem and Newport News in each instance in advance of bidding respecting the classification of ships

upon which each was going to bid, which each wanted to get, and how the bidding was to be done to produce that net result?

Mr. YARD. Do I have to answer that question, Mr. Senator?

Senator VANDENBERG. Yes, sir; I find it necessary to ask you to answer it.

Mr. YARD. Well, of course, as I say, they had this association—

Senator VANDENBERG. Never mind the association. That question is susceptible of a yes or no answer.

Mr. YARD. I guess I will have to answer "yes", Senator.

Senator VANDENBERG. That is all so far as I am concerned.

A little later he was asked specifically about 1933 by Senator Vandenberg and Senator Clark. He testified (galley 54-55 ZO):

Senator VANDENBERG. Now, Mr. Yard, just in conclusion, if we had had testimony that there were no consultations between the "big three" preceding the bidding in 1927, that testimony is not true; is that correct?

Mr. YARD. Well, as I say, they had their associations, Mr. Senator.

Senator VANDENBERG. I understand. Never mind the association. But the blunt basic fact, if there is testimony that there was no consultation between New York Ship, Bethlehem, and Newport, respecting the 1927 bidding, prior to the bidding, that testimony is not true? Is that your estimate of it?

Mr. YARD. You are going back to 1927 now?

Senator VANDENBERG. I am starting at 1927; yes.

Mr. YARD. That is a long while to remember about that, Senator.

Senator VANDENBERG. Do you remember a little better about 1933?

Mr. YARD. That is a little nearer by.

Senator VANDENBERG. All right. I will ask you about 1933. If there is any testimony that there were no consultations in 1933 between New York Ship, Newport, and Bethlehem in advance of the bidding, that testimony is incorrect? Is that right?

Mr. YARD. Well, it is very questionable in my mind.

Senator VANDENBERG. The answer is that the testimony is incorrect, as you view it?

Mr. YARD. I would say it was very questionable.

Senator VANDENBERG. As a matter of fact, that is a question you can answer "yes" or "no", Mr. Yard, and just choose one or the other, will you?

Mr. YARD. You are forcing me to answer that one?

Senator VANDENBERG. I certainly am.

Mr. YARD. Will you state the question again, please, so that I do not answer it the wrong way?

Senator VANDENBERG. All right; I will state it again. In connection with the 1933 naval contracts, if we have testimony which asserts that there were no consultations respecting bids and allocation of work between New York Ship, Bethlehem, and Newport preceding the bidding, that testimony is incorrect?

Mr. YARD. To the best of my belief; yes.

Senator VANDENBERG. That is all.

Senator CLARK. You know, do you not, Mr. Yard?

Mr. YARD. I am rather sure, Senator, but it is a hard thing.

Senator CLARK. You testified one way here and if these other gentlemen testified directly at variance with your testimony, then they are not telling the truth according to your story. Is not that true?

Mr. YARD. Either that or they simply have mental paralysis.

Mr. Bardo denied Mr. Yard's testimony on April 5 (galley 97 WC):

Before the bids were opened in 1933 Mr. Bardo instructed the company treasurer to buy certain materials (Apr. 5, galley 1 YD):

Mr. RAUSHENBUSH. Under date of July 11, 1933, we find here a note from you to Mr. N. R. Parker, Mr. Bardo, saying [reading]:

"I have authorized Mr. Meeker to purchase copper, tin, and cast iron to meet our anticipated requirements for the Navy program at once, at an estimated cost of about \$75,000."

Then you write on the same note:

DEAR MR. FLOOK: This is in addition to about 80,000 pounds of copper purchased a little while ago at 5 cents a pound, which is now on hand and available for the new contracts.

"This is all we have been able to do at the present time in view of the uncertainties of the administrative code."

Do you identify your signature on that, Mr. Bardo [handing paper to witness]?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1907" and is included in the appendix on p. —.)

Mr. BARDO. I would like to comment on that.

Mr. RAUSHENBUSH. Yes, indeed.

Mr. BARDO. That is an ordinary process. Whenever the prices of the basic metals were low, why, we would buy that stuff and turn it over to our men who handled our contracts, because they did not have working capital to do it. So that we would do it. Our money was lying idle in the bank, and we would buy this material and turn it over to them, and if they manufactured that stuff for us under the contract, the stuff would come back. There is nothing new or novel in that. That is an ordinary procedure. We do that all the time.

Mr. RAUSHENBUSH. You must have had some certainty of getting the naval contract.

Mr. BARDO. I had no certainty, but was going after it. I was willing to take the gamble, however. That is an ordinary procedure and nothing new about it.

(f) It is hard to understand how any intelligent discussion could have been carried on by one company without its being divulged to the other two companies what each of the three wanted, were specializing in, planned to bid seriously on, and planned to put in high bids on.

Mr. Bardo, questioned about the letter, stated that he had told his competitors what he wanted to secure from the bidding.

His testimony (Apr. 5, galley 92, 94 WC) gives an explanation of New York Ship's concentration on the light cruisers and the destroyer leaders in 1933 to the exclusion of other ships, although bids were entered for all ships.

He also made the important point that no bonding company would bond a yard for over \$40,000,000, and it was therefore necessary for the yard to decide "what part of that work necessarily would best fit our situation."

The desire not only to get those particular ships but to get them all under the P. W. A. appropriation led to the discussion with the competitors.

Mr. BARDO. I should be very happy to do that.

In 1932—I will start there because that is where the program started—as the work on the *Tuscaloosa*, that is, the engineering end of it, gradually reduced, we were confronted with the problem as to what we would do with the drafting forces that would otherwise be laid off. When after two or three conferences, this conclusion was reached: There were only 2 more out of the group of 15 of the original 8-inch cruisers authorized to be built, 1 of which to be built in navy yards and 1 of which to be built in private yards under the Dallinger amendment.

So that we concluded we would waste no time with our engineering force in any further refinements of the 8-inch-class cruisers, but that we would devote our time and our energies to developing, just as far as we could, information that would be valuable to us in the development of a further program of 6-inch cruisers.

So that our technical forces and scientific division, when relieved of work on the *Tuscaloosa*, were delegated that work, rather than to lay them off. I think early in 1933 we got some information, more or less indirectly, as to about what the program would be as to destroyer leaders, and as to the 6-inch-gun cruisers.

So we went to work on developing a plan which would permit of the largest amount of duplication of machinery and auxiliaries, as between the 1,850-ton destroyer leaders and the 6-inch-gun cruisers.

As a result of that study we did develop a plan which standardized the boilers, all their propelling machinery, and auxiliaries of those two classes of ships. In other words, we had the same turbines; not the same gears, because we had a different propeller speed, but all of the other auxiliaries that went with it. It so happened that the destroyer leaders, the maximum horsepower to be developed there, was just half of the maximum horsepower that was to be developed on the 6-inch-gun cruiser. So that it worked out that it made an ideal situation.

And we proceeded on that theory of developing, just as far as we could, in the absence of more definiteness, those plans to the fullest extent that we could go.

Now, we did not know anything about the program that finally came out of the Public Works appropriations until, I think, it was announced in the press. That was the first I saw it, and I think it was the first that anybody knew anything about it.

The CHAIRMAN. You mean, you had no conception that any such thing as the Public Works program was in mind?

Mr. BARDO. So far as Navy work is concerned. We had no knowledge until it was announced in the public press. I know that is the first I had, and I do not think anybody else had knowledge about it.

Early in May we received the first invitation to bid, and shortly after that I think this pronouncement was made, and then we were told to hold off; that they would rather put this program together and do it all at one time, rather than make two bites at the cherry.

But we continued on and developed what turned out to be real competitive plans for both these 1,850-ton destroyers and the 6-inch-gun cruisers, and our plans were so much better than the plans submitted by our competitor, who was working on the same thing, namely, the Bethlehem Shipbuilding Co., that when the bids were finally submitted, that we were given the award for making the plans, not only for the 1,850-ton destroyers, of which there were to be 8 built, but only 4 of which any yard could bid on—you could not bid on more than 4—and there would be 2 cruisers in private yards and 2 cruisers of that type to go into the navy yards.

When this program came out, we were faced with a very practical question. In other words, there could not be any one yard bid on all of the work, and get it, even if it did, and could not have it, if they did it. And no one yard could protect themselves by a suitable bond. No bonding company would take the obligation for that amount of work in any one yard. And we were definitely informed by our bonding people that they would not go beyond \$40,000,000 under any circumstances. And we were then faced with the alternative of deciding what part of that work necessarily would best fit our situation.

Having faced those facts, over which we had no control, we proceeded to develop, just as carefully and as fully as we could, very careful estimates as to the cost of building the destroyer leaders and the two 6-inch-gun cruisers.

Now there was another thing that embarrassed us, and that was the fact that these 1,850-ton destroyers were divided under two appropriations. One was an appropriation under the increase of the Navy, and the other was an appropriation under the P. W. A. Act. That was the 6-inch-gun cruiser.

So that I went to our competitors and I said to them that I wanted to bid on the P. W. A. work, because, if I got anything, I did not want to have in the yard work carried under two different appropriations, because you can see it might very necessarily follow that the P. W. A. would change their rates, change their hours, as compared with what might be imposed upon us under a straight increase in the Navy appropriation. So that I bid on the four 1,850-ton destroyers, that were under the P. W. A. Act, and I bid on the 6-inch cruisers under the P. W. A. Act, and we were awarded, as a result of the bids, that work.

Mr. Bardo was questioned further about the language he used in the letter (Apr. 5, galleys 94, 95 WC).

Mr. BARDO. That letter, gentlemen, is something which has created a great deal of consternation and havoc. The letter was written to Mr. Flook as a result of conferences which we had here. If you will look at the letter, it dealt with two things. First was the matter of allocation. As a result of the National Industrial Recovery Act, and the President's Bulletin No. 1, the impression was very general in the shipbuilding fraternity—and there were about 25 men here from all over the United States engaged in our code work—that there was a situation where the shipbuilders could do things they had never done before. There was no question in their minds about it. They felt they had a right to go on and do these things and allocate these ships. I opposed it, because I did not think it was the thing to do. I felt that the Government was entitled to competition in price, regardless of where the work finally went, and if the competition in price did not distribute it, it would be too bad to all. I opposed this because I did not think it was sound. I wrote the letter to Mr. Flook, dealing with two things: First, the allocation, and, second, about the Navy.

I was guilty of using some language there which was not entirely justified, as far as the Navy is concerned, because I had no direct authority, or no direct

contact with any officer of the Navy, wherein I would have been authorized to make that particular statement.

Mr. RAUSHENBUSH. One paragraph of that letter reads:

I know from my talks with some of the representatives of the Navy, who are keenly interested in this work, that they are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

Do you mean to convey there was no such talk?

Mr. BARDO. They are one and the same thing; the substantial reason was the engineering reason.

Mr. RAUSHENBUSH. But were there such talks with representatives of the Navy?

Mr. BARDO. It was generally talked. I cannot say that I had not talked with a direct representative of the Navy, and I do not want to create that impression, because it would not be fair.

The CHAIRMAN. You speak of your talks with the Navy.

Mr. BARDO. I say that was not true. I did not have those direct talks, but it was talked around about in the group.

The CHAIRMAN. Is your memory as good now as it was on June 22, when you were reporting these matters?

Mr. BARDO. I do not know whether it is or not. It depends on what talks you mean.

The CHAIRMAN. If you said you had talks with representatives of the Navy, you must have had.

Mr. BARDO. I say, that was language which I had no authority to use in that form.

The CHAIRMAN. It was very unwise using it, then.

Mr. BARDO. Yes.

The CHAIRMAN. You did not have talks with representatives of the Navy?

Mr. BARDO. No.

The CHAIRMAN. Then your letter to Mr. Flook was a falsehood?

Mr. BARDO. No; it was not a falsehood.

The CHAIRMAN. What was it?

Mr. BARDO. I should have said what happened. If I said it was the conversations of the group, I would have told exactly what it was. That, I did not say.

Mr. RAUSHENBUSH. Will you explain the next paragraph, after "I know from my talks with some of the representatives of the Navy [reading]:

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else.

That seems to convey, in view of the previous paragraph, that it all came from the Navy.

Mr. BARDO. It all had its genesis in the group of men here trying to work out a code, and everybody talked about it in different ways. There was no direct information that I had from the Navy.

Mr. RAUSHENBUSH. Did somebody discuss it with the Navy?

Mr. BARDO. I do not know. I am reciting the ordinary kind of conversation which went around that table at the Mayflower Hotel, in that group, when we were discussing our code and the new program, and all the things which we thought might happen. I must apologize for using that particular kind of language, because it is not just what I wanted to convey. I was not particular enough to say where the genesis of it all was.

Mr. RAUSHENBUSH. The letter goes on [reading]:

The situation as it stands now is substantially as follows:

Then you give on June 22 a list of what everybody is going to get, which later turns out to be right.

Mr. BARDO. Not what every body was going to get, but what they were going to bid on. Ordinarily in bidding on a cruiser, we have 60 days to get it in, and prepare our estimate.

Mr. RAUSHENBUSH. Pardon me. I did not understand your statement. This states [reading]:

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and

then bid on nothing else. The situation as it stands now is substantially as follows:

Newport News: The two airplane carriers which while not duplicates of the *Ranger*, but of similar type.

Bethlehem: The 10,000-ton 8-inch cruiser, a duplicate of the ship which they are now building.

New York Ship: A new 10,000-ton 6-inch cruiser, and a distribution of the eight destroyer leaders.

And then you evaluate it. My question was as to whether that was not what they bid on, but what they got. They did get these things.

Mr. BARDO. We decided we would have to divide up this work, and we could not bid on all of it, for the practical reason I have outlined. We had to make some decision, and if we were going to cooperate with the Government, we had to make some decision among ourselves as to what we could do. I could not, for the life of me, and nobody else, if I wanted to be cooperative, say in this situation that I was going to get designs on more than one type of ship. The thing would be delayed interminably, and you would never get started. It was a practical matter, and we looked at it as a practical thing. Each man wanted to do the best he could, and do it the quickest, and we thought we had a right to do it, and proceed on that theory. There was no question at all about it.

Mr. RAUSHENBUSH. Do we gather at the time that this more or less big idea was being discussed, that it might be up to the shipbuilders to decide about allocation, which was later revealed, I take it?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. But at the time it was being discussed the plans were that Newport, Bethlehem, and New York Ship would proceed along the line you outline here?

Mr. BARDO. That is the plan which we set up. If we were going to cooperate and be limited by the things which we could not overcome, the bonding requirements, that we had to decide the things which we could do, and do the most intelligently, so that we would get started without delay.

Admiral Robinson was asked to comment on Mr. Bardo's statement that he had consulted with Bethlehem and Newport News before the 1933 bidding (Apr. 11, galley 39 YD):

Admiral ROBINSON. It is perfectly obvious from the reading of that testimony, that those shipbuilders had some sort of discussion before these bids were opened. What they said, or what they agreed to, it would be very difficult or impossible for me to say, from what I know of the testimony. I would like to reiterate here what I have said before, that I am not at all familiar with the general run of the testimony which has been given before this committee. I know of only the one witness, Mr. Homer, whose testimony was sent down to me. But it is perfectly obvious, from that particular testimony, that some particular discussions took place. What it was, I do not know. It is quite impossible to say. It might have been one thing or another, and it would be very difficult, without knowing all the testimony that has been given before this committee, to express an opinion that would be of much value.

In other words, I think the members of the committee are in a much better position to draw a conclusion with regard to that than I am.

Mr. RAUSHENBUSH. One of the results Mr. Bardo described of this was that he bid on the 1,850-ton destroyers in 1933, and did not bid against Bethlehem, which was getting an increase of the Navy award, and that he put in a complimentary bid, and he was asked what the phrase "complimentary" was, and he said, "That means a bid so high we won't get it."

Then he describes going to Newport, the other competitor, which was a competitor on cruisers, of course.

Here we have \$38,000,000 worth of work being discussed between the different competitors, with different results, that they would not get in each other's way.

With \$38,000,000 worth of work, do you not think that that was serious enough, if you had known something of the discussion, that you would remember it, the same way Mr. Bardo remembered it?

Admiral ROBINSON. I think so.

Mr. RAUSHENBUSH. Most certainly; would you not?

Admiral ROBINSON. Yes; surely.

Mr. RAUSHENBUSH. Does not that sound reasonable? Mr. Chairman, I want to point out that when Bethlehem and Newport were on the stand they denied any such discussions, or forgot to remember them.

Senator CLARK. Or remembered to forget it.

The fact that New York Ship's bids on the ships other than those they wanted were not well backed up by estimates was admitted by the company's estimator, Mr. Langell, and the then manager, E. I. Cornbrooks (Feb. 4, galley 5 ZO).

Senator VANDENBERG. Why was it that you decided that you only wanted to build the light cruisers?

Mr. CORNBROOKS. Because we had duplicate machinery on the 1,850 and the light cruisers, absolutely duplicate machinery, except turned around and run the shaft to the gear on one side of the cruiser, because the cruiser pulled in closer and there was not room for the machinery and the gears there, and we put the gears forward of the machinery and run the shaft between the bottom of the two turbines.

Senator VANDENBERG. What was the purpose of putting in any bid on the ones you did not want?

Mr. CORNBROOKS. We thought the President wanted us to put in bids on the whole thing. That was just our judgment of it. We thought we ought to—first, we did not make the estimate so complete, because we thought we could use other stuff that we had, and time was short. I came here from Europe and I found the things before me, and I did the best I could.

Mr. RAUSHENBUSH. Mr. Chairman, in that connection, may I direct the attention of the committee to Mr. Langell's testimony on that point, still on the 1933 bids, appearing at page 7194 of the record. [Reading:]

Mr. LAROUCHE. You told me, I think, at one time that on the 1,500-ton destroyers, you paid very little attention to your inquiries in your estimate on that.

Mr. LANGELL. Right.

Mr. LAROUCHE. You did not expect the company was going to get those?

Mr. LANGELL. I did not even expect that they were going to bid on them.

Mr. LAROUCHE. That is the 1,500-ton destroyers?

Mr. LANGELL. Yes, sir.

Mr. LAROUCHE. Which, Mr. Raushenbush, they did not get. * * * Here is the aircraft carrier on which you also made a sort of left-handed estimate, did you not?

Mr. LANGELL. Right.

Mr. LAROUCHE. In other words, you just took a long running leap at the estimate on the aircraft carriers Nos. 5 and 6, which you did not think the company would get?

Mr. LANGELL. That is perfectly right.

Mr. LAROUCHE. And did not want?

Mr. LANGELL. I understood they did not want that.

Mr. LAROUCHE. But they made a bid?

Mr. LANGELL. I did not.

Mr. LAROUCHE. The company?

Mr. LANGELL. Yes.

Mr. LAROUCHE. They did not want them, did not want the aircraft carriers but they made a bid. On the 1,500-ton destroyers they did not want them?

Mr. LANGELL. I do not think they did.

Mr. LAROUCHE. And they made a bid?

Mr. LANGELL. They made a bid.

Mr. LAROUCHE. And on the heavy cruiser *Vincennes* you made no estimate at all?

Mr. LANGELL. None.

Mr. LAROUCHE. And you did not get it?

Mr. LANGELL. Certainly not.

Mr. LAROCHE. On all the other jobs which the company did get—

Mr. LANGELL. And wanted.

Mr. LAROCHE (continuing). And wanted, you made very elaborate preparation?

Mr. LANGELL. I did.

Mr. LAROCHE. That is all.

Senator VANDENBERG. I think the record should be very plain that these files tell their own story to a very eloquent degree.

Does it not follow there pretty clearly that the company knew, and the estimator knew, long ahead of time, before they were told to make those estimates, even, Mr. Cornbrooks, that the company did want some and did not want others?

Mr. CORNBROOKS. We did not want the submarines, for instance. We did not put a bid in on them.

Mr. RAUSHENBUSH. No; you never do.

Mr. CORNBROOKS. Yes; we did put in one bid on them.

Mr. RAUSHENBUSH. But you did put in bids on the light destroyers and the heavy cruisers which, according to that testimony, you did not want and did not expect to get?

Mr. CORNBROOKS. Yes.

Mr. RAUSHENBUSH. Now, asking Senator Vandenberg's question again, after reading this testimony, what was the point in putting in a bid on ships you did not want and did not expect to get?

Mr. CORNBROOKS. We wanted to be represented, as we do at all bidding.

Senator VANDENBERG. You said a moment ago that you assumed that the President wanted you to bid on everything.

Mr. CORNBROOKS. I won't say the President, but I mean the Government.

Senator VANDENBERG. That is what I assumed.

Mr. CORNBROOKS. Because it was an emergency proposition.

Senator VANDENBERG. I was wondering what assistance you thought you were rendering the Government by putting in a so-called "safe" bid. What assistance is that to the Government?

Mr. CORNBROOKS. It was only in our judgment that it was a safe bid. It might have been lower, for all we knew.

The fact that a company which bids on everything and wants only a few jobs, gets what it wants, is evidenced by the testimony of Mr. Charles Langell (Feb. 1, galley 43 AS).

Mr. LAROCHE. I say, they know and you know what the company wanted in the way of business at that time. You were interested in the 1,850-ton destroyers?

Mr. LANGELL. Yes.

Mr. LAROCHE. You were interested in the light cruisers Nos. 42 and 43 on the list. Nothing else?

Mr. LANGELL. That is all I know.

Mr. LAROCHE. It was all you wanted. That is what the company wanted, and that is what the company got?

Mr. LANGELL. That is right.

This was a procedure other companies engaged in. The result was that on almost every classification of work in 1933, the Navy had before it a big list of high bids by companies which did not want the work. That cannot be called honest, hard competition.

The success of a company in deciding what work it wanted to get in 1933, and then getting it, is illustrated again in the testimony of Mr. Langell (Feb. 1, galley 42 AS).

Senator VANDENBERG. I would like to ask Mr. Langell a question: Returning to this relative amount of labor in the preparation of these estimates, did the New York Ship get the contracts for which the voluminous preparation was made?

Mr. LANGELL. Yes, sir.

Senator VANDENBERG. Did the New York Ship get any of the contracts for which no serious preparation was made?

Mr. LANGELL. No.

Senator VANDENBERG. Did it ever occur to you in any way remarkable that the New York Ship was such a good guesser?

Mr. LANGELL. Well, as I said before, Senator, I have nothing whatever to do with the bids.

Newport News officials stated their advantage on aircraft carriers on February 18 (galley 32-33 FS).

Mr. FERGUSON. In the later airplane carriers, Mr. Chairman, we definitely had a position of advantage. Not only were we doing that work, but we could have done any work on that list; but we were in a definite position of advantage, being then engaged in designing this ship, which is not such a big advantage, but it taught you about what it would cost. On these airplane carriers you can figure for yourself the 15,000-ton carrier cost—let us cut off this one million and a half and suppose it is a 15,000-ton carrier and would have a proper cost of \$15,000,000. A 20,000-ton carrier, with double the power, largely if you double the power, you would think the cost around, say, one-third or more. The weight has gone up and the power is doubled, so that a fair price on the basis of a 15,000-ton carrier would, say, have been \$20,000,000. A fair price on the basis of what we got for it of \$16,000,000 would be \$21,000,000.

What we did was this: We estimated on this new carrier, and with the Government agreeing that the adjustable-price basis would hold to protect us against violent fluctuations of labor and material, and we estimated on the new carriers, labor, material, and overhead, about 7 percent profit, and gave them a price of \$19,000,000. And that price gave to the Government the benefit of a cheaper building cost.

Where our competitors were I do not know; but as I remember it there were in the neighborhood of \$1,800,000, or \$2,000,000 more than that.

Mr. RAUSHENBUSH. It was not quite that. It was \$1,456,000 Bethlehem was above you and New York Ship \$1,270,000.

Mr. FERGUSON. That is over-all cost.

Mr. BROAD. \$1,920,000, was it not?

Mr. RAUSHENBUSH. That Bethlehem was ahead of you?

Mr. BROAD. Yes, sir.

Mr. FERGUSON. The adjusted price.

Mr. RAUSHENBUSH. I am talking about the fixed price.

Mr. Wakeman of Bethlehem was asked concerning the advantage over other companies acquired by a particular company from the experience of having built a special type of ship (Feb. 28, galley 47-48 QD).

Mr. RAUSHENBUSH. How much does it really help a company, like Newport, or somebody who has designs and practice on one particular type of ship, or your own heavy cruisers—how much advantage is there in the "know how" and the like, to your company?

Mr. WAKEMAN. How much is Newport News' estimate as to what their plans will cost them?

Mr. RAUSHENBUSH. Designs and plans together, they figured \$2,000,000.

Mr. WAKEMAN. I should say there was \$2,000,000 worth of advantage, minus a certain experience that we might have, having never taken up a design of an airplane carrier, but knowing something about ships. There is a tremendous advantage in being able to shift from the design of a plane carrier, say, of 17,000 tons, to 20,000 tons, particularly at the present time, because the state of the art of shipbuilding is changing very rapidly, not only in the Navy but it is changing in commercial work.

Mr. RAUSHENBUSH. On top, then, of this \$2,000,000 just in plain plans, you say there is an advantage in experience which they have had?

Mr. WAKEMAN. A tremendous advantage.

The difference between the Bethlehem bid on the light cruiser and heavy cruiser in 1933 was discussed on February 28 (galleys 46-47 QD).

Mr. RAUSHENBUSH. Mr. Wakeman, in this statement you have spoken of natural advantages to certain companies in certain vessels.

Mr. WAKEMAN. Yes, sir.

Mr. RAUSHENBUSH. That Newport News had an advantage in the aircraft carriers. We have already had on record the amount of estimating that Bethlehem and New York Ship did not on those aircraft carriers. That New York

Ship had an advantage on the light cruisers—and we will get into that question in a moment—and that you had a definite advantage on the heavy cruisers, and then we get into the destroyer situation.

Mr. WAKEMAN. I am sketching a picture of the condition of the industry at that time.

Mr. RAUSHENBUSH. Yes, sir.

Mr. WAKEMAN. And also pointing out that there was a tremendous amount of work to be done in estimating in a very small time allowed for it.

Mr. RAUSHENBUSH. Now, these advantages which you described were not hindsight, were they? You knew then before the bidding that Newport News did have an advantage on the aircraft carriers, and New York Ship, building the *Tuscaloosa*, had one on the light cruisers, and you had an advantage on the heavy cruiser. That was known to you before, was it not?

Mr. WAKEMAN. You can call it an advantage or can call it anything you want. That was the condition of the industry, as these bids were asked for.

I should like very much, in this connection, Mr. Chairman, to say this: I am a member of the code committee, and I was in Washington a good part of the time. Mr. Homer represented me in a number of these conferences, and I would like to have Mr. Homer make a statement regarding what happened here prior to the bids in Washington.

Mr. RAUSHENBUSH. You did not quite answer my question, though, on that, Mr. Wakeman. You knew these advantages before the bidding, did you not?

Mr. WAKEMAN. I am pointing out a situation which existed, and practically everybody who had any shipyard experience knew them.

Mr. RAUSHENBUSH. The question would be, then, for instance, if you did not feel that your yard, under the time limitation the Navy imposes, could do several jobs, such as the aircraft carriers and light cruisers, why did you bid on them at all?

Mr. WAKEMAN. Because we bid on the whole program. We always do bid on all the ships.

Mr. RAUSHENBUSH. We note some very definite contradictions, what seem to be contradictions, between your bids, in the very same year, in 1933, on the armored cruiser and the light cruiser. On the armored cruiser you bid on a fixed-price basis.

Mr. WAKEMAN. What are you talking about?

Mr. RAUSHENBUSH. I am talking about the comparison between your bid on the armored cruiser and the light cruiser. On the armored cruiser *Vincennes*, in the same year, you bid \$11,720,000, and on the light cruiser, \$13,100,000. There is a difference of \$1,380,000 on those fixed bids.

Mr. HOMER. In 1933?

Mr. RAUSHENBUSH. Yes; on the fixed bids. And on the evaluated bids, as the Navy evaluated them, there is a difference of \$1,643,000, a difference far larger. How can that be explained in any other way except on the ground that you did not particularly want that light cruiser?

Mr. WAKEMAN. The origin of this whole naval program and, as I understand it, the allocation of certain funds to the Navy, was for the purpose of putting people to work. There was wide-spread unemployment all over the country, and particularly in Quincy. What the Government, as I understand it, wanted to do was to put men to work and put them to work quickly. We put in a bid on the *Farragut* which would have allowed us to put a lot of men right to work, and there was nothing done with it. Naturally, to concentrate on a duplicate of the *Quincy* was the quickest way in which we could help this situation out.

Mr. RAUSHENBUSH. This difference between your bid on the two cruisers also shows up on the evaluated prices which you put in.

Mr. WAKEMAN. The evaluated prices are not a similar basis, Mr. Raushenbush, because the Government pays you there your bid. The only advantage there is, in an evaluated price, is for the Government to decide who is the low bidder. They do not take off your evaluation. They pay you what you bid.

Mr. RAUSHENBUSH. I am talking about evaluated price.

Mr. WAKEMAN. I beg your pardon.

Mr. RAUSHENBUSH. Also a similar situation, the contrast of this bidding, high on one ship and low on the other, which is fairly comparable is shown on the evaluated prices which you bid as well as the fixed prices.

Mr. WAKEMAN. In 1933 we bid on the fixed price for the *Vincennes*—the figure was made up a certain percentage.

Mr. RAUSHENBUSH. \$11,720,000.

Mr. WAKEMAN. And as laid out a fixed-price contract.

Mr. RAUSHENBUSH. Yes.

Mr. WAKEMAN. What we wanted was an adjusted-price contract, which we did not get.

Mr. RAUSHENBUSH. You were \$865,000 on the plain basis, even on the adjusted basis, above your bid on the adjusted-price basis on the *Vincennes*, and on the evaluated you were \$1,130,000 above.

Mr. WAKEMAN. The evaluated figure has nothing to do with it.

Mr. RAUSHENBUSH. It is the way the Navy calculates what you are offering them. If you offer them less speed, less weight, delivery, and so forth, they will evaluate it as costing differently. Either way you take it, either on a fixed-price basis or adjusted-price basis, or plain or evaluated, you are very definitely \$1,000,000 above the other cruiser.

Mr. WAKEMAN. Which cruiser?

Mr. RAUSHENBUSH. You are above the heavy cruiser on your light cruiser bid.

Mr. WAKEMAN. Certainly; the light cruiser is a more expensive boat.

Mr. RAUSHENBUSH. Other plants did not seem to think so. They were bidding just about the same.

Mr. WAKEMAN. I do not care. In our judgment it was. I am not attempting to say what other plants do.

Mr. RAUSHENBUSH. You say the heavy cruiser was a less expensive boat?

Mr. WAKEMAN. Yes; the estimates show that. We did not have any plans. It was a brand new design, so far as we were concerned, and we had the development work.

Mr. RAUSHENBUSH. New York Ship bid only \$100,000 more for the one rather than the other.

Mr. WAKEMAN. Mr. Burns, do you know that situation?

Mr. BURNS. I certainly do.

Mr. WAKEMAN. Will you ask Mr. Burns?

Mr. RAUSHENBUSH. Go ahead. What was the difference between these two cruisers? Was it \$1,380,000?

Mr. BURNS. Something of that sort.

Mr. RAUSHENBUSH. Actual cost difference?

Mr. BURNS. Actual cost difference.

On the circular of general requirements, which was pretty sketchy, which was received from the Navy Department for the basis of the bid for light cruiser No. 42, there were certain different things indicated in there, and one of the particular items was the introduction of a clause in there requiring the use of corrosion-resisting steel superstructure, instead of the usual medium-steel construction. The specifications were not particularly definite as to the extent of this. It said that this should be introduced into the structure wherever possible.

My estimate in the case, and it was my opinion at that time that practically the entire upper structure was going to be made of this material. This material is manufactured by people who have some proprietary interest in the thing. And I wanted, so far as you will find in the quotation in connection with cruiser No. 42, to get a statement from the vendors, in fact I wrote them and asked them if they could give me any information as to what this corrosion-resisting steel structure was going to cost. And they came back and they said it depended on the extent, and they gave me a certain formula to use to establish the cost of this. So, after starting off with the medium-steel structure and applying this formula to it, I arrived at a figure which would indicate that the cost of this cruiser, on this particular item, would involve over \$1,000,000.

Now, going on to the labor situation, which, of course, involves labor rates, with which I have nothing to do, on cruiser No. 42 we were required to include in our estimate not only the cost of the usual development of the engineering plans for construction purposes at the yard, but also to include in these figures in our bid the cost of developing and design.

Now, on heavy cruiser no. 40, the *Vincennes*, which was a virtual duplicate of the *Quincy*, that cost of plans was largely wiped out, and that cost of plans is a considerable figure, particularly when you have to design the ship as well.

Mr. RAUSHENBUSH. We note that New York Ship did not consider it particularly higher. It was \$170,000 higher and not \$1,380,000 higher, on its estimates, and the final bids, too.

Here you have this situation, Mr. Wakeman you see, which leads to some question: You have on the light cruiser what seems to be a very small amount of data from Newport, and a very small amount from yourself, and a heavy amount from New York Ship, which got the award. The same situation is true on the aircraft carriers. You have almost nothing, apparently a few envelopes, from Bethlehem, and a few envelopes from New York Ship, and a lot from Newport News, who got the award.

Then you get this very definite difference in bids here, and it would seem that Bethlehem was not particularly trying for the aircraft carriers or for the light cruiser, but did want the heavy cruiser, and New York Ship, which had no estimate at all on the heavy cruiser, and very meager ones on the aircraft carriers, was well prepared on the light cruiser and the heavy destroyers, and looking at it from the point of view of the third yard, Newport had only one bid on the heavy cruiser, and only one on the light cruiser, but a very considerable number on the aircraft carriers. So that you get the picture there is a limit of each yard, concentrating entirely on the one thing which you give here.

Mr. WAKEMAN. Which it could best do.

Mr. RAUSHENBUSH. Which it could best do.

Mr. WAKEMAN. It could best do.

Mr. RAUSHENBUSH. Surely.

In 1933 armored cruiser *Vincennes* was awarded to Bethlehem at a fixed price of \$11,720,000 and New York Ship was awarded two light cruisers at \$11,677,000 each, the *Savannah* and *Nashville*. Cruiser *Brooklyn* was awarded to New York Navy Yard and cruiser *Philadelphia* to Philadelphia Navy Yard.

In considering the 1933 cruiser awards, the whole construction program of 1933 should be taken into consideration.

The awards made prior to the summer of 1933 found Newport having received 2 cruisers and 1 airplane carrier, New York Ship had received 3 cruisers, and Bethlehem had received 3 cruisers and 1 destroyer.

The 1933 awards were as follows (Feb. 28, galley 43 QD):

Newport News, two aircraft carriers, \$19,000,000 each on an adjusted-price basis.

Bethlehem got one heavy cruiser at a fixed price of \$11,720,000, and four heavy destroyers at a fixed price of \$3,896,000 each.

New York Ship got two light cruisers at a fixed price of \$11,677,000 each and four heavy destroyers at a fixed price of \$3,775,000 each.

Electric Boat had two submarines at a fixed price of \$2,770,000 each.

The light-destroyer awards were as follows:

Bath, two, at an adjusted price of \$3,429,000 each, less \$152,000 each for plans.

Federal, two, at an adjusted price of \$3,410,800 each, less \$200,000 each for plans.

United, two at an adjusted price of \$3,400,000 each, showing the totals for the so-called Big Three on the 1933 bidding as follows (and let the figures be inserted in the record at this point) and I shall note only the totals:

Bethlehem's total was \$27,304,000; New York Ship, \$38,454,000; Newport News, \$38,000,000.

A—Award on armored cruiser 40—*Vincennes*

The bids submitted to the Navy for the construction of the *Vincennes*, together with the estimates of the companies, show a great increase over the bids of the same companies in the latter part of 1932 on the *Quincy* (Feb. 28, galley 43 QD).

	Estimate	Bid (fixed price)	Evaluated bid (fixed price)
Newport.....	\$6,977,000	\$13,800,000	\$13,797,000
New York Ship.....	(¹)	12,100,000	12,097,175
United.....		14,600,000	14,274,750
Bethlehem.....	7,856,000	11,720,000	11,720,000

¹ No estimate.

The term "fixed price" in the above table is used to designate bidding of the same type as took place prior to 1933, in which the company guaranties to charge the Government no more than it actually bids. It is in contrast to the term "adjusted price" which means a price under which the ship may cost the Government considerably more than actually bid. The "evaluated bid" indicates the Navy Department's calculation (based largely on oil guaranties) of the comparable value actually being offered to the Navy. The lowest bidder is taken as the norm for such evaluations.

The following table shows the difference between the bids of the companies in 1933 on the *Vincennes* as compared with the 1932 bids on the *Quincy*.

The increases ranged from \$2,484,000 to \$5,075,000 (Feb. 28, galley 43 QD).

	1932	1933 evaluated bid	1933 plain bid	Difference evaluated	Difference plain
Newport.....	\$9,650,000	\$13,797,000	\$13,800,000	\$4,147,000	\$4,150,000
New York Ship.....	9,616,000	12,097,175	12,100,000	2,481,175	2,484,000
United.....	9,525,000	14,274,750	14,600,000	4,749,750	5,075,000
Bethlehem.....	8,196,000	11,720,000	11,720,000	3,524,000	3,524,000

The two slips *Quincy* (1932) and *Vincennes* (1933) were virtually duplicates (Burns, Feb. 28, galley 44 QD).

It will be noted that United, whose entrance into the competitive field in 1932 played such a part in lowering prices in that year, is now no longer a serious competitor, being an extremely high bidder. Its bid increased over 1932 by \$5,075,000. In connection with its bid on this cruiser, it is to be noted that United received an award of two destroyers in 1933, and that its yard could not accommodate both the two destroyers and the cruiser. Apparently the company concentrated on the award for the destroyers (Powell, Apr. 4, galley 64 WC).

Mr. LAROCHE. All right. In that connection we will just point out that your bid, not based on an actual rise in prices, jumped from 1932, December 1932 to July 1933, jumped \$6,975,000, nearly \$7,000,000.

Mr. POWELL. Yes, sir; and my labor went up 17 percent, and everything else in the boat went up the same percentage.

Mr. LAROCHE. That is a substantially higher percentage than 17, I think you will agree.

Mr. POWELL. No; the labor is exactly 17. The material went up very much more than 17. Heavens, copper jumped from 8 cents to 12, and I could go through the list of materials, where the prices went out through the roof. You must remember, on our material, because we do not build our turbines and our boilers, that a very considerable percentage of our material comes as lump-sum bids from outsiders, and those prices went up. If you are interested, I could get you those figures. Those prices went up enormously between those 2 years and are reflected in our bids.

Mr. LAROCHE. I should like to point out, also, that in 1932 there was no destroyer business, and in 1933 there was.

Mr. POWELL. Mr. LaRouche, I have told you I would rather build a destroyer than a cruiser. It suits my yard better, and I would prefer it. If I could have picked out what I wanted, I would have picked out the destroyers and not bid on the cruisers. I did not know what anybody else was going to do. I tried to place my bids by a physical shotgun method, so that I should not fail to be low on some part of the program. I did it pretty well because I was low on the 1,850-ton destroyers and the 1,500-ton destroyers.

New York Ship was not a serious competitor for this ship, making no estimate at all (Langell, Feb. 1, galley 40-AS).

Mr. LAROCHE. Except this was kind of a left-handed estimate on the *Vincennes*, was it not?

Mr. LANGELL. I did not make any.

Mr. LAROCHE. You did not make any?

Mr. LANGELL. I made none at all.

Mr. LAROCHE. In other words, on a heavy cruiser involving roughly something like \$12,000,000, you made no estimate at all?

Mr. LANGELL. None at all.

Newport News also bid on this cruiser, increasing its 1932 bid by \$4,150,000. It expected to get the two airplane carriers, having a certain advantage over the other companies in this type because of its work on the *Ranger* (Feb. 19, galley 42 FS, Ferguson; Feb. 20, galley 53 FS, Williams).

The real bidder on the *Vincennes* was Bethlehem. Its bid of \$11,720,000 was \$3,524,000 above its 1932 bid—high enough to allow for a profit on the ship and also to cancel any possible loss on the *Quincy*.

In a statement read into the record by S. W. Wakeman, of Bethlehem Ship, he worked out an explanation of natural advantages to certain shipyards which resulted in the distribution of awards as they were finally made (Feb. 27, galley 46 QD).

There were, however, conditions in connection with the work under way in certain shipyards which created a possibility of a natural distribution of certain of the ships, which at first sight, might look like a prearrangement. These conditions were as follows: * * *

Bethlehem was building the heavy cruiser *Quincy*. The *Vincennes*, to be bid on, was a duplicate. Not only was there a natural advantage here in cost and engineering but, by building a duplicate, men could be employed more quickly at Fore River than at any other yard building the same vessel."

It is almost impossible to contrast the bid of Bethlehem for the *Vincennes* (\$11,720,000) with its bid for one light gun cruiser *Nashville* (\$13,100,000) without coming to the conclusion that Bethlehem wanted the *Vincennes* and did not want the *Nashville*.

The "adjusted price" bids on the AC 40 *Vincennes* were as follows:

	Adjusted price	Adjusted price evaluated
Newport.....	\$11,800,000	\$11,797,000
New York Ship.....	11,050,000	11,047,175
United.....	12,000,000	11,674,750
Bethlehem.....	10,824,000	10,824,000

In view of the statements of the companies of the risk involved in submitting fixed price bids, it is interesting to note that Bethlehem, the serious bidder for this cruiser, calculated the risk as \$896,000 (the difference between its fixed price bid of \$11,720,000 and its adjusted price bid of \$10,824,000).

In the case of the light cruiser bids, discussed below, which it was not particularly interested in, it calculated the risk as \$1,085,000 (the difference between its fixed price bid of \$13,100,000 and its adjusted price bid of \$11,915,000).

New York Ship, the low bidder on the light cruisers, estimated the risk on *Vincennes*, which it was not particularly interested in, at \$1,050,000 (the difference between its fixed price of \$12,100,000 and its adjusted price bid of \$11,050,000). However, on the light cruisers, which New York Ship wanted, it calculated the risk, on a single bid, as only \$401,000 (the difference between its fixed price bid of \$12,271,000 and its adjusted price bid of \$11,870,000).

The decreases in estimated risk on ships actually wanted by the companies, tend to nullify the claim that the risk was as considerable as the companies claimed it was in general.

The real indication of the comparative value offered to the Navy on the *Vincennes* can be seen best in a table showing the amounts by which the unsuccessful bidders were above the low bidders on the evaluation of the bids on both bases.

	Evaluated fixed-price bid	Evaluated adjusted-price bid
Newport.....	\$2,077,000	\$973,000
New York Ship.....	377,175	223,175
United.....	2,554,750	850,750

On the face of these figures neither Newport nor United were serious competitors.

To value New York Ship's interest in the *Vincennes* as compared to the light cruisers, it should be noted that while it was unable to get below Bethlehem by \$377,175 (FPE) and \$223,175 (APE) on the *Vincennes*, on its bid for a single light cruiser, it was able to get below Bethlehem by \$1,092,250 (FPE) and \$308,250 (APE). The range was \$1,469,425 (FPE) and \$531,425 (APE).¹

¹ F. P. E. is abbreviation for fixed-price evaluated bid and A. P. E. is abbreviation for adjusted-price evaluated bid.

B—Award on light cruisers—Savannah and Nashville

Awards for the two light-gun cruisers *Savannah* and *Nashville* were given to New York Ship on a fixed price basis of \$11,677,000 each. The bids of the companies were as follows (galley 7 AS, Jan. 30):

Fixed-price bids (each of 2 cruisers)

	Flat price	Evaluated price
New York Ship.....	\$11,677,000	\$11,677,000
Bethlehem.....	12,780,000	13,043,250
Newport.....	13,900,000	14,066,900
United.....	15,600,000	15,403,150

On an "adjusted price" basis, under which the Government would make up to the companies the increases in labor and materials, the bids were, for each of the two cruisers:

	Adjusted price	Evaluated
New York Ship.....	\$11,515,000	\$11,515,000
Bethlehem.....	11,610,000	11,873,250
Newport.....	11,600,000	11,766,900
United.....	12,975,000	12,788,150

The real indication of the comparative value offered to the Navy on these two light cruisers can be seen best in the evaluated bids, in which the supposed competitors were above the low bidder by the following amounts, on each of two cruisers:

	Evaluated fixed price	Evaluated adjusted price
Bethlehem.....	\$1,366,250	\$358,250
Newport.....	2,389,900	251,900
United.....	3,726,150	1,273,150

Bethlehem's explanation of how it underbid New York Ship by evaluated prices of \$377,175 (F P E)¹ and \$223,175 (A P E) on the *Vincennes* and overbid New York Ship by \$1,366,250 (F P E) and \$358,250 (A P E) on each of two light cruisers is contained in a statement by S. W. Wakeman (Feb. 27, galley 46 QD):

New York Shipbuilding Corporation was building a cruiser, the *Tuscaloosa*. They, therefore, had a natural advantage in the cruiser class and had proposed in their 1933 bid for the light cruisers, to use the same turbines as they had proposed for the destroyer-leaders. This was unknown to competitors and gave New York Ship a distinct competitive advantage.

The Newport News explanation of the 1933 bidding also took the form of natural advantage of certain companies over others. (Ferguson, Feb. 20, galley 53 FS):

Mr. FERGUSON. At that time, with us building an airplane carrier, and with New York Ship building a light cruiser, and with Bethlehem building a heavy

¹ See footnote preceding page.

cruiser, it was perfectly natural that those companies had a distinct advantage in the bidding. We certainly had in the airplane carrier; and our bid on the airplane carrier, on the adjusted basis, which was accepted, was some \$1,900,000 under the next low bid.

If it is true that the construction in progress of a ship of the same type as one to be bid on gives the company constructing the ship a natural advantage over the others, there is no real equality between the bidders. They do not start from scratch. They do not bid on a different type of ship with the same expectation of getting the job. This was demonstrated in the bidding for the two aircraft carriers of 1933 (see 1933, Awards for C-V *Yorktown* and *Enterprise*).

In regard to the subject of the advantage of one yard over another, Admiral Land was questioned on April 10 (galley 34 YD).

The CHAIRMAN. At page 10018 of the record, Mr. Raushenbush said, while Mr. Korndorff was being examined [reading]:

This really should be explained a little more fully, Mr. Korndorff. Here a while ago you testified that a company that had not been in the cruiser business was at a disadvantage of between \$500,000 and \$1,000,000.

Mr. Korndorff responded, "Right."

Do you think that is representative?

Admiral ROBINSON. I do not know. It might be. I would hesitate to answer that categorically.

Admiral LAND. I think that is. That is a good spread. I gave you the testimony this morning, something in the neighborhood of \$500,000 plus. Navy ships and merchant ships are not the same thing, any more than an Ingersoll and a Swiss watch. That is the reason these people do not come into it.

Newport officials were questioned concerning their relative interest in the light and heavy cruisers (Feb. 20, galleys 47 FS, 48 FS):

Mr. RAUSHENBUSH. I find here a statement which I suppose is from Mr. Broad, in the estimating book, addressed to Mr. Blewett, in preparing the statements for 1934. He said:

We give you a statement of differences from last year's estimates, one for the heavy cruiser and one for the 1,850-ton destroyer. None was made for the light cruiser, as our details last year were not so good and the light cruiser was not considered as important as the heavy cruiser.

That seems to bear out the difference.

Mr. BROAD. That is in 1934?

Mr. RAUSHENBUSH. Commenting on the 1933 estimates.

Mr. BROAD. But the comment as to the light cruisers was in 1934, and we did not consider in the estimating we were going as hard after the light cruiser as the heavy.

Mr. RAUSHENBUSH. In 1934 you did not consider in the estimating you were going as hard after the light cruiser as the heavy?

Mr. BROAD. No, sir. When we estimated we concentrated on the heavy cruiser more than on the light cruiser.

Mr. RAUSHENBUSH. Then, you did actually bid on the heavy cruiser itself in 1934?

Mr. BROAD. As it turned out, we got the light cruiser.

Mr. RAUSHENBUSH. You bid on the light cruiser?

Mr. BROAD. We were prepared to bid on both.

Mr. RAUSHENBUSH (reading): *

We give you a statement of differences from last year's estimates, one for the heavy cruiser and one for the 1,850-ton destroyer. None was made for the light cruiser, as our details last year were not so good and the light cruiser was not considered as the heavy cruiser.

Mr. BLEWETT. You must understand that we take, Mr. Raushenbush, one job and use it as a base and figuring from that for all other jobs.

Mr. RAUSHENBUSH. That seems to convey the impression that you were not particularly out for the light cruiser.

Mr. BLEWETT. It means we used the heavy cruiser as the base.

Mr. WILLIAMS. Mr. Raushenbush, may I remind you that we had built two heavy cruisers and no light cruisers, and, looking at it from the standpoint of our experience, the preference naturally would be for a type of ship with which we had had experience.

Mr. BLEWETT. It is not only our preference, but it was on the type of ship which we previously had built.

Mr. RAUSHENBUSH. We had a statement by Mr. Ferguson a while ago, that there was not present very much difference between the light and heavy cruiser, and then we got into the question of how there happened to be a difference of \$1,100,000.

Mr. WOODWARD. The cruisers may be the same length, the same displacement, and the same horsepower, and a vast difference in the arrangement of the details. For instance, you have got—

Mr. RAUSHENBUSH. Just a minute, Mr. Woodward. The other companies were estimating just about the same on those cruisers, the heavy and light. There also was not very much difference in their estimates, and the bids jumped on account of another circumstance.

Mr. WOODWARD. There is a vast difference in the arrangement, Mr. Raushenbush. They have fifteen 6-inch guns in this light cruiser, which go through the bottom of the ship, through your ammunition hoist, your ammunition handling, the arrangement of your armament, and you had nine 8-inch guns in the other class. The main particulars of the ship may be the same and there may be a vast difference borne out by the fact that you have an entirely different set of designs.

Mr. FERGUSON. Mr. Raushenbush, I think I can explain the statement you said I made, that the cost was about the same.

With these particular figures, in 1933, I did not have them in mind. Our estimates in 1934 indicate that the costs were quite close. In 1933 I did not remember that there was that wide variation, and that is why I was at some pains to explain it from the estimates.

Mr. RAUSHENBUSH. By the way, did you really even want the heavy cruiser there in 1933? We find only this one estimating book on it.

Mr. BROAD. Mr. Raushenbush, you will remember that the invitation for bids came out on June 24, and the bids were called for on July 26. That gave us less than a month to prepare estimates on all these ships. Now, of course, of the whole program, it was considered that the airplane carriers were most desirable. We gave most of our attention, therefore, to that.

Next we had been figuring on destroyers earlier than any of them, so that our estimate on the destroyers is probably next best, because we had a longer time on that.

In the time remaining, we bid what we could with the heavy and light cruisers, and worked up the estimate first for the heavy cruiser and then applied the values to the light cruiser.

Mr. Powell, of United Dry Docks, was questioned concerning the large difference between his low cruiser bid in 1932 and his high bid in 1933 (Apr. 4, galley 63 WC, 64 WC):

Mr. POWELL. Our bid in 1932 was \$9,525,000. Our evaluated bid was \$9,284,000, and that is really the figure that you must always use in comparing these bids.

Mr. LAROCHE. \$9,284,000?

Mr. POWELL. \$9,284,000. That is the evaluated bid, because that is the figure on which the contract is actually awarded by the Navy Department.

Mr. LAROCHE. You were really out after that cruiser?

Mr. POWELL. You bet I was.

Mr. LAROCHE. In your bid in 1933, were you equally desirous of getting a cruiser?

Mr. POWELL. I was perhaps not equally desirous, because my yard was better equipped, and required less capital expenditures to build destroyers than it did cruisers, but I made my cruiser bid in 1933 on the basis that probably because of the large volume of work the other yards would naturally raise their price, and if they raised their price too much, I was going to be under them, to be low on those cruiser bids.

Mr. LAROCHE. If they raised their price too much. Did you have any knowledge as to what they were going to do?

Mr. POWELL. I did not have the slightest knowledge in the world. I want to tell you one thing, Mr. LaRouche, and I want to get this in the record right now:

In no bid that I have made to the Navy Department, since I started bidding in 1931, has anybody ever had any knowledge or intimation, direct or indirect, of what I was going to bid, and neither have I had any knowledge or intimation, direct or indirect, of what they were going to do. Every bid that I have put into the Navy Department has been a good, straight effort to give them a price that I thought at least had a reasonable chance of being the low bid.

Mr. LAROUCHE. It is a very interesting fact, and perhaps it will interest you, although you are undoubtedly conversant with it, that your figure from 1932 to 1933 made a tremendous jump.

Mr. POWELL. Yes, tremendous.

Mr. LAROUCHE. You were under some of the "big three" in 1932?

Mr. POWELL. Yes.

Mr. LAROUCHE. In 1933 you became, as we say, conveniently out of the running?

Mr. POWELL. I object to the word "conveniently" very much.

Mr. LAROUCHE. Then you were out of the running in 1933?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. You jumped from a bid in 1932, which was below some of the "big three", to a figure which was from 1 million dollars to four and a quarter million dollars above the bids in 1933?

Mr. POWELL. Yes.

Mr. LAROUCHE. The only point involved there is as to whether you had not demonstrated to the "big three" in 1932 that you were a threat, and thereby reduced their bids. From 1931 to 1932, your presence in the bidding reduced the average of the bids more than 1½ million dollars, as perhaps you know. You demonstrated that you were a threat, a very definite threat, in the cruiser field in 1932, did you not?

Mr. POWELL. Well, I come pretty close to being the low bidder, if there had not been one foolish bid. I would say that was a threat.

Mr. LAROUCHE. You would not be prepared to say that that foolish bid of Bethlehem was put in deliberately, at all costs, to keep you out of the field?

Mr. POWELL. No; I think it was put in deliberately because they had made up their mind that they were going to have that ship. That is what they put it in for, not to keep me out of the field, but because they were going to have it, and they were not going to take any chance of not getting it.

Mr. LAROUCHE. In the preceding year they took strong steps to keep you out of the destroyer field?

Mr. POWELL. They were fighting for a destroyer themselves, and, if I had been in their position, I would have fought just as hard as they did. It was fighting for business. I do not blame anybody for fighting me as hard as they can to get work, if they can get it. Conversely, if I think I am entitled to it, I am going to fight them just as hard as I can to get it.

Mr. LAROUCHE. I only make this point, taking your own words, in 1932, you were out to get the business?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. And you cut the average of the bids down 1½ million dollars from the preceding year?

Mr. POWELL. I did not cut them.

Mr. LAROUCHE. The bids were cut down, we will say, for whatever reason.

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. But you were in the picture in 1932 and you were not in 1931. In 1932 there was a drop in the average cruiser bid of more than 1½ million dollars. We will not say it was due to your presence, but the fact is you were there in 1932 and were not in 1931.

Mr. POWELL. Right.

Mr. LAROUCHE. And in the year in which you entered, the bids suddenly dropped, indicating that there was a good deal of competition in the year 1932 for cruisers. Now, not to dwell unduly on the point, in the next year we find a sudden rise, 8 months later, in your own cruiser bid, from being a very low one, and under some of the "big three", and suddenly, in 1932, 8 months later, it is from one million to four and a quarter million dollars higher than the so-called "big three" bids.

Mr. POWELL. Now, Mr. LaRouche, I have before me my estimate on the 2 years. My labor estimate on the heavy cruiser in 1932, which is the cruiser we are comparing with the *Quincy*, was \$500,000 more than my labor estimate in 1932. In 1933 it was \$500,000 more than in 1932. I had actually to raise my labor rates on the 1st day of August 1933, by 17 percent. And if you multiply 3

million by 17, you will find that it comes just about to the extra \$500,000 that went onto my labor bid.

When it came to estimating the material, I used exactly the same method of estimating the material that I had the year before, merely raising my coefficients by the amount that the material had gone up in the meantime. The code had come in, and all the materials had gone up to a very considerable extent.

I think I am right in saying that I used the same percentage for overhead. There might have been a difference of 5 percent. I do not remember, but practically the same percentage for overhead.

The one difference in the bids for the 2 years was, from my point of view, and with reference to what I believed the cost of the boats to be—the one difference was that because of the big volume of business, I put a profit onto my estimate in 1933 of \$958,000, which was very much less than 10 percent, as against \$250,000 that I had—I should not say profit, but margin; instead of the \$250,000 margin that I had in 1932. If the rest of the people did not see the costs eye to eye with me, I would like to make a bet right now that I am as closely right on that as they are. At any rate, that represented my best judgment as to the cost of that boat in 1933, and the only difference is that there were \$958,000 in the margin in 1933 as against \$250,000 margin in 1932.

Mr. LAROUCHE. It is just a little short of 1 million dollars, what you call margin?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. In other words, when there is a lot of business—

Mr. POWELL. When there is a lot of business, the margin goes up. When I am working my bids go up. See?

Later (galley 64 WC):

Mr. POWELL. Mr. LaRouche, I have told you I would rather build a destroyer than a cruiser. It suits my yard better, and I would prefer it. If I could have picked out what I wanted, I would have picked out the destroyers and not bid on the cruisers. I did not know what anybody else was going to do. I tried to place my bids by a physical shotgun method, so that I should not fail to be low on some part of the program. I did it pretty well because I was low on the 1,850-ton destroyers and the 1,500-ton destroyers.

Mr. LAROUCHE. You did not know in 1933 who was going to get what?

Mr. POWELL. No, absolutely not; but I could have made a pretty good guess, as anybody else could who knew the situation. Heavens, it did not take a very good guesser to guess some of the stuff. A lot of newspaper stuff which I have read, simply showed ordinarily normal intelligence in predicting what would probably happen.

He was also questioned concerning the difference between his bid on the heavy cruiser and the light cruiser in 1933 (galley 64 WC):

Mr. LAROUCHE. How do you account for the fact that your bid in 1933, on the armored cruiser, your adjusted-price bid, was \$1,800,000 lower than your bid on the "light cruiser", so-called?

Mr. POWELL. Do you know, Mr. LaRouche, that we had almost nothing but sketch information about that light cruiser? That cruiser was being designed by the New York Shipbuilding Co. All the information that they had prepared for the Navy Department, when the bids came out, was just outline sketches. We had very indefinite specifications and very few weights, and that was the biggest gamble. I would rather go to Bowie and play the horses or put money on the roulette wheel, than to make an estimate on a ship, with the amount of data we had available for that ship. She was quite a departure in type from anything that had been built. There was one item of corrosion-resisting steel in that boat, that we estimated at $1\frac{1}{4}$ million dollars. The smokestack in that boat was \$250,000, out of this C. R. S. When I got up against that problem, I frankly did not know what the boat was going to cost. In that estimate I tried not to make a mistake and be on the low side. It was just too dangerous, because if I made a mistake and was the low bidder and got the contract, it would have been just too bad for my company, if I got the contract.

Mr. LAROUCHE. You succeeded very well in not being low bidder?

Mr. POWELL. Yes; I did. It was too high on the job, but with the information available, that is the only position that I could actually take.

Mr. LAROUCHE. It was actually a protective bid?

Mr. POWELL. It was not a protective bid. It was my best estimate of what I deemed the figure of cost of that ship, and on top of it I had profit, or margin, rather, of \$1,260,000, as against \$958,000, because there again I was afraid of the situation because of the indefiniteness of the information.

C—Awards, aircraft carriers Yorktown and Enterprise

In 1933 two aircraft carriers were awarded to Newport News on an "adjusted-price" basis, under which the Government makes up to the companies for increases in labor and material, at a base price of \$19,000,000 for each of two ships.

The bids and evaluations compiled by the Navy Department are as follows (Jan. 30, galley 7 AS):

Bids and evaluations, Aug. 1, 1933

AIRCRAFT CARRIERS NOS. 5 AND 6

Bidder	Basis of bid	Price	Fuel consumption evaluation	Evaluated bid price
Newport News Shipbuilding & Dry Dock Co.	Fixed price, 1 ship.....	\$24,700,000	-----	\$24,700,000
	Fixed price, 2 ships.....	23,000,000	-----	23,000,000
	Adjusted price, 1 ship.....	20,600,000	-----	20,600,000
New York Shipbuilding Co.....	Adjusted price, 2 ships.....	19,000,000	-----	19,000,000
	Fixed price, 1 ship.....	25,930,000	+5,925	25,935,925
	Fixed price, 2 ships.....	24,265,000	+5,925	24,270,925
Bethlehem Shipbuilding Corporation..	Adjusted price, 1 ship.....	21,960,000	+5,925	21,965,925
	Adjusted price, 2 ships.....	20,200,000	+5,925	20,205,925
	Fixed price, 1 ship.....	26,140,000	+271,200	26,411,200
	Fixed price, 2 ships.....	24,185,000	+271,200	24,456,200
	Adjusted price, 1 ship.....	22,700,000	+271,200	22,971,200
	Adjusted price, 2 ships.....	20,920,000	+271,200	21,191,200

In the course of the discussion concerning the bids for these aircraft carriers Mr. Wakeman (Bethlehem Ship) stated (Feb. 27, galley 34 QD):

Mr. WAKEMAN. I put in a figure on the aircraft carriers which was high and I knew it was high, or at least, I assumed it was high. On the other hand, if we had gotten the aircraft carriers, we had enough money to turn around and go over all of the design work and all of the ground that Newport News had covered.

In further explanation he read a prepared statement (Feb. 28, galley 46 QD) in which he pointed out—

Newport News was constructing an aircraft carrier, the *Ranger*. This required special construction and a new development with which they were more experienced than any other yard. No contract plans and specifications were furnished to the bidders on this class of ship. Therefore, the yard that was constructing a vessel of this type had a big natural advantage in cost and engineering.

Bethlehem had made very meager estimates on the aircraft carriers (Feb. 28, galley 47 QD).

New York Ship also had very meager estimating data on the aircraft carriers (Langell, Feb. 1, galley 39 AS; Cornbrooks, Feb. 4, galley 3 ZO).

Mr. Ernest I. Cornbrooks, in 1933, manager of New York Ship, testified on Feb. 4 (galley 3 ZO) on the matter:

Senator VANDENBERG. You knew that the only complete estimates that had been made were on the four 1,850-ton destroyers and the two light cruisers nos. 42 and 43? You knew that those were the only bids upon which complete estimates had been made?

Mr. CORNBROOKS. Yes. I probably fixed that myself.

Senator VANDENBERG. That is what I am trying to get at. How did you happen to fix that?

Mr. CORNBROOKS. As far as the 1,500 tons are concerned, the way I reasoned it out on the 1,500 tons, I thought that we could not do light work in that yard, after doing the heavy work; see? And on the airplane carriers I did not want the experience, after going through the *Saratoga*. On the heavy cruiser I thought if we had the estimate on that, we had enough information from past experience and past costs to estimate on that; but it was the last of the kind, or at least I thought it was the last of the kind, and I did not make much of an estimate on that.

But on the light cruisers and on the 1,850-ton destroyers, before that one of the yards beat us by pulling the machinery space together on a class 2 bid, and I thought that we ought to put a class 2 bid in. They asked for a class 2 bid. We had been working, so as to save space in the engine room, and we thought that the Navy would be interested in that thing, because the Bureau of Construction and Repair always wants more room. And we pulled our machinery together and saved 12 feet on that space; and, as the 1,850-ton destroyers were half of the horsepower of the light cruisers, we found by turning the machinery around end for end that we could also save space on the light cruisers. And I thought that was the thing to go after—the 1,850 and the light cruisers—because we would have duplicate machinery in the 1,850 and twice the units in the 6-inch cruisers.

D—Destroyer Leaders 356–366

New York Ship received four destroyer leaders at a fixed price of \$3,775,000 each.

Bethlehem received four destroyers leaders at a fixed price of \$3,896,000 each.

The bidding on these ships was as follows (Jan. 30, galley 7 AS):

Destroyers Nos. 356 to 363

Bidder	Basis of bid each of 4 ships	Price	Evaluation	Evalu- ated bid price
Bethlehem Shipbuilding Corporation.	Class I, fixed price.....	\$3,783,000	-----	-----
	Class I, adjusted price.....	3,440,000	-----	-----
	Class II, fixed price.....	3,896,000	-----	-----
	Class II, adjusted price.....	3,542,000	-----	-----
	Class III, fixed price.....	4,025,000	-----	-----
	Class III, adjusted price.....	3,760,000	-----	-----
New York Shipbuilding Co.-----	Class IV, fixed price.....	4,135,000	-----	-----
	Class IV, adjusted price.....	3,862,000	-----	-----
	Class I, fixed price.....	3,916,000	-\$38,425	\$3,877,575
	Class I, adjusted price.....	3,572,000	-38,425	3,533,575
	Class II, fixed price.....	3,965,000	-312,250	3,652,750
	Class II, adjusted price.....	3,693,000	-312,250	3,382,750
	Class III, fixed price.....	3,815,000	-38,425	3,776,575
	Class III, adjusted price.....	3,710,000	-38,425	3,671,575
	Class IV, fixed price.....	3,775,000	-312,250	3,462,750
	Class IV, adjusted price.....	3,670,000	-312,250	3,357,750
United Dry Dock-----	Class III, fixed price.....	4,290,000	-125,025	4,164,975
	Class III, adjusted price.....	3,730,000	-125,025	3,604,975
	Class IV (1), fixed price.....	4,550,000	-257,125	4,292,875
	Class IV (1), adjusted price.....	3,960,000	-257,125	3,702,875
	Class IV (2), fixed price.....	4,690,000	-525,425	4,164,575
	Class IV (2), adjusted price.....	4,080,000	-525,425	3,554,575
	Class IV (3), fixed price.....	4,650,000	-601,675	4,048,325
	Class IV (3), adjusted price.....	4,050,000	-601,675	3,448,325
	Class IV (4), fixed price.....	4,800,000	-492,500	4,307,500
	Class IV (4), adjusted price.....	4,170,000	-492,500	3,677,500
	Class IV (5), fixed price.....	5,080,000	-774,200	4,305,800
	Class IV (5), adjusted price.....	4,420,000	-774,200	3,645,800
	Newport News Shipbuilding & Dry Dock Co.	Class I, fixed price.....	4,200,000	+38,400
Class I, adjusted price.....		3,500,000	+38,400	3,538,400
Class III, fixed price.....		4,200,000	+38,400	4,238,400
Class III, adjusted price.....		3,500,000	+38,400	3,538,400
Federal Shipbuilding & Dry Dock Co.	(1)-----	-----	-----	-----

¹ No bids for 4 ships.

Neither Newport nor United put in a bid under the class II category, on which the award was given to Bethlehem. The only competition under class II was between Bethlehem and New York Ship, each of which received an award of four destroyer leaders.

Federal Shipbuilding & Dry Dock Co. told a firm of suppliers in May 1933 that it did not intend to bid on heavy destroyers (galley 17 WC, Apr. 2).

Mr. RAUSHENBUSH. Did you know before this bidding in 1933 which classes and which categories your competitors were going to bid on?

Mr. KORNDORFF. I did not.

Mr. RAUSHENBUSH. Did they know what classes and categories you were going to bid on?

Mr. KORNDORFF. They did not.

Mr. RAUSHENBUSH. We have here a letter from the Judd Co., asking you back on May 27, 1933, which I offer for the record as exhibit no. 1786, together with your reply of June 5, 1933.

(The two letters referred to were, respectively, marked "Exhibits Nos. 1785 and 1786", and are included in the appendix at p. —.)

Mr. RAUSHENBUSH. There they were asking whether you were going to bid on the heavy destroyers.

Mr. KORNDORFF. That is correct.

Mr. RAUSHENBUSH. And you replied to them that you were not?

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. Now, that company was furnishing information on their materials to the other shipbuilders, and had that information in their possession, at least, that you were not going to bid on one group. Does it not follow, as a good chance, that the information was disseminated around that you were not bidding on this?

Mr. KORNDORFF. No. Did I not ask Mr. Russell to keep the information confidential that we were not going to bid?

Mr. RAUSHENBUSH. Yes, sir; that is true.

Mr. KORNDORFF. That is the answer to that.

Mr. RAUSHENBUSH. I still want to persist in the question, unless this is a subsidiary of yours.

Mr. KORNDORFF. It is not a subsidiary at all. We have no interest in it.

Mr. RAUSHENBUSH. Does not that stuff get around to the trade until they know that Federal is not going to try for the heavy destroyers, but are going to try to furnish something else?

Mr. KORNDORFF. It might, but I do not think there is any assurance one way or the other.

Mr. RAUSHENBUSH. I want to offer for the record the summary estimates in 1933 as exhibit no. 1787. There are several sheets. They are from your files, are they not?

Mr. KORNDORFF. Yes, sir.

(The docket referred to is exhibit no. 1787.)

Mr. RAUSHENBUSH. There are just a few more questions, Mr. Korndorff. In 1928 you were being solicited by the National Council of American Shipbuilders for assessments to pay for the extraordinary expenses incurred by the national council in its endeavor to secure the enactment of legislation that will establish a permanent merchant marine and aid to the shipbuilding industry. Do you remember that letter?

Mr. KORNDORFF. Yes; I remember it.

E—Light Destroyer Awards

Six light destroyers were awarded to private yards, as follows:

Bath Iron Works.—Two, at an adjusted price of \$3,429,000 each, less \$152,000 each for plans; net, \$3,277,000 each.

Federal.—Two, at an adjusted price of \$3,410,800 each, less \$200,000 each for plans; net, \$3,210,800.

United.—Two, at an adjusted price of \$3,400,000 each, including plans.

The bids were as follows (Jan. 30, galley 7 AS):

Destroyers Nos. 634 to 379

Bidder	Basis of bid 2 ships	Price	Evaluation	Evaluated bid price
United Dry Dock, Inc.-----	Fixed price-----	\$3,910,000	-\$236,525	\$3,673,475
	Adjusted price-----	3,400,000	-236,525	3,163,475
New York Shipbuilding Co.-----	Fixed price-----	3,825,000	-120,275	3,704,725
	Adjusted price-----	3,650,000	-120,275	3,529,725
Bethlehem Shipbuilding Corporation..	Fixed price-----	3,755,000	-21,375	3,733,625
	Adjusted price-----	3,413,000	-21,375	3,391,625
Bath Iron Works Corporation-----	do-----	3,429,000	-141,275	3,287,725
Federal Shipbuilding & Dry Dock Co.	Fixed price-----	3,918,000	-76,245	3,841,755
	Adjusted price-----	3,410,800	-76,245	3,334,555
Maryland Dry Dock Co.-----	do-----	3,498,894	-134,675	3,364,219
Warwick Machine Co.-----	Fixed price-----	5,259,000	+139,350	5,398,350
	Adjusted price-----	4,383,000	+139,350	4,522,350
Gulf Industries, Inc.-----	Fixed price-----	3,225,000	-----	3,225,000
	Adjusted price-----	3,025,000	-----	3,025,000
Pusey & Jones Corporation-----	(¹)-----	-----	-----	-----

¹No bid for 2 ships.

The amazing fact in this bidding is the closeness of it on the part of those companies which received the awards. Two of these three companies, United and Federal, had never built any of these destroyers. Yet their bids were within a fraction of one-tenth of 1 per cent of Bethlehem, which had built them.

New York Ship and Bethlehem were not in the running, although they put in bids. New York Ship prepared no estimates. Bethlehem did not bid on the class which the Navy desired to award.

A summary of this evidence is contained below in the section "Navy's Comments on 1933 Bidding".

There was a meeting of shipbuilders at the Mayflower Hotel in Washington on July 25, 1933, the day before the bids were opened (galleys 20 and 21 WC (a), Apr. 3):

Mr. NEWELL. The Shipbuilding Code, which was to regulate the hours of work and the rates of pay, was not signed by the President until about 10:30 p. m. on July 25. Prior to that bidders did not know exactly what to expect in figuring their labor costs. They did not know what the rates were going to be, and they were not sure what the hours were going to be. We got that information late on the night before the bids were opened.

Previous to that, in the afternoon, I at the time was staying at the Hay-Adams House, and I went up to the Mayflower Hotel, on my own accord, and I ran into some of the other bidders, and we were wondering and speculating as to just what

the code had in store for us, and I do not remember now exactly what the particular item was, but there were some interpretations that we had differences of opinion about. That perhaps in itself is not important because there was nothing we could do about it, only we were naturally getting pretty close to the time when the bids had to be put in, and we still did not know how to figure labor costs, that is, to arrive at the amount of money that the labor would represent.

There was some discussion as to what the proper spread should be between a fixed price bid—I might have prefaced this statement by stating that the Navy Department had asked for bids two ways: One, for a fixed price. The bidder, of course, under those conditions, was gambling as to how much the dollar would be worth throughout the life of the contract. And the other form of bid was what was called a bid on an adjusted basis, or with an adjustment clause in there, the details of which were settled by the Navy Department, and those details I think you know.

Mr. RAUSHENBUSH. But you said there were differences of interpretation between you fellows.

Mr. NEWELL. No. There were differences of opinion. For instance, all the bidders up to that time, of course, had figured the cost of these vessels on the basis of the conditions that existed at the time the estimates were made up, which did not, of course, provide for any code conditions which then were an unknown quantity. That was the basic bid which had to be corrected for conditions which were to be imposed upon the bidders, from sources over which they had no control.

Mr. RAUSHENBUSH. All right; go ahead.

Mr. NEWELL. The discussion was whether, for instance, 5 percent, 10 percent, or 15 percent, or what amount would be enough to protect the bidder against possible and probable decrease in the value of the dollar and inflation, if that came, or whatnot.

And there was a great divergence of opinion regarding that, and it was a thing, of course, which nobody could prove.

Mr. RAUSHENBUSH. Was that all you talked about with the other shipbuilders there in the apartment in the Hay-Adams House?

Mr. NEWELL. No; that was not at the Hay-Adams House. That will come later.

Mr. RAUSHENBUSH. All right.

Mr. NEWELL. Those discussions were nothing more than anybody would have who meet with a group of people in the same business, and naturally discussing common problems and speculating as to what might happen with all that which was immediately imminent. I mean by that, the code conditions.

The bids were put in at noon the following day, that is, July 26, and the Bath Iron Works did not bid on a fixed-price proposition. We put a bid in under the adjusted-clause proposition.

Mr. Powell, of United, testified on April 4 (galley 67 WC), concerning the awards:

Mr. LAROUCHE. I will read a letter which you wrote, dated August 7, 1933, 4 days after the official contract, and something less than 2 weeks after the bids were opened in 1933.

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. It is addressed to Mr. George P. Dyer, and I will read you only a part of it and will make the whole letter a part of the record [reading]:

Your letter of the 8th came this morning. We finally pulled two destroyers, at \$3,400,000 each, out of the melee. Our bidding was wonderfully good and if the whole thing had not been settled by the Navy Department beforehand, they could not very well have failed to give us four boats.

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. What do you take that to mean?

Mr. POWELL. I think it means that I thought that the Navy Department knew who they wanted to have the boats.

Mr. LAROUCHE. Beforehand—before the bids were opened?

Mr. POWELL. Yes, sir; they always know who they want to have them. I thought from the final disposition of the business that the whole program had been let as a war program, to get the Navy the ships that it needed at the earliest dates. Now it is perfectly evident to me that if I were in a position of responsibility, where the safety of the country depended on me, and I knew the Navy was under strength and behind some other powers, that with a big program coming

on, if I thought it was desirable to get those ships as quickly as possible, I would use, to the very maximum, the capacity of the yards that had been doing that class of work, and that I felt the surest of, as able to turn out the work.

My own theory is that that is the way the program was handled.

Mr. LAROUCHE. You would not be willing to pass judgment now as to the wisdom of that allocation, I suppose?

Mr. POWELL. No; that is outside my jurisdiction entirely.

(The letter referred to was marked "Exhibit No. 1853" and is included in the appendix at p. —.)

Mr. LAROUCHE. I will read further [reading]:

However, I suppose they have their own reasons and I must say that underneath the surface I am inclined to feel that there is real uneasiness about Japan which has led them to do the most extraordinary thing in connection with the award of Government contracts that I have ever seen in my experience.

Mr. POWELL. Yes; I referred to exactly that same thing, that the President, instead of spreading this program, when the program of awards was turned over, allowed the concentration of it in a comparatively small number of yards, with the evident intention of getting the ships at the quickest possible time, and not with the intention of spreading the work.

Mr. LAROUCHE. Do you think they were being done in the quickest possible time?

Mr. POWELL. That is something else. Our hindsight is not always the same as our foresight.

Mr. LAROUCHE. You said something about the program being an unemployment-relief project, the expenditure of this huge amount of money, and that certain things were justified because of that. Do you care to say that the greatest concentration of unemployment was at Camden and Quincy and Newport News?

Mr. POWELL. The reason I figured I was sure to get four boats was I knew I was in the area of the greatest concentration of unemployment.

Mr. LAROUCHE. And you only got two?

Mr. POWELL. I got two.

Mr. LAROUCHE. I will read a little more of your letter. After you get through talking about the real uneasiness about Japan, you say [reading]:

Of course, as an unemployment-relief program it is a joke to put millions and millions of dollars of business in Newport News, Camden, and Quincy and overlook the larger population centers, or pass them out the leavings from the main program.

Do you think it was a joke?

Mr. POWELL. I wrote that letter, believing exactly what I wrote in the letter, Mr. LaRouche.

Mr. LAROUCHE. Do you still believe it?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE [continuing reading]:

The above is for your private ear. Personally, I have merely expressed myself in Washington as very much obliged for what they have given me, and now that we have our foot inside the door, I hope that in any future business we will get full consideration.

Mr. POWELL. Considering that was written for his private ears, it is doing pretty well.

Mr. LAROUCHE. It might be considered a public matter.

Mr. POWELL. I do not write any more letters for anybody's private ears, Mr. LaRouche.

Mr. LAROUCHE. Are any of the shipbuilders writing any letters?

Mr. POWELL. I am going to fire all my stenographers when I get home.

Mr. LAROUCHE. We will have to tap the wires.

Just another little point in connection with the award of those 1933 destroyers. You had quite a struggle to get your foot in the door, did you not? I mean, they tried to shut the door on you two times?

Mr. POWELL. Not in 1933.

Mr. LAROUCHE. Did you feel that it was pretty well set, that is, that your chances of getting those destroyers were good?

Mr. POWELL. I never know before I put in a bid whether we have got chances or not. I figured, if I did not get some, it was going to be just too bad.

Mr. LAROCHE. Besides getting the 2 destroyers, you got the design work for 14 others?

Mr. POWELL. Yes; but that was of no particular importance, except being a feather in the cap of United. There was no financial advantage in that, but as a matter of fact, it was a lot of extra trouble.

Mr. LAROCHE. It helps you get your foot a little further in the door?

Mr. POWELL. I think so.

Mr. LAROCHE. Those designs were not only for use of your yard and other private yards but the designs are also used in the navy yards?

Mr. POWELL. Yes, sir.

Mr. LAROCHE. In other words, the navy yards come to you for designs on destroyers of that type?

Mr. POWELL. Yes, sir; there are now a total of 28 destroyers building from my designs.

Mr. LAROCHE. Twenty-eight destroyers now building from your designs?

Mr. POWELL. Yes, sir.

He included some comment on the effectiveness of the distribution of work as an employment measure.

Bath Iron Works put in only an adjusted-price bid in 1933 and failed to put in a fixed-price bid as required by the Navy. In spite of this the firm received an award (Apr. 3, galley 22 WC).

Mr. RAUSHENBUSH. You said a moment ago that you put in a bid for a couple of destroyers on the adjusted-price basis and no fixed-price basis. That was contrary to what the Navy had asked for, was it not?

Mr. NEWELL. I could not know. I would not say it exactly that way.

Mr. RAUSHENBUSH. The Navy had definitely asked for bids on both bases.

Mr. NEWELL. Yes; they asked for bids under two arrangements, and they further stated that the Navy reserved the right to select either form of proposal, whichever was to the best interests of the Government or the Navy.

Do you want to know why I did not bid a fixed price?

Mr. RAUSHENBUSH. No; what I want to know is, how it happened that you did not do what the Navy wanted, and your bid was still considered good enough so that you got awards. That is the question which came up in earlier testimony.

Mr. NEWELL. I cannot answer that because I put in the bid, and the Navy elected to give us the work on the adjusted basis.

Further on we find that New York Ship, with considerable experience, was nearly a quarter of a million higher than Federal (Apr. 2, galley 17 WC).

Mr. RAUSHENBUSH. Then any company which had experience ought to hit pretty close to this, and yet, here is New York Ship, which had had experience, getting \$250,000 away from you, which is quite an item, compared with the close ones here.

Mr. KORNDORFF. I do not know anything about New York Ship's figure.

Mr. RAUSHENBUSH. But you are making the point here, Mr. Korndorff, that with very accurate specifications, the companies should come close, and I am pointing out that the bidding in this list, which I offer for the record, shows that New York Ship, which had had experience on some of this work, got \$240,000 above you and \$250,000 above United, which was not close. Does not that destroy your contention?

Mr. KORNDORFF. Those specifications were all for an entirely new design. I doubt if New York Ship had any more data on that particular design than we did. They were largely welded and the type of machinery was different, and the type of power in those ships was different.

Mr. RAUSHENBUSH. That is more than a contention?

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. If it should happen here, it should happen on other designs, should it not?

Mr. KORNDORFF. It might. Bidding is not an exact science, and estimating is not an exact science. There is always a certain amount of guesswork on those things.

Mr. RAUSHENBUSH. Your statement, as I took it, was that you had not, in any way, shape or manner, discussed with the other people bidding about what roughly the prices might be, their prices might be on this destroyer bidding?

Mr. KORNDORFF. Most assuredly I did not.

In a letter to the Bath Iron Works on April 13, 1933, 3 months and 13 days before the awards, A. P. Homer predicted the allocation of destroyers (Apr. 3, galleys 30 and 31 WC).

Mr. RAUSHENBUSH. I want to offer for the record, going on a little bit, a letter that Mr. Homer addressed to the President of the United States on April 13, 1933, in which a plan is proposed to divide or allocate the work, the extra Navy work which they supposed they were going to get from the P. W. A., among various yards, and this is 1933, and I notice it begins upon the third or fourth page:

The plan proposes 2 light destroyers for Bath, and you got 2, did you not?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. Do you find the part to which I am referring? Bath Iron Works building, 1; proposed allocation new 2. We have got this 1 here: Bath Iron Works 2, and you got 2; United Dry Docks, and they got 2.

Mr. NEWELL. This is a typographical error in here.

Mr. RAUSHENBUSH. It must have been. Federal Shipbuilding, two.

Mr. NEWELL. I wonder where this came from?

Mr. RAUSHENBUSH. We found this in your files.

Mr. NEWELL. I mean this copy is not the same as this one [referring to paper in hand of secretary]:

Mr. RAUSHENBUSH. No; this is an entirely different thing, that was worked out later, but the one which was apparently enclosed with the letter.

Mr. NEWELL. They have got us down with a cruiser, and we did not build a cruiser.

Mr. RAUSHENBUSH. Take this one [handing paper to witness]: This, of course, came in later. Let us use this one. On that one, which he attached to his April letter, he did fairly well allocate what happened, so far as the light destroyers went, did he not, at least so far as Bath, United, and Federal went? They all got two?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. I offer that for the record as "Exhibit No. 1812."

(The letter referred to was marked "Exhibit No. 1812" and is included in the appendix at page —.)

Mr. RAUSHENBUSH. How early did you know that there was going to be a big allocation of public money to the Navy?

Mr. NEWELL. I do not remember when the date was, but—

Mr. RAUSHENBUSH. Mr. Homer was communicating with you about it at the time, was he not?

Mr. NEWELL. I think he was. I think he gave me the information of his own accord.

Mr. RAUSHENBUSH. Mr. Newell, there has been some discussion of a suit against you, based on the proposition that he was an agent of yours, has there not? There has been some discussion of that?

Mr. NEWELL. Yes.

Mr. RAUSHENBUSH. And the whole case hinges on whether he was an agent of yours—does it not?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. So that when I asked the question whether or not he was an agent, and you answered "No", that would be a determining question in such a suit?

Mr. NEWELL. Right.

Mr. RAUSHENBUSH. And if you answered "Yes", it would throw the suit the other way, would it not?

Mr. NEWELL. Yes, sir.

In spite of the admitted advantage of experienced yards, Bath and Bethlehem, both with destroyer experience, bid very close to Federal on destroyers in 1933 though Federal had had no experience on destroyer (Apr. 2, galley 16 WC).

Mr. RAUSHENBUSH. Now coming to 1933 and your bidding, up to that time you had not built any destroyers?

Mr. KORNDORFF. That is right.

Mr. RAUSHENBUSH. This is the first time you were getting into it. You said that on cruisers the advantage between a company which had built them and one which had not built them was between \$500,000 and \$1,000,000. What would it be on destroyers?

Mr. KORNDORFF. I do not think that it would amount to so much on destroyers, particularly where the design was new, as it was in this case.

Mr. RAUSHENBUSH. The people who had built destroyers were Bath, Bethlehem, and New York Ship. That is right, is it not, at that time?

Mr. KORNDORFF. I think Newport News had built some.

Mr. RAUSHENBUSH. I do not remember Newport competing on those 1933 destroyers.

Mr. KORNDORFF. They did not on the 1933.

Mr. RAUSHENBUSH. But of the competitors, Bath and Bethlehem and New York Ship had experience, and the rest of you did not?

Mr. KORNDORFF. That is right.

Mr. RAUSHENBUSH. Did you discuss with the other companies about how much they were going to bid, roughly, what sort of a figure would be a fair figure for bidding on those light destroyers?

Mr. KORNDORFF. Positively not.

Mr. RAUSHENBUSH. Here is the one thing which is somewhat hard to explain for us: That you made up an estimate here on these light destroyers, what each of two would cost, just for labor and manufacturing.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. And that was \$2,520,700 for labor and material, and then you add some expense in, and that got up to \$3,113,000, and then you and all the other companies, apparently, got so very close to one another, and that is the question. Bath, which had built destroyers, and Bethlehem, which had built destroyers, bidding one \$3,429,000—that is, Bath—and Bethlehem bidding \$3,413,000. They are fairly close there. Now Federal comes in and bids \$3,410,000, and United comes in at \$3,400,000. What you actually are doing there is getting within six-tenths of 1 percent of Bath and one-tenth of 1 percent of Bethlehem. It is such an amazingly close case of bidding, I mean. Let me show that to you.

Mr. KORNDORFF. I have the figures in my mind.

Mr. RAUSHENBUSH. You remember the figures?

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. How do you explain that?

Mr. KORNDORFF. Those figures do look close, but when you have the detailed and definite specifications, which you have in connection with Navy work, and when you have to go to the same sources for your material, for your machinery, and all the stuff which goes into those ships, it is not surprising that those figures would be so close together. We have bid on jobs where we have been to the dollar the same as other shipbuilding companies. The more accurate your specifications, and the more complete your specifications are, the closer the bids should be.

In connection with these destroyer awards Mr. A. P. Homer, of Washington, D. C., indicated (in a memorandum to be used in a proposed law-suit against Bath Iron Works) the extent to which he thought he had helped the company secure its 1933 awards. The officials of the company and the Navy officials denied his statements. The memorandum is Exhibit 1484 as follows:

EXHIBIT No. 1484

Mr. Homer, talking with Captain Ormond L. Cox of the Navy, discovered that a rumor had been started around the Navy Department that the Bath Iron Works Corporation was not an equipped shipyard, had no machinery or facilities for the building of destroyers, and that, therefore, their bid would not be considered. Checked on this rumor with Captain Oberlin, technical advisor to the Secretary of the Navy, and Captain Stark, aide to the Secretary of the Navy, and found that this rumor was general. Called Mr. Newell at Bath and explained this situation to him. He asked for suggestions as to how to overcome it. Mr. Homer suggested that a series of photographs of the shops be taken showing the workmen, tools, etc. These pictures were taken, and on a Sunday in November 1932, at 144 East 24th Street, New York City, Mr. Newell brought the pictures in, and Mr. Homer laid out a plan for their presentation to the Navy Department. The suggestions made were carried out on the following Monday. Mr. Homer left New York for Washington Monday night, and on Tuesday checked around the Navy Department and found that the rumor had been killed, and that the Bath bid would be considered. Result: On December

11, 1932, contract was awarded to Bath Iron Works Corporation for the destroyer *Dewey*, contract price about three million dollars.

April 6, 1933: Mr. Homer, having conceived an idea for allotment of work for relief of unemployment, called Mr. Newell at Bath and asked him to come to Washington for a conference.

April 7, 1933: Mr. Newell arrived and spent two days at Mr. Homer's office going over the labor situation, the relief of unemployment, etc., and a plan was prepared, including charts, etc., for presentation to the President.

April 13, 1933: This plan was submitted to the White House by Mr. Homer, who delivered same to Mr. Marvin H. McIntyre personally, who, in turn, submitted it to the President.

April 16, 1933: This plan was returned by Mr. McIntyre with the approval of the President, who asked that the matter be taken up with Assistant Secretary of the Navy Henry Roosevelt, and the idea sold to him.

April 17, 1933: Mr. Homer talked with Mr. Newell at Bath and told him what had happened, and that he had arranged for a conference with Assistant Secretary Roosevelt on the morning of April 18.

April 18, 1933: At 9:30 a. m. Mr. Homer had a conference with Assistant Secretary of the Navy Henry Roosevelt; Admiral Land, Chief of the Bureau of Construction and Repair; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Brinser, in charge of navy yards; and Admiral M. Lurfin, Judge Advocate General of the Navy. This conference lasted for several hours, and, at the end, it was agreed that the plan was practical, and it was turned over to the Navy Department without obligation, to be used as they saw fit.

Early in July a rumor having started around the Navy Department that the Bath Iron Works wished that they did not have the *Dewey* to build, as they found that it was a large job to handle and were having difficulty in financing it, and felt that they should not go in for any further work of this kind, Mr. Homer immediately called Mr. Newell by telephone, and he came to Washington and succeeded in refuting these rumors.

July 24, 1933: Mr. Newell conferred at Mr. Homer's office with Mr. L. C. Rosenkrans of the Fidelity and Deposit Company of Maryland. While in Mr. Homer's office on this date, Mr. Newell told Mr. Homer that he had figured Mr. Homer in on the bid for the destroyers, and that he was deeply appreciative of what Mr. Homer had done not only on the new bid but also on the *Dewey*.

July 26, 1933: Bids for the naval program destroyers were opened; and Admiral Murfin, Judge Advocate General of the Navy, rejected the Bath Iron Works bid as being illegal, on the grounds that they had not presented fixed-price bid as well as adjusted-price bid. Mr. Newell said that afternoon that he was going home and that he hoped he would have better luck next time; that he had felt that he was doing the right thing, and that it was unfortunate that the matter had come out that way. At Mr. Homer's urging, Mr. Newell stayed here to confer as to what could be done to overcome the situation.

July 27, 1933: Mr. Homer called Admiral C. J. Peoples, Paymaster General of the Navy, who is the President's closest friend in the Navy Department, to luncheon and they conferred with him as to the best method to be followed in overcoming this awkward situation. Admiral Peoples concurred in the suggestions of Mr. Homer, and made further suggestions which were immediately carried out: Ten telegrams were prepared in Mr. Homer's office and they were transmitted to Bath by Mr. L. E. Thebeau to his secretary, who, in turn, transmitted them to the parties who were to send them to the President. At 6:30 p. m. Mr. Homer called Mr. Marvin McIntyre in the presence of Mr. Thebeau and asked that these telegrams be segregated from the mass of telegrams and delivered to the President at breakfast. This was done.

July 28, 1933: At 2 p. m. the President called to the White House Admiral Stanley, Chief of Operations; Admiral Murfin, Judge Advocate General of the Navy; Admiral Robinson, Chief of the Bureau of Engineering; Admiral Land, Chief of the Bureau of Construction and Repair; and Admiral Peoples, Paymaster General of the Navy, for a conference.

July 29, 1933: Mr. Newell, acting under the advice of Mr. Homer went to the Navy Department, where he was told to call to a conference Mr. J. W. Powell, president of the United Drydocks Company, and Mr. L. I. Korndorff, President of the Federal Shipbuilding and Dry Dock Company. Mr. Newell called these gentlemen and asked them to come to Washington and confer with him and insisted that they do so. (It will be noted at this point, that Mr. Newell's situation is completely reversed, that he is now in command of the situation, instead of being out.)

July 30, 1933: Mr. Powell, Mr. Korndorff, and Mr. Newell spent the entire day until 6:30 at night in Mr. Homer's apartment, #722 of the Hay Adams House, and reached a definite agreement as to procedure and that each would have two destroyers to build. Mr. Homer this day took Admiral Peoples, Mr. Thebeau, treasurer of the Bath Iron Works, and Mr. Nugent, of the Public Works Administration, to Harper's Ferry for an all-day trip.

July 31, 1933: Mr. Newell, Mr. Powell, and Mr. Korndorff went to the Navy Department at 9 o'clock and saw Captain Claude Jones, of the Bureau of Engineering; there they met Admiral Robinson and Admiral Land and offered to work together, building from one set of designs.

August 3, 1933: The Navy Board went to see the President at Hyde Park for his decision in regard to the contracts, which came out exactly as planned regarding the three above-mentioned yards.

August 4, 1933: Mr. Homer went to Captain Stark's office and secured for Mr. Newell word of the award of the contracts and got an advance copy of the news release and delivered same to him.

Between August 4 and August 26, Mr. Newell and Mr. Thebeau were working in New York endeavoring to get bond.

August 26, 1933: Mr. Newell returned to Washington with Mr. Homer.

September 5 and 6, 1933: Mr. Newell and Mr. Thebeau here in regard to bond. Constantly in conference with Mr. Homer's partner, Mr. Perkins, and with Mr. Homer by long distance telephone.

September 7 and 17, 1933: Either Mr. Newell or Mr. Thebeau was in daily conference with either Mr. or Mr. Perkins, relative to the contract and bond on the destroyers.

September 18, 1933: Mr. Newell wrote a letter in the office of Mr. Homer to the Secretary of the Navy asking for an extension of time for the securing of bond. The Navy Department said that the time had expired and they did not care to hold the matter up or to have any publicity by granting a further extension of time, but that they would hold the matter in abeyance.

September 19, 1933: Mr. Homer was given a full power of attorney covering these destroyers, copy of which is herewith attached.

Contract was finally signed and bond secured on or about Sept. 22, 1933, and the work was completed.

Mr. Howell, before leaving for Bath, made the statement that the fee he figured to pay Mr. Homer for this work was so large that he would have to spread it over the life of the contract. Mr. Homer agreed to that, and asked what figure he had in mind. To this question, Mr. Newell replied that they would discuss it later, but that he was sure Mr. Homer would be perfectly satisfied.

Mr. Newell also stated, on being asked what he expected the profit to be on naval work in the Bath yards, that the profit on the *Dewey* would be about \$450,000, and the profit on the other two destroyers would be a little over a million dollars.

The total amount of contract awarded to the Bath Iron Works Corporation as a result of Mr. Homer's efforts, as outlined above, is about \$9,000,000.

NAVY'S COMMENTS—1933 BIDDING

Admiral Land, on April 10, Galley 17 YD, invited the attention of the committee to the number of bidders in 1933 (12) and 1934 (14) as "increased competition".

He denied for the Navy the statement in Mr. Bardo's letter to Mr. Flook: "There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else." He stated that no such statement had been made by anybody in the Navy to Mr. Bardo (galley 17 YD).

He denied meetings with shipbuilders on possible allocation of ships (galley 19 YD).

He denied, seriatim, certain allegations in Mr. A. P. Homer's memorandum concerning Mr. Homer's activities in behalf of Bath Iron Works (galley 19 YD seq.).

He also stated that there had been decision by the Judge Advocate General of the Navy that Bath's bid, which was an adjusted price basis only, was illegal (galley 21 YD).

Admiral Robinson, on April 10 (galley 22 YD seq.), also denied certain of Mr. A. P. Homer's statements.

Some idea of the reality of the competition in 1933 is indicated in part of Admiral Robinson's statement (galley 23 YD).

As a matter of fact, owing to the shortness of time available for preparing bids and owing to the fact that plans were not available for all types of ships, many of the shipbuilders expressed their doubts as to their ability to get in bids on all types of ships. They were all urgently requested to do so and it was pointed out to them that it was particularly desirable to have as much competition as possible on each type of ship and the bids actually submitted bear this out.

Admiral Robinson stated that certain companies had advantages over others in the bidding (galley 24 YD):

Admiral ROBINSON. I do not think I have seen that letter of Mr. Bardo's, which gave an allocation of the ships.

The CHAIRMAN. Let us read from the letter which was made a part of the record [reading]:

I know from my talks with some of the representatives of the Navy who are keenly interested in this work, that they are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else. The situation as it stands now is substantially as follows:

Newport News: The two airplane carriers, which, while not duplicates of the Ranger, but of similar type.

Bethlehem: The 10,000-ton, 8-inch cruiser, a duplicate of the ship which they are now building.

New York Ship: A new 10,000-ton, 6-inch cruiser, and a distribution of the 8 destroyer leaders.

This new work would amount approximately to the following values:

Newport News: \$30,000,000.

Bethlehem and New York Ship: \$28,000,000 each, although the final estimates may slightly change these figures.

Now, he proposed there in a letter precisely the findings, did he not, that were reached when the bids were opened 10 days later?

Admiral ROBINSON. A part of that is approximately correct; and in the first part of his letter, where he refers to the division as between navy yards and shipbuilders, that is in error because, as a matter of fact, while there was no law governing the situation, the Navy Department actually did divide these ships approximately half to the shipbuilders and half to the navy yards. So that he is incorrect in that part of his statement.

Now, in regard to the next, Newport News did get two airplane carriers; Bethlehem and New York Ship got cruisers, as allocated here, and each of them got one-half of the destroyer leaders.

Now, there are many reasons, entirely aside from this letter, why that would probably have been the case in a big shipbuilding program. As the committee knows, Newport News is the only shipbuilding concern in the country that has built airplane carriers, and the probability was that on two ships of that character they would be able to put in a bid that would be under anything anybody else could put in.

The same thing applies to the Bethlehem 8-inch cruiser. For the rest of it, the destroyers, there is no particular reason why they should have gone to anybody. The division among the small shipbuilders, that he refers to here, which he seems to think were going to be left out, he says, "have had their eyes set right along on having allocated some of the destroyers, although they have never been engaged in Navy work."

As a matter of fact, 6 of the destroyers were allocated or awarded to those yards, and one of them, as a matter of fact, had that work before. That is the Bath Iron Works.

Now, regarding the latter part of this letter here, the actual awards that were made, of course the Navy Department has no method of knowing just exactly why these shipbuilders put in bids on the ships that they did, or why they put in some of them. We had no means of knowing it. The bids, as they arrived, looked perfectly in order. They were in every way legal, and we had no means of going behind the actual returns. Whether there was any reason for going behind them, I do not know, and I do not think anybody else in the Navy Department knows. There was certainly no indication whatever in the bidding that there was anything irregular about it whatever, and I do not know myself whether there was or not. There was nothing to indicate that there was.

Senator Vandenberg questioned Admiral Robinson on the Navy's ability to check collusion if it were present (Apr. 10, galleys 24, 25, and 26 QD).

Senator VANDENBERG. Before you leave that particular subject, Admiral, suppose there had been something by way of collusion which produced improper prices, would you have had any way of knowing anything about that?

Admiral ROBINSON. Not unless the prices had been a great deal higher than they were.

Senator VANDENBERG. Did you ever reject any bids because they were too high?

Admiral ROBINSON. Yes, sir; just last year. Another thing which added to this whole thing was that there were so many shipbuilders involved. There were many more than just these three shipbuilders, to whom Mr. Bardo refers in his letter. There were a number of other shipbuilders who had never been in on this work before. Two of those, at least, got contracts on this particular bidding in 1933, or particular list of bids.

Senator VANDENBERG. Would not an increase in the Bethlehem bid in 6 months from \$8,100,000 to \$11,700,000, on a cruiser, be a sufficiently startling increase to challenge inquiry?

Admiral ROBINSON. No, sir; it was not, because the \$8,000,000 bid was the one that startled and surprised us. It was so much lower than any other bid received at the time, that we could not believe the figure at first. As a matter of fact, the company, of course, claimed, in later representations to the Navy Department, that they were going to lose money on the thing. That is something about which we know nothing, of course. My point is, it was a much lower figure than anybody else submitted. We knew the reason for it. It was the only ship available, and competition was much keener than it had ever been before. When the bids were submitted in 1933, every one of the shipbuilders knew, owing to the large number of ships to be awarded, if their bids were reasonable they would probably have a chance to get a ship, even though their price was a good deal higher than before.

In the meantime other things had come in which were expected to increase the cost of ships, I mean the cost of materials, cost of labor, and everything of that kind, it was expected would go up on account of the codes.

Senator VANDENBERG. But in this same bidding, July 26, 1933, Bethlehem reduces its relative bid on destroyers, yet increases its bid on cruisers by this estimated figure. Does not that create a challenge somewhere in the situation that should have called for review?

Admiral ROBINSON. As a matter of fact, we did review the bids. The chairman of the Senate Naval Affairs Committee called our attention to the fact that he had heard a rumor that there was collusion in this bidding, and we made an effort, by checking the source of the information, and so forth, to run this down. But the Navy Department had before it nothing that it could rely on. There was nobody who could say positively that he knew anything of the kind. We had no way of seeing that these bids were illegal, and the actual bids, by the shipbuilders, did not seem to be unreasonably high.

Senator VANDENBERG. When Senator Trammell wrote the Department on August 1, 1933, and challenged your attention to this apparently outrageous increase in bids, and the Department responded 8 days later, it would appear to me that the only inquiry that the Department had made was into the validity of these rumors, that somebody had made inquiry of a statement about collusion. It appears that you simply ran down these various rumors to see whether or not the source of the gossip could be identified. Was that the extent of the investigation that was made?

Admiral LAND. No, sir.

Admiral ROBINSON. No; it was not, Senator.

Admiral LAND. I have got a statement analyzing that letter, if you would like it, and I will give it to you, because the information in Senator Trammell's letter is erroneous.

Senator VANDENBERG. I would be very glad to have it.

Admiral LAND. The Bethlehem bid of 9-16-31 of \$2,728,500 was for each of two ships, and not for a single ship, as stated. The bid for a single ship was \$3,034,500 and the *Farragut* was awarded at this price.

(b) The Bethlehem bid of 7-26-33 to duplicate the *Farragut* design throughout at \$2,670,000 was for each of three ships, and not for a single ship, as implied. This 1933 bid from Bethlehem to duplicate the *Farragut* should not include prices for a single ship or for two ships, which would necessarily have been considerably higher, hence no direct comparisons with the 1931 bids of this company are available.

(c) The Bethlehem bid referred to (July 26, 1933) was for a design of destroyer on which the Department did not ask for bids.

The bid submitted by Bethlehem in 1933 to duplicate the *Farragut* design was not in accordance with the provisions of the advertisement, and not in accordance with the plans and specifications furnished to bidders as a basis for bidding. To have made awards to Bethlehem on the basis of this modified bid would have been out and out negotiations, without competition, and therefore in violation of the principles of placing Government contracts. It would have been unfair to all other bidders. Aside from the legal aspects, to construct additional vessels to the old design, instead of to the improved Department design of greater military value, would have been indefensible. And additional point, not inherent in the Department's plans and specifications, developed from the bidding. Guaranties of fuel consumption accompanying the bids submitted on the basis requested were considerably lower than those provided for in the *Farragut* design.

With respect to cruiser figures given in Senator Trammell's letter, he is in error in stating no bid for light cruisers was submitted in 1933 by United Dry Docks. This company bid \$15,600,000 for each of two light cruisers, fixed price, the basis on which figures quoted by Senator Trammell for the other companies were submitted.

So that all those bases of comparison are based on erroneous data.

Senator VANDENBERG. Let me see. I am afraid I failed to follow you in one point. Let me refer specifically to the statement in Senator Trammell's letter, that the Bethlehem bid for one heavy 10,000-ton cruiser on December 14, 1933, was \$8,196,000.

Admiral LAND. That is correct.

Senator VANDENBERG. And Bethlehem's bid for the same cruiser on July, 26 1933, was \$11,720,000.

Admiral LAND. That is correct.

Senator VANDENBERG. An increase of \$3,524,000.

Admiral LAND. That is correct.

Senator VANDENBERG. What is your comment upon that?

Admiral LAND. I have no comment to make on that.

Senator VANDENBERG. I mean as to the accuracy of the figures.

Admiral LAND. I have no criticism of the accuracy of them. That is correct, so far as I know. But the other information was erroneously furnished to Senator Trammell, with regard to the rest of that paragraph in the first part of the letter.

Senator VANDENBERG. Let us eliminate the other comments, then, since we agree on this bit of arithmetic.

Admiral LAND. Yes, sir.

Senator VANDENBERG. Is not an increase of \$3,524,000, on the identically same cruiser, in 18 months' time, a challenging increase?

Admiral LAND. Yes; except, as I started to say, I have only to confirm whom Admiral Robinson said. The bid on the *Quincy*, this \$8,196,000 bid, was a tremendous surprise to everybody in the Navy Department and to all the shipbuilders in the United States. The intimation is that the company took the thing on to keep from going into bankruptcy and closing up shop. Whether that is true or not, I do not know. I believe it, but whether that is true or not does not make any difference. Also, through rumor, the entrance of a new bidder scared them down—in other words, United Dry Docks' bid. United Dry Docks also bid in 1933, and I invite your attention respectfully to what they bid 18 months later as compared with the bids formerly, or any other bids.

The CHAIRMAN. Admiral, it was not 18 months later, but 7.

Admiral LAND. I was quoting the Senator.

Senator CLARK. December 1932, to July 1933.

Admiral LAND. Six months or 7 months later, whatever it may be.

Senator VANDENBERG. That makes the comparison even more challenging. Then, as I understand it, when you found an increase of 3½ million dollars on \$8,000,000 bid, in 6 months, you were satisfied that Senator Trammell was not justified in challenging it, because it was believed that the previous bid had been too low? Is that your statement?

Admiral ROBINSON. That is part of it.

Admiral LAND. That is part of the statement. I won't say that it was too low, but it was taken, presumably, at a loss to the company to keep from closing up shop.

Senator VANDENBERG. Now we have what purports to be reliable testimony, Admiral, indicating that the increase in this 6-month period for labor and materials, and other major essentials, by no means justifies any such increase in the bid price itself. Does the Navy Department make any such calculations when it surveys a bid of this character?

Admiral LAND. We have reasonably complete data on the cost of ships in private yards and navy yards, not a definite break-down of every individual tradesman, because, by law, we have no chance of getting any wage boards any more. You gentlemen up here closed the books on that in 1929. But we have the over-all costs of ships, and we do analyze that, and we have their cost in front of us every time we make an award here.

If you will go back over the series of 10,000-ton cruisers, you will find plenty of reason for our being greatly surprised at the low bid of Bethlehem on the *Quincy*, because it was lower than any previous bid, going back for a number of years. The increase that might have been expected was great. There is no question about that, and it was a jolt to us.

But although the labor may not have increased in the 6 months, they were faced with codes, they were faced with the installation of the new law of N. R. A., and the stability of contract conditions extending over a period of 2½ to 3½ years, was such as to make any business man watch his step when he put in a bid, to be concluded that far ahead.

Senator VANDENBERG. Admiral, all of the other cruiser bidders in 1933 were similarly extravagantly high, were they not?

Admiral LAND. Yes. Admiral Robinson has the bids and the cost of a half dozen ships previous.

Admiral ROBINSON. I have the cost of the same type of cruiser, the average cost of which was \$10,765,000.

Senator VANDENBERG. Over what period of years?

Admiral ROBINSON. They run over a period of 4 years, possibly 5.

Admiral LAND. At least 5.

Admiral ROBINSON. About 5 years. The average cost had been \$10,765,715. That is why this \$8,000,000 bid looked so low, and the \$11,000,000 bid did not look so high. It was really what we had been actually paying for ships in the last 5 years.

Senator CLARK. How about the awards in 1934, Admiral? They jumped up to around \$16,000,000?

Admiral ROBINSON. They were somewhat higher, and one of them was thrown out. We did not think it was reasonable and we threw it out.

Senator CLARK. The awards were \$16,000,000?

Admiral LAND. No, sir. We have got them all right here, any ship which you want in the 1933-34 program. I have got all the awards and all the bids.

Senator VANDENBERG. Getting back to the correspondence between Senator Trammell and the Department, certainly it is an important thing when the Chairman of the Senate Naval Affairs Committee challenges, or virtually challenges, the integrity of the bidder. That is an important thing, is it not?

Admiral LAND. Yes, sir; and the Department, as you indicated in your opening remark, took the question of collusion and traced it very definitely back through everybody concerned with the thing, to one man, and it all came back to one man every time, and that seemed to clear up the serious part of the letter, from the Department's point of view.

Senator VANDENBERG. That is what I want to know. The Department's investigation, in response to Senator Trammell's letter, was largely a pursuit of this gossip to see where it originated. Is that correct?

Admiral ROBINSON. That is correct; yes, sir.

Senator VANDENBERG. And there was no inquiry into the physical facts of the bidding itself?

Admiral LAND. We had all the data that I have got here. That was all available at the time, and it was not put in the letter because it seemed to me that the Department had answered the important part of it. The figures in detail were not put in there, but they were definitely understood by us, and it is sometimes not a very pleasant thing to do, to fit in a lot of figures presented here, because somebody had given somebody misinformation.

Admiral ROBINSON. Furthermore, we asked the chairman of that committee if he could give us any inkling as to what was his reason for believing there was collusion, beyond this, or anything that would help the Navy Department in coming to a conclusion on the question, and the Senator's correspondence shows that that is the only thing he had in mind. And we knew of no reason to believe there was any collusion. There was nothing to indicate there was any collusion to us, and there was not anything possible to investigate, that I could see, other than the prices.

Senator VANDENBERG. Admiral, it seems to me that the letter lays this problem squarely before the Department: That the bids uniformly are inordinately high, and, therefore, that the Government is about to be defrauded; that the reason for it is collusion. It seems to me, from the Department's reply, that it is satisfied to dismiss the charge of collusion by running down the source of the gossip, and fails utterly even to pretend to justify the bidding itself.

Admiral ROBINSON. There is the point, sir, that we could not understand. When the average cost for cruisers for 5 years had been nearly \$11,000,000, we could not see that a bid of \$11,000,000 was an inordinate price.

Mr. RAUSHENBUSH. Is that the average bid for the cruisers or the average cost?

Admiral ROBINSON. Average cost.

Admiral LAND. These things were discussed on the telephone, and many of these points were cleared up, just on the basis of this arithmetic, and it did not seem necessary or pertinent to put a lot of arithmetic in there, when it was quite evident and apparent to the Navy Department that misinformation had been given to Senator Trammell; and the source of that misinformation was probably the same source as the collusion. So that the whole thing goes by default, as being erroneous.

Senator VANDENBERG. Does it not strike you as quite amazing that Mr. Wilder was able to prophesy so accurately where these contracts finally would go?

Admiral LAND. It is just like any other guessing game. There are thousands of people in Washington and all over the country interested in the shipbuilding trade, interested in guessing at it, and anybody could make a 50-percent correct answer, because 50 percent would go to the navy yards. That gives you 50 percent on 100 percent. As Admiral Robinson expressed, you have got a big advantage in Newport News getting airplane carriers because they have the "know-how." You have got anything from \$500,000 to \$1,000,000 in the case of Bethlehem, because they have got a similar ship. It does not take any great knowledge of shipbuilding to know that, with that advantage, who would be the low bidder. Maybe the company was surprised that they were out, but there is just no surprise at all. You can run down the line, knowing who was bidding, having elim-

inated some of the people here, and it is just guesswork as to how you would come out.

Senator VANDENBERG. It is not a fact that there was any collusion among the shipbuilders?

Admiral LAND. To the best of my knowledge and belief there was not, but I have no knowledge about that, and it is perfectly natural that I should not, in the position I hold. They are not going to confide in me on anything like that.

Senator VANDENBERG. I understand that, but I am asking you as to your information on the record as it is disclosed to you now, I am asking you whether you think that the record itself indicates that there may have been something more than gossip in the matter?

Admiral LAND. The best evidence I can give is to invite your attention to the first or second page of my testimony, showing the bids for the number of ships in 1931, 1932, 1933, and 1934. And when we brought this up from 35 to 70 per cent in number, my guess is they would not have much of a chance at collusion with this increased number of bidders. If you are going to assume that all shipbuilders are colluders, or all poultry raisers, or all milk people are colluders, they might do it. I do not know. I do not think they did.

The CHAIRMAN. Some of them have called themselves not "milk dealers" but "plunderers."

Admiral LAND. That may be true. I am not here to defend the shipbuilder. I am in an unfortunate position, between the upper and nether millstones. We fight them all our life. I have no defense of them. If they have done any crooked thing, I hope this committee gets them. When you talk about the shipbuilding trade, I am interested in it from a national defense point of view, and I would like to see what goes on.

You gentlemen must recognize that the shipbuilding industry since the war has degenerated into a smaller number, from 100 shipbuilders down to 3, 4, or 5, and there is not enough business to support them.

Now, then, when a Navy program is up, you cannot give it to somebody who cannot produce a bidder's bond or a performance bond, because that is the law. If the "big three", "little three", or anybody else is involved, or whoever it may be, it cannot be helped, but it is not the fault of the Navy Department nor is it the fault of the shipbuilders, because they cannot make a living. For every one builder who has made money I can name you two shipbuilders who have gone broke since the war—and I will make that three, if you like. That is the shipbuilding industry's worry, and I am in no way called upon to defend them except as a backlog of national defense. That is my only interest in shipbuilders.

In the course of this examination Admiral Land again offered the proposition that the increased number of bidders lessened the chances of collusion (Apr. 10, galley 26 YD).

A great deal of the evidence showing the character of the bidding in 1933 to have been one-sided on each of the main categories, was read to Assistant Secretary Roosevelt, Admirals Land and Robinson for their comment (Apr. 11, galley 41 YD, seq. 44).

Mr. RAUSHENBUSH. I do not need the exact figure at the moment. Simply I want to point out in a big program, of about \$280,000,000, so far as this evidence or analysis of it by us seems to show, that there was no effective bidding except among those people who finally got the awards.

I want to start first with the light cruisers, nos. 42 and 43. I believe you have all those bids and quotations before you. I want to cite the evidence that Newport News, which put in a bid, did not want the light cruiser very much. You will remember, for the record, that Mr. Bardo talked with this company about these matters, on galley 47 FS. Mr. Broad, the estimator, in his estimating book a year later, described to the chief of operations there, Mr. Blewett:

We give you a statement of differences from last year's estimates, one for the heavy cruiser and one for the 1,850-ton destroyer. None was made for the light cruiser, as our details last year were not so good and the light cruiser was not considered as important as the heavy cruiser.

Then he refers again, on Mr. Ferguson, refers in the middle of galley 48 FS [reading]:

In the time remaining we did what we could with the heavy and light cruisers, and worked up an estimate first for the heavy cruiser and then applied the values to the light cruiser.

Apparently the light cruisers were the last ones they worked up out of the whole program, and the discussion seemed to indicate that they were not particularly interested in that.

United was bidding. United has been the heavy competitor in the early part of 1933 and the late part of 1932, and United's witness was very, very definite on the extent to which they wanted to bid, and the extent to which they did not. Here is Mr. Powell, on Thursday, April 4, 1935, after describing that when there was a lot of business, the margin went up, and explaining his increase, who then said:

Mr. LaRouche, I have told you I would rather build a destroyer than a cruiser. It suits my yard better, and I would prefer it, if I could have picked out what I wanted, I would have picked out the destroyers and not bid on the cruisers. I did not know what anybody else was going to do. I tried to place my bids by a physical shotgun method, so that I should not fail to be low on some part of the program. I did it pretty well because I was low on the 1,850-ton destroyers and the 1,500-ton destroyers.

So far as the light cruisers go, Mr. Powell said:

Do you know, Mr. LaRouche, that we had almost nothing but sketch information about that light cruiser? That cruiser was being designed by the New York Shipbuilding Co. All the information that they had prepared for the Navy Department, when the bids came out, was just outline sketches. We had very indefinite specifications and very few weights, and that was the biggest gamble. I would rather go to Bowie and play the horses or put money on the roulette wheel, than to make an estimate on a ship, with the amount of data we had available for that ship.

Admiral LAND. What year is that, please?

Mr. RAUSHENBUSH. Talking about 1933, the light cruisers.

Admiral ROBINSON. That was not correct. New York Ship did not prepare any bidding plans for that. Those plans were prepared afterward, and Mr. Powell had just the same data that anybody else did on that bidding.

Mr. RAUSHENBUSH. The point he says about New York Ship designs is less important than his statement that he had only sketchy information on this cruiser, and that he says:

I would rather go to Bowie and play the horses or put money on the roulette wheel, than to make an estimate on a ship with the amount of data we had available for that ship.

Admiral ROBINSON. They all had the same amount of information, Mr. Raushenbush. It was all the same.

Admiral LAND. They are talking about contract plans, and they did not have contract plans in 1933 for the light cruisers.

Admiral ROBINSON. They all had the same treatment there.

Mr. RAUSHENBUSH. There is no intent to charge discrimination there. The point is, that Mr. Powell is telling that he did not want that ship.

Admiral ROBINSON. I see.

Mr. RAUSHENBUSH. Also on page 10359 of the record he was asked:

You succeeded very well in not being low bidder?

Mr. POWELL. Yes; I did. I was too high on the job, but with the information available, that is the only position that I could actually take.

Then the figures backing that up show that United did not want this, because they bid \$9,525,000 in late 1932, and in 1933 went to \$16,500,000 on this light cruiser, or a jump of 73 percent, whereas New York Ship, which wanted it, only increased 27 percent.

Now there was another competitor in there, Bethlehem, and the question is, whether they wanted it or not, or really bid for it.

Mr. Wakeman was asked [reading]:

Here you have this situation, Mr. Wakeman, you see, which leads to some questions: You have on the light cruiser what seems to be a very small amount of data from Newport, and a very small amount from yourself, and a heavy amount from New York Ship, which got the award. The same situation is true on the aircraft carriers. You have almost nothing, apparently a few envelopes, from Bethlehem, and a few envelopes from New York Ship, and a lot from Newport News, who got the award.

Then you get this very definite difference in bids here and it would seem that Bethlehem was not particularly trying for the aircraft carriers or for

the light cruiser, but did want the heavy cruiser, and New York Ship, which had no estimate at all on the heavy cruiser, and very meager ones on the aircraft carriers, was well prepared on the light cruiser and the heavy destroyers, and looking at it from the point of view of the third yard, Newport had only one book on the heavy cruiser, and only one on the light cruiser, but a very considerable number on the aircraft carriers. So that you get the picture there is a limit of each yard, concentrating entirely on the one thing which you give here.

Mr. WAKEMAN. Which it could best do.

Mr. RAUSHENBUSH. Which it could best do.

There are some more quotations. When New York Ship was building a cruiser, the *Tuscaloosa*, Mr. Wakeman described they—

had a natural advantage in the cruiser class and had proposed, in their 1933 bid for the light cruisers, to use the same turbines as they had proposed for the destroyer leaders. This was unknown to competitors and gave New York Ship a distinct competitive advantage.

Then they go on to describe their own interest on the heavy cruiser.

They also had very meager estimating data on this ship, as their testimony shows, on this light cruiser. I think they admitted pretty thoroughly that they were uninterested in that.

Now, Mr. Bardo again had talked with this company, Bethlehem, about the bidding in 1933. So with Newport, the United, and Bethlehem, covered in this way, by the figures, they show they were high, by figures in contrast with previous bids, but also by their own quotations, and we come to the conclusion that it was not the heavy cruiser that these other three companies wanted in that case, and that therefore New York Ship, which got the award for two, was the only competitor that was really out to get that ship in a really serious way.

Do you have any comment?

Admiral LAND. I have a comment on that. It is the most natural and logical thing in the world for a man to bid on what he wants in his plant. That is his business. It is governed by the load there, what he thinks he can make money on, and whether or not he wants the ship in his business. The premise you take and the conclusions you draw are something no one could know, except in the mind of the bidder himself, and he is the only one who can come to such a conclusion. By circumstantial evidence, your premise and conclusion may be correct, but it is absolutely inferential and not factual.

Mr. RAUSHENBUSH. When these people say themselves that this is the situation, that is something else. On galley 48 FS, the estimator for Newport News is commenting on other light cruisers in 1934. His comment on the light cruisers in 1934 was, as with the heavy cruisers, taken together, and that with the evidence in the record describing these companies putting in protective bids; and then you get, Admiral Land, not only the statement of these people but the figures year by year, showing exactly what you said—that they wanted what they could best do in their own yard. We will agree on that?

Admiral LAND. And that is humanly natural, is it not?

Mr. RAUSHENBUSH. It is not only humanly natural but economically natural.

Admiral LAND. Let me ask you a question on submarines. Why do not they bid on submarines?

Mr. RAUSHENBUSH. We are going to get to them.

Admiral LAND. The answer is, they do not want them. The Navy Department is helpless to make these people put in bids.

Mr. RAUSHENBUSH. Our only explanation is, everybody not bidding on submarines is because it would be a little too much gall, but we will get to that in a little while.

Admiral LAND. All right; but I will be glad when you do.

Mr. RAUSHENBUSH. You see the point of this, Admiral Land?

Admiral LAND. I see the point of this.

Mr. RAUSHENBUSH. The Navy is confronted with a situation and has to put out a building program involving \$280,000,000, and the shipbuilders come along and say, "Naturally there is a lot of business, and naturally they will give us some." They have put up their prices, as they have admitted themselves, and they find each other bidding for their own natural advantage, and each one knowing what the natural advantage of that company is and even talking together about how they will divide P. W. A. work and increase of the Navy work; and then you prove by their own statement and by the figures that in the case here of this category of light cruisers, the only people who really wanted them and bid here on them was the company which got them.

Then the Navy is faced with a situation which grows increasingly serious as it piles up. I mean, if that is the situation in every case, you cannot come back here every time and say, Admiral Land, that "We did have full and honest competition." You cannot write letters to Senator Trammell to the effect that "We have investigated the situation in 1933 and find that the bidding was at arm's length."

Admiral LAND. We can put them in navy yards, and that was what was done in 1933, when there was no law on the statute books excepting one type of ship.

Mr. RAUSHENBUSH. What type of ship?

Admiral LAND. Cruisers. On all the other ships we had perfect freedom to put them where we chose, and we did. In the program of 1933 there were 27 ships in the navy yards and 27 ships in private yards.

Mr. RAUSHENBUSH. Was that an act of virtue or an act of necessity?

Admiral LAND. You better ask the Secretary of the Navy that.

Mr. RAUSHENBUSH. All right. How about that, Mr. Secretary? Could you possibly—if you had thrown the whole Navy program in 1933 into private yards—could you have gotten that out in the time you needed it?

Mr. ROOSEVELT. I think very probably.

Mr. RAUSHENBUSH. The whole program?

Mr. ROOSEVELT. I should not be very surprised, with the normal capacity of those big yards. But we take it up, as a matter of virtue, if that is the word you used a minute ago, because it was the proper thing to do. Congress had decided that for the cruiser every alternate ship should be built in a navy yard. Personally, I felt very strongly that that ought to go right straight through the whole program.

Senator VANDENBERG. Did I understand you to say, Mr. Secretary, that, in your opinion, the whole program could have been built in private yards?

Mr. ROOSEVELT. I think it could be, sir, but I would like to have that answered by the experts. I know they have great capacity.

Senator VANDENBERG. The program which you did put in private yards is not very far along now, is it?

Mr. ROOSEVELT. I do not think it is very much behind our anticipation, sir; but I would like to have that answered by either Admiral Land or Admiral Robinson, who know more about the capacity of the yards.

Admiral ROBINSON. The delay is not due to the number of the ships, but it is due to the difficulty that people have had, shipbuilders and everybody else, in getting plans.

The CHAIRMAN. I suggest that there be brought into evidence a chart showing the capacity and ability of the yards to take on anything more than what they had at a given time.

Mr. ROOSEVELT. Mr. Chairman, may I say this: That regardless of what their capacity was—I had not even given that very much consideration, because I was strongly of the opinion and belief that we should build at least half the program in the navy yards—that was my reason—

Admiral LAND. May I interject something off the record? Senator Vandenberg mentioned private yards; and, if I understood the Secretary, he was talking about navy yards. You were testifying we could put them in navy yards.

Mr. ROOSEVELT. No; I did not.

Admiral LAND. I beg your pardon.

Mr. ROOSEVELT. Private yards, I thought.

Senator VANDENBERG. Do you think you could have put it all in private yards, Admiral Land?

Admiral LAND. I know you could, because I gave the Naval Affairs Committee in the House in January and February 1934 a complete break-down and set-up of the capacity of the yards of the United States, and it is in my hearings showing what the capabilities of the navy yards were in the spring of 1933, in the summer of 1933, and also the capacity of the private yards at the same time.

Senator CLARK. Could you have built the whole program in navy yards?

Admiral LAND. It is possible, but it would have been bad business from an economic point of view.

Senator CLARK. I am trying to find out the proportion of the capacity of the navy yards actually used.

Admiral LAND. The capacity of the navy yards is up to the limit at the present time, unless you add additional ways or utilize dry docks for building purposes, which were not intended for that purpose.

Senator CLARK. What proportion of the capacity of the navy yards was used by this program?

Admiral LAND. The full capacity and the full facilities of all the navy yards in the continental United States are now employed in the building program, unless you build some additional ways or use dry docks which were not constructed for that purpose.

Admiral ROBINSON. I would like to add one thing to which the Secretary has said, as to the question of virtue, as to whether the Navy Department was doing this because it thought it was right or had to. In all the discussions which took place before this building program was divided up, I never heard the question of the capacity of the private yards raised at any time. In every discussion in which I took part, the question was whether or not we should be guided by the express intent of the Congress, on a type of ship which was already covered in the law, and apply that to other types of ships, or whether we should not. That was the only thing that was ever discussed.

And the Navy Department officials finally came to the conclusion that it was the wish of the Congress, although it was not yet a matter of law, covering all kinds of ships, that we should do that. That was the thing which governed the Navy Department, and it was dealing with a matter of virtue and not one of being forced to do it.

Mr. RAUSHENBUSH. Mr. Secretary, we have here a letter of September 22, 1934, signed by the Secretary of the Navy, and addressed to the president of the [New York Shipbuilding Co., in which the letter cites the national emergency, with the promise of a contractor that he will prosecute the work with the utmost vigor and dispatch, and then there is the following paragraph on the second page reading]:

The Department has not been satisfied with the progress made at your plant with particular reference to the light cruisers. The situation with regard to plans is clearly understood but it is a matter of vital importance that all practicable pressure be brought to bear on this plan situation in order that it may be practicable to put men to work not only in your plant but also in the two navy yards which are building cruisers from the plans prepared by your company.

That is "Exhibit No. 1479." I put that before you, Mr. Secretary, to show that sort of delay, and to show that that kind of "balling out" took place in September 1934, and only one-half of the program being in the private yards, and do you still stick to your statement that the whole program could have been put into private yards, without delays, that would have cluttered up and held up the program for years longer than it is being held up now [handing paper to witness]?

Mr. ROOSEVELT. As I said, and as Admiral Robinson stated, I personally at least have not given very great consideration to the total capacity of the private plants with respect to this program. I never even considered giving them the entire program. So that it was not in my mind at all. It might have taken longer, but that is something which we should give considerable thought to.

Mr. RAUSHENBUSH. Mr. Ferguson was pretty definite on the proposition that the time element made it impossible to take more than a small amount of the program for himself, and that was the explanation of why he bid on the whole list.

Admiral LAND. I have a complete statement in one paragraph about ship building facilities, if you care to have it in the record.

Mr. RAUSHENBUSH. I should think that should be incorporated.

The CHAIRMAN. Let us have it.

Admiral LAND (reading):

In order that the committee may have a reasonable picture of——

Mr. RAUSHENBUSH. Pardon me, Admiral.

Admiral LAND. Do you want me to insert it? I have got the statement about the shipbuilding facilities of the United States, if you want it.

Mr. RAUSHENBUSH. I am content to have it inserted.

The CHAIRMAN. He said it was only a paragraph.

Mr. RAUSHENBUSH. I am sorry.

Admiral LAND (reading):

In order that the committee may have a reasonable picture of the shipbuilding facilities of the United States, we have reviewed the situation from the best information available, and find that, if required, existing facilities are such that we could start the entire Navy building program to bring us up to treaty strength on July 1, 1934. The Department is not recommending such action, but the shipbuilding facilities actually exist for 110 ships. Such

a program would only be undertaken in great emergency, and would require reconditioning of about 13 building ways and the addition of about 7 building ways in private plants where space and other facilities exist. From the navy yard point of view, such a program would require the utilization of 3 drydocks and rebuilding 4 sets of ways.

Let us omit the utilization of docks, rebuilding ways, and new ways. We still have available facilities for 81 ships (110 minus 29 equals 81).

Breaking this down into concrete form, we have in navy yards a maximum of 22 building ways and a minimum of 13; in private yards a maximum of 88 and a minimum of 68 building ways; which gives us a total of 110 maximum and 81 minimum.

Mr. LAROCHE. I would like to ask Admiral Land where those private ways are.

Admiral LAND. Throughout the United States.

Mr. LAROCHE. The ones you spoke of, the minimum number, are readily available in the private yards; are they available and ready?

Admiral LAND. Yes.

Mr. LAROCHE. You would not care to tell us where they are; what yards?

Admiral LAND. Yes; I cannot name them off, up to the total of 68, but they include the well-known shipbuilding plants that have Navy contracts. They include four or five plants upon the Delaware; they include some shipbuilding plants on the west coast. It is merely a war-plan survey of the country which we keep up to date year in and year out.

Senator BONE. Admiral Land, there has not been a ship built on the Pacific coast since 1917 in private yards, has there?

Admiral LAND. I do not think there has been, Senator; but the ways exist.

Senator BONE. You are including those ways in the 88 you mentioned?

Admiral LAND. Absolutely; they exist. I am giving you the existing facilities. That is all. Of course, I include those in San Francisco, Seattle, Oakland, Los Angeles.

Mr. RAUSHENBUSH. You are somewhat in contradiction there, it seems to me, with Mr. Ferguson, when he said, "Of course, so far as time goes Newport could not handle more than a certain share of the program"—and I assume the share they got, and the letter addressed to Mr. Bardo, complaining about the delay, even on what they got. I just submit, as a generally reasonable proposition, that any more work in those yards would have caused a great deal more delay. Does not that seem true, on the face of it?

Admiral LAND. Yes; that is a fair conclusion to draw from your premise. Any more work in a yard which has got maximum work would cause delay, whether navy yard or private yard. It does not make any difference.

Mr. RAUSHENBUSH. Now, going on to the armored cruisers in 1933, the next item in the program, we find four companies bidding, Bethlehem, New York Ship, Newport, and United, with Bethlehem getting the award. Now, the question is about the other three competitors, so-called "competitors", New York Ship, Newport, and United. New York Ship had almost no estimates, according to their evidence. Mr. Langell, the estimator, was asked:

Mr. Langell, on a cruiser on which about \$4,000,000 or \$4,500,000 worth of material is involved, you certainly do not make it a practice to make up estimates for the company to put in bids unless they know what they are going to pay for that material?

Mr. LANGELL. True.

He was asked further:

It would be an exceptional case where they were willing to make up an estimate or put in a bid without that? Would not that be true?

Mr. LANGELL. True.

He was asked:

Very exceptional?

Mr. LANGELL. Absolutely.

Mr. Langell was asked about that. That is the heavy cruiser *Vincennes*, is it not? He was asked:

And on the heavy cruiser *Vincennes* you made no estimate at all?

Mr. LANGELL. None.

Mr. LAROCHE. And you did not get it?

Mr. LANGELL. Certainly not.

Mr. LAROUCHE. On all the other jobs which the company did get—

Mr. LANGELL. And wanted.

Mr. LAROUCHE (continuing). And wanted, you made very elaborate preparations?

Mr. LANGELL. I did.

Mr. LAROUCHE. That is all.

Senator VANDENBERG. I think the record should be very plain that these files tell their own story to a very eloquent degree.

Mr. Bardo described that set-up, too, on page 10567, and was very frank about it. He said:

We did not have anything on the 8-inch-gun cruiser, because it was as bad as a different ship.

He had just explained that they were concentrating on the light cruisers and the 1,850-ton destroyers. There is a further quotation on 39AS that they had no estimates at all. Mr. Langell was asked:

Heavy cruiser No. 40, which later became No. 44, and is now named *Vincennes*.

Mr. LANGELL. Right.

Mr. LAROUCHE. And this is the cruiser upon which you did not even make an estimate. Is that right?

Mr. LANGELL. Let me see that. What is the number of that estimate [examining paper]? No; it was based on another estimate.

Mr. LAROUCHE. But you made no estimate on heavy cruiser No. 40 at any time?

Mr. LANGELL. No.

Mr. LAROUCHE. That was the one you told me that the management made itself?

Mr. LANGELL. That is right.

Mr. LAROUCHE. You had nothing to do with that?

Mr. LANGELL. Not a thing in the world.

Mr. LAROUCHE. Was not that a little unusual?

Mr. LANGELL. Well, that is up to the management and not up to me.

That is New York Ship, on its great desire to get that job. United, apparently, did not want it on the figures, because it bid \$5,075,000 more than it did in 1932, or jumped 53 percent, whereas New York Ship, which did not want it either, jumped 26 percent. United was very clearly out of the running on this and said so in their own words.

Mr. Powell was being asked about how it happened that he was so far over the 1932 bid, and he admits it was a tremendous jump, and he was asked:

You were under some of the "big three" in 1932?

Mr. POWELL. Yes.

He was asked:

In 1933, you became, as we say, conveniently out of the running?

Mr. POWELL. I object to the word "conveniently" very much.

Mr. LAROUCHE. Then you were out of the running in 1933?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. You jumped from a bid in 1932, which was below some of the "big three" to a figure which was from \$1,000,000 to four and a quarter million dollars above the bids in 1933?

Mr. POWELL. Yes.

There is more on that question and Mr. Powell definitely admits this. On pages 10351 and 10352 he was asked:

Mr. LAROUCHE. In your bid in 1933 were you equally desirous of getting a cruiser?

Mr. POWELL. I was perhaps not equally desirous, because my yard was better equipped and required less capital expenditures to build destroyers than it did cruisers, but I made my cruiser bid in 1933 on the basis that probably because of the large value of work the other yards would naturally raise their price, and if they raised their price too much I was going to be under them, to be low on those cruiser bids.

Then, there is a further quotation by Mr. Powell in which he said, on page 10358 [reading]:

Mr. LaRouche, I have told you I would rather build a destroyer than a cruiser.

And the question that is raised in our mind is, that if a company wanted a cruiser, they would not jump their bid 53 percent from the latter part of 1932 to the early part of 1933.

Now, at this time it was known to various people that Bethlehem had an advantage on the heavy cruisers, and they all told us, that is, United and New York Ship.

Newport testified here that they have an advantage of about one-half million dollars on labor (galley 47 FS) and that they knew that Bethlehem wanted it, and in spite of that they put in the bid, as in 1934, when they got it, that it was a price of \$1,000,000 higher than Bethlehem.

Now, there is an additional question on that, raised by Senator Vandenberg, which perhaps you could throw some light on. Mr. Cornbrooks is the manager of the New York Ship, and he was asked [reading]:

But you did put in bids on the light destroyers and the heavy cruisers which, according to that testimony, you did not want and did not expect to get?

Mr. CORNBROOKS. Yes.

He was asked:

Now, asking Senator Vandenberg's question again, after reading this testimony, what was the point in putting in a bid on ships you did not want and did not expect to get?

Mr. CORNBROOKS. We wanted to be represented, as we do at all bidding.

Senator VANDENBERG. You said a moment ago that you assumed that the President wanted you to bid on everything.

Mr. CORNBROOKS. I won't say the President, but I mean the Government.

Senator VANDENBERG. That is what I assumed.

Mr. CORNBROOKS. Because it was an emergency proposition.

Senator VANDENBERG. I was wondering what assistance you thought you were rendering the Government by putting in a so-called "fake" bid. What assistance is that to the Government?

There was other testimony to that effect. Can any of you gentlemen tell us whether the companies were made to feel that they were in any way assisting the Government by putting in bids on which they were not particularly interested in getting?

Mr. ROOSEVELT. I cannot tell you anything about it; no, because I was absent all that time, on the 1933 awards; but I do not think it is anything that the Department had very much to say about, what these various shipbuilding companies were going to bid on. It is a matter that I think was in their discretion, it seems to me.

Mr. RAUSHENBUSH. This came up time and again, Mr. Secretary, and the companies were asked: "What was the idea of putting in low bids on things you did not want, and were not prepared to take, and had no estimates on?"; and they described them as "protective bids", "complimentary bids", and admitted they could not do it, and here you get a statement that apparently this one company is under the impression that the Government wanted them to do that. I wanted to raise the question whether there would be any assistance to the Government in that. If you were out on the west coast when this happened, Mr. Secretary, perhaps one of the admirals can answer that.

Mr. ROOSEVELT. I would like to say that the Government is only interested in receiving or getting competition. I do not think there had been any indication to any shipbuilder—certainly not within my knowledge—that would lead them to believe that complimentary bids of that nature were sought by the Department.

Admiral ROBINSON. I can answer that question, Mr. Raushenbush.

Mr. RAUSHENBUSH. If you please.

Admiral ROBINSON. For my own purposes, I can state that I never encouraged any shipbuilder to take such action as you have outlined.

Mr. LAROCHE. Whom do you think they meant by "the Government", Admiral?

Admiral ROBINSON. I have no idea, sir. I do not think they meant anybody, because I am quite sure that nobody in the Government encouraged shipbuilders

to put in fake bids, or to camouflage competition, or to do anything of that kind. In fact, our actions were just the contrary to that.

Mr. RAUSHENBUSH. Certainly, if the builders only bid because the Government wanted them to, or they were under the impression that the Government wanted them to, in spite of the fact that they did not want certain ships at all, the argument as to the fact that the bidding was honest, because there were lots of bids, would drop right away, would it not?

Admiral ROBINSON. I do not think anybody would claim that the number of bids would make that honest.

Admiral LAND. That is the same as occurs in the opening of bids for beans, oil, gas, and so forth. People put in bids to keep their hands in, and know what the other fellow is bidding, and they are at the opening, and there are a thousand and one reasons why they want to know what is going on in their particular line of work. There is nothing unusual about it on ships. It is the standard practice in all this Government business, where people put in bids, whether they want the work or not. When the time comes, depending on whether they need the work, they will put in a price accordingly.

Mr. RAUSHENBUSH. I do not want to have to be in a position of apologizing for this line of questioning, but you can see, on a naval program involving \$280,000,000, if a whole series of bids were put in for sport, for the purpose of keeping it in their hands and the like, it causes the appearance to be that there was a great deal of bidding and it was honest bidding and good competitive bidding; that is the appearance which is created, and the facts behind it do not back it up. That is of interest to taxpayers anyhow, the interest is a little larger in connection with a \$280,000,000 program, more than it would be in the case of beans, is it not?

Admiral LAND. Of course. I am taking no exception to what you say, but I am merely indicating that is the standard practice and procedure on all kinds of Government bidding, and if your contention is proven—I do not know whether it is or not—but if it is proven, it does not prove anything except what I stated before, that every man who puts in a Government bid has the right to bid on what he chooses and nothing else. That is his business and not ours. There is no compulsion there.

Senator VANDENBERG. We seem confronted with the situation that while they bid to keep their hands in, there is usually something in their hands when they pull them out.

Admiral LAND. That is for the committee to determine. I have got no jurisdiction, and I do not think anybody in the Navy has. We are not in position to adjudicate the merits of the testimony before this committee. The only testimony sent to the Navy was the testimony given by Admiral Robinson and myself, 2 months ago, and 1 brochure of testimony by Mr. Homer.

Later (Apr. 11, galley 45-48 YD):

The CHAIRMAN. Admiral, is not this another one of those cases that squares up fairly well with the action of the Navy Department at the time that Senator Trammell filed his complaint and his allegations that there appeared to be collusion, and according to your testimony yesterday, you ran down as many strings as you could get hold of to ascertain who was responsible for those charges, and finding who was responsible you just said, "There is nothing to it."

Admiral LAND. It all emanated from one source. The source of information was entirely incorrect. There was a lot not in the record, which went on over the telephone, which I cannot attempt to repeat, so that the matter was entirely cleared up to the satisfaction of the gentleman concerned, although it may not appear in your record.

The CHAIRMAN. When you ran it down in every instance to one source, in that case, you were satisfied, and you made no further investigation to ascertain whether or not there was collusion?

Admiral LAND. We made all the efforts to ascertain that that were practicable for us to make. We have not the facilities of this committee to do, as you do, to find out this thing. It is absolutely impossible for the Navy to do that.

Senator BONE. If there were collusion, Admiral Land, would the Navy be absolutely helpless?

Admiral LAND. Not at all.

Senator BONE. You say you have no facilities whatever for ascertaining the truth about that.

Admiral LAND. I said we had no facilities for determining collusion.

Senator BONE. To use a vulgarism, if these companies "gang up" on you and take you for a cleaning, is the Navy Department helpless in determining a matter of that kind?

Admiral LAND. No; we are not helpless in the matter at all.

Senator BONE. I thought your statement implied that much.

Admiral LAND. No; I said we have not the facilities this committee has to determine the actions of private shipbuilders with regard to their preparation of bids and submission of bids, or any of their working organization in their private set-up. We have no authority to go in and find out that, as this committee has done. I think that is a perfectly fair statement, and you gentlemen know that we cannot do it.

Senator BONE. Then, if that is true, in the absence of an inquiry of this kind, the Navy Department might be really "cleaned" by these gentlemen, without any recourse whatever, and it would have to depend upon an inquiry of this character to bring the facts to light? That is a sad picture, Admiral.

Admiral LAND. That does not necessarily follow. That statement and conclusion is not correct.

Senator BONE. Then you may clarify it.

Admiral LAND. I say we are not helpless by any means. We have the option of accepting or rejecting a bid. We have a fairly good idea what the cost of the ships is. We keep records. We can always fall back on the navy yards, if we have any doubt in the matter. The Secretary of the Navy has the right to accept or reject all bids, and that is called to the bidder's attention. He has a right to kick out anything, and it is so stated and called to the bidder's attention, a copy of which has been brought up. We are not helpless but have the whip hand. However, we are not in the position to determine the honesty of somebody in a bid.

Admiral ROBINSON. I would like to add to that that in 1934 we did that. The prices of the cruisers seemed too high and we threw them out and put them in the navy yards.

Senator BONE. I want to go back to this navy-yard matter a little later, but go ahead.

Mr. RAUSHENBUSH. Has not the Navy had a representative here every day?

Mr. ROOSEVELT. Yes, sir.

Admiral LAND. Mr. Secretary, may I say that that has only been true from a given date?

Mr. RAUSHENBUSH. As soon as we got into the shipbuilding testimony.

Admiral LAND. No, sir. Off the record, please.

Mr. RAUSHENBUSH. All right.

(At this point an informal discussion occurred off the record, after which the proceedings were resumed as follows:)

Mr. RAUSHENBUSH. Now, coming to these destroyers in 1933, we are going through these item by item, and we find that United, Federal, and Bath were each awarded two. We have had something in the record about their getting together on their plans after they knew they were going to get the awards.

Now, there were some other bidders. New York Ship did not expect to bid and prepared no estimates. We have here the testimony of Mr. Cornbrooks and Mr. Langell to that effect, on pages 7295, 7296, and 7297 of the record. Mr. Langell and Mr. Cornbrooks both testified on that to the effect that they did not expect it. Bethlehem, according to the statement, Admiral Land, at page 10766, was in this position. Bethlehem's bid was not in accordance with what you wanted. Is that right?

Admiral LAND. Is this 1933?

Mr. RAUSHENBUSH. Relating to destroyers in 1933.

Admiral LAND. They bid on the *Farragut* class, and we did not want it, and naturally rejected it.

Mr. RAUSHENBUSH. That was not a bid, in principle, was it?

Admiral LAND. No, sir.

Mr. RAUSHENBUSH. The Gulf Industries' bid, which was apparently the low bid at the time, \$3,025,000, was considerably below the others, and was not accepted by the Navy, on the ground that the company was not financially equipped to handle the work. Is that correct?

Admiral LAND. That is partly correct. There was an elaborate statement which was presented to the Secretary, and of which the committee has a copy, as to why the Gulf Industries' bid was rejected, and it was more than that thing. They were not a reliable bidder.

Mr. RAUSHENBUSH. You do not consider them an active competitor in this case?

Admiral LAND. They may be a competitor, but I do not consider them a reliable bidder.

The CHAIRMAN. If they are not a reliable bidder, and have not a chance to get a bid in, how could they be considered a competitor?

Admiral LAND. By a great many instances. None of the shipbuilders know how to consider it, whether they are a perfectly good competitive bidder until the Navy Department adjudicates the matter.

Mr. RAUSHENBUSH. The answer is that two other competitors gave prices, Warwick, which bid \$1,000,000 fully above the "little three", which got the award, and also Maryland. Now, neither of those companies built destroyers or had been consulted about plans at all, since the war, had they, neither of these two companies, Maryland and Warwick?

Admiral LAND. They have never built any Government ships since the war—no; so far as my knowledge goes—no combatant ships.

Mr. RAUSHENBUSH. They did not have planning staffs, did they, of the importance, let us say, or of the kind United was working up at the time, and Bath, and so forth?

Admiral LAND. I do not think they have. I am not familiar with the company; that is, the staff of Maryland. I know Warwick has no complete technical staff for that kind of work.

Mr. RAUSHENBUSH. Just a question, in passing. We noticed that these bids of the "little three" were within a fraction of a tenth of a percent of each other. Here is United, \$3,400,000; Federal, \$3,410,800; and Bath with \$3,429,000. Now, United and Federal up to that point had not built any destroyers at all, Admiral Land, and Bath had, and, of course, Bethlehem had. How can you account for that closeness of bidding among two people—Federal and United—that had not built any destroyers up to that time and did not know how much the cost was? How do they hit so close to a company that had built them, like Bath? They hit within one one-thousandth of a percent, practically.

Admiral LAND. I would not attempt to account for the bids put in, because I am not capable or competent to know what is in the mind of the man who puts in the bid. I do not attempt to account for it.

Mr. RAUSHENBUSH. Wait a minute. Before we get into that, whether you have to go into a man's mind before you can perform your functions of protecting the public interest by analyzing the bids, let us take the reverse, and say you can never get into a man's mind; but, certainly, when figures are put before you is it not your daily function to look at those and see what they amount to in terms of past bidding and earlier bidding and the like? Do not those problems automatically come to you when people who have not bid before bid within a fraction of a tenth of a percent of each other? Is not that a real problem that you can solve without having to be a psychologist or a psychiatrist?

Admiral LAND. Certainly that is a part of our problem. Let me ask you a question. Suppose you go to an opening of bids which are all tie bids. What will you do? What would the Government or the Navy Department do?

Mr. RAUSHENBUSH. Throw them out with a large excitement.

Admiral LAND. I would like to see you try it.

Senator VANDENBURG. Or repeal N. R. A.

Admiral LAND. All right; that is a different story.

Mr. RAUSHENBUSH. Do you think these bids were influenced by N. R. A.; is that the reason why they were so close?

Admiral LAND. I have no doubt about it at all. There naturally is closeness. They are bound to be influenced by N. R. A.

Mr. RAUSHENBUSH. Labor?

Admiral LAND. Not only labor, but materials.

Mr. RAUSHENBUSH. The steel companies have to bid the same price, do they not?

Admiral LAND. I do not know what they have to do. I know what they do, to a large extent. I am not a lawyer, but merely a materialman down there. You say the steel companies have to bid the same. Supposing they bid the same to these people; that gives them a pretty good idea what the cost of steel will be in the ship, which is mostly steel.

Mr. RAUSHENBUSH. They say it is not.

Senator VANDENBURG. Was there a code at this time?

Admiral LAND. Yes; the Shipbuilding Code went into effect the 26th of July 1933, I believe, and the bids were opened on July 26, 1933. There may have been 24 or 28 hours there, but they knew, and the contractors knew, that the work was under N. R. A., and it specifically covered not only the contractors but all the subcontractors were kept to the N. R. A., all the way down the line, and the shipbuilders protested loudly and long about certain features of that, but accepted it finally, by duress, if you like.

Mr. RAUSHENBUSH. Going on into the next category of destroyer leaders, you remember Mr. Bardo's testimony the other day, April 5, 1935, to the effect that

he went and discussed that question with Bethlehem, and that he decided to bid on the N. I. R. A. ships, and the reverse was true of Bethlehem; that is, the bid on the increase of the Navy, and then he said he put in a complimentary bid against Bethlehem.

Admiral LAND. That would not have the slightest merit with me, because ships are ships. Whether N. R. A. or increase of the Navy did not make the slightest bit of difference, because they were in competition, anyway. Any complimentary bid he may have put in on increase of the Navy means nothing, in my mind, at all. They were competing. Despite Mr. Bardo's letter, they were not permitted to bid on those eight ships. The Navy Department never intended to let any shipbuilder bid on the eight. The differentiation between N. R. A. and increase of the Navy ships was not made.

Mr. RAUSHENBUSH. You don't get the point.

Admiral LAND. I understand perfectly.

Mr. RAUSHENBUSH. He wanted one kind of work in his yard. His testimony is clear. There were to be four of each. On page 10577 of the record he goes on to explain what happened. [Reading:]

Bethlehem's work was under the increase of the Navy work, and they wanted to bid on the leaders, the leaders being under the increase to the Navy, and his work would all be under one appropriation.

Then he was asked:

As far as the actual bidding goes, how does one do that? Does one tell the Navy, "You are advertising so much, and I want these under that"?

Mr. BARDO. I could only bid on 4 out of 8, and I made it low for the 4 I wanted, and on the 4 I did not want, I just put in a complimentary bid, and I was not interested in that at all.

Admiral LAND. That is a confusion of terms, because he was not permitted to bid on the eight. He put in so much under N. R. A., and it meant nothing at all to Admiral Robinson or me, because he could not have had them, no matter if he put in any bid.

Mr. RAUSHENBUSH. You agree that this was purely a complimentary bid?

Admiral LAND. Probably was; but it did not mean anything in this case.

Admiral ROBINSON. He did not put in any on eight, as far as I remember.

Admiral LAND. I cannot remember such a bid, but he may have added something.

Admiral ROBINSON. It was contrary to the schedules.

Mr. RAUSHENBUSH. Then he was asked [reading]:

You have read the testimony of Mr. Langell pretty thoroughly, as to what he said was wanted in 1933 and 1934. * * * He substantiates exactly what you said here; on the things you wanted, real estimates were made.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. And you got them, and on the things you did not want, there were no estimates to speak of.

Then he was asked by the chairman:

Now, Mr. Bardo, what is a "complimentary bid"?

And he replied:

It is a bid you put high enough so that you know you won't get it.

The CHAIRMAN. Who is that a compliment to?

Mr. BARDO. I do not know.

Admiral LAND. There is no reason, so far as I can find from the record in the Navy Department, for any bitter differentiating between N. R. A. and increase of the Navy, and Admiral Robinson is 100 percent correct, I think, that he did not put it in. I do not care what his testimony is; here is the record.

Mr. RAUSHENBUSH. Again the question was asked about Mr. Langell's testimony; that he was concentrating on the 1,850's and the light cruisers, with the distinct understanding that was what the firm would like to have, and he says, "That is right."

On the destroyer leaders, the result was that New York Ship got 4 and Bethlehem got 4, an award of about \$15,000,000 each. United, Federal, and Newport also put in bids, but in no class 2 bids, and since the awards were on a class 2 basis, you cannot consider them as actual competitors on the destroyer leaders. Is not that correct? You gave out awards on class 2 basis?

Admiral LAND. What competition was there before we made the award?

Mr. RAUSHENBUSH. Wait a minute.

Admiral LAND. The competition takes place before bids are opened and not after. Anything done by the Navy Department, after, you cannot phrase it that way and state it correctly. Competition takes place before bids are opened and not afterward.

Mr. RAUSHENBUSH. If you are allocating the ship, to be built in accordance with the company's own plans, and another company comes along and says, "We will bid on your past plans rather than our own", you cannot really say that that is competition in the category in which you finally give the award. And here you have the other three people, who also put in bids, but did not put in class 1 bids, United, Newport, and Federal, but who put in class 2 bids. Three was certainly, before these bids were opened, a great deal of work on the part of Bethlehem and a great deal of work on the part of New York Ship in preparing plans. Mr. Bardo's testimony was to the effect that late in 1932 or early in 1933 he decided to concentrate on the plans for these and the light cruisers.

Admiral LAND. Just a minute. Are you making a statement that there were no class 2 bids submitted by United, Federal, and Newport?

Mr. RAUSHENBUSH. In that particular category, on which the awards were made.

Admiral LAND. There are on class 3. That is a different thing.

Mr. RAUSHENBUSH. There were on classes 3 and 4.

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. But on that on which the awards were made, there were no bids by others. United stated they could not handle more than one category.

Admiral LAND. You are wrong about United. United put in class 2; Bethlehem, class 2; and New York Ship, class 2.

Mr. RAUSHENBUSH. New York and Bethlehem, all right.

Admiral LAND. United had it then. It is not all right unless you put United in there.

Mr. RAUSHENBUSH. United was in this additional category, was it not?

Admiral LAND. I am only saying United had a class 2 bid.

Mr. RAUSHENBUSH. Here United definitely told you, did it not, Admiral Land, that it could take 2 heavies, 2 lights, or 1 cruiser, but could not take more than that?

Admiral LAND. Which year are you in?

Mr. RAUSHENBUSH. 1933.

Admiral LAND. That is true in 1934. I do not know anything on that in 1933. In 1934, that is correct, and in 1933 I cannot follow it.

Admiral ROBINSON. I guess that is right.

Mr. RAUSHENBUSH. I may have in mind some testimony which they gave here as to the size of the yard.

Admiral LAND. I think, Mr. Raushenbush, you are a year out on that particular thing.

Mr. RAUSHENBUSH. That may be.

The question, then, is whether United was a competitor there. I am perfectly willing to wait until we get our own papers and see why we decided they did not put in a class 2 bid.

Holding that in abeyance, and going on to the submarines, did you happen—let us go to the aircraft carriers first. The competitors there, supposedly, the people putting in bids, were Newport, New York Ship, and Bethlehem. Were you under the impression, Admiral Land or Admiral Robinson, that New York Ship or Bethlehem could really take those aircraft carriers without a very considerable loss?

Admiral LAND. I have no impressions whatsoever. I know they could build them if they wanted to.

Admiral ROBINSON. On the bids put in, Mr. Raushenbush?

Mr. RAUSHENBUSH. Yes.

Admiral ROBINSON. I certainly never expected that any shipbuilder would submit a bid on which he expected to lose money, particularly in a case where there are lots of ships. In a case where there is a very limited number of ships, he might do it, but I would not expect him to do it in a case where there were as many ships to be built as there were in this program.

Mr. RAUSHENBUSH. Here is Mr. Bardo speaking about the aircraft carriers, on page 10595 of the record. He was asked [reading]:

After a company has specialized on aircraft carriers, it is pretty hard to go in and bid against them and expect to get it?

Mr. BARDO. Unless they are willing to take a loss, but no man in his right senses is going to do it.

Then the question of how much advantage Newport had on the aircraft carriers came up the other day, and I think we agreed it might be as much as \$1,000,000.

Admiral LAND. Somewhere between \$500,000 and \$1,000,000.

Mr. RAUSHENBUSH. \$500,000 on the cruisers.

Admiral ROBINSON. The question which came in there would be just as to how much he would be allowed for profit. If one man allowed a considerable amount for profit and another man allowed none, he might get the business, even though the other man had had the experience. That would depend on how much he needed the work. That determines the greatest part of the work.

Mr. RAUSHENBUSH. On page 7295 of the record, Mr. Langell was asked [reading]:

Here is the aircraft carrier on which you also made a sort of left-handed estimate, did you not?

Mr. LANGELL. Right.

Mr. LAROUCHE. In other words, you just took a long running leap at the estimate on the aircraft carriers nos. 5 and 6 which you did not think the company would get?

Mr. LANGELL. That is perfectly right.

Mr. LAROUCHE. And did not want?

I understood they did not want that.

Mr. RAUSHENBUSH. They had practically no estimates on that matter as is shown by galley 39 AS, and as Mr. Langell's testimony shows.

Bethlehem was confronted with the same question, and admitted very meager estimating data, and stated that Newport had such a large advantage as compared to theirs, an advantage of around \$2,000,000, that they did not feel that they were able to compete.

We can read this, if you have any question about that. I will call your attention to the galley in which that appears. We have here the joint letter, Admiral Land, and while we may have made some mistake in it, we do not see here on the list of bids, which you put before the Secretary, any class II bid from United Dry Dock [handing paper to Admiral Land]:

Admiral LAND. All I have got here is the record.

Mr. LAROUCHE. We were unable to find it on that.

Admiral LAND. All I know is the record here. It may not be here. I do not know. I cannot differentiate between a number II and a number IV here, as far as this thing is concerned. I would have to look up the bids and see what they are calling for on that.

Mr. RAUSHENBUSH. We can get the information on that from you later, can we not?

Admiral LAND. Surely, you can get everything we have got.

Mr. RAUSHENBUSH. This summary was from your own files, and we assumed it was correct.

Admiral LAND. That is correct.

Admiral ROBINSON. It undoubtedly is correct, I think. Do you not think so?

Admiral LAND. Yes; surely.

Mr. RAUSHENBUSH. If it is correct, that takes out United as a competitor on that category, on the basis of class II.

We have run through everything except the submarines, and I do not know whether you noticed the testimony by Mr. Haig and Mr. Pew, the other day, that they apparently could not bid on their own designs, and you made an award on class II designs, that is their own designs. Actually they were low, apparently, on the class I bids, and the idea of somebody else's designs, but on that category you gave them no bid at all. And we considered that that eliminated them as competitors on the one thing on which you gave the award. We have some quotations here.

Admiral LAND. What year is that, please?

Mr. RAUSHENBUSH. Still on 1933. We are going through the whole 1933 program.

Admiral LAND. You say the Sun was low?

Mr. RAUSHENBUSH. Was low on one ship.

Admiral ROBINSON. No, sir; they were not low on any kind of ship. They were so high we could not possibly give them an award.

Admiral LAND. I have all the bids and classes in one column.

Mr. RAUSHENBUSH. Again, this is the joint letter which was turned over to us. We have class I: Sun, \$2,931,000; and Electric Boat, \$3,200,000.

Admiral LAND. That is on one ship?

Mr. RAUSHENBUSH. They were low on one ship. But you gave the award on a class II basis, which they were not bidding at all.

Admiral LAND. You might give the whole story: That we gave it on more than one ship, on which they were not low.

Mr. RAUSHENBUSH. There is no criticism of that at all. The award was given on the basis of the cheapest price. That is not the precise point.

Admiral LAND. I wanted to make it clear.

Mr. RAUSHENBACH. The question is whether Sun could be considered an equal competitor with Electric Boat. Mr. Haig and Mr. Pew were here the other day, and they told us they were unable to get from Electric Boat how much they would have to pay for patents, page 102225 of the record.

Admiral LAND. Did anybody ask them what patents they were talking about?

Mr. RAUSHENBUSH. Yes.

Admiral LAND. I would like to know what those patents are.

I have been in the submarine game for a long time, and the patents E. B. have long since gone out of the picture under the 17-year law. I am at a loss to know what that refers to.

Admiral ROBINSON. We were unable to find any patents in this submarine business at all, Mr. Raushenbush. As a matter of fact, the Navy Department made every effort to get real bona fide competition on this submarine matter, and if the prices had been at all reasonable, unquestionably they would have gotten an award. Now, a shipbuilder who is breaking in on a new game, undoubtedly has to trim his prices pretty closely in order to compete with a man in the game a long time. Everybody knows that. We knew it, and he did, and he was urged to do it. As a matter of fact, we did not feel that he had trimmed far enough, and the result was we did not see how we could give him an award, although there was every desire to do so.

Mr. RAUSHENBUSH. The question on that particular matter was whether a submarine bidding in 1933, when they had some plans of their own, whether that sort of competition is one that you can call serious competition?

Here is Mr. Pew saying that he wrote the Electric Boat Co. about these patents and got no answer. That is on pages 10224 and 10225, but I do not want to read it. He was asked [reading]:

Are you telling the committee that you are at the mercy of one company which has those patents?

Mr. PEW. We believe we are.

Does that answer your question?

Admiral ROBINSON. I do not think there were any patents on engineering. I can say for the whole ship, so far as my Bureau is concerned, I can say there were no patents. We feel we saved the Government a great deal of money by having them bid on those boats because, if that company had not been bidding, they would have been higher.

The CHAIRMAN. Where would they have been, if they had been awarded the contract?

Admiral ROBINSON. I think they would have been all right.

The CHAIRMAN. He was stating that they had no patents.

Admiral ROBINSON. There were no patents involved.

The CHAIRMAN. He was very emphatic.

Admiral ROBINSON. I can only speak for my own Bureau. In the first place, if we are buying the machinery and furnishing it to the shipbuilders, there would not be any bureau engineering in it. Admiral Land will have to answer that.

Admiral LAND. We pay no royalties to the E. B. Co., and there are no patents involved. They cover themselves and make an allowance for these patents. They had some chance, and probably still have. My judgement is that they are probably not justified in this, but that is their business and not mine.

Mr. RAUSHENBUSH. Let us rest on your own testimony and Admiral Robinson's. A competitor who does not have to pay anything for patents is not a competitor that is very much upon his toes, is he?

Admiral LAND. We are not going to tell you anything except we have very little competition in submarines. The only competition we have is in our navy yards.

Mr. RAUSHENBUSH. That is all right.

Admiral LAND. It is open and shut.

Admiral ROBINSON. We do not have as much as we would like. We would like to have more.

Mr. RAUSHENBUSH. We can understand that.

NAVAL AWARDS—1934

In 1934 awards amounting to over \$50,000,000 were given to private yards, covering 11 ships.

One light-gun cruiser was awarded to Newport News and one to New York Ship. Two destroyer leaders were awarded to Federal. Two light destroyers were awarded to United, and two to Bethlehem. Three submarines were awarded to Electric Boat Co. One heavy-gun cruiser was advertised, but the Navy gave the award to a navy yard on the ground that the bids of the private companies were high. In its place an additional light cruiser was awarded to New York Ship.

At the same time the navy yards were given the following ships: Philadelphia yard, the heavy gun-cruiser *Wichita* (CA 45); New York Navy Yard the light-gun cruiser *Honolulu* (CL 48); Norfolk Navy Yard light destroyers 386, 387 and 388; Boston Navy Yard, light destroyers 389 and 390; Mare Island Navy Yard, light destroyer 391; Puget Sound Navy Yard, light destroyers 392 and 393; Portsmouth Navy Yard, submarines *Plunger* (179) and *Pollack* (180); and Mare Island Navy Yard, submarine *Pompano* (181).

The bidding situation in 1934 is not quite as clear as it was in 1933. The program was not quite as large as it was in 1933.

In spite of the fact that a considerable number of companies bid on the light cruiser, the only real competition lay between the Newport News and New York Ship. In the end both of them received one ship. On the armored cruiser, which was finally given to the Philadelphia Navy Yard, the only real competition was between Bethlehem and Federal, although here again a great many other bids were put in. On the destroyer leaders there may have been real competition between Federal, New York Ship, and Newport, although Newport was \$454,000 above Federal, a very large difference, and \$225,000 above New York Ship. On the light destroyers there was no real competition in the class I bids or the class II bids. On the submarines there was no effective competition with Electric Boat Co. In practically every classification, except submarines, a great number of high bids were entered by companies which did not want the work at a reasonable price and did not put in bids which can be seriously characterized as competitive bids. The effect of the great number of such bids was to give to the public a spurious impression of competition and to conceal the underlying tendency of the shipbuilders to arrange their bids in such a manner as to force the Navy to parcel out the awards in accordance with the preferences of the shipbuilders.

BIDDING—1934, LIGHT CRUISER

The bids on the light cruisers in 1934 were as follows:

Company	Bid	
	Fixed price	Adjusted price
Newport News.....	\$13,700,000	\$11,900,000
New York Ship.....	15,000,000	12,550,000
Federal.....	13,997,000	13,043,000
United.....	16,800,000	13,440,000
Bethlehem.....	16,600,000	13,224,000
Gulf.....	12,600,000	12,250,000

Apparently Newport News and New York Ship were competitors, although New York Ship was \$1,300,000 higher on a fixed-price basis and \$650,000 higher on an adjusted-price basis. These figures seem to destroy the "advantage" theory offered by Bethlehem as an explanation of the bidding in 1933, since New York Ship had received an award for two light cruisers in 1933, and supposedly, according to that explanation, should have had an advantage over Newport of about \$500,000 a cruiser.

Were the other companies actual matter-of-fact competitors? Gulf Industries was held by the Navy to be unprepared at the time to undertake a cruiser. United Dry Dock had stipulated it could not take more than two destroyers or one cruiser. Its bid of \$16,800,000 fixed price was \$300,000 higher than its fixed price bid on one cruiser in 1933.

Federal bid low on two destroyers, and there is at least a question whether they could have taken a cruiser at the same time. Bethlehem admitted it did not want the light cruiser as compared to the heavy-gun cruiser.

That left as actual competitors, Newport and New York Ship, although it is clear that New York Ship was in no true sense a competitor on a fixed-price basis. Its fixed-price bid was raised \$2,450,000 over its adjusted-price bid, while Newport's fixed-price bid was raised only \$1,800,000.

BIDDING—1934, HEAVY DESTROYERS 381 AND 383

The bids on the destroyer leaders 381 and 383 in 1934 were as follows, on a basis of bids for each of two ships:

Company	Bid	
	Fixed price	Fixed price evaluated
Federal.....	\$4,608,000	\$4,458,000
United.....	5,000,000	4,738,950
New York Ship.....	5,060,000	5,018,800
Bethlehem.....	5,510,000	5,461,450
Newport News.....	5,100,000	5,109,700

NOTE.—The evaluations also took into consideration deductions for plans furnished.

On an adjusted-price basis, on which the awards were given, the bids were as follows:

Company	Bid	
	Adjusted price	Adjusted price evaluated
Federal.....	\$4,096,000	\$3,946,000
United.....	4,000,000	3,733,950
New York Ship.....	4,225,000	4,183,800
Bethlehem.....	4,410,000	4,361,450
Newport.....	4,450,000	4,459,700

It will be noted that United was the low bidder, but in view of United's low bid on the light destroyers and its unwillingness to take more than two destroyers or one cruiser, the award was given to Federal, the second low bidder. The difference between the two bids, on an evaluated basis, was \$209,050 on each of the two ships.

Bethlehem did not really want these destroyer leaders. Mr. Wake-man stated (galley 52 QD, Feb. 28):

The conditions of overlapping, outfitting, and trial trips was also an objection to our receiving contracts for destroyer leaders. Furthermore, destroyer leaders gave no work for our design department.

BIDDING—1934, LIGHT DESTROYERS 385, 387, 389, 391, 393

Awards on these destroyers were made as follows: Two to United Dry Docks on class I, plans furnished on an adjusted-price basis of \$3,430,000 each; and two to Bethlehem Shipbuilding Corporation, on their own plans, class II, on an adjusted-price basis of \$3,784,000 each.

BIDS ON CLASS I

Company	Bid	
	Adjusted price	Evaluated-adjusted price
United.....	\$3,430,000	\$3,305,150
Federal.....	3,736,000	3,486,150
Bethlehem.....	4,462,000	4,354,350
New York Ship.....	4,500,000	4,546,000
Bethlehem (Union).....	4,840,000	4,732,350

BIDS ON CLASS II

Bethlehem:		
II A.....	\$3,820,000	\$3,597,225
II B.....	3,870,000	3,553,825
II C.....	3,784,000	3,657,625
New York Ship.....	4,000,000	4,007,125

BIDDING—1934, CRUISER (AC 45)

The bids on AC 45 in 1934 were as follows:

Company	Bid	
	Fixed price	Adjusted price
New York Ship.....	\$16,000,000	\$13,750,000
Newport News.....	(¹)	(¹)
Federal.....	13,889,000	12,889,000
United.....	16,890,000	13,510,000
Bethlehem.....	16,200,000	12,970,000

¹ No bid.

Bethlehem stated that it centered its efforts on this cruiser. It was, however, not at all competitive on the fixed-price bidding, in which its bid was \$3,230,000 above its adjusted-price bid. It wanted the cruiser only on an adjusted-price basis.

Federal, with a fixed price bid only \$1,000,000 above its adjusted-price bid, was apparently a real competitor for this cruiser. Here the two steel company subsidiaries were in competition.

Newport News prepared estimates on this ship but submitted no bid. Its explanation for this is given below.

New York Ship did not want the heavy-gun cruiser. (Cornbrooks, galley 5 ZO quoted below.) Mr. Bardo said (galley 96 WC quoted below): "I did not want the heavy cruiser and was not interested."

United did not want this cruiser on top of the destroyers, and bid low on the destroyers, and higher on this cruiser than on the light cruiser.

The only real competition, therefore, was between Bethlehem and Federal, and that competition was confined to one type of bidding, that on an adjusted-price basis.

The Navy considered these prices too high and gave the ship to the Philadelphia Navy Yard, and gave New York Ship a light cruiser which had not been advertised.

Again, the "natural advantage" theory of Bethlehem should have resulted in making Bethlehem (which was building the heavy-gun cruiser *Quincy*) about \$500,000 lower than a company like Federal which had not built a cruiser. Instead, Bethlehem's bid was higher.

Some of the evidence of this situation is submitted herewith:

Evidence that the subcontractors were aware of what bids the yards were specializing in was given by Mr. Wakeman of Bethlehem on February 28 (galley 56 QD-57 QD).

Mr. RAUSHENBUSH. At that point the Navy apparently threw out that whole contract and instead gave another cruiser, another light cruiser, to the second high bidder on the light cruiser, New York Ship. Have you any explanation of why that happened?

Mr. WAKEMAN. I have not.

Mr. RAUSHENBUSH. You were interested in it in a very definite way. You had had hopes of getting that armored cruiser, had you not?

Mr. WAKEMAN. Yes.

Mr. RAUSHENBUSH. Did you not follow it through to find out why that bid was thrown out?

Mr. WAKEMAN. No, sir; I did not. I have no explanation or no understanding of what happens in the Navy Department.

Mr. RAUSHENBUSH. So that we might go over these various things and without taking too much time up in details, the summary is a picture, is it not, Mr. Wakeman, that if a company is particularly interested in getting one kind of job it is that which it feels particularly qualified for?

Mr. WAKEMAN. Not necessarily. I sketched the situation, in 1933 and 1934, which existed at the time the bids were put in.

Mr. RAUSHENBUSH. Yes.

Mr. WAKEMAN. And I have explained to you, or have attempted to explain to you, what was the natural situation, insofar as we were concerned.

Mr. RAUSHENBUSH. Yes.

Mr. WAKEMAN. I have also attempted in that explanation, and I think I have made the statement before, that this whole situation was a matter of rather common knowledge.

Mr. RAUSHENBUSH. Yes.

Mr. WAKEMAN. Anybody who had been studying the shipbuilding situation would have known it.

Mr. RAUSHENBUSH. Anybody in the trade would know about it?

Mr. WAKEMAN. Not in the "three."

Mr. RAUSHENBUSH. In the trade, I said.

Mr. WAKEMAN. In the trade?

Mr. RAUSHENBUSH. In the shipbuilding business.

Mr. WAKEMAN. Anybody in that, the 20 or 30 bidders, all the trade knew the general situation, insofar as that was concerned. They did not know, probably, what was in our minds.

We asked a great many subcontractors for prices. Statements have been made here that the subcontractors knew what we were going to get. They knew a lot more than I did.

Mr. RAUSHENBUSH. Of course they knew, the trade knew, that you were interested in one job particularly?

Mr. WAKEMAN. Naturally the trade knew.

Mr. RAUSHENBUSH. That is what I am trying to get at.

Mr. WAKEMAN. They would come to us on destroyers; the subcontractors interested in supplying machinery for destroyers would come to us. Particularly in view of what the Navy Department had said about awarding us the *Farragut*, they had come to us, and they would naturally spend more time with us attempting to sell us destroyer material than they would possibly attempting to sell us carrier material.

Mr. RAUSHENBUSH. All right. Now the trade also knew, did it not, reversing that, that when you were specifically interested in one major job that, reversely, you were not terribly interested in the others? Just as you say they did not try to sell you airplane-carrier material.

Mr. WAKEMAN. They would naturally try to do it.

Mr. RAUSHENBUSH. But not compared with the way they tried to sell you destroyer material.

Mr. WAKEMAN. We never told anything to our subcontractors. They would come around, buzzing about, and trying to find out what we were concentrating on but we never told them. It was none of their business.

Mr. RAUSHENBUSH. If the trade felt they knew what you were qualified for, then, reversely, they knew what you did not want particularly?

Mr. WAKEMAN. I would not say that the trade knew, but I would say the trade would come to us and say, "We have certain things in the shipbuilding business."

Mr. RAUSHENBUSH. By "trade" I meant the other shipbuilders rather than the subcontractors.

Mr. WAKEMAN. I am not talking about shipbuilders but I am talking about subcontractors, who are people such as the General Electric, Westinghouse, Babcock & Wilcox, and so forth.

Mr. RAUSHENBUSH. I realize all you are talking about.

Mr. WAKEMAN. They are the subcontractors, I am talking about.

Mr. RAUSHENBUSH. I want to talk about the trade, the other shipbuilders. Now the other shipbuilders knew what you were qualified for and wanted particularly?

Mr. WAKEMAN. They did not know what we wanted particularly.

Mr. RAUSHENBUSH. I thought you just testified to that a little while ago.

Mr. WAKEMAN. I am talking about subcontractors. This information, all this statement and picture which I have given you, insofar as I am concerned and my company is concerned, is the point of view that I had before these prices were bid. Now as to what the other shipbuilders had, I do not know.

Mr. RAUSHENBUSH. You knew your own angle, and each one of them knew theirs?

Mr. WAKEMAN. Or should know it.

Mr. RAUSHENBUSH. And to the extent you knew about Newport News' experience in aircraft carriers and New York Ship's experience in light cruisers, you have given all that in your statement.

Mr. WAKEMAN. Yes, sir.

Mr. RAUSHENBUSH. And you knew roughly what they were interested in, and you knew, reversely, what they were not interested in by that, let me say again?

Mr. WAKEMAN. Not necessarily.

Mr. RAUSHENBUSH. You could add up fairly simply, could you not? Then under such a situation with that sort of knowledge, it seems a system of protective bidding grew up, and each company, on the job it wants, puts in a tight bid, and on the others puts in a protective bid, which apparently protects itself from any losses.

Mr. WAKEMAN. The situation on these 1933 and 1934 ships was that the program was all bid, that no one shipyard could have done the whole job. They simply could not have done it. Furthermore, there was not time enough to make a detailed estimate all the way through the program. Furthermore, the question of asking for a postponement was talked of, and in the light of the conditions which existed at that time it just did not seem possible. We were confronted with getting men to work just as quickly as possible, and our contribution was to get bids into the Navy Department so that they could assign this work and put men to work. That is what was back of the 1933 and 1934 program.

The question of whether the yards were bidding vigorously or only perfunctorily on certain ships came up again on February 11. (galley 5 ZO).

Mr. LAROCHE. Did the same thing follow in 1934 as to light destroyers, for instance?

Mr. CORNBROOKS. I do not know whether we put in a bid; yes, we discussed that. We were not going to put in a bid, and then we did put in a bid.

Mr. LAROCHE. According to your records, there, again, the estimating data was very meager on the 1,500-ton destroyer which you did not expect to get?

(Mr. Cornbrooks, the witness, nods assent.)

Mr. LAROCHE. And did not get?

(Mr. Cornbrooks, the witness, nods assent.)

Mr. LAROCHE. Was not that true of the heavy cruiser in 1934, as well? That was cruiser No. 45.

Mr. CORNBROOKS. We wanted a light cruiser, if we could get one.

Mr. LAROCHE. You wanted a light cruiser, if you could get one?

Mr. CORNBROOKS. Yes; because we had a light cruiser in our yard and it would save drawings.

Mr. LAROCHE. And you did get it?

Mr. CORNBROOKS. Yes.

Mr. LAROCHE. You did not want the heavy?

Mr. CORNBROOKS. No.

Mr. LAROCHE. And did not get it?

Mr. CORNBROOKS. No.

Senator BARBOUR. I do not want to lead you into some answer, because it is not fair to you or to the committee, but, as I understand this thing—and I want to get at the practical side of it—there was very little time for all the estimating, taking it over the whole program submitted to you?

Mr. CORNBROOKS. There was not enough; not nearly enough.

Senator BARBOUR. And it was quite natural that you went more exhaustively into the estimating of the ships that, from your own point of view, you felt were more acceptable to your yard?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And then did the best you could on the others?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And that made a very obvious contrast between certain estimates that were made?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And it was quite natural that you went more exhaustively into the estimating of the ships that, from your own point of view, you felt were more acceptable to your yard?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And then did the best you could on the others?

Mr. CORNBROOKS. Yes, sir.

Senator BARBOUR. And that made a very obvious contrast between certain estimates that were made?

Mr. CORNBROOKS. Yes, sir.

Newport News explained its failure to bid on AC 45 in 1934 on February 20 (galley 64 FS).

Mr. RAUSHENBUSH. How did it happen that after you prepared rather elaborate estimates on the other cruiser, the armored cruiser No. 45 in 1934, that you did not put in any bid on that, Mr. Ferguson?

Mr. FERGUSON. In the first place, the estimating department, in estimating on the heavy cruiser, I had given no definite instructions about it. The heavy cruiser was estimated, and then the light cruiser estimate made from that. But the reason why we changed was this: We were having a good deal of difficulty with our airplane carrier designs in getting plans approved. We were behind on them. The drafting room, and particularly the machinery drafting room was engaged fully on the carriers. The heavy cruiser had to be designed. The light cruiser had already been designed by New York Shipbuilding Co., and so we went after that so as to get the plans without having to make them in our own drafting room, because we had more work in our own drafting room than we could do, by taking on an extra cruiser. So that we bid on the light cruiser only, and if we could handle but one cruiser, there was a little doubt in my mind as to whether, with the tremendous volume of work coming on with the airplane carriers, we could even handle one, because the work on the three ships would come to a peak in the finishing-up period, around when you need electricians and all that sort of thing.

So that we bid on that ship, and we bid a price which we thought would get it.

Later (galley 64 FS):

Mr. RAUSHENBUSH. What I was trying to establish at the moment was that you knew pretty well that Federal was going to get into the picture again?

Mr. FERGUSON. Oh, yes; I knew.

Mr. RAUSHENBUSH. I was wondering if that had an influence, Mr. Ferguson, on your decision not to put in a bid on the armored cruisers.

Mr. FERGUSON. Not at all. We considered it and decided that we would bid on that cruiser, the plans of which would be furnished us so that we could go ahead with the airplane carriers. We were obligated on both contracts to prosecute the work with greatest dispatch.

Mr. RAUSHENBUSH. I note here in a memorandum from the files August 24, 1934, there is a statement written out by Mr. Blewett:

Previous to the time of the submission of the bids, it was rumored that Federal anticipated breaking into the field of building the larger naval ships, which in this case were the heavy and light cruisers. Under the conditions it was assumed that they would submit as low a price as their costs would permit, probably material, labor, and overhead not only on the destroyers but also the heavy and light cruisers. It was thought that Fore River would make an effort to obtain the heavy cruiser and NYS the light cruiser, although at this time NYS was recovering from the effects of a strike. However, light cruiser No. 47 was very similar to the other cruisers then being built by NYS.

Mr. BLEWETT. What is the date of that?

Mr. RAUSHENBUSH. August 21.

Mr. BLEWETT. That was written way after the bidding, and is what was talked over after the bids were in.

Mr. RAUSHENBUSH. You say, "Previous to the submission of the bids it was rumored."

Mr. FERGUSON. We hear through the supply people, or we get the information on that.

Mr. RAUSHENBUSH. You get a fairly good idea of what they want from the jobs they expect. New York Ship has built light cruisers and wants them again, and Bethlehem built heavy cruisers and wants them again, and you built aircraft carriers and want them again. That sort of talk is quite current, is it not?

Mr. FERGUSON. Yes; there is a good deal; but the fact that we bid on a light cruiser instead of a heavy is for the exact reason why I told you; we could get the

plans of the light cruiser, and we did not have the draftsmen available to get them for the heavy cruiser, and whoever got the heavy cruiser had to get them for that. We are using today the New York Ship plans for the heavy cruiser for which we allowed the Government \$250,000 and we deducted that from our contract price.

In 1934, when Federal was low bidder on a cruiser, the Navy threw out all the bids and allocated the work to a navy yard. Federal had hoped to enter the cruiser field and had made the low bid in spite of the advantage other companies had in experience. (Apr. 2, Galley 14 WC, 15 WC, and 16 WC.)

Mr. RAUSHENBUSH. There are some features of the estimating and bidding which you perhaps can explain.

Mr. KORNDORFF. All right, sir.

Mr. RAUSHENBUSH. Take the armored cruiser in 1934, you bid low, and got under the next lowest by \$81,000.

Mr. KORNDORFF. Which was that?

Mr. RAUSHENBUSH. The armored cruiser no. 45 in 1934. Then after you had done that, that was the first time you had gotten into the cruiser picture at all, and you were the lowest, and United was next, and Bethlehem and New York Ship were considerably above you—I am sorry, Bethlehem was next. You were lowest, Bethlehem next, and United and New York Ship were considerably above. This is on the adjusted-price basis I am talking about.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. Then the Navy threw out the bid. Will you explain why that was?

Mr. KORNDORFF. No; I think you will have to ask the Navy.

Mr. RAUSHENBUSH. Let us have it from you. You did something and knew something in the matter. Here, for the first time in your history, you put in a cruiser bid, and you apparently decided to go more or less whole-heartedly into the business of building ships for the Navy, and, in addition to destroyers, you decided to take the big one, the cruiser, for the first time, and you put in a bid below Bethlehem, and then all of a sudden the Navy took it into its mind to throw out the bid entirely. You must have had a good deal of discussion back and forth with the Navy about that. What is the whole story on that?

Mr. KORNDORFF. I think that is a question you ought to ask the Navy Department. They were the people who allocated the job. That is water under the bridge. I made a shot at the target and missed it.

Mr. RAUSHENBUSH. You hit it; you were low.

Mr. KORNDORFF. You do not cry over spilled milk, if you can help it.

The CHAIRMAN. Did you not look into it to see why you were not awarded the contract, in the light of the fact that you were the low bidder?

Mr. KORNDORFF. Not officially.

Mr. RAUSHENBUSH. You mean you did not take that up officially with the Navy?

Mr. KORNDORFF. You have a letter there which I wrote the Assistant Secretary of the Navy, which was my last spiel on the thing.

Mr. RAUSHENBUSH. Your last; but, after all, would you let almost 13 million dollars' worth of business, which, according to contract rights and competitive rights you had a perfectly clear title to, to go overboard with a smile and say, "Thank you for spilling the milk"?

Mr. KORNDORFF. No; but you take it and go out to the next job.

The CHAIRMAN. How much money was spent in estimating so that you could present your bid?

Mr. KORNDORFF. About \$10,000.

The CHAIRMAN. Your bid was not then a casual matter on your part?

Mr. KORNDORFF. If you see the papers, Senator, I think you will agree it was quite a serious situation.

The CHAIRMAN. I think, before Mr. Korndorff leaves the stand, there should be brought into evidence, Mr. Raushenbush, the exhibit showing the extent to which this company did go in estimating, so that we may have it for comparison with other companies that were bidding at the same time.

Federal failed to get a cruiser award in 1934, though it had estimated a profit of only 1.8 percent. It did get contracts on heavy destroyers (on which it was not low bidder) on an estimate of 10-percent profit (galley 16 WC, Apr. 2).

Mr. RAUSHENBUSH. All right. I notice here, on one of your estimate sheets, or, rather, being two in number, which I offer for the record, as exhibits nos. 1781 and 1782, that you only took 1.8-percent profit, figuring it on your adjusted-price basis on the armored cruiser, and a little bit more, very little more, 2.06 percent, on the light cruiser: but when it got to the destroyers, you were planning to take 10-percent profit on the heavy destroyers and, as we get it, 7.6-percent profit on the light?

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. You did not get the heavy cruiser with the low profit, and you did not get the light cruiser with the low profit. What did you get there?

Mr. KORNDORFF. In the 1934 program?

Mr. RAUSHENBUSH. You got the two heavy destroyers?

Mr. KORNDORFF. Right.

Mr. RAUSHENBUSH. On those you had provided for a profit of 10 percent?

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. You were not low on the bid for the heavy destroyers, were you?

Mr. KORNDORFF. As I recall it, we were not.

Mr. RAUSHENBUSH. No; United was lowest.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. But, nevertheless you got the award. Was that customary?

Mr. KORNDORFF. Yes; the Navy Department always reserves the right to place the bids.

(The two statements referred to were marked, respectively, "Exhibits Nos. 1781 and 1782" and are included in the appendix on p. —.)

Mr. RAUSHENBUSH. We have the same case in 2 years: One you are low on the armored cruiser and do not get it, and the whole bid is thrown out; and on the heavy destroyers United is low and it does not get it, and instead you get it, the low bid being thrown out.

Later:

Mr. RAUSHENBUSH. This really should be explained a little more fully, Mr. Korndorff. Here a while ago you testified that a company that had not been in the cruiser business was at a disadvantage of between \$500,000 and \$1,000,000.

Mr. KORNDORFF. Right.

Mr. RAUSHENBUSH. As against a company that had been in the business.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. Now, Bethlehem had gotten the other armored cruiser, the *Quincy*, and was building it, and had all the advantage, and yet you undercut or you go into that cruiser picture and you cut below Bethlehem by \$81,000.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. Then you do not get the award. Now, what is your interpretation of that?

There are several which could be brought, but we want yours.

Mr. KORNDORFF. The interpretation of our figure is simply that we put a price on it, which was about our estimated cost, or a little bit more. There was a very nominal profit. I think the figures we gave you show it.

Mr. RAUSHENBUSH. They show you were counting on 1.8-percent profit.

Mr. KORNDORFF. Right.

Mr. RAUSHENBUSH. Was that on honest bid that you wanted and were willing to take at that price?

Mr. KORNDORFF. Perfectly willing to take it at that price.

Mr. RAUSHENBUSH. If you were willing to take it at that price, and wanted to take it, what possible explanation did the Navy give you for taking it away from you?

Mr. KORNDORFF. I do not think I can explain that. I would like to have you get an explanation from the Navy. I would like to hear it myself.

Mr. RAUSHENBUSH. Do not worry about that, Mr. Korndorff.

Mr. KORNDORFF. I am not worrying about it.

Mr. RAUSHENBUSH. The question being addressed to you is, What did the Navy offer you by way of explanation?

Mr. KORNDORFF. The Navy does not make many explanations of what they do. When they make up their mind to do something, they do it.

Mr. RAUSHENBUSH. Here a little while before the United Co. had felt that it was low on a certain bid, and Bethlehem was being preferred there, and it put up a whole series of protests and went to the Comptroller General and maybe carried

it up to the President, and put up a scrap on the entire thing. You decided not to put up any scrap on that 13 million dollars' worth of business?

Mr. KORNDORFF. Absolutely.

Mr. RAUSHENBUSH. No scrap?

Mr. KORNDORFF. No.

Senator BARBOUR. Do I understand you wrote a letter to the Assistant Secretary of the Navy about that matter?

Mr. KORNDORFF. Yes.

Senator BARBOUR. Do you have that letter here?

Mr. RAUSHENBUSH. I think so.

Senator BARBOUR. Is there any reason for not reading it? Is there any answer to it?

Mr. RAUSHENBUSH. The questions I have asked here are not answered in that.

The CHAIRMAN. Were you surprised with the Bethlehem bid at that time?

Mr. KORNDORFF. I really had not thought much about that, Senator. Of course, we took a dive for that ship. There is no question about that.

The CHAIRMAN. Would you have lost money had the contract been awarded to you?

Mr. KORNDORFF. I think we would, being the first of the type, with which we were not very familiar; I think it is barely possible we might have lost money on that contract.

The CHAIRMAN. How extensively might you have lost?

Mr. KORNDORFF. It is pretty hard to say with a contract running into the future for 3 years, with the varying conditions ahead of us. I think we might lose, conservatively, 5 percent. I think you could very readily lose that.

The CHAIRMAN. What were you hoping to gain?

Mr. KORNDORFF. We were hoping to gain experience and standing as likely builders of class A line ships for the Navy.

Mr. RAUSHENBUSH. Anyway, here in this bidding at that time the other serious contender was Bethlehem, and the other two companies which were bidding were United and New York Ship, who were a considerable amount above that; in fact, New York Ship was \$900,000 above you, and United was also very considerably above. So that the real competition was between two steel companies on that one ship, and Bethlehem had apparently been getting the armored cruisers, and at that point, with your low bid, being the first time you had ever bid on cruisers, the Navy Department decided not to build that cruiser, although bids were asked which were apparently in order. Did they throw them out because the prices were too high?

Mr. KORNDORFF. That contract was allocated to the Philadelphia Navy Yard.

Mr. RAUSHENBUSH. On the ships that were to go to private yards, how did they compensate? Did not they give the private yards another extra ship?

Mr. KORNDORFF. Yes.

Mr. RAUSHENBUSH. What was that?

Mr. KORNDORFF. A light cruiser.

Mr. RAUSHENBUSH. It gave New York Ship a light cruiser?

Mr. KORNDORFF. Right.

Mr. RAUSHENBUSH. Although——

Mr. KORNDORFF. They were under us, their bid was under us.

Mr. RAUSHENBUSH. On the light cruisers?.

Mr. KORNDORFF. Yes, sir.

Mr. RAUSHENBUSH. By the way, I offer your letter to the Assistant Secretary of the Navy, dated August 21, 1934, in which you do discuss the question of the price of that armored cruiser, compared with your bid of last year on the same type, showing the difference——

Mr. KORNDORFF. Not our bid, because we did not bid.

Mr. RAUSHENBUSH. Comparable with the bid of a similar type for about \$11,700,000, and you end up this letter, which I offer for the record [reading]:

Fourth, by the encouragement and experience which the award of this ship to our company would offer, the Navy Department would be providing itself with an additional and highly responsible source for capital ships in the future. Considering that since the war Cramps have dropped out of business, it would seem to us that this is a matter of particular importance to the Navy.

(The document referred to was marked "Exhibit No. 1780" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Did you not mean there that it might reduce the bid prices somewhat to have a fourth company in there?

Mr. KORNDORFF. Well, I really meant that it would provide them with additional facilities for major ships.

Mr. RAUSHENBUSH. You had seen what had happened before in 1932, when United went in and lowered the price, by a fourth company coming in, lowering the price of Bethlehem by about two and a half million dollars, and the other companies about 1 million dollars?

Mr. KORNDORFF. I remember that.

Mr. RAUSHENBUSH. And you were getting into the picture again, a fourth company, and the price was again lowered. Was not that what you were trying to tell the Secretary of the Navy?

Mr. KORNDORFF. Not particularly, not as much as I was about the possibility of getting additional physical facilities, which I think is a matter of importance.

Mr. RAUSHENBUSH. And you had to have the experience?

Mr. KORNDORFF. And we had to have the experience; that is correct.

Mr. RAUSHENBUSH. But the other one was of some importance?

Mr. KORNDORFF. Naturally there is a question of economics in these things, too.

Mr. RAUSHENBUSH. I mean that they would get a better type of bidding and perhaps lower bidding if there was more competition. Now, there was not any particular justification for throwing out that bid, was there, on the ground that they were very much higher than the light cruiser bids at the same time?

Mr. KORNDORFF. I cannot discuss that.

Mr. Bardo frankly admitted that in 1934 what New York Ship submitted on the heavy cruiser to the Navy was not a price, but a quotation (Apr. 5, galley 96 WC).

Mr. RAUSHENBUSH. You bid both on the light and heavy cruiser in 1934, did you not?

Mr. BARDO. I have got it here, and I think I can tell you what I did do.

August 15; yes sir. We bid on a heavy cruiser and we bid on the light cruiser, but I did not want the heavy cruiser and was not interested. I submitted a quotation, that is all. It is not a price; it is a quotation.

Mr. Bardo stated that his company was not competing with Bethlehem, although it put in what was generally supposed to be a competitive bid (galley 99 WC).

Mr. RAUSHENBUSH. In 1933 and 1934, you knew what the advantages of all the other yards were? You knew what they were qualified to bid for, and knew what the chances were of them getting it?

Mr. BARDO. In 1933 there was no question. In 1934 it was a small program and everybody could bid. We bid on the 6-inch because it was a duplicate of what we were building.

Mr. RAUSHENBUSH. You knew Bethlehem was bidding on the heavy cruiser?

Mr. BARDO. I did not know, but I knew we were not competing with them.

The manner in which a light cruiser was given to New York Ship in 1934 was described by Mr. Bardo (galley 96 WC).

Mr. RAUSHENBUSH. Will you explain for us, as a matter of technicality, how, after the Navy threw out these bids for the armored cruiser, how you arranged with them to get the award for the light cruiser? There has been some question raised about that.

Mr. BARDO. Admiral Land called me up one day, along about noon, on the telephone, and said, "The Assistant Secretary wants to see you and wants you to come to Washington this afternoon", and I said, "Yes." And I jumped on a plane and came to Washington and went to see Admiral Land, and he said, "He wants to see you about the light cruiser." And I said, "Yes." And I went in to see The Assistant Secretary Roosevelt, and he said:

We would like to have you build this third light cruiser, which is different from what you got, but I cannot pay you your price, and cannot pay you over \$12,000,000, because that is the limit in the appropriation for it.

We talked a few minutes about it, not over 5 at the outside, and I said, "I want to accommodate you as far as I can. In view of what you say, I will undertake to build the job for \$11,975,000", and he made the award on that basis, and that is all there was to it.

Mr. RAUSHENBUSH. How much reduction was that from your bid?

Mr. BARDO. Around \$500,000, I would say.

Mr. RAUSHENBUSH. Suppose one of your competitors did that. Suppose the Navy had, after all the bids were in, gone to one of your competitors and had said, "If you wipe off \$500,000 from your bid we will give you the ship", without taking your competitors into the situation; would you not be rather sore about that?

Mr. BARDO. No; that has happened to me before. I would not have been sore about it. Life is too short.

Mr. RAUSHENBUSH. You mean the Navy has done it?

Mr. BARDO. Yes.

Mr. RAUSHENBUSH. On what?

Mr. BARDO. The destroyers.

Mr. RAUSHENBUSH. Who is that?

Mr. BARDO. I do not want to go into that sort of discussion.

Mr. RAUSHENBUSH. These are definite questions.

Mr. BARDO. It was done on the destroyers.

Mr. RAUSHENBUSH. When?

Mr. BARDO. On the *Farragut* and *Dewey*.

Mr. RAUSHENBUSH. When?

Mr. BARDO. 1931 or 1932, whenever those ships were ordered.

Mr. RAUSHENBUSH. You mean a certain amount of price was lopped off?

Mr. BARDO. The price was not lopped off, but something else was done which had the same effect.

Mr. RAUSHENBUSH. What was done?

Mr. BARDO. The invitation limited to a contract bid on the Navy's plan. We were submitted an alternate plan. We had one but we were told they did not want any alternate plans. The Bethlehem submitted an alternate plan, better than the one we bid on, with higher speeds and greater guaranties, and, very obviously, the Navy took it, and I never raised any question about it.

Mr. RAUSHENBUSH. That is the only other instance you remember?

Mr. BARDO. That is the only other instance I remember in navy yards. It has happened to me in merchant work several times.

Mr. RAUSHENBUSH. Have you said everything you want to say about the 1934 bidding?

Mr. BARDO. I do not think there is anything, Mr. Raushenbush. There may be some things about which you want to know.

Mr. RAUSHENBUSH. Were there the same sort of talks as there were, discussed here in this letter, or were there no such talks?

Mr. BARDO. No; there were no such talks on the 1934 program. There was no such discussion, because there was not so much there, and it was free for all, and everybody could go into it if they wanted.

NAVY'S COMMENTS ON 1934 BIDDING

A great deal of the testimony showing the character of the bidding in 1934 was read for their comment to Assistant Secretary Roosevelt, Admiral Land, and Admiral Robinson (Apr. 11, galley 54 YD et. seq.)

Mr. RAUSHENBUSH. Mr. Chairman, as we understand it, we have gone through the various categories of ships in the \$270,000,000 or \$280,000,000 program in 1933, and have given extracts of the evidence we have, to the effect that on practically each one of those categories only one company really wanted it, and bid as hard as it could. Others put in complimentary bids, which Mr. Bardo defines were bids so high they knew they could not get it, and there were other definitions. On the light cruisers, New York Ship was the only real one, and on the armored cruisers, Bethlehem was the only real one, and on the 1,500-ton destroyers, only the three which got the awards. I note here there was some dispute about that. On the 1,850-ton destroyers, only the two companies which got the awards, and on the submarines, only one company, and on the aircraft carriers, only one real competitor.

We would like to go through the same thing on the 1934 program, which was a definite situation, as we said before.

Before doing that, let me interrupt; Admiral Land, did you reply to Commander Cochrane's letter?

Admiral LAND. Surely.

Mr. RAUSHENBUSH. May we have the reply for the record?

Admiral LAND. If I can locate it.

Mr. RAUSHENBUSH. If you can locate it; all right.

(The letter to be supplied and when supplied to be given "Exhibit No. 1942" and will appear in the appendix at p. —.)

Mr. RAUSHENBUSH. Now, the 1934 program involved how much money, approximately?

Admiral LAND. First, there was an increase in Navy emergency construction, of which about \$24,000,000 for the first year's work was involved.

Mr. RAUSHENBUSH. All right. The whole allotment which was given out in 1934 was how much?

Admiral LAND. \$40,000,000, broken down into ship construction and aircraft work.

Mr. RAUSHENBUSH. Just on the ship construction, on the light cruisers, and on the destroyers and submarines?

Admiral LAND. The first year——

Mr. RAUSHENBUSH. I do not want the first year. I want the whole amount which was awarded. Do you remember, Admiral, roughly?

Admiral LAND. I know what the estimated cost is, if that is what you are after.

Mr. RAUSHENBUSH. All right. I guess we can add it up.

Admiral LAND. We have got that. On the light cruisers, if you want to add it up——

Mr. RAUSHENBUSH. I want the whole thing. Could we roughly describe it at about \$50,000,000?

Admiral LAND. You mean the awards?

Mr. RAUSHENBUSH. The whole thing, in 1934?

Admiral LAND. Those, of course, are just C and M and A and AA. I can add it up. There were 24 ships involved, 20 under increase of the Navy, emergency construction, and 4 under straight increase of the Navy.

Mr. RAUSHENBUSH. If you could put in the figure, I would appreciate it.

Admiral LAND. The amount involved in the awards to private yards is——

Mr. RAUSHENBUSH. You will fill that in?

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. As we gather the picture in 1934, on the light cruisers, nos. 46 to 48, there was a considerable number of bidders, but that Newport

and New York Ship were the only real competitors; and on the armored cruiser no. 45 there was only real competition between Bethlehem and Federal; and on the 1,850-ton destroyers there was real competition, among competitors who actually could take it, between Federal, New York Ship, and possibly Newport. We are not sure of Newport. On the 1,500-ton destroyers there was no real competition on class 1 bids and on the class 2 bids Bethlehem was the only one; and on the submarines there was competition only to the extent we described before.

As Admiral Robinson said this morning, there was no real competition except Portsmouth. We would like to go over that in detail, if you care to make any comments, and again read to you, for comment, any excerpts of testimony.

Admiral LAND. May I interrupt? Are we to accept what you are stating, without reply? Because I do not differentiate in the competition here, and I take exception to it because I do not understand it. I do not know what is in your mind. In other words, I am not subscribing to the premise which you are putting in the record.

Mr. RAUSHENBUSH. Let us try to define it a little bit.

Admiral LAND. I am perfectly willing to have you say that as a statement from you.

Mr. RAUSHENBUSH. We want comments from all three of you on this.

Admiral LAND. I do not accept the adjective which modifies "competition", because I do not know how real it was.

Mr. RAUSHENBUSH. On the basis of the shipbuilders' own words, that in certain cases they did not want things and they put in what they called "complimentary bids", meaning bids so high they would not get it, or protective bids, meaning in effect the same, and they concentrated on other things.

We are trying to get at the number of people who put in prices for you and did not particularly want that, and eliminate those. In all cases they were high bidders. And the firms say, "Now, here it boils down to just a few."

The 1934 situation is different. Do you see what we want to get at?

Admiral LAND. I want to say, we got the best competition humanly possible to get on that in 1934. We followed the law. Beyond that I do not know whether it was real competition, honest competition, or anything.

Mr. RAUSHENBUSH. Then stop at that, Admiral Land. You can follow the law prevailing. You can give the award to the lowest bidder before you, and I think you have said quite adequately to the committee you have had no means to go into it, no power of subpoena to go into the records of the company. But I thought the Secretary and the others of us agreed that that is pertinent, and that if information was put before you in both 1933, and to a certain extent in 1934, these companies knowing each other's natural advantages, in some cases tried to go over, had definitely bid higher on type, with estimates before them on certain things; I mean, had been higher on other things and put in meaningless bids on others, that that would be a situation which would be unimportant to the Navy. Do you see that, Mr. Secretary?

Mr. ROOSEVELT. I see it, but it takes a very close analysis of the bids.

Mr. RAUSHENBUSH. We have been spending about 2½ months giving a very close analysis to the bids.

Mr. ROOSEVELT. I appreciate that.

Admiral LAND. I would like to make my position plain. I will sign on the dotted line and agree 100 percent to the Assistant Secretary's statement with regard to the work of this committee.

I have stated repeatedly I am not here to defend the shipbuilders, and they are my arch enemy, so far as doing business is concerned, all the time.

Mr. RAUSHENBUSH. Why do you say that?

Admiral LAND. Because we fight them all the time.

Mr. RAUSHENBUSH. Because they are trying to get more money than they should have?

Admiral LAND. They are trying to get something which we do not think they should have, whether money, a nut here, or something. We spend much of the time in arguments. I mean, when I say fighting, controversial arguments with shipbuilders on designs and construction of the ships. I do not want to come to their defense in any way.

Mr. RAUSHENBUSH. I think the committee understands that.

Admiral LAND. I want to make it plain.

Mr. RAUSHENBUSH. Do I make myself clear on that? Without you knowing about it at all, with a whole bunch of figures not put before you, which you have to look at, or have so far been looking at, without any understanding of what

went before it, you see what appears to you, or you see from the statements of the shipbuilders that they are not interested in that, and by putting in protective bids they are helping out other people; if you have that situation before you, it is important to the Navy, and to the taxpayers and the administrative officers of the Government to be able to say, "We are here protecting your interests, and we are getting the lowest possible price." It has importance, does it not?

Admiral LAND. Undoubtedly.

Mr. RAUSHENBUSH. All right.

Admiral ROBINSON. It has importance in another way, Mr. Raushenbush. Knowing the facts brought out here, we will be in a position to run down a good many things; clues which have been given, and so forth, and take every safeguard on that sort of thing. As a matter of fact, there will probably be other bidders next year. You are looking to the future, I presume.

Mr. RAUSHENBUSH. On the other bidder proposition, we have had considerable comment from the builders that, after having produced a definite type, they have a definite advantage preparing a duplicate. Bethlehem said the advantage runs about \$500,000. Newport put its advantage at having done the job on aircraft carriers at about \$1,000,000 apiece. Other companies gave other estimates, and on submarines it was a little lower, and on destroyers it was a little lower. They said that. We have a feeling, if you can get in just a few more yards, that they will know enough about it necessarily to give you a very low price.

Admiral ROBINSON. In spite of the fact that it is true, with one exception, aircraft carriers for these various categories of ships, in the past 15 years they have shifted from one yard to another, in a way which would indicate that there is no stress on any particular yard. There is not a single yard that has built all that category of ships, of the Big Three, I mean.

Mr. RAUSHENBUSH. To the extent that you ascertain the extent, if you please, that they are concentrating on this, because they have an advantage, you would wipe out that?

Admiral ROBINSON. It comes down to this: Where you have a lot of ships to build, it only is of more or less importance, because it would undoubtedly influence the bidding. Where there is a small number of ships, of course, the thing is different. Some of the shipbuilders submit bids which they believe to be cost bids, or below cost, or anything to get the business. It depends a good deal on the circumstances. It so happens that in 1933 and 1934, it was a little bit unusual and we were building more ships and catching up for what we had not done for years gone by, and the bidding situation will probably be different from that from now on.

Mr. RAUSHENBUSH. They were frank enough to say they were putting up prices because of the work at the time.

Admiral ROBINSON. There is no question about that.

Admiral LAND. What is your suggestion, Mr. Raushenbush, if the Navy is not to increase competition? Admiral Robinson says we may have increased competition, and you say that may not be of any help.

Mr. RAUSHENBUSH. Increased number of bidders may not be of any help.

Admiral LAND. What suggestion have you to make?

Mr. RAUSHENBUSH. The chairman, before he left, asked the Secretary: "Has the Navy worked out any plan to get a different kind of bidding?" And the answer, I think quite properly was, "We have not gotten around to considering that at the moment."

Admiral LAND. Does anybody know of any different kind of bidding? We have got the alternative of putting them in navy yards or putting them in private yards. There may be some other way of building ships in the United States, but I have been kicking around a long time and I do not know it.

Mr. RAUSHENBUSH. The chairman made one further statement. He said: "If your commandants in the navy yards went ahead in making up their estimates and you publish those at the same time you publish the bids of the private companies, you will have not only furnished for the public a comparison but a yardstick that might be worth having." That was the only suggestion.

Admiral ROBINSON. We have followed that for our own information.

Mr. RAUSHENBUSH. It has never been put in parallel columns.

Admiral ROBINSON. The people working on that have always taken that into consideration.

Mr. RAUSHENBUSH. In the more recent years, in 1933 and 1934, you did not have it before you, I take it?

Admiral LAND. Yes; we did.

Mr. RAUSHENBUSH. I thought the statement was made you did not.

Admiral ROBINSON. We have those on the previous years right along, and they are always taken into consideration, absolutely. That is one of the reasons why I explained in the 1934 program, which you are just talking about, we did not like the Federal Co. bid, because we thought the price was too high and threw it out and put it in the navy yards.

Mr. RAUSHENBUSH. Was that on the basis of the navy yards' estimates?

Admiral LAND. Yes, sir; but better than its actual cost.

Admiral ROBINSON. We knew the one price was too high, and we frankly threw it out and would not consider it. We have letters from the president of that company protesting it.

Mr. RAUSHENBUSH. We have had those in the record.

Admiral ROBINSON. You have seen those and know of our action in that connection?

Mr. LAROCHE. I want to make a comment, not pertinent to that particular question, but in the case of the New York Ship in 1934 you called them in and asked them to reduce their bid, and you did not do that with a shipbuilder which was not a member of the so-called Big Three.

Mr. ROOSEVELT. I can explain that. Let me take up the other first, because I happen to have it before me, if you do not mind.

That heavy cruiser, the lowest bid for the heavy cruiser was \$12,889,000, and our price on the Philadelphia Navy Yard was \$11,500,000. Therefore, we gave it to the Philadelphia Navy Yard in that particular case. There is an example of where we would not take a bid because we felt it was too high.

Mr. RAUSHENBUSH. How about the light cruiser? Did you have an estimate from the yard on that, too?

Mr. ROOSEVELT. I want to get the whole data.

Mr. RAUSHENBUSH. By the way, the Philadelphia yard's estimates are usually higher than those of the west coast and some of the other yards, are they not?

Mr. ROOSEVELT. I am not prepared to answer that, because I have not got the data.

Admiral ROBINSON. I would not want to answer it without looking at the figures.

Mr. RAUSHENBUSH. That is my impression.

Admiral ROBINSON. It varies, Mr. Raushenbush. One year one yard is higher than the others, and the next year it may be the other way about. I think the west coast yards usually are a little bit lower than any of the east coast yards. That is my general impression.

Mr. ROOSEVELT. At all events, bids for the two light cruisers were opened on August 15, 1934. The lowest reliable bidders, on the adjusted-price basis, were the Newport News Shipbuilding & Drydock Co., which submitted a bid of \$11,900,000 for one vessel, and they got that.

The next lowest reliable bidder was the New York Shipbuilding Corporation, who submitted an adjusted-price bid of \$12,550,000.

The bid of the Newport News Co. of \$11,900,000 for one vessel permitted a deduction of \$250,000, if certain plans were furnished to this company, either by the Navy Department or a private contractor. It was ultimately determined by the Department that these plans should be furnished by the New York Shipbuilding Corporation, and the deduction of \$250,000 from their bid price was made, their actual price being \$11,650,000.

The New York Shipbuilding Corporation had contracts for and was building two light cruisers, the *Savannah* and the *Nashville*, of the 1933 program. These cruisers were generally similar to the light cruisers called for in the 1934 program. In analyzing the bids it was noted that under the item "planned design", which you asked for, no allowance was made by New York Ship. Also, the average allowance of the five other bidders was \$520,000.

As a result of the foregoing, a price of \$11,975,000 was concluded on the adjusted-price basis, the deduction being \$575,000.

Mr. RAUSHENBUSH. I still do not follow one thing in that, Mr. Secretary. The bids for the light cruisers called for only 1 ship, and actually you awarded 2 ships under that.

Mr. ROOSEVELT. Is that right?

Mr. RAUSHENBUSH. So far as fairness to the other so-called "competitors" in the matter is concerned, could you not have called in and put in bids on the light cruisers for two? They had all that data available.

Admiral LAND. Surely.

Mr. RAUSHENBUSH. Could you not have done that?

Admiral LAND. Certainly, we could have.

Mr. RAUSHENBUSH. Why was it not done?

Admiral LAND. If you will read the National Industrial Recovery Act you will find that that contemplated the distribution of work. That is the preamble of the thing.

Mr. RAUSHENBUSH. One of the others might have gotten it equally well. If you had given Federal a chance to lop off a certain amount, and get down to a final price of \$11,975,000, they might have been glad to do it.

Admiral LAND. They had a chance and did not.

Mr. ROOSEVELT. As I recall it, they asked what they had to deduct if plans were furnished to them. There was nothing to be deducted.

Admiral LAND. \$600,000; you have it in your own files.

Admiral ROBINSON. That is a legitimate price. That is not a juggled price, but is also a legitimate deduction which should be made from their price, because they had included this particular arrangement of plans in their bid.

Mr. LAROCHE. I think the fact stands that New York Ship's bid was \$12,500,000 plus, as things stand.

Admiral LAND. That is correct. That is their bid. You will recall in their bid, where allowance for plans was called for, they allowed "zero."

Mr. LAROCHE. They were making the plans.

Admiral LAND. That is the reason they should have allowed for them, because it was a duplicate.

Mr. LAROCHE. That was their bid, \$12,500,000?

Admiral LAND. That is true.

Admiral ROBINSON. No, sir; those things had not all been taken into consideration. I do not think they had been taken into consideration.

Mr. LAROCHE. But the bids were in, and they were supposed to stand on them.

Admiral ROBINSON. They did stand on them, but we were not going to pay them for plans which they already had, and we deducted it from their bids, which we had a perfectly good right to do, because we told them in the schedule going out to them that we were going to do it as we had done before.

Mr. ROOSEVELT. I can find it in a minute, but from my recollection I know that that company was the only one which failed to fill in that column for the deduction allowed for plans. So that from their bid they showed no advantage whatever of having made any deduction for plans.

Admiral LAND. You gentlemen have that letter.

Mr. ROOSEVELT. I think you have got it here.

Admiral LAND. I know I have. There is the recommended award and the column in which appears the allowance for plans, and, as the Secretary has just stated, there is shown in that column nothing. There are \$250,000 for Newport News and there is allowance on this company of \$650,000 on the other bidders. The average of those is \$520,000 or \$510,000. Therefore the over-all average for allowing for bids for New York Ship is something in the neighborhood of \$520,000. All actually agreed at \$575,000.

Mr. ROOSEVELT. The others had nothing to deduct for plans and had shown that in their column.

Mr. RAUSHENBUSH. With that explanation I would like to run over the categories.

Mr. ROOSEVELT. May I show that here [producing paper]?

Mr. RAUSHENBUSH. Surely.

Mr. ROOSEVELT. Here is the abstract. You can see from this that every one of those bidders gave in that column, except those people, what the deduction was. There was nothing further which we could deduct from the others to bring their price lower. They had already taken that into consideration.

Mr. RAUSENBUSH. On the light cruisers in 1934, coming back to the successful bidders, they were Newport and New York Ship. Now, the question remains about the other bidders, the other people who put in prices—United, Federal, Bethlehem, and Gulf. Gulf was eliminated by yourself, although second lowest in price. United stipulated, I think, in 1934 that it could not handle a cruiser on top of destroyers and bid accordingly on destroyers?

Admiral LAND. That is correct.

Mr. RAUSENBUSH. There is evidence that they were not equally desirous of a cruiser.

Could Federal take two cruisers and get them through in the time limit?

Admiral LAND. Federal?

Mr. RAUSHENBUSH. Yes.

Admiral LAND. I think they probably could. They are a fairly good yard. They are not very familiar with Navy building, but they are doing fairly good work, and my estimate is they could get away with two cruisers. They would have some trouble.

Mr. RAUSHENBUSH. And destroyers?

Admiral LAND. That is a question. I am not capable of saying that.

Mr. RAUSHENBUSH. They got an award for 2 destroyers, and we figured they could not take 2 cruisers in addition to 2 destroyers.

Mr. LAROCHE. Having two destroyers on the way?

Admiral ROBINSON. I think that is a reasonable assumption.

Admiral LAND. I think that is a reasonable assumption.

Mr. RAUSHENBUSH. So that if they wanted a new cruiser at all, they wanted the armored cruiser, on which they bid lower than the light cruiser. It was on that ground that we figured they did not want this one as much as the other. Page 8939 of the record, Bethlehem felt no inducement on the light cruiser, and it is explained in various places that they had for the armored cruiser.

New York Ship was one of the companies getting it, and we have evidence that that was the one they wanted.

Turning to the armored cruisers, we think there is real competition between Federal and Bethlehem there. That is true, is it not?

Mr. ROOSEVELT. What were the bids?

Mr. RAUSHENBUSH. \$12,889,000 for Federal, and Bethlehem \$12,970,000.

Mr. ROOSEVELT. It looks as though they wanted it.

Mr. RAUSHENBUSH. Bethlehem wanted it on an adjusted price, but not fixed price, because they jumped up to \$15,200,000 on a fixed price.

Again, it is our contention about the others: United said they did not want a cruiser on top of the destroyers, and bid lower on the destroyers and bid higher here on the armored cruiser than they did on the light cruiser, so that they take themselves out of the running.

Record page 10353 again.

New York Ship was not interested at all. Mr. Bardo's testimony at pages 10570 and 10594 and 10595. Mr. Langell, the estimator, said they had no estimate and Mr. Cornbrooks said, "We did not want it", record, page 7298.

That takes New York Ship and United out, as far as our work goes here.

Therefore we have a competition between Federal and Bethlehem, with Bethlehem having an admitted advantage of \$500,000, and still was not low, and the bids were thrown out, and the lowest bid was about \$1,000,000 below the bid on the light cruisers.

Coming to the 1,850-ton destroyers, Federal received the award for two. Here is a case where United was the really low bidder and did not get it. Is that not right?

Admiral LAND. Not when you consider its rider, which you must consider. United Dry Docks limited itself on the awards to contracts for 2 destroyers or 1 cruiser, in consideration of the award of two 1,500-ton destroyers being made to this company.

Mr. RAUSHENBUSH. There is no question about that, Admiral, but the point is, they were low with \$4,000,000, and they were also low on the other destroyers and got them, and got the other destroyers because they could not take these?

Admiral LAND. Because they could not take these.

Mr. LAROCHE. And eliminated this?

Admiral LAND. And eliminated this; that is what I want to make clear.

Mr. RAUSHENBUSH. New York Ship, you think, was probably an honest competitor on it. Bethlehem was very frank in saying they did not want these because no design work was involved, record, page 8940. That is in their testimony. I call your attention to that.

Newport may or may not have been in. We do not know. You have a bid there of \$4,410,000, and Newport bid about \$40,000 above the bid of Bethlehem, which I have just given, \$4,410,000. So that if a bid above what somebody wanted was an honest or a desirable bid, Newport is in.

So, that the only real competition between those who could take the work, where the Federal got the award, was New York Ship possibly and Newport doubtfully.

On the 1,500-ton destroyers, United was awarded 2 on class 1 and Bethlehem got an award on class 2. Now the other competitors were Federal, New York Ship, and Cramp. Federal did not want this badly, because on their figures they went up \$325,200 over 1933, while United, by contract was only going up \$30,000; and yet they were able to bid so closely together on it as to be within one-tenth of a percent, as we brought out.

New York Ship, according to Mr. Bardo's testimony on page 10550, did not want a class I job badly because it was concentrating on the 1,850's, and it went up \$840,000 over 1933, and had very meager estimating data. I call your attention to Cornbrooks' testimony, pages 7298 and 7299.

Did you consider Cramps financially competent at the time?

Mr. ROOSEVELT. I do not think they could qualify.

Mr. RAUSHENBUSH. That probably takes out Cramps?

Mr. ROOSEVELT. They could not qualify under the law.

Admiral LAND. Do not forget, Mr. Raushenbush, you are comparing the 1,500-ton bids between United and Federal.

Mr. RAUSHENBUSH. Yes.

Admiral LAND. Are not they actually closer together in 1934? It looks to me they are almost identical; United \$3,726,000 and Federal \$3,720,000.

Mr. LA ROCHE. There are two tables, Admiral.

Admiral LAND. I know.

Mr. RAUSHENBUSH. Here is what we think about that, Admiral. United went up from its class I bid in 1933 to 1934 only \$30,000. Very little. Apparently they wanted it and they were the ones who got the award.

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. Federal, who had bid so close, so tight in connection with Bath and United—do you remember—in 1933?

Admiral LAND. Yes.

Mr. RAUSHENBUSH. Instead of going up \$30,000, with United, they actually went up \$674,000. Do you see?

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. That takes out Federal, New York Ship, and Cramps; and Bethlehem, they told us, did not want the class I badly because it went up \$1,049,000 over 1933, at the time that Bath was going up only \$30,000.

On class I, there was no real competition for United. Bethlehem, on class II, was anxious to get the work, according to Mr. Wakeman's testimony, page 8939, and did get the award on class II.

I do not want to go into the submarine bids again, because I think we covered that in 1933 for the Electric Boat. That is 1934, so that we feel, on the light cruisers, only Newport and New York Ship were really competing, and on the armored cruisers only competition between Federal and Bethlehem. On the 1,850-ton destroyers there was real competition among competitors who could take the work between Federal, New York Ship, and Newport, possibly.

On the 1,500-ton destroyers there was no real competition on class I bids. In class II bids Bethlehem was alone. And on submarines the competition was inadequate.

There is one more thing, in a constructive way, in regard to this, Admiral Land: You were asking how competition could be any better, by which I think you mean, how can one hold up a standard, in a way to be sure it is all right? I think that is probably your job to work out.

Admiral LAND. We are appealing for your help. We are hoping to have another program coming along.

Mr. RAUSHENBUSH. The committee is not yet ready, but, I think, will have something constructive to offer along that line.

Yesterday you sort of got off the track, it seemed to me, in your colloquy with Senator Vandenberg when you were explaining the rise in prices in 1933 and say: "Well, it is true that there was some four and a half million, or whatever it was—three and a half million—between 1932, but 1933 was exceptional and was passed on before that." Do you remember?

Admiral ROBINSON. Yes, sir.

Mr. RAUSHENBUSH. If you go back and look at those ships you will find that those earlier ships were ships that had a terrific amount of profit in them. In this 1929 bidding, for instance, of Bethlehem that was a ship where they made 21.8 percent profit by their own figures. And on the earlier cruisers, 1927, 1929, 1931, and 1932, they not only made a profit but an unexpected profit of \$3,620,000.

Newport made 35 percent on aircraft carriers, and here you have proof of very high profit on cruisers which you are using as a yardstick.

Admiral LAND. Just a minute.

Mr. RAUSHENBUSH. Yes, sir.

Admiral LAND. I am not using that as a yardstick. If you want the essential details, the cruisers, coming down to 1933 and 1934, are up 900 tons heavier right off the bat, and the only thing you need to do is to find your cost per ton, and there is a very marked increase, to which you do not even give consideration.

Mr. RAUSHENBUSH. Let me make a statement there. We have the Newport estimates for 1932 and 1933.

Admiral LAND. Yes.

Mr. RAUSHENBUSH. They would show the difference, would they not?

Admiral LAND. Yes; but I mean combatant designs.

Mr. RAUSHENBUSH. Do not accuse me of not giving consideration to it.

Admiral LAND. I want to give you my position. I came in the Bureau October 1, 1932. I am not competent to discuss figures of allocation prior to that, but will get any information the committee desires. But I cannot discuss them, due to the fact that I was not on the job—cannot discuss the figures that you may present prior to the time that I took office.

Mr. RAUSHENBUSH. These are in the committee's records. At the time there was supposedly a terrific increase taking place in the cost of cruisers, and the Newport estimate from 1932 to 1933, so far as actual labor and material goes, did not go up at all, but dropped \$13,000.

Admiral LAND. Yes, sir.

Mr. RAUSHENBUSH. It is that sort of thing which makes us think the 1932 vessels were too low in price or there was an unjustified increase in price in 1933.

Bethlehem had three and a half million dollars, and Newport \$4,000,000 plus, and New York Ship \$2,484,000; and on the basis of the Newport estimates we do not find that that is an adequate explanation of the increase for these 1933 and 1934 cruisers. Then we go back and look at the earlier cruisers. In 1927 one of the companies admitted they got an agreement with other companies. In 1929 we have evidence along that line, which is in the record, and the cruiser was finally given at 21.8 percent profit. On some of the early work Newport admits having made 35 percent profit; Bethlehem 25.4 percent on the *Northampton*.

All those cruisers, which are used as a comparison with the present prices, to a certain extent to explain them as being justified, are all loaded with a profit. Perhaps you did not know these figures before until they came into the record. But, with that situation before you, Mr. Secretary, and with the Navy figures on the early ships in 1927 and 1929, showing costs, even with the statistical costs added, of \$2,000,000, and on the 1927 cruisers over \$2,000,000, and on the 1929 cruisers over \$1,400,000, as I remember it in the private yards, do you see a sufficient reason why, and from this other evidence you have heard this morning why this whole question should be gone over again by the Navy?

Mr. ROOSEVELT. I think it would be very helpful. I think the evidence produced before this committee will be very helpful to the Navy.

Mr. RAUSHENBUSH. The matter is one which runs into considerable money, of course. If it should turn out that the navy yard figures and the figures which could be produced by eliminating those high profits were as much as one million and a half dollars or \$2,000,000 lower than we are getting, on 14 cruisers we have had so far, that would run over \$20,000,000; and if the same thing runs through the rest of the program, you have got a matter which runs into a very considerable sum of money, have you not?

Mr. ROOSEVELT. Yes; of course, if you have taken into consideration in all this analysis the change in the characteristics of the ships, which you say you have in a careful way.

Mr. RAUSHENBUSH. We have on certain estimates; yes.

Mr. ROOSEVELT. And also the rise in prices and the cost of labor, and that kind of thing. I do not know them, myself, but it certainly is going to be thoroughly studied by us.

THE THEORY OF NATURAL ADVANTAGES

Mr. Wakeman of Bethlehem explained the differences in bids on cruisers in 1934 on February 28 (galley 49 QD).

Mr. RAUSHENBUSH. The same situation seems to have happened on the bidding on the two cruisers in 1934, Mr. Wakeman. The bids on the light and heavy cruisers again show that you apparently wanted the heavy one, or bid far lower on the heavy one than on the light one.

Mr. WAKEMAN. I have a statement which I would like to read into the record of the general situation in 1934.

Mr. RAUSHENBUSH. All right.

Mr. WAKEMAN. When bids were being prepared in August 1934, prior to their opening on the 15th, we had been operating for a year under the shipbuilding and ship-repairing code.

We were still faced, however, with the same general uncertainties that were before us in 1933. The N. R. A. had not, contrary to expectations, served to stabilize economic conditions and to bring about the much-hoped-for normal times. We were certain, however, that our labor costs during the next year

would be definitely higher, for our actual experience had shown an increase of better than 40 percent from 1933 to 1934, with indications pointing to even further increases.

Later (galley 52 QD).

Mr. WAKEMAN. Your accounting methods vary in different plants, I imagine.

The vessels called for in the 1934 program consisted of: One heavy cruiser, two light cruisers, two destroyer leaders, five 1,500-ton destroyers, three submarines.

Of these ships under the Vinson Act only approximately one-half could be awarded to private yards. Due to the work in hand from contracts awarded prior to 1933 and the 1933 program, our interest centered itself on certain ships in the 1934 program.

Our design department was rapidly completing its work on the cruiser *Quincy* awarded in 1932, and on the ships awarded in the 1933 program, with the result that if this essential portion of our organization was to be held together, work involving new design was most desirable. It was also clear that by the end of 1936 all the construction work in hand would be virtually completed and a contract involving extending delivery time would be desirable.

Reviewing the situation, it seemed that we had best center our efforts on the heavy cruiser, which in many respects was like the cruiser under construction in our yard, but which would also afford a considerable amount of design work of a type with which our staff was familiar. This cruiser also had the advantage that it could not be completed prior to the end of 1937, thus conforming with the London Naval Treaty of 1931, as well as our own specific building needs.

Our second preference was 1,500-ton destroyers of a new design, since they too would provide the necessary work for our designing staff. It further appeared that for the next few years, in accordance with the provisions of the Vinson Act and the London Naval Treaty, that the United States Navy would be built up in its cruiser and carrier categories but would have a deficiency for some time to come in destroyers. This further increased the desirability of a new destroyer design, which, if accepted by the Navy Department, might give us the advantage of the 1935 program of bidding on duplicate designs.

The airplane carriers, likewise submarines, involved considerable specialized technique which would be acquired only through expensive experience. With Newport News having specialized in airplane carriers and having secured the contracts for all the carriers in recent years, it seemed probable that the many advantages of their experience would be too great for us to overcome in bidding.

The light cruisers were duplicates of ships then under construction by New York Shipbuilding, who were preparing their plans, and therefore offered no inducement in the way of furnishing design work. They further had the disadvantage of having delivery times which would coincide with delivery dates of some of the vessels then under construction in our yard. This in itself is a serious matter, since the final fitting out and trial trips of ships must be staggered for proper handling.

The condition of overlapping outfitting and trial trips was also an objection to our receiving contracts for destroyer leaders. Furthermore, destroyer leaders gave no work for our design department.

Insofar as submarines are concerned, this company at no time has contracted for the construction of this type of vessel in its entirety, and because of the experience and equipment necessary for their building it was not in a position to seriously consider bidding for them in 1934.

From the foregoing, it is apparent that what we wished most of all, and which would be most advantageous to us, was a heavy cruiser, and failing that the next best thing for us to obtain would be 1,500-ton destroyers of a new design. Upon these two things our efforts were concentrated, as is evident from the number of designs submitted under class II for 1,500-ton destroyers.

The contracts awarded us in 1933 were on a fixed-price basis.

Bids were required on both a fixed- and adjusted-price basis in the 1934 program. In view of the greater uncertainties existing in 1934 and the better establishment of the adjusted-price contract through its operations since its inception in 1933, a contract on a fixed-price basis was not acceptable to us. The Navy Department, however, again required us to submit bids on both bases and a bid on adjusted price only would have been rejected. We, therefore, were obligated to put in a fixed price against our desires, which price was made sufficiently high to insure us against receiving an award on that basis.

Mr. RAUSHENBUSH. Will you read that last paragraph again? I am not sure I understood that.

Mr. WAKEMAN (reading):

"Bids were required on both a fixed- and adjusted-price basis in the 1934 program. In view of the greater uncertainties existing in 1934 and the better establishment of the adjusted-price contract through its operations since its inception in 1933, a contract on a fixed-price basis was not acceptable to us. The Navy Department, however, again required us to submit bids on both bases and a bid on adjusted price only would have been rejected. We, therefore, were obligated to put in a fixed price against our desires, which price was made sufficiently high to insure us against receiving an award on that basis.

Mr. RAUSHENBUSH. All right.

Early in the hearings, several weeks before the theory of "natural advantages" was advanced to account for the bidding of the various companies, Mr. Bardo explained identical bids on two large merchant ships by the fact that information on labor costs was exchanged between the yards (Jan. 24, galley 64 GP):

The CHAIRMAN. Mr. Bardo, are you wanting us to conclude that there really is nothing in this, then, about the fact that three companies would bid and that two of them would bid an identical figure, \$9,750,000?

Mr. BARDO. Senator, that is true. And I think this will help to enlighten you on how this thing works: There are two principal phases. First, you have got labor, and you have got materials. There are these three yards that were bidding upon an identical ship. We made the same investigation. We made the same inquiries to all of the suppliers of steel, auxiliary facilities, and auxiliaries of every kind, and it is fair to assume that we got the same quotation from all of them. You would not find very much difference there, if any. You might find a little in the way that the thing was assembled and put up.

Now when it comes to the question of labor, that is always a very important question, and the three yards kept very close in touch with one another as to our labor costs and our labor wages and our labor conditions, because we wanted to know and we wanted to keep tabs on what was going on, and what was happening, and what was likely to happen.

Mr. RAUSHENBUSH. Were you the one which kept in touch with the other yards on labor and material?

Mr. BARDO. No; one of the men on my staff did that.

Mr. RAUSHENBUSH. Who was that?

Mr. BARDO. Mr. Taylor.

Mr. RAUSHENBUSH. What capacity did he have?

Mr. BARDO. I think he had the title of assistant comptroller.

Mr. RAUSHENBUSH. He was the one who kept finding out what the other yards were paying for labor and material?

Mr. BARDO. He did not know anything about the material. He did not get that figure because that was out of his line, but that is the man who kept the record for us on labor costs and labor wages.

Mr. RAUSHENBUSH. When he got that information, did he communicate it to you or the estimating department?

Mr. BARDO. It came to me.

Mr. RAUSHENBUSH. The estimating department did not have that?

Mr. BARDO. They did not have that information.

Senator VANDENBERG. Would he be advised as to what the labor element would be on a given bid?

Mr. BARDO. No. He simply reported the facts. That is all.

Senator VANDENBERG. You did not need an N. R. A. to standardize your practices?

Mr. BARDO. No, sir; we did not.

Senator VANDENBERG. You beat the N. R. A. to it.

The "natural advantage" theory was apparently not approved by Mr. Bardo who gave testimony that there was no reason why the company bids should differ from each other by very much (Jan. 24, galley 71 GP):

Mr. RAUSHENBUSH. We had testimony the other day that bids from Bethlehem and Newport News were such-and-such figure, and Bethlehem was only \$33,000

above Newport News. Is not that very close for a bid on a ship involving that figure, for one company to come within \$33,000 of the other?

Mr. BARDO. Not necessarily so, when you are dealing with exactly the same factors. You are bidding on an identical ship.

Mr. RAUSHENBUSH. You think they can get that close, within a very small fraction of 1 percent?

Mr. BARDO. The facts seem to indicate that they did. I do not see any reason why they should widely differ.

Discussing the advantage possessed by a yard which has had experience in building cruisers, L. H. Korndorff, president of Federal Shipbuilding & Drydock Co., testified (galley 8 WC, Apr. 2):

Mr. RAUSHENBUSH. There is a lot of rather miscellaneous stuff, Mr. Korndorff. Here in November 1932, before you got into the shipbuilding picture, you were writing a memorandum to Mr. Irvin, under date of November 4, 1932, which I offer for the record as "Exhibit No. 1762", about bidding on the cruiser for the United States Navy, saying:

I have reviewed this matter futher with Admiral Land and other officials of the Navy and find that the proposed vessel is substantially a duplicate of those previously built. This would give the yards that had built such ships a tremendous advantage in cost of plans and development, which will amount to around \$500,000.

Do you remember this statement?

Mr. KORNDORFF. Yes.

Mr. RAUSHENBUSH. Is that about right, Mr. Korndorff?

Mr. KORNDORFF. I think it was low.

Mr. RAUSHENBUSH. How much advantage do you think a yard which has built a cruiser has over one which has not?

Mr. KORNDORFF. I think in this particular case that that advantage would be nearer \$1,000,000 than one-half million dollars.

Mr. RAUSHENBUSH. \$1,000,000. That was on the armored cruiser, *Quincy*, was it not?

Mr. KORNDORFF. *Quincy*; yes, sir; 1929.

Mr. RAUSHENBUSH. So that the yards do not start at all even, from scratch, on bidding, do they?

Mr. KORNDORFF. Not if you are starting in a new game as we were.

Mr. RAUSHENBUSH. Or somebody who has not built a cruiser before is about \$1,000,000 worse off than somebody who has?

Mr. KORNDORFF. I would like to say between one-half million dollars and \$1,000,000. There is not only the question of plans but the "know how" which takes years to accumulate.

SECTION II.—EXCESSIVE PROFITS

The profit on ships awarded after 1930 has not been determined by the companies to date.

On all ships for 1927 to 1930 the profits are as follows:

	Percent
{Cruiser <i>Augusta</i> (Newport)-----	\$2, 800, 945}
{Cruiser <i>Houston</i> (Newport)-----	2, 800, 945}
Cruiser <i>Chester</i> (New York Ship)-----	2, 946, 706 36. 9
Cruiser <i>Northampton</i> (Bethlehem)-----	2, 200, 000 25. 4
Cruiser <i>Indianapolis</i> (New York Ship)-----	3, 007, 049 33. 4
Cruiser <i>Portland</i> (Bethlehem)-----	2, 058, 793 21. 8
Aircraft carrier <i>Ranger</i> (Newport News)-----	3, 050, 000 23. 1

Newport News officials described themselves as "perfectly amazed" at the profit made on the 1927 cruisers *Augusta* and *Houston*, 35 percent (Feb. 14, 1935, galley 92 ZO):

MR. RAUSHENBUSH. In 1929 your bids were a good deal higher than in 1927.

MR. FERGUSON. They were, because we did not know until these cruisers were completed the cost of them, and I was perfectly amazed that we made so much. The cost of cruisers between 1929 and 1934 had gone down, because the ships themselves have got approximately \$1,800,000 more in them for the contractor in cost than the first ships had.

* * * * * *

MR. FERGUSON. I am talking between 1927 and 1934. The cost of our cruiser, under a contract with the Navy Department for \$11,650,000, represents an estimated profit of 6 percent, as the figures will show. And although we did make 35 percent, as Mr. Raushenbush says, profit on the carriers in 1927, we have done with that just what we have done with any other customer, they have gotten the advantage of it on future bids. We did not know, and we were amazed, and Mr. Woodward and our people can explain that difference, and I wish to submit for the record a letter which Mr. Raushenbush has, written by Mr. Palen, who was vice president of the company, to Mr. Huntington, out of this same confidential file, to the owners, in which he states:

Our bid for this work is only a fair price and should result in a moderate profit to the yard in case everything goes along smoothly in connection with the construction of the vessel.

The subject was touched on later (Feb. 14, 1935, galleys 94-95 ZO).

MR. FERGUSON. I think if you will take 80-percent overhead and 10-percent profit, it would be a figure that we would naturally bid. It is a figure that we would build the ship for without bidding. I cut the price to some 8-percent profit to bring it in line, or 7½ or 8 percent, to bring it in line with the bidding. Nobody on this committee is more surprised than I was on the profit we made on those ships. I would not believe it, because we had never done that before. It is true, I underbid on the *Leviathan* and lost \$1,400,000, but that was not as big a surprise as these cruisers. The type was different, and I went into the estimating department and asked the gentlemen estimating if any outside influence had been put on them to make their figures high, because we do not figure on receiving 35 percent on anything, and never have. I think it is rotten business, in addition to not being right.

So that the amount of the profit which was 26 percent on the cost to the Government, and 35 percent as we ordinarily figure it on operation, was a surprise to me for fair, and finally I went after the head estimator, Mr. Dimm, who is now dead, and he said he could not tell until the ships were finished, because it was our experience in warships that as long as they were around

they put things in them and filled them up. It was a gross overestimate of cost, and it is just as bad from my viewpoint to overestimate a job as it is to underestimate it, because what we require of our estimating department is the truth. And we want to get their best judgment, and these men have been there for years. And they formed their best judgment, and I and no one else, so far as I know, ever knew on what they bid in the figures that we made, and which Mr. Raushenbush now has.

The treasurer of the New York Shipbuilding Co. was questioned on the subject (Jan. 31, 1935, galley 35 ZO).

Mr. RAUSHENBUSH. After the war, you did make money on your naval vessels, did you not?

Mr. PARKER. On the cost-plus contracts, of course, you made money.

Mr. RAUSHENBUSH. Since that time you have made money on naval vessels and charged the loss against the merchant-marine vessels, did you not?

Mr. PARKER. Since what date, sir? We were awarded no naval contracts from the war time up to 1927.

Mr. RAUSHENBUSH. From 1927 on you did not report any loss on any ships, did you?

Mr. PARKER. We had no naval contracts except the completion of the *Saratoga*, which was in 1916, sir.

Mr. RAUSHENBUSH. From 1916 on, I am talking about.

Mr. PARKER. From 1916 on we made money on naval ships.

Mr. RAUSHENBUSH. Yes.

Senator CLARK. You made a good deal of money, did you not, Mr. Parker?

Mr. PARKER. Yes, sir.

Upon the resignation of Mr. Bardo as president of the New York Shipbuilding, he pointed to unexpected profits of \$3,620,000 on these cruisers. (Jan. 31, 1935, galley 35 ZO.)

Senator CLARK. I have here a letter from Mr. Bardo to the board of directors of the New York Shipbuilding Corporation, dated October 18, 1934, in which he says:

SIRS: Having today submitted my resignation as president of this corporation, it seems only fitting that I should leave as a matter of record a brief account of my stewardship.

When I first became connected with this corporation in the latter part of 1925, the shipbuilding activities were only a part of a wide prospective field, including construction of transformers, circuit breakers, electric locomotives, public-utility equipment, etc. These extended activities, together with the change of management which had taken place, resulted in the serious demoralization of the morale of the shipbuilding organization and further resulted in such a falling-off in the quality and character of the work that the corporation and its officers were subjected to very severe criticism and condemnation by the Navy Department for the work which was then in progress.

In the ensuing months, while efforts were being made to reorganize the shipbuilding personnel, the financial affairs of the corporation grew rapidly worse and reached a crisis during the year of 1927.

That was the year on which this new naval building program was put into effect, was it not?

Mr. PARKER. Yes, sir.

Senator BONE. Was that the year of the Geneva Conference?

Mr. PARKER. I do not recall, sir.

Mr. LAROUCHE. It was.

Senator BONE. A very abortive conference, too.

Mr. PARKER. It may have been.

Senator CLARK (continuing reading):

Following this crisis, progress was steadily made from the standpoint of the corporate organization, financial condition, and reorganization of personnel.

The progress that was made was following on step by step with the increased naval building program, was it not, Mr. Parker?

Mr. PARKER. Mr. Bardo wrote the letter, Senator.

Senator CLARK. I am asking you from your familiarity with the company whether that is true or not, and if it is not a fact that the progress and improvement in the company's financial condition went along step by step with the increase in naval building authorization?

Mr. PARKER. It went along coincident with it.

Senator CLARK (continuing reading):

It is not necessary to review in detail what has been accomplished in each of these fields. I content myself in pointing out certain pertinent factors of the present situation as compared with that at the end of 1926, as follows:

1. Net current assets increased from \$1,300,000 to \$5,000,000.

(NOTE.—At the end of 1926 there was a tax claim of \$3,800,000 which later was settled for \$2,350,000.)

2. Funded debt of the corporation reduced \$1,500,000.

3. Preferred stock reduced from \$4,000,000 (including \$1,000,000 of preferred stock of a subsidiary afterward sold) to \$2,000,000.

4. Participating and founders stock, 695,256 shares, reduced to 500,000 shares of \$1 par value. In doing this we were able to establish the equity relationship between the founders and participating stock so that except for voting rights the stocks are equal in every respect.

5. (a) Balance sheet intangible assets—contract and patent rights, patents, goodwill, etc.—\$4,432,845.21, written down to \$1.

(b) Corporate reorganization and electrical division development expenses, \$532,653.89, written off.

6. Surplus increased from \$1,654,000 to \$6,804,000.

7. Net profit during this period was \$6,075,607.70. The average income during this period far exceeds that of any similar period in the corporation's existence, with the exception of the period during and immediately following the war when all work was on a cost-plus basis.

8. (a) Cumulative dividends defaulted on preferred stock in 1927 and 1928 were paid, and preferred-stock dividends have been earned and maintained since 1929.

(b) Common-stock holders have received 40 cents per share per year since March 1933.

9. The value of uncompleted contracts on hand at the present time exceeds those at the end of 1926 by more than \$40,000,000.

In other words, during this period the management which came into full control early in 1927 and the reorganized personnel have been able to eliminate the highly dangerous actual and contingent liabilities on the one side and the intangible and highly questionable assets on the other side, and to provide a balance sheet for all the stockholders of which, in my judgment, any company may well be proud.

During the same period the reorganization of the supervisory personnel took place. It is significant, however, that except for two positions this was accomplished by promotions within the plant, the two exceptions being experienced executives from other shipbuilding organizations.

Following this reorganization the spirit and morale of the officers and employees progressively improved, and it is due to that fact, as well as to the efforts of the officers and department heads, that great progress was made in improving the quality of the work and in radically reducing the expenses of the accomplishment. As to the quality of the work, I refer to the contract as between the severe criticism made by high officers of the Navy in 1926 and the letter in December 1933, from The Assistant Secretary of the Navy, which, as you will recall, commends in the highest terms the technical skill and efficiency of the organization and expresses appreciation for the fine cooperation given by the organization to the Navy Department. I also refer you to the letters and telegrams from Mr. P. A. S. Franklin, president of the International Mercantile Marine Co., expressing his appreciation and admiration for the results of the organization's efforts in building the *Manhattan* and *Washington*. The highly satisfactory performance of the ships in service more effectively emphasizes the skill of our technical and operating forces.

The satisfaction of our customers, the Navy Department, the Export Steamship Corporation, and the United States Lines, is an asset of immeasurable value to the corporation. This has not been obtained at the expense

of the stockholders, as evidenced by the substantial income earned during this period. Such net earnings have been increased through the efforts of the staff in reducing costs below the estimates. For example, the actual cost of labor and material upon the three cruisers constructed during this period was \$3,620,000 below the estimate or a saving of 15 percent. On the balance of the work a similar comparison shows favorable results. In the case of each Navy contract we have earned substantial bonuses and have incurred no penalties.

Now, those estimates, I mean the bids submitted on those three cruisers, allowed a very large margin of profit above the estimates, did they not, Mr. Parker? The figures were put in evidence here in previous hearings, and there was a very large allowance for a margin of profit between your estimates of cost and the bids which were actually submitted to the Navy Department and awards made as the result of those bids. Is not that correct?

Mr. PARKER. There was a margin of profit there.

Senator CLARK. There was a very large margin of profit. In all it was \$3,000,000, was it not?

Mr. PARKER. That was not profit.

Senator CLARK. Take the difference between your estimate of labor and material and the award given you.

Mr. PARKER. The contract price, but that includes overhead, administrative expenses, contingency allowance, penalty guarantees, and your profit is after that.

Senator CLARK. Then this \$3,620,000—do you agree with that?

Mr. PARKER. It is the saving on labor and material.

Senator CLARK. That was the saving below the estimate?

Mr. PARKER. Labor and material estimate.

Senator CLARK. And that 15 percent simply represented "velvet" to the company, did it not?

Mr. PARKER. That is right.

There was indication of some awareness that profits on merchant-marine ships (naval auxiliaries) were considered high in certain quarters (Feb. 19, 1935, galley 40 FS):

Mr. RAUSHENBUSH. At this time, very shortly after the award of the contracts to Bethlehem in the early part of 1933, we find a notation on New York Ship Co.'s stationery about Fred Gauntlett. Will you tell us, Mr. Ferguson, or Mr. Williams, what Mr. Gauntlett was doing down here at the time, what his job was?

Mr. FERGUSON. Mr. Gauntlett has been the representative of our company in Washington for I suppose 20 or 25 years—25 years. He has been in our employ for 39 years. I gave it as 43 the other day.

Mr. RAUSHENBUSH. Well, was he a sort of contact man with the other shipbuilding companies?

Mr. FERGUSON. No.

Mr. RAUSHENBUSH. He represented you and the Aluminum Co. of America and a few others, you said the other day.

Mr. FERGUSON. And the Matson Navigation Co.

Mr. RAUSHENBUSH. And Matson. Here is this letter which is from Addison Foster, who was then the representative of New York Ship down here, to vice president I. Cormbrooks. Here is a copy, which I offer for the record as exhibit no. 1593.

(The letter referred to was marked "Exhibit No. 1593" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH (reading):

Fred Gauntlett just came into my office to report a conversation he had with Admiral Cone yesterday. It seems that Cone expressed himself in no uncertain terms about the excess profits the shipbuilders have made since the 1928 act.

That is the Jones-White Act, is it not?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH [continuing reading]:

Gauntlett said he pointed particularly at the New York Shipbuilding Co., in particular reference to the *Manhattan* and the *Washington*, where he is

quoted as having said we had 25 percent or 30 percent if not more. And if the shipbuilders didn't get together and reduce the cost of construction, he would lend his influence in preventing the private yards from getting any of the proposed naval building. I will drift into his office in a day or so and see if I can confirm this attitude.

There is a case where your representative was talking things over with New York Ship, apparently, is it not?

Mr. FERGUSON. Oh, yes; he told him what Admiral Cone had said.

Mr. RAUSHENBUSH. About the high profits made since the 1928 act?

Mr. FERGUSON. Yes; apparently.

Mr. RAUSHENBUSH. Did he do that often? Was that a part of his job?

Mr. FERGUSON. I do not know that he told them often. He told me of conversations like that.

In discussing the profit (23.1 percent) on the *Ranger*, Mr. Ferguson testified that the profit was due in large part to the falling market (Feb. 18, 1935, galley 32 FS):

Mr. FERGUSON. Oh, yes; and, as a matter of fact, Senator, we made a very much greater profit than we anticipated, due primarily to the building of a ship of that character on a falling market. Due also to the fact that in the last 8 years we have increased the efficiency of our plant and building ships of this or any other character through the adoption of methods of cost control, predicated not on experience but which run throughout the life of the ship from start to finish. So that I can tell you today, barring accidents, when the new airplane carriers will be launched and when they will be finished that there are no more changes. That has resulted in a saving. If I can just tell you about this cost on the *Ranger*. Of course, the *Ranger* was a new type. We had never built an airplane carrier, our prospective airplane carriers being scrapped by the first Disarmament Conference.

He continued with a detailed explanation (galley 32 FS):

A little later he stated that there was a further advantage to the company in that it prepared the company for its bid on the two aircraft carriers of 1933. (The almost complete absence of serious bidding on these by other companies has been noted elsewhere.)

I will say this: That in the preparation of bids for the two large airplane carriers, contracted for as a result of the 1933 bidding, that we had a distinct advantage in that we knew more nearly what the cost was.

The profit of Newport News on the *Ranger*, the aircraft carrier authorized in 1931, was 23.1 percent. Mr. Ferguson (Feb. 18, 1935, galley 30 FS):

Mr. FERGUSON. The Senator will understand that I did not write the letter.

Mr. RAUSHENBUSH. The statement is interesting in connection with the comparison furnished.

We wanted the committee this morning to go into the estimates on the *Ranger* and the bidding there, although it is getting late. * * *

Mr. RAUSHENBUSH. * * * Now, the bid of Bethlehem was \$1,232,000 above Newport's bid and New York Ship's bid was \$806,000 above.

Now, on that, Mr. Broad, according to the figures furnished the committee on this sheet, it shows that you expected a profit of 10.9 percent on that ship when you put in your bid.

Mr. FERGUSON. 10.4.

Mr. RAUSHENBUSH. 10.4 percent on that ship, on top of your estimate of labor, plus material, plus overhead, when you put in the bid, and that when you actually finished the job that the profit was 23 percent. Is that correct?

Mr. FERGUSON. 23.1.

Mr. BROAD. 23.1.

The president of Newport News put the difference between a cruiser which a company was really bidding on and wanting to bid on a cruiser it did not want as \$500,000 (Feb. 14, galley 96 ZO).

The contention of the companies that the costs of the cruisers has gone down (on the ground that a better cruiser is now being built than before) is refuted in part by the estimates of the companies.

Newport News contended that (1) the Navy had gotten the advantage of the large profit in 1927 on later bids (galley 92 ZO) and (2) the cost of actual cruisers had gone down (91 ZO) from 1927 to 1934.

It claimed the 1929 cruiser had \$349,500 more work in it than the 1927 cruiser (96 ZO). There were no wage-rate changes from 1927 to 1929 (galley 97 ZO).

In regard to (1) the company admitted that the Navy did not get the advantage in 1929 because the profits on the 1927 ships had not been calculated at the time the 1929 bids were made out (galley 96 ZO).

SECTION III.—PRICES INCREASED WITH BIG NAVY¹

Unlike other industries, large-scale production and crowded yards do not, apparently, mean lower costs. In fact the shipbuilders were not hesitant in admitting that they simply increased prices with the rush of work. Navy officials admitted this situation (Apr. 10, 1935, galley 32 YD):

The CHAIRMAN. Are not we in something of this dilemma: That when there is no work for the shipyards they come down here to Congress, howling about their being starved to death and asking, as one United Shipbuilding representative put it, asking for their share of the "plunder", and then when they are busy and their yards are occupied, they straightway put the prices up?

Admiral ROBINSON. I suppose, Senator, there is no question but what the scarcity of work has some bearing on price of ships, just as it does in the price of wheat. Because, whether it is wheat, or whatever it is, there is no question that if the shipyards are absolutely out of work, they are going to give us a better price than if they have got some work ahead. I do not think there is any doubt about that.

The CHAIRMAN. Of interest to the committee was the testimony of Mr. Powell concerning the time when they added \$708,000 for profit in 1933 over their 1932 bid, and at which time he said: "When there is a lot of business, the margin goes up."

Admiral ROBINSON. I think that is unquestionably correct.

The CHAIRMAN. Mr. Ferguson, testifying along the same line, told us that when work is plentiful their prices are higher.

Admiral ROBINSON. Without any doubt; but I do not think that is restricted to ships at all, sir. We could take all sorts of things and we find the same thing happens in regard to everything. For example, during this depression we had people who submitted bids to us for auxiliaries that we had never heard of before, and prices went down accordingly.

Mr. RAUSHENBUSH. The point, Admiral, is whether that is true. We thought it would happen that when a yard got more ships, their overhead would be lower and the prices would come down.

Admiral ROBINSON. It is the other way around.

Mr. RAUSHENBUSH. For instance, it is then on a mass-production quantity basis. They can produce cheaper when they are producing a lot of stuff, and is that not true of anything else. The more there is the cheaper it is per unit to produce, unless there is some artificial intervention. But here the reverse seems to be true, which is a rather amazing situation: that when there is plenty of work, both Mr. Powell and Mr. Ferguson stated prices go up.

Admiral ROBINSON. I find that is true of everything. When there is a great scarcity of work, we pay very little, comparatively for anything we buy—wheat, or ships, or anything—and where there is prosperity, and people can get business anywhere, we pay a great deal more for the same wheat, the same pump, or the same ship. I do not know about things outside the Navy, but on stuff in our Department, we do pay less in times of depression, when there is more scarcity, than in times of plenty.

Mr. RAUSHENBUSH. I do not mean that. In 1933 and 1934, which might be considered times of depression, when things were cheap and low, both Mr. Ferguson and Mr. Powell explained why ships went up in 1933 and 1934, and with the statement that work was plentiful around shipyards, putting that rather brutally, do you not think it true, as the chairman stated in his question, that we are faced with this dilemma: When there is lots of work the prices are higher than when there is little work?

Admiral ROBINSON. There is no question about that. I answered "yes", but I cannot interpret that. I can tell you what the Navy Department has done for 10 years, and it follows the same cycle. It is not restricted to any one thing.

Mr. RAUSHENBUSH. Putting it the other way, if the Navy needs a lot of ships, and it has to get them out of fixed sources, such as P. W. A. or something, and these people increase their prices, could not that be considered a holdup?

Admiral ROBINSON. I suppose it could. I am not familiar enough with the previous history of the shipbuilding concerns to know what they have made or anything of the kind, so that I could not know whether that would be constituted too much profit or not. But what you say is perfectly true. There

¹ See footnote p. 36.

is not any doubt that there is a tendency to boost prices all along the line, when there is plenty, and everybody knows if he puts in a fair price, he will get something to do.

Mr. RAUSHENBUSH. And knows the Navy needs his work?

Admiral ROBINSON. And knows the Navy needs his work.

Mr. RAUSHENBUSH. And has to give it out?

Admiral ROBINSON. There is no question about that. You are perfectly right about it.

Mr. RAUSHENBUSH. The Navy is not able to handle it themselves, and the private shipbuilders know they will get some of the work.

The increase of work failed to lower the charges to the Navy on account of lower overhead and actually caused increases. One case in point is Bethlehem Ship in 1929 (Feb. 27, 1935, galley 31, 32 QD):

Mr. RAUSHENBUSH. Is there any other explanation, Mr. Wakeman, of the circumstances of this 1929 bidding as compared with the 1927 bidding? Your estimate on one ship was only \$2,805 or so above the estimate on your 1927 ship, and yet you raised your bid \$78,000. What explanation is there on that?

Mr. WAKEMAN. I have no explanation of that. That is simply a question of your overhead expense and your margin would easily make a difference like that.

Mr. RAUSHENBUSH. With all these ships coming on, you knew that your overhead would be less per ship, did you not, than what it was before?

Mr. WAKEMAN. We knew that the overhead might be less. We really put more margin on, on that particular ship.

Mr. RAUSHENBUSH. Even with this big merchant-marine program you were talking about coming on, you figured more margin instead of less?

Mr. WAKEMAN. We might have figured more margin, yes; actually did, from what the results show.

Mr. RAUSHENBUSH. So that the Navy was not getting any particular advantage of your lower overhead, then?

Mr. WAKEMAN. No.

Mr. RAUSHENBUSH. By having your ways crowded with the merchant-marine program?

Navy officials admitted this situation (Admiral Robinson, Apr. 11, 1935, galley 55 YD):

Admiral ROBINSON. It comes down to this: Where you have a lot of ships to build, it only is of more or less importance, because it would undoubtedly influence the bidding. Where there is a small number of ships, of course, the thing is different. Some of the shipbuilders submit bids which they believe to be cost bids, or below cost, or anything to get the business. It depends a good deal on the circumstances. It so happens that in 1933 and 1934, it was a little bit unusual and we were building more ships and catching up for what we had not done for years gone by, and the bidding situation will probably be different from that from now on.

Mr. RAUSHENBUSH. They were frank enough to say they were putting up prices because of the work at the time.

Admiral ROBINSON. There is no question about that.

Senator Clark questioned Assistant Secretary Roosevelt on the usual result of an increased number of bidders (Apr. 11, galley 40 YD).

Senator CLARK. If there were real competition, would it not be a singular fact, with an increased number of bidders, meaning increased competition, that the bids steadily increased in price? In other words, that is not the ordinary effect of real competition, is it?

Mr. ROOSEVELT. Not as a rule; no, sir.

Mr. RAUSHENBUSH. Senator, in reply to your question, we had a good deal of testimony here yesterday from Mr. Ferguson and Mr. Powell to the effect that when there was lots of business prices went up; and I believe Admiral Robinson assented to that, that that was what generally happened. When yards were busy prices went up.

Senator CLARK. When there is a lot of competition, prices generally go down. At least that is supposed to be the universal experience.

SECTION IV.—NAVY YARDS AS YARDSTICKS¹

A—GENERAL

One very valuable service which the navy yards could furnish would be that of functioning as yardsticks to the private yards in regard to costs. Another function they could serve would be to render the Navy independent of private yards in regard to designing and planning.

The committee intends, in a later report, to publish full figures in regard to the relative costs of private-yard and navy-yard production of naval vessels, and the cost of making the Government completely independent of private yards. This duty was laid upon the committee by the Senate.

At the moment such figures as have been produced before the committee are given, subject to further study.

Preliminary studies indicate that on the 1927 cruisers the average cost of the two built in the navy yards was \$9,483,542, and the average cost to the Government of the four built in the private yards was at least \$11,599,846.

The difference in favor of the navy-yard construction was at least \$2,116,304 per cruiser. Almost enough could have been saved, at this rate, on the four cruisers actually built in private yards, to have built an extra cruiser for the Navy.

Preliminary studies show that in 1929 the three cruisers constructed in navy yards cost an average of \$10,423,621, while the two cruisers built in private yards cost the Government \$11,922,711.

This is a difference in favor of the navy yards of \$1,569,090 per cruiser.

The costs on cruisers which were begun in 1927 or 1929 could not be determined until 3 years or more later, yet, in 1931, when it was clear that the navy-yard ships were costing only \$9,483,542, and the private yards were showing profits of around 35 percent, the Navy did not use these figures to secure any reductions in the prices charged by private yards in that year.

It is important for the Navy to have estimates from its yards on which it can rely. The cost of the *Louisville* was very close to the estimate, being \$137,610 below the estimate. The cost on the *Chicago*, however, was \$933,859 above the estimate. The cost of the *New Orleans* was \$138,301 below its estimate. The cost of the *Astoria* was \$134,068 below its estimate. No figures were obtained on the *Minneapolis*.

A comparison of final costs on navy yard and private-yard ships must be confined to the years 1927 and 1929, the only years on which final costs on cruisers are completely reported.

¹ See appendix, for chart showing comparison of costs.

Cost of 1927 cruisers (navy yards)

	<i>Louisville</i> (Puget Sound Navy Yard)	<i>Chicago</i> Mare Island Navy Yard)
Labor.....	\$3,205,825.30	\$3,260,100.03
Material.....	3,780,437.52	3,923,965.60
Overhead:		
Appropriation.....	1,333,116.80	1,439,353.95
Industrial.....	741,889.71	729,095.81
Subtotal, Navy work.....	9,061,209.33	9,352,545.39
Private contract services.....	270,068.03	283,202.06
Total cost of ship.....	9,331,337.36	9,635,747.45

Average cost..... \$9,483,542

Cost of 1927 cruisers (private yards)

	<i>Chester</i> (New York Ship)	<i>Northampton</i> (Bethlehem Ship)	Newport News	
			<i>Houston</i>	<i>Augusta</i>
Contract price.....	\$10,918,864.52	\$10,791,319.72	\$10,671,360.32	\$10,660,518.84
Navy work (Government expense)....	624,568.12	898,655.36	924,786.36	909,312.44
Total cost of ship.....	11,543,432.64	11,689,975.08	11,596,146.68	11,569,831.28

Average cost..... \$11,599,846.42

Average cost above navy-yard ships..... 2,116,304.42

In this connection, however, it must be pointed out that the ships were not completely identical by the time they were finished, and to that extent they are not completely comparable. Some changes ordered by the Navy involved increases, some involved decreases.

Net changes (exhibit 1624)

Louisville (Puget Sound).....	+ \$127,807
Chicago (Mare Island).....	+ 190,008
Chester (New York ship).....	+ 40,080
Northampton (Bethlehem).....	+ 37,331.50
Houston (Newport).....	+ 56,828.54
Augusta (Newport).....	+ 75,990.30

It must also be pointed out that the Navy pays for a considerable amount of inspection work at the private yards, which is not covered in these figures on the costs of ships built in private yards. The total inspection cost in all private yards from the middle of 1927 through December 1934 was \$3,769,493 (Galley 69 FS, Feb. 21). The amount paid on private construction work during that period was approximately \$146,000,000. The ratio of inspection costs to this total indicates that on a \$10,000,000 cruiser, the inspection cost was approximately \$258,184.

Since a great share of this was spent in 1933 and 1934 on work for plans and designs, for which no yard inspection charge is made, the figure of \$258,184 is very low, and will be raised by the time the ships are completed. We estimate at least \$300,000 inspection charge per cruiser.

This amount should be added to the total cost of cruisers built in private yards.

ESTIMATES AND COSTS—NAVY YARDS

The Navy estimated the probable cost (except for industrial overhead¹) on the *Louisville* at \$8,599,250, not including changes of \$168,178. The industrial overhead was \$741,889.71. Deducting this sum from the total cost of the ship (\$9,331,337.36) the remainder, \$8,589,447.65 represents the figure estimated on by the Navy, except for the changes. The net changes increased this cost by \$127,807. Eliminating this item, the Navy cost on the items included in its estimate was \$8,461,640 or \$137,610 below the estimate.

The Navy estimated the probable cost, except for industrial overhead, on the *Chicago* at \$7,782,785, not including changes of \$248,000. The industrial overhead was \$729,095. Deducting this sum from the total cost of the ship (\$9,635,747), the remainder, \$8,906,652, represents the figure estimated on by the Navy, except for the changes. The net changes increased this cost by \$190,008. Eliminating this item, the Navy costs on the items included in its estimate was \$8,716,644, or \$933,859 above its estimate.

Cost of 1929 cruisers (Navy yards)

	<i>New Orleans</i> (New York Yard)	<i>Astoria</i> (Puget Sound)	<i>Minneapolis</i> (Philadelphia Yard)
Labor.....	\$4,224,363.22	\$3,637,853.88	\$3,157,473.60
Material.....	4,222,538.09	4,223,961.02	3,923,355.51
Appropriation overhead.....	1,794,716.88	1,327,111.49	1,421,450.84
Industrial overhead.....	1,354,354.21	1,193,979.47	743,049.89
Subtotal Navy work.....	11,595,972.40	10,382,905.86	9,245,329.84
Private contract services.....	18,843.68	19,071.76	12,339.57
Total cost of ship.....	11,614,816.08	10,401,977.62	9,257,669.41
Average total cost.....			\$10,423,621

Cost of 1929 cruisers (private yards)

	<i>Portland</i> (Bethlehem Ship)	<i>Indianapolis</i> (New York Ship)
Contract price.....	\$11,425,505.87	\$11,970,640.22
Navy work (Government expense).....	546,288.52	632,192.70
Total cost of ship.....	11,971,794.39	12,602,832.92
Average cost.....		\$11,992,711
Average excess of cost in private yards over navy yards, 1929 cruisers.....		1,569,090

Here again, as in 1927, the ships are not quite identical, as different changes were made on each of them.

Net changes (exhibit 1624)

New Orleans (New York Yard).....	+\$239,295
Astoria (Puget Sound).....	+296,011
Minneapolis (Philadelphia).....	+166,631
Portland (Bethlehem Ship).....	+524,795
Indianapolis (New York Ship).....	+840,684

¹ Industrial overhead is defined by the Navy as those items of overhead which would be paid out in the course of maintenance of the Navy regardless of whether the ships were being built or not. (See testimony Captain du Bose.)

Here again the cost of Navy inspection on the two cruisers was not included in the final statement of costs. It adds an estimated \$258,000 to the total private-yard cost.

The Navy estimated the probable cost (except for industrial overhead) to build the *New Orleans* at \$10,159,467, not including charges of \$396,294. The industrial overhead was \$1,354,354.21. Deducting this sum from the total cost of the ship (\$11,614,816.08), the remainder, \$10,260,461.87, represents the figure estimated on by the Navy, except for the changes. The net changes increased the cost by \$239,295. Eliminating this item, the Navy cost was \$10,021,166 on the basis of the items included in its estimate, or \$138,301 below its estimate.

The Navy estimated the probable cost (except for industrial overhead) to build the *Astoria* at \$9,046,055, not including changes of \$448,632. The industrial overhead was \$1,993,979.47. Deducting this sum from the total cost of the ship (\$10,401,977.62), the remainder, \$9,207,998.15, represents the figures estimated on by the Navy, except for the changes. The net changes increased the cost by \$296,011. Eliminating this item, the Navy cost was \$8,911,987 on the basis of the items included in its estimate, or \$134,068 below its estimate.

No figures were obtained from the Navy on the estimates for the *Minneapolis*.

1933 ESTIMATES—NAVY YARDS

It is interesting to note that in 1933 the Navy secured estimates from its yards which showed the New York and Philadelphia yards putting in estimates which were under the fixed-price bids of the private yards by from \$1,122,000 to \$5,351,000. It must be stated that the navy yards were not being held to their figures in the same way the private yards would be held on fixed price contracts.

It is also interesting to note that on the light destroyers in 1933 the Navy secured estimates which averaged \$2,611,540.25. This compared with fixed-price bids by private yards averaging \$3,852,000.

The difference in favor of the navy yards was \$1,240,459.75. Again, it should be noted that the navy yards were not held to the estimates.

In 1933 the Navy secured estimates from the navy yards as follows:

Light Cruiser (1)

	Labor	Material	Indirect	Drafting and plans	Total
New York Navy Yard.....	\$4,241,544	\$4,379,615	\$1,792,982	\$734,875	\$11,149,016
Philadelphia Navy Yard	4,061,000	5,511,000	2,030,500	139,875	11,767,800

These compare with the private yard estimates and bids as follows:

	Labor	Material	Profit and overhead	Total (fixed price bid)
Newport News.....	\$2,911,000	\$4,422,000	\$7,767,000	\$15,100,000
New York Ship.....	3,823,143	4,622,888	3,624,969	12,271,000
Bethlehem.....				13,100,000
United.....				16,500,000

Navy yard estimates on the 1,500-ton destroyers were as follows, on each of two ships:

	Labor	Material	Indirect	Plans	Total
Philadelphia Navy Yard.....	\$887,600	\$1,415,150	\$377,230	\$35,380	\$2,715,360
Puget Sound Navy Yard.....	983,820	1,263,720	504,205	122,180	2,873,925
Norfolk Navy Yard.....	743,536	1,094,321	280,423	127,200	2,245,576
Mare Island Navy Yard.....					

These compare with the private yard estimates and bids as follows:

	Labor	Material	Profit and overhead	Total (fixed price bid)
United.....	\$721,000	\$2,027,000	\$1,162,000	\$3,910,000
New York Ship.....	1,137,235	1,227,400	1,460,365	3,825,000
Bethlehem.....				3,753,000
Bath.....				
Federal.....				3,918,000

The number of navy yard ways were given by Admiral Land (galley 18 YD) as a maximum of 22 building ways and a minimum of 13. Not all of these can take cruisers. Cruisers have been built in the New York, Philadelphia, Puget Sound, and Mare Island Yards. Destroyers are built at Norfolk, Boston, as well as at the cruiser yards. Submarines are built at Portsmouth Navy Yard.

COMPARABLE COSTS

At the moment, prior to further study of the question, it can be seen that the figures customarily used in comparing private yard costs with Government costs are based on grossly inaccurate figures emanating from the private yards.

These figures, furnished by Admiral Land to the House Naval Affairs Committee in hearings in January 1935, were entered into the record of the Senate Munitions Committee on February 21 by Captain DuBoise (galley 75 FS). On questioning he stated that they were furnished by the National Council of American Shipbuilders. This is the trade association of the industry.

The figures furnished purport to show a comparison of the costs and profits of the *Chester*, built by New York Shipbuilding Corporation and the actual costs of the *Louisville*, built by Puget Sound Navy Yard, together with the theoretical cost of the latter, if items for taxes, depreciation, etc., were added.

In the course of that compilation the profit is shown as \$983,000.

The actual profit reported to the Munitions Committee by New York Shipbuilding Corporation on the *Chester* was \$2,946,706 (exhibit 1540).

Here is a difference of almost \$2,000,000 on one item alone.

It is hard to believe a writing down of the profit from \$2,946,706 to \$983,000 could have taken place unintentionally.

This renders all the other figures in the compilation suspect, and thoroughly deserving of further study and analysis. These figures were all seriously presented to the House Naval Affairs Committee.

The figures furnished to the Navy by the National Council are as follows, subject to the above comments:

Chester—built by the New York Shipbuilding Co., Camden, N. J.

No. and brief of item.	Total cost to Government ¹
1. Labor, material, and items of overhead not specifically noted below.....	\$7, 552, 040
2. Government-furnished material.....	432, 351
3. Transportation paid by Government.....	1, 358
4. Bonuses (for fuel consumption and weight savings).....	100, 000
5. Depreciation of buildings and equipment.....	461, 700
6. Insurance on the vessel.....	35, 500
7. Fire insurance on the plant.....	3, 760
8. Plans and engineering.....	478, 670
9. Supervision and administration.....	663, 750
10. Taxes.....	111, 040
11. Performance bond.....	26, 140
12. Interest on investment.....	499, 400
13. Profit.....	983, 000
14. Changes under the contract.....	40, 080
15. Trial board items.....	187, 839
Total.....	11, 576, 628

¹ Based upon data furnished by the president of the National Council of American Shipbuilders and also upon costs records in the Navy Department.

The difficulty at present of comparing navy yard costs with private yard costs is indicated by the fact that the Navy does not have full information concerning wages in private yards, one of the simplest forms of information available (galley 72 FS).

Senator BONE. Since 1929 or 1930 there is not a bit of evidence existent which will permit us to make a careful study of the wages paid in the private yards and in the Government Navy Yards? Am I accurate on that?

Captain DuBose. I think you are, as far as concerns the Navy Department, because we have no information as to private shipyard wages.

The Navy does not know the cost of the private companies and has no basis of comparing private costs and navy-yard costs until a ship is completed (Feb. 21, galley 77 FS):

Senator CLARK. Let us take another case, Captain. Suppose the bid of the private shipbuilder is \$10,000,000 and the estimate of the navy yard is \$7,000,000—and that is more nearly the spread, according to the figures which we have had presented here than the illustration you used—unless you know the elements that are figured into that \$3,000,000 the Navy Department has no method whatever of knowing whether that spread between the estimate of the navy yard and the bid of the private shipbuilder is fair or not, have they? In other words, unless you have some method of determining what the elements of profit and of interest and of overhead and interest on overhead and taxes, and unless you have some yardstick to measure it, you have no method of knowing whether the spread between the estimate of the navy yard and the bid of the private shipbuilder are similar, have you?

Captain DuBose. You have got to compare the two on the basis of the total price and the total estimate.

Senator CLARK. You have got to go on a guess, then.

Captain DuBose. I do not think it is just that, Senator.

Senator CLARK. Unless you do have some information, Captain, as to what these private shipbuilders are figuring in over and above what is being figured by your own competent estimators—and we will assume they are competent, the estimators of the navy yards—then you have no method of knowing whether they are making an extortionate profit or whether they are really in line on the elements they are entitled to include, have you?

Captain DuBose. I can only repeat that we have no basis of comparing except on total cost; but as respects this question of excess profit, that has

recently been taken care of by Congress, so that the present contracts very definitely take care of any profit in excess of 10 percent.

Assistant Secretary Roosevelt submitted a statement in which he referred to the use of the navy yards as yardsticks in 1934, where the estimated cost at the Philadelphia Navy Yard was \$11,500,000, and the lowest private-yard bid was \$12,889,000 (Apr. 11, galley 38 YD):

As allocations to navy yards may have both a direct and an indirect bearing on the prices submitted by private yards it has been the general policy not to make final decisions with regard to allocations to navy yards until after the private bids are opened, evaluated, and the contract awards determined. This policy secures the best competition and permits the best results in connection with a given shipbuilding program, as it is thus practicable to increase allocations to navy yards when private-yard bids are unsatisfactory. This procedure is exemplified in the allocation of heavy cruiser 45, *Wichita*, to the Navy Yard, Philadelphia, because it was considered that all the private bids for this vessel were too high, the private bids ranging from \$16,890,000 to \$12,889,000, against the Bureau's estimated cost for construction at Philadelphia of \$11,500,000.

On April 11 (galley 50 YD), Admiral Robinson testified that "usually the statistics for navy yards are obtained long after the awards have been made to private contractors" (galley 50 YD—MF).

The CHAIRMAN. Mr. Secretary, if you cannot answer, one of the admirals may: Why does not the Navy publish the estimates of the navy yards at the same time that it publishes the bids of the private companies, so that the public can have some conviction concerning the fairness of the bidding?

Mr. ROOSEVELT. That is a practice which has been in existence long before I came in, sir. I would like to have Admiral Land or Admiral Robinson answer that.

Admiral ROBINSON. In a number of instances awards have been made, Senator, without any estimates from navy yards. Sometimes estimates are obtained, and sometimes they are not, and usually the estimates from navy yards are obtained long after the awards have been made to the private contractors. It takes time to go over the plans carefully and get up an estimate, and that comes in to the Government later. It never occurred to anyone in the Navy Department that anybody would be interested in those. We would be very glad to do that.

The CHAIRMAN. Do you not think that would be highly enlightening?

Admiral ROBINSON. It could be done. They are prepared later.

Mr. RAUSHENBUSH. In connection with the Senator's question, the shipbuilders keep coming in and saying, "You can get it from the Navy. The Navy knows everything about costs." Then it turns out you do not know until later about the firm's profits on ships. It would seem, if the estimates were made by the Navy at the same time, and published with this statistical overhead data, that there would be a larger guarantee than you have now.

Admiral LAND. After all, they are just estimates. They are not factual.

The CHAIRMAN. These estimates are revealing.

The shipbuilders hold a different idea of what the Navy knows about costs than the Navy officials. Mr. Bardo, on April 6 (galley 99 WC), informed the committee that the Navy knew the cost of building the ships.

Mr. RAUSHENBUSH. There is one more question on the bidding. You and Bethlehem, when they were here, and Mr. Ferguson, have told us pretty clearly that they knew what they wanted to get and had a pretty good idea what their competitors wanted. Would you explain once more—I think you were asked this before, for some of the other years—that being the case, and this bonding situation being as you have described, where no bonding company would bond up more than \$40,000,000—I presume that applied to the other companies?

Mr. BARDO. I presume it did, but I could not say positively.

Mr. RAUSHENBUSH. With those situations and with your specializing in certain things, and as Bethlehem says, having a natural advantage because of that, what was the point of bidding the whole list when you did not have the estimates for the other ships, when you knew that the other companies had the advantage on them, and advantages running, in the case of the aircraft carriers, to \$2,000,000, and when your bonding limitations were such that you could not

possibly have taken everything, and as long as the P. W. A. provisions were such as you have told us, what was the point, the purpose, of bidding on the whole list?

Mr. BARDO. I think the only point of it all was to keep yourself in the picture. There was no particular point, so far as I know, in it. That is all. It was the practice which we usually followed. There was nothing new about it. We not only bid on what we were asked to bid but sometimes made a supplementary bid on a different basis. I do not see that it had any particular point one way or the other.

Mr. RAUSHENBUSH. The Navy certainly knew that that was a custom in the trade, to put in high bids on ships the individual companies were not prepared to take.

Mr. BARDO. The record is perfectly plain. The Navy had it all. The bids were all opened.

Mr. RAUSHENBUSH. So that in a case where there was a lot of big companies, there was a lot of competition, it would not prove that the bidding was necessarily tough, would it?

Mr. BARDO. I think you must recognize this fact: The Navy knows what it costs to build these ships. You are not kidding them.

Mr. RAUSHENBUSH. They may be kidding us.

The CHAIRMAN. Do they know?

Mr. BARDO. Of course they know. They know exactly what it costs. They build some themselves, and know exactly what they cost, and they know what the ships cost which we built, and know whether it is an honest and fair price, and if it is not a fair price they throw it out and give it to somebody else. A private shipbuilder has no monopoly, and if he does not bid on a proper basis his bid is thrown out.

Mr. RAUSHENBUSH. Newport made 35 percent on a couple of ships, and if the Navy had known that ahead of time they would have thrown that out?

Mr. BARDO. Gentlemen, when you start building a ship, you do not know what your estimating is going to be. You can make an awful mistake.

The CHAIRMAN. If the Navy knows, why does not the shipbuilder know?

Mr. BARDO. What?

The CHAIRMAN. The company.

Mr. BARDO. We know what we think it is. We are talking about something going to be finished in 3 years, and not tomorrow or next month. It is a 3-year program. If you can go ahead and build the ship normally, without interferences, you can make money. If they come along with some interference you can lose your shirt and cannot help it. If you have good luck you make some money, and, if not, you are out of luck. That is all.

Mr. RAUSHENBUSH. The point you made was that the Navy knows what it cost to build them.

Mr. BARDO. There is no question about that.

B. OPPOSITION OF PRIVATE COMPANIES

The height of the opposition to the navy yards on the part of private shipbuilders was probably reached by F. P. Palen, then vice president of the Newport News Shipbuilding and Drydock Co., when he said:

I think it will be better for the Government and for the shipbuilding industry to kill the Navy bill entirely rather than use it for building up further Government competition with the shipbuilding industry (Feb. 18, galley 27 FS).

There was constant interest on the part of the private yards in preventing work from going to the navy yards.

There is evidence that shipbuilders fought the fulfillment of the expressed wish of Congress that private yards compete with navy yards in 1931. (Galley 24 WC, Apr. 3.)

Mr. RAUSHENBUSH. Did United have a similar connection with you? Did they have a connection with some other company?

Mr. NEWELL. I have no idea.

Mr. RAUSHENBUSH. Did Federal?

Mr. NEWELL. I do not know anything about it.

Mr. RAUSHENBUSH. Coming to this letter of March 5, 1931, it says [reading]:

DEAR NEWELL: The sooner you take the senior Senator from Maine out and sink him the quicker you will get destroyer business in your yard.

The naval appropriation bill went through the House with the Dallinger amendment omitted.

The Dallinger amendment is the one which would give one-half of the work to the navy yards is it not?

Mr. NEWELL. I think that is correct, but I am not sure.

Mr. RAUSHENBUSH (continuing reading):

The Naval Affairs Committee of the Senate, under the able and progressive management of the senior Senator from Maine, proceeded to insert that noxious piece of legislation that has appeared in the last few bills.

I take it that is irony on the part of Mr. Southgate.

Mr. NEWELL. Yes; I think so.

Mr. RAUSHENBUSH (continuing reading):

Of course he was aided and abetted by Senator Swanson, and I suppose that probably he may claim that the Senator from Virginia was responsible for all the trouble, but I rather doubt it. At any rate, it is now in the bill, and the only way that you are going to get any destroyers built in Bath, Maine, is for you to compete in price with the navy yards. In the words of the act, you must be able to contract at a price that is not "appreciably" higher than the navy-yard bids.

I understand the morning after the bill went through every east-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing, ready to fight for their share of the plunder, and the only thing that stopped the west-coast yards from being here was the fact that they couldn't come bodily by telegraph.

The interest in 1926-27 in regard to the navy yards was described in Mr. Ferguson's testimony, February 14 (galleys 89-90 ZO).

Mr. RAUSHENBUSH. We want to get into the bidding on cruisers in 1927 and 1929, Mr. Ferguson, and we find that in the latter part of 1926 you were coming down and talking with the President about the possibility of getting all those cruisers into the private yards instead of having some of them go to the navy yards. Were you alone in that, or were the other shipbuilders active in doing the same thing at the same time?

Mr. FERGUSON. All together.

Mr. RAUSHENBUSH. They were all pushing that?

Mr. FERGUSON. There were, first, 3 cruisers mentioned, and then later, that was increased to 6, and it was the same old fight between the navy yards and the shipyards.

Mr. RAUSHENBUSH. You had a common interest with the other private shipbuilders in getting those cruisers into the private yards?

Mr. FERGUSON. Oh, yes.

Mr. RAUSHENBUSH. And in that fight you often had conferences together, did you not, to figure out what was the best way of accomplishing that object?

Mr. FERGUSON. I would not say we did often. Every time the question came up on the division of the work, either in Congress or the Navy Department, we were generally on hand, some of us or all of us.

Mr. RAUSHENBUSH. Even quite a less time than 6 months before the contracts were finally let—way back to November 1926—you were active in that matter, were you not?

Mr. FERGUSON. I think so; yes.

Mr. RAUSHENBUSH. I have here a letter of November 6, 1926, which I show you, and offer for the appropriate number, to Mr. Huntington, stating [reading]:

I was in Washington on both Thursday and Friday relative to the scout-cruiser situation. Representatives of the four main shipbuilders who can build these cruisers, including myself as your representative, went to see the Secretary of the Navy on Thursday in regard to building all three of these cruisers in private instead of in navy yards. There is a good deal of talk of building one or two of them in navy yards, and, of course, the American Federation of Labor is making strong efforts to so build them.

(The letter referred to was marked "Exhibit No. 1573" and will be found in the appendix on p. —.)

Mr. RAUSHENBUSH. Why should the American Federation of Labor be particularly interested in navy yards instead of private yards?

Mr. FERGUSON. I think you better ask them. They always have been.

Mr. RAUSHENBUSH. Were none of the private yards unionized? Is that why they did not want them in private yards?

Mr. FERGUSON. I cannot answer, Mr. Raushenbush, but our place is not organized. At that time I think that we had certain departments organized, just as we probably have now.

Mr. RAUSHENBUSH (continuing reading):

Mr. Wilbur gave us a very cordial hearing, but made no promises. Of the last two cruisers—and only two are building—he did place one at the Brooklyn Navy Yard without competition.

Yesterday morning I went to see the President in regard to this question and explained the situation to him as representing the shipbuilders and particularly your company. After next summer all work being done in shipyards will be completed except the scout cruiser at Cramps and our I. M. M. ship, which will be delivered in November. I told the President that this so-called "competition" with navy yards was unfair, and he immediately said that they did not take account of capital charges such as depreciation and have no taxes. I told him he had put his finger on the exact spot, and that any plant which could be operated without capital charges, such as interest, depreciation, taxes, insurance, and had its officials furnished free, could take all the work there was. He seemed in entire sympathy, and I think has discussed the matter with Mr. Mellon. He said he would give it his most earnest consideration.

* * * * *

He asked about you, was much interested to know that the Huntington family still owned the shipyard, and seemed pleased to know that you are recovering your health. He was very pleasant and looked well and did not seem to have any worries at all, in spite of some of the election returns. When I left he asked me to call again, and I came away with the distinct impression that he would be helpful to the shipbuilding industry.

Now, Mr. Ferguson, a little later, when it came around to really letting these cruisers, do you remember about what figures the navy yards estimated they could do this work for?

Mr. FERGUSON. No; I have seen some records since.

Mr. RAUSHENBUSH. It was down around \$8,000,000, was it not?

Mr. FERGUSON. I remember one or two yards on the west coast which submitted a figure around \$8,000,000.

Mr. RAUSHENBUSH. Around \$8,000,000?

Mr. FERGUSON. That was the estimate.

Mr. RAUSHENBUSH. That was the estimate. Was that the sort of thing you were referring to as being "unfair competition" because they did not include any bond interest, depreciation, or the like?

Mr. FERGUSON. There are a great many. I have a very complete statement of mine in the record, in a letter I wrote to someone in Congress, as to what I thought of the navy-yard building. It is a right long story. It goes further than the estimate.

Mr. RAUSHENBUSH. You thought that the estimate of \$8,000,000 was ridiculous—

Mr. FERGUSON. I did.

Mr. Ferguson, of Newport News, was questioned concerning political influences (Feb. 13, galleys 84-86 ZO). A letter of his (exhibit 1566) spoke of the fight of the ship repairers to keep repair work out of the navy yards, even if the navy yards were lower (galley 86 ZO).

Mr. Ferguson, of Newport News, offered to take ships at the cost estimated by the navy yards, if properly determined. He estimated that the theoretical costs, which would give a proper figure (for taxes, insurance, etc.), would amount to about \$500,000 on a cruiser (Feb. 18, galleys 26-27 FS).

SENATOR POPE. What other items are not included there?

MR. FERGUSON. The items which are not included naturally are insurance, the item of taxes, both local and Federal, supervision which is furnished by the commissioned personnel of the Navy, and bond for performance, which they do not have to give.

Now, as to their items of plant depreciation and that sort of thing, I am not acquainted with it, but there are certain items which the Government does not take into account, because that is borne by the general expense of the Government. The item, for instance, of plant. The navy yard shipbuilding possibilities were brought about by an expenditure of some \$72,000,000 during the war to fit out the navy yards to build ships.

Now, in any comparison it seems to me that any people who pay, say, in local and State taxes \$300,000 or \$350,000 a year, who pay one-seventh of what we earn back to our customer, through another department, it is true, who have to give bond for performance, which is given by the United States itself; who have to give insurance protection, which is given by the Government itself—that those things together form a basis of competition that it looks to me like in fairness should be all taken into account. That is the way we feel about it.

SENATOR VANDENBERG. Just roughly to spot it on a \$10,000,000 job, how much would you say that those items represented?

MR. FERGUSON. The ones that are probably not included?

SENATOR VANDENBERG. Yes.

MR. FERGUSON. I should think they would run around one-half million probably—it would be more than that. The taxes would be that much. I can give you an estimate. I had not thought of it in detail before.

MR. RAUSHENBUSH. The reason for the question was this: That back in 1928 when you were talking with the President, or in 1927, you were telling him that the estimates of the Navy were wrong, by underestimating 2 or 3 million dollars, were irresponsible, or the like, and then it turned out you built those cruisers yourself for one ship at \$8,159,000, the *Houston*, and the *Augusta* for \$7,800,000, which is just about what the Navy estimate was.

MR. FERGUSON. That is quite true, but I would ordinarily figure that we would build a ship for about 30 percent less in labor cost than the navy yard.

MR. RAUSHENBUSH. Do you build less for labor costs than the other shipbuilding yards, the big ones?

MR. FERGUSON. I have suspected that we do, on account of the results of the bidding, because after this list of bids, which I read to you on these ships, why, I got a terrible drubbing from many of our competitors for taking the work at less than cost. The records in the hands of the committee will show how much less than cost they were. I do not know for sure, but I rather think so. But I do not mind saying that if the cost of the navy yard could be determined upon a fair basis, we would be delighted to accept that cost as our contract price, if they would allow us, I will say, the privilege, or would allow the committee the privilege of having an auditor to see that their costs were so entered. I could not imagine myself seeing a fairer thing, if it could be done, and I would be perfectly delighted to take as our profit—

MR. RAUSHENBUSH. You would want certain profit on it, would you not?

MR. FERGUSON. I would be perfectly delighted to take it for the Government on the basis of a fairly defined governmental cost in a navy yard.

It will be better for the Government and for the shipbuilding industry to kill the Navy bill entirely rather than use it for building up further Government competition with the shipbuilding industry (Feb. 18, galley 29 FS).

One shipbuilding official, F. P. Palen, then vice president of Newport News, expressed the thought in 1929 that:

SENATOR CLARK. Who is Mr. F. P. Palen?

MR. FERGUSON. He was the vice president. He is dead now.

SENATOR CLARK. Was he authorized to communicate the views of the Newport News Shipbuilding & Dry Dock Co. to the Bethlehem Shipbuilding Co. and the New York Shipbuilding Co.?

MR. FERGUSON. Yes, sir.

Senator CLARK. I have here a letter dated April 24, 1929, from Mr. Palen to Mr. C. L. Bardo, of the American Brown Boveri Electric Corporation, with a copy to Mr. S. W. Wakeman, vice president, Bethlehem Shipbuilding Co. [reading]:

DEAR MR. BARDO: I note with interest the copies of the correspondence you have carried on with the Senate Naval Affairs Committee and Mr. Wakeman in regard to the Dallinger amendment to the Navy bill.

As you know, we have filed protests with the Senators and Representatives from our section.

I have also discussed this with Mr. Hunter—

Who is Mr. Hunter?

Mr. FERGUSON. He was the chairman of the board.

VOICES. No.

Mr. FERGUSON. Mr. Hunter? I beg your pardon. Mr. Hunter was the counsel for the National Council of Shipbuilders.

Senator CLARK (continuing reading):

and I think the shipbuilding industry, and all allied industries should protest against this competition in particular and also against Government competition with its citizens in general. In fact, I think it will be better for the Government and for the shipbuilding industry to kill the Navy bill entirely rather than use it for building up further Government competition with the shipbuilding industry.

Does that intimate that it was the view of your responsible vice president that it was better not to have ships than to have them built in the Government navy yards?

Mr. FERGUSON. No; I do not think it means that.

Senator CLARK. What does it mean then?

Mr. FERGUSON. It says "kill the Navy bill." He was speaking of a particular bill.

Senator CLARK (reading):

In fact, I think it will be better for the Government and for the shipbuilding industry to kill the Navy bill entirely rather than use it for building up further Government competition with the shipbuilding industry.

What does that mean?

Mr. FERGUSON. It means, I take it, to kill the Navy bill which was under consideration.

Senator CLARK. The Navy bill was authorizing the construction of warships, was it not?

Mr. FERGUSON. I have never seen the letter that I know of.

Senator CLARK. Mr. Palen was your vice president?

Mr. FERGUSON. He was vice president of the company.

Senator CLARK. He was authorized to communicate the views of your company to New York Ship and Bethlehem?

Mr. FERGUSON. I do not know whether his authority covered this, but I had nothing to do with it. His office was in New York and I was in Newport News.

Senator CLARK. I am not trying to hold you personally responsible.

Mr. FERGUSON. I am not, Senator.

Senator CLARK. Was this Palen the same fellow who hired Shearer?

Mr. FERGUSON. Yes.

On the same question he wrote in 1928 (galley 30 FS) of February 18:

Judging from what has gone before on this matter of navy-yard building, I assume that it is the intention to use this data with the Members of Congress, since this is really the only place where relief from the Dallinger amendment can be obtained, if it can be had at all.

Judging the Congressmen from my experience with them last winter, it would be useless to furnish them with a statement of this length. There is not one in 100 of them who would take the time to read it, and not more than this proportion have the brains and the intelligence to correctly understand it if they did.

Is this the attitude of shipbuilders generally about Congress?

The CHAIRMAN. We better have that read again.

Mr. RAUSHENBUSH. This is the comparison which Admiral Rock used and which was based on data furnished by the Council of Shipbuilders, and then there is a question of getting a statement out about it.

Mr. Bardo wrote Mr. Palen, with copies to Mr. Smith, who was then of the Bethlehem Shipbuilding Corporation, and to Henry C. Hunter.

The fourth paragraph reads:

Judging the Congressmen from my experience with them last winter, it would be useless to furnish them with a statement of this length. There is not 1 in 100 of them who would take the time to read it, and not more than this proportion have the brains and intelligence to correctly understand it if they did.

Then it goes on:

I strongly feel that the council should take a positive stand in connection with the building of Navy vessels in navy yards. We are opposed to it in principle and opposed to it in every phase, and why not say so and say it in the strongest possible dignified language we can use? In President Coolidge and President Hoover we have fine supporters.

Mr. Frey testified that the private shipbuilders had interested themselves in fixing wage scales for employees in navy yards (Jan. 25, galley 86-87 GP).

Mr. RAUSHENBUSH. Mr. Frey, will you explain once more in what connection you mentioned this matter to General Johnson originally and offered him this envelop? What connection with any possible agreements between shipbuilders as to who were to get ships would there be with the code matter? Were you trying to prove that they were together on the labor policy, or other things, or what was the purpose?

Mr. FREY. I was trying to convey to the general my belief that as far as the code was concerned, that they were acting as a unit. I believe that they were, because I had found them acting as a unit in the past. My personal experience had been that in matters affecting their interests, so far as the Navy Department was concerned, that they took an official interest in the fixing of the wage scales for the employees in the navy yards. For a number of years, in fact, at the present time, I am the lay member of the Navy Wage Review Board, which makes recommendations to the Secretary of the Navy, fixing the scale for wages.

During the period that I have been a member of that Naval Wage Review Board, which consists of two representatives of the Navy and one of the American Federation of Labor, the National Council of American Shipbuilders has every time officially objected to the Navy Department giving any advance in wages.

In 1929 their president, and other representatives, appeared before the Wage Board—not at a public hearing; they asked for a private hearing, and the public hearing was over, and it was granted—and they insisted that the Navy must not increase the wages of employees in the navy yards because, if it did, it would be competing with them in securing competent mechanics.

A certain General Marshall, not identified, was described as lobbying for the yards (Feb. 26, galley 29 QD, exhibit 1648).

Mr. RAUSHENBUSH. Do you place General Marshall?

Mr. WAKEMAN. I do not know who he is. A copy of that letter was apparently sent me.

Mr. RAUSHENBUSH. The last paragraph reads:

General Marshall felt there was a good chance of getting this legislation through and that it would be much better to take up the subject along this line than it would be to develop an extensive campaign throughout the country on the subject. He thought, however, it would be unwise to take any steps on the matter until Congress opens and then to take up the subject matter carefully. He felt that it had a fair chance of success.

You do not identify this at all?

Mr. WAKEMAN. I do not identify what?

Mr. RAUSHENBUSH. The activity.

Mr. WAKEMAN. I cannot say that I did not get that letter. I assume that I did because my name is marked on the bottom of it, but I do not recall at the present time General Marshall.

Mr. RAUSHENBUSH. The paragraph above that explains the legislation apparently. [Reading:]

General Marshall had talked with members of the Senate and certain Representatives relative to including the single word "shipbuilding" in their bill, which would really accomplish what we are aiming to do, i. e., to confine the building of naval vessels to private yards.

Mr. WAKEMAN. What?

Mr. RAUSHENBUSH (reading):

to including the single word "shipbuilding" in their bill, which would really accomplish what we are aiming to do, i. e., to confine the building of naval vessels to private yards.

Mr. WAKEMAN. Yes, sir.

Mr. RAUSHENBUSH. That is a letter signed by Mr. Smith and a note of a copy sent to you.

Mr. WAKEMAN. These were evidently not very successful.

Mr. RAUSHENBUSH. You do not locate this General Marshall?

Mr. WAKEMAN. I do not, but I will look it up and see what that is.

Mr. RAUSHENBUSH. I offer that letter.

(The letter referred to was marked "Exhibit No. 1648" and is included in the appendix on p. —.)

In the course of his testimony, the New York Shipbuilding representative, Mr. Humphreys, was informed by Mr. Bardo of the company's interest in defeating the Dallinger amendment, which split the Navy work 50-50 between private and navy yards, and Mr. Smith, of Bethlehem, and Mr. Ferguson, of Newport News, were handling that fight (Jan. 23, 1935, galley 58 GP).

Mr. RAUSHENBUSH. We have here a letter dated December 10, 1928, addressed to you.

Mr. HUMPHREYS. What date?

Mr. RAUSHENBUSH. December 10, 1928, addressed to you at the Racquet Club, Washington. That letter reads in part:

Dear Harry: Yours of the 7th, enclosing expense account received. Same has been passed for payment.

I note that you are now prepared to devote all of your time when not needed in Camden or Trenton—

By the way, were you doing work at Trenton for the company at the capital of New Jersey?

Mr. HUMPHREYS. If they would have a bill which they wanted to get through up there, or something detrimental, I would take up something like that there, the same as I did here.

Mr. RAUSHENBUSH. The same as in Washington?

Mr. HUMPHREYS. Yes.

Mr. RAUSHENBUSH (continuing reading):

I note that you are now prepared to devote all of your time, when not needed in Camden or Trenton, at Washington for at least the balance of the session. What we are most interested in now is the defeat of the Dallinger amendment to the cruiser bill, * * *.

What was that?

Mr. HUMPHREYS. I am not sure, Mr. Raushenbush, but I think it was to put all the work in the navy yards. Mr. Dallinger, as I remember it, was always trying to put all the shipbuilding work in the navy yards.

Mr. RAUSHENBUSH. Do you remember whether it was all or half of it?

Mr. HUMPHREYS. He was always trying to put it all there.

Mr. RAUSHENBUSH (continuing reading):

and this is being handled by Mr. H. G. Smith, vice president of the Bethlehem Co.—

That is another one of the big shipbuilding companies, is it not?

Mr. HUMPHREYS. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

although Mr. Ferguson—

Who is Mr. Ferguson?

Mr. HUMPHREYS. I do not know, unless it is Mr. Ferguson, the president of Newport News.

Mr. RAUSHENBUSH (continuing reading):

and I have devoted some time and have interviewed a substantial number of Senators on the matter.

Is that the president of Newport News?

Mr. HUMPHREYS. I do not know. It might be. That is Mr. Bardo's letter to me.

Mr. RAUSHENBUSH (continuing reading):

We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone, and James Barnes, who has an office on the sixth floor of the A'bee Building. You no doubt know them both. I suggest that you keep in close touch with them, so that our cooperation may be complete.

Do you not know that these two men were employed by New York Ship to take up where you left off?

Mr. HUMPHREYS. Who?

Mr. RAUSHENBUSH. Lord and Barnes.

Mr. HUMPHREYS. No; I do not know that because I paid no attention to it. When I was free there, I did not pay any more attention to what they did or what was going on.

Mr. Humphreys kept no detailed accounts of his expenditures (galley 58 GP).

In 1927 the private yards built the three cruisers at about the same cost as estimated by the navy yards. This was in conflict with statements that the navy yards were underestimating costs (Feb. 18, 1935, galley 29 FS).

Mr. RAUSHENBUSH. Let that letter be marked.

(The letter referred to was marked "Exhibit No. 1588" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. There is one other thing which you said a while ago which interested me, Mr. Ferguson. You said that this navy yard competition had no connection with appropriations. Now, you said before, somewhat contradictory, that the navy yards had partly been put into this business to furnish a yardstick to your people; in other words, to keep you honest, let us say. And the cost of that is considerable, and the committee is interested and will get into the testimony on Thursday when the Navy representatives will be here on that. But the point I was making a while ago simply was, that you had said in 1927 that the navy yards were underestimating by 2 or 3 million dollars, and then actually you produced the ships for just about the cost the Navy was estimating it.

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. I was wondering whether, as a result of that, you had changed your idea about the reliability of the navy yards' estimates?

Mr. FERGUSON. Not at all. I do not think their estimate included, in my judgment, could have included, many of the items.

Mr. RAUSHENBUSH. Those were all your items before profit?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. You had \$8,154,000 on the *Houston* and \$7,800,000 on the *Augusta*, just about what the navy yards were estimating at the time.

The shipbuilders generally admitted their combined interest in taking the available work from the navy yards.

One case was in 1926 (Bardo, Jan. 24, galley 67 GP).

Mr. RAUSHENBUSH. About that time do you remember meeting with the others, late in 1926, when this cruiser program was first up—that is, do you remember meeting with the other representatives of the shipbuilders and going to the Secretary of the Navy and the President and fighting for the proposition that the private yards, rather than the navy yards, get these ships?

Mr. BARDO. We did.

In 1931 the Bath Iron Works worked with other shipbuilding firms and suppliers in a political effort to keep naval work out of navy yards. It was in connection with this fight that the Washington representative of Westinghouse Electric Co. referred to the naval business as "plunder" (galleys 23 and 24 WC, Apr. 3).

Mr. RAUSHENBUSH. In 1931 you were trying to get Senator Hale of Maine to vote against the amendment to the naval bill, putting work into the navy yards. Do you remember that at all?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. I would like to offer that for the record, being a letter to Senator Hale on that subject, as exhibit no. 1791.

(The letter referred to was marked "Exhibit No. 1791" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. And Mr. Spear of the Electric Boat Co. was writing you about this whole subject, and I offer for the record, and put before you, a letter from him, which will be exhibit no. 1792, in which he describes apparently what is the fight against this bill which would have put some of the work into the navy yards, and makes a couple of comments about which I would like to ask you.

(The letter referred to was marked "Exhibit No. 1792" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. In the middle of the second paragraph he says:

* * * that all the east coast builders ought to get busy and remain busy in organizing opposition to both these moves. As I see it, this is not a proper matter for the council to mix itself up in, and in any event any action through the council would be embarrassed by the fact that Bethlehem has yards on both coasts. I have written Homer Ferguson about the matter, telling him that I would get in touch with you and asking him to get in touch with all the other east coast yards.

Now, why would not that business of trying to keep ships out of the navy yards be a proper matter for the council? How do you explain that comment in that regard?

Mr. NEWELL. Do you know what the council is, which is referred to?

Mr. RAUSHENBUSH. That is your National Council of Shipbuilders, is it not?

Mr. NEWELL. That is right.

Mr. RAUSHENBUSH. Why would not that be a proper matter for the council to take up?

Mr. NEWELL. I do not know.

Mr. RAUSHENBUSH. You did not understand that comment?

Mr. NEWELL. No; I do not. Mr. Spear probably does.

Mr. RAUSHENBUSH. He has asked Mr. Ferguson to get busy and get in touch with the other yards, and in the last paragraph of that letter says [reading]:

I suppose that you may be interested in some destroyer construction if the pending authorization bill goes through.

This was in 1931?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

In that connection—

Mr. NEWELL. That is about 7 months before the awards were made.

Mr. RAUSHENBUSH. Yes; the bill was still up, the appropriation, was it not?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH (reading):

In that connection, I wonder if you know that Senator Hale is apparently not sound on the question of navy-yard versus private-yard construction. Since the war, of course, his prime interest has been to secure submarines for the Portsmouth yard, and perhaps he does not realize that a private yard in Maine might be strongly interested in destroyer construction.

What did you do after that? Was this letter from Senator Hale a result of that?

Mr. NEWELL. What is the date?

Mr. RAUSHENBUSH. That letter from Spear is on February 3, 1931, and the letter to Senator Hale is February 9, 1931.

Mr. NEWELL. I would say it was. It must have been. I do not think I would have written Senator Hale unless I had a little inspiration like that.

Mr. RAUSHENBUSH. Mr. Spear was sort of furnishing you information on the matter. We found some letters down here by a man named Southgate, of Westinghouse. What is his relation to your company?

Mr. NEWELL. None. His only relation is that of a potential purveyor of commodities, if you might say that, or we were a potential customer of his. That is all. He has no connection with our company.

The CHAIRMAN. Westinghouse does have an interest, more or less direct, in shipbuilding?

Mr. NEWELL. Oh, yes; because they are builders of electrical machinery, which is required in ships, in the matter of propulsion, turbines, gears, condensers, and other forms of heat-exchange apparatus like feed heaters, fuel-oil heaters.

Mr. RAUSHENBUSH. Do they get as much business out of a destroyer as the steel company does, let us say? Is the money which Westinghouse or General Electric machinery amounts to about the same as steel for the vessel?

Mr. NEWELL. Considerably more.

Mr. RAUSHENBUSH. Westinghouse is more interested in destroyers than the steel company would be, let us say?

Mr. NEWELL. There is only about \$55,000 worth of plates, shapes, rivets, and welding wire on a destroyer.

Mr. RAUSHENBUSH. How much machinery is it that Westinghouse would be interested in, roughly?

Mr. NEWELL. Somewhere around one-half million dollars per destroyer. I do not like to be rough on that.

Mr. RAUSHENBUSH. About four times as much money in the machinery that one of the supplying companies produces as for a steel company?

Mr. NEWELL. Yes, sir; the steel in the hull of a destroyer is a very, very small item of cost.

Mr. RAUSHENBUSH. This man Southgate, Mr. Newell, seems to take a very definite interest, in that he wants your bills to go through and your orders filled quickly, and all that. You trusted him and asked him to do certain things for you. There was a kind of business relationship, was there not? You both profited, if you were both successful?

Mr. NEWELL. Oh, yes; but no business relation in the sense there was any definite agreement. It was just the same as anybody, you for instance, might be in the business of supplying certain things that we used, and you might be a friend of mine, and it is the natural thing for me to say, "Now, what do you think about this?" and you in turn hear things which you think would be interesting to a possible customer, and you want to give them that information. That is just natural.

Mr. RAUSHENBUSH. Did you get equivalent information of the kind he was giving you from other suppliers, or was this the most outstanding illustration?

Mr. NEWELL. Oh, this is the most outstanding.

Mr. RAUSHENBUSH. I put before you a letter from Mr. Southgate, dated March 5, 1931, on the letterhead of Westinghouse Electric, which I offer for the record as "Exhibit No. 1793."

(The letter referred to was marked "Exhibit No. 1793" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. That letter reads: "Dear Newell"——

Mr. NEWELL. I might add to this, so that the committee will perhaps get a clearer picture, so far as this Westinghouse situation is concerned: I had approached Mr. Southgate in the beginning and had told him that we were not building turbines or gears, and, in view of our friendship over a fairly long period of years and the fact that we had gotten business immediately preceding the date of this correspondence, we had purchased considerable machinery from the Westinghouse Co., and there were business relations, we as a customer. And I said, "Now, with this destroyer business coming along, we have to get

our turbines and gears from somebody", and I told him that if Westinghouse would go along with us in what you might say was the formative stage of making the estimate and the design, to see what they had to offer, they might have had something to offer which would not be suitable, in my opinion, and, of course, we want always to present the best kind of a proposal to a customer.

The Westinghouse Co. got into gear on that situation, and I went to South Philadelphia and discussed the matter with their engineers, and this question of the type of machinery, the weights of the machinery, the water rates, which, in turn, would get back, of course, to what we would guarantee to the Navy on performance, and we worked together. I told them that I was working solely with them because I did not think it was a fair proposition to go hocking this thing all over the country. I decided that we would go along on a combination of Bath and Westinghouse, for reasons which I have indicated.

Mr. RAUSHENBUSH. And then there was the other situation, namely, Bethlehem could make its own turbines, could they not?

Mr. NEWELL. Right.

Mr. RAUSHENBUSH. How about New York Ship?

Mr. NEWELL. They were in the same position as Bethlehem.

Mr. RAUSHENBUSH. They could make their own turbines?

Mr. NEWELL. They would, and they would not buy them from anybody.

Mr. RAUSHENBUSH. Did United have a similar connection with you? Did they have a connection with some other company?

Mr. NEWELL. I have no idea.

Mr. RAUSHENBUSH. Did Federal?

Mr. NEWELL. I do not know anything about it.

Mr. RAUSHENBUSH. Coming to this letter of March 5, 1931, it says [reading]:

DEAR NEWELL: The sooner you take the senior Senator from Maine out and sink him the quicker you will get destroyer business in your yard.

The naval appropriation bill went through the House with the Dallinger amendment omitted.

The Dallinger amendment is the one which would give one-half of the work to the navy yards, is it not?

Mr. NEWELL. I think that is correct, but I am not sure.

Mr. RAUSHENBUSH (continuing reading):

The Navy Affairs Committee of the Senate, under the able and progressive management of the senior Senator from Maine, proceeded to insert that noxious piece of legislation that has appeared in the last few bills.

I take it that is irony on the part of Mr. Southgate.

Mr. NEWELL. Yes; I think so.

Mr. RAUSHENBUSH (continuing reading):

Of course, he was aided and abetted by Senator Swanson, and I suppose that probably he may claim that the Senator from Virginia was responsible for all the trouble, but I rather doubt it. At any rate, it is now in the bill and the only way that you are going to get any destroyers built in Bath, Maine, is for you to compete in price with the navy yards. In the words of the act, you must be able to contract at a price that is not "appreciably" higher than the navy yard bids.

I understand the morning after the bill went through every east-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing ready to fight for their share of the plunder, and the only thing that stopped the west-coast yards from being here was the fact that they couldn't come bodily by telegraph.

The CHAIRMAN. Will you please read that again?

Mr. RAUSHENBUSH. I am sorry. [Reading:]

I understand the morning after the bill went through every east-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing ready to fight for their share of the plunder, and the only thing that stopped the west-coast yards from being here was the fact that they couldn't come bodily by telegraph.

[Laughter.]

How do you explain that, Mr. Newell, that with the Dallinger amendment going through for one-half the work in the navy yard, that, therefore, the amount for the private yards would be smaller, and the fight for it would be tougher? Is that why these people were all down here "with their tongues hanging out * * * to fight for their share of the plunder"?

Mr. NEWELL. I do not know.

Mr. RAUSHENBUSH. Is that the way you interpret it?

Mr. NEWELL. I tell you, when I get a letter like that, I just laugh like the rest of you do, and there is nothing you can do about it.

Mr. RAUSHENBUSH. You kept corresponding with Southgate, did you not? You kept writing letters, did you not?

Mr. NEWELL. He started writing me letters.

Mr. RAUSHENBUSH. Regardless of that, you started this thing?

Mr. NEWELL. Yes; it is kind of enjoyable. I rather liked it.

Mr. RAUSHENBUSH. I can see that you could.

The CHAIRMAN. Is there any general agreement among you so that these naval construction bills are a thing to be plundered, or just so much plunder?

Mr. NEWELL. I would not say that.

The CHAIRMAN. I am asking you. Is there a general feeling among you to that extent?

Mr. NEWELL. You mean that we think that the navy yards are plundering upon our preserves?

The CHAIRMAN. Mr. Southgate was referring to the construction programs as plunder.

Mr. NEWELL. Oh, you mean the work?

The CHAIRMAN. The work.

Mr. NEWELL. We do not. It is very necessary for our existence.

The CHAIRMAN. I assume that Mr. Southgate would say it was necessary to their existence, too, because they furnish the machinery for the ships. And yet he considered it plunder.

Mr. NEWELL. No.

The CHAIRMAN. He was calling it "plunder."

Mr. NEWELL. I know; but I have no idea why he chose certain words to express his feelings. Certainly the shipyards do not look upon it as "plunder."

The CHAIRMAN. That is the question I was asking.

Mr. NEWELL. Yes, sir.

The CHAIRMAN. You do not agree with Mr. Southgate, then, that the ship-building program is a program of plunder?

Mr. NEWELL. I guess not.

Mr. RAUSHENBUSH. The letter goes on [reading]:

All this looks as though you had your work cut out, and also have to do some hustling right here in Washington to develop a situation that will enable you to see that the Secretary interprets the word "appreciable" in the proper way.

"Appreciable" not being higher than the Navy costs, I take it.

Mr. NEWELL. I do not know. I would think that whether an appreciable amount of work would be put in the navy yards versus the private yards was meant.

Mr. RAUSHENBUSH. I call your attention to the end of the first paragraph there, reading:

In the words of the act, you must be able to contract at a price that is not "appreciably" higher than the navy-yard bids.

Mr. NEWELL. I am wrong. It does mean "cost."

Mr. RAUSHENBUSH. The next phrase:

and also have to do some hustling right here in Washington to develop a situation that will enable you to see that the Secretary interprets the word "appreciable" in the proper way.

That is, therefore, apparently creating a political situation.

Mr. NEWELL. I never did anything there. I never got down to Washington on this destroyer business but once before the bids were opened, and that was to get some information.

Mr. RAUSHENBUSH (continuing reading) :

The Westinghouse Co. is going after the job hard. We would like these 11 sets of propelling machinery and I want to work with you on the job, because I honestly believe that if you put up the right kind of a fight and don't try to make so much money that you will break yourself paying the income tax, that you will be able to compete with at least some of the navy yards. Only three of them, Puget Sound and Mare Island and Charleston, as far as I know, have had any destroyer experience, and the others may be a little bit careful in their estimating, although any amount of money will not make up for lack of knowledge and experience.

Be sure and let me know when you are coming down as we must get together and see if we cannot work up something on this proposition.

Mr. NEWELL. The only thing we got together on was what I told you, a definite thing for a definite purpose, the destroyers on which Bath was bidding on this 1931 program. On this other gratuitous advice, I did nothing about. I did not know what to do about it. I do not think it meant anything anyway.

SECTION V.—THE NAVY'S DEPENDENCE ON PRIVATE YARDS

A.—GENERAL

Several members of the committee were surprised to learn that the Navy was relying on private yards for the designing and planning work on certain important categories of warship. It seemed important to them that the Navy should be at all times in a position of power where it can, if it wishes, part company with private shipbuilders and do its own work from the first stroke of the pencil to the final hoisting of the ensign.

Light cruisers, aircraft carriers, light destroyers, destroyer leaders, and submarines are being built largely or entirely from the plans of private companies. (See a.) The Navy finds an advantage in using outside designing ability. (See b.) Mr. Bardo did not think the Navy had the ability to do the designing itself when the cruiser program was begun in 1927. (See c and h.) Mr. Calvin of the Metal Trades Council also spoke of this dependence. (See d.) In 1931 the Comptroller General recommended that the Navy make itself independent of private designing on the ground that contracting was impossible when the intangible element of comparing the designs submitted by various companies was involved, stating that "charges of favoritism and fraud may too frequently follow." (See e.) Admiral Land admitted some degree of dependency. (See f.) In 1933 some of the shipbuilders (Mr. Bardo, Mr. Flook) held that the Navy was dependent. (See g.)

The fact that a company once securing the design work on a particular type of warship such as aircraft carriers, has a definite advantage over other companies was stated by Mr. Ferguson of Newport News. (See i.) The fact that the designing part of shipbuilding is the "bottle neck" which tends to slow up the work was stated by Admiral Land. (See j.) Mr. Frey of the Metal Trades Council took the same view. (See k.) He testified that the 1933 plans on light cruisers had not been delivered by New York Ship in January 1935, a delay of 17 months. (See l.) The Navy reprimanded New York Ship for the delay and a document from the New York Ship files was introduced detailing the delay 9 months after the 1933 awards. (See m.) The larger companies felt at an advantage over the smaller ones because they could afford to maintain designing staffs. (See n.) At the time of the 1933 bidding and the N. R. A. code, Mr. Bardo wired H. G. Smith, president of the National Council of American Shipbuilders:

We are unwilling to concede the allocation of naval construction to yards not heretofore engaged in this work unless. * * *

and proposed to charge the smaller yards in certain ways. (See o.) Mr. Metten, now president of New York Ship stated that the Navy was somewhat at the mercy of the private designers. (See p.) The

question of standardization was discussed by Mr. Metten, who was formerly president of the Marine Engineering Corporation. (See q.) The impossibility of having the navy yards standardize ships with the private yards was also discussed by Mr. Newell, president of Bath Iron Works. (See r.) The difficulties of having private yards compete in designs was discussed by Mr. Powell, president of United Dry Docks. His company protested a 1931 destroyer award to the Comptroller General. (See s.) The significance of Mr. Bardo's letter to Mr. Flook of June 22, 1933, was raised again. In this letter he spoke of the Navy officials as "desirous of finding some substantial reason for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships." (See t.) The English system was reported to be that of having the Government yards do all the designing. (See u.)

(a) The question of design control was raised again by the chairman (Apr. 10, 1935, galley 30 YD).

The CHAIRMAN. Suppose you were wholly dependent upon the Navy for planning, ship designing, and had no dependence at all on the private yards. How embarrassing would that be?

Admiral ROBINSON. It would be embarrassing to this extent, Senator: That owing to restrictions by law that are placed on salaries in the Government, there are a certain few individuals in the shipbuilding business whose services we would not be able to command, and those people are so outstanding in their profession that the lack of their contribution to the art would be seriously felt, so that I do not believe we would get as good ships as we would with their assistance. The number of these people is not very great.

Mr. RAUSHENBUSH. Coming back a minute, actually, as far as any preparing of plans on any of these categories goes, aircraft carriers, I mean, between the navy yards and the private yards, there is none on the aircraft carriers. That is originated by a private company?

Admiral ROBINSON. Yes, sir.

Mr. RAUSHENBUSH. There is none on the 1,850-ton destroyer which is originated by a private company?

Admiral ROBINSON. That is right.

Mr. RAUSHENBUSH. There is none on the 1,500-ton destroyers?

Admiral ROBINSON. I do not know what you mean by saying there is none on the 1,500-ton destroyers.

Mr. RAUSHENBUSH. What I am trying to get at is this: The question of the Senator, was that the navy yards are not drawing plans for various categories. The reply of Admiral Land was "yes", on submarines.

Admiral ROBINSON. I see.

Mr. RAUSHENBUSH. On the other kinds, it was not.

Admiral ROBINSON. We are not building any 1,850-ton destroyers at navy yards and are not building any aircraft carriers at navy yards; no necessity.

Mr. RAUSHENBUSH. How about light cruisers?

Admiral ROBINSON. We are building light cruisers at navy yards.

Mr. RAUSHENBUSH. I mean the plans. They are New York Ship plans, are they not?

Admiral ROBINSON. Largely. We have built from Bethlehem Shipbuilding plans also.

Mr. RAUSHENBUSH. That is the armored cruisers?

Admiral ROBINSON. We call them all cruisers. We have "CA" and "CL". We are building one at Philadelphia now.

Admiral LAND. Entirely our own plans.

Admiral ROBINSON. The navy yard at Philadelphia is doing the whole thing. That was produced at the New York central drafting office.

Mr. RAUSHENBUSH. Then on submarines and light cruisers the Navy produces the plans and on all the others the private shipbuilders? Is that correct?

Admiral LAND. You have left out gunboats and Coast Guard cutters.

Admiral ROBINSON. Those plans which we got from the shipbuilders are not by any means complete. For example, the lay-out of the machinery is altogether different, because we buy our machinery under contract, and usually it is not the

same machinery that the private contractors are putting in. So that the plan actually is nothing but a guide, and our central drafting office has to take the plan and make the set-up accordingly, and the navy yards will make the plans on all types except the 1,500, and the aircraft carriers, which they are not building.

(b) Later:

The CHAIRMAN. The fact remains that today the Navy is incapable of planning what it wants and getting it without some reliance on the private company?

Admiral ROBINSON. No, sir; I do not think so. We can design and complete a ship without any reference whatever to a private shipbuilder; but if we did that I do not believe in the end that, taking the engineering which is at our front door, we would get as good a ship as we would by consulting those people. So far as that is concerned, the Bureau of Engineering is capable of getting out a splendid turbine-propelled ship; but to do that, without taking into consultation the various turbine builders in this country, would be cutting off our nose to spite our face and would give us an inferior turbine. The naval officers can supply certain things which nobody else can supply.

On the other hand, the man who has done nothing but work on ship designs all his life can supply something that the average naval officer cannot turn out. It is this method which makes for the best ships. We could do this without going through the process I have outlined, but, after all, it is our duty to see that we get the best ships we can for the national defense, and we want to use every possible bit of information we can get hold of. It is not only the shipbuilders. The design of the shipbuilders has been mentioned to a great extent, but we use the design talent of everybody in connection with shipbuilding, the west coast, including the Middle West. They contribute just as much to the designs of these ships as the naval architect in the shipbuilding plant. It is a conglomerate design, for which no one man is responsible.

Mr. RAUSHENBUSH. Admiral Robinson, putting the chairman's question another way, if, at any time, it is put on the Navy Department, that would mean a lot of delay?

Admiral ROBINSON. A lot of delay, which would result in an inferior ship.

The CHAIRMAN. So that there is dependence upon the private yards?

Admiral ROBINSON. I would make it much broader than that. I think we are dependent upon the entire talent of the United States. For example, if we want to get a submarine engine, where do we go to get that design. We have half a dozen places where can get out the plans or the designs of that machinery, and, at the same time, we collaborate with naval architects for getting the best hulls, but a ship really represents thousands of engineers, and the naval officers' duty is in coordinating this design. He has got at his beck and nod the entire engineering talent of the United States, and he is very foolish if he does not use it.

Mr. RAUSHENBUSH. Going back a minute, Mr. Chairman, if I may, to the statement of Admiral Land that the Philadelphia Navy Yard was so swamped with designs that it could not enter the 1935 program that is somewhat in reply to your question of a while ago, as to whether this delay, described as from 3 to 6 months ordinarily, would not operate to the advantage of the private companies. They say that they are so swamped with designs now on the ships in 1933 and 1934 that they cannot take part in the 1935 program.

Admiral LAND. Wait a minute; I take exception to that statement. I did not make that statement. When you say they could not take part in that program, you are in error.

Mr. RAUSHENBUSH. Did not they say that?

Admiral LAND. They said they could not take in designs. Designs and program are different work. Philadelphia is looking for work and hoping to get it, but do not want design work.

Mr. RAUSHENBUSH. That throws the designing work into private hands, further, does it not?

Admiral LAND. No, sir; not necessarily.

Mr. RAUSHENBUSH. In that event, do you not have to give it to the private companies?

Admiral ROBINSON. Or the central drafting office in New York.

Mr. RAUSHENBUSH. Is not that pretty swamped, too?

Admiral ROBINSON. We do a lot of our designs work.

Admiral LAND. No; it is not swamped now, but is as busy as it can be.

(c) The dependence of the Navy upon private companies for designs was considered at various times (Jan. 24, galley 66 GP, C. L. Bardo).

Mr. BARDO. I am speaking of the three big yards. Yes, sir; to carry out this requirement. While the bids were being prepared, this matter was discussed, I do not know how many times, because it was a difficult thing to find a common denominator upon which the engineering forces of the three yards were inclined to agree to begin with.

As a matter of fact, I think it is only fair to say that the competition on this type of ship is competition in brains rather than in price. What the Navy Department wants all the time is the very best that they can get, the best performance for the least money. So that we had to harmonize those very difficult situations with the engineering groups in the first place.

Senator VANDENBERG. The Navy Department does not possess this engineering capacity itself?

Mr. BARDO. They did not at that time.

Senator VANDENBERG. In other words, the Navy Department had to rely upon external cooperation?

Mr. BARDO. That is correct. They had to depend upon us, because they were not equipped to go on and carry through the intricate designs for a ship of this type.

I do not recall whether it was after the contracts were awarded or before, that as a result of these prior discussions, it was agreed that we would set up a separate engineering organization to handle the plans for all the yards.

(d) W. A. Calvin, secretary of the metal trades department of the American Federation of Labor, testified on January 25 (galley 77 GP) to the dependence of the Navy on private designs.

Being aware of that, and being interested in restoring our men to gainful employment, I obtained copies of the progress reports of the Navy Department per month, and I could not help but notice that in no instance were the contractors meeting the estimated degree of completion. Consequently, I protested the delay in the construction of the naval vessels, because our members were still unemployed, both in private and navy yards. The navy yards, being dependent upon private yards for plans from which they might proceed with construction, had a large number of men on rotative leave and furlough.

Senator VANDENBERG. Mr. Calvin, do you consider that the navy yards are still dependent upon private contractors for designs?

Mr. CALVIN. The contracts for the preparation of the designs and engineering plans have been awarded to private contractors. That is not an evasive answer, but that is the best one that I can give at the present time.

Senator VANDENBERG. I wondered if you had any information on the subject. I am very much interested in this apparent inability of the Navy Department in the matter of construction of private design. I was wondering if you, from your general contact with the problem, can tell us whether it is your opinion that the Navy is dependent upon private designs?

Mr. CALVIN. I would assume that the Navy is dependent upon the private contractors for designs, in view of the fact that the new naval vessels are being constructed under designs prepared by private contractors and the ships being constructed in navy yards are built from those designs.

Further testimony was given on this point by Mr. Calvin on January 25 (galley 79 GP).

Senator VANDENBERG. Mr. Calvin, will you say it again, why you think the progress in the navy yards is so much slower than in the private yards?

Mr. CALVIN. It is a personal opinion, that it is due to the dependence of the navy yards on the private yards for engineering plans and designs.

Senator VANDENBERG. Exactly.

(e) The Comptroller General recommended in 1931 that the Navy make itself independent of private designing firms (Jan. 29, galley 99, 100 GP).

The Comptroller General's opinion on this subject of design was discussed on January 29, 1935 (galley 99 GP, 100 GP).

Senator VANDENBERG. I would like to ask Admiral Land one further question. Did you ever hear of a criticism, an official criticism, by the Comptroller General of the United States in 1931 upon this practice of letting ship contracts to private yards upon their own private designs?

Admiral LAND. I have heard of it; yes, sir.

Senator VANDENBERG. What did the Comptroller General have to say on that subject? Do you recall?

Admiral LAND. I was not in the Bureau of Construction and Repair at that time.

Senator VANDENBERG. Do you remember in a general way what the attitude of the Comptroller General was?

Admiral LAND. Only in a very general way.

Senator VANDENBERG. Mr. Raushenbush, is this a statement of the Comptroller General [exhibiting paper]?

Mr. RAUSHENBUSH. Yes, sir; at the time the United Drydocks had put in a bid, and felt that it was low, and Bethlehem was given the award on its own design. There was correspondence back and forth, and you hold in your hand the final letter from the Comptroller General to the Secretary of the Navy insisting that the Navy do certain things to remedy the situation.

Senator VANDENBERG. I think, Mr. Chairman, I better read this into the record. It is a communication from the Comptroller General, Mr. McCarl, dated December 10, 1931, addressed to the Secretary of the Navy. The entire document is pertinent, and we will mark it as an exhibit.

(The letter referred to was marked "Exhibit No. 1481" and is included in the appendix on p. —.)

Senator VANDENBERG. I read as follows:

It is realized, of course, that the United States should obtain the best possible vessels for the money expended, and that in connection with construction work of this character the Navy Department has its problems and would find it advantageous to utilize the best skill of the country in designing hull, machinery, etc. The results reported as obtained in the instant matter suggest the benefits possible through obtaining the views and suggestions of experts not in the Government service, but the procedure followed not only fails in fully meeting the requirements of section 3709, Revised Statutes, but will invariably breed dissatisfaction among bidders. Each bidder submitting an alternate design will doubtless believe, and honestly, that his is superior to all other designs submitted, and it would seem most difficult, if not quite impossible, to work out in advance and without intimate knowledge of the details of designs to be submitted, an evaluating formula that would be considered fair by any bidder whose design was not accepted, and charges of favoritism and even fraud may too frequently follow, with protests raising questions going to the availability of the appropriation proposed to be charged.

The law requires that specifications state the actual need of the Government and that award be made to the low responsible bidder proposing to supply such need. Considering the administrative problem to be as stated in matters of this character there is suggested for your consideration and as a means to enable the Navy Department to lawfully obtain the assistance of the skill in private industry when new vessels are to be designed and constructed, the advisability of acquainting the Congress with the situation and need with a view to securing authority to employ a reasonable amount of the appropriation to secure from competent sources outside of the Government a limited number of designs of hulls, machinery, etc., to supplement or for purposes of comparison with plans and specifications drafted by the engineers or the Navy Department, to the end that there may be worked out in every detail the best possible design and the final result submitted for competitive bids and construction by the low responsible bidder.

It is understood that on the assumption the procedure followed was sufficient compliance with the applicable law there has been adopted for building in two navy yards the design submitted by the Bethlehem Shipbuilding Corporation, and award made to said corporation for the construction of a vessel of such design. In such circumstances and in view of the apparent good faith of the Navy Department in following the procedure herein discussed and which should hereafter be otherwise, this office will make no further objection thereto.

The final sentence, Admiral, would seem to be virtually an order from the Comptroller General to change your procedure, would it not?

Admiral LAND. It appears that way from that. I am not sufficiently legally advised to know exactly what that means, Senator.

(f) Further discussion of planning and design control took place on January 29, 1935 (galleys 97 GP and 98 GP).

Senator VANDENBERG. If you are asking me, I am not trying to detail this thing down to the boiler room. I am interested in the general inquiry as to whether the Navy is dependent upon the private shipyard for designs, speaking abstractly and generally, and it is my understanding that under the set-up today they are absolutely dependent upon the private shipyards. Is that correct?

Admiral LAND. I would not say absolutely, Senator. We are, in a way, dependent upon them, but, as I say, by a great augmentation of our forces, we could do this. It would not be economical and probably would not be efficient, because we would then become standardized in the Navy, and would not have the benefit of the design and engineering information which exists in the shipbuilding world in the United States.

Senator VANDENBERG. I understand that. Let me get back to this matter again. I understand you to say that you might augment your forces and become independent.

Admiral LAND. That is possible.

Senator VANDENBERG. All right. That still leaves us with this contemplation, as I understand it, that during the last 20 years, and at the present moment, you are dependent upon outside shipbuilders for design.

Admiral LAND. In a sense of the term, that is correct.

Senator VANDENBERG. Actually that is a fact, is it not?

Admiral LAND. We are not dependent for contract plans except our Navy program. We are dependent upon detailed design; yes.

Senator VANDENBERG. Now, to what extent does that put you at the mercy of the outside shipbuilder?

Admiral LAND. I do not think it puts us at their mercy; no, sir, as I understand the term. We always have the whip hand in any situation of that kind, and, if anybody tries, through vicious attributes, to perpetuate something on the Navy Department, we are in a position to go ahead and do it ourselves. We have been doing it now, for years. I can cite instances in the manufacturing game where it looked as if we were being treated pretty hard, and we talked it over and found out the reason.

Senator VANDENBERG. You could not take over the planning when it was dragging due to any such conditions?

Admiral LAND. We could not take over 7 different designs, a greater number than we have ever had in the Navy Department.

(g) This dependence of the Navy upon private companies was admitted in the course of a letter from Mr. Bardo, of New York Ship, to Mr. Flook, chairman of his board. His phrase was (Feb. 11, 1935, galley 62 ZO):

I know from my talks with some of the representatives of the Navy, who are keenly interested in this work, that they are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

There was further questioning of Mr. Flook at this point (Feb. 11, 1935, galleys 62-63 ZO).

Senator BONE. Don't forget the language, "they are desirous of finding some substantial reasons"—meaning the Navy.

Mr. FLOOK. May I ask where that is?

Senator VANDENBERG. In the fourth paragraph of the letter.

The CHAIRMAN. They want "some substantial reasons."

Senator BONE. "They", meaning the Navy officials, "are desirous of finding some substantial reasons for awarding this work to the largest possible extent"—meaning the building of the ships, and that might mean up to 100 percent—"to private yards upon whom they must rely for the necessary engineering to complete the ships." That is for the plans.

Mr. FLOOK. For the necessary engineering to complete the ships.

Senator CLARK. You understand that to mean that the Navy Department understood that the Navy Department's engineering personnel was incapable of completing the ships?

Mr. FLOOK. I would not say that.

Senator CLARK. What does it mean?

Mr. FLOOK. They liked the engineering skill of the private yards better.

Senator CLARK. What did you understand Mr. Bardo meant when he said "for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships"?

Did it not mean that the Navy could not complete the engineering work themselves?

Mr. FLOOK. Yes, sir. I have heard to that effect.

Senator Clark questioned again on this point a little later (Feb. 11, 1935, galley 63 ZO).

Senator CLARK. Referring to the time element mentioned by Senator Barbour, in actual practice the time element amounted to this, did it not: That the Government would depend on the New York Shipbuilding Co. to prepare the plans for the light cruisers in the 1933 program, and as far as the time element is concerned, the New York Shipbuilding Co. was so dilatory that this program has been held up from that day to this. Is not that right?

Mr. FLOOK. That is all since I left the company, Senator.

Senator CLARK. You know that as a matter of common knowledge, do you not?

Mr. FLOOK. I do.

(h) Mr. Bardo testified concerning the dependence of the Navy on the private companies at the time of the beginning of the cruiser program (Jan. 24, galley 66 GP).

Mr. BARDO. I am speaking of the three big yards. Yes, sir; to carry out this requirement. While the bids were being prepared, this matter was discussed, I do not know how many times, because it was a difficult thing to find a common denominator upon which the engineering forces of the three yards were inclined to agree to begin with.

As a matter of fact, I think it is only fair to say that the competition on this type of ship is competition in brains rather than in price. What the Navy Department wants all the time is the very best that they can get, the best performance for the least money. So that we had to harmonize those very difficult situations with the engineering groups in the first place.

Senator VANDENBERG. The Navy Department does not possess this engineering capacity itself?

Mr. BARDO. They did not at that time.

Senator VANDENBERG. In other words, the Navy Department had to rely upon external cooperation?

Mr. BARDO. That is correct. They had to depend upon us, because they were not equipped to go on and carry through the intricate designs for a ship of this type.

(i) The experience of the private companies in designing certain types of ships results in a considerable advantage to that company over other private companies.

The same advantage is given that company over the navy yard. (See Feb. 19, 1935, galley 44 FS.)

Senator BONE. Mr. Ferguson, did I understand you to say a moment ago that you were confident that your company would get two aircraft carriers?

Mr. FERGUSON. I thought we had the best show, yes. I was not entirely confident until the bids were opened.

Senator BONE. I was wondering upon what you based that conclusion.

Mr. FERGUSON. On the fact that we were building 1, the only aircraft carrier as such designed and built after the war; in fact, the only one ever designed and built as an airplane carrier. We were familiar with that work, and we had a decided advantage in the preparation of the plans and in our knowledge of the details of the construction.

Senator BONE. What is there about an airplane carrier that would make the plans, the detailed plans and specifications, cost 2 million dollars to prepare?

Mr. FERGUSON. I should say that there are around 5 or 6 thousand of them, and it takes a force of 300 men about 2 years to 2½ years.

Senator BONE. To prepare the plans?

Mr. FERGUSON. Yes; it is a tremendous job. The plans of an airplane carrier, too, Senator, include many, many things that are not common to and do not belong in other ships.

(j) Again (Jan. 29, galley 97 GP):

Senator VANDENBERG. When the American Federation of Labor constantly protested to your Department over the failure of this Navy program to take up unemployment in the degree they thought it should, what was the reason that the Navy Department always gave the American Federation of Labor for the delay and for the comparatively small amount of employment provided? What was the reason that the Navy Department always gave the American Federation of Labor?

Admiral LAND. We gave them, in many conferences, simply the same reasons I have endeavored to give this committee this morning.

Senator VANDENBERG. I do not want to go into detail, but, in a word, was there not always, or almost always, delay in plans?

Admiral LAND. That is always the neck of the bottle in a shipbuilding program, so far as the start is concerned.

Senator VANDENBERG. Precisely.

Admiral LAND. Yes, sir; that is correct.

Senator VANDENBERG. Therefore, the responsibility for the delay, if there was a delay, was on the failure of the designs to be produced expeditiously in the private yards?

Admiral LAND. To a certain extent. Some of that responsibility belongs on our shoulders.

Senator VANDENBERG. Why?

Admiral LAND. Because we did not have contract plans, which has been the practice of the Navy Department for years.

Senator VANDENBERG. I do not want to leave any misunderstanding on the record, and let me ask you this: You do not mean that there is any responsibility on you because you did not pursue the shipyards for these plans?

Admiral LAND. Not at all. I hate to repeat, but I again must state that we had precipitated upon us seven new designs in 1933.

Senator VANDENBERG. They were not precipitated upon you. You were very eager and solicitous of getting the privilege of having them precipitated upon you, were you not?

Admiral LAND. Absolutely; but they were precipitated just the same.

Senator CLARK. You were standing around waiting for the invitation.

Admiral LAND. Surely; with a large blanket to catch them all.

(k) Further testimony on the designing problem was given by John Frey, president of the Metal Trades Department of the American Federation of Labor (Jan. 25, 1935, galley 85 GP).

Senator BONE. Then, Mr. Frey, you want to give us the impression, I take it, which seems to be a fact, that this whole program must pass through this bottle neck created by the "big three" for the designing and drafting?

Mr. FREY. Yes, sir; as far as the light cruisers are concerned.

The CHAIRMAN. Is not the light cruiser the large part of our program?

Mr. FREY. No; it is a material part. The heavy cruisers and the aircraft carriers and the submarines and destroyers are quite a large part of the whole program.

Senator CLARK. What proportion of the employment which was contemplated to be established by this allotment of \$238,000,000 was represented by the work on which the plans were to be drawn by the "big three"?

Mr. FREY. I could not answer that without going over all the ships and making an estimate.

Senator CLARK. Will you supply us with that information?

Mr. FREY. That will be supplied.

Senator CLARK. We would be glad to have it, if you will.

Mr. FREY. I would like to add now, so that there will be no misapprehension that until May of last year, the Metal Trades Department was of the opinion that the Navy Department was not pressing the construction work and pressing for the designs from the New York Ship Building Co. as actively as it might. I have no reason to feel that the Navy Department, since then, has not done all that it could.

Senator CLARK. What do you mean by "doing all that it could", Mr. Frey? Do you mean to say that the Navy Department is absolutely at the mercy of the New York Ship Building Co. to supply it with plans, whenever it chooses, and withhold them as long as they please?

Mr. FREY. My understanding is that the contract with the New York Ship Building Co. included supply the Navy with the designs for the light cruisers.

Senator CLARK. Was there any time stipulation in there?

Mr. FREY. I believe there was no time stipulation in there.

Senator CLARK. In other words, the Government obligated itself to accept these plans whenever the New York Ship Building Co. chose to supply them, without any limitation of time whatsoever?

Mr. FREY. If it is so that there was no time limitation for the plans in the contract.

(l) Testimony was also given by Mr. Frey on this question (Jan. 25, galleys 89 GP, 90 GP):

The CHAIRMAN. What do you see that might be done to expedite the utility of this Public Works money that has already been allotted?

Mr. FREY. That is a difficult question, Senator. If the Navy Department now should undertake to prepare the designs for these light cruisers, they would have to start all over again, or largely all over, and it might take 6 months or 9 months' additional delay before they would have plans.

Senator BONE. What do you mean by starting all over? They have the plans available, have they not?

Mr. FREY. No; they would be laying down the keels for these cruisers if they had the plans which the Government contracted for with the New York Shipbuilding Co.

Senator BONE. Are they building these cruisers under those plans in private yards?

Mr. FREY. Yes.

Senator BONE. Why are not those plans available to the Government?

Mr. FREY. I cannot say.

Senator BONE. In a preparedness program to get ready for war, why are not those plans available to the Government?

Mr. FREY. I do not know.

Senator BONE. You do not know?

Mr. FREY. No.

Senator BONE. Is there anything in the law which precludes the Government using those in its own yards in a program of national defense?

Mr. FREY. I cannot answer that, Senator. I am not a lawyer.

Senator BONE. Do you know of any reason why this Government should not use those plans? Is there anything sacred about them? Do they belong to anyone?

Mr. FREY. No. I presume that if their plans were completed for the two light cruisers to be built in navy yards, the Navy Department or Government would have begun construction some time ago.

Senator BONE. You understand, do you not, that the Government pays for those plans?

Mr. FREY. Oh, yes.

Senator BONE. Then why cannot it use them in its own yards and go ahead with this program?

Mr. FREY. I understand that the plans are not completed for these light cruisers, if they were to be built in navy yards.

The CHAIRMAN. The cruisers to be built in the navy yards could not be built, then, upon the same plans that the larger cruisers in the private yards are being built on?

Mr. FREY. Oh, no. Every type of ship has to have its own design.

Senator BONE. Then it is your understanding that the Government waits upon these private companies to create the plans for these ships, and has no planning board of its own at all?

Mr. FREY. So far as my testimony goes, it has indicated that the reason that these light cruisers have not been laid down in navy yards is because the Navy Department contracted 17 months ago with the New York Shipbuilding Co. for designs and has not received them yet.

Senator BONE. Seventeen months ago?

Mr. FREY. Yes, sir.

Senator BONE. Can you, from your experience, tell us how long it takes to create a set of plans of that type?

Mr. FREY. No.

Senator BONE. What would we do in case of war, if we had to have plans. We could not wait 17 months.

Mr. FREY. I made the statement, Senator, that it was my opinion, from long contact with chiefs of bureaus in the Navy Department, that the American Navy has as competent designers and constructors as any navy in the world.

Senator BONE. Does the Navy Department agree with you in that connection?

Mr. FREY. It would all depend on what question would be up.

Senator BONE. Did you ever put it up to them squarely?

Mr. FREY. Yes; I have.

Senator BONE. What was the answer?

Mr. FREY. The answer was that certain designers in private industry had been giving so much more of their time to designing that their helpfulness was necessary. They also said that it was necessary to have a certain number of private designers occupied so that if there ever came a national emergency, it would not be necessary for the Navy to depend wholly upon its own technical staff.

The CHAIRMAN. Mr. Frey, do you know emphatically that the plans are not now in the navy yards?

Mr. FREY. I know emphatically that they were not a few weeks ago.

The CHAIRMAN. You know that?

Mr. FREY. When I was discussing the question with the Navy Department, they were not.

The CHAIRMAN. If they are there, they have come in in recent days?

Mr. FREY. They have come in in the last few days.

(m) Admiral Land was questioned about a reprimand on delay in plans addressed by the Secretary of the Navy to New York Ship on September 22, 1934 ((exhibit 1479) Jan. 29, galleys 92 and 93 GP).

Admiral LAND. We have been endeavoring to speed up plans from October 1933 until to date, and the Secretary and Assistant Secretary have written letters to various contractors, endeavoring to expedite not only plan work but all work, and the Chief of the Bureau of Engineering and myself have constant pressure on the superintendent of construction and the inspector of machinery to do the same, as well as putting all the pressure we know how on everybody in the respective companies from the president down.

Mr. RAUSHENBUSH. We have a letter here from the Secretary of the Navy to the New York Ship, dated September 22, 1934, which I show you, and which you will probably recognize [handing paper to witness].

On the second page of that letter it states:

The Department has not been satisfied with the progress made at your plant with particular reference to the light cruisers. The situation with regard to plans is clearly understood, but it is a matter of vital importance that all practicable pressure be brought to bear on this plan situation in order that it may be practicable to put men to work, not only in your plant, but also in the two navy yards which are building cruisers from the plans prepared by your company.

Admiral LAND. Yes, sir; I am familiar with that letter.

Mr. RAUSHENBUSH. The letter continues:

A resurvey of the situation will undoubtedly indicate to you ways and means for more thoroughly carrying out the spirit and letter of the contract requirements and it is hoped that you will see your way clear to make this resurvey in order that the 1933 program may be more rapidly advanced as well as making as rapid progress as possible on the light cruiser awarded to you under the 1934 program.

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1479" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH. The question there was whether within the date after September 22, 1934, when an official reprimand was addressed to the company for the delay, the plans came speeding in after that time.

Admiral LAND. There has been a material improvement, and constant pressure is being applied by the Navy Department to make that improvement greater.

Mr. RAUSHENBUSH. Can you give us the status of the plans, either in numbers or percentages, about that time when this reprimand was addressed to the company?

Admiral LAND. I can furnish it for the record. I have not it with me.

Mr. RAUSHENBUSH. We have here a document from the files of the New York Shipbuilding Corporation which I would like to read and ask you as to its correctness. It is dated May 15, 1934.

After pointing out the clauses in the New York Shipbuilding Corporation's contracts, urging speeding up, it says:

This clause applies with equal force to the contract to supply the design for the vessels and to the contract for the construction of vessels; New York Ship offered in its bids for this work, to have the *Savannah* 30 percent complete at the end of the first year and the *Nashville* 20 percent complete 1 year after the award of the contract. On May 1, 1934, or 9 months after the award, the Navy progress reports indicate that the New York Ship has defaulted on its contract. The figures are as follows:

It goes on and shows that the *Savannah* was supposed to be 30 percent complete; and the first hull is 1.9 percent and the machinery 3.5 percent completed, in comparison with 30 percent promised.

On the *Nashville*, where they promised 20 percent in the first 12 months, the first hull is 1.9 percent and the machinery 2.9 percent.

And on the *Brooklyn*, the first hull is 1.5 percent and 0.1 percent on the machinery. [Continuing reading:]

All of these vessels are in the early design stage. No material for their construction can yet be safely fabricated in the shipyards or elsewhere until the main designs are completed. The only men now employed are those working on the design in the New York Ship drafting room.

On May 12, 1934, New York Ship had completed the following drawings:

It gives the total number of drawings required: Hull, 2,500; machinery, 1,780; and as compared with that, the total number of drawings completed of 25. That is 1 percent. And it shows the machinery with the total number of drawings completed of 40 out of 1,780.

Is that approximately the situation as you remember it as of the middle of May 1934?

Admiral LAND. That reference to the contract is entirely in error.

Mr. RAUSHENBUSH. What reference was that?

Admiral LAND. The reference about being a certain percent completed at a certain time. There is no such clause in the contract.

Mr. RAUSHENBUSH. They were not supposed, under this special arrangement for getting men back to gainful employment in the use of P. W. A. funds and the like, and they did not make any promises that the plans for the vessels would be 30 percent completed?

Admiral LAND. There is nothing in the contract which requires that. There is a clause requiring extraordinary effort in the first and second year, but it does not require specification of completion.

Mr. RAUSHENBUSH. Is that in the bid, that they expected those percentages of completion?

Admiral LAND. I do not know. I will find out.

Mr. RAUSHENBUSH. I think that would be pertinent to have at this moment. The memorandum goes on to state:

In the week of May 5, 1934, the Navy Department is reported to have rejected New York Ship's design for the machinery pieces of these vessels.

Do you remember that?

Admiral LAND. There were some parts of some plans which were not approved about that time. It would not be a rejection in our sense of the word. We do not use that term. We approve or disapprove. We modify and we alter. The basis is merely redrawn.

Mr. RAUSHENBUSH. You would call those alterations which took place?

Admiral LAND. In this case it would be a modification, something that they proposed which we did not approve.

Mr. RAUSHENBUSH. That memorandum then goes on to say:

Change in this fundamental design will dictate changes in the design of the entire vessel and makes all former detailed plans worthless. Progress reports for May 12, 1934, should therefore be amended to read:

	Hull	Machinery
C. L. Savannah.....	0	0
C. L. Nashville.....	0	0
C. L. Brooklyn.....	0	0
C. L. Philadelphia.....	0	0

Admiral LAND. I do not recognize that letter. There are a lot of things there that I do not know what they are talking about. Certainly the statement that they made that all these plans are worthless is incorrect.

Mr. RAUSHENBUSH. They only apparently turned over at that time 25 drawings on the hull and 40 on the machinery, in May 1934, according to this memorandum.

Admiral LAND. I do not recognize that memorandum. Has that ever been given to the Navy Department?

Mr. RAUSHENBUSH. It is from the files of the New York Ship.

Admiral LAND. I know nothing about their files.

Mr. RAUSHENBUSH. The memorandum continues:

No men can be put to work in the New York and Philadelphia Navy Yards on the cruiser construction assigned to them, until after designs have been received by the Navy Department from the New York Ship acceptable to the Department. Nor can these vessels be designed by the navy yards themselves, as they lack the necessary skilled and experienced design personnel.

Failure of New York Ship to live up to its contracts is not only causing delay in the building of the vessels, but delay in the reemployment in its own yard, and in the two most important navy yards dependent on it for design.

The causes for this inexcusable delay in cruiser design are in no way related to the shipbuilders' strike just settled at New York Ship, as their draftsmen did not leave their work. The delay is due primarily to New York Ship's having too much design work on hand, and its contractual obligation to get out certain private contract work ahead of the cruisers.

Let me interrupt there a minute, Admiral Land. Do you know how much outside non-Navy work the New York Shipbuilding Corporation had at this time?

Admiral LAND. They had two tankers.

Mr. RAUSHENBUSIL. And were they also drawing designs for Brazilian ships they expected to get?

Admiral LAND. I do not know. That was in the picture, but what they did I do not know.

Mr. RAUSHENBUSIL. Did each of those two tankers for Standard Oil take up one each of their ways?

Admiral LAND. Yes. When the keels were laid, they each took up one way.

Mr. RAUSHENBUSH. How many active ways are there at New York Ship?

Admiral LAND. I am not sure when you say "active ways" what you mean. I have the data. I would have to look it up, though, because I do not remember offhand. I have got it in the ship's data book and I have also got it in another form. I will have to put it in because I cannot tell from memory as to "active ways."

Mr. RAUSHENBUSIL. All right. I was simply making this point: Here is the picture of the New York Ship industry from the progress report of the Navy, dated January 1, 1935, showing a very considerable degree of incompleteness on the 1933 and 1934 cruisers; and, in addition to that, the picture should really include two tankers more, which would crowd their ways to that extent.

Admiral LAND. You know that New York Ship has three sets of ways. They have the north plant and the south plant and the old war plant. The old war plant is in no way active.

Mr. RAUSHENBUSH. The south yard is not being used?

Admiral LAND. Not in any way, so far as I know.

Mr. RAUSHENBUSH. Not since the war?

Admiral LAND. No; not since the war.

Mr. RAUSHENBUSIL. So that we can talk about the north yard and the five active ways there.

The memorandum goes on to state:

The Navy itself furnished rather complete designs and specifications for the destroyers awarded New York Ship, but a sketch design only for the cruisers. It is therefore necessary for the New York Ship engineers to work up the fundamentals involved in the cruiser design, such as space and weight to be allocated to boilers, machinery, ammunition, supplies, and having made such allocation, determine the dimensions and strength of the hull. All of this must be checked and approved by the Navy Department before detail design work can commence in the drawing rooms, as any

change in any one of the above fundamentals would necessitate change in design throughout the vessel, and each detail design must be approved by the Navy Department before it can be sent to mold loft.

The comment here, as I take it, Admiral Land, is that a change in any one of the fundamentals of those designs would necessitate change in the design throughout all the others. Is that approximately correct?

Admiral LAND. If you and I understand the term "fundamentals" the same way; yes; that is correct.

Mr. RAUSHENBUSH. Then it talks about having an exception in the code for the draftsmen, but even then they would not work them full time.

Then, do we gather roughly the picture that when contract for the light cruisers was signed—and I show you numbers 41 and 42, and here is 43—it says on the second page, article 4:

Time being of the essence of the contract, it is agreed that plans submitted to the Department will be acted on and returned to the contractor as promptly as possible—

and so forth.

Does the Navy feel at all that there has been undue delay on the part of New York Ship in supplying those working plans?

Admiral LAND. We feel there has been delay. I would not state undue delay. They are behind. They have been behind. Their present progress is between 4 and 5 percent behind the check curve which we have. It is not as good as we would like. And it is not as good as we had hoped for. But it is a fair approximation to what was anticipated, but not what we would like to have.

(n) The larger companies, which can afford designing staffs, have at times felt themselves at an advantage over the smaller companies (Feb. 19, galleys 35 and 36 FS).

Mr. RAUSHENBUSH. I want to digress a moment to get into the destroyer bidding of 1931. There are a few questions which we will have coming up here in the question of designs on that work which we simply and frankly do not understand and would like to have some explanation about. This destroyer bid, as you will remember, later on turned out in Bethlehem getting some ships on the basis of its own designs, for which the Comptroller General reproved the Navy and told them not to do it again. These questions came up on July 15, 1931, in a memorandum to Mr. Ferguson from your New York office, signed G. A. P. Who would that be?

Mr. BLEWETT. From the New York office?

Mr. RAUSHENBUSH. It is on the letterhead of the New York office. That is the only copy that I have [handing paper to witness]. Do you recognize that "G. A. P."?

Mr. FERGUSON. That is Mr. Parker.

Mr. PARKER. That was written from Newport News.

Mr. RAUSHENBUSH. The letterhead "New York office" misled me. It reads:

Mr. C. F. Bailey has just called up from Washington—

Mr. Bailey was your engineer?

Mr. FERGUSON. He was our director of engineering until he was retired.

Mr. RAUSHENBUSH (reading):

Mr. C. F. Bailey has just called up from Washington, and said that he had seen Admirals Robinson and Rock about the destroyer work and they are both anxious to have this company undertake the hull and machinery drawings for the destroyers. Mr. Bailey said that he indicated to them that he would probably be willing to do this, having in mind that the Navy Department, Fore River, and New York Ship would furnish their best technical advisers in doing the job. A careful record of cost would be kept.

In referring to "Fore River" it means Bethlehem, I take it. [Continuing reading:]

Mr. Bailey also said that he understood from Admiral Robinson and Admiral Rock that they expected that a number of companies, such as Bach, Sun, Maryland Dry Dock, and United Dry Dock, would be asked to bid on this work. Pickering has been to the Navy Department about bidding.

Who is Pickering?

Mr. WILLIAMS. Maryland Dry Dock.

Mr. RAUSHENBUSH (continuing reading):

Mr. Bailey's idea, while not so expressed to the Navy Department, would be to charge these outsiders, who know nothing about designing, a good price for the drawings and to have Fore River and New York Ship participate in any profits that might accrue from this. The Navy Department would not want our name to appear on the drawings, and would issue them as coming from the Navy Department.

Mr. Bailey thought that you might have an opportunity to discuss this matter with Messrs. Bardo and Wakeman when in New York Friday, and he told the Navy Department that, of course, the final decision would have to come from you.

He is at the Carlton Hotel and will return to the yard on Friday morning.

Do you remember what happened here?

Mr. FERGUSON. All I know of it is contained in the memorandum. I never saw it before. Mr. Bailey was up there as an engineer, talking to these people about an engineering problem. It sounds somewhat like a common drafting-room project, but you would have to ask Mr. Bailey what he meant by it.

Mr. RAUSHENBUSH. It is a memorandum for you, Mr. Ferguson?

Mr. FERGUSON. It was sent to me, yes; but I did nothing about it, as I remember it. I had forgotten it.

Mr. RAUSHENBUSH. The third paragraph says [reading]:

Mr. Bailey's idea, while not so expressed to the Navy Department, would be to charge these outsiders, who know nothing about designing, a good price for the drawings—

meaning, I suppose, the small companies.

Mr. FERGUSON. The people who did not have the staffs for designing.

(o) The attitude of the larger yards toward the smaller ones in regard to design is also indicated in a telegram from Mr. Bardo of New York Ship to H. G. Smith, president American Council of Shipbuilders, which was entered by Mr. Williams, of Newport News, on February 19 (galley 50 FS).

Mr. WILLIAMS. I have that telegram here. It was addressed to Mr. H. G. Smith, and it arrived during our meetings, and I see at the bottom a copy sent to me.

That is the telegram about which Mr. Bardo is alleged to have had discussion with Mr. Ferguson.

This telegram reads as follows:

CAMDEN, N. J., 10:50 A., June 22, 1933.

H. G. Smith,

Mayflower Hotel:

For your information in connection with the discussion of the matter of the Shipbuilders' Code, the New York Shipbuilding Co.'s position is substantially as follows. We are unwilling to concede the allocation of naval construction to yards not heretofore engaged in this work unless they are willing to agree to assume as an appropriate charge for any plans which the Navy Department may require us to furnish not only a proper proportion of the cost of furnishing these specific plans but also an appropriate proportion of the current overhead in engineering expense which we maintain in the form of technical staff in order to be able to carry on this technical work when it offers. Our consent to this provision is predicated upon the further provision that no allocation of Navy work will be made to plants not heretofore engaged in new Navy construction until after sufficient new work has been awarded to our yard to restore the number of employees to a normal basis. It is distinctly unfair both to the company and to its employees to deprive them of the work which they are especially qualified to do without assuming the full quota of expense. This is the position of our company and of the committee representing our employees and will be so stated to the Administrator in support of this provision of the Shipbuilders' Code. The allocation of any part of this Navy work to yards not heretofore engaged therein upon any basis other than as out-

lined above is nothing short of first-degree unfair competition. Copy of this telegram to Ferguson, Williams, and Wakeman.

C. L. BARDO.

(p) The dependence of the Navy on private designing was discussed by Mr. Metten, now president of New York Ship (Jan. 22, galley 37 GP):

Senator VANDENBERG. Excuse me, that goes back to my original inquiry, in which I am very much interested. Is not that still the situation?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. That the Navy's equipment is so scattered, that it is not useful in the production of a completed net result?

Mr. METTEN. There has always been a scarcity of really competent designers on this class of work.

Senator VANDENBERG. In other words, it would be difficult today for the Navy, in a self-contained way, to produce these designs, would it not?

Mr. METTEN. It would be difficult, I think.

Senator VANDENBERG. Yes; certainly.

Senator BONE. How long has that condition existed?

Mr. METTEN. It has existed ever since, you might say, the general lull in Navy building. They are highly specialized ships and they require a lot of experience in the various classes of work.

Senator VANDENBERG. So long as that condition maintains, I ask again, is not the Navy more or less at the mercy of private designers?

Mr. METTEN. That is being reduced now, Senator. They are recognizing—

Senator VANDENBERG. The answer is "yes", and they are trying to meet it. Is that it?

Mr. METTEN. Yes, sir.

(q) The principal advantage of a central design department among private yards is to standardize ships, according to the testimony of Mr. Metten (galley 35 GP, Jan. 22).

Mr. RAUSHENBUSH. What advantages were there, both to the Navy and the big shipbuilders, in having this Navy Department designing pooled, you might call it?

Mr. METTEN. In the ordinary course of events, each ship would have been different. You see the Newport News contracts were, the detailed plans, had been worked out by them, and in case of the New York shipbuilding contract, the details of that had been worked out by them; in the case of the Bethlehem contracts, the same thing would have been done.

Mr. RAUSHENBUSH. One advantage was a standardized ship. What other advantages would either the shipbuilders or the Navy get out of this arrangement?

Mr. METTEN. I think that was the principal object. As I understood it at the time, that was the whole object in that set-up, to standardize the ships.

Mr. RAUSHENBUSH. Did not this corporation do combined purchasing for the shipyards?

Mr. METTEN. Yes, sir; they had to do that because they wanted the auxiliary duplicated as far as possible. Instead of having one type of auxiliary in one, and another in another, they naturally had to standardize the auxiliary machinery.

Mr. RAUSHENBUSH. You did then purchase from Westinghouse and General Electric, Babcock & Wilcox, and all the other big suppliers of machinery, not only for the Big Three but for the navy yards, too, did you not?

Mr. METTEN. No.

Mr. RAUSHENBUSH. No?

Mr. METTEN. You see that had to come through the Navy. Duplicates of all orders were sent to the Navy so that they could follow the Navy routine.

Mr. RAUSHENBUSH. Then the Navy did not get any advantages of common buying on these purchases which you were making through this Marine Engineering Corporation, for the benefit of the Big Three?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. Did it?

Mr. METTEN. Of course, here would be, for instance, five units. Take something like generating sets, and so forth. Naturally the Navy, in asking for a bid for those ships, would get the benefit of quantity production, because they were to be duplicates of those they were building through these private yards.

(r) This idea of standardization is contradicted by other ship-builders. William S. Newell, president of Bath Iron Works, said (galley 27 WC, Apr. 3):

Mr. LAROUCHE. The fact is, they were not standardized at all?

Mr. NEWELL. What do you mean, they were not Chinese copies?

Mr. LAROUCHE. They really were not standardized after all the negotiation.

Mr. NEWELL. No, sir; not exactly, but substantially they were. It is impossible for the Navy to build an absolute Chinese copy of what is built in a private yard. The private builders have to do it. They have no choice in the matter. But when a vessel is built in a navy yard, the Navy, under the law, has to go out and get bids on all the apparatus that goes into the ship they do not make themselves. It is perfectly possible—and in many cases it happens—that the design—take the pumps for instance in a navy-yard-built job, and they won't be the same, from the same builders, as the pumps in a privately built ship.

Mr. LAROUCHE. You made quite a point of having these ships standardized a few moments ago. You said it would not do to have 1 destroyer of one kind and 4 others of another kind.

Mr. NEWELL. The fact that the pumps might be from different builders does not make any difference. A feed pump might be the shape of that, or it might be this shape [indicating] and the piping system is the same, and the disposition of the machinery is the same. But the Navy wanted the five ships as near alike as possible. They cannot always do it themselves, as much as they might like to, because they have to take the lowest bid. They try to, and they want to, but under the law they cannot do it.

(s) The procedure of having private yards submit original designs raises certain problems difficult to solve on a competitive basis. Mr. Powell, of United Dry Docks, was questioned on this subject on April 4 (galley 51 WC seq.).

The CHAIRMAN. I am offering as an exhibit, to be given proper identification, copy of a letter addressed by the United Dry Docks, Inc., to the Comptroller General, under date of October 6, 1931, to which I will refer only in part [reading]:

On September 16, 1931, United Dry Docks, Inc., submitted a proposal to the Secretary of the Navy to build one or two torpedo-boat destroyers nos. 348-358. This proposal was with the exception of one from the Bath Iron Works, Bath, Maine, the lowest of any tender submitted by an private shipbuilding company, and lower than any estimate received from any United States navy yard. Notwithstanding this fact, on Tuesday, the 29th ultimo, the Secretary of the Navy announced the award of contracts for 4 destroyers, 1 each to Bremerton Navy Yard, the Boston Navy Yard, the Bath Iron Works, and Bethlehem Shipbuilding Corporation.

Toward the end of the letter is a paragraph to which I wish to refer. Would you wish a copy of this, Mr. Powell?

Mr. POWELL. I have it before me, Senator.

The CHAIRMAN. You have stated in this letter to the Comptroller [reading]:

It is quite evident that under the Navy Department's call for class II proposals real competitive bidding is impossible. Judgment as to the value of different designs is introduced into the bidding, which, in the case of a torpedo-boat destroyer leaves the widest possible latitude for the difference of opinion.

I wish, Mr. Powell, you would discuss for the information of the committee, the points involved there, more particularly the unfairness, what you considered the unfairness, of the awarding at that time.

Mr. POWELL. The Navy Department has only called for class II bids on torpedo-boat destroyers. In the case of all other vessels, that is, within recent years, they have submitted designs complete, and bidders have all submitted prices on exactly the same thing. The reason why there has been a difference in the destroyers is due to the machinery of a destroyer being an extremely complicated engineering problem, which requires the packing of a very large power into a very small space, and also requires the obtaining of that power of a very low weight. There is a great deal of latitude for improvement in

one design as against another, and the skill that is shown in putting together the machinery units, and the Navy Department has evidently felt that it would benefit by getting the experience of outside engineers.

Now, so far as the design of the hull goes, that is likely a military matter, and they have never considered that outside bidders could do that as well as they can do it themselves, very properly.

When they call for class II bids, however, and this also applies to class I bids, the call to bidders has stated that class II bids would be evaluated on the basis of so much per knot for the speed guaranteed, and so much per pound for the fuel oil required at different powers and speeds, and have ostensibly stated to bidders that the bids would be awarded on the basis of the lowest price on this evaluation.

In the case of this bid, however, although my bid was below Bethlehem's on the evaluated basis, they threw out the designs that we submitted, in favor of Bethlehem, because they said the machinery arrangement suited them better. Bethlehem did not guarantee better speed or consumptions, but they gave them an arrangement of material which the Navy said they liked. The question of arrangement of machinery is your judgment against mine. I may like to have the condensers up against the side of the ship, and you may like to have them down under the engines, and if next week another set of officers would come to the Navy, they might like the condensers where I liked them, and not where you liked them.

There is, therefore, a wide latitude for the use of individual judgment, individual opinion, rather than judgment; if designs are to be compared on any basis of that sort, and it results in throwing out of a low bidder in favor of another one, which is exactly what happened in my case, then the bidder feels he has received a raw deal, and he is going to do all he can, if he has my disposition, to see that he gets what is coming to him.

The CHAIRMAN. You had, in your opinion, rather large concurrence by the Comptroller General, did you not?

Mr. POWELL. My opinion was that he concurred with me about what was offered, up until I read the last paragraph of his letter.

(The letter referred to was marked "Exhibit No. 1833" and is included in the appendix at p. —.)

The CHAIRMAN. There is offered for the record, for appropriate identification, the report of the Comptroller General, in the form of a letter to the Secretary of the Navy, under date of December 10, 1931.

(The letter referred to was marked "Exhibit No. 1834" and is included in the appendix at p. —.)

The CHAIRMAN. The concluding two paragraphs of that letter, to which you referred, Mr. Powell, state [reading]:

The law requires that specifications state the actual need of the Government and that award be made to the low responsible bidder proposing to supply such need. Considering the administrative problem to be as stated in matters of this character, there is suggested for your consideration and as a means to enable the Navy Department to lawfully obtain the assistance of the skill in private industry when new vessels are to be designed and constructed, the advisability of acquainting the Congress with the situation and need, with a view to securing authority to employ a reasonable amount of the appropriation to secure from competent sources outside of the Government a limited number of designs of hulls, machinery, etc., to supplement or for purposes of comparison with plans and specifications drafted by the engineers of the Navy Department, to the end that there may be worked out in every detail the best possible design and the final result submitted for competitive bids and construction by the low responsible bidder.

It is understood that on the assumption that the procedure followed was sufficient compliance with the applicable law there has been adopted for building in two navy yards the design submitted by the Bethlehem Shipbuilding Corporation and award made to said corporation for the construction of a vessel of such design. In such circumstances and in view of the apparent good faith of the Navy Department in following the procedure herein discussed and which should hereafter be otherwise, this office will make no further objection thereto.

Respectfully,

J. R. McCARL,
Comptroller General of the United States.

Did you at any time question the good faith of the Navy in awarding these contracts?

Mr. POWELL. No, Senator; I do not question the Navy's good faith in this matter at all. I think they did what they thought was best for the Navy, but I do question their judgment. I think their judgment was rotten.

(t) The question of the Navy's interest in having the engineering done by private companies was touched on in Mr. Bardo's testimony on April 6 (galley 98 WC). Mr. Bardo stated that the substantial reason in awarding work to private yards was "the engineering reason."

Mr. RAUSHENBUSH. You deny that in detail?

Mr. BARDO. Absolutely; and I would like to know what the other fellows stated. Did they ever admit it went on?

Senator POPE. Mr. Bardo, I find myself utterly confused by your testimony. In the third paragraph of your letter of June 22, 1933, to Mr. Flook, you made this statement [reading]:

I outlined our company's position on this matter of allocation to yards not heretofore engaged in shipbuilding activities. I talked to Ferguson on the phone this afternoon and he fully approved of this position.

Mr. BARDO. That is right. That had nothing to do with bids. That had to do with the matter of allocation. I told him my purpose. I said, "Here is an allocation that I am going to send to the meeting in Washington", and I wanted his opinion on it.

Senator POPE. That had nothing to do with bids?

Mr. BARDO. No.

Senator POPE. Let us proceed with this a little further, and perhaps you can remove my confusion.

Mr. BARDO. Yes.

Senator POPE (continuing reading):

I know from my talks with some of the representatives of the Navy—you you say you had no talks?

Mr. BARDO. I had no talks.

Senator POPE. That is rather important. What would be your purpose in advising Mr. Flook, the president of the board, of talks with Navy people when you did not have them?

Mr. BARDO. I did not have them; but it was the current conversation among the 25.

Senator POPE. What was your purpose in making a false statement to Mr. Flook?

Mr. BARDO. I had no purpose in making a false statement to Mr. Flook. I would not make a false statement, under any intention, to him.

Senator POPE. You did.

Mr. BARDO. Literally, it is so; but practically, it is not.

Senator POPE. What was the purpose of making a false statement?

Mr. BARDO. I would not have any purpose in making a false statement.

Senator POPE. Why did you make it?

Mr. BARDO. Literally, it is; but practically, it is not. The genesis of that letter was this conversation going around the table.

Senator POPE. I understand that. Let us go a little further.

Mr. BARDO. All right.

Senator POPE. You also state in the same paragraph of that same letter, referring to the Navy officials [reading]:

who are keenly interested in this work, that they are desirous of finding some substantial reason for awarding this work to the largest possible extent to private yards upon whom they must rely for the necessary engineering to complete the ships.

Mr. BARDO. That is right.

Senator POPE. You make the statement that they were desirous of finding some substantial reasons.

Mr. BARDO. Yes, sir.

Senator POPE. Were they, or were they not?

Mr. BARDO. Yes, sir; the substantial reason was the engineering reason.

Senator POPE. Did they tell you that?

Mr. BARDO. This group around the table discussed that. It all came from the group around the table.

Senator POPE. Did the Navy officials, as you stated in the letter, make any such statement?

Mr. BARDO. No, sir; they did not.

The CHAIRMAN. Were any naval officials around this table?

Mr. BARDO. I do not know. Captain Williams was the contact man between the shipbuilders and the Navy in the preparation of the code. He never made that statement. It was a common discussion around the table, and that is the genesis of the whole thing.

Senator POPE. I want to get this clear. Did the Navy officials express what that says:

They are desirous of finding some substantial reasons for awarding this work to the largest possible extent to private yards, upon whom they must rely for the necessary engineering to complete the ships.

Mr. BARDO. No; not the Navy officials.

Senator POPE. Why did you state that to the chairman of the board of directors? The answer to that would be the same, "You had no reason"?

Mr. BARDO. The genesis of that whole letter was the conversation going around the table.

Senator POPE. In the next paragraph is stated [reading]:

There was also expressed to us the desire that the builders themselves should get together and agree as far as we could upon what each would bid and then bid on nothing else.

Was such a desire as that expressed to you by the Navy?

Mr. BARDO. No; it was not.

Senator POPE. Why did you make that statement?

Mr. BARDO. I say, the genesis of that was what went on around the table.

Senator POPE. Why did you not say to the president of your board of directors the facts about the matter, that it was stated by the other shipbuilders instead of the Navy?

Mr. BARDO. That is just careless use of language, Senator. That is all there is about it. I want it to be fairly clear that I would not say or do anything that was going to convey a wrong impression as to the attitude or the position of the officials of our Navy.

PRIVATE CONTROL OF DESIGN

Mr. Wilder pointed out what he considered the superiority of the English system in regard to design, which avoids the expense of change (Jan. 31, galley 25 AS).

Mr. WILDER. If you had a consistent naval building program, no advertising would be necessary. If you followed the English system—we have no system, and let us say the English system is probably the best one—what would happen? They build in the navy yard a leader ship, first of a series of ships, and they work out the errors and they make the changes on one ship, and then on the following ships they open them up for competitive bidding, and the builder knows what he is up against exactly.

Senator VANDENBERG. They make the complete design?

Mr. WILDER. Yes, sir.

Senator VANDENBERG. The Government makes it?

Mr. WILDER. The Government makes it and takes the first ship, with all the extras and changes, and they are not made on a flock of ships, but only on one ship.

Senator VANDENBERG. There is no outside aid there?

Mr. WILDER. No, sir. If you want 20 destroyers, you build one and get it right and you can eliminate sales expense, and your vessels would not cost you one-half as much as if you have got to do it the other way. You have a known design, which is not going to be changed in the course of construction, but they carry out a consistent program.

Now we are faced with the fact that for 10 or 12 years we have not built any vessels, and we have got to build some and have no designs. Obviously the boys get their hands in and this sort of thing occurs.

B.—ELECTRIC BOAT COMPANY'S MONOPOLY

The record of Electric Boat Company and its peculiar methods of operation both domestically and abroad are contained in volume I of the committee hearings. They are not summarized here.

The charge was made by an officer formerly attached to Portsmouth Navy Yard that in order to keep this company in operation the Navy had handed over its own development work of 15 years to the company on a silver platter. This charge was discussed at some length. (See *a.*) The dependence of possible competitors on Electric Boat patents was discussed by officers of Sun Shipbuilding Co. (See *b.*)

(*a*) Evidence on this matter was presented in part in the form of a letter from Commander E. L. Cochrane, formerly connected with the Portsmouth Navy Yard. He used the phrase, "The Navy's development of 15 years were thus handed to the Electric Boat Co. on a silver platter * * *" (Apr. 11, 1935, galley 48 YD).

Mr. LAROCHE. Perhaps this will refresh your memory. Do you remember a letter written September 5, 1934, from the Portsmouth Navy Yard, from Commander E. L. Cochrane? We have what seems to be a copy of it, and I thought you might like to furnish the original from your files, or at least identify this as having been received [handing paper to witness].

Admiral LAND. Yes; I recognize that letter.

Mr. LAROCHE. I should like to offer this for the record.

(The letter referred to was marked "Exhibit No. 1940" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. What is the purpose of it?

Mr. LAROCHE. The purpose of the letter is indicating that the competition of the navy yards is perhaps not undiluted.

The CHAIRMAN. Is not what?

Mr. LAROCHE. The letter speaks for itself. I will read some extracts from it. It deals with the competition furnished by the navy yard.

Mr. RAUSHENBUSH. Who is this letter from?

Mr. LAROCHE. It is from Commander E. L. Cochrane, Portsmouth Navy Yard, and is written to Admiral Land.

Admiral LAND. You might as well get it straight. He is not a commander of the Portsmouth Navy Yard. He is at sea, on the staff of one of the admirals of the fleet, but he is very much interested in the Portsmouth Navy Yard, and he is a member of my corps, and I have no objection to that letter, but he is not at Portsmouth, but was on duty there.

Mr. RAUSHENBUSH. To get this straight, Mr. LaRouche, you did not get this letter from him?

Mr. LAROCHE. I did not get this letter from him.

Mr. RAUSHENBUSH. The sender of the letter does not know you have it?

Mr. LAROCHE. Oh, no.

The CHAIRMAN. Does the writer pretend to be the commander of the navy yards?

Mr. LAROCHE. It is written with the inference he was there.

Mr. RAUSHENBUSH. What is the date?

Mr. LAROCHE. September 5, 1934, and Admiral Land said he was there.

Admiral LAND. What is the heading? Southern Drill Grounds?

Mr. LAROCHE. Southern Drill Grounds.

Admiral LAND. He is not at Portsmouth. That is what I want to straighten out.

Mr. LAROCHE. I think the letter will clear up some of the misunderstanding.

The CHAIRMAN. Proceed.

Mr. LAROCHE (reading):

It is with great reluctance that I undertake this letter, because I realize first, that I am not fully advised on the Department's present decisions and, second, that it is not directly my business in any case. If, however, a proposal to do all the detail designing for the new submarines at Groton is being considered, as I have heard, the question seems to me to be sufficiently serious to necessitate some observations from me in advocacy of retaining the design organization at Portsmouth.

Groton is the Electric Boat Co., I take it?

Admiral LAND. Correct.

Mr. LAROCHE (continuing reading):

As you know, I followed in your footsteps in the old submarine desk at the Bureau and then in Saunders' at Portsmouth. I have been therefore thoroughly familiar with a large measure of the submarine design work done since the war and I know the personnel in the organizations at both Portsmouth and Groton very intimately. I was also a party to, and advocate the agreement by which ostensibly in exchange for their plans, but actually for almost no real consideration at all, the Navy (Portsmouth) turned over to the Electric Boat Co., a very large number of the *Narwhal* (ex V-5) plans, most of the *Dolphin* (ex V-7) plans, and practically a complete set of *Cachalot* plans. During many visits of the various members of the Electric Boat Co. organization to Portsmouth most full and frank discussions and explanations of methods and experience were given to them.

The Navy's developments of 15 years were thus handed to the Electric Boat Co. on a silver platter, so to speak, on the conviction that it was desirable to keep at least one commercial company in the submarine game and that it was obviously advantageous to the Navy to get the best submarine possible from them. The Portsmouth civilian force were fully alive to the challenge of competition from the Electric Boat Co., and were willing to spot them their own knowledge and experience on the conviction that they were smart enough to keep ahead of the Electric Boat Co. and in the belief and expectation that they would be allowed to continue to compete with them.

I know the personnel at the Electric Boat Co. very well and have great admiration for them. I know also that they are the same crowd who carried us through a series of boats from the A's to the S's with miserably slow progress and that little forced upon them. I know also that it is a commercial organization and that the profit motive has been long unenriched, and I predict with full conviction that development in submarine design will not continue at its present rate if a Government agency is not retained which can furnish detail design competition with them.

I am convinced that such competition in design work is as effective as competition in costs. I believe that from the point of view of development of man-of-war designs, it is even more valuable.

I hope that you will pardon the length and frankness of this letter. I have been impelled by a sense of duty and loyalty to an organization from which, during 4 years, I received only the most cheerful and continuous loyalty in return. I should feel derelict did I not attempt to present their case. I feel equally that it is also the Navy's case.

Admiral LAND. Do you want us to comment on that, Senator?

The CHAIRMAN. If there is any comment to be offered.

Admiral LAND. There is a great deal of comment. His premise is correct. He is away from the yard and does not know what is going on. He does not know the Department's policy. He is a fine and enthusiastic partisan for the Portsmouth Yard, and very properly so, and I admire his enthusiasm, but he is not cognizant of the Department's attitude. What he says as to principles is probably correct, but when he delves into past history, he may not be right, because he is rather young. When you go back of 1899, then most of us do not know. The Department is cognizant of the rivalry and cooperation existing, and that must be taken together. Rivalry and cooperation is being considered by those of us who have the matter in hand, to be for the most efficient and best interests and the most economical procedure in naval service which, after all, is our job, to get the best boats, and we are utilizing both yards, with a cooperative, cross-fire plan, back and forth, between Groton and the Portsmouth Yard. All you have to do is to look at the progress reports. As I stated yesterday, Portsmouth can take care of itself, at any jump in the road, and vice versa, the Electric Boat Co. is being pushed and may be a little ahead of what we predicted they could do.

Mr. RAUSHENBUSH. This letter states [reading]:

The Navy's developments of 15 years were thus handed to the Electric Boat Co. on a silver platter. * * *

Is he completely incorrectly informed about that?

Admiral LAND. I did not say that he was. I expect his expression may or may not be 100 percent correct, but by the same token we have been given and paid for what the Electric Boat Co. produced. I say it is merely an exchange of ideas, involving talent and skill in design, which we have talked about here, and which Admiral Robinson and I thoroughly believe in. Sometimes one gets the better of it and sometimes another, but it is Government cooperation with private engineering and using the ability and technique and design genius of competitive concerns, one being a navy yard and one being a private yard.

Senator BONE. Admiral Land, he suggests in this letter that the Government's work was given to the Electric Boat Co. When the Electric Boat Co. supplies plans for a ship, the Government pays for them. Is not that correct?

Admiral LAND. That is correct, generally speaking, but there is an interchange, and it works both ways. We pay for plans furnished to us by private yards, and if the shoe is on the other foot they pay for plans furnished them. As a matter of fact, the producing of plans may simply involve cost of labor, material, and the necessary printing, and perhaps what we call "C. B.'s", and it is done on a very sound and practical basis, entirely agreeable to each other.

Senator VANDENBERG. Does the Electric Boat Co. in turn make submarines for other countries?

Admiral LAND. During the course of its history it has; yes, sir.

Senator VANDENBERG. Does it have the advantage of this interchange with the Navy when it deals with foreign governments? I assume it does.

Admiral LAND. Undoubtedly.

Senator VANDENBERG. Does that mean that any submarine development under the Navy Department is at the use of any foreign government which wants to deal with the Electric Boat Co.?

Admiral LAND. There are certain restrictions on that, which are also covered in the contract, covered by regulations and covered by departmental instructions. Certain things are secret and certain things are confidential, and certain things are for service use only. There are three categories which the Department attempts to safeguard the vital parts of that form of construction.

Admiral ROBINSON. If I may, I would like to add one remark about the letter there, which is perfectly all right, but the inference might be drawn from that letter that the Government had allowed an improper exchange of information between the Electric Boat Co. and the Portsmouth Navy Yard, for which the Government was getting nothing in return. And that inference is incorrect. The interchanges of information between the Electric Boat Co., of which the writer cannot possibly be aware, because the question took place with the Navy Department itself and the assistants from that company, have been very great. One should not draw the inference, if he does, that there has been any improper interchange of information there or interchange of information which was not to the Government's interest, because it has been to the Government's interest in every case.

Senator BONE. Admiral Robinson, does the Navy Department make any inspection of a submarine built for a foreign power by the Electric Boat Co.?

Admiral ROBINSON. I am afraid I cannot answer that question.

Senator BONE. It does not seem to be indicated by the testimony.

Admiral ROBINSON. It does not come under our Department, and I would not know about it. If you mean, do we know about it, those boats would be built in the same yards, if they were built for a foreign power, as our boats, and, of course, our inspectors would have full access to them. But, as a matter of fact, so far as I know the Electric Boat Co. has never built any submarine for a major power. They have for some minor powers, which did not have shipyards of their own, except during the war.

Senator BONE. The officials testified here that an overwhelming majority of the submarines they built have been built for foreign governments.

Admiral ROBINSON. That must have included the period of the war.

Senator BONE. Three hundred and some submarines, if my memory serves me correctly. They afterward sued the German Government, if I remember the testimony correctly, for the use of their own patents, employed on a German submarine.

Admiral ROBINSON. I do not know what they did during the war.

Senator BONE. If the Navy followed that, that would be very clear. They had the use of our American patents, or the American patents were freely used in German submarines.

Admiral ROBINSON. Of course, the Germans used any patents during the war they wanted, and so did we. Nobody paid any attention to patents.

Senator BONE. This free exchange between the Electric Boat Co. and the Government might readily lead to the use of the submarines by the foreign governments in defense, which has been made clear from the testimony.

Admiral ROBINSON. There are certain restrictions as to what the contractors can do for foreign powers. That applies not only about submarines but every conceivable sort of apparatus, radios, and a number of sound apparatus, and all sorts of things, which they sell to the Government, and which, when they want to sell to a foreign power or citizen of a foreign power they must get permission from the Navy Department before doing it.

Senator BONE. The testimony here as to the restrictions placed on the American munitions maker supplying munitions to a foreign power indicates that the restrictions are quite vague. The restrictions imposed on the munitions makers in this country seem to be very thin, very vague, and very tenuous.

Admiral ROBINSON. You may be quite right, but I am speaking only of the Navy Department's relation, and only the equipment about which I know. Of course, naturally, I do not know anything about ordnance material. I can state in our own instance, where there is the slightest question of secrecy involved, there is a clause in the contract which specifically states that the manufacturer is not entitled to sell this equipment to citizens of foreign powers or to foreign powers, and we have hundreds and thousands of them every year just like that, and we get letters in connection with that. In other words, when that equipment becomes obsolete, we allow it to be sold. The same thing applies to submarines.

When you get back to the war, I am afraid I am a little out of my depth. I do not know much about conditions obtaining then.

Senator BONE. Patents employed in the munitions business were made available freely to foreign powers. That is true on airplanes and almost the entire field of munitions.

Mr. ROOSEVELT. Senator, may I say, since I have held the position of Assistant Secretary of the Navy, I have signed many letters denying them the right to use certain specific parts of airplanes, or certain types of ordnance, or whatever it may be. We watch it pretty carefully, I think, sir, in the Navy Department, and we deny them the right to use them.

Senator BONE. We found letters giving releases for foreign sales. There is convincing evidence to me, as a lawyer, that these concerns and manufacturers were making free use of these patents and materials which were being shipped abroad. That convinced me. If I were on a jury, I would convict a fellow on the evidence before me, having in mind the instructions of the court that I could convict only on evidence that was beyond a reasonable doubt.

Mr. ROOSEVELT. The only exception to that rule is when the devices become obsolete, or, of course, when the patent runs out. Then we have no control.

Admiral LAND. Might I say a word in answer to Senator Bone? You are undoubtedly correct, but I should like to invite your attention to the fact that the Government furnishes its own ordnance for submarines. It furnishes its own guns; it furnishes its own machine guns; it furnishes its own torpedoes; it furnishes its own periscopes, to a large extent; and it furnishes much of its radio and special things Admiral Robinson mentioned. And those things are ours and not the Electric Boat Co.'s. That, after all, is the purpose of the submarine, to carry this particular torpedo or that particular weapon, and the patents involving primarily these construction details, of all kinds, of which, when I was younger there were a good many of them, but they have long since expired.

Senator BONE. I would not undertake to dispute with a technical man some aspects of that business, particularly with reference to the shape and type of the hulls, or the machinery in a vessel, but I would think that the very heart of a submarine would be in driving equipment, the type and shape of its hull, and the capacity to keep the air fresh, clean, and sweet in a submarine. As to guns, of course, foreign powers probably make guns just as good as we make them, but the vital thing in a submarine, I would think, would be the machinery driving it and the machinery to keep the air fresh and clean and sweet in a submarine. I think you will agree with me, at least to that extent. Those things, I take it, are largely, if not almost entirely, controlled by patents, except those which have run out. Of course, the old war patents have probably expired.

Admiral LAND. I do not recognize anything you say there as being patents in this day of our Lord. They were patented at one time.

Senator BONE. What does this naval officer mean in stating:

The Navy's developments of 15 years were thus handed to the Electric Boat Co. on a silver platter, and the Government's plans were turned over for "actually almost no real consideration at all"?

Admiral LAND. He refers to the perfectly legitimate interchange of plans for utilizing the plans of both establishments. There is that arrangement between the two, and we have egged it on to the best of our ability, because it is very efficacious in getting results.

Admiral ROBINSON. Whether it be a navy yard or contractor building ships, we give every bit of information which would tend to make a better ship. We do not make any interpretations at all because those who are interested do it. We cannot let a contractor turn out a ship which competes in some regards, but if there is any such information, that we can give him which would make it better, we do. Of course, once the ship is built, we get information about it, and that becomes common knowledge to everybody interested in the art. That is the only way you make progress.

Senator BONE. Is it not almost an impossibility to keep one of the military secrets about equipment and the like, because it will be passed all around? If you are going to give to a shipbuilder the latest design you want incorporated in a ship, the officers and officials of that company know all about it?

Admiral ROBINSON. Senator, if you are asking me for a personal expression of opinion, I think it is more or less impossible for any country to keep any secrets, very much.

Senator BONE. That is what I mean.

Admiral ROBINSON. Everybody knows what everybody else is doing in the entire world, when you come right down to it, and there is very little secrecy about it. In fact, engineering is the hardest thing to keep secret. It is like trying to hide the bass drum; it just cannot be done.

Senator BONE. There is a great deal in the press about military secrets.

Admiral ROBINSON. There is no such thing, really.

Senator BONE. I have decided that there is no such thing as a military secret.

Admiral ROBINSON. I think you are quite right, sir.

(b) Sun Shipbuilding Co. and the Navy are at the mercy of Electric Boat Co. for submarine patents, and on bidding on naval work, Sun was unable even to learn how much Electric Boat would charge for the right to use the patents. The testimony shows that Sun officials had previously thought the Government owned these basic patents (galleys 45, 46, and 47 WC, Apr. 3).

Mr. LAROCHE. Now, Mr. Pew, will you tell the committee what you can about the situation as to submarine plans and patents, as briefly as you care to?

Mr. PEW. All right. In 1933 the Navy Department asked us if we wanted to bid on submarines, and we told them "yes." We sent in a bid on submarines in 1933, and I will have to admit we did not know much about the patents.

Mr. LAROCHE. At the time you sent in your bid?

Mr. PEW. No, sir; and we were low bidder, but we were not low bidder on two submarines. The Navy Department could save about \$100,000 by taking the two submarines from one company rather than one from us and one from the other company.

On account of the fact that in the meantime the code had gone into effect, and that we would have to keep our men who were working on this one submarine working 30 hours a week, and would have to have the balance of the men in the yard who were doing merchant work or other work at 36, and could not pay more for the Navy men, or the work being done for the Navy, than we could for public work, I told Mr. Haig, our vice president, who had gone to Washington on this account, to stay away from Washington, that it was to the advantage of the Government to give the other person the two boats, and we never heard from the Government afterward.

Mr. LAROCHE. That was in what year?

Mr. PEW. 1933. In 1934 we heard about the patents and took up the question of patents, and you will find the correspondence on that, which I think I have given to you right there. If I have not, I will give it to you. They agreed that they would permit us to build under their patents, but they did not give us a price, and said they would take it up with the Board. We had the estimate of price, and we were not low bidders the second year.

Mr. LAROCHE. You had an estimate of price on plans?

Mr. PEW. Yes, sir.

Mr. LAROCHE. But not on patents?

Mr. PEW. On patents. We put in there, in our figures, what we considered it to be worth. I do not remember the exact amount, and, in the meantime, labor had gone up in the shipyard a little bit, so that the facts were we were not low bidders. We did write to the Secretary of the Navy, hoping that he would give us one, to distribute the work, and his answer was that he could not do so because we were not the low bidders.

The answer would be handed to you.

Mr. LAROCHE. The situation on patents, as I gather it, is that they are all in the hands of one company?

Mr. PEW. My understanding is so.

Mr. LAROCHE. And that you could not make a bid without an arrangement with them?

Mr. PEW. We so understood it.

Mr. LAROCHE. Your bid in 1934 was based purely on your guess?

Mr. PEW. It had to be a guess entirely, upon what we might have to pay for these patents.

Mr. LAROCHE. Are you telling the committee that you are at the mercy of one company, which has those patents?

Mr. PEW. We believe we are. Does that answer your question?

Mr. LAROCHE. Unless you can make it stronger.

Mr. PEW. I say, we believe we are.

Mr. LAROCHE. Did the Navy ask you at any time to enter competition in the submarine field because they thought it would be a good thing for the Navy?

Mr. PEW. I believe they did.

Mr. LAROCHE. And you did enter that competition?

Mr. PEW. We did.

Mr. LAROCHE. But you got no contract in either year?

Mr. PEW. We did not get a contract in either year. The Navy did what they should have done, like any business man would, take the lowest price for the Navy, and as we were not very anxious to have them then, we did not at all press it.

Mr. LAROCHE. You were not very anxious to have them at that stage because you were at the mercy of the Electric Boat Co. as to patents?

Mr. PEW. We did not know it then.

Mr. LAROCHE. You did not know it then, when you put in your bids?

Mr. PEW. No, sir; we did not.

Mr. LAROCHE. But, as it turned out, if you had gotten that contract—

Mr. PEW. We would have had to go through with it and would have gone through with it, if there was any method to get the right from them to use them. And I believe they would have given them to us at a price.

Mr. LAROCHE. At a price?

Mr. PEW. Yes; but I do not know what that price was.

Mr. LAROCHE. And they would have set it to suit themselves?

Mr. PEW. I imagine so.

Mr. LAROCHE. Did any of the naval officers tell you, or anyone in the Navy tell you, that the Navy needed some competition, and had to have it in the submarine field?

Mr. PEW. I would like to have Mr. Haig answer that for me, but I believe they did. They did not so tell me that they would like to have it.

* * * * *

Mr. HAIG. My name is Robert Haig. I am the vice president of the company. Mr. LAROCHE. Mr. Haig, I will ask you the question which I just asked of Mr. Pew; whether the Navy Department, in the person of naval officers, or others in the Navy, told you that competition was necessary in the submarine field, and that they did not have it?

Mr. HAIG. Just made that comment, that is all, and we expressed our interest to build those submarines.

Mr. LAROCHE. And they felt that you could supply that competition?

Mr. HAIG. Yes, sir.

Mr. LAROCHE. Did you feel that you had brought down the price of submarines by entering a bid in the years 1933 or 1934?

Mr. HAIG. Not in 1933. But in 1934, substantially. And I so stated in my letter to Acting Secretary Roosevelt.

Mr. LAROCHE. And that you had made these bids in response substantially to their request?

Mr. HAIG. Yes.

Mr. LAROCHE. And, having made a bid, you felt that you had substantially lowered the price that the existing company, the Electric Boat Co., were charging the Navy for submarines?

Mr. HAIG. Speaking from memory, the price in 1934 was, I think, about \$400,000 lower than it was in 1933, and yet—

Mr. PEW. You mean the reverse.

Mr. HAIG. No.

Mr. PEW. Yes; you do.

Mr. HAIG. That the price to the Electric Boat in 1933, our bid was substantially lower, and the boats were rather more difficult to build, and perhaps the costs of labor were considerably higher.

The CHAIRMAN. Now, Mr. Haig, although you were bidding on these submarines, you were not in possession of the right of manufacture under basic patents, were you?

Mr. HAIG. We were not, sir, and that was not disclosed to us by the Government, that that firm had the master patent.

The CHAIRMAN. You assumed, when you were bidding, that the Government possessed those patents?

Mr. HAIG. We certainly did.

The CHAIRMAN. Then you found that the Electric Boat Co. exclusively had them?

Mr. HAIG. May I explain that situation? In 1933 the Government undertook to supply the plans.

The CHAIRMAN. In 1932?

Mr. HAIG. 1933. In 1934 they distinctly put it in the instructions to the bidder that he must get the plans from another contractor, that the Government did not desire to assume the responsibility of securing the plans. Then we wrote to the other contractor, which was the Electric Boat, asking for a price which they would put upon supplying us the plans, and then they intimated to us that while they would supply the plans at a price, they would have to take it up with the board as to whether they would allow us to operate or build under the patents.

The CHAIRMAN. Did they report to you after they had taken it up with the board?

Mr. HAIG. No; it was too late; and we never got a contract.

The CHAIRMAN. It seems to me we have this situation: An American company, wanting the access to patents and designs which are basic to submarine construction, cannot obtain them, but I do not know of any foreign manufacturer of submarines who has not been able, if he wants to pay for it, to get those same American-owned patents from that company who owns them. Is that about a fair statement?

Mr. HAIG. That is correct, as I understand it, that the principal submarine plans are their property under those patents—Mr. Pew and I have discussed this, and that we would have to go to the Government to get relief for us, if they assigned us a contract, to empower us to carry out the contract, because they might have charged us \$20,000, \$40,000, or \$100,000 for the type.

The CHAIRMAN. But they have never quoted you any prices?

Mr. HAIG. No, sir.

The CHAIRMAN. You have been unable to get them to quote a price for you?

Mr. HAIG. We did not ask, because they said it was a matter of policy for them to take up with their board—that is, the Electric Boat—as to the permission for us to operate under their patents.

The CHAIRMAN. Now, as respects submarine purposes, for submarine warfare, our Government is utterly at the mercy of the Electric Boat Co?

Mr. HAIG. No; I think that will be corrected, because during the late war, as you will recall, the Government took preemptive right of all patents.

The CHAIRMAN. That would be true in time of war.

Mr. HAIG. Yes.

The CHAIRMAN. Now, what of our preparation for war?

Mr. HAIG. That would be something on which the Government would have to take authority.

The CHAIRMAN. As it is now in peace times the Government wanting to buy submarines is completely at the mercy of the Electric Boat Co. to give the right to manufacture under their basic patents?

Mr. HAIG. If they decide to build the submarines in accordance with the Electric Boat's plans, which they are doing today.

The CHAIRMAN. They are not doing today?

Mr. HAIG. They are. I understand all the navy yards today are being supplied with the plans from Electric Boat for the last submarines.

The CHAIRMAN. Yet the navy yard could not sublet those plans to you?

Mr. HAIG. No, sir. The Electric Boat has to undertake in its contract with the Government for a submarine that they will supply the plans to another contractor, but plans are very different from patent rights.

The CHAIRMAN. Just how are they different? The plans are drawn under those patent rights, are they not?

Mr. HAIG. True; but I must get the right to operate under that patent.

Mr. LAROCHE. Is it not a further fact, Mr. Haig, that the patents which you have been discussing were developed, in large measure, by the Navy itself?

Mr. HAIG. That I cannot tell you. That is, our entry into the submarine field was very shortly before. Prior to 1933 we were not interested.

The CHAIRMAN. Are you going to continue to bid on submarines, the situation being what it is?

Mr. HAIG. I would like to have you read my letter to The Assistant Secretary of the Navy. You have got it.

Mr. LAROCHE. We have it before us.

Mr. HAIG. I have just raised the point.

The CHAIRMAN. It occurs to the Chair that you might be dealt with most unmercifully, if you would bid and were granted the award, and the owners of the patents held you up. You would be in a terrible predicament, would you not?

Mr. HAIG. Absolutely.

Mr. LAROCHE. Let the letter be read. The letter is a long letter, but I will read it all.

The CHAIRMAN. I do not care how long it is. If it deals with this question, and is pertinent, I think we should have it all.

Mr. LAROCHE. It is very pertinent. It was written August 21, 1934, to Hon. H. L. Roosevelt, which was 6 days after the bids on the submarines and the whole program were opened. [Reading:]

Hon. H. L. ROOSEVELT,

Assistant Secretary of the Navy,

Navy Department, Washington, D. C.

DEAR SIR: With reference to my visit to Washington on August 20, and my interview with you regarding our recent bids on two submarines for the United States Navy, I wish to place before you as a matter of record the following facts.

In July of 1933 we bid on one submarine, but as there were only two to give out to the private yards and our bid was not considered favorable, the contract for the two submarines at that date was awarded to the Electric Boat Co., Croton, Conn., for the sum of \$2,770,000 each.

This year when the bids were submitted the Electric Boat Co., and the Sun Shipbuilding & Dry Dock Co. were again the only two bidders for the submarines.

The submarines on which we bid were slightly larger than those tendered for in 1933, but in most essentials they were identical with the boats contracted for last year. We very carefully and with considerable diligence made out estimates with due regard to the increased cost of labor and material since 1 year ago as favorable for the Government as was possible with the knowledge at our command, in regard to the cost of building submarines.

The low price today made by our competitor, the Electric Boat Co., shows a very substantial reduction in cost and to an unmistakable degree the benefit the Navy Department have obtained by reason of the active competition between the two bidders for this work will result in a most substantial saving to the Government in the cost of these vessels. Without the active competition of the Sun Shipbuilding & Dry Dock Co. the cost would have been in excess of \$1,000,000 more for the three vessels.

It should be noted that in our tender we agreed to remit \$200,000 to the United States Navy Department on the two boats as a reduction in purchase price for the plans that we would receive from them, and that sum should show a reduction in our figures and receive full consideration.

We are asking your consideration before awarding those contracts on the following points:

We are anxious and desirous to participate in this work, because we think it is to the advantage of the United States Navy Department that more than

one private yard should be capable and engaged in the building of submarines, and so long as the contracts are awarded all to one firm it will be difficult for another firm to break into this work and produce healthy competition with reduction in cost unless they are afforded an opportunity to engage in the work and thereby acquire a closer familiarity with the production that would become available on subsequent contracts.

The Government has now the placing of 6 submarines, of which, no doubt, at least 2 will go to the Portsmouth Navy Yard, and we feel that we have a claim on the Government to consider our position in this matter and feel that the awarding of one or two submarines to our yard will be distinctly to the advantage of the Navy Department.

We have the capacity and financial standing to perform any contract the Government may require. We have the technical and designing staff and the tools and facilities needed for this work in the highest degree. We have the reputation for high-class work and for reputable business dealings, and we are assured that in placing our claim before you for consideration it will receive fair and equitable treatment.

If it is not the interest of the Government to encourage other private bidders, then we would not be interested in further bidding on submarines, but we feel perfectly certain that it is the Government's desire to encourage reputable builders to take up this class of work, and we are therefore encouraged to ask that the Government give this matter serious consideration as a matter of policy to strengthen their hands in the production of a high-class and at the same time complex unit in yards that have a standing and ability to perform the work and which will at the same time extend the Government's capacity beyond a single yard, as the condition is today.

There is one further point that we will be glad to have you give careful consideration and that is the question of unemployment. At the present time our shipyard is entirely empty and, although we have a large and very efficient shipyard, there is no merchant work at the present time to be obtained, with the consequence that Chester and the surrounding vicinity is very sadly off for lack of employment, and the awarding to us of one or two submarines would bring about in Chester, which is a densely populated industrial center, a strong and encouraging feeling that the business revival had some tangible result in this district at last.

Last year, when the Government bids were opened for the combatant ships, there was then a very strong expression of opinion that supply ships for the Navy Department, which no doubt they require, would be built and which would furnish prompt and desirable shipyard work, but up to the present time nothing has been done, although there is no other type of construction on which the Government could spend money at this time that would more quickly result in substantial reemployment than the construction of a number of supply ships for the Navy Department.

In submitting this claim, we would urge that you present it in the highest quarters for consideration. I beg to tender you my sincere thanks for your courtesy and kindness on my recent visit to your office, which I assure you is appreciated.

Faithfully yours,

The CHAIRMAN. What is the date of that letter?

Mr. LA ROCHE. That was August 21, 1934.

The CHAIRMAN. Has there been an acknowledgment or a response from the Assistant Secretary of the Navy?

Mr. HAIG. Yes, sir; quite a short letter.

Mr. PEW. You have it there.

The CHAIRMAN. Why ought not that be read now, in connection with the matter?

Mr. LA ROCHE. I will read it. This letter is dated August 21, 1934, bearing the letterhead of the Assistant Secretary of the Navy, Washington, addressed to Mr. Robert Haig, vice president, Sun Shipbuilding & Dry Dock Co., Chester, Pa. [Reading:]

MY DEAR MR. HAIG: Your letter of August 21 has received careful consideration. The points raised in your letter were not only considered by me but by all concerned in connection with the awards of contracts.

As you recollect, many of these points were discussed in our interview, and similar points were discussed in your interviews with other representatives of the Navy Department.

In order to split the awards of contracts to private yards for submarines, it would cost the Government about \$1,400,000 more than obtains by awarding the contract for three of these boats to the lowest bidder.

After full consideration by all concerned, the Department, on August 22, awarded and allocated contracts for submarines as follows:

Three to the lowest bidder, the Electric Boat Co.

Two to the Navy Yard, Portsmouth.

One to the Navy Yard, Mare Island.

In view of the foregoing, it is regretted that your request in connection with this matter cannot be granted.

Sincerely yours,

H. L. ROOSEVELT,
Assistant Secretary of the Navy.

I presume you are thoroughly familiar with it?

Mr. PEW. Yes; we have a copy of that. It is all right.

The CHAIRMAN. Were you or was the Sun Shipbuilding Corporation quite content with the reply that you got?

Mr. PEW. I do not know that we could do anything else than be content.

The CHAIRMAN. Sometimes we have to make ourselves content.

Mr. PEW. We were not the low bidders. They had a patent that we did not know what we would have to pay for it, and the Government stated the thing that they were to do, what was best for the Government, and we said nothing more about it.

The CHAIRMAN. And yet you were, as I see it, performing a pretty genuine service.

Mr. HAIG. We thought we were.

The CHAIRMAN. In bidding as you did. The result seemed to be a saving to the Government of nearly \$1,000,000.

Mr. HAIG. We thought so.

The CHAIRMAN. And yet you were taking extremely great chances by bidding at all.

Mr. HAIG. Mr. Pew suggested I go down and talk it over with Mr. Roosevelt, which I did, and which you have just read. It may be a long letter, but I had to cover it all as a matter of record. I thought at that time he was satisfied we had some claim on the work, but when the award came out it was 3 vessels to the Electric Boat again, in all 5 they got in 2 years, and no other private bidder got any.

The CHAIRMAN. What was your thought with respect to the basic plans which are being pursued in submarine building now? Are there better plans in existence?

Mr. HAIG. I do not know; I am not an authority on submarines.

The CHAIRMAN. Mr. Pew, what is your thought?

Mr. PEW. I could not say.

The CHAIRMAN. Mr. Raushenbush wishes to ask a question.

Mr. RAUSHENBUSH. Mr. Haig, the other day we had testimony here from the president of the Federal Shipbuilding Co. to the effect that he thought that on a cruiser a company which had never built one was starting at a disadvantage, which he put somewhere between \$500,000 and \$1,000,000 behind a company that had already built one. Could you give us an idea of how far behind, in that sense, you were, behind a company which had the practice and experience of building submarines?

Mr. HAIG. The fact that we put aside \$200,000 in our bid just indicates where our mind went. We would be that much at least out before we would come on a level with the other men.

Mr. RAUSHENBUSH. You would put it at about \$200,000?

Mr. HAIG. Yes, sir.

Mr. PEW. I or two; \$100,000 each.

Mr. HAIG. If you developed one, you had the stuff the next time for the second one.

Mr. RAUSHENBUSH. Yet, in spite of the disadvantage of \$200,000, you were the low bidder on one, were you not?

Mr. HAIG. Yes, sir.

Mr. RAUSHENBUSH. So that you take that to be a sort of prima facie evidence that the bidding was a little high on the part of the other company, was it not?

Mr. HAIG. We bid direct on the specifications.

Mr. RAUSHENBUSH. Yes.

Mr. HAIG. But the other bidder, with his wide experience and the number of ships he handled, bid on their specifications something like three alternates; not that I am saying this unfairly, but he gets away from the specifications to a certain degree, and puts up a lower bid, which the Government probably takes, but we are only able to bid on the specifications.

Mr. RAUSHENBUSH. As long as there is no other company in this country which has the experience and practice building submarines, there is no other company who could duplicate their stunt? That is, of having alternate bids which might go lower than the ones executed in accordance with the specifications.

Mr. HAIG. I cannot see that any other one could go in. We did it for two reasons: Mr. Pew thought that we should get into it, since some other shipyard should be in that work also.

Mr. RAUSHENBUSH. With a disadvantage that you think is at least \$200,000, and perhaps more, in mind, I would like to restate the question which Senator Nye asked a little while ago. Is there any likelihood of your being able to repeat what you have done before, saving the Government some money by bidding on submarines?

Mr. HAIG. It all depends on what work we have in the yard, and what our thought is about it. If we had other work in the yard, I think not. It is almost hopeless.

Mr. RAUSHENBUSH. It is almost hopeless?

Mr. HAIG. Yes, sir. It costs you money; not only that but holds up your name as being unsuccessful, and we do not like it. If you are running your head up against a wall, and if you cannot get through that wall, I mean.

C.—DELAY

The delay in the designing of ships by private yards was discussed in section A, above, at various times. The importance of this delay is that when one yard is preparing plans to be used by several other private and navy yards, a whole program can be held up very definitely.

A chart in the appendix shows the degree of completion of ships on January 1, 1935, and indicates that the work in the navy yards has been delayed somewhat more than that in the private yards.

Considerable evidence of this delay was given by W. A. Calvin, Secretary of the Metal Trades Council of the American Federation of Labor (Jan. 25, galley 78 GP, see also sec. A above). He stated that the keel of *Cruiser 41*, Philadelphia Navy Yard, had not been laid 16 months after its award, also the same situation was true of *Cruiser 40*, New York Navy Yard. The same statement applied to *Cruiser 43* at the New York Shipbuilding Yard.

Navy officials held that the delay in construction work was not due to monopoly of design by the private yards. (See *a.*) The Navy apparently lent its support to a code provision to prevent the establishment of new shipbuilding facilities. (See *b.*)

Mr. C. L. Rosemund, president of the Federation of Technical Engineers', Architects', and Draftsmen's Unions, testified concerning the union activities in making Public Works Administration funds available to the Navy in order to provide employment for mechanics and draftsmen. He described the delay following the allocation of \$238,000,000 in P. W. A. money as—

the most complete job of double-crossing I ever experienced in my life. * * * We thought this was our unemployment relief measure. The Navy Department and the shipbuilders thought this was just another shipbuilding program. * * *

He gave evidence of delay due to private design work on the 1931 destroyers. His evidence on connected angles of the matter is given below in some detail. (See *c.*)

(*a.*) The question of the relation between design and delay was raised again on April 10 (galley 28 YD, et seq.), and Admiral Land stated that the delay, in his opinion, was not due to a monopoly of design by the private yards:

The CHAIRMAN. Are the navy yards behind in their production, by comparison with the private yards, at the present time?

Admiral LAND. They are.

The CHAIRMAN. How long has that been true?

Admiral LAND. It has always been true, under a system of this kind, and it is inherently of necessity true, the time varying from 2 to 6 or 7 months, depending upon conditions and circumstances.

The CHAIRMAN. There has been testimony, Admiral, that the navy yards are behind the private yards in the construction of steel ships, due to the fact that there is a practical monopoly of designing. Do you agree that that is the case?

Admiral LAND. Of course that statement is not true. Admiral Robinson and I discussed it, when we were before the committee before, and I attempted to answer the question three times, unsatisfactorily to all. Admiral Robinson

answered it much more satisfactorily, apparently. The statement is not correct. There is no such thing. There is not a design monopoly in the matter of design plans. There is a pretty even distribution between the navy yards and the private yards, and it was brought out in the Secretary's letter that a 50-50 break in the ships was given and is being given.

The CHAIRMAN. Are you having difficulty getting the designs from this private corporation?

Admiral LAND. The term "design" is an incorrect one in that way. The term has got to be broken down. So far as difficulty in getting or expediting working plans is concerned, which, in turn, involves designs of ship parts, auxiliaries, and all things like that, we have no difficulty in obtaining designs. That responsibility lies with the Navy Department, and primarily with Admiral Robinson and myself. Designs in that respect refer to contract plans. We did have difficulty, as we explained before, in 1933, because we had more than we could handle, and we farmed out by contract three designs, contract plans, and they came along very slowly. The fault was probably 50 percent ours, and 50 percent theirs. Some of it was undoubtedly ours. You just cannot do in the time that you would like to do some of the things, when you do not build ships for a long period of years and then jump into a big program; it is not possible to make the same progress you would, if you had an orderly program.

The CHAIRMAN. Assuming that some of the delay is attributable to the Navy and some of it to the builders, still there is not any explanation as to why, once the plans and designs are ready, the navy yards are delayed in construction behind the private yards?

Admiral LAND. There are a great many reasons why. One of the simplest ones is, the private yards go out and get their auxiliaries when and where they please, and can make their plans accordingly. We go into the open market and buy it from the cheapest builder, and get one thing from Tom Jones and another thing from Tom Brown, and another thing from Jim Hunter, and there is a limit to that.

I would like to have Admiral Robinson answer that.

Admiral ROBINSON. The shipbuilders place their contracts for steel, auxiliaries, and all those things, on a basis that is to be supplied when detailed drawings are furnished. The navy yards cannot buy their material until the plans are all completed in the greatest detail, so that the specifications, when they go out, specify exactly what is to be bought. That cannot take place. We have to have time. We have to have a minimum of 30 days and up to 60 days and sometimes 90 days to advertise this. So that it is perfectly obvious, if everything is working perfectly, there will be a month to 2 or 3 months' time, added on to it, in which it will be selecting its material, and added to that the fact that you are bound to have some additional delay in delivery because the contractor who is going to supply the material for the shipbuilders has known months in advance that he was going to do it; he is all ready to go, and loses no time getting started.

With the Navy Department, he does not know until the contract is actually placed that he is going to have it. And where shipbuilders and navy yards are building from the same plans, whether those plans are being furnished by the Navy Department or the shipbuilder, there must necessarily be a delay from 3 to 6 months on the part of the navy yard as compared with the shipbuilder. It just cannot be avoided, acting under our present laws of procurement.

The CHAIRMAN. Aside from that handicap, is any further delay attributable to inefficiency on the part of the navy yards?

Admiral ROBINSON. I think not, sir. I think our navy yards are highly efficient shipbuilders at the present time.

The CHAIRMAN. I did not get you.

Admiral ROBINSON. I say, I think not. I think that our navy yards are highly efficient shipbuilders at the present time.

The CHAIRMAN. Is it not true that the private yards, by reason of their control over certain features of the designing, do gain an advantage as to time?

Admiral ROBINSON. Only to the extent that I just mentioned because, otherwise, there is no advantage. The instant the drawings are finished, they are blueprinted, and they are distributed to our inspectors, and sent out to the various yards which are interested, and they have those plans just as soon as the shipbuilders do. That is the only advantage that I know of that accrues to the shipbuilder, who is making the plans, over the navy yard that is using those same plans.

The CHAIRMAN. But, as a matter of fact, the navy yards are kept more or less cluttered up by reason of this delay, are they not?

Admiral ROBINSON. I do not see that they are affected by it at all, Senator. Their plans are made on that basis. They expect that before they start. The

plans are made accordingly. There is a definite delay introduced into the plan before they start. Their dates of completion and everything are based on that.

The CHAIRMAN. How much behind the private yards are the navy yards in the construction of sister ships?

Admiral ROBINSON. I do not know how much they are now, but I can say it varies from 2 to 6 or 7 months, say, on the average 4 or 5 months, from them.

The CHAIRMAN. What does the record reveal as to the degree of delay, Mr. Raushenbush?

Mr. RAUSHENBUSH. That is about it; 6 months or so.

Admiral LAND. It depends altogether on the navy yard. You take Portsmouth and the Electric Boat Co., and they are like that [indicating], neck and neck. You cannot discuss the situation and cover it in a blanket statement of that kind. That is because Portsmouth will take care of the Electric Boat Co. in that regard.

The CHAIRMAN. Is there not an advantage accruing to the private yards by reason of this slack which is in the navy yards?

Admiral LAND. Very, very little. There is a lag, which we admit, and we know that, but you cannot go out and have every yard with a complete drawing office to do all these plans that every other yard is going into, and justify it on the basis of efficiency and economy. You would have simply a tremendous overhead and would require entirely different installations, you would lose the coordinated effort, you would lose the efficiency of maintenance and operation in duplicate designs all the way through. In other words, it would be an extravagant and inefficient method of doing business.

The CHAIRMAN. Does not this delay give the private yards an excuse, when new bids are invited, to offer a showing of the inability of the navy yards to take on the additional work?

Admiral LAND. Surely.

The CHAIRMAN. By reason of the lag?

Admiral LAND. It gives them the excuse to do it, but nobody believes it, unless it is a fact.

The CHAIRMAN. That should be a larger argument for new ships to be undertaken in the private yards.

Admiral LAND. They say that, but, my God, if we listened to everything they told us, we might as well let them, or somebody else, run our job. We do not accept everything a shipbuilder tells us because he is a shipbuilder. Far from it. That has nothing to do with what the Navy Department does, how it awards or allocates ships. That has been going on long before I was in the Navy, and has no more effect than water rolling off a duck's back.

Mr. RAUSHENBUSH. Pardon me. You would not say that the Navy Department is not dependent on the private yards on all this?

Admiral LAND. Yes; I make it, so far as I understand. We have got three categories, on which we do not care anything about the private yards. They are the gunboat, the submarine, and the Coast Guard cruising cutter. So far as the private concerns are concerned, they do not know such ships exist.

Mr. RAUSHENBUSH. Did you say the submarines, Admiral?

Admiral LAND. Yes; at Portsmouth.

Mr. RAUSHENBUSH. The Senator's question was dependent upon design.

Admiral LAND. That is what I am saying. They have nothing whatever to do with it.

(b) The Navy officials apparently lent their weight to a code provision against the establishment of new shipyards (Jan. 25, galley 88 GP).

Mr. RAUSHENBUSH. There is one other question. In your earlier testimony you wanted put before you the transcript of Admiral Land's statement at the P. W. A. hearings on the code. Do you recall these statements here with regard to that question of whether the Navy Department was for or against the further expansion of industry [handing document to witness]?

Mr. FREY. Yes; that is it.

Mr. RAUSHENBUSH. Do you recognize this sentence of Admiral Land's testimony beginning:

The Navy Department is of the opinion that some provisions should be included in the code such that it will avoid establishment of new shipbuilding yards, reopening of those long since inoperative, or expansion of small yards and repair plants for shipbuilding purposes.

Did you hear that?

Mr. FREY. Yes; I heard that.

Mr. RAUSHENBUSH. Do you recognize hearing this statement there at the same time. [Reading:]

On that basis I have no hesitancy in saying that the present existing, growing shipbuilding facilities of the country are more than ample to take care of the Navy program, any prospective Navy program, and, so far as my knowledge goes, any merchant-marine program.

Mr. FREY. That refreshes my recollection. I testified that it was my recollection that a statement of that kind had been made.

Now, I have the transcript to refresh my memory.

Mr. RAUSHENBUSH. In view of the incompleteness record on these boats, do you think it was an accurate statement on the part of the Admiral?

Mr. FREY. No; I think it was a most inaccurate statement.

(c) On April 6 Mr. C. L. Rosemund, president of the Federation of Technical Engineers', Architects' and Draftsmen's Unions, testified concerning the P. W. A. appropriation of \$238,000,000 in 1933 for employment and the subsequent delay in employment due, according to his evidence, to the designing of the program by the private yards (galley 87 WC seq.).

Mr. ROSEMUND. At that stage of the interview, the Secretary called in the Assistant Secretary and a flock of admirals [laughter], and having worked in the shipyard and being somewhat familiar with the importance that plans have in any building program, I knew right away that we were interested in preventing the discharge which was immediately pending, and I could not see how any new building program would take care of that situation, because it meant 6 months' or a year's delay before the actual draftsmen would get on the job to work from these plans.

So that I brought that thing to the attention of the then chief of operations, Admiral Pratt, who said: "That is all right. These new ships are merely a little modification of the present stuff and wonderful progress has been made with the plans, and all this will be taken care of."

Of course, with that kind of an assurance from a ranking officer, I had to be satisfied to go along.

From there some of our committee went up to confer with Senator Wagner, I believe, who was in charge of that bill at the time, and at the outset he was not so enthused about taking on this assignment of putting this proviso in his bill, because it was realized that certain Midwestern Senators, on whom we had counted from the outset when we were working on the La Follette-Costigan bill for support—they were enthusiastic in their support for a measure of that character—would kind of gag on getting in a measure of this kind. But eventually Wagner agreed to go along with the thing, and took it up with the White House.

And this was brought to the attention of Congressman Vinson, Chairman of the House Naval Affairs Committee, and he also took it up, and it looked like it needed just another little push, and he called up one of our boys and told him, "Now, if you can get the American Federation to officially endorse this proposal, when it gets to the White House I think it will be all right."

Mr. LAROCHE. Which proposal?

Mr. ROSEMUND. To put the \$238,000,000 proviso in the National Industrial Recovery Act.

Mr. LAROCHE. For naval building?

Mr. ROSEMUND. Yes, sir. That was done. The executive committee of the American Federation of Labor was meeting at the time in Washington, and it was brought to their attention, and a special communication was sent to the White House, and the thing eventually became law.

Now, I do not want to have the committee understand for a minute that I think that that group of five of the American Federation of Labor were solely responsible for putting this proviso in there, but I have pointed out that these men had gone so far into it they hated to stop, and we did have something to do with it, and it was a deal. And I may say it was the most complete job of double-crossing I ever experienced in my life.

Immediately after the passage of the National Industrial Recovery Act there was a pronounced change. Yesterday someone stated that they were coming down with their tongues out and their teeth showing fight. They did not on this job.

They were rubbing their hands and licking their chops and saying, "Here is a big deal." I mean the representatives of the big shipyards, who almost took possession of the Navy Department at this time.

Mr. LAROUCHE. Let me interrupt. When you said something about a double-crossing, you mean the American Federation of Labor was induced to sponsor this \$238,000,000 fund for the building on the grounds that it would provide employment for their members, who badly needed it. Is that right?

Mr. ROSEMUND. That is right.

Mr. LAROUCHE. And they did not get it? Is that what you were saying?

Mr. ROSEMUND. They did not get it. We thought that the express policy of Congress, set forth in section I of the National Industrial Recovery Act, meant what it said; that was to restore employment and improve standards of labor, and so forth. That was a part of the declared policy of the National Industrial Recovery Act, and, of course, anything which was subsequently inserted we thought would be found by that declared policy of the Congress. It was not, and that is the reason I say we were double-crossed.

Mr. LAROUCHE. Will you state also what you mean when you said that the private shipbuilders came down to Washington and took charge of the Navy?

Mr. ROSEMUND. No; I do not say that. They were down in the Department and worked with the Department, because the code was pending around that time, too. The act had to exist before the code practices were undertaken.

In the code hearings it developed that they were working pretty well together, because they advocated some pretty raw things in the public hearings of the code. That is, by that, I mean the representatives of the principal yards wanted to have something stuck in the code preventing the extension of any other plant facilities or the opening up of new yards.

Mr. LAROUCHE. They wanted to eliminate any possible competition. Is that what you are saying?

Mr. ROSEMUND. That is what it looked like.

Mr. RAUSHENBUSH. New competition.

Mr. LAROUCHE. New competition.

The CHAIRMAN. Was there specific information at the time concerning their attitude toward the Government yards? Were they wanting to restrict enlargement there, as well as in the private industry?

Mr. ROSEMUND. I do not recall that thing. I would say that if you would get the record of the hearings, you would probably get the details of just how far they were going along those lines. And several naval officers testified at those hearings, on this same subject, and they also thought it was a good thing not to permit the extension of any plant facilities or opening up of other yards, going into the business.

Now, of course, we thought this was an unemployment relief measure. The Navy Department and the shipbuilders thought that this was just another shipbuilding program. And with such opposing views, there was no possible getting together on the code at the open hearing.

And when the deputy administrator, Whiteside, reported to General Johnson, he took it on himself that he was going to get a code. He notified 6 shipbuilders and 6 of our group, at a certain time, to meet in his room, and they were going to get a code. It was a pretty tough meeting, I understand, from some of the boys who were there.

But right after the issuance of that call and the calling of the meeting the representatives of, I believe they call it the "Council of Shipbuilders", had gum-shoed up to the White House and tried to get a little pressure to put on the general. They did not succeed, but somebody tipped the general what was on, and somebody got a fine calling down.

Now, the question of the awards and the many contentions and denials which have been made in connection therewith, and the price, and so forth, I think has been fully covered.

Mr. LAROUCHE. Now, Mr. Rosemund, I would like to ask you this, right at that point: Did your draftsmen and your designers, and your men who were out of work, get jobs? Did you feel that your acute situation of relief in any way, as you had hoped, had been helped by this big program?

Mr. ROSEMUND. No, sir.

Mr. LAROUCHE. Will you tell us about that?

Mr. ROSEMUND. I will get on to it a little later on, if you will excuse me. I want to try to connect my story.

Later:

Now, after the award of the contracts, the next immediate matter to be taken up was the question of preparing the working plans for these vessels, and it developed, with the exception of three submarines built at the Portsmouth (N. H.) Navy Yard, and the working plans for the small 3,000-ton gunboat, to be built in the Brooklyn Navy Yard, all other plans were to be prepared by the private shipyards, that is, Gibbs & Cox, or what is known as the "United Design Corporation", were to prepare all the plans for the 1,500-ton destroyers. Newport was to prepare the plans for the airplane carriers, New York Ship the plans for the 1,850-ton destroyers, and the plans for the 10,000-ton cruisers; the Electric Boat Co. was to prepare the plans for the three submarines building in their firm.

Now, the experience which we have had in former years, in trying to have one yard work from another yard's plans, has never worked out very satisfactorily. It always resulted in an interminable delay.

This is not so good, but it may convey the thought which I have in mine, dealing with the 1932 destroyers, compiled off Navy Department reports [producing document]. I do not know whether you want it in the record, because it might not have a bearing, but it illustrates the point.

Mr. LAROCHE. Will you identify this further?

Mr. ROSEMUND. Do you want this, Mr. Chairman? On the destroyers built in the 1932 program, I believe by Bath and by Fore River——

Mr. LAROCHE. 1931?

Mr. ROSEMUND (continuing). Wasn't it 1931? The Fore River had the job of preparing the plans for that boat, and the plans at the end of 2 years were about 77 percent complete.

Mr. LAROCHE. You mean this purports to show on the destroyer *Farragut*, built at the Fore River plant of Bethlehem Shipbuilding Co. in 1931, that after 2 years it was between 70 and 80 percent completed?

Mr. ROSEMUND. Yes, sir.

And the Bath Works, working off of this same design, was delayed about 10 percent. And the Government, who had to buy the plans from this same design——

Mr. LAROCHE. You are saying that the navy yard had to use the same plans?

Mr. ROSEMUND. From Fore River. They were delayed from 25 to 40 percent. That is the way the thing works out.

Mr. LAROCHE. I suggest, Mr. Chairman, that this be entered as an exhibit at this point.

The CHAIRMAN. It will be received and identified.

(The document referred to was marked "Exhibit No. 1901" and is included in the appendix on p. —.)

Later, he testified that the Secretary of the Navy had spoken to him of the delay on the plans as a bottleneck (Apr. 5, galley 89 WC).

Mr. ROSEMUND. Orphans, or whatever you want. They have got to buy where the law requires them, getting competitive bidding. Now they may find out, let us say, that the United Dry Docks is building up a 1,500-ton destroyer and has agreed to buy Westinghouse propulsion equipment, and if they wanted sister ships it would be the proper thing to get the propulsion equipment from the Westinghouse Co., but they cannot do that, and must go in the open market and get bids, and it may be General Electric, or some other company, comes in with their equipment, and it is a big change.

The idea was if they were identical as to spare parts, and so forth, it would cut down the cost for the design work in that way.

Now as time went on and there was such a lack of taking on men, as the progress reports of the Department showed, individually and otherwise, we conferred with officials of the Navy Department and with the Secretary of the Navy regarding this situation. At one of these conferences the Secretary admitted to me that he had just been jacked up by Mr. Ickes' office on account of the lack of progress they were making.

Mr. LAROCHE. Progress on the ships being built out of that \$238,000,000?

Mr. ROSEMUND. That is right, and that he told me he had reported back it was due to the bottleneck, in not being able to get the plans out on time.

Mr. LAROCHE. You mean the Secretary of the Navy told Mr. Ickes?

Mr. ROSEMUND. That is what he said he told him. But when I saw that he was getting into the picture, I went over to see him—not Ickes, but his subordinate, who had charge of this, and he, in turn, showed me a letter he had received from the Navy Department, setting forth that they had been making pretty good

progress, and had put 35,000 men to work, and so forth. I went back to our group, who had certain information on that, and I found out in the yards having contracts they had only employed about 15,000, and that out of those 15,000 there were about 6,000 employed on work of contracts prior to this date.

The CHAIRMAN. Prior to what?

Mr. ROSEMUND. Prior to 1933. When I brought that to his attention formally, this investigator, or whoever he was, he sent somebody over there, and he got the conventional run-around, which did not amount to anything.

I am offering that because not only have I seen the Interior Department but I have seen other departments. I have done everything I could in the world to expedite this program.

Mr. LAROCHE. To get more work?

Mr. ROSEMUND. Yes, sir. We were guilty of the petty larceny in the game, I would call it, and the grand larceny was pulled off by the others.

Later, he testified to a conference with Navy officials on the slow employment being given by the private shipyards out of P. W. A. funds (galley 90 WC).

Mr. ROSEMUND. For the Navy Department was present H. L. Roosevelt, Admiral Land, Admiral Brinzer, and Captain Bowles, of Engineering, and there were about six or eight of us present. And the spokesman at this meeting was Mr. Frey. He had prepared a statement from all the information which he had received, and also compiled from the monthly progress report sheets of the Navy, showing that the lack of progress was terrible, and there was nothing being done.

Mr. LAROCHE. Mr. Frey representing the viewpoint of the American Federation of Labor?

Mr. ROSEMUND. That is right. These discussions went back and forth, and it finally—not finally, but the one point in the meeting was, it resulted in the Secretary admitting it, and the officers admitting it, and everybody said what we said was so, and they were deeply chagrined that no more progress was made, and they were sorry for themselves and were sorry for us. Then the question was raised, "If you gentlemen have any suggestions; we are doing all we can."

Mr. LAROCHE. The Navy said that to you?

Mr. ROSEMUND. Said to our group. Mr. Frey said, "Since it has been repeatedly stated that the delay in plans was the chief cause of holding up this work and putting these men back to work"—suggested that I be called on. I went over the general situation, reviewing how the plans were allotted, and then, during the course of my discussion I pointed out that in the New York Ship, after getting this contract, which would have comfortably filled the yard, they had taken on two additional tankers, which were then on the ways, which they would have to get off the ways before they could start the cruisers—and that was news to the Secretary; he did not know that.

Mr. LAROCHE. You mean the Secretary of the Navy did not know?

Mr. ROSEMUND. He did not know they had the tankers on the ways and could not put on the cruisers until they were off. One went off the other day, I saw in the paper.

Mr. LAROCHE. Those were taken after the program in 1933?

Mr. ROSEMUND. It is my understanding. The result was to rush the work on the tankers, it taking a considerable portion of their drafting personnel. In addition to that, they were figuring on a bid for the Brazilian Navy, which also required considerable of their drafting force. In other words, they were not touching this program at all, because the month previous, in a job which involved from 4,500 to 5,000 plans, they had only completed about 40 of them. May, after the contract was awarded in August.

Mr. LAROCHE. The contract was awarded in August?

Mr. ROSEMUND. Yes, sir.

Mr. LAROCHE. And the following May—

Mr. ROSEMUND. They had 40 of those plans ready.

I want to be fair about this. There was a statement made—I think it was by Admiral Land—that the contract plans, from which they would have to prepare the working plans, had not been completed by the Navy Department and furnished to the shipbuilders until that December.

Mr. LAROCHE. December 1933?

Mr. ROSEMUND. The records you will have to see about that. I am not so sure of that. Unfortunately, if that is the case, then the Navy Department itself, not the New York Ship, would be responsible for that terrible showing made in the case of these cruisers.

I just want to point out, though, that by their delay of the cruiser *Savannah* and the sister ship, there was a ship known as the *Brooklyn*, to be built in the New York Navy Yard, and the *Philadelphia* in the Philadelphia Navy Yard. Those two ships, in those two Government yards, they could not hit a lick on them until the plans were prepared by the New York Ship for the ship, which they were not doing, because they had the tankers on the way and the Brazilian stuff, and maybe these other contract plans.

Therefore, I suggested—they called for suggestions; they wanted it, and I gave it to them—

Mr. LAROCHE. The Navy asked it?

Mr. ROSEMUND. At this conference; since these contracts carried a clause to get around ordinary formalities, to expedite work, and so forth, and, due to the fact that this concern was sidetracking the Government's work for the sake of something else, I felt that they had breached their contract.

Mr. LAROCHE. That the private yards had?

Mr. ROSEMUND. That the New York Ship had breached the contract on those two cruisers, and it should be revoked, and the plans given to the Brooklyn Navy Yard or the New York Navy Yard on the cruisers, and this little 3,000-ton gunboat be taken care of in some other way. Because here were 20,000 tons of shipping, and four, five, or six thousand men to be gainfully occupied, once they got the job really started, and they could not do that until they got the plans.

Later (galley 90 WC):

Mr. LAROCHE. Mr. Rosemund, how many men, qualified designers, were out of work at that time, if you know?

Mr. ROSEMUND. I would not say, off-hand. I can only say this: During the war there were shipbuilding companies up and down both coasts, and the Delaware River was full of them. They had large, experienced drafting forces. They were permanently disintegrated and disappeared, and all contact with them has been lost—not all, but considerable of it has been lost—but they are still in the country.

Now, the maximum, I understand, of the pay in a private yard for men at present is about \$1.35 an hour on the boat; that is, for good men.

Now, if they want men of that experience, really want them, and they will give me authority to write out to our workers and make an effort to get them, and say they will pay from \$1.50 to \$2 an hour, we will get some men.

Mr. LAROCHE. That leads us to another little point, I believe, and that is this: The P. W. A. money allotted in 1933 was primarily, or was, you are saying, fundamentally an unemployment measure. Is that your understanding?

Mr. ROSEMUND. That is section 1, which is the declared policy of Congress.

Mr. LAROCHE. And it was so indicated to you, before you helped or solicited to pass it. Is that right?

Mr. ROSEMUND. That is right.

Mr. LAROCHE. Do I understand rightly that the money was not spent, in your opinion, on an emergency basis?

Mr. ROSEMUND. I do not think it was.

Mr. LAROCHE. That is your opinion?

Mr. ROSEMUND. That is the view of all of us in the labor movement, in this particular case.

Mr. LAROCHE. That the net result, as an employment measure, has not succeeded?

Mr. ROSEMUND. Has failed; has been a very great disappointment.

Later (galley 91 WC):

Mr. ROSEMUND. I would like to submit a list of certain plans that are being handled as a result of these contracts. In the case of the Electric Boat Co., they secured the 1934 contracts. They are to furnish the designs, and from said designs the Portsmouth, N. H., Navy Yard builds 2 boats, and 1 is built at Mare Island.

I have got a list here, in the rough, which I want to submit later on, to indicate that the Electric Boat Co. plans, now being used in this 1934 program, are Chinese copies; that is, just tracings of the plans of the Portsmouth Navy Yard design, and the only change being the title on the drawing being put on under the Electric Boat Co.'s design.

There is correspondence here to indicate that while they are working on it, they are constantly writing Portsmouth, N. H., to send down the stuff on this and that of their design to put in the Electric Boat Co.'s design which they are selling back to the Government.

In the case of the 1,500-ton destroyers, of which many of them are now being built, or going to be built, at navy yards, the plans which are coming through in some cases have as high as 216 alterations. That again puts the Government at a distinct disadvantage, when they have got to work off all these again, every time they have to handle a plan, there being so many alterations, and it slows the work enormously.

Later (galley 91-98 WC):

Mr. LAROUCHE. I do not want to hurry you, but I would like to get certain questions answered. Could you tell us now, Mr. Rosemund, whether there is any fundamental reason why the Navy Department cannot produce its own plans, instead of having them drawn by the private yards?

Mr. ROSEMUND. No; I think they ought to. I think the Government should not permit such a vital thing as designing and that to be permitted to become general property, commercialized, and sent to the whole world.

The CHAIRMAN. Mr. Rosemund, is it not true that our Government navy yards are at the mercy of private yards?

Mr. ROSEMUND. Their handling of the plans can delay it and makes them put up a very bum showing.

The CHAIRMAN. That is, the delay in furnishing the designs makes a bad showing for the Government yards?

Mr. ROSEMUND. That is right, by comparison.

The CHAIRMAN. And they are way behind, are they not, in the work which has been allotted to them to do?

Mr. ROSEMUND. Oh, yes; a whole lot.

The CHAIRMAN. What is going to be the situation when the Navy is ready to contract for additional ships? Is it not a fact that the private yards are going to be able to show that the Government yards are far behind, and they have a glut of work there, and that they could not possibly take on any more than they already have, and that, therefore, the allotment of new ships should go to the private yards?

Mr. ROSEMUND. That is the way it would work out.

The CHAIRMAN. That is what it amounts to?

Mr. ROSEMUND. And they could make a very justifiable showing on paper, not knowing all the facts.

The CHAIRMAN. Surely.

Mr. ROSEMUND. In the Flook letter there is a paragraph dealing with that subject.

Mr. LAROUCHE. Do you mean the letter which Mr. Bardo wrote to Mr. Flook, under date of June 22, 1933?

Mr. ROSEMUND. That is right. I want to quote a paragraph from there, and I trust that the committee will get the significance of what I am trying to bring out:

I know from my talks with some of the representatives of the Navy, who are keenly interested in this work, that they are desirous of finding some substantial reason for awarding this work, to the largest possible extent, to private yards upon whom they must rely for the necessary engineering to complete the ships.

Now, to me, that is the most shameless admission of incompetence. Here is a bill which has been just passed by the House increasing the officers in the Navy, and setting aside 5 percent to be constructors, and it means about between 250 or 300 men to be constructors. Those 250 men are on the same plane as all the other Academy men at Annapolis, who get their 4 years, \$20,000 exposure, and then they get a subsequent post-graduate course. What is the sense in spending the taxpayers' money for this purpose, when they take the position that for engineering they must rely on these private concerns?

Mr. LAROUCHE. Who are in business, you assume, for profit?

Mr. ROSEMUND. Yes; but why educate these men? What is the sense in building up a force to do certain of this work, and then going out and buying that work? Have I made that clear? What is the sense there? That is the report I get; yes, sir.

* * * * *

Mr. ROSEMUND. I want to deny any claim made that the men employed in the Government navy yards are not competent to design ships. That is not the case. They have built and made designs. The *Tuscaloosa*, I understand, is made off designs made by the Brooklyn Navy Yard for the *New Orleans*, being a sister ship,

and built in the New York yards, according to report I get from our men at Brooklyn.

Mr. LAROCHE. Why do not they get the work, if they are competent?

Mr. ROSEMUND. Because of these 200 and some constructors which they have. I do not think it is even fair to them to give them that training, and then not give them the benefit of that experience. I think they ought to have the experience, and they will never get it unless they build ships. I mentioned to Henry Roosevelt about these constructors. I said, "I call a constructor a fellow who puts on overalls and gets dirty from head to foot, and not one running around here shuffling papers and tearing off a page of a calendar once in a while." I said, "It is not fair to these men. Let them build ships."

I am coming down to what I think ought to happen in this case here. It has been brought out that they are buying their plans. I believe, if I understand it correctly, that this committee is going to be involved in covering several subjects in specific pieces of legislation. This one may have future relation to what the attitude would be, in case of war, and so forth, and the policy as to who should carry on the munitions business is another one, but this is an immediate question, and whatever legislation which you have, which is considered to apply to the immediate situation, I would like to see Congress make it mandatory for the Government to build up their engineering and design talent and maintain it in sufficient numbers so that they, and they alone, will make the designs for Government vessels.

I think that that is absolutely necessary, from our standpoint, as a defense measure. If it is true, as has been said in the Flook letter, that we must depend on that, I wonder how many people realize what a desperate situation we are in, that in the building of ships, one of the most vital factors in the defense of the Nation, we are dependent entirely. Now, if that is the case, I think, by all means, and as promptly as possible that ought to be cured, and to cure that I recommend that the Government build up and maintain an adequate design and drafting personnel to meet all questions as they arise.

The CHAIRMAN. I wish, Mr. Rosemund, that you would prepare, within the week, and present to the committee for insertion in the record, a statement covering your general conclusions here, and go further and state what, according to your thought, would be the cost to the Government of providing for its own designing of ships for naval purposes.

Mr. ROSEMUND. I see.

The CHAIRMAN. If you would do that, please.

Mr. ROSEMUND. I will take that up as soon as I have access to the last appropriation bill, and I can get my estimates from that for the committee.

D.—THE MARINE ENGINEERING CORPORATION

A combination of the three big yards, New York Ship, Bethlehem, and Newport News was effected in 1927 for the purpose of creating designs and purchasing the materials for cruiser construction. This pooling arrangement gave the Big Three a large measure of control over naval design work. Ships were built in navy yards from the designs worked up by the Marine Engineering Corporation.

All of the stock of the Marine Engineering Corporation was owned by the Big Three. Officials of the Big Three have denied that the corporation was used by them for the purpose of agreeing on prices in advance of bidding.

When the corporation was disbanded in 1930 the president, John Metten, joined the staff of New York Ship and was made president of New York Ship in November 1934.

Testimony on the formation and operation of the Marine Engineering Corporation follows (Jan. 22, galley 35 GP):

Mr. RAUSHENBUSH. About a year afterward the firm went under.

From there you proceeded in 1927 to become president of the Marine Engineering Corporation, did you not?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. Did you suggest the formation of that Marine Engineering Corporation to the Navy officials?

Mr. METTEN. No.

Mr. RAUSHENBUSH. That perhaps represented the Big Three, did it not; Bethlehem, New York Ship, and Newport News?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. And they all owned stock in it, did they not?

Mr. METTEN. Yes.

Mr. RAUSHENBUSH. You did have conversations, did you not, with the responsible people in the Navy before the formation of this corporation?

Mr. METTEN. I was brought down here and asked to take the position, on account of the idea being that I had had experience in design and it was an important design.

The CHAIRMAN. Asked by whom to take the position?

Mr. METTEN. I think the chief of bureaus suggested that. I was asked to come down here, but I think the shipbuilders were all down here at the time.

Mr. RAUSHENBUSH. Who were the chiefs of the bureaus at the time?

Mr. METTEN. Admiral Halligan, Chief of the Bureau of Engineering, Admiral Buret, C. & R. meaning "construction and repair."

Mr. RAUSHENBUSH. The corporation which was formed was formed by the Big Three with the blessing of the Navy. Can we put it that way?

Mr. METTEN. Yes; I think so.

Mr. RAUSHENBUSH. They hoped to get certain advantages out of having the designing work of the three corporations done in one office. Is that right?

Mr. METTEN. Yes, sir. It was not only that but prior to that time there had been only a few of those cruisers built. The first cruisers were five of the *Richmond* class, which were built by the Cramp Co. and then there were four or five others built at that time. While the five built by the Cramp Co., like all the others, were of different types, they decided it was much better in the new grouping to keep them alike.

Mr. RAUSHENBUSH. What advantages were there, both to the Navy and the big shipbuilders, in having this Navy Department designing pooled, you might call it?

Mr. METTEN. In the ordinary course of events, each ship would have been different. You see the Newport News contracts were, the detailed plans, had

been worked out by them, and in case of the New York Shipbuilding contract, the details of that had been worked out by them; in the case of the Bethlehem contracts, the same thing would have been done.

Mr. RAUSHENBUSH. One advantage was a standardized ship. What other advantages would either the shipbuilders or the Navy get out of this arrangement?

Mr. METTEN. I think that was the principal object. As I understood it at the time, that was the whole object in that set-up, to standardize the ships.

Mr. RAUSHENBUSH. Did not this corporation do combined purchasing for the shipyards?

Mr. METTEN. Yes, sir; they had to do that because they wanted the auxiliary duplicated as far as possible. Instead of having one type of auxiliary in one, and another in another, they naturally had to standardize the auxiliary machinery.

Later (galley 36 GP):

Senator VANDENBERG. I would like to get this clear in my mind. That is in 1927. Were there any other shipbuilders in the country competent to build these ships besides the Big Three?

Mr. METTEN. They would have had to put in considerable additional equipment. I think that those three were perhaps the only ones who could have undertaken the work without modifying the plan.

Mr. RAUSHENBUSH. You say that neither Federal nor United could have built a cruiser in that year?

Mr. METTEN. I do not think so.

Mr. RAUSHENBUSH. I note there was apparently some controversy, and the Bureau took the position that \$400,000 was too high. You wrote a letter on August 6 to the other officers of the Big Three saying, "My inclination is to stand pat on the \$400,000."

Mr. METTEN. You know the discussion, as I remember it, was this way: The value of the contracts was thought to be a representative part, you might say, of the proportional share. For instance, Newport News was building two ships off of those plans. Bethlehem and New York Ship were building one ship off of those plans. And it seemed logical that the larger contracts should take a larger share of the cost of preparing the plans. The same way with the Navy Department. They were building three ships, and as that was the way the discussion went at that time, we thought that the Navy Department, on account of being in a position to benefit to the largest extent, they ought to take a proportional share.

Mr. RAUSHENBUSH. You have given a picture here, Mr. Metten, of the Navy Department being a sort of business partner, and yet that was not quite it, was it? I will read the rest of the paragraph of your letter of August 6, 1927, addressed to the members of the Big Three. [Reading:]

My inclination is to stand pat on the \$400,000 as entirely aside from obtaining plans and schedules, the bureaus expect the navy yards to participate in the saving through joint purchasing to an extent that from present indications will probably pay for the plans. I think we might as well recognize the fact that the navy yards are competitors in the present program and expect to be competitors in the future programs.

I will offer that for the record.

(The letter referred to was marked "Exhibit No. 1426" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH. So that what you were really doing was to organize a group, financed by the big three, which had part of its expenses paid by the Navy Department and also took over and in a way monopolized the designing at the time, and yet found itself in the position where one of the people who was paying a share of the expenses at the navy yards were really competitors to your own, private yards. Is not that about the basis of relationship at the time?

Mr. METTEN. Of course, the navy yards are competitors with private yards.

Senator VANDENBERG. Did not they cease to be competitors under these agreements so far as these ships are concerned?

Mr. METTEN. There was a subdividing. As a matter of fact, that is just another one of those jobs which I had to undertake, to do the best I could, and be guided by the various people who were interested in it. We were down here and the thing was adjusted and discussed with the Navy Department.

Senator VANDENBERG. It was the Navy's price protection in this group of contracts?

Mr. METTEN. Price protection?

Senator VANDENBERG. On the ships you were going to build under this pooled arrangement?

Mr. METTEN. Each yard put in a bid at a definite contract price. This was a condition attached to that contract, that they should be duplicates.

Mr. RAUSHENBUSH. May I venture to explain the Senator's question, if I understand it? Did not the Navy stop being a competitor, as far as designing went, after this pool was established?

Mr. METTEN. Of course, they were all together building the duplicate ships from those plans.

Mr. RAUSHENBUSH. Yes.

Mr. METTEN. I would not call it a "pool."

Further on Mr. Metten testified as to the dependence of the Navy on the designers of the Marine Engineering Corporation (galley 37 GP):

Mr. RAUSHENBUSH. For that 1927 bidding on the cruisers series 26 to 31, the Navy did not draw designs of its own, did it?

Mr. METTEN. No; only general type plans.

Mr. RAUSHENBUSH. As usual?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. And it turned the designing job over to you people?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. It did not go into it any more?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. What was the status of the smaller yards while you had the combined designing arrangement? Did they even attempt to draw any designs for any ships that you were drawing designs for?

Mr. METTEN. I do not think so. There is another thing which I think will perhaps explain the situation. You know there has been very little Navy work built, and the skilled men in the designing end of it had more or less disappeared. There were only a few of them scattered around the country, and it was thought at the time that there was not a sufficient number of trained men to undertake that work separately at the various yards. And the idea of the central office was to concentrate all of the best men on this particular class of design work into one establishment, so that they could carry on this work, and so that the Navy would get the best possible job, so far as design was concerned.

Senator VANDENBERG. Excuse me, that goes back to my original inquiry, in which I am very much interested. Is not that still the situation?

Mr. METTEN. Yes, sir.

Senator VANDENBERG. That the Navy's equipment is so scattered, that it is not useful in the production of a completed net result?

Mr. METTEN. There has always been a scarcity of really competent designers on this class of work.

Senator VANDENBERG. In other words, it would be difficult today for the Navy, in a self-contained way, to produce these designs, would it not?

Mr. METTEN. It would be difficult, I think.

Senator VANDENBERG. Yes; certainly.

Senator BONE. How long has that condition existed?

Mr. METTEN. It has existed ever since you might say, the general lull in Navy building. They are highly specialized ships and they require a lot of experience in the various classes of work.

Senator VANDENBERG. So long as that condition maintains, I ask again, is not the Navy more or less at the mercy of private designers?

Mr. METTEN. That is being reduced now, Senator. They are recognizing—

Senator VANDENBERG. The answer is "yes", and they are trying to meet it. Is that it?

Mr. METTEN. Yes, sir.

On galley 38 GP there is this testimony:

Mr. RAUSHENBUSH. I have a letter here from Mr. Bardo to yourself, dated November 21, 1927, which I want to show you, and which seems to be a reference to a suggestion by Newport News that would have saved the Government some money, and Mr. Bardo is making the point that he does not want any of that sort of thing [handing paper to witness].

I will offer that for appropriate number.

(The letter referred was marked "Exhibit No. 1427" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH. I will read the second paragraph of that letter.

The contract between the three shipyards which brought the Marine Engineering Corporation into existence contemplates, if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the cruiser construction are concerned. Any departure from this understanding will, I am sure, have the effect of gradually repudiating the standing of Marine Engineering Corporation with the Department and result in serious embarrassment in many directions later on. Personally, I am strongly opposed to the practice complained of.

We put ourselves in a very embarrassing and inconsistent position when we voluntarily propose to do something the effect of which is going to materially increase the cost. The margin between the cost of producing these ships and the selling price is narrow enough without further reducing it by a voluntary action which, so far as we can now see, will not improve either the efficiency of the particular units nor have the assurance that it will prolong their lives.

There is some more correspondence on that which gives the impression that Newport News had a proposal which would have increased the price to the private shipyards and would have given the Government a better ship, and here Mr. Bardo sent a letter to you in which he says he does not want anything like that, and that is not the purpose of the Marine Engineering Corporation.

Do you remember that incident?

Mr. METTEN. I think I do. You see, in establishing a design office of that kind, someone has got to be at the head of it and make the decisions. You cannot run a standardized design and have two or three different yards, each going their own way; and I was placed in a position of having to decide those questions which were decided on the basis of giving the Government a better job, as far as I can tell you.

Mr. RAUSHENBUSH. Well, apparently the suggestion that Newport News made on account of some turbine changes and spares and Mr. Bardo characterized it as something which would materially increase the cost—

Mr. METTEN. I do not know. At the outset decision was to be made whether or not they would buy the main turbines from someone else, like General Electric or Westinghouse, and I think it was just the other way about.

I think that they found that they could get a better price if they bought them than if they built them.

My experience had been that the machinery which had been built by the better-class yards had been more reliable and better suited to the Navy work than that which had been bought outside, and I decided that we would build the standard turbines.

Mr. RAUSHENBUSH. Now, if the advantages of this marine corporation to get standardized ships and to get lower costs by dealing with the suppliers on a wholesale way were good in 1927, why was the Marine Engineering Corporation, of which you were president, disbanded a few years later?

Mr. METTEN. It was undertaken for the specific job, and then I believe there was some objection on the part of some of the builders. It was a rather trying thing to carry through, and, of course, when they talked about disbanding it I personally did not care about going through with this trying job any longer. It had completed the job for which it was organized.

Senator VANDENBERG. I would like to ask a question about that purpose before we get away from this letter. The letter says that the contract between these three big shipyards, which you say were the only three who could build these ships [reading]:

contemplates, if it means anything, that Marine Engineering Corporation is to be the official mouthpiece of the three yards insofar as their relations with the Department for the cruiser construction are concerned.

You have indicated that you pooled your engineering resources. Does that mean that you also pooled your bids?

Mr. METTEN. No, it had nothing to do with the bids.

Senator VANDENBERG. You went through all these mutual arrangements with respect to the design, but you did not talk with each other about the price which you were going to bid on the jobs?

Mr. METTEN. As I explained before, the circulars came out and had a condition attached that these ships must be duplicates. Now, as I recollect it, the bids were put in by the different yards separately, in the usual way, and then it was a case of determining how they could best make them duplicates. I think that the formation of this was after the bids were made.

Senator VANDENBERG. How near alike were the bids? Do you recall?

Mr. METTEN. I do not recall. I was the chief engineer of the Cramp Co. and of course I was not in contact at all with the bidding and was brought into it when they decided to form this central office.

Senator VANDENBERG. If the purpose of the organization of the Marine Engineering Corporation, as stated in this letter, was to make it the official mouth-piece of the three yards, in respect to cruiser construction, am I wrong in interpreting that as a price agreement as well as a design agreement?

Mr. METTEN. No, sir; it had nothing to do with prices. It was purely a matter of design.

Mr. RAUSHENBUSH. You just made the point, Mr. Metten, that these designs were drawn before the bids were let. Is that right?

Mr. METTEN. Yes, sir.

Mr. RAUSHENBUSH. Then the Navy, in letting these bids, was doing it blindly, was it not, at the moment?

Mr. METTEN. No; they had issued the general plans and general specifications which covered the ships completely.

Mr. RAUSHENBUSH. And after all that was over, then the plans were drawn?

Mr. METTEN. Yes, sir. The detailed plans are always made up afterward.

Mr. RAUSHENBUSH. And yet the Navy had, according to your earlier testimony, permitted itself to participate in those same plans, had they not?

Mr. METTEN. The plans of the central office had not been worked out. They had to lay down the condition that the ships must be built on the same detailed plans, but following the general type, plans, and specifications laid down by the Navy Department.

Mr. RAUSHENBUSH. And had gone into this arrangement, that it would take plans drawn by your group?

Mr. METTEN. I do not think at the time that they asked for bids they had any clear idea as to just how this was going to be carried out.

Mr. RAUSHENBUSH. You do not remember, Mr. Metten, when you first discussed this matter of the Marine Engineering Corporation with the Navy, do you?

Mr. METTEN. No; I do not. I was brought down here, and the chiefs of the bureaus talked to me about it.

E.—THE SHIPBUILDERS' DEPENDENCE ON THE NAVY

While the Navy is dependent in many ways on the shipbuilders, that relation is really reciprocal. The shipbuilders are dependent on the Navy for their bread and butter, and for any high profits possible.

The shipbuilding companies stress their position as the private part of our national defense. They are interested in the Navy and that auxiliary of the Navy, the merchant marine. The Navy is also interested in them. It is interested in their efficiency. It may also be interested in their support for a larger Navy.

The use of the shipbuilders as a lobby by the Navy is indicated most clearly in the Electric Boat Co. hearings. For example, in Exhibit 183, their Washington representative writes, in connection with a deficiency appropriation—

Members of the Navy Department have seen fit on several occasions lately to not only write but to personally express their appreciations and congratulations on the success of such parts of the program as we were directly interested in, and for the help we gave the Navy Department.

Mr. Shearer's insistence that it was at that Navy's request that he went to Geneva, armed with secret Navy information, and did various other things which the Navy wanted him to do, must also be considered (sec. VI-B). The Navy's neglect or failure to use the low-cost construction of the 1927 cruisers built in the navy yards as a means of forcing down later cruiser costs might be considered a reciprocal attitude.

It is natural that the Navy, wishing, like every other institution, to grow and expand, should appreciate the support of the huge combination of steel companies, electrical manufacturers, boiler-makers, instrument companies, and others centering around the shipbuilding industry. It is most natural that it should even feel obligated for such support.

There are also purely personal ties which have grown up over a period of years. Certain naval officers left the service and went into the contracting business, including Mr. Ferguson and Mr. Williams of Newport News; Mr. H. G. Smith, formerly of Bethlehem and now president of the Shipbuilders Trade Association, Mr. Leonard, Washington representative of Bethlehem; Mr. J. W. Powell, of United Dry Docks, and others. These personal relationships may result in the kind of help given to Mr. Powell of United on estimating for the *Vincennes* by his friend, Commander Fred Crisp, assigned as inspector to the Bethlehem yard at Fore River. Mr. Powell was given information which the Navy Department itself did not have. Commander Crisp declined the job offered to him by Mr. Powell (galley 70 WC, Apr. 4).

Mr. LAROCHE. Did you offer him a job?

Mr. POWELL. After we were awarded the contract, I offered him a job. I did not offer him a job before that.

Mr. LAROCHE. He did not have the idea?

Mr. POWELL. He did not have the idea. I think he was completely surprised when I offered him the job.

Mr. LAROCHE. He was entitled to something, do you not think?

Mr. POWELL. If he would have taken anything I would have been very glad to have given him a substantial sum. I mean by that, \$2,500 would have been a reasonable fee for what he did.

Mr. LAROCHE. How much did you give him?

Mr. POWELL. I gave him a set of golf clubs and paid his out-of-pocket expenses, and he did not have any idea I was going to do that, and if he had, he would have been insulted.

The Navy, of course, is in a position to appreciate and return favors done by the shipbuilders. During the war the shipbuilders operated under a cost-plus contract drawn by the Navy Department which was so loose that they felt free to include Federal income taxes as part of costs, and one company, New York Ship, charged in a preferred-stock dividend as an item of cost (galley 47-8 GP Jan. 22). This was at a time when the American International Corporation controlled the company, and its directors were on the largest corporations in the country.

The Navy can do incidental favors such as using the threat of removing a ship to influence employees in case of a strike (see sec. VIII). It can send a naval vessel to a foreign port at the request of a shipbuilder trying to sell to that country (galley 23 ZO) even though the State Department is at the time trying to discourage another naval race in that part of the world. It can help a private company by preparing estimates of the cost of ordnance for foreign sales (galley 24 ZO). The officers of that ship had accepted a \$1,000 gift from the president of that company in the form of improvements in the officers' wardrobe (galley 25 ZO). The Navy can do the shipbuilders the favor of asking the National Recovery Administration to eliminate further competition by including in the code provisions against the establishment of new shipyards (galley 88 GP). It can authorize the building of war-time ships after a war is over (sec. VIII).

The Navy can also do more impressive things which benefit the shipbuilders. It cannot only be indifferent to the possibility of the construction of new navy yards, it can actively oppose them. It can give without analysis or critical comment figures to congressional committees showing the profits of private shipbuilders to be about 30 percent of what they actually were (sec. IV). It can assent to adjusted-price contracts which throw the risk of the shipbuilding business almost entirely on the shoulders of the Government (sec. I). It can take off all limitations on this burden on the Government, as it did in 1934. It can support measures tending to invalidate the intended profit limitation in the Vinson-Trammell bill of 1934 (House hearings, House Naval Affairs Committee, June 1935, H. R. 5730).

Although completely ignorant of the essential figures the Navy can make rulings on overhead, and so forth, which tend to invalidate the attempts of Congress to limit profits (sec. VII). It can do, as it did after the war, offer two battleships to Newport News at a profit considerably over 10 percent and conceal the excess above that mark by giving the company certain plant extensions at a low price (galley ZO).

In 1927 and 1929 the Navy, at the request of the three big shipbuilders, gave up its right to reject cruisers (exhibit 1492, galley 27-28 QD, Feb. 26). The attorney for the New York Shipbuilding

Co. wrote the other companies that this withdrawal of the rejection clause by the Navy surrendered the usually implied right of rejection entirely, and proceeded to make a record of the matter.

The Navy's decision not to ask Congress for sufficient funds to establish a designing and planning section in order to be entirely independent of private yards in this important matter has operated to the benefit of the private shipyards.

At the time of the bidding on the aircraft carrier *Ranger*, the refusal by the Navy to let the New York Navy Yard estimate on the basis of the new plans clearly helped put that ship beyond the bounds of hard competition.

There is no implication here that all of the acts or omissions were without possible explanation or justification. They simply show that the Navy is in a position to do favors, and to reciprocate favors done for it by the shipbuilders in the way of support for a larger Navy and the like. This is a permanent situation. Since the Navy is an instrument of national policy, this closeness in financial interest of the private shipbuilding yards to the Navy becomes a matter of national concern.

SECTION VI.—INFLUENCE AND LOBBYING OF SHIP-BUILDERS

A.—GENERAL POWER

The shipbuilding industry is allied in interest with naval suppliers and subcontractors, including the steel companies, the electrical manufacturing groups, the boiler producers, the instrument people. These spread out over the country, and together probably represent several billion dollars of invested wealth. Several of the largest fortunes in the country are involved in these groups. Connections with the biggest banking interests in the Nation, as well as with the smaller ones, are involved.

These groups are naturally interested in keeping business as usual, or, if possible, better than usual. At times of great industrial unemployment (1930 —) they are able to urge the employment possibilities of shipbuilding as a means of putting people to work rapidly. In 1933 the American Federation of Labor endorsed the use of Public Works funds for this purpose, and \$238,000,000 of Public Works funds were allocated to the Navy as soon as the P. W. A. had been set up—in fact, a little before it was set up in its final form under Secretary Ickes.

In a section below (C) a small part of the picture of the influence of some of these companies is given. The influence of such large interests as United States Steel, Bethlehem Steel, Westinghouse Electric, General Electric, and the boiler manufacturers has not been investigated by the committee. The small pieces of information secured show that the shipbuilders used their influence equally in Democratic and Republican circles. The committee wishes to express clearly its conviction that it has in no sense been able to probe to the bottom of any of the influence exercised by these large groups on the Navy or on the various administrations. This is due to lack of funds, since the Senate laid three main duties upon the committee and the available funds were not sufficient to allow the committee to go into the political power of these companies.

The Washington representative of Westinghouse Electric Co., wrote the president of Bath Iron Works, describing the naval appropriation as "plunder" (Apr. 3, galley 24 WC).

Mr. RAUSHENBUSH. Coming to this letter of March 5, 1931, it says [reading]:

DEAR NEWELL: The sooner you take the senior Senator from Maine out and sink him the quicker you will get destroyer business in your yard.

The naval appropriation bill went through the House with the Dallinger amendment omitted.

The Dallinger amendment is the one which would give one-half of the work to the navy yards, is it not?

Mr. NEWELL. I think that is correct, but I am not sure.

Mr. RAUSHENBUSH (continuing reading):

The Naval Affairs Committee of the Senate, under the able and progressive management of the senior Senator from Maine, proceeded to insert that noxious piece of legislation that has appeared in the last few bills.

I take it that is irony on the part of Mr. Southgate.

Mr. NEWELL. Yes; I think so.

Mr. RAUSHENBUSH (continuing reading):

Of course, he was aided and abetted by Senator Swanson, and I suppose that probably he may claim that the Senator from Virginia was responsible for all the trouble, but I rather doubt it. At any rate, it is now in the bill and the only way that you are going to get any destroyers built in Bath, Maine, is for you to compete in price with the navy yards. In the words of the act, you must be able to contract at a price that is not "appreciably" higher than the navy-yard bids.

I understand the morning after the bill went through every east-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing, ready to fight for their share of the plunder, and the only thing that stopped the west-coast yards from being here was the fact that they couldn't come bodily by telegraph.

The CHAIRMAN. Will you please read that again?

Mr. RAUSHENBUSH. I am sorry. [Reading:]

I understand the morning after the bill went through every east-coast yard had its representatives in Washington with their tongues hanging out and all teeth showing ready to fight for their share of the plunder, and the only thing that stopped the west-coast yards from being here was the fact that they couldn't come bodily by telegraph.

[Laughter.]

How do you explain that, Mr. Newell, that with the Dallinger amendment going through for one-half the work in the navy yard, that, therefore, the amount for the private yards would be smaller, and the fight for it would be tougher? Is that why these people were all down here "with their tongues hanging out * * * to fight for their share of the plunder"?

Mr. NEWELL. I do not know.

B.—LOBBYING AGAINST DISARMAMENT

At the time the Geneva Naval Disarmament Conference in June 1927, the three big shipbuilders had received contracts for \$53,744,000 work on six 10,000-ton cruisers. Four of these had been let on June 13, 1927, and the work on the two Cramp ships (machinery on the *Pensacola* and the whole *Salt Lake City*) had been contracted in April 1927. Newport News had received two ships, at a contract price of \$21,284,000. Bethlehem had received one ship at a contract price of \$10,675,000; and New York Shipbuilding Corporation had received one of the new cruisers at \$10,815,000 and the Cramp contract on the *Pensacola* and *Salt Lake City* at \$10,970,000. These contracts could all be canceled as a result of action by the Geneva conference.

These three big companies stood to lose \$53,744,000 of work if the Geneva conference prevented a naval race. If the conference changed the size of the cruisers to 7,500 tons, the three companies stood to lose up to \$14,000,000 of work. They also stood to lose some time owing to a recasting of plans. Mr. Ferguson of Newport News stated (Feb. 18, galley 28 FS) "if these cruisers were changed to 7,500-ton cruisers, it was naturally a matter of tremendous interest to us."

It was very definitely after the break-up of that conference that the shipbuilding industry began to show profits.

A number of pertinent pieces of testimony bearing on this matter are quoted below. They show Mr. Bardo's admission of interest in the results of the Geneva conference including the expenditure of \$600,000 on machinery (see *a*). He explained the employment of Mr. William B. Shearer to operate at Geneva on the ground of "the desperate situation of the shipbuilders" (see *b*). The precautions of the shipbuilders in keeping his employment secret was discussed (see *c*). Mr. Shearer explained this secrecy on the ground of the opposition of the State Department to his activities (see *d*). The companies continued his employment in this country until March 1929, and Mr. Ferguson was questioned concerning his activities here during 1928 and 1929 (see *e*).

Senator CLARK. That was at the time he was getting up this war scare with England, was it not, Mr. Ferguson, just in this same period, the fall of 1928 and the spring of 1929?

Mr. FERGUSON. It might have been.

The contradiction concerning the date of Mr. Shearer's employment as testified to in the Shortridge hearings (1927) by Mr. Ferguson and the actual date (1926) was discussed (see *f*). Mr. Shearer's statement was introduced that:

as a result of my activities during the Sixty-ninth Congress, eight 10,000-ton cruisers are now under construction. Further, that owing to the failure of the tripower naval conference at Geneva, there is now before the Seventieth Congress a 71-ship building program costing \$740,000,000. * * * As stated by you, and agreed by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result of the naval-preparedness campaign which benefits, and, in reality, saved the shipbuilding industry (see *g*).

Mr. Shearer explained that he received \$7,500 for his work on the 1926 cruiser bill (see *h*).

Senator CLARK. * * * you accomplished the purpose for which they sent you down here, getting the appropriation for the cruisers?

Mr. SHEARER. I should say so; yes.

Mr. Shearer stated that he went to the preliminary conference in Geneva in 1926 at the request of Admiral Pratt (see *i*). Mr. Shearer's cooperation with naval officers to secure increased naval appropriations was discussed. He stated that every fight he had made was at the request of naval officers (see *j*) and that he had been supplied with secret data by the Navy Department. His methods of operation were discussed (see *k*). He was shown the secret order to sink the *Washington*, by a naval officer (see *l*). Another representative of the shipbuilders, Mr. H. R. Humphreys, was in Geneva in 1926, and after discussion with Admiral A. T. Long, one of the United States delegation, reported: "The yard has nothing to worry over anything drastic being done at the disarmament conference now being held at Geneva" (see *m*). Mr. Shearer testified that he was asked by the staff of the *California* "to make a fight for a naval base on the Pacific and for cruisers" (see *n*).

Mr. Shearer described his work at Geneva as a "fast and vicious campaign" (see *o*). He also stated that Military Intelligence (War Department) had given him the names of the Military Intelligence men in Europe (see *p*). Mr. Shearer spoke of the shipbuilders as "delighted" with the result of his work at Geneva (see *q*). Mr. Shearer explained his orders to "lay low" after his return to Mr. Charles Schwab's fear of reprisals by the State Department in connection with the Government's suit against Bethlehem Steel (see *r*). In the course of refusal by the shipbuilders to pay Mr. Shearer what he thought was due to him for his work he repeated his claims to the success of the Geneva failure (see *s*). The expenses of a pamphlet entitled "The Cloak of Benedict Arnold", attacking Franklin D. Roosevelt and others, were paid for the shipbuilder (see *t*). Mr. Shearer stated that the attacks were taken from the Hearst papers, and that he was paid \$5,000 in 1929 by Mr. Hearst. He attributed the \$740,000,000 naval program directly to the failure of the Geneva conference (see *u*). He stated that he was asked by the shipbuilders to make an attack on Mr. Culbertson, "our minister to Chile", because he was alleged to be opposed to merchant marine legislation (see *v*). Mr. Shearer was asked if he had not reported "to your employers that you felt justified in listing anyone who opposed you as an internationalist and pacifist." He replied, "Yes" (see *w*).

(a) Mr. Bardo said his firm had spent large sums in plant improvements in expectation of cruiser contracts, and that they hired Shearer to go to Geneva because they didn't want to jeopardize these expenditures. Mr. Bardo testified he and the representatives of Bethlehem and Newport News entered into an agreement with Shearer March 1927 (pp. 13 and 14, hearing under S. Res. 114, 71st Cong., 1st sess.).

Senator SHOETRIDGE. So that, on that date, at that time, and at that place, you did enter into a contract with this gentleman?

Mr. BARDO. Yes, sir.

Senator SHORTRIDGE. Have you now told this committee the scope and purpose of that contract?

Mr. BARDO. Yes, sir.

Senator SHORTRIDGE. Fully?

Mr. BARDO. Fully.

Senator SHORTRIDGE. As to what you did?

Mr. BARDO. Yes, sir.

Senator SHORTRIDGE. And why you desired that information?

Mr. BARDO. Yes, sir. I would like to make a further statement.

Senator SHORTRIDGE. If it is explanatory of your answer, you may properly give it.

Mr. BARDO. I would like to make this comment there, Mr. Chairman, as indicating the situation as it applies to us particularly; and I do not want unnecessarily to take up the time of the committee; but here was the situation that we were confronted with: We had under negotiation, and had substantially reached, an agreement with the Cramp Co. as to this contract of theirs. We did not know when the default would be declared, nor when action would be called for.

We had submitted, or were just about to submit, our bids on the cruiser, which is now about 70 percent complete. We had still to make a decision as to whether we were going to continue in the shipbuilding business or whether we were going to quit and transfer that activity, that plant, for the manufacture of electric equipment.

Our board of directors had authorized an expenditure of approximately \$2,000,000 for new tools and machinery; and he had spent about \$600,000 of that up to that time for machinery. So we were right on the threshold of deciding, and must make the best decision we could as to whether we would put that machinery in the shipbuilding plant or whether we would put it in a new building in the south end of the yard and open up a new industry.

Senator SHORTRIDGE. What had that to do with the conference to be called at Geneva?

Mr. BARDO. It had everything to do with it. If these things drifted along to a point where the Geneva Conference took its action one way or another as to these contracts—that is, the Cramp contract and the new contract were going to be discontinued, because if the conference decided that, then there would certainly be no question as to what our future course would be, and the shipbuilding plant would now be a plant for the manufacture of electric equipment and not for the building of ships.

Senator SHORTRIDGE. So that in view of that fact you considered yourselves very vitally interested in the conference at Geneva.

Mr. BARDO. Decidedly so.

Mr. Bardo testified that, though he paid Shearer one-third of \$25,000 to "observe and report" at Geneva, that Shearer's reports were not read (p. 24, hearings on S. Res. 114, 71st Cong., 1st sess.).

Mr. Bardo said in the Shortridge hearings that Mr. Shearer furnished him with no information not supplied earlier by newspapers (p. 27, hearings on S. Res. 114, 71st Cong., 1st sess.).

(b) Mr. Bardo testified further (in the Shortridge investigation) that the future of the Big Three in shipbuilding depended on the outcome of the Geneva Conference. Mr. Bardo admits Shearer was paid too much for services as a mere "observer" (pp. 20 and 21, hearings on S. Res. 114, 71st Cong., 1st sess.).

Senator ROBINSON, of Arkansas. Then the primary purpose of the conference, and the primary subject matter of the conference in which Mr. Shearer was employed, was to determine whether there was anything that could be done that would promote the shipbuilding industry or sustain it?

Mr. BARDO. I would not put it as broadly as that.

Senator ROBINSON, of Arkansas. Well, what was it?

Mr. BARDO. I outlined before that we were in a desperate situation.

Senator ROBINSON, of Arkansas. Yes.

Mr. BARDO. We had contracts pending with the United States Government. It was of great interest to us to know, just as exactly as possible, whether the Geneva Conference was going to discard that program or whether it was going to go through.

Senator ROBINSON, of Arkansas. Were you interested in any way in the question as to whether the United States would build or destroy ships as a result of the Geneva Conference?

Mr. BARDO. Not beyond the statement I have just made.

Senator ROBINSON, of Arkansas. You were concerned only, then, with the completion of the contracts that you had already entered into?

Mr. BARDO. And the contracts that were in front of us, to be entered into.

Senator ROBINSON, of Arkansas. You did want to prevent the abrogation of those contracts by the Government?

Mr. BARDO. No.

Senator ROBINSON, of Arkansas. What did you want to do?

Mr. BARDO. We did not want to prevent it at all. We wanted only to know what the Government was likely to do.

Senator ROBINSON, of Arkansas. And you thought that Mr. Shearer could find out what the Government was likely to do?

Mr. BARDO. We thought he could.

Senator ROBINSON, of Arkansas. And for that purpose you employed him?

Mr. BARDO. Yes, sir.

Senator ROBINSON, of Arkansas. How much was it agreed he should be paid for his services at that conference?

Mr. BARDO. That is the \$25,000 conference.

Senator ROBINSON, of Arkansas. Whether it lasted 6 months or a year?

Mr. BARDO. That was the understanding.

Senator ROBINSON, of Arkansas. Why was he paid so large a sum for attending the conference as an "observer"?

Mr. Bardo testified in the Shortridge hearings (S. Res. 114, 71st Cong., 1st sess.) that he became dissatisfied with Shearer's work at Geneva in August 1927, and yet, though Mr. Bardo said, on page 35, that he had complete authority to dismiss Mr. Shearer, evidence brought out at various times shows Mr. Shearer continued in the service of the firm to March 1929.

On page 34 of the Shortridge hearings (S. Res. 114, 71st Cong., 1st sess.) Mr. Bardo reaffirmed his desire to keep the employment of Mr. Shearer confidential.

Drew Pearson testified in Senator Shortridge hearings that Mr. Shearer and certain naval officers expressed determination that there should be no repetition at Geneva of the 1921 conference. This tallies with statements by Mr. Shearer and seems to indicate a desire on the part of the shipbuilders, through Mr. Shearer, to prevent any disarmament:

Mr. PEARSON. The conversation in general was almost identical with Shearer's views, and was practically the same as—well, it was extremely anti-British. It was also to the effect that the Washington Naval Conference had been a terrible failure; that Mr. Hughes had sacrificed American parity on the high seas for political purposes; and that they hoped, and would endeavor to see, that the Coolidge conference would—well, in a general way their view was practically that it would not succeed.

Senator ALLEN. Did the conversation of any of these men representing any of the departments here indicate their sympathy with the thought that it ought to fail?

Mr. PEARSON. They said, "We are out to see that there is no repetition of 1921." That was the thing in a nutshell—and, as I said, their views against the thing. What struck me, Senator, at the very start of the conference was that there was an atmosphere among these naval experts and Shearer that was extremely discouraging to the success of the conference. In other words, the cards were stacked against the conference from the very start (hearings on S. 114, 71st Cong., 1st sess., p. 393).

(c) Precautions were taken by the shipbuilders to conceal their relations with Shearer in 1926 and 1927 (galleys 69 QD, Mar. 12; 70 QD, 71 QD).

Mr. SHEARER. I understood I was to receive \$25,000 a year.

Senator CLARK. Before you get to that, what was the upshot of the argument between Wakeman and Palen as to whether you would come out in the open as their representative or would not come out in the open?

Mr. SHEARER. I would not know at that time, Senator. I found out later.

Senator CLARK. The argument was not in your presence?

Mr. SHEARER. A suit that was pending against Mr. Schwab for some \$15,000,000 or something at the time, and he did not want that out.

Senator CLARK. What I am trying to get at, Mr. Shearer, is whether this argument between Palen and Wakeman was in your presence, or whether you learned about it subsequently.

Mr. SHEARER. Palen told me privately in his office in the Woolworth Building, and Wakeman told me privately.

Senator CLARK. They told you they had an argument?

Mr. SHEARER. There was no argument. They did not agree. Mr. Wakeman said "This thing should be done direct with you, and we should not even do it through Hunter."

Senator CLARK. In other words, it should be done directly between the New York Shipbuilding Co., the Newport News Shipbuilding Co., and the Bethlehem Shipbuilding Co.?

Mr. SHEARER. And leave Hunter out of the picture.

Senator CLARK. And have no intermediary in Mr. Hunter?

Mr. SHEARER. Yes, sir.

Senator CLARK. What was the final upshot of that discussion? Did you go to Geneva openly as the representative of the shipbuilding companies?

Mr. SHEARER. I went to Geneva but not openly, no, sir; as a representative of the three.

Senator CLARK. You went to Geneva apparently on your own?

Mr. SHEARER. I had been endorsed, Senator, by a great many patriotic organizations anyhow, and, in addition, I was just as sincere in bringing out certain facts for them, who never paid me, because they have patriotic organizations, with no money, so that I did those things, and you know what I mean, and it was assumed I was still with patriotic organizations.

Senator CLARK. What were those patriotic organizations?

Mr. SHEARER. American Legion, National Society Daughters of the American Revolution, National Defense League, National Security League, and possibly 100 others.

Senator CLARK. Did those patriotic organizations at that time know that you were being financed by the shipbuilders?

Mr. SHEARER. I do not think they worried themselves, because the thing is to get out certain facts.

* * * * *

Senator BONE. Mr. Shearer, are you in any way ashamed of your business connections?

Mr. SHEARER. Certainly not.

Senator BONE. Why did you keep your connections with these people secret?

Mr. SHEARER. Because those people asked me to keep it secret.

Senator BONE. That throws a little light on the subject.

Mr. SHEARER. They wanted it kept secret. I never hesitated.

* * * * *

(J) Senator CLARK. Wait a minute and let me finish the question. Was not the real reason that they did not want you to appear openly as their representative the fact that the State Department regarded your activities at the previous Geneva conference and generally as obnoxious to the prospects of arriving at an agreement with the other nations with which we were to confer?

Mr. SHEARER. I would like to answer you on that point.

Senator CLARK. Yes, sir.

Mr. SHEARER. The British had their representative of the press and others there and the Japanese had their representative of the press and others. Even an American was working for the Japanese, and an American I knew was working for the British.

I was simply wanting to be fair to the Americans, and I tried to get around me the American newspaper boys who were sincerely interested in their own country. The British protested me because I was bringing out facts and truth, as Ambassador Gibson said.

Senator CLARK. I am not asking about your activities at Geneva, but I said the reason why Bethlehem Shipbuilding Co. and the other shipbuilding com-

panies did not want you to appear officially as their representative was because the State Department regarded your activities as not desirable, rather than any suit pending in Pennsylvania between the Government and Mr. Schwab?

Mr. SHEARER. That is quite possible. I believe the State Department always opposed my activities. I believe that is true.

Senator CLARK. In your opinion, is not that the reason why they did not want you to appear officially as their representative and agreed to pay compensation?

Mr. SHEARER. I will agree to that. It is logical. I think there were a lot of reasons why the State Department did not want me there.

Shearer fought for 10,000-ton cruisers and "no compromise" at Geneva. This was in the summer of 1927, after the "big three" had made extensive plans for building 10,000-ton cruisers (p. 448, hearing under S. Res. 114, 71st Cong., 1st sess.).

Mr. SHEARER. My statement was, "A fair treaty or no treaty; and 10,000-ton cruisers, 8-inch guns, and no compromise."

That was my statement to a half dozen members of the press, the Associated Press, the Chicago Tribune, the New York Times, and, I believe I remember, the New York Herald, and Decker, and Post. That is the strongest statement I ever made—"A treaty of parity, 10,000-ton cruisers, 8-inch guns, and no compromise."

(c) The employment of Mr. William B. Shearer by the three big companies was discussed on February 20 (galley 53 FS-56 FS-57 FS).

It was brought out that Mr. Shearer was still employed by Newport News until March 1929 (galley 57 FS).

Senator CLARK. Mr. Ferguson, during the time that elapsed between Shearer's return from Geneva, at which time I understood you on Monday to say that you discharged him from your employ, to August 22, 1928, what services was he rendering to your company which would justify you in authorizing Mr. Palen to advance him \$500 or \$1,000 at a throw?

Mr. FERGUSON. I am afraid you misunderstood me. I did not mean that I discharged him after the Geneva Conference, or that I told Palen to. His employment as a delegate of the three companies to that conference had been terminated, but Palen kept him on in New York for this employment which you speak of, and he wrote articles for papers and magazines.

Senator CLARK. I am trying to get the dates clear, Mr. Ferguson.

Mr. FERGUSON. That is a long while ago and—

Senator CLARK. I understand. That is the reason I am trying to refresh your memory.

Mr. Palen states in this memorandum that the engagement of Shearer to represent the three companies was terminated by a letter from Mr. Henry C. Hunter under date of December 17, 1927.

Mr. FERGUSON. Yes, sir.

Senator CLARK. From that time on until as late as March 22, 1929, as the record shows, the Newport News Shipbuilding Co. was advancing to Shearer from time to time very considerable sums of money. Now what services was he rendering to the Newport News Shipbuilding Co. in that time that justified you in authorizing these expenditures which were all charged to your company, were they not?

Mr. FERGUSON. Mr. Palen had him employed; and, of course, the record of the other investigation may disclose what he did, but, so far as I know, it was in newspaper and publicity work.

Senator CLARK. First, let me ask you this, if I may interrupt, Mr. Ferguson, so that we will be clear on this: These expenditures, the advances to Shearer, or payments to Shearer, were company expenditures, were they not? I mean, Mr. Palen says in this memorandum that he took two or three demand notes, three of \$500, and took a demand note for \$1,000. They were company expenditures, were they not?

Mr. FERGUSON. Oh, yes.

Senator CLARK. They did not come out of the pocket of Mr. Palen?

Mr. FERGUSON. Eventually the company paid for them; yes, sir.

Later (galley 57 FS).

Senator CLARK. Did you have any knowledge of the work of Shearer, for which you were paying him?

Mr. FERGUSON. No; Palen had authority to employ him, both as to amount and how long it should continue.

I finally told Palen to pay him off and get rid of him. So he settled with him, I think, for some \$3,000, and let us assume it was in March 1929, and got his receipt in full.

Sometimes, Senator, you get landed with an employment that sticks pretty tight.

Senator CLARK. Yes, sir; but I am certain that a man of your ability, with a good old Scottish name of "Ferguson", was not handing out \$500 or \$1,000 every 2 or 3 weeks to a man unless you knew what services he was rendering the company.

Mr. FERGUSON. It was in connection with publicity work, and I think he made some speeches, too. I know of some articles he wrote in an Irish paper in New York.

Senator CLARK. That was at the time he was getting up this war scare with England, was it not, Mr. Ferguson, just in this same period, the fall of 1928 and the spring of 1929?

Mr. FERGUSON. It might have been.

Senator CLARK. I do not want to be examining you on part of this memorandum without letting you hear the whole thing. [Continuing reading:]

At the next conference with Mr. Shearer—

the last date referred to, when I quit reading this memorandum, was August 22, 1928, when Mr. Palen, by your authority, advanced \$1,000 to Mr. Shearer, which was following another \$1,000 advanced on the second of August. [Continuing reading:]

At the next conference with Mr. Shearer I offered to advance him \$500 more and he wanted me to agree to advance him \$1,000 per month for 1 year so he could make his plans on the basis of a definite sum for a definite period. I declined to agree to advance as much as \$1,000 per month for 1 year and was not willing to advance any more than a total sum of \$6,000. Shearer did not agree to this, but from time to time came to me for money and our conferences resulted in my advancing to him the following sums: \$1,000 on December 22, 1928; \$500 on January 7, 1929; \$500 on January 24, 1929; \$500 on February 25, 1929; \$1,000 on February 28, 1929; \$2,500 on March 22, 1929.

That was at the same time, or during the same period, was it not, Mr. Ferguson, during which Mr. Bardo advanced \$5,000 to Mr. Shearer?

Mr. FERGUSON. I do not know.

Senator CLARK. Was anything said to you about part of this being contributed to a trip which Mr. Shearer was taking to the Pacific coast to see Mr. Hearst about certain work which he was doing, in connection with certain work on a diary in connection with the work of a British spy, which he was showing around Washington at that time?

Mr. FERGUSON. I do not remember.

Senator CLARK. Do you remember any services Mr. Shearer was performing at this time justifying \$1,000 on December 22, 1928; \$500 on January 7, 1929; \$500 on January 24, 1929; \$500 on February 25, 1929; and, 4 days later, on the 28th of February, another \$1,000; and \$2,500 later on, on March 22, 1929?

Mr. FERGUSON. I do not know.

Senator CLARK. Did he not make any report to you as to why the stockholders' dividends were being dissipated in this manner?

Mr. FERGUSON. You must understand, Senator, that my home is in Newport News and at that time I was in New York only occasionally. Mr. Palen was in charge up there.

Senator CLARK. Yes, sir; but what did Mr. Palen tell you when he said, back in August, "Mr. Ferguson told me that I might advance him some more money and when I asked how much he left the matter to my discretion?" What did Shearer tell you at that conference that made you feel justified to tell Palen to go on and give him some more money?

Later [galley 58 FS]:

Mr. FERGUSON. I do not remember. He told me in general, when I saw him, probably two or three times altogether, that what he was doing for the general cause of sea power and the merchant marine as well as the Navy——

Senator CLARK. Did he tell you anything about his services at the Geneva Conference, and that he had been the fellow who broke it up?

Mr. FERGUSON. He never claimed he broke it up with me.

Senator CLARK. In connection with a few admirals. He claimed that later in public testimony before the Shortridge committee, did he not?

Mr. FERGUSON. No, sir; I do not think so.

Senator CLARK. Was not that one of the bases of his suits?

Mr. FERGUSON. No, sir; I do not think his testimony was that.

Senator CLARK. What did he say about his services at Geneva, when he was hitting you up for another advance?

Mr. FERGUSON. I did not discuss it with him at any length. My discussion had nothing to do with the Geneva Conference, had nothing to do with that, but the services which he was rendering the company.

Senator CLARK. Was there anything in this conversation in which you were engaged to get you in a frame of mind to authorize further payments to him? Was anything said about that conference?

Mr. FERGUSON. No; there was no claim of any kind that I can remember for any payment for services at the Geneva Conference. That was a closed employment, so far as I know.

Senator CLARK. What did he say he was going to do to get those further payments? I am speaking now of this conference which you had personally, just prior to August 22, after which you authorized Palen to go on and use his own discretion about paying Shearer further?

Mr. FERGUSON. He was engaged in publicity work under Palen and in that capacity, as I understand it, may have taken a trip to the West coast. I cannot recall now, Senator. It is a good while ago, and I have not thought of it since the Shearer investigation.

The CHAIRMAN. Mr. Ferguson, there was not any idea when this money was being advanced, or there was no thought that it was simply being advanced to one who was broke, or being advanced as a loan to him, was it?

Mr. FERGUSON. Yes; he was broke. He was about to lose his property, and he was very hard up, and Palen liked Shearer.

Senator CLARK. The Newport News Shipbuilding & Dry Dock Co. does not just make payments to anybody who happens to be hard up and is about to lose his property, does it?

Mr. FERGUSON. No.

The CHAIRMAN. I would be glad to come down and see you.

Mr. FERGUSON. We do at times make payments to people who have worked for us and who are hard up. But there was no claim, as I can remember, at all, that he had performed any service at Geneva for which he had not been paid.

Senator CLARK. Was anything said about what he was doing then, during the period after the Geneva Conference?

Mr. FERGUSON. Publicity, speech making, and propaganda.

Senator CLARK. Was anything said about a diary of a British spy or a war with England, or anything of the kind?

Mr. FERGUSON. Oh, yes. There was a paper purporting to be a spy record of some sort.

Senator CLARK. Did Shearer say anything to you about it?

Mr. FERGUSON. Yes; Shearer said something to me about it.

Senator CLARK. And he wanted to have his expenses paid so that he could get around and show this to the Senators, Congressmen, and public men?

Mr. FERGUSON. No; I do not remember that. I think he brought it down here. I do not know what happened to it, but it was all in the papers at the time.

Senator CLARK. And that was during the time he was being paid by the Newport News Shipbuilding Co.?

Mr. FERGUSON. I do not remember that.

Senator CLARK. It was in January and February, and the early part of March 1920?

Mr. FERGUSON. Let us assume so.

(f) Later, it was brought out that Mr. Ferguson was informed of Mr. Shearer's employment in November 1926 (Feb. 20, galleys 58-59 FS).

Senator CLARK. Now, Mr. Ferguson, as I say, I am trying to clear up these dates. Before the Shortridge committee you testified that your first knowledge that some agreement or arrangement with Mr. Shearer had been entered into was in the fall or winter of 1927. I will just read that.

Mr. FERGUSON. What page is that?

Senator CLARK. That is page 177 of the Shortridge committee's report, about midway down the page.

Mr. FERGUSON. Yes, sir.

Senator CLARK (reading):

Senator SHORTRIDGE. Were you present when some arrangement, or understanding, or agreement leading to a contract, was entered into by and between Mr. Shearer and the company you represented?

Mr. FERGUSON. No, sir.

Senator SHORTRIDGE. You were not present at that meeting?

Mr. FERGUSON. No, sir.

Senator SHORTRIDGE. Or at a meeting where an agreement was said to have been entered into?

Mr. FERGUSON. No, sir; I was not.

Senator SHORTRIDGE. Did it come to your knowledge that some agreement was entered into with him?

Mr. FERGUSON. No, sir.

Senator SHORTRIDGE. It never did.

Mr. FERGUSON. Not at that time.

Senator SHORTRIDGE. Did it? My question was: Did it come to your knowledge?

Mr. FERGUSON. Eventually; yes.

Senator SHORTRIDGE. My next question would be: If so, when?

Mr. FERGUSON. As nearly as I can remember, sometime in the fall or winter of 1927.

Senator SHORTRIDGE. Was it before or after Mr. Shearer's return, if he returned from Geneva?

Mr. FERGUSON. After, I think.

Now, as a matter of fact, Mr. Ferguson, to refresh your recollection, you had been informed by Mr. Palen November 24, 1926, as to the contemplated employment of Mr. Shearer, had you not?

Mr. FERGUSON. I do not know.

Senator CLARK. Just to refresh your recollection, here is a memorandum from Palen to Mr. Ferguson, president, dated November 24, 1926:

Mr. William B. Shearer, 39 West Fifty-fourth Street, New York, telephone 3368 Circle, called to see you last week but was unable to get an appointment. He therefore called upon me today and discussed with Mr. Bailey and myself the question of financing a speaking tour which he proposed to make over the country on the question of national defense, especially the bearing of Navy and merchant marine on this subject.

Mr. Shearer has purchased one page of the New York Commercial for 1 day per week for 6 months, making 26 issues of the paper which will devote one page to information furnished by Mr. Shearer on the reaction of his speaking tour. He is requesting 12 subscribers to take small advertising space on this one sheet in the 26 issues at \$100 per issue, making a total expenditure of \$2,600 for each subscriber for the advertising. He is purchasing the sheet from the newspaper at a less sum than the amount he will get for the advertising, and he expects to use the difference for financing his speaking tour.

You are no doubt acquainted with Mr. Shearer's work during the past few years in connection with the Navy preparedness and also his work as an observer at the Geneva Conference. He is probably the most forceful speaker and the greatest authority and enthusiast interested in this question, and I think it advisable to offer him some financial assistance in connection with this speaking tour.

I told him that I would recommend to you and to our board an appropriation for one of the advertising spaces at a total cost of \$2,600, which

is to cover a period of 6 months. After making one more address in New York he expects to spend some time in Washington after the opening of Congress in order to get information on the probable attitude of Congress and the administration toward appropriations and backing for the Navy and merchant marine, after which he will start on his speaking tour and intends to cover the entire country, speaking before gatherings organized by the American Legion, the chamber of commerce, and similar organizations that will cooperate with him in getting the necessary audiences.

Mr. Bailey was present at the conference today with Mr. Shearer, and he will discuss the matter with you.

Following that, did you authorize this expenditure of \$2,600 for a small advertising card in Mr. Shearer's space in the New York Commercial?

Mr. FERGUSON. I wrote to Mr. Palen under date of December 1, 1926, which occurs on page 637 of the record.

Senator CLARK. Of the Shortridge report?

Mr. SKINNER. Yes, sir.

Senator CLARK. What is the page, Mr. Ferguson?

Mr. FERGUSON. Six hundred and thirty-seven.

Senator CLARK. Yes, sir. Exhibit 47.

Mr. FERGUSON (reading):

I do not think it desirable to take any advertising space for Mr. Shearer. My own opinion is that unless the interest of the President can be enlisted in some way there is practically no hope for favorable shipping legislation.

Senator CLARK. Now, was there any advertising taken on Shearer's page in that New York paper by your company?

Mr. FERGUSON. I do not recall. I think that a page was taken in the New York Commercial.

Senator CLARK. I mean that the previous exhibit shows that Mr. Shearer had taken a page himself.

Mr. FERGUSON. Yes, sir.

Senator CLARK. One day a week for 6 months, and he was trying to sublet certain advertising space on the page at \$100 a week per space.

Mr. FERGUSON. Yes, sir.

Senator CLARK. For the purpose of paying his expenses and for whatever profit might accrue to him. Did the Newport News Shipbuilding Co. actually take one of these spaces from Mr. Shearer?

Mr. FERGUSON. I do not know.

Senator CLARK. Mr. Ferguson, I again direct your attention to page 179 of the Shortridge hearings, where, after you had testified that your first meeting with Mr. Shearer was in the winter of 1927, Senator Shortridge asked you where you met him, and you stated that it was at the Engineers' Club in New York, where you usually stopped. [Reading:]

Senator SHORTRIDGE. There you met, and there you chatted about something?

Mr. FERGUSON. Yes.

Senator SHORTRIDGE. What was the subject matter of the conversation?

Mr. FERGUSON. The conversation was general; but that was, as I remember it, in connection with the fact that the shipbuilding companies had dispensed with his services and that he did not feel it was just fair.

Senator SHORTRIDGE. Was that the first time you had heard that they had entered into some agreement?

Mr. FERGUSON. It was sometime about then.

Senator SHORTRIDGE. And you heard it from him first?

Mr. FERGUSON. No. I heard it first from Mr. Palen.

Senator SHORTRIDGE. And was that after the return of Mr. Shearer from Europe?

Mr. FERGUSON. I think so—that winter.

Senator SHORTRIDGE. You had some talk, or conversation, with Mr. Palen, in which he told you that there had been some agreement with Mr. Shearer. Is that right?

Mr. FERGUSON. Yes, sir.

Senator SHORTRIDGE. And that was, in point of truth, as you recall it, the first time you ever heard that there was any kind of an agreement with him?

Mr. FERGUSON. Yes, sir.

Senator SHORTRIDGE. Then, later, you met Mr. Shearer; and he, of course, had something to say about the agreement, did he?

Mr. FERGUSON. Yes. As I remember it, he said that they had dispensed with his services and that he did not think it was fair, or something like that; and I told him that Mr. Palen had entered into the agreement, and Mr. Palen was the man for him to talk to.

That is after that conversation, was it, Mr. Ferguson, that the Newport News Shipbuilding Co. again employed Mr. Shearer?

Mr. FERGUSON. Yes; he was being made these payments along about that time, or loans.

Senator CLARK. This is in the fall of 1927. They made payments or loans or whatever you please to call them; that is, he got the cash in hand until the end of March 1929?

Mr. FERGUSON. Yes.

Senator CLARK. Something like a year and a half after his services were supposed to have been dispensed with?

Mr. FERGUSON. Yes.

Senator CLARK. Were you interested during that time, during this period, when Shearer was still being paid for work on the Jones-White bill?

Mr. FERGUSON. Yes, sir.

Senator CLARK. Did you know that Shearer was down here as part of the Wilder lobby representing shipbuilding companies?

Mr. FERGUSON. I did not know that until afterward.

(g) Later a letter by Mr. Shearer to the three big companies was introduced February 20 (galley 60 FS), claiming the eight 10,000-ton cruisers authorized in 1927 as a result of his activities.

Senator CLARK. Then, Mr. Ferguson, on January 30, 1928, writing from Washington, D. C., Mr. Shearer wrote to Mr. S. W. Wakeman, Bethlehem Shipbuilding Co., 25 Broadway, New York City, N. Y., as follows:

My dear Mr. Wakeman—

Before I read this, copies were sent to Mr. Wilder and Mr. Palen of your company and Mr. Bardo [reading]:

Pursuant to our last private conversation and understanding in your office, that future negotiations would be with me direct, I wish to call to your attention that as the result of my activities during the Sixty-ninth Congress, eight 10,000-ton cruisers are now under construction.

Further, that owing to the failure of the tripower naval conference at Geneva, there is now before the Seventieth Congress a 71-ship building program costing \$740,000,000.

The understanding for which expenses were furnished me to conduct the campaign for naval preparedness was to March 5, 1928, to be paid as a salary of \$25,000 a year, receipt hereby acknowledged for year ending March 4, 1928.

As stated by you, and agreed by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result of the naval preparedness campaign which benefits and, in reality, saved the shipbuilding industry.

Now, the group referred to was the New York Shipbuilding Co., the Newport News Shipbuilding Co., and the Bethlehem Shipbuilding Co., was it not, Mr. Ferguson?

Mr. FERGUSON. At that time.

Senator CLARK. The group which made this agreement to pay him \$25,000?

Mr. FERGUSON. What date is this?

Senator CLARK. The letter is dated January 30, 1928, but that referred to the agreement which carried up to March 4, 1928.

Mr. FERGUSON. But when was the Congress to which he refers, Senator? What was the Fifty-ninth Congress?

Senator CLARK. Sixty-ninth.

Mr. FERGUSON. What year?

Senator CLARK. That just terminated the year before. [Continuing reading:]

As stated by you and agreed by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result

of the naval preparedness campaign which benefits and, in reality, saved the shipbuilding industry.

The fixing of the time limit on the naval building program to 5 years to lay down and 8 years to complete established the period of our understanding to the length of the naval program of 8 years at \$25,000 a year, or an aggregate of \$200,000 due me from the result of my endeavors in the interest of the shipbuilding industry. The amount of \$200,000 to be divided by and between the Bethlehem Shipbuilding Co., 25 Broadway, New York City, and the Newport News Shipbuilding Co., 233 Broadway, New York City, and the Brown-Boveri Shipbuilding Co., Camden, N. J.

At the request of Mr. Hunter, Mr. Palen, Mr. Bardo, and yourself, I have continued my activities in your behalf and in your interest to get action on a naval building program which is now assured. By request and instructions, I am devoting considerable extra time and endeavor to the merchant-marine program, as laid down and approved by members of your group. Considering the extra work assigned me and the expense involved, I believe that part of my bonus should be paid me March 5, 1928. Also, I feel the time has arrived for me to come out in the open as suggested by Mr. Palen and Mr. Wilder in the interest of all who are seriously interested in the shipbuilding industry and adequate sea power.

Very truly yours,

W. B. SHEARER.

Copies to Wilder, Palen, and Bardo.

Did you hear about that letter being received from Mr. Palen, Mr. Ferguson? Mr. FERGUSON. This is the first time I have seen it, that I can remember.

(h) That the shipbuilders were willing to spend thousands of dollars to bring about the awarding of cruisers in 1927 is shown in the following Shearer testimony (Mar. 12, galley 67 QD).

Mr. SHEARER. They said, "We do not want a campaign through the country, but we want action right away." They said, "There is a cruiser bill in Washington, and unless we get \$200,000 for the plans by June 1 it dies, according to law, and you go to Washington and see what you can do with it."

Senator CLARK. In other words, the appropriation would lapse, if they did not have it under contract at the end of the fiscal year.

Mr. SHEARER. Absolutely; yes, sir. So that I came down to Washington.

Senator CLARK. About when was that, Mr. Shearer, if you recall?

Mr. SHEARER. That would be December 1926; November or December.

Senator VANDENBERG. What was the pay arrangement?

Mr. SHEARER. \$7,500, and they advanced us expenses.

Senator CLARK. Was it at this time that you took a page in the New York Commercial?

Mr. SHEARER. No; I did not take it then. They wanted action on cruisers and not publicity.

Senator CLARK. They made an arrangement with you for a flat fee to conduct this campaign?

Mr. SHEARER. Yes; I would say that was a flat fee.

Senator CLARK. They would pay you \$7,500 for coming down here and working for the cruisers?

Mr. SHEARER. The three-cruiser program.

Senator CLARK. The cruisers had already been authorized, had they not?

Mr. SHEARER. Yes; but no appropriation, and, unless something is appropriated, they die, according to the law. So that down I came, and evidently they were satisfied because, on my return to New York, they asked me to go to Geneva.

Senator CLARK. You got the cruisers?

Mr. SHEARER. I would not say that. They got the cruisers.

Senator CLARK. You accomplished your purpose?

Mr. SHEARER. I got my \$7,500 and they got the cruisers.

Senator CLARK. Let us say, you got the cruisers for them.

Mr. SHEARER. Up to that point we were working on the level.

Senator CLARK. What I mean to say is, you accomplished the purpose for which they sent you down here, getting the appropriation for the cruisers?

Mr. SHEARER. I should say so; yes.

(i) Mr. Shearer stated he went to Geneva in 1926 at the request of Admiral Pratt (galley 67 QD, Mar. 12).

Senator CLARK. As I understand it, you went primarily at the request of Admiral Pratt, president of the War College at that time?

Mr. SHEARER. Yes, sir.

Senator CLARK. After this you had this conversation with Chairman Butler of the House Naval Affairs Committee?

Mr. SHEARER. The night before I sailed.

Senator CLARK. The night before you sailed?

Mr. SHEARER. A night or two nights before sailing; before I left Washington.

(j) William B. Shearer testified he cooperated with naval officers in efforts to secure increased naval appropriations (Mar. 12, galley 61 QD).

In 1925 I campaigned the State of California for the building of an adequate naval base as recommended by the special Board of Shore Establishments, Admiral Hugh Rodman, chairman.

In 1926, at my own expense, I attended the preparatory Arms Conference at Geneva. This was at the request of a high ranking naval officer.

Further on Mr. Shearer stated (Mar. 12, galley 62 QD) :

At this point I wish to make it a matter of record that every fight that I made in the interest of the United States Navy was made at the request of naval officers and in that connection I wish to point out that I carried the Naval Intelligence information on all navies which was given me officially through the Navy Department. I further carried with me to Geneva the names of our Military Intelligence for contact purposes in Europe. These names were given me officially. I further carried with me memorandum to gather information on certain military activities in Europe.

Mr. Shearer's intimate relationship with the Navy is revealed in the following Shearer testimony (Mar. 12, galley 66 QD) :

Senator VANDENBERG. Before you reach that, are you so in the habit of seeing secret orders that that particular instance did not impress you? Is that an ordinary thing, for you to see such orders?

Mr. SHEARER. Yes; I have seen a lot of orders.

This relationship is discussed further (66 QD, of Mar. 12).

Senator CLARK. Did you have any particular connection and were you paid by the Navy Department at the time you received this secret document?

Mr. SHEARER. No; I resigned from the Navy in 1918.

Senator BONE. How did you happen to be under orders?

Mr. SHEARER. I was not under orders. I was asked to do things. They could not order me.

Senator BONE. You had some arrangement with the Navy whereby certain American Navy officers gave you certain instructions?

Mr. SHEARER. Yes, sir.

Senator BONE. How did you arrange that?

Mr. SHEARER. They knew I was out in front leading the fight.

Senator BONE. With whom did you make the arrangement in the Navy Department?

Mr. SHEARER. I never made any arrangements. They all knew me. I am a trusted man, or have been.

Senator BONE. Mr. Shearer, do you mean, just like a bolt out of the blue, without any preliminary arrangement or understanding with anyone, the Navy Department sent you this secret manual, and you go to Geneva?

Mr. SHEARER. No.

Senator BONE. That is what I am getting at.

Mr. SHEARER. I will lead up to that. I will lead up to that.

Senator BONE. Wait a minute.

Mr. SHEARER. It is good. I will lead up to that.

Admiral Pratt, afterward Chief of Operations, Chief of the Forces afterward, was president of the War College. He came to Washington for a general board meeting, and after the general board meeting I saw Pratt and he

asked me to come to his rooms on that night at 8 o'clock, at the Army and Navy Club. Pratt asked me to go to Geneva.

Mr. Shearer testified that naval officers collaborated with him surreptitiously, supplying secret data for his use at the Geneva Conference (galley 66 QD, Mar. 12) :

Mr. SHEARER. Here is the Naval Intelligence Blue Book, which is today not secret because I used it at Geneva.

Senator CLARK. Was that secret when you used it at Geneva?

Mr. SHEARER. Yes, sir; you bet. That was the bible.

Senator CLARK. Did you receive that from the Navy Department?

Mr. SHEARER. Officially.

Senator CLARK. From whom did you receive it in the Navy Department?

Mr. SHEARER. That I could not tell you. They sent it in a franked envelop.

(k) The nature of Mr. Shearer's political efforts for Navy purposes is revealed by the following testimony (Mar. 12, galley 64 QD) :

Senator CLARK. When, Mr. Shearer?

Mr. SHEARER. 1917. After the trials under Admiral Anderson they decided to build 2,000 bombs to take Zeebruckee and Ostend submarine bases. I had a meeting with The Assistant Secretary of the Navy, and he asked what price I wanted for the boat and I said any price that would be all right, just so I took the first boat into action. I then resigned from the American Navy and went with Admiral Jamt to Europe. We were to build the boats in England, because we could not keep it a secret here. I returned to this country and after the war I was sent again by The Assistant Secretary of the Navy to Newport for trials and testing on a torpedo boat I invented. Admiral Land took the trip and he fell overboard during the maneuvers and we fished him out and Admiral Land stated it was very necessary that he get into another uniform. Commander Minnitz stated, "It was lucky for me. I have not got another uniform." Minnitz and Land suggested to me I make a fight for the increased Navy pay.

Senator CLARK. When?

Mr. SHEARER. 1919. After 3 months President Wilson signed the increased Navy bill in 1919.

Senator CLARK. If you figure that was a single-handed fight, what did you do in that fight, Mr. Shearer?

Mr. SHEARER. Just the same as I do in all fights. They are all single-handed fights.

Senator CLARK. Just describe your modus operandi.

Mr. SHEARER. Just describe my modus operandi? I will tell you what it is. First you get the facts and then you stick to the truth and giving facts and truth the opposition never battles you down.

Senator BONE. That would be likely to ruin you in a fight of that kind, would it not?

Mr. SHEARER. A lot of people thought that, but I really took on weight.

Senator CLARK. Describe what you did besides finding the facts. Will you describe the single-handed fight you conducted so successfully in 3 months?

Mr. SHEARER. Yes. I first consulted with the Washington Post. Ira Bennett was the editor, a friend of mine.

Senator CLARK. He is a friend of mine, too, for that matter.

Mr. SHEARER. That is good. Then you will understand the workings of this particular situation. I laid the entire matter before him. He then went to the Navy Department and saw Admiral Cowle. I invited Admiral Cowle, Ira Bennett, one of your Democratic political leaders, and a Republican political leader, to a lunch in the old Shoreham, and after Bennett and myself did a little acting for a few minutes, I bent under the table and said "Bennett, it looks like we will have to take this politically", so that at once we enlisted their cooperation.

Senator CLARK. Who were those leaders?

Mr. SHEARER. Oh, that is 16 years ago.

Senator CLARK. It seems to me that that matter should be pretty clear in your mind.

Mr. SHEARER. They come and go so fast, I could not tell you.

Senator CLARK. How many of them did you have at this luncheon?

Mr. SHEARER. Two. Ira Bennett, Admiral Cowle, and a gentleman from the Democratic headquarters, and a gentleman from the Republican headquarters,

and laid the facts before them on the condition of our destroyers. We had a lot of destroyers and the newspapers wanted——

Senator CLARK. Just a minute. Let us get the personnel first, Mr. Shearer. As I understand it, these were congressional leaders or Representatives, or what?

Mr. SHEARER. No; associated with the parties; had nothing to do with Capitol Hill at all.

Senator CLARK. In other words, they were from the National Democratic and Republican National Committees?

Mr. SHEARER. Quite.

Senator CLARK. You do not recall the names of either one of them?

Mr. SHEARER. No; I would not.

Senator VANDENBERG. They represented the political influence which you complain about so bitterly?

Mr. SHEARER. I should say it was political influence; yes.

Senator BONE. What was this meeting in connection with?

Mr. SHEARER. The increase of pay for Army and Navy officers. Costs had gone up about 100 percent, but their pay had not increased at all. If you will remember, a great many of the admirals were forced to borrow on their insurance, et cetera, et cetera, et cetera, and they were resigning to go into private life, where they thought they could possibly make a little more money.

Senator CLARK. After you had filled these political leaders up with a good lunch, what was the next part of the campaign?

Mr. SHEARER. The next part of the campaign?

Senator CLARK. Yes, sir.

Mr. SHEARER. I did all the work from then on.

Senator CLARK. Did you keep in touch with them?

Mr. SHEARER. No; it was not necessary, but every day——

Senator CLARK. Wait a minute. One minute.

Mr. SHEARER. I will answer you this way: Every day Bennett would run an editorial, and practically every day I would run a leading article in the Post. We used the Post in that way, and Bennett was shooting forth editorial pieces and I was shooting forth news pieces. We had the support of the Army and Navy, who were going to benefit, and it was quite in order to see that the naval officers or the defenders of the country would get the same money as the bonus boys were getting.

Senator CLARK. Did you have any further contact with these two anonymous political leaders whom you had to lunch?

Mr. SHEARER. No; never.

Senator CLARK. You do not know what they did?

Mr. SHEARER. I should imagine they did more or less what we suggested.

Senator CLARK. Then what was the rest of the campaign, Mr. Shearer?

Mr. SHEARER. Surely putting out publicity.

Senator CLARK. Is that what Mr. Wilder referred to the other day as painting a picture?

Mr. SHEARER. I did not paint any pictures at least on canvass. I was painting pictures.

Senator BONE. That was a newspaper campaign?

Mr. SHEARER. I should say so.

Senator BONE. That is the way Congress is influenced, is it?

Mr. SHEARER. I should say so, very much.

(L) As evidence of cooperation between the Navy and Shearer, Shearer stated that an unnamed naval officer showed him a secret order for the sinking of the *Washington*, thus giving Shearer an opportunity to prevent the order from being carried out (Mar. 12, galley 65 QD):

I may add in that connection that I had lunch aboard our flagship of the Atlantic fleet and after leaving Admiral McCulley's quarters an officer took me into his cabin, where the dispatches were, and he showed me a secret order to sink the battleship *Washington* in 60 fathoms off the Virginia Capes. I said, "This should be stopped."

Senator CLARK. When was this, Mr. Shearer?

Mr. SHEARER. November 1924.

Senator CLARK. Did he say it was a secret order?

Mr. SHEARER. Yes; to sink the battleship *Washington*. Under the treaty we did not have to sink the battleship *Washington* until February 17. What

I wanted to do was not to challenge the Washington Treaty, but to save the battleship until Congress convened in December, to give Congress December, January, and one-half of February to consider whether she should be sunk or not, as the British had saved 50,000 tons. They were allowed 553,000 tons of capital ships. She saved 607,000 tons.

Senator CLARK. Who was the officer who showed the secret order?

Mr. SHEARER. You mean his name, Senator?

Senator CLARK. Yes; I mean his name.

Mr. SHEARER. Let me answer you this way: I know practically every admiral, captain, and commander in the United States Navy, as possibly I know every Democrat in Washington, but I do not know their names. He may be an admiral, a captain, or a commander.

Senator CLARK. Just a minute, Mr. Shearer. Do you mean to tell this committee that a captain in the United States Navy called you into his cabin in a flagship—

Mr. SHEARER. Yes; quite.

Senator CLARK (continuing). And showed you a secret order?

Mr. SHEARER. Yes; quite.

Senator CLARK. Which, of course, rendered him subject to court martial for showing a civilian a secret order from the Navy Department, and yet you do not remember his name?

Mr. SHEARER. I will tell you why, Senator, I do not remember his name. Every officer faced three things: Reprimand, demotion, and transfer. They had been intimidated, as I stated there, until the morale was almost broke. Admiral Sterling, commander of our base at Hawaii, now comes out, and is permitted to speak, but in those days they were harassed.

Senator CLARK. No matter whether they are permitted to speak or not, from your great familiarity with the Navy you certainly know that it is a gross violation of not only the proprieties but of the oath that a man takes when sworn into the naval service of the United States to show a secret order to anybody?

Mr. SHEARER. I was working—

Senator CLARK. Wait a minute.

Mr. SHEARER. Yes.

Senator CLARK. Excepting a man authorized by the order to receive it.

Mr. SHEARER. That is right.

Senator CLARK. You also know that secret orders are not sent at random to all captains in the Navy.

(*m*) One of the representatives of the shipbuilders, H. R. Humphreys, went to Geneva in 1926 during the preliminary discussion of the disarmament proposals, and discussed the subject with Admiral A. T. Long, a United States delegate. Humphreys then wrote to his company (Jan. 23, galleys 52, 53 GP):

The CHAIRMAN. This letter was addressed to Mr. Bardo. [Reading:]

DEAR MR. BARDO: The yard has nothing to worry over anything drastic being done at the Disarmament Conference now being held at Geneva.

I stopped off and saw some of my friends there last week.

Suppose you received my cable and letter.

What is the next name there?

Mr. HUMPHREYS. It looks like "Baden." That is where I visited to deliver this letter.

The CHAIRMAN (continuing reading):

Baden advised me today Mrs.—

What is the next word?

Mr. HUMPHREYS. Mrs. Looser. That is the lady I referred to in the former letter who wanted to bring her husband over.

The CHAIRMAN (continuing reading):

Mrs. Looser had—

Is that "actually"?

Mr. HUMPHREYS (reading):

actually received her visa.

The CHAIRMAN (reading):

Very truly yours, Harry R. Humphreys, 6/7/26.

Then the letter states at the bottom:

Suggest treat Geneva information as confidential. My source is dependable.

(n) Another instance in which naval officers solicited his services as a propagandist, is told by Mr. Shearer in the following passage (Mar. 12, galley 65 QD):

Senator CLARK. The staff of the flagship *California* gave you a lunch on the flagship *California*—

Mr. SHEARER. Right.

Senator CLARK (continuing). And asked you to conduct the campaign for influencing legislation?

Mr. SHEARER. I did not say that. They asked me to make a fight for a naval base on the Pacific and for cruisers.

Senator CLARK. That necessarily follows.

Mr. SHEARER. You have had the Admiral Robinson report.

Senator CLARK. That necessarily involved legislation, did it not?

Mr. SHEARER. I should hope so.

Senator CLARK. In other words, to be successful in establishing a naval base on the Pacific coast, that would involve necessarily legislation?

Mr. SHEARER. You must be right, Senator, because every place I spoke there was a loose resolution made, and that was sent to the President of the United States, adopting this plan of a naval base on the Pacific, as recommended by the board establishment, and I was simply a mouthpiece to bring out the facts.

Senator CLARK. With all your experience in these matters, Mr. Shearer, you will certainly agree that there was no way that a naval base, not at that time authorized by law, could be established except by legislation.

Mr. SHEARER. I assume so; that is right.

Senator CLARK. If I understand you correctly, you were given this luncheon on board the flagship *California*.

Mr. SHEARER. Yes, sir.

Senator CLARK. At which the staff of the flagship—

Mr. SHEARER. Yes, sir.

Senator CLARK (continuing). Requested you to conduct a fight to get a naval base on the Pacific coast?

Mr. SHEARER. Correct.

Senator CLARK. Will you proceed?

Mr. SHEARER. That was 1924. In 1925 I made the campaign in California.

Senator BONE. What do you mean by "campaign in California"?

Mr. SHEARER. For the naval base.

Senator BONE. How could you be campaigning for a naval base in California when it can only be accomplished by an act of Congress?

Mr. SHEARER. Because the resolutions were sent East. The only opposition I had was from the naval yards in the East here. The West and South and the Middle West were all for it.

(o) Mr. Shearer described his work at Geneva on behalf of the "Big Three" as "a fast and vicious" campaign (galley 71 QD, Mar. 12):

Senator CLARK. I am not disposed to argue with you on your claim, Mr. Shearer, with the shipbuilding companies, but now I want to ask you what services you rendered at Geneva under that agreement?

Mr. SHEARER. I conducted a very fast and vicious campaign.

Senator CLARK. Just tell us about that.

Mr. SHEARER. I had a 2 months' start on them. I went back before the preparatory conference.

Senator CLARK. About when was that?

Mr. SHEARER. That was early in 1927, 2 months before the triparty conference started.

Senator CLARK. You got started early?

Mr. SHEARER. Yes, sir. I got out my stuff, my bulletins, and I sent them everywhere.

Senator CLARK. Tell us about those bulletins, Mr. Shearer.

Mr. SHEARER. They were all based on the information in this book here, Naval Intelligence, which is facts and figures. So that my stuff was planted everywhere before the conference started.

(p) Mr. Shearer claimed to be able to get secret information from the War Department (galley 73 and 74 QD, Mar. 12):

Senator BONE. When you went to Europe, you carried the names of our Military Intelligence officers in Europe with you?

Mr. SHEARER. Yes, sir.

Senator BONE. Who gave those to you?

Mr. SHEARER. Military Intelligence.

Senator BONE. You were working in close harmony with the Army as well?

Mr. SHEARER. Quite so.

Mr. Bardo testified in Shortridge hearings that he issued no instructions after Mr. Shearer went to Geneva as to his method of operating and made no inquiries of any kind. He said a total of eight reports were received from Mr. Shearer but that no attention was paid to any of them (p. 29, hearing under S. Res. 114, 71st Cong., 1st sess.).

(q) When Mr. Shearer returned from Geneva there is evidence the "big three" were satisfied with his work because they employed him in Washington until March 1929 (galley 7 BBQ, Mar. 13).

Senator CLARK. I believe you testified the other day that your understanding with them was that they were to pay you \$25,000 a year for a period of 10 years, in addition to your expenses necessarily incurred in the enterprise.

Mr. SHEARER. I understood—and it is very difficult ever to pin those fellows down—that I would receive \$25,000 a year.

Senator CLARK. \$25,000?

Mr. SHEARER. Yes, sir. They must have understood that, Senator, because after Geneva, it was their proposal that I should come and live in Washington, take a house. You do not take houses with a 3- or 4-year rental, if you are only coming down on one job.

Senator CLARK. That is just what I wanted to get at, Mr. Shearer. How soon after your return from Geneva was that? When did you return from Geneva?

Mr. SHEARER. I do not recall the exact date, but I think it was in October.

Senator CLARK. October 1927?

Mr. SHEARER. Yes, sir.

Senator CLARK. About when with reference to October 1927, or with reference to the date of your return, was this proposal made for you to come take the house in Washington?

Mr. SHEARER. Oh, at once, I only wasted about 3 days in New York. We met at a luncheon in a Fifth Avenue hotel, and they were all present, and seemed to be delighted.

Senator CLARK. What do you mean by "all present"?

Mr. SHEARER. I think on this occasion there was Captain Smith, who was vice president of Bethlehem. He is now, I believe, the head of the National Council of American Shipbuilders; Mr. Palen, Mr. Bardo, and Mr. Hunter. That is when I submitted the article to them, The Cloak of Benedict Arnold, or what led to it, which is The Inside Intrigue of Geneva.

Senator CLARK. When was The Cloak of Benedict Arnold published?

Mr. SHEARER. I published that in 1928, which was written in 1927. Part of it was finished on my way back.

Senator CLARK. You say you submitted this document to the representatives of the shipbuilders?

Mr. SHEARER. I gave them a copy of The Inside Intrigue of Geneva, and I said to them, I believe, "This, of course, can be sent out under my name or be put in the papers."

We will say, for instance, this meeting was Thursday, and I took it down to the Hearst organization and gave it to them; it was a full-page article, and I gave you a photostat with a great number of papers I gave you last night. I sent it up to the committee last night, and it is there. The Hearst papers printed it. It came out on a Sunday.

But I had arrived in Washington when it came out, so that I was only 2 or 3 days in New York.

Senator CLARK. It was at that time, at the time of this luncheon, which you estimated to be in October, that you discussed this matter, The Cloak of Benedict Arnold, with them?

Mr. SHEARER. I discussed, first, the story which, completed, was The Inside Intrigue of Geneva.

Senator CLARK. It was then that they suggested to you to come to Washington and take a house?

Mr. SHEARER. Yes, sir.

Senator CLARK. At that luncheon did you report to them what your activities at the Geneva Conference had been?

Mr. SHEARER. I told them the complete story, and they must have been pleased because at once they asked me to come to Washington and take up my residence here.

Senator CLARK. You did report to them at that time your activities there?

Mr. SHEARER. Quite.

Senator CLARK. And you had been reporting to them from time to time on the matter?

Mr. SHEARER. I sent them a bulletin twice a week.

Senator CLARK. Did you come to Washington and take a house, Mr. Shearer?

Mr. SHEARER. I came to Washington and took an apartment and had a real-estate man hunt me a house.

Mr. Shearer was credited with having played a large part in failure of the Geneva Conference (Shortridge hearings).

(r) Mr. Shearer testified his employment was not terminated in December 1927, but that he was told by the shipbuilders' representative that he must "lay low" to avoid embarrassing Mr. Charles M. Schwab, former head of Bethlehem Steel Corporation (galley 7 BBQ and 8 BBQ, Mar. 13).

Senator CLARK. Did you have any further meetings with these shipbuilding companies between October and December 17, let us say?

Mr. SHEARER. No, sir; in December I was here 5 or 6 weeks; and I received a telephone call from Mr. Hunter that he was coming down, and I met him in his rooms at the Willard, I believe—no; I received a telephone call to come to New York, first; and not knowing what it was about, I went over, and one of Hunter's men met me at the station and took me to the Lotus Club. Mr. Hunter and Mr. Palen, and again I believe Mr. Smith—I cannot quite recall whether Mr. Bardo was there or not, and I would have to go back in my testimony—and they told me at that time that Secretary of State Kellogg had protested my employment; and I believe my statement was: "Why are you so apprehensive? The State Department does not want any argument with the Navy Department in this issue."

And Mr. Palen said, "Well, you see, Mr. Schwab does not want to be tabbed in connection with armament or being behind any such a set-up as this."

After this meeting I went to Mr. Palen's house. I knew him very well; we were very good friends.

Senator CLARK. That was in New York?

Mr. SHEARER. Yes. I said, "Palen, what is the low-down?" He said, "You know there is a case pending against Schwab—a suit in Pennsylvania."

Senator CLARK. You are referring now to a conversation after your return from Geneva?

Mr. SHEARER. No; no. I am now discussing my trip to New York, after they had sent me down here to take a house, and then they said they wanted me to come to New York to talk to me.

Senator CLARK. I find here a copy of letter dated December 17, 1927, addressed to Mr. William B. Shearer, Hotel Hamilton, Washington, D. C. [reading]:

DEAR MR. SHEARER: We have now fully completed our commitments to you and you, in turn, have carried out the obligations you assumed toward us, which was to keep us informed regarding your observances at the

Geneva Disarmament Conference. Therefore you will please regard our arrangements at an end.

With best wishes, I am,
Very truly yours,

HENRY C. HUNTER.

In connection with the conversation you are now narrating, was that conversation before or after you received this notice from Mr. Hunter?

Mr. SHEARER. First Mr. Hunter came down here, we will say, about the 10th or 12th of December, after my being telephoned to come to New York. The following day, after the meeting in the Lotus Club, I was again called to Mr. Hunter's office, at which all the shipbuilders were present, the "big three" representatives, plus Mr. Hunter.

Senator CLARK. That was after receiving this notice?

Mr. SHEARER. No. I will come to that in a minute, Senator. It was 2 or 3 days prior to this. At this meeting in Hunter's office they suggested, more or less, that, owing to Kellogg's protest, that they would have to end their arrangements. I believe my statement was: "What is it you want to do—make me the victim of success? It is the fault of your own lawyer this has happened." Because Mr. Hunter in his enthusiasm had telephoned the Navy Department and asked them to make me the Navy Day speaker. It was that hook-up. That was their fault. Why should I pay for it?

Now, then, they wrote me this letter—Mr. Hunter was their attorney—to make it a matter of record for them. And following that letter Mr. Hunter came to Washington, paid me, I think it was, \$666 plus \$250, to pay for *The Cloak of Benedict Arnold*—the printing of it.

We will say, Senator, that was around the middle of December.

I said to Hunter, "Do you want me to drop my contracts?" He said, "No; but you have got to lay low."

I think it was January 3 or 2, which was about 18 or 20 days later, that Mr. Bardo called me on the phone and asked me to come to the Carlton Hotel and bring a lot of pamphlets, *The Cloak of Benedict Arnold*.

So I went to the Carlton, and there Mr. Bardo introduced me to Mr. Wilder, and then I was told to get busy again; so that my rest was from the middle of December to about the 3d of January. That is more or less the situation. So that I started in under instructions again.

Senator CLARK. You mean following your conference with Wilder?

Mr. SHEARER. And Bardo.

Senator CLARK. And Bardo?

Mr. SHEARER. Yes.

Senator CLARK. Whom you understood were representing the other shipbuilding companies?

Mr. SHEARER. Naturally. They were all contributing to the fund. Who I was paid by did not make any difference to me. That did not interest me.

Senator CLARK. Did you understand when you resumed in January that you were still on this basis of \$25,000 a year? Was anything said about that?

Mr. SHEARER. I was told always, "Do not worry about those things. You will be taken care of."

My proposition had been laid before them, \$25,000 a year for the life of that building program, which was set at 10 years.

(s) Mr. Shearer claimed credit for saving the shipbuilding business by reason of his work in Washington and Geneva, allegedly quoting from the European press a statement indicating he had done a great deal to smash the conference and precipitate a naval race (Mar. 13, 10-11 BBQ).

Senator CLARK. Now, on February 20, 1928, Mr. Bardo wrote you as follows:

Mr. W. B. SHEARER,

Washington, D. C.

DEAR SIR: Your letter of January 30, 1928, addressed to Mr. S. W. Wake-man, vice president, Bethlehem Shipbuilding Co., 23 Broadway, New York, a copy of which was sent to Messrs. Wilder, Palen, and myself, states among other things the following:

"1. The understanding for which expenses were furnished me to conduct a campaign for naval preparedness was to March 5, 1928, to be paid

as a salary of \$25,000 a year, receipt hereby acknowledged for the year ending March 4, 1928.

"2. As stated by you and agreed to by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result of the naval preparedness campaign, which benefits and in reality saved the shipbuilding industry."

With respect to paragraph no. 1 above, the joint conference in New York was held on March 17, 1927, and the employment therein agreed upon by the group was for a period of 1 year. At that conference it was definitely stated and distinctly understood that you were employed to go to Geneva as an observer only, and that you were not authorized, empowered, or directed as any part of your understanding with us to interfere in any way with the program or orderly progress of the conference. To the extent that your activities exceeded our understanding with you, it was clearly an act of your own for which you are solely responsible.

As to paragraph 2 above, I can only say that I specifically deny any agreement on my part or on behalf of our company with the other companies or with you as to the continuation of your services beyond the term of 1 year as stated, and can prove by competent witnesses that insofar as our company is concerned you were employed as an observer only for a period of 1 year and that I specifically opposed your further employment for the reasons stated to you personally in our conference at the Carlton on Saturday evening, February 11, 1928. At that conference you admitted you had had no understanding with me or with any other officer of the company I represent as to your future employment by or on behalf of our company, acting for itself or jointly with others.

This letter is written to formally confirm closing of the arrangement of March 17, 1927, heretofore communicated to you, and to bring to an end as of this date the relations between you and this company, without further obligation of any kind on either side.

Very truly yours,

(Signed) C. L. BARDO, *Vice President.*

Then on February 21, 1928, you replied to that letter as follows [reading]:

C. L. BARDO, Esq.,

Vice President, Brown-Boveri Corporation, Camden, N. J.

DEAR SIR: Your letter of February 20, 1928, received.

Assuming that your memory and conscience are as clear as mine, you will recall prior to March 17, 1927, I represented you and others in the three-cruiser fight in the Sixty-ninth Congress.

Mr. SHEARER. Right.

Senator CLARK (continuing reading):

Further, that on the result of that success, I was to go out and get more business.

What was that that you were going out and get; that is, get more business, Mr. Shearer?

Mr. SHEARER. The shipbuilders testified that in 1926 they were practically bankrupt and ready to close down, and from then on Mr. Grace and the others have been drawing bonuses and the yards have been built. Somebody must have done it; and if they cannot locate the fellow, I will claim the credit.

Senator CLARK. When you said "on the result of that success, I was to go out and get more business", that is what you meant?

Mr. SHEARER. They wanted business; yes, sir.

Senator CLARK. Were you employed to represent them in steaming up the shipbuilding business?

Mr. SHEARER. The whole thing is a show, is it not?

Senator CLARK (continuing reading):

That during the summer of 1927, as the result of action or lack of action taken at Geneva, contracts were let for six 10,000-ton cruisers, putting under construction eight 10,000-ton cruisers, proportionately divided between the Bethlehem Shipbuilding Co., the Newport News Shipbuilding Co., and the American Brown-Boveri Electric Corporation.

You are fully aware of the origin of the cruiser bill, which was from my activities in 1924—published in *Engineering*, London, January 14, 1927, and the United States Naval Institute Proceedings of March 1927.

Mr. SHEARER. Yes, sir.

Senator CLARK (continuing reading) :

It is now officially stated that owing to the failure of the Geneva Conference, a naval bill was inaugurated which is before the Seventieth Congress.

About the middle of January 1928 I was called by you into conference with Mr. Lawrence Wilder and instructed by both Mr. Wilder and yourself to carry out certain work in connection with and for the shipbuilding industry; that work you know I have faithfully performed. This extra work I accepted as part of my duty which entailed considerable extra expense and time.

In your letter of February 20, 1928, you say, "I specifically oppose your further employment for the reasons stated to you personally at the Carlton on Saturday evening, February 11, 1928." But, on that night, you refused to state those reasons, and said they were personal.

This matter was, as you know, laid before Mr. Wilder who informed me that he, Mr. Wilder, owned the control of the American Brown-Boveri Electric Corporation, of which you are a vice president. Mr. Wilder further states openly that I was sent to Geneva by the shipbuilders, of which he was one, and that he considers my activities there and here invaluable.

The issue is not whether I am a German, which has been disproved, or whether I am socially qualified to associate with shipbuilders or something worse. The issue is whether the American Brown-Boveri Electric Corporation, the Bethlehem Shipbuilding Corporation, and the Newport News Shipbuilding Co. benefited by my campaign in their interest, for which my expenses were paid and now acknowledged.

Your superior officer, Mr. Wilder, justly acknowledges my services and my just claim against the Bethlehem Shipbuilding Corporation and the Newport News Shipbuilding Co. I therefore assume he will acknowledge my just claim against your company as the American Brown-Boveri Electric Corporation benefits proportionately in ship construction as the results of my campaign.

You say I was to go to Geneva as an observer only. Every member of the shipbuilding group, including Mr. Hunter, received my releases before, during, and after the Coolidge Naval Conference at Geneva, and at no time was I instructed to change or stop my tactics which demanded a naval parity for the United States.

At the close of the conference, the European press announced the following: "The triumph of the theses of William Shearer, the American, gave yesterday the drop of the barrier to the most formidable marathon of modern times. Tomorrow the race of armaments will recommence."

All this was acknowledged and approved by the interested shipbuilding group until a small navy paper, international and pacifistic in policy, asked the Navy Department for information about me. Then came the disavowal and damnation by the shipbuilders, accepting the fruits of victory but deserting the leader of the fight. I was to be made the victim of success, which was cowardly, contemptible, and unjust. To carry out this ungrateful policy, my citizenship and character were attacked, not only to repudiate me but to rob me of my just reward and recognition which was promised.

But defamation of character is not the real issue. I prefer to stick to the real issue, i. e., to receive a fair settlement based on fair equity as the result of my work, and on that I propose to lay this matter wide open on its merits; then personalities, reputations, characters, and business ethics, which you have tried to make the issue, will have their innings.

I am prepared to meet these issues in the same spirit of justice, fairness, and firmness that has ever characterized my actions, and I am also prepared to support fully the position I assume.

Senator CLARK. On March 10, 1928, you addressed a letter to Messrs. Palen, Wakeman, and Bardo [reading] :

SIRS: Pursuant to our agreement covering the Sixty-ninth Congress ending March 4, 1927, and a further new agreement and understanding, I wish to submit to you briefly my report and activities from March 16, 1927, up to and including March 16, 1928, in and on behalf of the shipbuilding industry, for which expenses were furnished me.

I sailed for France March 19, 1927, renewed my contacts in Paris, and arrived in Geneva, Switzerland, early in April, renewing there my work

at the Preparatory Arms Conference on Disarmament—reports and copies of multigraphed articles, including volume of distribution, sent Mr. Hunter.

April 11, 1927, the Preparatory Arms Conference collapsed. From that date until June 20, 1927, I carried on a publicity campaign both in Europe and the United States; multigraphed articles were posted to the press of Europe and the United States, Members of Congress and the Cabinet, patriotic societies, business men, and many others, including the Army and Navy. These many releases had wide publicity and became the instructive guide to all press correspondents at Geneva. Many letters in my possession from the press, patriotic societies, and the American Legion acknowledge and substantiate that.

Copies of all releases and other communications were sent Mr. Hunter. This advance campaign and the accuracy and authentic data released by me, automatically made me the leader of the unofficial fight to the extent that American officials referred the press to me, as they were bound to secrecy, with the result that the attempt to deliver the United States was defeated by a complete exposé, which is now acknowledged.

At the close of the Coolidge Naval Conference, August 4, 1927, the European press recognized and acknowledged the effect of my campaign, referring to it as "the triumph of the theses of William B. Shearer, the American."

I remained in Geneva until September 1, 1927, gathering information on the new line-up and the proposed plans to defeat the naval recommendations to go before the Seventieth Congress. This information and considerable data were sent Mr. Hunter.

September 1, 1927, I went to Italy for the purpose of learning the Italian attitude on future naval and marine activities, returning to France for the same purpose, then sailed September 29 for New York. My report was made orally to you and Mr. Hunter, including a proposed future plan.

On October 23, 1927, I released my first story in all the Hearst Sunday papers. After a private talk with Mr. Palen, and then with Mr. Wakeman, I proceeded to Washington to take up permanent headquarters, move my household effects, and establish myself.

My publicity campaign continued in the Hearst papers, Washington Post, journals and weeklies along with considerable correspondence. All this is in my files and scrapbooks. I have attended all hearings before the House Committee on Naval Affairs, and have advised certain patriotic societies in their campaign against the pacifists. I have attended all hearings before the Marine and Fisheries Committee on the marine hearings, continued my connections with many on this situation, and continued writing articles and speeches for various organizations.

In January 1928, I published the Cloak of Benedict Arnold at my expense, both for printing and mailing. In this connection, I wish to state that the story has been substantiated if not proven by the naval and merchant marine hearings. This pamphlet now has considerable weight and interest before the Seventieth Congress, Army and Navy, American Legion, Daughters of the American Revolution, and many other organizations.

On February 25, 1925, I published pamphlet Sea Power. My writings have continued and have been the substance of many editorials. At this time, I am preparing statements on the naval and merchant marine situation for the press and Members of Congress, which will be used on the floor this session.

My entire time, energy, and knowledge has been devoted 100 percent to the cause of the shipbuilding industry and sea power.

Other than my expenses of necessary entertaining both here and in Europe, there has been considerable expense for stenographers, stationery, stamps, multigraphing, printing, automobile, trains, and steamship travel. My mailing list runs from 1,200 to 4,000.

These above expenses and my living expenses have completely absorbed the \$7,500 during the Sixty-ninth Congress, and the \$25,000 during the year ending March 16, 1928, furnished me for that purpose. I may add that my expenses over the period of time I have devoted to this fight are well in six figures. I have reasons to believe that the result of my consistent campaign and past endeavors have been and will be of great benefit to the shipbuilding industry, and all parties interested materially and otherwise.

Considering the unfair attack made on me by the very people benefiting from my years of work, I feel justified in stating that I have given faithful and effective service, regardless of the obstacles, opposition, and attempts to intimidate and divert me from my duty and undertaking while in your employ.

I now feel that the time has arrived to devote the same energy in my own behalf and establish my status, which has never been considered.

I will appreciate your answer and decision on or before March 16, 1928, as to the status of my just claim based on our understanding, and fair consideration.

Very truly yours,

W. B. SHEARER.

What was their response to that?

Mr. SHEARER. You can see by the letter I did not get anything. I gave them all they were entitled to.

Senator CLARK. I want you to trace your relations. What was their response?

Mr. SHEARER. Their response was always the same "Do not worry; you will be taken care of."

(t) The Big Three paid for printing *The Cloak of Benedict Arnold*, a pamphlet attacking and villifying many prominent Americans (galley 7 and 8 BBQ, Mar. 13).

Mr. Shearer testified that in 1924 William Randolph Hearst financed his legal campaign to prevent the sinking of the *Washington* as prescribed by the Disarmament Conference of 1922; (Mar. 12, galley 65 QD).

Mr. SHEARER. Not at that time. I will come to the assistance a little afterward. I got an injunction against Secretary Wilbur to save the *Washington*. Mr. Lambert and Mr. Leahy, my attorneys, said, "This will require a lot of money." I said, "You give me 24 hours and I will see." I knew Mr. Lambert was Hearst's attorney, and I saw Mr. Merrill and said, "Here is a story and will you pay for it", and he said, "Yes", and Hearst really paid for the battle waged here to save the battleship *Washington*.

Further testimony on this subject is (Mar. 12, galley 66 QD) :

Senator CLARK. If I understand you correctly, as you left Admiral McCulley's cabin, having dined alone with him, an officer, with whom you had a bowing acquaintance—

Mr. SHEARER. No; I may not have had a bowing acquaintance.

Senator CLARK (continuing). Called you in and showed you a secret order from the Navy Department, and on the basis of that you started to get out an injunction, financed by Mr. Hearst?

Mr. SHEARER. Yes, sir.

Further statements by Mr. Shearer on his work for Mr. Hearst are contained in the following (Mar. 12, galley 74 QD) :

Senator POPE. In your testimony before the Naval Affairs Committee in 1929 you made the statement, "I have with me letters from practically every patriotic society in the United States who endorsed my stand."

Mr. SHEARER. That is right.

Senator POPE. Then you named the Native Sons of California, Daughters of the American Revolution, National Security League, and a number of other patriotic organizations, who wanted you, more or less, to give your own ideas of what they were trying to do.

What other organizations besides those gave you letters of endorsement?

Mr. SHEARER. Senator, I will have to get out the facts. I forget all of them.

Senator POPE. Do you remember any others than those you named?

Mr. SHEARER. 1812, and this one and that one. There are so many, about 110.

Senator POPE. In 1926 or 1927?

Mr. SHEARER. I have had the endorsements for a number of years. In fact, I was on the executive committee of one of the patriotic organizations.

Senator POPE. You also acted as a speaker, and organizer, for those different patriotic organizations?

Mr. SHEARER. No; in 1929 I did for Mr. Hearst get the resolutions from patriotic organizations, which I turned over to the Hearst organization opposing the World Court.

Senator POPE. Opposing the World Court?

Mr. SHEARER. Yes, sir.

Senator POPE. And also the League of Nations?

Mr. SHEARER. The same thing. I mean, I did not want to stretch it out.

Senator POPE. How much were you paid by Mr. Hearst for that organization work?

Mr. SHEARER. I think it is in the record, but it comes somewhere around \$5,000.

Senator POPE. I notice a statement it was \$2,000 a week.

Mr. SHEARER. A month, I thought it was.

Senator POPE. Do you not know?

Mr. SHEARER. A month, I should say, and it lasted 2½ months.

Senator POPE. Just what did you do in the way of organizing these patriotic societies?

Mr. SHEARER. I sent bulletins to every patriotic society.

Senator POPE. Have you got there what societies you did this for?

Mr. SHEARER. I will get you the list. I turned it over to the Hearst organization, but I have a copy of it. I sent the bulletins to every patriotic organization, and most of them sent in their resolutions opposing the World Court.

Senator POPE. When did you do that?

Mr. SHEARER. When?

Senator POPE. Yes, sir.

Mr. SHEARER. In 1929.

Senator POPE. Have you done any work since that time?

Mr. SHEARER. No; I have not done any work since 1929.

Mr. Shearer, in an article he says he took from Hearst papers, likens Franklin D. Roosevelt to Benedict Arnold and accuses many prominent men and women of being anti-American (Mar. 12, galley 75 and 76 QD).

Senator BONE. When did you write this pamphlet?

Mr. SHEARER. The Cloak of Benedict Arnold?

Senator BONE. Yes.

Mr. SHEARER. In 1928 I copyrighted it.

Senator BONE. Were you being persecuted then?

Mr. SHEARER. I will tell you when that persecution started; in 1924, when I brought out the facts against the British Navy. It started in 1924, not 1928.

Senator BONE. I want to know if you catalog as unpatriotic citizens the men whose names I am going to read off to you. We will take them one at a time and you can say "yes" or "no."

Newton D. Baker.

Mr. SHEARER. Yes.

Senator BONE. You classify him as unpatriotic?

Mr. SHEARER. Yes.

Senator BONE. And an undesirable citizen?

Mr. SHEARER. I did not say that.

Senator BONE. Unpatriotic?

Mr. SHEARER. In my way of thinking, yes; under the same way he thinks I am a jingoist, the same way I am all wrong.

Senator BONE. Dr. Harry A. Garfield, son of the former President?

Mr. SHEARER. Incidentally, Senator, that is a little bit of plagiarism on my part, taken from the Hearst papers.

Senator BONE. You are the author.

Mr. SHEARER. I simply copied it. It is a little plagiarism.

Senator BONE. You ought not to admit plagiarism.

Mr. SHEARER. I am a plagiarist. I am in that case.

Senator BONE. You have original ideas, do you not?

Mr. SHEARER. A couple of them.

Senator BONE. Dr. Ellen Pendleton, president of Wellesley? Do you consider her unpatriotic?

Mr. SHEARER. Taken from Hearst.

Senator BONE. Ralph Pulitzer, president of the New York World?

Mr. SHEARER. The whole New York World, until it cracked up.

Senator BONE. Chester Rowell, of California?

Mr. SHEARER. Hearst.

Senator BONE. Henry Taft?

Mr. SHEARER. Hearst.

Senator BONE. Mrs. Frank W. Vanderlip?

Mr. SHEARER. They are all Hearst.

Senator BONE. What I am getting at, is your idea.

Mr. SHEARER. I have got my idea on the front page of the book.

Senator BONE. I will bring this a little closer to you.

Mr. SHEARER. All right.

Senator BONE. Henry W. Taft is unpatriotic, too?

Mr. SHEARER. You are saying so.

Senator BONE. Not me. Here is the name right here.

Mr. SHEARER. Hearst again.

Senator BONE. But this is a pamphlet entitled "The Cloak of Benedict Arnold", by W. B. Shearer.

Mr. SHEARER. Yes, sir.

Senator BONE. What can be more blunt than that?

Mr. SHEARER. Nothing.

Senator BONE. Who paid for the money to circulate this?

Mr. SHEARER. Henry Hunter gave me the money.

Senator BONE. The shipbuilder?

Mr. SHEARER. Yes.

Senator BONE. A shipbuilder furnished the money charging these people with being unpatriotic and like Benedict Arnold?

Mr. SHEARER. Yes, sir; and there is a lot from the Department of Justice recorded about communistic activity.

Senator BONE. Are these people under the ban of the Department of Justice? That is another implication.

Mr. SHEARER. That is from the Department of Justice, which I have.

Senator BONE. Let us leave the implication stand as you made it, that the Department of Justice viewed with disfavor the names I am reading.

Mr. SHEARER. No; I did not say that.

Senator BONE. Make it plain.

Mr. SHEARER. I said there are also in there names which I want you to read which are from the Department of Justice records.

Senator BONE. George W. Wickersham?

Mr. SHEARER. Yes, sir; Mitsubishi attorney, trying to break the exclusion law, and fought by McClatchey, of California, the man opposed by the Native Sons, opposed by Senator Jim Phelan, and tried to break down the exclusion law.

Senator BONE. Let us get him classified.

Mr. SHEARER. Yes, sir.

Senator BONE. Dr. Mary Woolley, of Mount Holyoke College?

Mr. SHEARER. Not only her.

Senator BONE. What do you say about Mary?

Mr. SHEARER. Only what Hearst says. I never say anything about Mary.

Senator BONE. Colonel House.

Mr. SHEARER. That is Hearst.

Senator BONE. That is Hearst.

Harvey Ingham, of the Des Moines State Register.

Mr. SHEARER. Yes.

Senator BONE. Harold B. Johnson, of the Watertown (N. Y.) Times?

Mr. SHEARER. Yes.

Senator BONE. He is undesirable, I take it?

Mr. SHEARER. I did not say that.

Senator BONE. Tom Wallace, of the Louisville Times-Courier?

Mr. SHEARER. Yes, sir; Hearst.

Senator BONE. Do you think he is an undesirable? You use the term "Benedict Arnold." I cannot approach the degree of contempt you used.

Mr. SHEARER. Is there anything in there that is wrong?

Senator BONE. Then you wind up by setting out mention of these undesirable and unpatriotic citizens, including the name of Franklin D. Roosevelt.

Mr. SHEARER. Hearst.

Senator BONE. Do you want to hide behind the skirts of a newspaper publisher?

Mr. SHEARER. Let me tell you, Senator, I do not hide behind anything, but Hearst published an article at that time that gave me the opportunity to use

it, and I took it and put it in that pamphlet. I am opposed to all foreign entanglements and to being made an adjunct of the British. Why do you not read my letter to you? My letter will tell you about it.

The CHAIRMAN. Mr. Shearer, have you given Hearst the credit in this volume which you produced for these statements?

Mr. SHEARER. Have I given Hearst credit for these statements?

The CHAIRMAN. Yes.

Mr. SHEARER. You do not have to give Hearst any. Hearst takes credit.

The CHAIRMAN. You took credit for it?

Mr. SHEARER. I got credit for nothing.

The CHAIRMAN. And copyrighted it?

Mr. SHEARER. Yes; I copyrighted it; and the shipbuilders paid for it.

Senator VANDENBERG. And likened Mr. Roosevelt to Benedict Arnold?

Mr. SHEARER. I beg your pardon?

Senator VANDENBERG. And likened Mr. Roosevelt to Benedict Arnold?

Mr. SHEARER. If you will read the article——

Senator VANDENBERG. That is the word.

Mr. SHEARER. You read the article and see what it says.

Senator VANDENBERG. That is the net result.

Mr. SHEARER. It is a Hearst article, published, and describes just what Hearst said.

Senator VANDENBERG. And you are taking the responsibility for it?

Mr. SHEARER. I am taking the responsibility for it.

Senator VANDENBERG. For likening Mr. Roosevelt to Benedict Arnold?

Mr. SHEARER. I did not liken anybody, but published an article of Mr. Hearst's, and there is no criticism of Mr. Hearst. He is too big to reach.

Senator VANDENBERG. And put your name on it?

Mr. SHEARER. And put my name on it. I mean the heading; nothing but the front page.

Senator BONE. President Roosevelt's name appears under the caption in black type along with the others, under the caption of "Knaves or Fools." I am glad we have the President identified by a representative of a private ship-building company.

Mr. SHEARER. Read the rest of the article. It does not apply to that. Do not turn the book upside down.

Senator BONE. The words "knaves or fools" are just above the name of President Roosevelt.

Mr. SHEARER. All right, what does it say?

Senator BONE (reading):

* * * the defeatists——

Mr. Roosevelt is a "defeatist"?

Mr. SHEARER. Read the article as it is.

Senator BONE (reading):

* * * the defeatists launch a mass attack to force the United States into the League Court.

Mr. SHEARER. Yes.

Senator BONE (reading):

It is notable that this new position bristles with names of prominent advocates of our entrance into the League * * *.

This all appears under the caption "Knaves or Fools."

Mr. SHEARER. Right.

(u) Further testimony is given as to Mr. Shearer's part in the big Navy lobby (Mar. 13, galley 8 BBQ).

S. W. WAKEMAN, Esq.,

Bethlehem Shipbuilding Co., New York City, N. Y.

MY DEAR MR. WAKEMAN: Pursuant to our last private conversation and understanding in your office, that future negotiations would be with me direct, I wish to call to your attention that as the result of my activities during the Sixty-ninth Congress, eight 10,000-ton cruisers are now under construction.

Do you know or recall when your last conversation with Wakeman had been?

Mr. SHEARER. In his office at the Bethlehem Steel, we went, as a matter of fact, into the board room, and Wakeman said, as I recall, "We should do this thing very quietly; in fact, we should never have brought Hunter into the picture."

It was at the same time that Palen was anxious to have me come out in the open, and the position of Wakeman was that we should keep this thing quiet; and as they dominated the shipbuilding trio, of course, Wakeman won.

Senator CLARK. Suppose I read you a letter and see if it correctly represents your position at that time [reading]:

Pursuant to our last private conversation and understanding in your office, that future negotiations would be with me direct, I wish to call to your attention that as the result of my activities during the Sixty-ninth Congress eight 10,000-ton cruisers are now under construction.

Further, that owing to the failure of the Tri-Power Naval Conference at Geneva, there is now before the Seventieth Congress a 71-ship building program costing \$740,000,000.

The understanding for which expenses were furnished me to conduct the campaign for naval preparedness was to March 5, 1928, to be paid as a salary at \$25,000 a year, receipt hereby acknowledge for year ending March 4, 1928.

As stated by you, and agreed by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result of the naval preparedness campaign, which benefits, and in reality saved, the shipbuilding industry.

The fixing of the time limit on the naval building program to 5 years to lay down and 8 years to complete established the period of our understanding to the length of the naval program of 8 years at \$25,000 a year, or an aggregate of \$200,000 due me from the result of my endeavors in the interest of the shipbuilding industry. The amount of \$200,000 to be divided by and between Bethlehem Shipbuilding Co., 25 Broadway, New York City; and the Newport News Shipbuilding Co., 233 Broadway, New York City; and the Brown-Boveri Shipbuilding Co., Camden, N. J.

The Brown-Boveri Shipbuilding Co. was the same as New York Ship?

Mr. SHEARER. It is the same.

Senator CLARK (continuing reading):

At the request of Mr. Hunter, Mr. Palen, Mr. Bardo, and yourself, I have continued my activities in your behalf and in your interest to get action on a naval building program which is now assured. By request and instructions, I am devoting considerable extra time and endeavor to the merchant marine program as laid down and approved by members of your group.

Mr. SHEARER. That was the Wilder plan on the 4-day ships.

Senator CLARK. That was the Jones-White bill?

Mr. SHEARER. That was the Wilder plan on the 4-day ships. He was trying to build the fast liners, afterward built by Germany.

Senator CLARK. He had both jobs going at the same time, did he not?

Mr. SHEARER. They were active in the Jones-White bill. I was present at a number of meetings at the Carlton Hotel, and I went to the hearings of the Merchant Marine and Fisheries Committee.

Senator CLARK (continuing reading):

Considering the extra work assigned me and the expense involved, I believe a part of my bonus should be paid me March 5, 1928. Also, I feel the time has arrived for me to come out in the open as suggested by Mr. Palen and Mr. Wilder in the interest of all who are seriously interested in the shipbuilding industry and adequate seapower.

That correctly represented your attitude, Mr. Shearer?

Mr. SHEARER. Yes, sir; absolutely.

Senator CLARK. It was your belief that you were responsible for the authorization of the eight 10,000-ton cruisers in the Sixty-ninth Congress?

Mr. SHEARER. It is my belief that I was more than active in doing that.

Senator CLARK. You state here:

That as the result of my activities during the Sixty-ninth Congress, eight 10,000-ton cruisers are now under construction.

Mr. SHEARER. I believe that.

Senator CLARK. You believe it was due to your activity?

Mr. SHEARER. I think the educational campaign that I carried on, getting the facts and truth, based on the actual figures, based on the treaty, based upon the fact that England, Japan, France, and Italy were building beyond what was considered the necessary requirements, that we had to reach the treaty ratio sooner or later. I must have been correct because that is what we are doing now.

Senator CLARK. It was further your view, as stated here, Mr. Shearer, that—owing to the failure of the Tri-Power Naval Conference at Geneva, there is now before the Seventieth Congress a 71-ship building program costing \$740,000,000?

Mr. SHEARER. It only takes a few minutes to clear that up.

Senator CLARK. Just answer that question.

Mr. SHEARER. Yes, sir.

Senator CLARK. It is your belief that the fact that a 71-ship building program costing \$740,000,000 was before the Seventieth Congress was the result of the failure of the Tri-Power Naval Conference at Geneva?

Mr. SHEARER. Quite. Quite; yes, sir.

Senator CLARK. And also a part of the services which you performed?

Mr. SHEARER. Quite; I took my part in it.

Senator CLARK. And for which you were paid?

Mr. SHEARER. Certainly.

(v) Further testimony that Mr. Shearer was paid by the ship-builders after they had ostensibly discharged him was given (galley 11 BBQ, Mar. 13, 13 BBQ).

Senator CLARK. I am not concerned with whose fault it was. I want to trace your relationships with them. Did they answer that letter in 1928, furnish you any more funds?

Mr. SHEARER. Yes; I drew money up until March 1929.

Senator CLARK. Who paid you in 1928?

Mr. SHEARER. I would get money from Wilder; I got money from Palen. I think the last understanding with Palen was they would put up two-thirds and Brown-Boveri one, so that I assume the two-thirds represented part of Bethlehem's.

Senator CLARK. When?

Mr. SHEARER. That was as late as March 1929, a year later.

Senator CLARK. The point I am making is, that after this very bitter correspondence, they continued to employ you and you continued to receive compensation from them?

Mr. SHEARER. Oh, yes, sir.

Senator CLARK. Now by "they" you mean the Newport News Shipbuilding Co., the Brown-Boveri Co., and the Bethlehem Co.?

Mr. SHEARER. I assume that Bethlehem was putting one-third in, because there was no reason why Newport News should put up two-thirds.

Senator CLARK. But you were not paid directly by them?

Mr. SHEARER. No, sir; not them. That is true.

Senator CLARK. You continued to furnish them information and write memoranda to them?

Mr. SHEARER. I published a great many things at their suggestion. I reminded you yesterday that they were giving me not only written instructions but they gave me two letters and asked me to make an attack on, I think it was William Culbertson, our Minister to Chile.

Senator CLARK. Who asked you to do that?

Mr. SHEARER. Mr. Palen.

Senator CLARK. Mr. Palen asked you to attack Mr. Culbertson, who was at that time our Minister to Chile?

Mr. SHEARER. Yes; because he was opposing legislation on the American merchant marine.

Senator CLARK. He was at that time Minister to Chile?

Mr. SHEARER. Yes, sir. But it was prior to that he opposed this legislation. They sent a man to me by the name of Captain Smith.

Senator CLARK. Is that the same Captain Smith working for Bethlehem?

(w) Mr. Shearer classified as an internationalist and a pacifist all who opposed him (Mar. 13, 12 BBQ).

Here is the letter, March 21, 1929 [producing letter].

Senator CLARK. I find a memorandum from you, Mr. Shearer, in the Newport News Shipbuilding files, wherein you say:

It appears the opposition to an adequate Navy is from internationalists and pacifists. I therefore list anyone who opposes me in that category.

Has that been your policy?

Mr. SHEARER. Just the same as those who did not agree with me list me in a very bad category, German spy, Prussian officer, London Jew, and they are more vindictive to me than I have been to them.

Senator CLARK. You were reporting to your employers that you felt justified in listing anyone who opposed you as an internationalist and pacifist?

Mr. SHEARER. I look at it this way, Senator: You have a law in your land, a part of the preamble of the Constitution, that the Congress should provide a national defense.

Senator CLARK. Just a minute.

Mr. SHEARER. Just a minute.

Senator CLARK. Just a minute, Mr. Shearer. I am not asking you for a stump speech on your views, but I am asking you if you did not report to your employers that you felt justified in classifying anyone who opposed your views as an internationalist and pacifist?

Mr. SHEARER. Yes.

* * * * *

Senator CLARK. Mr. Shearer, following this rather heated clash between you and the shipbuilders which I have read, in the fall of 1928, you were still in their employ, were you not?

Mr. SHEARER. Yes, sir.

Senator CLARK. You took a trip to the Pacific coast for them?

Mr. SHEARER. Yes, sir.

Senator CLARK. And you were down there in the last session of Congress, in the spring of 1929, as their representative?

Mr. SHEARER. Yes, sir.

Senator CLARK. You were still being paid by them?

Mr. SHEARER. Yes, sir.

Senator CLARK. You were paid in 1928, \$7,500 by the New York Ship?

Mr. SHEARER. In which year?

Senator CLARK. 1928; it is in the testimony.

Mr. SHEARER. The amounts are all there.

Senator CLARK. You were paid \$6,000, as testified to by the Newport News Shipbuilding Co., during that time.

Mr. SHEARER. Evidently. I gave them credit for \$51,230. How I got it, I do not remember.

Senator CLARK. The next winter you were again having a controversy with them as to the terms of your employment?

Mr. SHEARER. Yes, sir.

WAR SCARE

In 1932, Bath Iron Works of Bath, Maine, builders of destroyers, apparently engaged the voluntary help of a large newspaper organization (the Guy P. Gannett newspapers) to print an alarmist story concerning alleged Japanese preparations to attack the United States. It was reprinted from the New York Herald Tribune which editorially spoke of the author of the story (a Chinese official, Mr. Chen) as making a malicious and insincere statement. The testimony is given below (from galleys 28, 29 WC, Apr. 3, exhibits 1802-1806):

Mr. RAUSHENBUSH. Coming up to the winter of 1932, I put before you a letter which you sent to Mr. Guy P. Gannett, marked "Exhibit No. 1802", of the Portland (Maine) Publishing Co.

(The letter referred to was marked "Exhibit No. 1802" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. In what papers is Mr. Gannett interested?

Mr. NEWELL. He is interested in the Portland Press-Herald, which is a morning paper, and the Evening Express, which is an evening paper. He may be interested in some other, and I think he is, but I do not know what they are.

Mr. RAUSHENBUSH. Other papers in the State of Maine?

Mr. NEWELL. Right.

Mr. RAUSHENBUSH. What you do in this letter, without reading the whole thing, is to enclose some editorials and clippings from the Herald Tribune of January 1932 regarding the potential source of war with Japan, and say [reading]:

I would like to have this information put in the hands of each one of the Maine delegation, and I think it would be much more effective if you did it than if I did.

Why did you have to go to the owner of some papers to get this information into the hands of the Maine delegation?

Mr. NEWELL. I do not know, except that I thought that was the way I would do it.

Mr. RAUSHENBUSH (reading):

It would be much more effective if you did it than if I did.

Mr. NEWELL. Would it? Sometimes these fellows think you are pestering the life out of them. I thought it would be more effective, particularly where I suggested that the Maine papers take this editorial and comment on it for the general information of the people.

Mr. RAUSHENBUSH. Now, did they take the editorial or did they take the news clippings?

Mr. NEWELL. I do not remember.

Mr. RAUSHENBUSH. You were thanking them later.

Mr. NEWELL. I do not remember.

Mr. RAUSHENBUSH. We have here for the record, which I offer as exhibit no. 1803, his letter under date of January 29, 1932—

Mr. NEWELL. In fact, I do not remember what he did about it.

Mr. RAUSHENBUSH. This will refresh your mind [handing paper to witness]. [Reading:]

I have issued instructions today to all of my editors, to write editorials on building up the Navy. As soon as these appear, I will send copies along to our Maine delegation in Washington, together with a personal letter.

You may be sure that I will do everything possible to arouse our people to the necessity of building more destroyers.

(The letter referred to was marked "Exhibit No. 1803" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Let us get to what this was all about, Mr. Newell. You sent him two things, which we have here, and which I put before you: A news story from the Tribune saying, "Japan Prepares for War With United States, says Chen." Chen at that time was signing as the ex-foreign minister. Then there was an editorial from the Tribune which goes along and ridicules the whole story and says:

In this particular instance Mr. Chen's effort not only should be regarded in this country as malicious but should not be accepted as wholly sincere.

Then it ends up:

The ridiculous charge which Mr. Chen brings against Japan of desiring to fight America in revenge of limitations put upon her by the nine-power treaty of 1922 is directly in line with all the preposterous motives attributed to Japan in a clumsy forgery known as the "Tanaka Memorial", now widely circulated by Chinese patriotic bodies, in which the late Baron Tanaka is made to write of a trip around the world which he did not take and to comment upon events that took place after his death. Such efforts are inspired by a presumption of ignorance and credulity in this and other countries which make them as impertinent as they are contemptible.

That is what the Herald Tribune editorially thinks of the story of Mr. Chen. You apparently sent Mr. Gannett the clippings and editorial. Now, the question is, what was done to arouse this sentiment among the Maine delega-

tion, that it was necessary to build up the Navy? The news story or the editorial?

Mr. NEWELL. I imagine the news story.

Mr. RAUSHENBUSH. Is that what the Gannett papers up there printed at the time the appropriation bill was up?

Mr. NEWELL. I do not know.

Mr. RAUSHENBUSH. And this war scare was being started.

Mr. NEWELL. I could not tell unless I could go back. I do not remember.

Mr. RAUSHENBUSH. It was certainly not this editorial?

Mr. NEWELL. I do not know, because with that alone there would not be any occasion for what I wrote.

Mr. RAUSHENBUSH. Here is a pretty big newspaper, with a pretty big news service, and one of their Far Eastern correspondents gets a story that this ex-minister of China is trying to whip the United States into a fervor against Japan, which, according to him, had done China wrong quite steadily, and the editorial comes out and says that the Chinese policy always has been to get somebody to fight their wars for them, and here is one of the instances of that kind, and it is not only malicious but insincere, and it is a contemptible little stunt. In the interests of truth, if there is such a thing, would it not have been well for Mr. Gannett or you to see that those two things, if they were going to be published at all, should be published side by side, the way the Herald Tribune did it?

Mr. NEWELL. Yes; I think that would, but I do not know whether I saw the editorial. Did I ever see that editorial?

Mr. RAUSHENBUSH. The letter put in a moment ago to Mr. Gannett said you were—

enclosing an editorial taken from the New York Herald Tribune January 27, 1932, and also another clipping from the same issue of the same paper regarding the potential source of war with Japan. These two things together are intensely interesting.

That is, to you?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

I would like to have this information put in the hands of each one of the Maine delegation and I think it would be much more effective if you did it than if I did.

The construction called for in the Vinson bill is to extend over a period of 10 years and calls for an expenditure of slightly over \$617,000,000.

Then you go on and make a regular case of the business of having a big Navy, and then Mr. Gannett thanks you for this, and you in turn, on January 30, 1932, which I enter as exhibit no. 1804, thank Mr. Gannett for publishing the dispatches.

(The letter referred to was marked "Exhibit No. 1804" and is included in the appendix on p. —.)

Now, is not this a pretty fair sample of picking that part of the news which is helpful to your case and playing around with it, pretty risky, Mr. Newell? I mean if every shipbuilder picks every item that will throw a scare into people, and does not put in the counteracting things, which puts the picture into its proper light, is he not only doing that as a self-interest thing, but also committing a dangerous thing? Suppose every supply house, and there are hundreds supplying you people and other people, worked on that point, and just picked out or considered what would scare people and what would get them aroused, and left everything else out; suppose they did the same thing over in Japan and suppose they did the same thing over in Europe; would not that be pretty risky stuff?

Mr. NEWELL. Well, you are creating a hypothetical situation.

The CHAIRMAN. I do not think there is anything hypothetical about this at all. I have observed, Mr. Newell, for the 9 years I have been here, that just preceding the advent of each naval appropriation bill we have had a great deal in the papers about trouble with Japan. How many of these annual scares are occasioned by what was strictly propaganda, having your own personal interests at stake? How many of these annual scares of trouble with Japan have you and others interested in the munitions game played up?

Mr. NEWELL. I do not know what anybody else has done, but here is the case in here, so far as I am concerned.

The CHAIRMAN. Are you willing to say that this is the only effort of this kind which you have exerted?

Mr. NEWELL. Yes, sir; the only one that I know of.

Mr. RAUSHENBUSH. That same letter, the January 30, 1932, letter, from Mr. Newell to Mr. Gannett, reads:

The Portland Press-Herald had a splendid editorial on this situation in today's issue. You are certainly doing the country a splendid turn in giving such publicity to this condition of affairs. The present maudlin sentiment that seems to be running the country is liable to ruin it.

I also see by today's Press-Herald in a Washington dispatch that Senator Hale is very much concerned about the situation and is to take the matter up actively the first of the week. I certainly hope he will.

(The letter referred to was marked "Exhibit No. 1804" and is included in the appendix on p. —.)

The CHAIRMAN. Let me see that [examining exhibit].

Mr. RAUSHENBUSH. I would like to put in the record this Herald Tribune editorial, and clippings, if I may.

(The documents referred to were respectively marked "Exhibits Nos. 1805 and 1806" and are included in the appendix on p. —.)

The CHAIRMAN. What is the meaning, Mr. Newell, of this [reading]:

The present maudlin sentiment that seems to be running the country is liable to ruin it.

Mr. NEWELL. I would say what I had in mind there was the so-called "pacifist" view. My honest opinion is that the Navy, the way it was going, would not be adequate in the event of a serious emergency.

The CHAIRMAN. Are you prepared to say how many destroyers, how many ships, and how many airplane carriers and cruisers the country must have before it has what the shipbuilders would term an "adequate defense"?

Mr. NEWELL. No, sir.

Mr. RAUSHENBUSH. The answer is, Mr. Newell, is it not, that there never will be an adequate defense?

Mr. NEWELL. I do not know.

The report on the activities of Electric Boat Co. and Vickers (England) in connection with the situation in South America which Admiral Niblack, U. S. N., described as "a naval race", will be contained in a separate committee report. The evidence is in volume I of the committee hearings. Indicative of the attitude of the two companies is the letter from L. Y. Spear, vice president of Electric Boat Co., to Commander C. W. Craven, of Vickers-Armstrong, dated August 6, 1928 (ex. 127), in the course of which he commented:

It is too bad that the pernicious activities of our State Department have put the brake on armament orders from Peru by forcing the resumption of formal diplomatic relations with Chile. My friends advise me that this gesture means that all contemplated orders must go over until next year.

C.—LOBBYING—GENERAL

A great deal of political activity on the part of the shipbuilders was never or rarely put into printed form. The great banking or industrial interests behind the shipbuilding companies were not investigated in relation to their political influence or activities.

Certain bits of information on the subject were secured which are given, with testimony, below. They indicate a far greater activity than has so far been brought to light. Some evidence on the matter is continued in the investigation into the air-mail and ocean-mail contracts, by the special Senate committee under the chairmanship of Senator Black (hearings under S. R. 349, 72d Cong.).

During the Senate munitions hearings several of the shipbuilding companies employed the same representative to aid them, paying him a total of \$8,400. He also represented other munitions companies, including du Pont, Remington, and Curtiss-Wright, and received from these a total of \$7,563.

New York Ship's activities included doing "missionary work" on the Navy appropriation bill; waving the House majority whip; "beating" certain sections of bill; and keeping officials "under obligations to us" (see galleys 54-55 GP, Jan. 23, Witness Humphreys).

The private shipbuilding companies have all been in politics to some extent. New York Ship's representative was interested in the reelection of Representative Britten, former chairman of the House Naval Affairs Committee and others (see *a*). New York Ship also asked that the Congressman from Camden be put on that committee (see *b*). The method of publicity welcoming an investigation while privately killing it is described (see *c*). Interest in Tammany men in New York City is indicated (see *d*). The contradiction between testimony concerning lobbying given in the Shortridge hearings and the actual activities was brought out (see *e*). Influence was brought to bear through Mayor Hague, Governor Moore, and others in the method of stopping a possible P. W. A. loan to Gulf Industries, a competitor in the 1933 bidding (see *f*). Mr. Manning, of the Cord Corporation, testified that it was "quite a job to take any business out of politics that sells anything to the Government" (see *g*). Mr. William F. Kenny, an important political figure in New York City, was on the board of New York Ship, representing the Brady utility interests (see *h*). Mr. Wilder, former president of the predecessor company of New York Ship, and head of the lobby for the Jones-White bill, testified "So it goes down the long history of the thing, the political power used to force the Navy to do things that it itself would not do. I feel that the Navy is in a vice, controlled by these three big yards" (see *i*). Mr. A. P. Homer, when connected with the Democratic National Campaign Committee, made a special plea to the shipbuilders (see *j*). In 1922 and 1923, a brother of the Secretary of the Navy was employed by New York Ship (see *k*). The president of the National Council of Shipbuilders and the president of United were at the same time using influence at the Republican National Headquarters (see *l* and *u*). Mr. Andrew W. Mellon's interests in the Bethlehem Co. was discussed (see *m*). The

United States Steel subsidiary, Federal Ship, considered the Cord interests, which acquired New York Ship in 1933, "well connected" in Washington (see *n*). Mr. Newell, of Bath Iron Works, was questioned concerning the use of political influence and correspondence with the President's Secretary referred to favors done for one of the President's children (see *o*). Bath Iron Works was solicited for subcontracts by a Member of Congress serving on the Merchant Marine Committee (see *p*). Mr. Newell, of Bath, spoke of contracting politicians in Maine (see *q*). United's interest was discussed at length, including the relationship of Mr. Powell, president of United, with then Representative Prall (see *r*). The use of local community influence to move a destroyer to United was brought out (see *s*). Mr. Powell's explanation of the rental agreement with Representative Prall is given (see *t*). In connection with the 1933 awards a reference is made to the securing of two destroyers for \$6,800,000 through Dave Hogan, who was identified as secretary to Mr. McCooey, a prominent Brooklyn Democratic leader (see *v*).

The Washington representative of United, Mr. Malone, in 1934 wrote of being able to get out a 50-tanker appropriation for \$50,000 (see *w*), and pointed out "there is no virtue in being Quixotic just at this stage." Mr. Malone explained this as a "case of sort of wishful thinking." The statement in a Kiplinger letter that the shipbuilding industry "depends on political pull, favoritism, backscratching to get subsidies", and so forth, was commented on by Mr. Lambert, of Westinghouse, "while it has considerable truth in a number of the statements made, it seems to me a rascally thing to write and broadcast loose statements of this kind * * *" (see *x*).

Some of the Electric Boat Co. letters show an intense political activity and a kind of reciprocity with naval officials (see *y*).

The private yards have all been in politics to some extent.

(a) New York Ship's interest was indicated in part by testimony on April 5 (galleys 99 and 100 WC).

Mr. RAUSHENBUSH. There are just a few letters I would like to have Mr. Bardo identify. Did you get this letter from Mr. Foster, concerning the reelection of Mr. Britten? Can you identify that? [Handing paper to witness.]

Mr. BARDO. I can identify the signature. The signature is all right.

Mr. RAUSHENBUSH. That is his signature?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. He writes there about the interest—what is the date of the letter, Mr. Bardo?

Mr. BARDO. July 8, 1932, Senator. I do not recall the particular letter, but this is his signature all right.

Mr. RAUSHENBUSH. He says [reading]:

Today I ran into Jim Barnes up on the Hill.

Mr. Barnes represented what company?

Mr. BARDO. Todd Shipbuilding.

Mr. RAUSHENBUSH. Anybody else? How about the Aluminum Co.?

Mr. BARDO. No.

Mr. RAUSHENBUSH (continuing reading).

He is very anxious to talk to you about the hard time Fred Britten expects to have in getting reelected this year, also about several others who are likewise in difficulties. He only mentioned Britten's name.

I suggested that he write you but for some reason he thought it best that I pass the word along so when you were next in Washington he might discuss the matter with you.

My impression is that he wants some financial support along the lines I spoke to you about some time ago. Namely, to give active campaign support to merchant-marine friends in Congress who are expecting to find

rough competition this fall. His fear is that should there be a Democratic landslide, their opposition to subsidies in any form would work against the present Jones-White Act and hamper prospective legislation pending to aid private operators.

ADDISON G. FOSTER.

Mr. RAUSHENBUSH. I offer that letter for the record.
(The letter referred to was marked "Exhibit No. 1905.")

(b) Mr. RAUSHENBUSH. A little earlier in the matter, Mr. Bardo, we find a letter from you to Mr. Tilson, asking that the Representative from Camden, Mr. Wolverton, be put on the Naval Affairs Committee. Do you remember that [handing paper to witness]?

Mr. BARDO. That is correct.

Mr. RAUSHENBUSH. Was he put on?

Mr. BARDO. I do not remember. What is the date?

Mr. RAUSHENBUSH. It is 'way back; 1926.

Mr. BARDO. I think he was. That was his first time in Congress. He asked me to write a letter, because I happened to know Mr. Tilson very well, and I think he was put on.

Mr. RAUSHENBUSH. I offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1906" and is included in the appendix on p. —.)

(c) At a time when New York Ship was attempting to have its taxes lowered from an assessment of \$14,500,000 to \$5,705,000, the figure finally agreed upon, the company officials considered the possibility of a congressional investigation (Jan. 21, galley 33 GP).

Mr. RAUSHENBUSH. I show you, Mr. Parker, a letter from Mr. Bardo, concerning what seems to be this tax matter. Will you look at that and see if you have ever seen that before? [Handing paper to witness.]

I would like to read that, Mr. Chairman. It was dated about the time that these taxation matters were taking place, December 23, 1927, and while it mentions some costs of governmental ships, the *Saratoga* and the *Lexington*, it also refers to the tax matters. [Reading:]

I have just received copy of House Resolution No. 55, introduced by Congressman McClintic December 13, copy of which is attached hereto. I had a short talk this morning with Judge Parker, who stated that on your return from Washington you had requested that certain information be developed by Mr. Parker with the thought of inviting the investigation referred to.

Mr. Parker, is that you, or is he referring to Judge Parker? Do you know?

Mr. PARKER. I assume he means me.

Mr. RAUSHENBUSH (continuing reading):

Publicly, of course, we could not say other than that we welcome an investigation. Privately, we want to use every honorable means to see that the investigation is not started and that the resolution referred to dies a natural death in the Committee on Rules, to which it had been referred.

There is altogether too much dynamite in a congressional investigation, and we are altogether too vulnerable from the standpoint of political attack to leave anything undone which will forestall the investigation. We have troubles enough with our tax situation and our new high-speed line development without having the waters muddled up by a congressional investigation, the effect of which would be harmful either to ourselves or to the industry as a whole.

Who can say what statements Admiral Capps, for instance, if he were called before a congressional investigation, might make with respect as to what he regards as inefficiency and the lack of proper administration of the yard? He made these charges in one of our conferences. If he made them before a congressional committee, we never could catch up with the story, and it may well be that we will be confronted not only with our tax situation but in addition by a resolution from Congress asking somebody to investigate all of these things which obviously would be dragged out in an investigation of this kind.

I expect to have a conference with Congressman Wolverton on Wednesday next.

That is the Congressman from Camden, is it not?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH (continuing reading):

The names of the House Naval Affairs Committee and the House Rules Committee are shown on the attached list.

Personally, I am strongly opposed to any encouragement of this investigation for the reasons which I have generally outlined.

Does that bring to your mind at all what activities were being carried on in connection with this very tax-matter business?

The taxes from 1922 to 1925 were settled without audit within one-half hour (exhibits 1242, Jan. 21, galley 33 GP).

(d) A further letter on this subject was read into the record on February 11 (galley 61 ZO, exhibit 1552).

The CHAIRMAN. I have before me a letter by L. G. Buckwalter to Mr. L. R. Wilder, dated July 14, 1926. Were you then with the company?

Mr. FLOOK. No, sir.

The CHAIRMAN (reading):

Referring to our conversation of Monday regarding close affiliations with Tammany:

The concern I mentioned is Edwards & Booth, 80 Maiden Lane, New York. The partnership is "Big Bill" Edwards and Walter C. Booth. They are both Princeton men of about 1900. They are both widely known in New York and are close to Tammany and the politicians. Edwards had a responsible political position for years. I believe he was street-cleaning commissioner. Mr. Bardo stated that he understood he was dead. This is incorrect—at least, he was alive on Monday.

They are in the insurance business, Senator. And I asked Mr. Wickersham sometime ago to get in touch with Mr. Booth the next time he was over to New York. I feel that it would be of advantage to know these people and keep in touch with them, and I will be glad to arrange for an interview, if you desire.

When you and Mr. Neeland were returning from Europe last fall, Mr. Neeland cabled me to have someone meet you at the pier to expedite your customs' examination, clearing of baggage, etc. Mr. Booth himself took care of this matter, called at the pier and rode to the hotel with Mr. Neeland.

L. G. BUCKWALTER.

Copies, Mr. Bardo, Mr. Wickersham.

(The political aspect of certain naval matters was discussed on Feb. 13, galley 84 ZO, seq.)

(e) The question of the political activities of certain shipbuilding companies was raised again on February 4 (galley 10 ZO).

Senator VANDENBERG. Mr. Bardo, reading from the hearings in the so-called "Shearer investigation", I quote the following discussion between you and Senator Robinson of Arkansas:

Senator ROBINSON of Arkansas. Neither you nor your company, I assume from that statement, has had any representation during the fight on the cruiser bill.

Mr. BARDO. We have a representative in Washington, but he is not here for the purpose of mixing in with legislation.

Senator ROBINSON of Arkansas. Who is he?

Mr. BARDO. Frank Lord.

Then dropping to the bottom of the page it states:

Senator ROBINSON of Arkansas. He has no authority to participate in efforts to secure, or defeat, legislation?

referring now to Mr. Lord:

Mr. BARDO. No, indeed.

That is a correct statement of Mr. Lord's status in Washington?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. Mr. Lord had no authority to participate in efforts to secure or defeat legislation?

Mr. BARDO. That is correct.

Senator VANDENBERG. I want to be sure that we fully understand your answers, so that I am taking the liberty of showing you a letter of December 10, 1928, written by you to Mr. Harry R. Humphreys. There seems to be but one copy and I will read the letter.

DEAR HARRY: Yours of the 7th enclosing expense account received. Same has been passed for payment.

I know that you are now prepared to devote all of your time, when not needed in Camden or Trenton, at Washington for at least the balance of the session. What we are most interested in now is the defeat of the Dallinger amendment to the cruiser bill, and this is being handled by Mr. H. G. Smith, vice president of the Bethlehem Co., although Mr. Ferguson and I have devoted some time and have interviewed a substantial number of Senators on the matter.

We are working in Washington with Messrs. Frank A. Lord, Hotel Blackstone, and James Barnes, who has an office on the sixth of the Albee Building. You, no doubt, know them both. I suggest that you keep in close touch with them so that our cooperation may be complete.

Very truly yours.

Would not that indicate that Mr. Lord was interested in legislation, Mr. Bardo?

Mr. BARDO. No. You will recall there, I think, in the letter where I had said I had made it my personal business to interview the Senators, and give that my personal attention. He had no authority to interview them or talk to them, and if he did it, he did it on his own.

Senator VANDENBERG. When you speak in this letter of your cooperation with Mr. Smith, of Bethlehem, and Mr. Ferguson, of Newport News, in seeking to defeat the Dallinger amendment, I assume that refers to the navy-yard amendment.

Mr. BARDO. It referred to an amendment that was tacked on to the bill—I do not recall the year—and, as I remember the language of it, the first and every alternate cruiser was to be built in navy yards.

Senator VANDENBERG. You and Mr. Smith and Mr. Ferguson were cooperating in that battle against that arrangement?

Mr. BARDO. Yes, sir.

Senator VANDENBERG. With further reference to Mr. Lord, I call your attention to your letter of December 21, 1928, written directly to him, from which I read:

DEAR FRANK: Yours of the 20th received.

We are greatly interested in the cruiser bill and we want to make sure just as far as it is humanly possible to do so, that there will be no slip-up in disposing of the Dallinger amendment provisions of this bill when it comes before the Senate on January 3.

It seems to me quite desirable that you should get in touch with Messrs. Barnes and Gauntlet, and it may be well to talk to Duff, who is a representative of the American Shipowners Association. I understand they have filed a formal protest against this amendment.

Am glad to know that you could be helpful to Mr. Ketcham. As a matter of fact, I am quite sure that your good offices have been quite helpful in getting the rough spots ironed out in connection with the Grace Line contract.

What reaction have you had from Vice President Plummer regarding estimates on the Herberman ships? I understand that Herberman has tried to get away with some very fast stuff with one of our shipbuilders, which hasn't helped his cause in the least.

This refers to another matter.

I am interested in particular in this sentence, Mr. Bardo:

What reaction have you had from Vice President Plummer regarding estimates on the Herberman ships?

Would that indicate that there was an exchange of information with respect to estimates between these ship companies?

Again (Galley 11 ZO):

Senator VANDENBERG. Turning to the first two paragraphs of the letter, and I won't read the rest of it because it is not pertinent, are you not in this letter telling Mr. Lord of your great interest in the cruiser bill, and its defeat, and expressing the hope there will be no slip-up in disposing of the amendment and suggesting to him the desirability of getting in touch with certain gentlemen in connection with it?

Mr. BARDO. That is correct.

Senator VANDENBERG. Does not that indicate some activity on Mr. Lord's part, that you knew of, in connection with legislation?

Mr. BARDO. No; not so far as Mr. Lord is concerned. You will recall that I asked him to get in touch with Mr. Barnes and Mr. Gauntlet. I did not ask him to get in touch with anybody else.

Senator VANDENBERG. Mr. Lord's letter of July 20, 1928, reporting to you on the matter, reads:

DEAR MR. BARDO: I am just advised authentically that the cruiser construction bill has just been made, by unanimous consent, the unfinished business of the Senate to be taken up and disposed of on Thursday, January 3, 1929.

I have been able in the last day or two to smooth the way a little bit for Mr. Ketcham, and he told me last night that he believed negotiations were proceeding at such a rate that your bill will have an executed contract in this calendar year. I hope so.

Referring back to the cruiser bill for a moment, I further wish to say that you were thoroughly satisfied with the resolutions passed by the United States Shipping Board. Mr. O'Connor has assured me that he is willing to go to the bat on this question, at any time, and in any place where his services would be of value. I have kept in touch with Zachary and he is still hopeful that Senator Borah will lead the fight for our contentions.

Does not that indicate some activity of Mr. Lord on the part of legislation?

Mr. BARDO. Not necessarily so. He was merely reporting to me the information he had gotten which was pertinent to our job, to our business. He was simply reporting it as any man would.

Senator VANDENBERG. I am not complaining about his sending you the information, Mr. Bardo, but I am simply trying to discover as to whether this is not a rather limited and technical assertion, when you say that Mr. Lord had no authority to participate in efforts to secure or defeat legislation.

Mr. BARDO. That is correct. I want to reiterate just that, that he had no authority.

Senator VANDENBERG. But he did participate, apparently, over quite a large area, did he not?

Mr. BARDO. He would go and talk—he had a lot of friends, a lot of people he knew, and he would go talk to them. He did not have much to do down there, and when he found out something which he thought was of interest, he would report it to me.

Senator VANDENBERG. I call your attention to Mr. Lord's letter of December 15, 1930, in which he reports that he has interviewed Congressman Britten, and is assured that the provisions for a cruiser will be stricken out. "The rest of the bill will be reported favorably and embody Secretary Adams' recommendation and request."

This is still just reporting information?

Mr. BARDO. That is all.

Senator VANDENBERG. Mr. Lord evidently is now in contact with at least one Congressman, and if he is, that is his business and not yours?

Mr. BARDO. That is his business.

Senator VANDENBERG. On January 3, 1929, there is a memorandum addressed to Mr. W. M. Flook, signed by Mr. Bardo. That reads:

Referring to Mr. W. B. Shearer.

I discussed this matter today at luncheon with Vice Presidents Wake-man of the Bethlehem Shipbuilding Co. and Palen of the Newport News Shipbuilding Co.

You were working all the time in constant cooperation with Bethlehem and Newport News in these legislative matters?

Mr. BARDO. Yes.

Senator VANDENBERG (continuing reading) :

The National Council of American Shipbuilders recently appointed a committee, of which I am chairman, with the request that an invitation and report be submitted to the council having to do with the creation of a strong organization to handle legislative and other matters of mutual interest. This committee will make its reports within the next 10 days or 2 weeks, and this report will contemplate the employment of a strong individual to head up the association and to look after all of the matters of general interest.

Both Messrs. Wakeman and Palen are opposed to Shearer, because of the fact that they regard him as being more or less unreliable. His conduct in our previous contact was anything but complimentary to him. They will not endorse or approve of his employment directly to represent the shipyards.

In view of the report which will be submitted by the committee, it is felt that we should not embarrass our organization or the man in charge of it by taking into our service in advance a man who may or may not be useful or acceptable to the new organization.

Inasmuch as we now have directly on our pay roll Mr. Frank Lord, who is very useful in some features of our Washington activities, and are contributing to one or two other Washington agencies useful in their own way, I do not feel that we should further increase our cost at Washington by the employment of Mr. Shearer, particularly in view of the fact that he is persona non grata with the other principals of our competing yards.

Pursuant to your directions, I will arrange to see Shearer at an early date.

Is this a discussion of a purpose to create a legislative contact man in Washington, Mr. Bardo?

Mr. BARDO. That does not sound like my letter at all. I do not have any recollection of that letter. Not that I am in disagreement with what it says, but I do not recall the letter.

Senator VANDENBERG. Here is the letter [handing letter to witness].

Mr. BARDO. It is apparently a letter of mine. What is your question, Senator?

Senator VANDENBERG. May I have the letter back, please?

Mr. BARDO. Yes, sir [returning letter].

Senator VANDENBERG. Does this indicate a contemplation to choose a joint legislative contact man in Washington?

Mr. BARDO. Apparently it did. That is apparently what was the purpose of it, the appointment of that committee.

Senator VANDENBERG. And it would seem to be a justified inference from the letter that inasmuch as "we now have directly on our pay roll Mr. Frank Lord", and so forth, that Mr. Frank Lord has been doing the work which it is contemplated is to be done by this joint representative hereafter.

Mr. BARDO. No; that was not the implication in the letter at all. I referred particularly to the fact that we then had a man on our pay roll, and I did not believe we should go on and should increase our cost by the appointment or selection or taking on of another man at Washington to represent the joint interests, and we never did. That just fell dead of its own weight.

Senator VANDENBERG. What were the other one or two Washington agencies, useful in their own way, to which you were contributing in Washington at that time?

Mr. BARDO. I do not recall any agencies at Washington to which we were making any contributions at that time. The only other agency that I can recall is the Midwest-Foreign Trade Association, with its headquarters in Cincinnati, which is headed by Malcolm Stewart, who has always indicated a very keen desire in all matters relating to a merchant marine, and we did contribute to the support of that organization a very nominal monthly amount. I do not recall what it was.

Senator VANDENBERG. Under date of July 5, 1929, Mr. Lord writes to Mr. Flook: who is Mr. Flook?

Mr. BARDO. He is the chairman of the board.

Senator VANDENBERG. Of New York Ship?

Mr. BARDO. Yes.

Senator VANDENBERG. Mr. Lord writes—

Mr. BARDO. At that time he was chairman of the board of the American Brown Boveri Electric Corporation, which was the holding company for several subsidiaries.

Senator VANDENBERG. Mr. Lord writes to Mr. Flook as follows on the stationery of the Metropolitan Club:

Just a word to tell you how glad I was to see you at Camden, if only for a moment.

You are going to have a busy yard. Of that there can be no doubt.

Additional legislation should be procured to take care of freighters, and with existing sentiment in Congress, the next session should bring about the desired result and I hope that I can be of service in giving it a share.

Apparently now, Mr. Lord is discussing legislation with Mr. Flook.

Mr. BARDO. I think that was a comment he had to make, and he thought Mr. Flook might be interested in it, and I do not know anything about it myself.

Senator VANDENBERG. As a matter of fact, Mr. Lord's job in Washington was primarily a contact job in respect to legislation, was it not?

Mr. BARDO. It depends altogether on how you apply that particular question. His job here was to report to us anything of a character that he thought was important, but he had no authority at all to deal or to work with legislators. That is the job that I tended to myself. I always have and always did, and anything I wanted to take to a legislator, I went and talked to him personally, and I did not send a hired man.

(f) In connection with efforts to prevent a possible competitor in 1933 from getting a Reconstruction Finance Corporation loan, Mr. Bardo admitted activity through political channels (Feb. 4, galley 15 ZO-17 ZO).

Mr. RAUSHENBUSH. He seems to be taking it up with the people he thinks will be politically influential in "scotching" this plan, does he not?

Mr. BARDO. No; I do not think so. Maloney was a Democrat, and Parker was a Democrat, and they had been in a lot of Democratic fights and battles and talked about a lot of things between themselves, and I suspect that was just another one which they got in.

Mr. RAUSHENBUSH. Mayor Hague is a Democrat, too?

Mr. BARDO. Yes; he is a real one.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1498", and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Do you recognize the reply of Governor Moore, dated June 30, 1933, and reading:

MY DEAR MR. BARDO: I have your letter, and shall be glad to help you in any way you might suggest. I have taken the matter up directly with Mr. Farley.

If there is anything further I can do, let me know.

Mr. BARDO. That is it.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1499", and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. At this point you do start taking up the matter politically, do you not?

Mr. BARDO. Yes; this is a very direct appeal. There is no question about that.

Senator VANDENBERG. What is it being taken up with Mr. Farley?

Mr. BARDO. If I may answer the question, Mr. Chairman, the reply which Governor Moore made to my letter to him, in which I reported the matter of the Gulf Industries and its effect on the industries of New Jersey.

Mr. RAUSHENBUSH. The question was taking out all competition, possible competitors, on a large scale.

Senator CLARK. The idea was to tear out the Gulf Industries?

Mr. RAUSHENBUSH. Yes.

Senator CLARK. You took it up with Governor Moore, who, in turn, took it up with Postmaster General Farley?

Mr. BARDO. That is what he says.

Mr. RAUSHENBUSH. There seems to be another letter to Governor Moore, when you stated there was only one letter. This is dated July 5, 1933.

Mr. BARDO. I should not be surprised that I should forget some of these things.

Mr. RAUSHENBUSH. You were pretty positive there was only one letter, Mr. Bardo.

Mr. BARDO. I was. I did not recall the second one.
Mr. RAUSHENBUSH. It reads:

JULY 5, 1933.

HON. A. HARRY MOORE,
Governor, State of New Jersey,
Statehouse, Trenton, N. J.

MY DEAR GOVERNOR MOORE: Many thanks for yours of June 30 in reply to mine of June 28, regarding Gulf Industries, Inc.

There is no doubt in my mind but what this situation will very largely rest in the President's lap before we get through with it. My suggestion would be that a letter direct to the President, calling his attention to the idle shipyard capacity in the State of New Jersey, fully equipped and competent to build any and all types of ships, either naval or merchant, should first be fully utilized before the door is opened under the Industrial Recovery Act for the creation of new industries for which there is no economic justification.

The promoter of this Gulf Industries outfit was formerly president of the New York Shipbuilding Corporation and organized the American Brown Boveri Electric Corporation. He is a promoter pure and simple and has none of the qualities necessary to carry his promotions through to a successful economic conclusion.

Your letter to Mr. Farley may reach the President, but I am very much of the opinion that any cooperative support which may directly reach the President on this subject will have weight, particularly from your good self.

Thanking you, I am, very truly yours,

C. L. BARDO.

Mr. RAUSHENBUSH. I will offer that for the record.
(The letter referred to was marked "Exhibit No. 1500.")

Mr. BARDO. That is my letter, and I subscribe to it all.

Mr. RAUSHENBUSH. That is the second letter to Governor Moore?

Mr. BARDO. Yes, sir.

Mr. RAUSHENBUSH. Governor Moore acknowledged it, did he not?

Mr. BARDO. I suppose he did. He usually does.

Mr. RAUSHENBUSH. I show you a letter dated July 7, 1933, which reads as follows:

STATE OF NEW JERSEY,
EXECUTIVE DEPARTMENT,
Sea Girt, N. J., July 7, 1933.

MY DEAR Mr. BARDO: I have your letter of July 5, and have today written the President in accordance with your request.

Very truly yours,

A. HARRY MOORE, Governor.

Mr. C. L. BARDO,
New York Shipbuilding Co., Camden, N. J.

Mr. BARDO. That is correct.

Mr. RAUSHENBUSH. I offer that for record.

(The letter referred to was marked "Exhibit No. 1501.")

Mr. RAUSHENBUSH. Then we have a letter from Mr. Farley to Governor Moore, dated July 10, 1933, reading:

DEMOCRATIC NATIONAL COMMITTEE,
NATIONAL PRESS BUILDING,
Washington, July 10, 1933.

HON. A. HARRY MOORE,
Governor, Trenton, N. J.

DEAR GOVERNOR: I have yours of July 5, with enclosure from Mr. C. L. Bardo, president of the New York Shipbuilding Co. I shall be glad to look into the matter to which he refers and advise you as soon as I have a report.

Very truly yours,

JIM.

Mr. BARDO. That was in reply to the first letter.

Mr. RAUSHENBUSH. This is July 10.

Mr. BARDO. I think he refers to the first letter I wrote, does he not?

Mr. RAUSHENBUSH. He is referring to Governor Moore's [reading]:

I have yours of July 5 * * *.

Mr. BARDO. That is the second letter.

Mr. RAUSHENBUSH. Apparently Governor Moore wrote on the same day he received your letter.

Mr. BARDO. Yes; it the same date. I think so.

Mr. RAUSHENBUSH. I offer that for the record.
(The letter referred to was marked "Exhibit No. 1502.")

Mr. RAUSHENBUSH. Here seems to be another letter to Governor Moore, which escaped your memory, Mr. Bardo, dated July 11, 1933 [handing paper to witness].

Mr. BARDO. That was simply an acknowledgment of the letter to which you previously referred here.

Mr. RAUSHENBUSH (reading):

JULY 11, 1933.

Hon. A. HARRY MOORE,
Governor, State of New Jersey,
Sea Girt, N. J.

MY DEAR GOVERNOR: Many thanks for yours of July 7 in reply to mine of the 5, having reference to the shipbuilding situation.

Am sure that the action you have taken will be helpful and may forestall a development with Government funds that is by no process of reasoning industrially or economically justified.

Very truly yours,

C. L. BARDO.

Mr. BARDO. That is right.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1503.")

Mr. RAUSHENBUSH. Did you ask Admiral Cone, of the Shipping Board, to take up this matter with Mr. Farley?

Mr. BARDO. I do not recall that I ever wrote any letters to Admiral Cone, and I do not think I ever discussed it with him. I do not think that I ever did.

Mr. RAUSHENBUSH. We have here a letter from Mr. Farley to Governor Moore, dated July 15, 1933, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1504.")

Mr. RAUSHENBUSH. That letter reads:

DEMOCRATIC NATIONAL COMMITTEE,
NATIONAL PRESS BUILDING,
Washington, July 15, 1933.

Hon. HARRY I. MOORE,
Governor, State of New Jersey,
Jersey City, N. J.

MY DEAR GOVERNOR: You wrote me on July 5, inclosing a letter from the president of the New York Shipbuilding Co., and I attach hereto for your information copy of letter which I have received from Admiral H. L. Cone, Chairman of the United States Shipping Board, relative to this, which is self-explanatory.

Sincerely,

JIM.

Mr. BARDO. I do not recall ever seeing that letter.

Mr. RAUSHENBUSH. Do you know whether this Mr. Maloney, to whom Mr. Parker talked, took up the matter with the representatives from New Jersey?

Mr. BARDO. I do not. I never heard any more from it.

Mr. RAUSHENBUSH. I offer for the record a letter from Representative Mary T. Norton to Mr. Maloney, acknowledging this protest, stating, in part:

I have protested against the issuance of a financial loan, under the Public Works bill, to the promoters of the Florida shipbuilding concern.

(The letter referred to was marked "Exhibit No. 1505" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Then you received a letter from Governor Moore, did you not, on July 18, 1933, stating as follows:

STATE OF NEW JERSEY,
EXECUTIVE DEPARTMENT,
July 18, 1933.

Mr. C. L. BARDO,
New York Shipbuilding Co., Camden, N. J.

MY DEAR MR. BARDO: I am enclosing herewith a letter from Mr. Farley concerning the matter which you took up with me recently.

Very truly yours,

A. HARRY MOORE, *Governor.*

(The letter referred to was marked "Exhibit No. 1506.")

Mr. RAUSHENBUSH. You did receive that, did you not?

Mr. BARDO. I could not say whether I did or not. You are expecting me to remember a lot of details here that are just impossible for any human mind to remember.

Mr. RAUSHENBUSH. You seemed pretty positive there was only one letter.

Mr. BARDO. I do recall that, and I was positive about it, but to say that I remembered receiving all these letters, I would be saying something that I did not. I do not intend to put myself in that position here at all, if I can avoid it.

Mr. RAUSHENBUSH. You mean you do not think you received these letters?

Mr. BARDO. I do not say that I do not or do. You asked me if I remembered having received them, and I tell you frankly I do not remember having received them.

Mr. RAUSHENBUSH. We have another letter dated July 21, 1933, reading as follows:

STATE OF NEW JERSEY,
EXECUTIVE DEPARTMENT,
Sea Girt, N. J., July 21, 1933.

Mr. C. L. BARDO,
New York Shipbuilding Co., Camden, N. J.

MY DEAR MR. BARDO: I am enclosing herewith copy of letter which I have just received from President Roosevelt.

Very truly yours,

A. HARRY MOORE, *Governor.*

Mr. BARDO. I remember that one distinctly.

* * * * *

Mr. RAUSHENBUSH. We have another letter to the Governor of New Jersey, in addition to the one which you remember, saying:

JULY 21, 1933.

Hon. A. HARRY MOORE,
Governor State of New Jersey, State House, Trenton, N. J.

MY DEAR GOVERNOR: Many thanks for yours of the 18th enclosing letter from Postmaster General Farley, under date of the 10th. Am sure your activity in this matter will have a very beneficial effect.

Very truly yours,

C. L. BARDO.

Mr. BARDO. I think that is in reply to that second letter, to which you referred earlier in the correspondence.

(The letter referred to was marked "Exhibit No. 1511.")

Mr. RAUSHENBUSH. There is a letter dated July 24, 1933, which I show to you, addressed to Hon. A. Harry Moore, Governor State of New Jersey [handing paper to witness].

Mr. BARDO. That is correct. That is in reply to a letter.

Mr. RAUSHENBUSH. I offer that for the record.

(The letter referred to was marked "Exhibit No. 1512.")

Mr. RAUSHENBUSH. That letter reads:

JULY 24, 1933.

Hon. A. HARRY MOORE,
Governor State of New Jersey, Sea Girt, N. J.

MY DEAR GOVERNOR: Many thanks for your letter of July 21 enclosing copy of letter from President Roosevelt upon the subject about which I wrote to you. I appreciate your action in this matter exceedingly.

The information from the President adequately disposes of this hazard to two of New Jersey's principal industries.

Very truly yours,

C. L. BARDO.

We have another letter written to the mayor of Camden on the subject, on July 24, 1933 [handing paper to witness].

Mr. BARDO. That is an acknowledgment of the letter to which was attached the resolution previously referred to.

Mr. RAUSHENBUSH. Acknowledging the letter protesting the same action to Secretary Ickes, with resolution attached, which I offer for the record.

(The letter referred to was marked "Exhibit No. 1513" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. I offer a similar letter acknowledging the letter of the chamber of commerce, which I have offered, on the same date.

(The letter referred to was marked "Exhibit No. 1514" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Then you apparently wrote a memorandum on the same day [handing paper to witness].

Then on the same day you wrote a memorandum to your board of directors, which I have shown to you, saying:

Further in connection with Gulf Industries, Inc.:

I took this matter up with Governor Moore a few days ago, and I received this morning the enclosed copy of a letter which is self-explanatory. This would seem to dispose of that phase of the shipbuilding construction.

Had you taken up the Gulf Industries matter with the board before?

Mr. BARDO. I had reported the situation to them. That is all.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The memorandum referred to was marked "Exhibit No. 1515" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Then on the same day you apparently sent this letter to the other shipbuilding companies, Messrs. H. L. Ferguson, S. W. Wakeman, Robert Haig, and L. H. Korndorff—that is Newport News, Bethlehem, Sun, and Federal?

Mr. BARDO. That is right.

Mr. RAUSHENBUSH (reading):

Referring to the Gulf Industries, Inc., situation:

Am enclosing herewith copy of a letter from President Roosevelt to Governor Moore in connection with this subject, which is self-explanatory.

I offer that letter for the record.

(The memorandum referred to was marked "Exhibit No. 1516" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. That indicates that they had at least a little—shall we say—platonic interest in the result of this action?

Mr. BARDO. Without attempting to say what their interest really was, I thought what had taken place would be of interest to them. I do not attempt to say what their interest was.

Mr. RAUSHENBUSH. We have here a letter from Franklin D. Roosevelt to Governor Moore, dated July 15, 1933, which reads:

THE WHITE HOUSE,
Washington, July 15, 1933.

MY DEAR GOVERNOR: Thank you for your letter of July 7. I appreciate your writing me about the matter but we have no intention of acquiring shipyards.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

His Excellency A. HARRY MOORE,
Sea Girt, N. J.

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1517.")

Mr. RAUSHENBUSH. Then there were further letters from your representative, Mr. Wolverton and others, were there not, Mr. Bardo, about the matter, which you also acknowledged?

Mr. BARDO. My recollection is that I wrote a letter to the Senators and all the Congressmen from New Jersey, and outlined this situation to them, so that they would be informed.

Mr. RAUSHENBUSH. And acknowledged any action that they took?

Mr. BARDO. Yes.

(g) In regard to political influence, Mr. Manning, of the Cord interests, in control of New York Ship, from July 1933 on, testified that it was "quite a job to take any business out of politics that sells anything to the Government" (Feb. 7, galley 46 ZO).

Senator VANDENBERG. Do you know Mr. Flynn, of New York? What is his full name?

Mr. RAUSHENBUSH. The attorney.

Mr. MANNING. Goldwater & Flynn? Yes, sir; I know them.

Senator VANDENBERG. Why was he hired as soon as Cord took over New York Ship?

Mr. MANNING. I do not recall that he was hired as soon as the Cord Corporation took it over; but he was hired, at any rate, for the reason that our headquarters are in Chicago; and Mr. Pruitt is our general counsel and employs a great many attorneys all over America for handling specific things in their territory, and we felt it desirable to have a New York attorney on this matter, so that he was employed there.

Senator VANDENBERG. Is this the Mr. Flynn who is the Bronx Democratic leader? I am trying to identify him.

Mr. MANNING. I do not know as to that. I know that he is quite a prominent man up there.

Senator VANDENBERG. Is he secretary of state for New York?

Mr. MANNING. I could not answer these things, Mr. Chairman, as far as the politics of the men are concerned.

Senator VANDENBERG. Who looks after the politics? Whom could we inquire of about the politics?

Mr. MANNING. Perhaps Mr. Pruitt here knows something about his politics, but I am sure I do not.

Senator VANDENBERG. I mean the politics of the New York Shipbuilding Corporation. I thought that was what you had been referring to.

Mr. MANNING. One of the things I have been trying to do is to take it out of politics.

Senator VANDENBERG. Has it been quite a job to take it out of politics?

Mr. MANNING. It is always quite a job to take any business out of politics that sells anything to the Government.

Senator VANDENBERG. Were you taking it out of politics when you hired the Democratic secretary of state of New York just as soon as you took over?

Mr. MANNING. That did not have anything to do with it.

(h) Later, Mr. William F. Kenny was described in a company report as being on the board of directors "representing the Brady interests" (Feb. 7, galley 47 ZO):

(i) One explanation of the fact that the Navy did not throw out the bids in 1933, in spite of the fact that they were high, was offered by Mr. Wilder on January 31 (galley 21 AS):

The CHAIRMAN. The question in my mind is not yet answered as clearly as I had hoped you might be able to supply the answer. Why were not these bids thrown out in keeping with what was understood to be an intent to throw them out?

Mr. WILDER. Mr. Nye, if I may answer that a little at length, I think that the Navy were coerced, forced by political pressure into meeting those awards against its will. This has been going on a long time. These yards have tremendous financial forces behind them. If you trace back the hearsay of the post-Spanish War Navy, you will first go through the armor-plate period, where the Navy was forced to build ships and place all private armor plate on them, whether they wanted that type of ship or not.

There was an investigation made, I think sometime just prior or during our entry into the war, and Congress, in answer to the Navy's plea, gave an appropriation to build their own armor plant.

In, I believe, 1910 Bethlehem first went into shipbuilding. Up to that time there had been a question of forcing armor on the Navy. Then it started to purchase shipbuilding plants; first, I believe, the Fore River plant, and then Hollingswood and Sparrows Point, and I do not know when they bought Union Iron.

From then on, as the record shows, it has been poor ships that the Navy has been forced to take.

There was an instance in 1924, and I believe Admiral Koontz made a report on it.

Senator BONE. I want you to explain the word "forced." They do not seem to be forced, when I talked to them, and seemed to be very glad to go ahead with the program. I would like to have you amplify that a little bit.

Mr. WILDER. You had a specific example here in a letter from Mr. Bardo to the Secretary of the Treasury. If the Secretary—I do not know that he did—responded to that pressure, he of course was in a very powerful position. Bethlehem had a man named Colonel Thompson, who had a palace out on Massachusetts Avenue, who was an armor-plate man. In 1924 some submarines were selected from Electric Boat, a Bethlehem subcontractor, which were the T-boats, and accepted and paid for and immediately decommissioned as unseaworthy, with the statement of the admiral that they were more dangerous to the crew than to the enemy.

So it goes down the long history of the thing, the political power used to force the Navy to do things that it itself would not do. I feel that the Navy is in a vice, controlled by these three big yards.

Senator BONE. How does this political force to which you refer work? Can you not enlighten us, so that we can enlighten the country? Tell us how it works. How do they apply the "heat" or the "squeeze", or however they term it?

Mr. WILDER. The best example is that example of Mellon. They are large organizations. They have considerable political force.

Senator BONE. I understand that, but how is it applied? I want to know how it is applied. It is all right to refer to it as "force", but that does not enlighten us. How do they apply this "heat" on ships? Do they come down and threaten Congressmen with political extinction if they do not go along? They cannot fire the admirals. Why does an admiral yield to that sort of force? He is in there for life. Why does he have to yield? Is it under threat that he will not be promoted, or how does it apply?

Mr. WILDER. There was an example, sir, of a man who I understand had more hours in submarines—they were then rated as they were in the air by the hours they had in them—and I think it was Commander Welsh, stationed at the New London Ship. He disapproved of some of the work that they were doing. He was told that if he did not pass it, he would be removed.

Senator BONE. Who told him that?

Mr. WILDER. I believe Mr. Spear.

Senator BONE. Spear in the Boat Co.?

Mr. WILDER. Lawrence Spear; yes, sir.

Senator BONE. He told him that he would be removed if he did not accept the work?

Mr. WILDER. Accept the work.

Senator BONE. All right.

Mr. WILDER. I think that the explanation is that a naval officer is not overly paid. He has a family, and let us say he settled down here with his family and puts his children in school. If he misbehaves, he is threatened to be sent to Guam.

(j) Further indications of attempt to use political influence were given in several letters sent out by A. P. Homer, at one time connected with the Democratic National Campaign Committee of 1932 (Feb. 1, galley 38 AS):

Senator VANDENBERG. First this morning, as a supplement to the testimony yesterday regarding Mr. A. P. Homer, I want to read into the record certain letters written by Mr. Homer and signed in his capacity as chairman of the marine committee of the finance division of the Democratic National Campaign Committee, Biltmore Hotel, New York City.

The first letter I read is dated October 17, 1932, and addressed to Mr. Charles M. Schwab, and is as follows:

MY DEAR MR. SCHWAB: As a result of the events of the last 3 weeks, we believe that if the shipbuilders of the United States are to get a square deal it will be necessary to make a change on November 8. I hope that you are in accord with this idea. If so, we ask that you help us with a contribution to the campaign fund of Governor Roosevelt, who, as you know, is marine-minded and hasn't the opinion that international affairs can be settled with a blueprint navy. Checks should be made to F. C. Walker, treasurer (personal check, of course), and mailed to him in the enclosed envelop. The writer will personally acknowledge your contribution and see that the news of it reaches the Governor's ears.

Thanking you for your cooperation in this matter, I am,
Yours very sincerely,

A. P. HOMER.

I also read a letter dated October 17, 1932, addressed to Mr. Grace [reading]:

After what the present incumbent of the White House did to the private shipyards on the destroyer matter, I am sure that you are of the opinion that a change is necessary if the shipbuilders are to get a square deal. As an old member of the shipbuilding fraternity, I am writing to ask for a contribution to the campaign fund of Governor Roosevelt. Checks should be made to F. C. Walker, treasurer (personal checks, of course), and mailed in the enclosed envelop promptly. The writer will acknowledge this personally and see that the knowledge reaches the Governor.

Thanking you for your cooperation, I am.

Very sincerely yours,

A. P. HOMER.

Another form letter which was addressed to a large number of shipbuilders contained the following:

It is apparent that if we are to have a treaty-strength Navy we must have someone other than a pacifist in the White House, and as a treaty-strength Navy is of vital importance to you shipbuilders, we believe that the best interests of the industry will be served by the election of Governor Roosevelt, who has full knowledge of the Navy's problems, having been intimately acquainted with the troubles which came from unpreparedness in the World War.

In order that we may be able to carry on the campaign successfully, funds are of vital importance, and I hope you will see your way clear to sending a contribution to us.

Checks should be made to F. C. Walker, treasurer (these must be personal checks), and promptly returned in the enclosed envelop.

This letter was also signed by Mr. Homer in his capacity as chairman of the marine committee of the finance division of the Democratic National Campaign Committee, Biltmore Hotel, New York City.

Shipbuilders to whom this or a similar letter was sent include Homer L. Ferguson, president Newport News Shipbuilding & Drydock Co., Newport News, Va.; C. H. Bardo, president New York Shipbuilding Co., Camden, N. J.; S. W. Wakeman, vice president Bethlehem Shipbuilding Corporation, Quincy, Mass.; W. S. Newell, president Bath Iron Works, Bath, Me.; C. Stewart Lee, vice president Pusey & Jones Corporation, Wilmington Del.; J. C. Pew, president Sun Shipbuilding & Drydock Co., Chester, Pa.; W. W. Smith, chief engineer Federal Shipbuilding & Drydock Co., Carney, N. J.; Charles C. West, president Manitowoc Shipbuilding Corporation, Manitowoc, Wis.; L. Y. Spear, vice president Electric Boat Co., Groton, Conn.; Joseph W. Powell, president United Dry Dock, Inc., New York City; J. Herbert Todd, vice president Todd Shipyards Corporation, New York City; and D. W. Nevins, General Electric Co., Schenectady, N. Y.

(k) In 1922 and 1923 the New York Ship Co. employed a brother of the then Secretary of the Navy as a foreign representative (Feb. 6, galley 28 ZO).

Mr. RAUSHENBUSH. You prepared this statement, which I offer for the record under the number exhibit no. 1529, supplementing further information regarding the representatives, Mr. Parker.

(The letter referred to was marked "Exhibit No. 1529" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH. I see here the name of Charles Denby, special representative, China and the Orient, 1922 to 1923. The actual amount paid to Denby was \$5,048.72. Was that the brother of the Secretary of the Navy at the time?

Mr. PARKER. I believe so.

Senator CLARK. Had Mr. Denby ever been in your employ, Mr. Parker, so far as the New York Shipbuilding Co. is concerned?

Mr. PARKER. Not so far as I know.

Senator CLARK. Was there any particular reason why he would be employed and sent over to the Far East at the time when you already had two other highly paid representatives in that territory?

Mr. PARKER. That was a matter that Mr. Neeland decided. He was president of the company.

Senator CLARK. You had nothing to do with it?

Mr. PARKER. I had nothing to do with it whatever.

Senator CLARK. You simply know he was employed at the same time because the check was made out?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. In the paragraph below you state that Joyner was paid during this period salary expense of \$103,432.98 and Joyner was also paid in addition \$13,750 commission on the Japanese tanker *Kamoi*. If Mr. Joyner was covering the Orient at the time and getting this fairly high salary, what point was there particularly in Mr. Denby going over there? He did not get any business for you, did he?

Mr. PARKER. No.

(l) The political interest of another company, United Drydock, located in New York City, is indicated, in part, in a letter dated September 30, 1932 (galley 39 FS).

Mr. RAUSHENBUSH. About this time, just as a matter of record, because the Du Pont representative introduced the subject a while ago, I have a letter from Mr. Powell to your Mr. Williams, dated September 30, 1932. [Reading:]

Capt. ROGER WILLIAMS,

Newport News Shipbuilding & Dry Dock Co.,

90 Broad Street, New York, N. Y.

(Naval appropriations file no. 8121.)

This morning Gerrish Smith and I called on Mr. Ted Saunders at the National Republican Headquarters in New York, and made an oral statement to him of the political effect on the employees of the private shipyards of the award of the three destroyers to navy yards and requested him to use his influence with the President to direct construction of the three remaining vessels in private yards. He was interested and asked that the statement be reduced to writing, which was done, and a copy of the statement is enclosed herewith. He stated he did not know whether his influence would have an effect on the President, but my personal impression is that he will try to have the President award these three vessels to private shipbuilders.

I believe it would be very effective at this time if any Republican Congressmen or Senators that you can reach telegraph to Mr. Everett Saunders, care of Mr. Jeremiah Milbank, Waldorf-Astoria Hotel, New York City, and to the President, and if you would also wire Mr. Saunders so that he will know that it is the industry that is speaking.

Gerrish Smith is off to Washington and asked me to write this letter in his absence.

Very truly yours,

(Signed) J. W. POWELL.

Later Mr. Newell was asked about this letter (galley 29, 30 WC):

Mr. NEWELL. No, sir. This gets back to what we talked about a little earlier this morning; 11 destroyers were authorized, and the President allowed only 5 to be built—2 in the private yards and 3 in the navy yards. Then what actually happened was this: I will say about a month—that is near enough—before the election in November 1932, the Navy was ordered to place another destroyer

of the same design, this Bethlehem design, in the Boston Navy Yard and another one in the New York Navy Yard. They already had one, and that gave each of those two yards two, and the third one at the Philadelphia Navy Yard.

Mr. RAUSHENBUSH. That left 3 out of the 11, and the point of this seems to be that the President was to be requested to direct construction of the 3 remaining in private yards.

Mr. NEWELL. There were 3 remaining, and nothing was ever done with those 3.

Mr. RAUSHENBUSH. They were not placed?

Mr. NEWELL. No, sir.

Mr. RAUSHENBUSH. You made a point that this was just done before election.

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. You interpreted it that way?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. Yes, sir.

Mr. NEWELL. They were put into what everybody considered pivotal States, Massachusetts—

Mr. RAUSHENBUSH. Since when was Massachusetts a pivotal State?

Mr. NEWELL. It went Democratic in 1932, and was always Republican before.

Mr. RAUSHENBUSH. The extra ones went where?

Mr. NEWELL. Massachusetts, New York, and Pennsylvania.

Mr. RAUSHENBUSH. You replied to that letter, Mr. Newell, did you not?

Mr. NEWELL. I do not remember, but it would be in the file if I did.

Mr. RAUSHENBUSH. I have a letter here, which I offer as "Exhibit No. 1808", from you to Mr. J. W. Powell, United Dry Docks, Inc., 11 Broadway, New York City [reading]:

MY DEAR POWELL: I beg to acknowledge receipt of your letter of September 30 in regard to the award of three additional destroyers to navy yards, and have started a shriek on this end. I am working on this by personal contact with the Republican politicians in this State and think I have convinced them of the seriousness of the situation and that they are playing "bad ball" in pursuing their present policy of throwing the new construction work into the navy yards.

Do you have any comment on that?

Mr. NEWELL. No; I do not remember what I did.

(The letter referred to was marked "Exhibit No. 1808".)

(m) The connection of former Secretary of the Treasury, Andrew W. Mellon, was discussed on February 26 (galley 1 QD).

The CHAIRMAN. Yesterday's examination, Mr. Grace, left one question unasked, which it is necessary to have answered this morning. During the years that the matter of taxes owing the Government by the Bethlehem Corporation was in dispute, was the Secretary of the Treasury, directly or indirectly, an owner of any portion of Bethlehem's stock, or bonds, or notes?

Mr. GRACE. The Secretary of the Treasury?

The CHAIRMAN. Yes.

Mr. GRACE. The Secretary of the Treasury became financially interested in Bethlehem, to my knowledge, at the time we acquired the McClintock-Marshall Construction Co., in which the Secretary was a large stockholder.

The CHAIRMAN. When was that?

Mr. GRACE. That was in the early part of 1931.

The CHAIRMAN. And, to your knowledge, he had no connection with the corporation prior to that time, as a stockholder?

Mr. GRACE. I could not say off-hand, but, if so, certainly in no important way. He may have owned some Bethlehem stock, but I would not even know it if he did.

The CHAIRMAN. What can you say with respect to bonds?

Mr. GRACE. I could say whether they owned any of the bonds or not.

The CHAIRMAN. Notes?

Mr. GRACE. I could not tell you. But as of the early part of 1931, they became a prominent, important stockholder in our interest. What they had prior to that, I could only obtain for you by looking up the records. I would be glad to have that done if you want it.

(n) Mr. Korndorff, of Federal Ship, referred to the Cord interests as "well connected in Washington" (galley 14 WC, Apr. 2).

Mr. RAUSHENBUSH. I offer another letter as exhibit no. 1776 by you to Mr. George S. Scott, president United States Steel Products Co., 30 Church Street, New York. Again I do not have a copy of this. You call attention to the following in the last paragraph [reading]:

Another factor that makes me feel that we should keep in touch with this situation is the apparent interest of the New York Shipbuilding Co. in this business, because I feel that the new owners of that company are pretty well connected in Washington.

By that time did you know who the new owners of the company were?

Mr. KORNDORFF. I do not recall, but I do know that they had communicated down there, trying to get some of the business.

Mr. RAUSHENBUSH. I am talking about the New York Shipbuilding Co., new owners of the New York Shipbuilding Co., are "well connected in Washington."

Mr. KORNDORFF. I may have known.

Mr. RAUSHENBUSH. Who are they?

Mr. KORNDORFF. I never knew of my own knowledge. It was just general public information.

Mr. RAUSHENBUSH. Who were they, from general public information?

Mr. KORNDORFF. The reputed statement was that the Cord interests had something to do with it.

Mr. RAUSHENBUSH. You spoke of them as being "pretty well connected in Washington"?

Mr. KORNDORFF. Yes, sir.

(o) Mr. Newell testified as to the use of political influence to obtain destroyer awards (galley 22 WC, Apr. 3).

Mr. RAUSHENBUSH. Did you use, or try to use, any political influence, either to get work up at Bath or to get these contracts as soon as the bids were in?

Mr. NEWELL. What do you mean by "political influence"?

Mr. RAUSHENBUSH. Of friends of friends.

Mr. NEWELL. Yes.

Mr. RAUSHENBUSH. Tell us about that, won't you?

Mr. NEWELL. We requested certain individuals in Bath, and in the State of Maine, to send telegrams to the White House, urging the award of two of the ships to Bath.

Mr. RAUSHENBUSH. That was after the bids were in?

Mr. NEWELL. Yes, sir; and that was before I was asked to go to the Navy Department to Captain Jones' office.

The CHAIRMAN. Did you pull any political strings when the naval bill was pending, or when bills were pending looking to the appropriation of funds for naval construction?

Mr. NEWELL. You mean, approach any Members of Congress?

The CHAIRMAN. Or anyone. Did you pull any strings on any people in Maine to write to the President, or to wire him, or to Members of Congress?

Mr. NEWELL. No; I do not recall doing anything. I do remember quite a long time ago—I should say perhaps a month; I cannot remember exactly—hearing one day in Bath that the Governor had been to Campo Bello to see the President. The President at that time was on a yachting cruise down the coast, and, mind you, I heard this after the Governor of Maine went to Campo Bello, and a friend of mine—I do not remember who it was but it was some Bath person—said that Governor Brand says that the President is going to see that Bath gets some of this Navy work. I do not consider that that is anything; I did not know anything about it until I heard it afterward.

Mr. RAUSHENBUSH. You did not ask the Governor to go?

Mr. NEWELL. No, sir.

Mr. RAUSHENBUSH. Coming back to these 1933 awards, at the time that they were still open, what other influence did you try to use to get consideration for Bath?

Mr. NEWELL. I do not know of any. I do not remember any other.

Mr. RAUSHENBUSH. You said a moment ago you had used influence, and the one instance you gave was the telegrams which were sent to the White House.

Mr. NEWELL. That was after the bids were in.

Mr. RAUSHENBUSH. That was after the bids were in? Was that all you had in mind?

Mr. NEWELL. Yes, sir. I will tell you why I did that, and it is a perfectly natural impulse and a logical thing to do. Here was a bid that Bath had put in

only on the adjusted basis. Now there was an influence, and naturally would be an influence, perhaps, mind you, on people, as to whether or not there was not a technicality involved there, and I heard—and I cannot remember who told me because there was a lot of gossip and talk—that here was this so-called "Gulf Industries" down at Pensacola who were going to try to bring political influence to bear on account of their bid having been so much lower than anybody else's.

Mr. RAUSHENBUSH. Why would somebody with a low bid have to bring political influence to bear?

Mr. NEWELL. I cannot answer that. But they had a feeling that they would not get it anyway, I imagine, no matter what the bid was, because it was a question of their ability to perform, if they were awarded the contract, not being a going concern. But I heard that. I said, "If they are going to start that kind of a racket, I think I ought to do it too, in defense of our position and the people I am representing in Bath", because it was a settled thing.

The CHAIRMAN. Mr. Newell, was it not a fact that during all this time that United was ready and its drawing department all set up, and its design far under way, even before contracts were awarded?

Mr. NEWELL. Not that I know of; no, sir; I do not think so. United can answer that question better than I can.

The CHAIRMAN. You had no knowledge then, or since, that such was true?

Mr. NEWELL. No, sir. All I know about this situation was that United had employed Gibbs & Cox, of New York, to work with them in the preparation of estimates, and I do not remember whether United submitted a so-called "class II bid", which was an alternate, on the bidder's design, or not. I do not remember at the moment. I can check it up and I can find out. But, on the other hand, United can tell you that.

The CHAIRMAN. Did you see anything which would indicate that Mr. Powell and the Navy had an understanding before the award was made for the designing?

Mr. NEWELL. No, sir; I never heard the Navy Department say anything about any of the bidders. They do not do it.

Mr. RAUSHENBUSH. Coming back to your statement that you thought Gulf was going to use political influence, and therefore you thought you were entitled to do the same thing—

Mr. NEWELL. I heard also that the Maryland Dry Dock was going to, but I did not hear it from anybody connected with those respective companies.

Mr. RAUSHENBUSH. Did you hear it about any of the other companies?

Mr. NEWELL. No, sir.

Mr. RAUSHENBUSH. So that you thought you were going to do the same. What happened? What did you do? Simply get these wires to the President? Is that all?

Mr. NEWELL. Yes; we asked the Governor of the State, and we asked 2 Senators, 3 Congressmen, the mayor of Bath—I may not get them all in but you have a list of those telegrams in your records.

Mr. RAUSHENBUSH. All that testimony about what was done with those telegrams is correct, then?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. They were sorted out especially by whom, the President's secretary? Or he was asked to sort them out and lay them especially aside?

Mr. NEWELL. That is what I understood he was told. I do not know whether it is correct.

Mr. RAUSHENBUSH. He was so told?

Mr. NEWELL. Yes, sir.

Mr. RAUSHENBUSH. It was following that that this rather unusual procedure happened, of the Bath being picked out to get together with the other yards, when United was the control yard?

Mr. NEWELL. Yes; that is right.

Mr. RAUSHENBUSH. Do you have anything further to add to that statement of what happened in 1933? Is that pretty thoroughly the picture?

Mr. NEWELL. I do not think I could add anything more to it if I talked a whole week.

The name of James Roosevelt was used by an insurance agent soliciting business from the Bath Iron Works and claiming to be able to get special consideration for the company on naval awards (galley 39 WC-B, Apr. 13).

Mr. RAUSHENBUSH. We have a letter here of July 12, 1933, addressed to Hon. Louis McHenry Howe, Secretary to the President, The White House, Washington, D. C. That letter reads:

MY DEAR MR. HOWE: At this writing the Bath Iron Works at Bath, Maine, have one Government destroyer under construction and the president of this concern, Mr. Newell, informs me that he is now submitting bids, through Hon. Henry Roosevelt, Assistant Secretary of the Navy, for two more destroyers.

The CHAIRMAN. Mr. Raushenbush, let us establish that. Where did this letter come from, written by Mr. MacGrath to Secretary Howe?

Mr. RAUSHENBUSH. This came from the files of the Bath Company, and we have a little later a letter from Mr. MacGrath to Mr. Thebeau, on July 31, 1933, saying [reading]:

Enclosed is a copy of my letter of the 12th to Hon. Louis McHenry Howe, Secretary to the President; also Mr. Howe's reply of July 18th.

The letter goes on, from Mr. MacGrath, to state [reading]:

You may recall that it was at my suggestion and request that James Roosevelt spoke in Bath, Maine, last October, after our State election here, and I may say that this part of our campaign in Maine aroused considerable interest and support for the President, not only in the city of Bath, but throughout the State, and we were almost able to carry the city of Bath for the President, which normally has been a Republican stronghold for years.

It may well be said that the population of the city of Bath depends upon the Bath Iron Works as a principal source of industrial income, and the cheapness of labor at this port enables the Bath Iron Works to operate at a very low cost, and a considerable factor in saving the Government expense in the construction of destroyers.

The psychological effect of the administration awarding to the Bath Iron Works contracts for two new destroyers will be looked upon very favorably by the people of Maine, and will be very helpful in the upbuilding of the Democratic Party in this State.

I would be very pleased to have you call this to the attention of the President and I urge the administration to give all possible consideration to this matter.

Always with best wishes, I remain,

Sincerely yours,

ROGER S. MACGRATH.

Mr. RAUSHENBUSH. I offer that for the record as "Exhibit No. 1814."

(p) Bath Iron Works was solicited for subcontracts by a Member of Congress serving on the Merchant Marine and Fisheries Commission (galley 39 WC and 40 WC, Apr. 3).

Mr. THEBEAU. No.

The CHAIRMAN. Mr. Newell, how frequently are you confronted by men in official positions who ask for favors or business from you or from your company?

Mr. NEWELL. I cannot think of any. Like whom, for instance?

The CHAIRMAN. Oh, any public official who might have been in a position of serving you in a legislative way or administrative way?

Mr. NEWELL. No, sir; I do not know of any that ever happened.

The CHAIRMAN. You have never been solicited by Members of Congress for business?

Mr. NEWELL. No, sir; never.

The CHAIRMAN. Are you at all conversant with the letter that was addressed to you on October 11, 1933, by one Member of Congress?

Mr. NEWELL. No, sir.

The CHAIRMAN. I hope no Member of Congress will assume that this letter is being made a part of the record as a model for others to pursue, but I offer as an exhibit, to be properly identified as "Exhibit No. 1820", a letter

written on the stationery of the House of Representatives, Congress of the United States, Washington, D. C., October 11, 1933, reading as follows:

Mr. WILLIAM S. NEWELL,
President, Bath Iron Works, Inc., Bath, Maine.

DEAR MR. NEWELL: As you perhaps know, a Congressman must derive some of his income from other sources than being a Member of the House, and in this connection I would like to bring to your attention the fact that my secretary and myself have a company in Philadelphia trading under the name of Edmonds & Heidler.

In this company we have the representation of the Ehret Magnesia Manufacturing Co., Valley Forge, Pa. There are only four manufacturers in this particular line in the country and our company is one of them. I am writing you particularly at this time to ask if it would be possible for you to add our name to your inquiry list for materials in connection with the ships you are about to build. We can sell the material direct or can quote on applied basis.

We have performed work for companies such as New York Ship, with whom you are acquainted, Newport News, and for the Government direct on repair jobs.

I will appreciate your interest and with very best wishes, I am,
Sincerely yours,

G. W. EDMONDS.

* * * * *

(The letter referred to was marked "Exhibit No. 1820.")

The CHAIRMAN. Do you have any recollection of this letter now?

Mr. NEWELL. No, sir. I am not saying that I did not get it, but I do not remember it.

The CHAIRMAN. Mr. LaRouche, has this been identified as coming from the files of the Bath Iron Works?

Mr. LAROCHE. Yes, sir; that was taken by our man from the file of the Bath Iron Works.

The CHAIRMAN. You have no recollection of what was done upon its receipt?

Mr. NEWELL. No, sir.

The CHAIRMAN. Have you had like approaches by others in Congress or in administrative positions?

Mr. NEWELL. I do not remember of any, and I did not remember that. I do not remember every letter that comes in, of course. It is pretty difficult to do.

The CHAIRMAN. I suppose that if you have such faint recollection of this letter, in a general way, it would be useless for me to ask if, by any chance, this letter came to you under the Congressman's frank.

Mr. NEWELL. No; I do not know.

The CHAIRMAN. Do you know whether this company, to which Mr. Edmonds referred, did actually perform work for the New York Shipbuilding Co., Newport News, or for the Government direct?

Mr. NEWELL. No; I do not.

The CHAIRMAN. Did you know Mr. Edmonds?

Mr. NEWELL. No, sir.

The CHAIRMAN. Did you know Mr. Edmonds, Mr. Thebeau?

Mr. THEBEAU. No; I did not.

Mr. NEWELL. I do not even know him by sight. I never heard of him before.

The CHAIRMAN. You did not know that he was a member of the Committee on Merchant Marine and Fisheries?

Mr. NEWELL. No, sir.

The CHAIRMAN. I think we have had it brought out that you have had no business with this firm. Could you say that emphatically, without referring to your records?

Mr. NEWELL. I would be inclined to. My recollection is that insulating materials, of the character that the Ehret Manufacturing Co. build, we buy altogether from the Johns-Manville Co. I do not think we have purchased anything from that company.

The CHAIRMAN. Might the Chair ask, Mr. Newell, upon your return to your offices, will you check and advise the committee definitely whether or not your company has ever done any business with this firm of Edmonds & Heidler?

Mr. NEWELL. We have never done any business with them. I can tell you that. If we ever purchased anything from the Ehret Co., which is the manufacturer in this case, we would have done it through their Boston house. I will check up that matter and advise the committee by letter.

The CHAIRMAN. Will you indicate in your response whether you have done business with this firm, or with Mr. G. W. Edmonds, or with Mr. Heidler, whose initials I do not have? Mr. Newell—

Mr. NEWELL. May I ask a question?

The CHAIRMAN. Yes.

Mr. NEWELL. I would be curious to know, if, in the committee's list of letters—of which this is one—that they took from our files, if there was a reply from us to Congressman Edmonds?

The CHAIRMAN. The Chair has been advised.

Mr. NEWELL. I do not remember it.

The CHAIRMAN. My recollection is that the reply was merely an acknowledgement, saying that the name of the firm would be listed for reference, in the event the company did make further purchases along their line.

Is that reply before you this afternoon, Mr. LaRouche?

(q) Later (galley 79-80 WC):

Mr. LAROCHE. I want to get in a letter. I enter for the record a letter dated October 5, 1932, from W. S. Newell to you, Mr. Powell [reading]:

Mr. J. W. POWELL,

United Dry Docks, Inc., 11 Broadway, New York City.

MY DEAR POWELL: I beg to acknowledge receipt of your letter of September 30 in regard to the award of three additional destroyers to navy yards, and have started a shriek on this end. I am working on this by personal contact with the Republican politicians in this State and think I have convinced them of the seriousness of the situation, and that they are playing "bad ball" in pursuing their present policy of throwing the new construction work into the navy yards.

Senator BONE. That is signed by Mr. Newell, of the Bath Iron Works. If you read that letter carefully, it is a very significant letter. He is referring to your letter of September 30 to him, in regard to award of some additional destroyers to Government navy yards. He said:

I started a shriek on this end.

That is up in Maine, but the Maine gentleman comes down and not content to work in Maine, and says "I am working with Republican politicians" in Maine, I suppose. What is he working on with Republican politicians? I know what that means, if you do not.

Mr. POWELL. Yes, sir; I know perfectly well what he means.

Senator BONE. Any person in politics for a number of years knows what it means. He is working on this to keep them from allocating those ships to the navy yards.

Mr. POWELL. Out of that particular lot, Senator, the navy yards got all but two boats. I do not think the work, whatever done, was effective.

Senator BONE. It is a question of degree and not kind. He says, "I have convinced them"—the politicians he is working on—"of the seriousness of the situation * * *." How could it be serious?

Mr. POWELL. I think it is terribly serious.

Senator BONE. Let us let everybody in this country know if this is a serious proposition.

(r) The activities of United Dry Docks were discussed on April 4 (galley 54 WC et seq.).

The CHAIRMAN. Mr. Powell, a note was written on the side of this letter to which we have been referring, which says [reading]:

Ed Farley suggests I should go direct to President Hoover instead of to Congress. I know Joslin pretty well. Does this sound as if there was any hope in that direction?

Who is Ed Farley?

Mr. POWELL. He was at that time a director of the United Dry Docks.

The CHAIRMAN. Is he still connected with the United Dry Docks?

Mr. POWELL. No; he is no longer connected with the United Dry Docks.

The CHAIRMAN. Congressional pressure, is it fair to say, or is it fair to assume, means a general political pressure, bringing into play any political acquaintance that might be won for your cause at that time?

Mr. POWELL. May I answer that, Senator? As long as I wrote the letter, perhaps I can tell you just what I had in mind. I had in mind that it was a perfectly reasonable situation, where Members of Congress, who were interested in the Navy, or the upbuilding of the Navy, or Members of Congress who were interested in work going into the New York district, where this boat would be built, that it would be perfectly proper, and more than proper, for them to approach the President with a view to getting him to change his order holding up these boats and to proceed with the building. That is exactly what we had in mind, and that is what we did, as far as we could, although we never got anywhere with it.

Mr. MALONE. If I may supplement it, that is precisely what my interpretation of it would be, although as Mr. Powell said, I would not use the word "pressure", but giving it the practical steps Mr. Powell suggested, were the ones I would take, and generally did take.

The CHAIRMAN. The Chair will state that he does not conceive any lack of impropriety on the part of a concern availing itself of the cooperation of its representation in Congress, but I am wondering why you, operating in the field that you do operate in, would go so directly to Congressman Britten, who was not of your district, in connection with this matter?

Mr. MALONE. I will explain that, if I may, Senator. I conferred constantly with the representation, directly from our district, at that time, Anning S. Prall, and with his knowledge I conferred with Members of the House who were identified with the general Navy situation. Britten, at that time, as I recall—I think it was a Republican Congress at the time, and I think he was Chairman of the Naval Affairs Committee, but I am not certain. The point I had in discussing the thing with him was to ascertain whether or not Congress, or the House, at that time, or his committee, was going to be passive with reference to the nonuse of the funds that had been appropriated for these remaining six destroyers, or whether they would make overtures or suggestions that the program, as appropriated for, be proceeded with. That is my recollection of my approach to Mr. Britten.

The CHAIRMAN. Well, you had, through Mr. Britten, who had just retired as Chairman of the Naval Affairs Committee, in favor of Mr. Vinson—through Mr. Britten you got to Mr. Vinson, did you not?

Mr. MALONE. What was the latter part of it, Senator?

The CHAIRMAN. Through Congressman Britten you got to Mr. Vinson and laid your problem before him?

Mr. MALONE. Yes, sir; very briefly.

The CHAIRMAN. Having received the cooperation of the Representatives in Congress from New Jersey and New York?

Mr. MALONE. Not in great numbers, Mr. Chairman. We did not spread our problems very broadly. I tried to hit the ball just where I thought it would do some good, you know. I did not crusade or do any bell ringing, or anything like that. As I recall—perhaps the record will refresh me further—but, as I recall, my discussion of this was confined very largely to Mr. Britten, Mr. Vinson, and maybe one or two other Members; Mr. Delaney, Mr. Boland, and perhaps two or three other members of the House Committee on Naval Affairs.

Mr. POWELL. I may say, Senator, that one of our yards is in Mr. Delaney's district.

The CHAIRMAN. You were not unaware of the fact that a Presidential election was in the offing at that time, were you?

Mr. MALONE. I knew there was one the next year; surely, sir.

(The letter referred to was marked "Exhibit No. 1835" and is included in the appendix on p. —.)

The CHAIRMAN. Here is a letter you wrote, Mr. Malone, to Mr. Powell, under date of December 28, 1931, which is offered as an exhibit for the record.

(The letter referred to was marked "Exhibit No. 1836" and is included in the appendix on p. —.)

The CHAIRMAN. That letter carries this language:

Those views check with Mr. Farley's—

that is Mr. Ed. Farley?

Mr. MALONE. I am sure it must be him.

The CHAIRMAN (continuing reading).

although I should add that any approach to Hoover invariably is found most disappointing. It is almost out of the question to expect anything of him via any of his secretaries. He will only yield if there is an advan-

tage to be gained in the way of political trading. It remains for determination whether the approach would be best through a contact such as Mr. Hilles, or through a strong congressional showing. Britten inclined to the latter belief and I do likewise, although quite possibly the approach could be made jointly with congressional backing and with Mr. Hilles. What I am aiming to convey is that any direct approach to Hoover, even through most personal channels, is almost sure to be unproductive.

I will work with the Jersey delegation immediately upon learning of the contract you would recommend; that is, whether the Hoboken Member of the House is a strong friend of United's, and could help us in taking it up with the Senators.

What was your experience that led you to report that it was exceedingly difficult to deal on these matters with President Hoover or through his secretaries?

Mr. MALONE. Just my opinion, Mr. Chairman.

Mr. LAROCHE. Just at this point were you cooperating with any other yards in trying to secure those destroyers at that time?

Mr. MALONE. No, Mr. LaRouche; I do not believe we had contacted any of them whatever.

Mr. LAROCHE. You were doing it all alone?

Mr. MALONE. Entirely.

Mr. POWELL. Mr. LaRouche, I did write to the other yards, as the record shows, but Mr. Malone had no part in that.

Mr. LAROCHE. Mr. Malone was working alone, as far as United was concerned?

Mr. POWELL. Entirely.

Mr. MALONE. Precisely.

The CHAIRMAN. Now, you had lost out on your bid for the early program. I wonder if we can get at all a fair picture of what your real purpose was in your effort through General McCarl and through these congressional delegations?

Mr. POWELL. Yes; my real purpose, Senator, was to get the contract for one destroyer, that I felt I was entitled to, at the price that I had bid.

The CHAIRMAN. In pressing as hard as you did, did you not have reason to believe that you might make the Navy rather uncomfortable and a little less receptive of favorable consideration for you in the allotting of these additional destroyers?

Mr. POWELL. Not the slightest. I thought the Navy would be delighted if I was able to pry one of these boats loose and get it built, because they certainly wanted them built.

Mr. LAROCHE. Mr. Powell, did you not think you had a legal case in 1931, after that destroyer was diverted to Bethlehem?

Mr. POWELL. I took it up with a firm of lawyers in Washington, and they told me I did not. They told me there was no way that I could proceed legally, and if they had told me that there was a way I could proceed legally, I would have been on the firing line.

Mr. LAROCHE. Even though you might have antagonized the Navy?

Mr. POWELL. I was fighting the Navy as hard as could on the award.

Mr. LAROCHE. That is the reason you did not?

Mr. POWELL. That is the reason I did not, and I think I had good legal advice, too, Mr. LaRouche.

Mr. MALONE. If you will permit me, we have a memorandum—and I do not know whether it was available in New York, and whether it was given to any of the investigators—but I have a copy of our legal memorandum analyzing our position in the matter. I showed it to the examiners when they were over to see me.

The CHAIRMAN. The appropriation had been made, had it not, for these additional destroyers?

Mr. POWELL. Yes.

The CHAIRMAN. And it was up to the administration to determine where the building of them was to be undertaken?

Mr. POWELL. Yes.

The CHAIRMAN. And United Dry Docks, Inc., was anxious to get one or more of these destroyers?

Mr. POWELL. Yes.

The CHAIRMAN. On January 4, 1932, Mr. Malone wrote to Hon. Anning S. Prall, United States House of Representatives, Washington, D. C. [reading]:

MY DEAR MR. PRALL: I enclose for your information a copy of the decision of the Comptroller General, dated December 10, 1931, in the matter of the protest by United Dry Docks, Inc., against its nonreceipt of a contract for the building of a destroyer. I am sure you will concur that this decision sustains in full measure the equity of United's position, that the award to Bethlehem in preference to United is of highly doubtful legality, and that such award is only condoned because of the apparent matter of large public policy involved. It should be distinctly understood that the nonacceptance of the bid of United is in no wise due to any lack of ability or responsibility by United, its Staten Island shipbuilding plant being one of the oldest shipyards in the United States, whose facilities have been devoted very largely to naval work in the past. In addition, it is virtually necessary, before entering a bid on such work, to qualify before the Navy Department in advance of receiving the invitation to bid and the specifications for bidding. All of these matters were inquired into by the Navy before United was included as an intending bidder.

The one outstanding important point is that at no stage of the invitation was any remote hint given by the Navy that its award would or might be based upon its own opinion as to the merits of alternate designs. On the contrary, there was not the remotest indication that award would be based on other than the terms fixed in the invitation for bids.

The entire letter I offer as an exhibit, but I do not read it in its entirety. (The letter referred to was marked "Exhibit No. 1837" and is included in the appendix on p. —.)

The CHAIRMAN. I move on to a concluding paragraph [reading]:

While we are sympathetic with efforts toward economy in the future expenditures of the Government, we think it may be noted that the cost of these destroyers has already been provided for from past appropriations and that the building of them is a matter of settled necessity.

Mr. Malone, what makes you conclude the appropriation for construction makes that construction an absolute necessity?

Mr. MALONE. Mr. Chairman, I did not intend to imply by this letter—and I do not believe that I did—that there was a mandate, but I did imply, and felt, that it was a pretty distinct direction of Congress, in the sense that there had been an organic act establishing the composition of the Navy, that the building of the Navy in accordance with such composition had been deferred in completeness for some time, and then finally, after a very thorough debate and consideration, appropriation was made for the vessels remaining to be built in order to fill out such composition. That, I would say, was behind my belief that the building of the ships was a settled necessity. Congress had considered the inadequacy and the obsolescence of the destroyer portion of the United States Fleet, and, as I remember it, that is what the committees and the debates in Congress, preceding this appropriation for the final 12 destroyers, brought out, in the majority sentiment, at least, that it was a settled matter on the part of Congress that these destroyers should be built.

The CHAIRMAN. You concluded this letter to Congressman Prall as follows [reading]:

We sincerely trust that you will be enabled to establish the deserving nature of our case, and that we shall receive a contract for 1 of the 6 destroyers now in the state of postponement.

Was Congressman Prall very helpful to you in this matter?

Mr. MALONE. He was extremely cooperative, Mr. Chairman.

Mr. POWELL. I may say, Senator, that our Staten Island plant is in the district that Congressman Prall then represented. That is, the plant where that destroyer would have been built if we had been awarded the contract, and that plant represents one of the three or four biggest industries in that district.

The CHAIRMAN. Writing on April 30, 1932, to Mr. Powell, Mr. Malone, you had this to say [reading]:

I am making an effort with Mr. Prall to use the reporting of the Navy appropriations bill as a special occasion for insisting on a showdown on the release of one of the destroyers with a view to its allotment to United.

How could you use the advent of the Navy appropriation bill, in the light of the fact that appropriations already had been made for the destroyers?

Mr. MALONE. That was about 4 years ago, Mr. Chairman; and I am frank to say that I cannot recall precisely the steps I intended taking, but I think the language there is about as plain as I could make it. I had hoped to bring the desire of the authorities—the executive authorities—in order that funds having been appropriated, considering the expediency, that they would be expended, and that that would lead to relief on some of the 6 remaining destroyers, and that we would receive a contract for 1 of them.

Mr. LAROUCHE. May I ask what possible assurance could you have that one of those might go to United?

Mr. MALONE. I did not have any assurance.

Mr. LAROUCHE. The language of the letter is, with a view to its allotment to United. How could you possibly assume that?

Mr. MALONE. I should say it was optimism. Our bid had not expired, and we had looked into that.

Mr. POWELL. I do not agree with that. Our bid had not expired, and there was no reason why Congress should not recognize the fact that we were the low bidder, and were entitled to one of those boats.

Mr. LAROUCHE. What boats?

Mr. POWELL. The bid which was held up and afterward the ship built. The bid we are talking about all through this testimony.

The CHAIRMAN. What further authorization was required from Congress to enable the President to go ahead with the building program?

Mr. MALONE. None.

The CHAIRMAN. Were you trying to force the President into the building of those destroyers which had been authorized and appropriated for?

Mr. POWELL. Yes, sir; that was exactly what we were trying to do.

The CHAIRMAN. You understood that there were some questions as to whether the President was going to do the building which had been authorized and appropriated for?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Were you considering writing into the appropriation bill then pending for the Navy language that would force the building of those destroyers?

Mr. POWELL. That I cannot say at this time, Senator. I do not remember.

Mr. MALONE. I think that was my pigeon, Mr. Chairman; I mean my proposal, to consider the matter at that time, and I am very positive that I had no idea of proposing language or legislation in the appropriation bill, but merely a case where those who were interested in the Navy program might bring it forcibly to the attention of the President.

The CHAIRMAN. I think your letter of that date to Mr. Powell more directly traces what the real purpose at the moment was.

Mr. MALONE. Perhaps so.

The CHAIRMAN. You were enclosing a copy of the pending naval appropriation bill for Mr. Powell's information.

Mr. MALONE. Yes, sir.

The CHAIRMAN. You said:

It does not appear that this bill makes any further provision in reference to the completion of the 6 destroyers postponed from the group of 11 for which appropriations were made last year, although reference is made on page 27 of the report that the work on these 6 was suspended for reasons of economy. It is my understanding that the proposed omnibus naval construction bill will include specific authority or direction for proceeding with these six destroyers and that the money appropriated for them last year remains in an undisturbed status.

Was it at this time that the Vinson naval building bill, authorizing approximately an additional one billion dollars for naval construction was pending?

Mr. MALONE. I could not say, Mr. Chairman, I am sure. I do not recall the date of the introduction of the Vinson bill or the date of its enactment right now. Adverting to the proposition there again, it may have been in my mind, Senator Nye, to ascertain whether the appropriation which had been made for those six unbuilt destroyers would continue as a continuing appropriation, and, if not, to attempt to see that it was continued. That may have been in my mind. I do not recall what even materialized as a result of it. I do not believe any action was taken.

The CHAIRMAN. This letter was written April 30, 1932. I offer it for the record.

(The letter referred to was marked "Exhibit No. 1838" and is included in the appendix on p. —.)

The CHAIRMAN. On May 10, 1932, we find you writing to Congressman Prall a letter, which will be offered as an exhibit and given proper identification.

(The letter referred to was marked "Exhibit No. 1839" and is included in the appendix on p. —.)

The CHAIRMAN. From which letter I read a single paragraph [reading]:

Since action has now been taken by the Senate on a general naval program, with which program the building of the destroyers already appropriated for is in entire harmony, and since that program seems likely of adoption by the House very shortly, do you not think that it is a most advantageous time to press within the House Naval Committee for some definite action looking toward the allotment of one of said destroyers to United Dry Docks?

It might help if we point out that any Federal measure such as the recent House \$132,000,000 road-building plan would have slight application or benefit to Staten Island and nearby regions, whereas the building of a destroyer at our Staten Island plant is precisely suited to the labor and industrial facilities in that area.

You were pressing at this time for relief in the way of legislation, along the line of that relief that was being afforded by highway construction?

Mr. MALONE. In that instance, Mr. Chairman, as I recall, Congress at that time was just about venturing upon measures of public expenditures, Federal expenditures, which were directly aimed at alleviating distress and either at the juncture you refer to here or later we distinctly decided to point out the advantages in reemployment that would come about through the building of the vessels at that time rather than to defer them.

The CHAIRMAN. Was there consideration being given to a so-called "works program" during those days?

Mr. MALONE. As I recall it, sir, I think the first emergency relief—the construction bill, I think that was the title, or the first Wagner bill—was under consideration at that time. Perhaps it had been passed. I do not know.

The CHAIRMAN. Were you seeking to accomplish inclusion within the language of that bill language that would afford some measure of relief for unemployment in the shipbuilding industry?

Mr. MALONE. I did very vigorously. I appealed to Senator Wagner and other Members of the Senate and House with a view to having that done, but the sentiment was not such as to allow us success.

The CHAIRMAN. You wrote, on June 3, 1932, to Mr. Powell [reading]:

Prall talked with Bob Wagner last night, and did his best to sell him the idea of incorporating the allotment for destroyers in the pending Senate relief bill.

Wagner would not commit himself—probably he could not, until the other committee members conferred with him—but assured Prall he would do everything within his power. Prall thinks, at this moment, it would be wasted motion to force the issue in the Garner bill in the House, since the Wagner bill is sure to be the one finally adopted. Nonetheless, the idea is before the House committee, and might possibly emerge as part of Garner's bill.

All through this effort on your part, Congressman Prall was very helpful to you?

Mr. MALONE. He cooperated whenever we requested him, Mr. Chairman.

The CHAIRMAN. I shall read on in that letter [reading]:

I could not see Wagner today, because he was in committee, but left with his assistant (at Prall's suggestion) an amended draft of revised section 7 of his bill, so as to make the destroyer feature immediately follow the Yards and Docks language. Further, with Land's approval—

is this Admiral Land?

Mr. MALONE. Yes, Mr. Chairman.

The CHAIRMAN (continuing reading):

Further, with Land's approval, I suggested that the present allotment for Yards and Docks work—\$10,000,000—be reallocated on a basis of \$4,000,000

for Yards and Docks and \$6,000,000 for destroyers, if the committee cannot see its way clear to put in a separate and additional figure for the destroyers.

(The letter referred to was marked "Exhibit No. 1840" and is included in the appendix.)

The CHAIRMAN. What was your contact with Admiral Land at that time?

Mr. MALONE. Mr. Chairman, he was Captain Land at the time, and he was an administrative assistant to the Secretary of the Navy, and there was active discussion in the press and in the Congress of the possibility of including certain naval work in connection with the relief program, and I approached the Secretary of the Navy, with a view to determining if it were likely, in his judgment, that naval construction, ship construction, which he so included, and I was referred to Admiral Land, or Captain Land. I had never met him in my life, and I came to him as a business man, and I asked him if he had any knowledge of what was projected. He said, "We have nothing official, except we know there is under consideration the bill which has been published, which includes the proposed allocation of funds for shore establishments."

He explained that he knew from the published text of the bill that it was contemplated that there would be funds made available for shore establishments.

I said, "That would restrict or inhibit you from using any of that for uncompleted merchant construction?"

He said, "Of course, obviously, it would."

I said, "Do you think, on our own initiative, there would be any objection if we sought"—I think perhaps I asked him if he or the Department would sanction or would try to see that they got some funds to enable them to proceed with construction, and he said that they would not; that they were confining their action to the bills drafted. I said I did not want to take the Department's problems on my own hands, but I was interested in this, and unless he objected seriously, I was going to approach the Senate and see if I could not have a break-down of the funds designated for naval use, so that they might be used in part for ship construction as well as shore-establishment construction.

That was the extent of my discussion with him.

Senator VANDENBERG. Did he agree to that?

Mr. MALONE. He said, as far as he was concerned, he did not care. He declined to take any official action on it, though, which is what I asked him to do.

Mr. LAROCHE. He did not object to it officially?

Mr. MALONE. I have just stated that, Mr. LaRouche.

The CHAIRMAN. He was not going to take the matter up?

Mr. MALONE. I told him, Mr. Chairman, that I would not do it, if it was something which would meet with the disapproval of the Navy, or they could call upon—

The CHAIRMAN. He did not tell you not to do it?

Mr. MALONE. He did not tell me not to do it.

Senator VANDENBERG. You took it as having his approval?

Mr. MALONE. I am telling you of the transaction as it transpired.

Mr. LAROCHE. Is Admiral Land a friend of yours, Mr. Powell?

Mr. POWELL. Yes; I have known him from the time he was a midshipman.

Mr. LAROCHE. Were you together at Annapolis?

Mr. POWELL. No. He is a younger man than I am.

The CHAIRMAN. Are you a graduate of Annapolis?

Mr. POWELL. Yes.

Mr. MALONE. To make this thing quite distinct, because I know you do not want anything lacking in completeness of it, Mr. Chairman, Mr. Powell had never mentioned, so far as I know, Captain Land's name to me, although I knew he was widely familiar with the Navy, and I knew he visited here, but I was referred to him on an official call to the Secretary, and had introduced myself and identified myself.

The CHAIRMAN. You considered that what you were seeking was a matter of merit, did you not?

Mr. MALONE. Yes, sir; of course, or we would not have tried.

The CHAIRMAN. I offer for the record a letter dated February 23, 1933, by Mr. Malone to Mr. Powell.

(The letter referred to was marked "Exhibit No. 1841" and is included in the appendix.)

The CHAIRMAN. In this letter Mr. Malone indicates that you were also interested in having amendments made to the R. F. C. legislation which would permit loans directly to corporations.

Mr. MALONE. Yes, sir.

The CHAIRMAN. You indicate again that Congressman Prall is very helpful to you in this connection, and in your concluding paragraph say [reading]:

Prall promises solemnly to try to have the House put the necessary language in. I told him I wished to appear before the Banking and Currency Committee, if necessary, as I felt assured I could do this purely on merit, if not on politics.

Mr. MALONE. May I ask the date of that, again, Mr. Chairman?

The CHAIRMAN. February 23, 1933. What is the meaning of that?

Mr. MALONE. I do not know that I could clarify it very much, sir.

The CHAIRMAN. The letter goes on [reading]:

He thinks he can manage it with Steagall, the committee chairman, so I am leaving it to him until further notice. At his request, I have given him the enclosed summary of the situation, and invite your attention to the Chesapeake ferry situation.

Mr. MALONE. Mr. Chairman, at a later date, I believe we were in fact interested in the question of direct loans to industry by the R. F. C., and that is the reason why your query confused me for a moment. This letter did not have reference to that situation, which I presume may come up. This had reference to the fact that the first R. F. C. bill, or the second, I guess it was, by this time, contemplated loans to so-called "self-liquidating" enterprises engaged in public-service ventures; that is, those which were semimonopolistic in character—toll bridges, toll roads, and the like.

And at the time some of the ferry companies in New York, operating, I believe, to Staten Island, were considering the replacement of their lot of ferry ships.

The Staten Island Yard, I might say, has always been a prominent builder of ferry ships, and it occurred to some of the parties in the ferry business that so long as the Government was making available, through the R. F. C., loans to public-service enterprises of a self-liquidating nature, a ferry would be considered the same as a bridge. And I believe you may find a letter, over my signature, stating those words substantially.

And it was with a view to qualify ferries as amongst those enterprises eligible, that this letter was written. That is what it had reference to.

The CHAIRMAN. What provision existed in this destroyer program, at the time, which gave authority to construct these destroyers on any other basis than offering them for bids?

Mr. MALONE. None whatsoever, so far as I know.

The CHAIRMAN. A letter of February 26, 1932—

Mr. POWELL. Senator, may I add there, that we had submitted a bid, and our bid was still open, and still held?

Mr. LAROCHE. Just at this point, did you ever have a ruling from the Secretary of the Navy that was not the case?

Mr. POWELL. No.

Mr. LAROCHE. You are quite sure of that?

Mr. POWELL. I am quite certain. That our bid was closed?

Mr. LAROCHE. That no destroyers could be awarded again without further letting.

Mr. POWELL. If we did, I do not recall it. There is a lot of water over the dam since then.

Senator VANDENBERG. More than water, too.

The CHAIRMAN. Under date of February 26, 1932, Mr. Powell wrote Congressman Prall [reading]:

MY DEAR MR. PRALL: Yesterday a rumor reached us that the President had released the six destroyers and that the Navy Department had called for bids to be opened April 16. I checked up with some of my friends in the Navy Department and could not find that there was any ground for this story. However, it brought very forcibly to my mind the fact that time is the essence of success in the very clever strategy that you had worked up with Messrs. Delaney and Boland—

Who were Delaney and Boland?

Mr. POWELL. Mr. Delaney is a Congressman from Brooklyn, the district in which one of our yards is located, and I have forgotten where Boland is from.

The CHAIRMAN (continuing reading):

and I am wondering if you can properly put a little pressure on them to get to Mr. Vincent [Vinson]. It would be too bad to be defeated by having the President make up his mind that he had to have these destroyers and put them out to bids, which would severely handicap us, as you appreciate, in competition with Bethlehem and Bath.

I hope you are very well, and with best wishes, I am
Yours very truly,

J. W. POWELL.

(The letter referred to was marked "Exhibit No. 1842", and is included in the appendix.)

The CHAIRMAN. What was your hope at this time of avoiding competition, Mr. Powell?

Mr. POWELL. Senator, we had been through competition and were entitled to our bid, and I was trying, from the start to the finish, to pry one of those boats loose, which I had one, according to my opinion, in open bid, and have them awarded to me and not put out to bid and have to compete with Bethlehem and Bath, who had the plans and patents and would be able to bid \$300,000 less than I could and still have the same margin in their bid.

Mr. LAROUCHE. I would like to have inserted in the record and have a number allotted to it, an opinion from the Navy, with authorities, that it was impossible to award any of those destroyers without a readvertisement of bids. I suggest that a number be given, and that letter will be inserted.

(This document referred to, when furnished by the committee, will be marked "Exhibit No. 1843", and will be included in the appendix.)

Mr. MALONE. Was that letter to us, Mr. LaRouche, if I may ask?

Mr. LAROUCHE. I would prefer not to trust my memory.

Mr. MALONE. I recall no such letter, and I do not believe that we ever had one.

Mr. LAROUCHE. Such a ruling was made, which I suggest be inserted at this point.

Mr. POWELL. Of course, Mr. LaRouche, I can only say I do not remember seeing any such letter. I have read all through the matter that the committee took from my files, twice, and if that letter exists, it was not from my files.

The CHAIRMAN. You have no knowledge of any such ruling?

Mr. POWELL. I have no knowledge of any such ruling; but, Senator Nye, I do not hesitate to say that I would not have paid any attention to that ruling if he had made it and I had known about it.

The CHAIRMAN. You would still have felt that you were entitled to one of those destroyers?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Without rebidding?

Mr. POWELL. Yes, sir.

The CHAIRMAN. Up to this time, Mr. Malone, had you met Mr. Farley?

Mr. MALONE. Mr. Edward P. Farley?

The CHAIRMAN. Yes, sir.

Mr. MALONE. Many, many times. He was my superior officer in the Government many years ago. I knew him very well.

(S) The CHAIRMAN. We find in your files a note by Mr. Powell to Mr. Farley, under date of October 5, 1932, asking him to get in touch with you when he gets to Washington tomorrow and giving your address. He says in a postscript to that note:

I want him to know about what we are doing, and he can help with some of the M. C.'s (Members of Congress). He better not appear with a delegation, as we want U. D. (United Dry Docks, Inc.) Co. not to be too prominent.

Mr. Powell, what is the meaning there, not wanting Mr. Malone to be too prominent or to give the United Dry Docks too much prominence?

Mr. POWELL. That referred to a local movement on Staten Island that, so far as I recall, we did not instigate; a movement of some of the public bodies on Staten Island to try to pry loose a contract for one of these destroyers to be built at Staten Island. I think there are a number of letters in here, as I recall it, upon the subject.

The CHAIRMAN. You were bringing all the local influence you could to bear at that time to accomplish the awarding of this destroyer?

Mr. POWELL. Yes. Senator, you can put it in here plenty that I did everything I thought I could possibly do, and knew how to do, to get one of those boats, after I thought I had won it fairly in private competition.

The CHAIRMAN. Why did you not want Mr. Malone in the front on this?

Mr. POWELL. Because I thought it would be better business to have this appear as a local movement, which it was.

The CHAIRMAN. Largely voluntary?

Mr. POWELL. That movement was largely voluntary.

The CHAIRMAN. You wrote Mr. Jeremiah Milbank, Republican headquarters, Waldorf-Astoria, New York City, on October 21, 1932, as follows [reading]:

MY DEAR MR. MILBANK: Mr. Hayden has told me in a general way the situation with reference to the three destroyers that have not been awarded, and that we would like to have go to private shipbuilders.

At a recent hearing in Washington before the Secretary of the Navy, I believe that each of the reasons raised why this could be done were answered to his satisfaction. Money is available, or in any event, the shipyards would finance the construction until the next naval appropriation bill passes. The Comptroller of the Treasury has definitely found that our company, located on Staten Island, were lower bidders than Bethlehem, to whom one of the former contracts was given, and two of these boats in that district would be a real help to the Republican cause.

Very truly,

J. W. POWELL.

The CHAIRMAN. Did you know Mr. Milbank, Mr. Powell?

Mr. POWELL. No; I never met him until that time.

The CHAIRMAN. Is it fair to assume that you were striving to show the Republican headquarters at that time that the construction of one of these destroyers at your Staten Island plant might revert to the entire advantage of the Republican cause in the approaching campaign?

Mr. POWELL. I think that is an entirely unfair inference, Senator.

The CHAIRMAN. What authority, Mr. Powell, is there that would, in the absence of a sufficiency of appropriations, permit you to go on building? Let us assume now that you had a destroyer in your docks and building, and the Navy found itself without sufficient funds to complete it.

Mr. POWELL. Yes, sir.

The CHAIRMAN. Do you feel that you could be authorized to go on and complete it and depend upon a deficiency appropriation or the regular appropriation for the new year to take care of it?

Mr. POWELL. Senator, if I had the capital available to do it, I would not hesitate to do it. Congress every year appropriates the amount that is supposed to carry the naval building program for that year. If ships progressed very much faster than expected, and used up all the funds, it would be possible to carry them to the end of the year, where the appropriation has run out, but the chances of Congress not continuing a program, once started, is so small—although it did happen once back in the seventies—the chances are so small of that happening that I would consider it perfectly good business judgment to proceed with the work and expect the pay when the money was appropriated.

Mr. LAROCHE. You are really an oldtimer in the naval building game?

Mr. POWELL. I am a very oldtimer, Mr. LaRouche.

Mr. LAROCHE. I think you can throw a good deal of light on this. Is it your experience that your political contacts and your ability to bring pressure where it is most effective is a conspicuous element in the awarding of naval contracts?

Mr. POWELL. No.

Mr. LAROCHE. You do not think so?

Mr. POWELL. It is almost not at all. Very seldom in my 35 years in this business have I seen anything which even looked like it.

Mr. LAROCHE. You do not think Bethlehem were smarter politically than you, and, therefore, got the 1931 destroyer?

Mr. POWELL. I do not think politics had one thing to do with that award.

Mr. LAROCHE. You used Congressman Prall as a sort of spearhead in your attack?

Mr. POWELL. Congressman Prall represents the district where this work would be done, and I consider it a part of the duty of a Congressman, in a district where there is such a yard, to do all he can properly to help that yard.

The CHAIRMAN. Do you find this political influence very essential to your success in the shipbuilding industry?

Mr. POWELL. So far I have not found it did me any good at all, Senator.

The CHAIRMAN. Have you rewarded men in politics for lending a hand?

Mr. POWELL. No, sir.

The CHAIRMAN. Have you been solicited by Members of Congress for assistance to them?

Mr. POWELL. To them?

The CHAIRMAN. Yes; or for business?

Mr. POWELL. Personally I have occasionally been solicited by a Congressman who was up for election, and have given him personally perhaps \$25, or maybe \$100, but that is about the limit of my political contributions.

The CHAIRMAN. Have Members of Congress been known to solicit you for distribution of business to institutions in which they were interested?

Mr. POWELL. The only instance I recollect is the one that came up in connection with the Bath testimony, where ex-Congressman Edmonds, whom I had known for many years, incidentally, from the days when I was at Cramps in Philadelphia, wrote a letter in favor of a company in which he was interested, very good people, and people with whom normally I would expect to do some business. As a matter of fact, I do not know whether we are doing business with them or not.

* * * * *

The CHAIRMAN. Mr. Bates sends this memorandum to Mr. Nelson under date of April 27, 1934 [reading]:

Back in November we received a letter from Mr. Chas. D. Millard, who is a Member of the House of Representatives and on the Committee of the Naval Affairs, asking if we would give him sheet metal work to a Mr. William W. Wicks, of 258 Washington Street, North Tarrytown, N. Y.

Mr. Powell replied that we had nothing at that time for him to do but as soon as we had we would get in touch with him.

Will you kindly bear this in mind and as soon as possible give Mr. Wicks an opportunity to work in the plant, as, of course, a member of the House Naval Committee may be very useful to us in future dealings with the Navy.

When a request comes to you from Members of Congress, asking employment for someone, before you give large consideration to it, you ascertain what that Member of Congress connections upon committees are?

Mr. POWELL. I think that would be fairly normal to do. We cannot take care of every request that we get, and certainly, where we can get a good man who can do the work, if we are to do something for someone who may do something for us, I see no impropriety in doing it, and I would do it.

The CHAIRMAN. Now, Mr. Millard was a member of the Naval Affairs Committee?

Mr. POWELL. Yes.

The CHAIRMAN. And would have larger expectation of favor from you than Senator Bone or Senator Vandenberg or myself would have, not being on the Naval Affairs Committee. I beg your pardon, maybe the Senator from Washington is on that committee.

Senator BONE. I am very curious to know how a member of the Naval Affairs Committee could be helpful to a private shipbuilding company.

Mr. POWELL. If I knew you three Senators were on the Nye committee, they would get awfully good attention from me. [Laughter.]

Senator BONE. I am interested in that angle of this inquiry, Mr. Senator Nye. I want to know how a member of the Naval Affairs Committee in either House can be helpful to a private shipbuilding company.

Mr. POWELL. There are many times when we might want to express our views about the naval bill, and we could express our views, where we know the man and he knows us, and it gives us an approach, which is a much better approach than to walk in cold to one whom you do not know and who does not know you. I have found in my life friendship is a very valuable thing, and I like to have just as many friends, in just as many places as I can get.

(t) The CHAIRMAN. I have before me a letter written on the stationery of the House of Representatives, dated October 21, 1934, and signed "Anning." Is that Anning S. Prall?

Mr. POWELL. Yes.

The CHAIRMAN. Of the Eleventh District of New York?

Mr. POWELL. Yes, sir.

The CHAIRMAN (reading):

MY DEAR JOE: I have been requested to solicit your aid in the form of a campaign contribution.

If this is agreeable to you, please send me check payable to Edward J. Maloy or Jim Nelson. Can leave it at my home if it is in cash.

My condition is slowly improving but so very slowly it is hardly perceptible.

With kindest regards, I am,

Sincerely,

(signed) ANNING.

Was that an unusual request, Mr. Powell?

Mr. POWELL. Yes; that was an unusual request. I have had very few of them, and I told Mr. Prall I was very sorry, I was just too poor to give them anything, and I thought that the Democratic Party was safe enough that he did not need it.

The CHAIRMAN. So that Mr. Prall, who had been largely helpful as a Member of Congress from your district, got no campaign contribution from you?

Mr. POWELL. No, sir.

The CHAIRMAN. Have you made contribution in any form to Mr. Prall, campaign or otherwise?

Mr. POWELL. No, sir.

The CHAIRMAN. I have before me a note from Mr. Powell to Mr. R. R. Piper. Who is Mr. Piper?

Mr. POWELL. Mr. Piper is the treasurer of the company.

The CHAIRMAN. Dated August 11, 1933. [Reading:]

Will you please send Anning Prall a check for \$151.50 on the 28th of each month? Speak to me about charge for this item.

J. W. POWELL.

What is the meaning of that, Mr. Powell?

Mr. POWELL. Just about 2 years ago, a little bit later than this, I found that I was going to be in Washington a great deal, and, if you will remember, at that time getting a room in Washington was just about as hard as it is today, and I made up my mind that I had to have a permanent apartment here, which I could call home when I was in this town. I had gotten to know Mr. Prall very well, and gotten very fond of him. He maintained an apartment of a sitting room and bedroom at the Shoreham, and I told him that I would like to share that with him, taking the adjoining bedroom and sharing half the regular charge of the hotel for the apartment, and he was willing to take me in on that basis, and since that time I have paid him \$150 or \$151.50 rent on that apartment, and have maintained the arrangement there and have used it when I was in Washington.

The CHAIRMAN. What is the total charge for that apartment?

Mr. POWELL. The hotel tells me that the charge for that apartment is \$300. I have a letter from the hotel which we have received.

The CHAIRMAN. You are paying a little bit better than one-half?

Mr. MALONE. This is the telephone charge.

Mr. POWELL. This is the telephone charge. I have wondered about that myself. I did not know what that \$1.50 was.

The CHAIRMAN. Why have not you paid this direct to the hotel?

Mr. POWELL. There was no particular reason. We started doing it the other way and have done it that way ever since.

The CHAIRMAN. In this memorandum, which has just been read, and which is offered as an exhibit, you say:

Will you please send Anning Prall a check for \$151.50 on the 28th of each month. Speak to me about charge for this item.

Why did you not relate on the memorandum just what the charge was for?

Mr. POWELL. I cannot tell you that to save my soul. I did not know just where it would go in our accounts, and, to be sure that it was charged in the proper place, I wanted Mr. Piper to speak to me, to be sure it was charged properly, and I do not know today where they put it.

Mr. LAROCHE. You do not know where it is charged?

Mr. POWELL. It goes into one of the overhead items, but which group of overhead items I do not know.

Mr. LAROCHE. You are still paying it?

Mr. POWELL. I am still occupying the room. I am right there now. I have got the keys in my pocket [producing keys].

Senator Nye, may I read into the record here at this time the letter from the Shoreham Hotel, signed by L. Gardner Moore, manager, to Mr. Powell? [reading]:

In pursuance of our conversation of this morning, I have looked up our records and find that you have occupied a suite consisting of parlor, two bedrooms, and two baths, jointly with the Honorable Anning S. Prall, since July 1933, and, in response to your further inquiry, wish to advise that the regular rate for this suite is \$300 a month.

Mr. LAROUCHE. I think the record should show this: Did Mr. Powell speak to the manager after our investigators found this?

Mr. POWELL. I spoke to him at the time I got the apartment, and then I got the letter from him, when the question was raised by your investigators. There is no reason for my getting more than the cost of the apartment at that time.

The CHAIRMAN. Mr. Powell, this arrangement relative to the apartment was made about August 11, 1933?

Mr. POWELL. No, sir; it was before that. I had that apartment from the time we were considering the code here, before we bid on the destroyers in 1933, because we made out our bids for the destroyers in that apartment.

(The letter referred to was marked "Exhibit No. 1845" and is included in the appendix.)

The CHAIRMAN. This memorandum to Mr. Piper is dated August 11.

Mr. POWELL. Then I had been occupying that suite for some time before that.

The CHAIRMAN. Your letter from the Shoreham Hotel management is dated February 5, 1935?

Mr. POWELL. Yes, sir.

The CHAIRMAN. What was the occasion for this letter from the manager?

Mr. POWELL. Because of the fact that your investigators asked me to get a statement from the Shoreham Hotel as to the regular charge for that room, to verify the statement that I had made to the investigators that I was paying one-half of the regular rate for that suite.

Mr. LAROUCHE. Just to follow out the chronology, the date of the memorandum read about the charge—

Mr. POWELL. About what?

Mr. LAROUCHE. About the charge of \$151.50 is August 11. The contracts for your 1933 destroyers bear the date, I believe, of August 3.

Mr. POWELL. No; our contracts are dated August 30.

Mr. LAROUCHE. Your 1933 destroyers?

Mr. POWELL. Our 1933 contracts are dated August 30.

Mr. LAROUCHE. All of the others are dated August 3.

Mr. POWELL. Yes; but mine are dated August 30.

Mr. LAROUCHE. Did you know on August 3 that you were going to get yours?

Mr. POWELL. I did not know whether I was going to get my boat.

Mr. LAROUCHE. So that the award had been made before?

Mr. POWELL. Yes, sir; and I was occupying that suite. It is absolutely impossible to let any inference go on the record that in any way, shape, or form that that contract had anything to do with my occupancy of that room.

The CHAIRMAN. Does the Congressman have access to your apartment during your absence?

Mr. POWELL. I have access to his. We do not ever lock them up, and it is full of my things, and I walk in there at any time of night or day, and he does the same. As to either room being any good to the other one, when he is in there, it is not.

The CHAIRMAN. Mr. Prall lives there?

Mr. POWELL. Mr. Prall lives there. His home is in Staten Island.

The CHAIRMAN. During his stay in Washington, that is his home?

Mr. POWELL. Oh, yes; and during my stay in Washington it is my home, and I incidentally have to stay here a good deal.

The CHAIRMAN. Is this in any wise an accommodation to Mr. Prall?

Mr. POWELL. I have no knowledge of its being any accommodation to him at all. I think he was very decent to take me in, because I would much rather occupy it than pay a larger price for a sitting room and bedroom, which I would otherwise maintain for my own use.

The CHAIRMAN. You have what?

Mr. POWELL. We have a sitting room and adjoining it on each side a bedroom.

The CHAIRMAN. So that you are paying for half the living room?

Mr. POWELL. I am paying for half the living room.

Senator CLARK. In other words, you are paying for your bedroom and for half the cost of carrying the living room?

Mr. POWELL. Right.

The CHAIRMAN. So that to that extent it is an accommodation to Mr. Prall?

Mr. POWELL. That may be. It is an equal accommodation to me, Senator.

The CHAIRMAN. If he wanted a bedroom and a living room, and did not have this arrangement with you, it would cost him more than is the cost under this arrangement which he has with you?

Mr. POWELL. Yes; and if I wanted a sitting room and a bedroom by myself, it would cost me more than it would with him, so that it is 50-50.

The CHAIRMAN. How much do you use that sitting room a month?

Mr. POWELL. That depends a great deal. There have been times when I have been there for a long time at a time, and other times when I have not been there. I would have to pay for a whole charge, just the same, to get what I am getting now.

Mr. LAROCHE. Mr. Malone, your company's representative, also lives at the Shoreham?

Mr. POWELL. He has for the last few months.

Mr. MALONE. I do not live there Mr. LaRouche. I live in Clark County, Va., at Berryville, and keep a room at the Shoreham.

The CHAIRMAN. You say you do not live there?

Mr. MALONE. I live in Clark County, Va., at Berryville.

The CHAIRMAN. Is it this same room?

Mr. MALONE. No, sir, different; when I first went to the Shoreham last summer, when I gave up a house which I had here for a time, I did occupy Mr. Powell's room.

Mr. POWELL. Mr. Prall's room.

Mr. MALONE. And did so for 3 or 4 months.

Mr. POWELL. He occupied Mr. Prall's room, and not mine.

Mr. MALONE. Yes.

The CHAIRMAN. Have you considered this a favor and help to Mr. Prall? Have there been other opportunities for you to favor him?

Mr. POWELL. I consider he has done me a favor, Senator, and not that I have done him a favor.

The CHAIRMAN. Does Mr. Prall have a son?

Mr. POWELL. Yes.

The CHAIRMAN. Have you aided his son in any way?

Mr. POWELL. I hope that we have. I do not know definitely whether he ever got any of our insurance business or not. I told our agent to place certain insurance with him, if he could do it, but I have never checked it up to see whether he did it or not.

The CHAIRMAN. Under date of September 20, 1933, you are writing [reading]:

MY DEAR HULL—

that appears to be Mr. H. T. E. Beardsley, of 70 Pine Street, New York City. Who is H. T. E. Beardsley?

Mr. POWELL. H. T. E. Beardsley is our broker, who handles all our insurance. Whatever insurance we place through other agents is handled by Mr. Beardsley.

The CHAIRMAN. You say in your letter to Mr. Beardsley [reading]:

Anning S. Prall, Congressman from Staten Island, has been extremely helpful to me in all of our Washington business. His son, Bryan W. Prall, is in the insurance business on Staten Island. I have asked him to call on you and you will have to help him to a slice of our business somewhere or other. Be as nice to him as you can and talk to me about it after you have talked to him.

Mr. POWELL. Yes; he did.

The CHAIRMAN. Does the letter of September 23, written by Mr. Beardsley to you, make reference to that?

Mr. POWELL. Yes.

The CHAIRMAN. This letter, which is offered as an exhibit, is addressed to "Jce."

(The letter referred to was marked "Exhibit No. 1846.")

The CHAIRMAN. That letter reads:

Mr. J. W. POWELL,
New York, N. Y.

DEAR JOE: I have your letter about Mr. Prall, and of course I will be nice to him and try to send him away satisfied, as well as pleased. The pleased part will be more easy, though, than the satisfied part.

Why don't you go after these coast-guard boats? I understand you are not after the three small boats that have been already advertised. I noted in this morning's paper that there will be six boats costing something around \$1,000,000 each. If you could get those six boats, and some more boats for the Navy, you might be able to satisfy all of your insurance friends.

Bath, by the way, finally got their bond late yesterday afternoon, and I hear this morning that several brokerage firms are going to sue somebody for commissions. Maybe it is a good thing I did not get in it.

Sincerely,

HUL.

What is the reference to commissions there, Mr. Powell?

I hear this morning that several brokerage firms are going to sue somebody for commissions.

Is that on the bonds?

Mr. POWELL. Senator, you will have to ask Mr. Beardsley. I suppose so.

The CHAIRMAN. Mr. Beardsley is not here?

Mr. POWELL. No; he is not present.

The CHAIRMAN. You would assume it had something to do with bonds?

Mr. POWELL. I would suppose it is the commission the broker gets for placing the bond. That is, the bond is always placed through the broker.

The CHAIRMAN. Three days later, on September 26, 1933, Mr. Beardsley wrote you:

Mr. J. W. POWELL,
United Dry Docks, Inc., New York, N. Y.

DEAR JOE: Mr. Prall came in yesterday, and we had a very pleasant visit. I explained to him that you had told me that somewhere and somehow some business would have to be turned over to him, because his father had been so helpful.

I told him just about what insurance we were carrying, and he saw that there was very little there that could be put through his office.

He has no marine agency, and the fire insurance on the Staten Island plant is all in the F. I. A.

But we may be able to work something out, and perhaps give him a line with some other assured. If Merritt-Chapman renew the fire insurance with us that they now carry on the Rosemont plant, Prall probably could cover a good part of that with his companies.

Sincerely,

(Signed) HUL.

Then on September 29, 1933, three days later, you wrote Mr. Beardsley [reading]:

MY DEAR HUL: Answering your letter of the 26th, you have got to do something for young Prall, so make the best of it.

Yours very truly,

By J. W. POWELL.

Did Mr. Beardsley find the way to do something for him?

Mr. POWELL. Senator, it sounds rather stupid, but I do not know.

The CHAIRMAN. Was this your last contact with that matter?

Mr. POWELL. This is the last contact. I took for granted, on that letter, Mr. Beardsley would do something for him, and I have never heard anything about it since.

Mr. LAROCHE. He did not have any option on it, did he, when you wrote that way?

Mr. POWELL. I would not think so, he being my broker and being dependent upon me for my business.

Mr. LAROCHE. In other words, he was on the spot?

(u) Mr. POWELL. He was on the spot.

Mr. LAROUCHE. Getting back to 1932, Mr. Powell, we have a letter from you to Mr. Milbank, dated September 30, 1932, which I will read:

MY DEAR MR. MILBANK: There is enclosed here herewith a copy of the statement that Mr. Smith and I orally submitted to Mr. Sanders this morning.

I hope that it will be possible to pry these boats loose for private industry as it will be a very helpful piece of business from all angles.

Very truly yours,

J. W. POWELL, *President.*

That is the same Jeremiah Milbank, of course, about whom we were talking a short time ago, is it not?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. Do you remember that incident, September 30, 1932? I do not happen to have a copy of this.

Mr. POWELL. Yes, sir. What was your question, please?

Mr. LAROUCHE. Do you remember that? Was that in connection again with the remainder of those same destroyers?

Mr. POWELL. Yes; that all had to do with the same destroyers, and that bid went right straight on until those destroyers finally ran into the 1,850-ton destroyers and came out as part of the big program.

Mr. LAROUCHE. In 1933?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. You told us you did not overlook any bets in trying to get this priced out.

Mr. POWELL. Not that I know of.

Mr. LAROUCHE. This is just more of the same. You mentioned here in the memorandum:

There is enclosed a copy of the statement that Mr. Smith and I orally submitted to Mr. Sanders * * *.

What Mr. Sanders was that? Everett Sanders?

Mr. POWELL. That was Mr. Everett Sanders.

Mr. LAROUCHE. Is he the man who later you decided did not have any influence with President Hoover in that matter? You said, I believe, that the secretaries were not able to convince Mr. Hoover.

Mr. POWELL. He was not a secretary to Mr. Hoover at that time, was he? I think he was working with the national committee in New York. He was chairman of the national committee in New York.

Mr. LAROUCHE. Had you made other overtures to him?

Mr. POWELL. No; this one time was the only time that I operated in that direction at all.

Mr. LAROUCHE. Mr. Smith, whom you speak of, is head of the national council?

Mr. POWELL. Yes.

Mr. LAROUCHE. I read one extract from the memorandum, which you and Mr. Smith presented to Mr. Sanders. He is really referred to in the correspondence as "Ted." Is that the same gentleman?

Mr. POWELL. I think that is wrong. I had Everett Sanders and Ted Clark mixed up, and I think I got it "Ted" from Mr. Clark. I do not think Sanders is ever spoken of as "Ted."

Mr. LAROUCHE. In the joint memorandum from your Mr. Smith, that is referred to, Clark, Ted Clark, was formerly secretary to President Coolidge?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. What did he have to do with this shipbuilding business?

Mr. POWELL. Nothing that I know of. It just happened I knew him, and I simply carried over the "Ted" from the fact that he had been a Presidential secretary, as Mr. Sanders had been. It has no significance whatever except a mistake on my part.

Mr. LAROUCHE. I am reading from your joint memorandum, the memorandum presented by you and Mr. Smith to Mr. Sanders. [Reading:]

The result of this latest action has been to help employment in the three navy yards and to please the workmen in these yards, but it has seriously antagonized the workmen in the five private yards that feel that similar assistance should be accorded them through the award of the other three boats to private contractors.

I take it that is just one more of the general campaign to force those things through in any possible way, political or otherwise, those destroyers?

Mr. POWELL. Any proper way, political or otherwise.

Mr. LAROCHE. You say further [reading]:

It is believed that the Navy Department has ample funds to pay for all work that can be finished during the terms of the current appropriation bill, but if this is not the case the private shipyards stand ready to finance the cost of carrying on construction until next June, when the funds carried in a new Navy appropriation bill would be available.

What was that, Mr. Powell?

Mr. POWELL. That was already covered here in the testimony, Mr. LaRouche. Simply that the boats have been regularly appropriated for; if the appropriation ran out, the shipbuilders could carry the cost until more money was available.

Mr. LAROCHE. That is what I was speaking of. Did you have a plan of financing the thing, if the Government did not have the money?

Mr. POWELL. Yes.

Mr. LAROCHE. Temporarily you would finance it until they did?

Mr. POWELL. You see, the actual expenditure over the first few months is not a very large matter, and it does not represent a lot of money.

Mr. LAROCHE. I submit this for its appropriate number.

(The document referred to was marked "Exhibit No. 1847" and is shown in the appendix.)

Mr. LAROCHE. Further upon the same subject, there is a letter written by you to Mr. A. B. Homer, of the Bethlehem Shipbuilding Corporation. That is not A. P. Homer?

Mr. POWELL. Yes.

Mr. LAROCHE. I think the differentiation should be made between Mr. A. B. Homer. Copies were sent to Mr. C. L. Bardo, of New York Shipbuilding Co.; Mr. W. S. Newell, of the Bath Iron Works; Mr. Stewart Lee, president of Pusey & Jones; Homer Ferguson, president of the Newport News; and Capt. Roger Williams, also of Newport News. I submit this statement, and I want to read one part of it.

(The statement referred to was marked "Exhibit No. 1848" and is included in the appendix.)

Mr. LAROCHE. It is addressed "My Dear Homer:"—Meaning, as I repeat, Mr. A. B. Homer, of Bethlehem.

I believe it would be very effective at this time if any Republican Congressmen or Senators that you can reach should telegraph to Mr. Everett Saunders, % Mr. Jeremiah Milbank, Waldorf-Astoria Hotel, New York City, and to the President, and if you would also wire Mr. Saunders so that he will know that it is the industry that is speaking.

Gerrish Smith is off to Washington and asked me to write this letter in his absence.

The letter also contains reference to the political effect of this on the national Republican headquarters. Will you show Mr. Powell a copy of that? [Addressing associate.]

Mr. POWELL. I have a copy of it.

Mr. LAROCHE. You have no comments to make on that?

Mr. POWELL. No, sir.

Mr. LAROCHE. I submit this. Just along the same line we will submit for the record a copy of a telegram sent to the Secretary of the Navy, apparently, by the workmen in your plant.

(The letter referred to was marked "Exhibit No. 1849" and is included in the appendix.)

Mr. LAROCHE. I will read it, and you can perhaps identify it [reading]:

To: Secretary of the Navy, Washington, D. C.

From: Employees of the Staten Island plant of the United Dry Docks, Inc., represented by the below undersigned committee.

We wish to call your attention to the following facts:

Newsprint of September 28, 1932, containing an announcement by the Secretary of the Navy that three destroyers were awarded to the navy yard, namely: One to each of the yards at Boston, New York, and Philadelphia. The purpose of this award was stated to be to relieve unemployment, but no consideration was given to the unfavorable situation

existing in privately owned shipyards today, where work of employment is at the lowest ebb on record, with little prospects of future work.

The letter continues with the urgent request that something be done for the private yards.

Copies of that were sent to the Chamber of Commerce, Rotary Club, American Legion, and Lions Clubs. Did you inspire that, Mr. Powell?

Mr. POWELL. I did not personally. I cannot tell you the genesis of that. Probably it was done by our plant manager.

Mr. LAROUCHE. Then on October 1, 1932, you received a note from Mr. Nelson, who was, you say, your plant manager.

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. I will make that a part of the record.

(The letter referred to was marked "Exhibit No. 1850" and is included in the appendix.)

Mr. LAROUCHE. I will read it in part [reading]:

As instructed by you this morning, please note attached copy of telegram to the Secretary of the United States Navy. This was sent at 10 a. m. today.

As instructed by you.

Mr. POWELL. What was the date of that?

Mr. LAROUCHE. That was October 1, 1932, and a copy is available for you.

Mr. POWELL. I would like to change my previous testimony. Evidently I did tell Mr. Nelson to see that this was done, that the workmen were asked if they wanted to do it.

Mr. LAROUCHE. That the workmen in the plant were—

Mr. POWELL. Were told about it and asked if they wanted to do it, which they did.

Mr. LAROUCHE. Bring it to the attention of certain people. I submit that for its appropriate number.

Mr. POWELL. I would like to call your attention, Mr. LaRouche, that that happens in the navy yards a great many times where the workmen get together and do the sending to their Members of Congress, and to the Secretary of the Navy. And I must say that they generally have better luck than our men did.

(v) Later (Apr. 4, galleys 68, 69 WC):

Mr. LAROUCHE. In connection with the August 1933 awards, there is just one thing which you perhaps would like to explain. This letter is written on House of Representatives stationery, Committee on Naval Affairs, Washington, D. C., in pencil: "Dave: Delaney handed me this."

Do you have a copy of that, Mr. Powell?

Mr. POWELL. What is the date?

Mr. LAROUCHE. I will read it to you.

Mr. POWELL. If you give me the date, I can get it.

Mr. LAROUCHE. It is dated in August only. I will read it to you, Mr. Powell.

Mr. POWELL. All right.

Mr. LAROUCHE (reading):

The United Dry Docks, Inc. (Mr. Charles Hailock's secretary) who talked with me on your suggestion, through Dave Hogan secured contracts for two destroyers for the total sum of \$6,800,000.

Written in ink—

DEAR CHARLEY: The note at the top is by Mr. McCooley.

What does that mean?

Mr. POWELL. I cannot interpret that.

The CHAIRMAN. Who might Mr. McCooley be?

Mr. POWELL. Mr. McCooley was the Democratic leader in Brooklyn. At least I suppose that is the McCooley that refers to.

Mr. LAROUCHE. Who is the Delaney referred to?

Mr. POWELL. I suppose that was Congressman Delaney of Brooklyn.

Mr. LAROUCHE. I have another copy here, if you care to have it.

Mr. POWELL. I have it here. It is the last one in the file.

Mr. LAROUCHE. That was after the 1933 destroyers were awarded. Who is Dave Hogan?

Mr. POWELL. Yes; I believe he was—I think he was Mr. McCooley's secretary, but I am not sure.

Mr. LAROCHE. Does this sound to you as though Mr. McCooey, or Mr. Hogan, took any credit for getting you those destroyers?

Mr. POWELL. I do not know, Mr. LaRouche.

Mr. LAROCHE. How about Mr. Delaney; did he think he helped get them?

Mr. POWELL. I do not know. You will have to ask them. I cannot answer that.

Mr. LAROCHE. You had no comment at that time on this?

Mr. POWELL. So far as I remember, I spoke to Mr. Delaney about that program.

Senator BONE. This memorandum appears on stationery of the Naval Affairs Committee of the House of Representatives, Washington, D. C. Did you say McCooey was a political leader over in New York?

Mr. POWELL. He was the political leader in Brooklyn.

Senator BONE. A Tammany leader?

Mr. POWELL. Yes.

Senator BONE. Is Hogan his secretary, did you say?

Mr. POWELL. I think so, but I am not sure of that. I have met Mr. Hogan, and I think that was his position.

Senator BONE. How would Hogan, secretary of a Tammany leader, be able to secure contracts for two destroyers in the amount of \$6,800,000?

Mr. POWELL. He said United Dry Docks secured the contracts. He does not say he received the contracts.

Senator BONE. He says that you secured the contracts for two destroyers for the total sum of \$6,800,000 through Dave Hogan, secretary to McCooey, Tammany leader.

Mr. POWELL. I cannot throw any light on that, Senator, because neither McCooey or Dave Hogan had any more to do with us getting those contracts than the elevator boy out here.

Mr. LAROCHE. Did you have any contacts with the Democratic leader in Brooklyn?

Mr. POWELL. Yes; we have three plants in Brooklyn. I generally know them and occasionally see them.

Mr. LAROCHE. You did a good deal of entertaining amongst your Democratic friends in New York at one time, in that year and succeeding years?

Mr. POWELL. I would not say a good deal, but occasionally; yes.

Mr. LAROCHE. What was the purpose of that?

Mr. POWELL. To get to know them and have them get to know me.

Mr. LAROCHE. Was it successful?

Mr. POWELL. I do not know what you mean by that, Mr. LaRouche.

Mr. LAROCHE. I do not know exactly what your objective was. So that perhaps you know better than I.

Mr. POWELL. I told you this morning, I like to have as many friends as I can, because I never know when they will be very useful.

Mr. LAROCHE. I will read a little extract from a letter dated November 25, 1933, which appears to be an interoffice memorandum from the Staten Island plant to Mr. T. J. Farley, and I only read a small part of it [reading]:

You may recollect that Senator Smith is the man whom I introduced to you at the time he was chairman of the Staten Island Chamber of Commerce. He is a very fine fellow, and I believe we can derive a lot of benefit through him during the next 4 years. It is therefore, very important that this company show which side they are on. Senator Smith was campaign manager for the Hon. Joseph Palma, our new borough president-elect, who will take office on January 1, next.

And the rest of the letter discusses a testimonial dinner which is being given for Senator Smith. I offer this for the record.

(The memorandum referred to was marked "Exhibit No. 1854" and is included in the appendix.)

Mr. LAROCHE. Do you remember that?

Mr. POWELL. Yes; I remember seeing it when I read over this correspondence.

Mr. LAROCHE. Then there is one of May 29, 1934, another interoffice memorandum from the Staten Island plant to Mr. Bates, which I will offer for the record.

(The memorandum referred to was marked "Exhibit No. 1855" and is included in the appendix.)

Mr. LAROUCHE (reading) :

Please note attached letter. It seems to me that somebody should represent this company as it is possible that it can at times lead to something. As you know, we have no time from here. Therefore, why not have Mr. Farley represent the company?

This outfit is close to the present administration (borough president and others).

Do you recall that being a request to attend a chamber of commerce luncheon?

Mr. POWELL. Yes.

Mr. LAROUCHE. Were you represented there?

Mr. POWELL. Yes; my recollection is that Mr. Farley went. That is Mr. T. J. Farley, who is a vice president of the company.

Mr. LAROUCHE. I offer that.

Then you made a campaign contribution of \$100 on August 28, 1933, and you made a check payable to Kenneth O'Brien, the custodian of these funds. Do you recall that?

Mr. POWELL. I see in the record that I did. I did not recall it.

Mr. LAROUCHE (reading) :

These funds are allocated to James A. Farley for party purposes, and your splendid cooperation is highly appreciated.

That is a quotation from a letter from D. G. Robinson, written on the stationery of the Democratic State committee. I offer it for the record.

(The letter referred to was marked "Exhibit No. 1856" and is included in the appendix.)

Mr. LAROUCHE. You do not have any comment to make on that?

Mr. POWELL. No.

Mr. LAROUCHE. Was that the extent of your political entertaining or your campaign contributions in 1933 and 1934?

Mr. POWELL. Well, so far as my recollection goes. I gave him a statement that I filed with the committee of all of the political contributions that any of my records show, after a careful investigation, and whether there were any others on that list or not I do not recollect.

Mr. LAROUCHE. I have here another little bit. This is June 14, 1933; that was before the big awards of 1933?

Mr. POWELL. Yes, sir.

Mr. LAROUCHE. I have here a letter referring to a lunch. I won't read it, but I will enter it for the record.

(The document referred to was marked "Exhibit No. 1857" and is included in the appendix.)

Mr. LAROUCHE. I will read an extract from it. [Reading:]

Our president, Mr. J. W. Powell, is planning a small private get-together luncheon for a few of our Brooklyn friends to be held at the Downtown Athletic Club on June 15 at 1 p. m., and it would give us sincere pleasure if you would honor us with your presence.

In order that the necessary arrangements may be made, may I hope for the favor of your early acceptance?

Then there is a list of guests, including Hon. John H. McCooley; Hon. William J. Heffernan; Mr. David Hogan, care of Democratic county committee; Hon. John N. Harman; Hon. James J. Heffernan, superintendent of highways; and Hon. Henry Hesterberg, president Borough of Brooklyn; Charles Hallock; Ed Farley; J. W. Powell; Tom Farley; George Brown; and Al Lewis.

Do you recall that event?

Mr. POWELL. Oh, very well.

Mr. LAROUCHE. I enter that for the record.

Mr. POWELL. It was a very nice luncheon, and Mr. McCooley entertained us very delightfully for 2 hours with stories of his political experiences.

Mr. LAROUCHE. You played with both sides, I take it?

Mr. POWELL. You bet you.

Mr. LAROUCHE. I have here a little note, written to you, October 13, 1933, and signed John E. Dordan.

Mr. POWELL. What is the date?

Mr. LAROUCHE. It is October 13, 1933. It is on the stationery of the Democratic County Committee of the County of New York, Tammany Society

Building, Union Square, New York City. Do you care to have a copy of it? It is a very short memorandum, which I will read. [Reading:]

Mr. J. W. POWELL,
New York City.

MY DEAR MR. POWELL: I am directed by Hon. John F. Curry to acknowledge with thanks receipt of your generous contribution of \$100 toward the campaign fund.

Very truly yours,

JOHN E. DORDAN, *Treasurer.*

Down at the bottom he says:

P. S.—This letter is not intended for corporations or public officeholders.

A lot of these things go places where they are not intended?

Mr. POWELL. That came to me personally, and I sent the \$100 personally, as much as I begrudged it.

Mr. LAROCHE. You did not feel that it was a total loss?

Mr. POWELL. You never know.

Senator BONE. It is in the nature of "bread cast upon the waters"?

Mr. POWELL. I was thinking of that quotation.

Mr. LAROCHE. I offer that.

(The letter referred to was marked "Exhibit No. 1858.")

(w) Later:

The CHAIRMAN. On April 30, 1934, you reported by letter to Mr. Powell that Chairman Bland had told you that there was not the ghost of a chance to report out and secure enactment of a load-line bill.

Mr. MALONE. That is true, Senator.

The CHAIRMAN. Was this the inception of that program?

Mr. MALONE. No; this was 4 years later. A bill, Senate Resolution 345, was introduced on the matter in the Seventy-first Congress, but it lay dormant, and I tried to revive it, and in the spring of 1933 it appeared it was impossible to do anything legislatively, and I tried to have it put in as a part of the proposed shipping code, which never became effective, and finally, after more than a year's effort, I tried to revive the adoption of the pending legislation, as I would regard it.

The CHAIRMAN. You said in this letter of April 30, 1934, to Mr. Powell.

I am writing with the utmost candor, knowing you do not object to such an approach.

Chairman Bland told me this afternoon that there is not the ghost of a chance to report out and secure enactment of a load-line bill. Nevertheless, with all the emphasis I can express, I know I can get it passed if the proper steps are taken (this session).

It is a simple, demonstrable proposition that such a law will require the building of, certainly, 50 tankers. This means an outlay of around 60 millions, and the best part is, between the construction-loan fund and the cash resources of the oil companies, the cost element is easily met and, of course, will be passed on in the price of oil.

The people who will primarily benefit by such construction—the chief yards, including ourselves—B. & W. Foster-Wheeler, G. E., and a few others, would have, it seems to me, enough at stake to "ante" on strictly no-cure basis about \$50,000 on my guaranty of enactment.

I know you could talk this over with them in a more intimate fashion than could I; and I am wondering if you would do so.

Surely this is as good a gamble as the rather nebulous Navy tanker venture, toward which I gather my friends Jim and Fred have been backed to the extent of \$15,000 "cash down."

Warmly,

(Signed) BOB.

Going back to this letter, what is the meaning of the language:

It seems to me, enough at stake to "ante" on strictly no-cure basis about \$50,000 on my guaranty of enactment?

Mr. MALONE. It was rather brief language, Mr. Chairman. It meant, in substance, that they put up nothing and I would undertake, on their assurance, if they thought it was something worth rewarding me for, to see if the

measure could be enacted at that session. I think that is made out there. "No-cure" is an old expression in the shipping business, meaning no cure no pay. If you do something, you get paid, and if you do not do anything, you do not get paid.

The CHAIRMAN. What were you going to do with the \$50,000, if you could get it? How could \$50,000 accomplish what seemed to have been impossible in that session?

Mr. MALONE. My thought, Senator, was it would be inducement enough for me to go to work on it.

Mr. LAROCHE. You have been working on it for some years, Mr. Malone?

Mr. MALONE. Not legislatively, Mr. LaRouche.

I might add there, Mr. Chairman, it may appear curious to you, how I would have suggested that the bill could be passed, in the face of the advice of the chairman of the House committee that it could not have been possible.

The CHAIRMAN. I am very anxious to know.

Mr. MALONE. I had my personal information, and I do not believe anyone else in the country did have it, because I spent a year on this. This was a personal letter, and it was not something I was acting on in behalf of United Dry Dock. I am tariff-publishing agent and financial adviser to a small independent tanker company and, as such, I have occasion to study the condition of tanker operation rather extensively. I had done so and, as I said, I do not think anybody else had information on that; that if load lines were established in the domestic trade, it thereby meant that the tonnage in the domestic trade would be reduced in carrying capacity, and that a greater number of them would be required to carry the volume of oil then moving, and I estimated that fairly accurately at the time as about 50 tankers. I may have been a little bit off one way or the other. It involved no Government expenditure, no subsidy or anything of the sort, and my opinion was that if I could bring to the attention of the Congress that 50 tankers costing somewhere between one and two million dollars apiece could be brought about by the enactment of the peace legislation which Congress announced it was going to enact, which would make possible great relief of unemployment, a project that might mean jobs for 75,000 to 100,000 people, it would be enough to cause Congress to report this bill, as they stated they were going to.

No one, I think, except myself, Mr. Chairman, at that time realized that under the prevailing conditions about 50 new tankers would be needed and, since the yards did not know it, I was apparently the only expert in the field having determined that fact, and, if I could bring through the process which Congress had specifically endorsed, under an economic condition, calling for the construction of that amount of tonnage, that it would certainly be toward the end that I have mentioned.

The CHAIRMAN. But you had no thought in mind in proposing this ante of \$50,000 of using any part of it to reward others than yourself?

Mr. MALONE. Emphatically no, sir. To tell you the truth, what I did was I thought some arrangement which Mr. Powell and I had had with reference to commercial work, under the arrangement we made years ago, whereby it was agreed, if I specifically brought in such commercial work—the commercial arrangement never applied to Government work—that I was to be paid 1½ percent, and I made a quick reckoning on that 50 million dollars, and it came to the very substantial figure of \$750,000, which was so great that I reduced it to one-tenth of a percent of the amount of outlay, as a reasonable reward for my own services.

No one was working with me and I had not conferred with any one, or had any conferences except my own tanker associates, other than Chairman Bland.

The CHAIRMAN. Your own anticipation was that that project was large enough so that United and B. & W.—who are B. & W.?

Mr. MALONE. Manufacturers of boilers.

The CHAIRMAN. And Foster-Wheeler and General Electric would be interested in the tonnage building, and be willing to bear a part of that which you referred to as "ante"?

Mr. MALONE. The "ante" was just slang. It meant a fee. Payment for my services.

The CHAIRMAN. Mr. Powell, what was your response to Mr. Malone?

Mr. POWELL. I saw Mr. Malone in Washington a day or two after that letter was written, and said I would not take any part in it whatever, and I did not know what my customers in the oil business would think about it, and it was something in which I was not interested.

Mr. MALONE. To be truthful, I think you were more direct than that. You said, furthermore, you did not believe the shipyards should interest themselves in matters of this kind which was legislation before Congress dealing with matters of safety to shipping, and not a matter in which the shipyards should be interested.

The CHAIRMAN. Your first letter to Mr. Powell was April 30, 1934.

Mr. MALONE. That is right.

The CHAIRMAN. On May 2, 1934, you wrote Mr. Powell again, indicating that in the meantime you had conferred.

Mr. MALONE. I did. By the bye, Mr. Chairman, the subpoena I received called for those letters, and I have none of them. There were none in the files. I think I saw Mr. Powell.

The CHAIRMAN. On May 2, 1934, you wrote Mr. Powell again as follows [reading]:

Mr. J. W. POWELL,
New York, N. Y.

MY DEAR MR. POWELL: If, as you explained, it would be impracticable for you to initiate any discussion along the lines of my Monday letter, I doubt that it would be expedient for me personally to talk with any of the other yards. Newport News and Bethlehem are regularly represented here, while I understand Jim Barnes is supplementing his Todd work with activity in behalf of New York Ship on Navy tankers. These chaps would be quick to appropriate the idea and any credit for accomplishment, at least they have in the past, and the principals hardly would listen unless on a basis of discussion between company managements. I quite appreciate your reticence in the circumstances.

But it occurs to me that perhaps the equipment people would be tractable. Would you care to help me see Swope, and do you consider that he is a focal point for the group of such manufacturers? I have entree with the president of B. & W. and maybe he would collaborate with the others in that category.

I greatly appreciate your cooperation. As to the other tanker program, take it from me that when it reaches the danger point of eventuating, it will get the requisite "wallop." There is no virtue in being Quixotic just at this stage.

Sincerely yours,

BOB.

Did you or Mr. Powell approach the supply people further on this matter?

Mr. MALONE. We did not. Mr. Powell gave me the same response that he did before, and I never approached anyone at all.

The CHAIRMAN. That ended the situation?

Mr. MALONE. That ended the situation, as I recall.

Mr. POWELL. May I make that point clear, because I have customers who would take exception to my taking part in any such movement. I did not in any way, shape, or form do anything in the matter, and I would consider it very bad taste on my part, to say the least, to do so.

Mr. MALONE. Also, you should remember, I think, Mr. Chairman, as I stated, it was not in my capacity as agent for Mr. Powell. It was purely a personal matter, and which looked like good business at the time, and I still think it would be good business.

The CHAIRMAN. What is the meaning of the language used there, "it will get the requisite 'wallop'" as respects the other tanker program?

Mr. MALONE. I will have to digress a moment, Senator, to give you a clear answer to that. There was some feeling at the time, about a year ago—I say "feeling" and I do not know where it originated, but the impression went abroad that because of the growing age of the American commercial tanker fleet, which is amply adequate in tonnage for our merchant marine reserve purposes in time of emergency, because of its growing age, it should be replaced, and, of course, replacement should be gotten under way by the owners of the tankers. In other words, this supposed feeling was shared in by the tanker owners, and they were anxious to do so as quickly as possible.

Collateral to that, the governmental authorities would like to see tankers of exceedingly high speed, able to keep up with the fleet operations, rather than the prevailing top, which is broadly 10 to 11 knots. It had been brought to their attention that Japan, England, and even Norway, were building tankers

around 14 to 18 knots, and especially having fine military reserve usefulness, whereas the opposite was true in the United States at that time.

And some proposal was made or consideration given to the thought that from the amount of this fund there might be allocated some very large sum which seemed to be indeterminate as to the amount, the purpose of which would be to have the United States Government build a fairly substantial new fleet of modern and high-speed tanker type as desired, perhaps 40, 50, or 60, ranging from 30 up, and that these tankers, for instance, the Government would have available for them, and not taking them in the fleet, getting along with 6 or 8 tankers in peace time. In addition, that these would be leased to the commercial tankers or oil companies, or for purposes of the sort, and with a small installment down and the balance over the expected normal life of the ship.

That was expected, because it was not believed that the tanker companies or oil companies would build speedy ships, and could not, in an economical way do it. The idea was evolved of having the Government build high-speed tankers as an unemployment relief measure in conjunction with this theory of justifying for the Navy a reserve fleet of oil tankers in time of emergency.

That was the program.

I think you asked, Mr. Chairman, about the comment in my letter to that.

The CHAIRMAN. Yes.

Mr. MALONE. It developed, after I first heard of it, that it was a case of sort of wishful thinking. That there was a sort of general feeling of those interested in the problem, and it would be a fine thing if tankers with high speed would be built, but that there was not a ghost of a chance of the Government embarking upon the financing of them or the chartering or selling of them in the manner proposed. The newspapers at the time carried a good deal of publicity to the effect that it was a program which might materialize or probably would materialize, and I satisfied myself that it would not materialize, and the stumbling block, on which the Congress refused to appropriate anything for that purpose, was that. That was what I meant by the "wallop" it would receive, would be the refusal of the money to do it.

Senator BONE. I take it that your approach would have been a rather practical one, because you disclaim any intention of being quixotic about the thing. I take it you intended a practical approach to it.

Mr. MALONE. I am sorry.

The CHAIRMAN. I take it your approach would have been a very practical one, since you disclaim any intention of being quixotic or going at windmills.

Mr. MALONE. I saw no use of putting up opposition then, when I knew it was going to die a natural death anyway.

Senator BONE. I am interested how these things are handled. You are familiar with the tactics of legislation. Suppose you came down to Washington with \$50,000 available to you.

Mr. MALONE. I was not to get it until it was done.

Senator BONE. How would you handle the matter as an individual?

Mr. MALONE. Shall I take this specific case?

Senator BONE. You may be either specific or general. I want enlightenment.

Mr. MALONE. I will take this one. A bill was pending in Congress, and had been in each Congress since Resolution 345 was passed. I would have proceeded to the committees of Congress, in an orderly way, and familiarized them with the technical data I had, which nobody else had, and that this bill would have the human and humanitarian properties—that is, protection of life and property—and in connection with the movement of oil it would cause the building of a great many ships, with relief of unemployment, which is a very grave problem. And in view of the extensive relief it would give, I would request that the bill which had been dormant be brought out and enacted.

Senator BONE. I think I may assume that there is nothing immoral in one coming before a House or Senate committee as a promoter of any idea, even though he is being paid for it, but it is rather interesting—it is very interesting—in contemplation of the picture, to see gentlemen coming in in endless streams, who lay their schemes before us vigorously and ardently, and it is just a cold-blooded venture and nothing quixotic about it.

Mr. MALONE. I knew this was going to be enacted sooner or later. You could take the bill as it passed last year and get the provision from it.

Senator BONE. It becomes interesting because we were told a very interesting story at times by a gentleman who spent one-quarter of a million dollars down here putting over the Jones-White Act.

Mr. MALONE. I heard the testimony.

Senator BONE. He illuminated that otherwise dark subject very, very thoroughly, and it was very interesting. I do not know how that bill came to be enacted, with the item of a quarter of a million dollars supplied by the ship-builders.

Mr. MALONE. I believe I stated in my letter that I thought it was a simple proposition. I never dreamed, for instance, if I came before the committees of Congress and the bill was there, that it would be considered in that way. There was a trade secret about the commercial concomitants of the bill.

Senator BONE. I have no quarrel with you about the load line. However, I am rather astonished we have not had something like that before. The interesting thing is that legislation is frequently given some inspiration by just such an interest as that.

The CHAIRMAN. The Senator is making the point that legislation seems to have a price tag on it.

Senator BONE. I do not want to be so blunt. [Laughter.]

The CHAIRMAN. I do not see how anyone can get any other understanding from what you say.

Senator BONE. I think in a vague fashion they understand it.

Mr. MALONE. I am trying to portray it, Senator, and I think it will be clear to you.

Mr. LAROUCHE. I think it might be well to add that you had had this scheme under consideration and had been working on it?

Mr. MALONE. Deliberately, Mr. LaRouche, in connection with the proposed formation of a ship code.

Mr. LAROUCHE. And you had other interest at stake, so that there were very excellent reasons besides \$50,000 for putting it across?

Mr. MALONE. Yes; I had my strictly commercial reasons for wishing to see that become a law or in the code provision.

Mr. LAROUCHE. The thing had been dormant for a long time?

Mr. MALONE. In the stress of conditions the thing stayed in the committee.

Mr. LAROUCHE. Yet for \$50,000—I think the point is clear, but I reiterate it—yet for \$50,000 you thought you could bring it along and get it through the present session, even though the chairman thought it impossible?

Mr. MALONE. I thought I would get so excited about the matter I would communicate it to the Congress.

Mr. LAROUCHE. For \$50,000?

Mr. MALONE. Yes, sir. You appreciate, too, Mr. LaRouche, that that was a proposed figure.

Mr. LAROUCHE. What would it cost now, under the code?

Mr. MALONE. I am open to considerations. As a matter of fact, removing the facetiousness, the bill has been proposed by the President this year, and I rather expect it will be adopted, so that any activity on my part will come to an end. I take it, it is going to be adopted.

(x) The Kiplinger letters making serious charges against ship-builders and shipping interests was protested by shipbuilding interests, although the truth of the charges was apparently not denied (galley 48 WC, Apr. 3).

Mr. RAUSHENBUSH. I wanted to ask you about some matters in connection with the Kiplinger letter. Mr. Haig, I believe you have had some correspondence in regard to a derogatory letter, or a derogatory comment, made about ship-builders by the Kiplinger service.

Mr. HAIG. It must have been sometime ago. I cannot recall.

Mr. LAROUCHE. Do you remember the Kiplinger incident at all?

Mr. HAIG. Yes, sir; from conversation.

Mr. LAROUCHE. Do you remember writing any letters in connection with that incident?

Mr. HAIG. I do not at the present time. It was a subject that we would hear occasionally that Kiplinger had written what was termed a "scurrilous letter" about the conditions in shipbuilding, but I cannot recall that I wrote a letter nor can I recall someone writing me about it.

Mr. LAROUCHE. There is a letter here, which was written by Mr. M. B. Lambert, sales manager, transportation department, Westinghouse Electric & Manufacturing Co., on February 7, 1933. It was written to Mr. Newell, of Bath, and a copy was sent to Mr. Haig.

Mr. HAIG. Yes, sir; I remember Lambert writing a letter.

Mr. RAUSHENBUSH. I will read the letter [reading]:

DEAR MR. NEWELL: I have your letter of February 4 and attach hereto copy of letter I wrote to Mr. Kiplinger as per your suggestion.

I think perhaps your idea of writing him also is a very good one. I tried to get Mr. Smith on the telephone but find he is out of town for a few days.

Mr. RAUSHENBUSH. Does that recall anything to your mind?

Mr. HAIG. Nothing more so than at that time I heard the comment, or that this publicity agency had written what was called a "lousy letter", or something of that kind.

Mr. LAROUCHE. Yes.

Mr. HAIG. But I do not know that I ever read it. I saw a short extract of about 10 lines.

Mr. LAROUCHE. I have here a letter of February 3, 1933, written by you to Mr. Lambert.

The CHAIRMAN. You say "you", and to whom are you referring?

Mr. LAROUCHE. Mr. Haig. I will read the text of the letter.

Mr. HAIG. Yes, sir.

Mr. LAROUCHE (reading):

A copy of your letter of February 1, to Mr. H. G. Smith, also extract from the Kiplinger Washington Letter was duly received, and while it has considerable truth in a number of the statements made, it seems to me a rascally thing to write and broadcast loose statements of this kind which are most harmful to the shipping business.

Thanking you for bringing this to my attention, I am faithfully yours.

Do you recall that letter?

Mr. HAIG. I recall the incident. It was somewhere where Kiplinger described the shipping business or the shipbuilding business—I cannot recall whether he differentiated it or not—as a lousy condition, or something.

Mr. LAROUCHE. I will read Mr. Kiplinger's statement, on which it was based.

The CHAIRMAN. This is an extract from the Kiplinger letter?

Mr. LAROUCHE. This is an extract from the Kiplinger letter, which is the matter under discussion.

The CHAIRMAN. Is this the article in its entirety?

Mr. LAROUCHE. It is an extract from the Kiplinger Washington letter.

I am reading this:

The following extract regarding shipping copied from the Kiplinger Washington Letter, January 28, 1933—

And this was taken from the files of the Sun Shipbuilding & Dry Dock Co.

Mr. HAIG. That is the copy I got from Mr. Lambert's statement?

Mr. LAROUCHE. It is the copy you got from some source, probably Mr. Lambert.

Mr. HAIG. Yes, sir.

Mr. LAROUCHE (continuing reading):

Overseas shipping: This will be tied in more closely with railroads under ultimate Roosevelt policy. Meanwhile shipping industry is doing nothing to get ready for it. Severe criticism of shipping is voiced privately in high official quarters; industry is unorganized; has no qualified association like other transportation interests; has no broad economic research like shipping in other countries; depends too much on subsidy, which is due for a cut; depends for promotion and lobbying on Shipping Board; depends on political pull, favoritism, back-scratching, to get subsidies; practices cut-throat competition, while the public pays the bill; lets benefits and subsidies go largely to shipbuilders, through umbilical connections which were outlawed out of the railroad industry years ago. (Incidentally, shipbuilding is notoriously dirty in its political and propaganda methods.) Comment is heard in high quarters that if shipping industry does not clean house soon, it will not be able to get private investment funds later, and may be forced back to Government ownership.

It was on that statement, about which you wrote, according to the letter of February 3, 1933—

and while it has considerable truth in a number of the statements made, it seems to me a rascally thing to write and broadcast loose statements of this kind which are most harmful to the shipping business.

Mr. HAIG. Yes, sir.

Mr. LAROCHE. Do you recall that?

Mr. HAIG. Yes, sir.

Mr. LAROCHE. Did you feel that the statements in the Kiplinger letter were true?

Mr. HAIG. No, sir; not entirely. In my mind I would not profess to know. That is hitting, to my mind, more at ship operating—ship owning.

Mr. LAROCHE (reading):

Incidentally, shipbuilding is notoriously dirty in its political and propaganda methods.

Mr. HAIG. I did not catch that part of it, but I do now. I think it was hitting at the development that has come about, where so many people bought ships from the Shipping Board at ridiculously low sums, because the Board had huge numbers of ships on their hands. Then they obtained mail subsidies to carry on, with low-priced, cheap ships, with slow speed, and that simply reacted, and today it hurts the industry.

Mr. LAROCHE. You felt it had hurt the shipbuilding industry?

Mr. HAIG. It hurts every industry—the shipbuilding industry, likewise on the shipping industry.

Mr. LAROCHE. You would not object to the statement, except insofar as that hurt the shipbuilding industry? Is that the inference?

Mr. HAIG. I would not know enough about it. There are a great many statements made that way, and if one paid attention to them all it would be serious.

(y) Some indication of the interest of the Electric Boat Company in political activities is given in the following exhibits:

EXHIBIT No. 198

[Copy]

NOVEMBER 5TH, 1932.

Mr. W. H. PUTNAM,

*Chairman Republican State Ways and Means Committee,
Room 49, Allyn House, Hartford, Conn.*

DEAR MR. PUTNAM: Please pardon my delay in replying to yours of Oct. 19th which has been due to my absence. You are correct in thinking that I am very much interested in the election of Senator Bingham as I feel that failure to send him back to the Senate would not only be an enormous loss to the State but to the Nation as a whole. I have been working actively in his behalf and have reason to believe that as a result he will receive some 1,500 votes more than would otherwise have been the case.

I am enclosing my check for \$50 as a contribution to your fund which is additional to other contributions. I am sorry that I cannot make it more but in these days of severely reduced incomes and greatly increased demands, this is the best I can do.

While I was very nervous about the outlook a few months ago, I now feel that we are reasonably safe so far as Connecticut is concerned.

Very truly yours,

(s) L. Y. SPEAR.

EXHIBIT No. 181

*ELECTRIC BOAT COMPANY,
Hibbs Building, Washington, D. C., December 18, 1928.*

Mr. HENRY R. CARSE,

*President Electric Boat Company,
11 Pine Street, New York City.*

DEAR MR. CARSE: Successfully managed campaign for candidate Rules Committee, which is most important to us, when any legislation is up.

Brought in some Western States, New England States, New York, Pennsylvania, and Michigan in *Fort case*, and New Jersey, Michigan, New York, Illinois, South Dakota, and Pennsylvania in *Martin's case*.

Candidates successfully elected to Rules Committee: Honorable Jos. W. Martin, Jr., Mass.; Honorable Frank Fort, New Jersey.

The Rules Committee is the most important committee in Congress. It absolutely controls legislation.

Thanking you, with kind regards,
Sincerely yours,

A. J. JOYNER.

EXHIBIT 183

MARCH 11, 1929.

Mr. HENRY R. CARSE,
*President Electric Boat Company,
11 Pine Street, New York, N. Y.*

DEAR MR. CARSE: Now that the session of Congress is closed and our legislative activities are temporarily held in abeyance, it is a pleasure indeed to report to you and to the board of directors that all of our legislative efforts have borne fruit.

The cruiser bill is passed; the submarine appropriations have been passed; and as I sincerely promised you the day we lunched together in New York, we did manage, after overcoming a number of handicaps and jumping some hurdles, to get the second deficiency bill through, and in doing so we succeeded in getting our claim through, and we expect to receive payment at two o'clock this afternoon or early tomorrow morning.

Members of the Navy Department have seen fit on several occasions lately to not only write, but to personally express their appreciations and congratulations on the success of such parts of the program as we were directly interested in and for the help we gave the Navy Department. I am not prepared to write you, however. I shall be glad to verbally tell you what really happened with reference to the deficiency bill, and the part this office played in getting the bill through. I absolutely and positively believe, and feel safe in making the statement, that if it had not been for actions taken in this office on the day before the bill was passed, and the day the bill was passed, that the second deficiency bill would have gone over until next session; or, in other words, until the special or extraordinary session, which is called for the 15th of April.

My reason for not putting this in writing is out of respect for those who helped, and who were so powerful and so friendly. The code of honor between men makes it unethical to name persons. However, my words and belief stand, and today we have succeeded again in having our claim and papers and certificates moved up ahead of over three-thousand-some-hundred other claims, and inasmuch as our claim is the very largest, you can quite readily understand the Treasury Department would naturally hesitate at any advancement, particularly at this time when there is a threatened deficit. There is no question but what the situation could have been maneuvered for the next three months because of the right of the Treasury Department to recheck and check, audit, and do a number of other things, which, while they are not doing it in our case, they are actually engaged in doing so in a number of cases.

Our designs are meeting with approval. Our advice and specifications are being received favorably, and, generally speaking, little is left to be desired up to this time, except that all important part, the actual signing of any contracts that we might receive.

With good will and a friendly attitude existing in the Army and Navy, in Commerce and the Shipping Board, and the Treasury Department, and a good will does exist, which is true, as is the statement of pleasant friendly relations, we may well feel that a brighter future has opened up for this company, with less sales resistance, and pleasant hours free from the past worries and cares.

In the final, the writer wishes everyone in the organization without exception to feel and to know that all have played a part in loyalty, kind considerations, and cooperation, and that they are entitled to share the pleasure and delight in a final victory, and in my humbleness desire to express my sincere thanks to all.

Sincerely,

(Signed) STERLING J. JOYNER.

D—LOBBYING FOR JONES-WHITE ACT

The interest of the shipbuilders in securing merchant-marine legislation was discussed at various times (Jan. 30, 1935, galley 16 AS).

Senator VANDENBERG. Is that what these expenditures were for?

Mr. WILDER. Nine-tenths of them. We were paying retainers and defraying their expenses. It was just like running a big engineering office. We had the models in the Washington tank, and had them also in the tank at Ann Arbor, at the same time developing the plan of the new ship. The Germans grabbed it and built the *Bremen* and *Europa*. They were darned nice, and when the dignitaries came in on the maiden voyage they wirelessly me and said, "We are riding on your ship and want to talk to you."

Senator CLARK. That does not tell us where you spent that money.

Mr. WILDER. Two hundred thousand dollars on the engineering work and fifty thousand dollars on the fact we were living here, but I did not spend it on any Senator.

Senator BONE. Mr. Wilder, can you tell us who drew the Jones-White Act?

Mr. WILDER. Mr. Jones drew the preamble.

Senator BONE. I am talking about the peculiar phraseology of that act. What attorney drew it?

Mr. WILDER. I do not know what attorney. I did an awful lot of work on it, and I am not an attorney. Hundreds of different people were working on it, and came in with contributions.

Senator BONE. Private shipbuilding companies?

Mr. WILDER. Private shipbuilding companies, and particularly ship operators.

Senator BONE. Who drew the provisions in the Jones-White Act authorizing the sale of these vessels at a tiny fraction of their cost, to which was added a provision that if the Government took them back in case of war they would pay the price the company wanted to exact for the boats?

Mr. WILDER. Is that in the Jones-White Act?

Senator BONE. That is in the Jones-White Act, in practical effect.

Mr. WILDER. I thought that antedated it.

Senator BONE. The going market value in the case of war. Do you remember that?

Mr. WILDER. No, sir. Before the House it was the cost less depreciation to date.

Senator BONE. Some of those ships were sold to private operators at less than 2 cents on the dollar?

Mr. WILDER. Oh, yes.

Senator BONE. And in the same act there was a provision which authorized that if the Government took them for war purposes, that they would have to pay the going market value.

Later, the drafting of the bill was referred to again (Jan. 30, 1935, galley 18 AS).

Senator BONE. I want to go back to the Jones-White Act for a moment, before we adjourn, to be sure I get the facts correctly. Your information is, Mr. Wilder, that the provisions of the Jones-White Act of 1928 were prepared by private shipbuilding interests; that is to say, the act itself was drafted outside by private shipbuilding interests, and the preamble drawn by the Senator?

Mr. WILDER. And section I.

Senator BONE. That is rather a general statement of the purposes, is it not?

Mr. WILDER. Yes, sir.

Senator BONE. And the rest of that was framed and formulated by private shipbuilding interests?

Mr. WILDER. And turned over at the time of the hearings before the Merchant Marine and Fisheries Committee.

Senator BONE. And adopted by Congress?

Mr. WILDER. Yes, sir.

The question of the drafting of the Jones-White Act was raised again on February 27 (galley 42 QD) :

Senator BONE. There is a provision in that bill under which if the Government attempts to recapture any of these ships built with loans or that were sold by the Shipping Board to private shipping interests, it would require the Government to pay 100 percent of the then value of the vessel, the value at the time it is taken, although the vessel may have been sold for a tiny fraction of its cost to the Government.

Mr. SMITH. I think not, Senator. I think that was in the earlier bill, of 1920.

Senator BONE. That is in the Jones-White Act now. I have the act right before me.

Mr. SMITH. In the Jones-White Act now?

Mr. BONE. Yes; some of these ships were sold to private shipping companies for as little as one-seventieth of those costs; and those same ships, if the Government recaptured them tomorrow in case we had a war, would be appraised at their then value, their fair market value. The Government would have to pay that 100 cents on the dollar. That is why I asked you who drew that act—

Mr. SMITH. I do not know.

Senator BONE. With that kind of a provision in it.

The advantages to the shipowners in certain sections of the Jones-White Act were discussed on January 31, 1935 (galley 22 AS) :

Senator BONE. May I point out that that clause you spoke of yesterday about the recapture of ships is an amendment and was not in the original act.

Let me at this point, Mr. Wilder, read this queer and peculiar provision of the Jones-White Act under which ships that have been sold to private ship companies for as low as one-seventieth of their cost—I have in mind some steamers sold to a line, which got a mail contract, and for hauling one letter across the ocean that they received almost the entire price of those boats. You are aware of that weird sort of picture, are you not?

Mr. WILDER. Yes, sir.

Senator BONE. Under the Jones-White Act which made that sort of raid on the Treasury, we find this sort of language [reading] :

The following vessels may be taken and purchased or used by the United States for national defense or during any national emergency declared by proclamation of the President :

and it goes on to define these vessels which have been sold, on which loans have been made, and which are operating under these particularly juicy mail contracts that Senator Black referred to [reading] :

Any vessel in respect of which an ocean-mail contract is made under title IV of this act, at any time during the period for which the contract is made.

In such event—

That is, in the event of the Government taking them for war purposes—

* * * the owner shall be paid the fair actual value of the vessel at the time of taking or be paid the fair compensation for her use based upon such fair actual value.

In other words, it means if we sell one of these beautiful steamers to a private outfit, or make a loan to one of these outfits, and the Government has given them the vessel almost as an outright gift, and wants to take it back, they must pay the entire-value price if they take it back.

Mr. WILDER. That is the way it was written.

Senator BONE. And they skinned the Government out of its eyeteeth in writing into law such sort of legislation?

Mr. WILDER. I would say they did.

Senator BONE. Is that typical of the patriotism of these gentlemen? Is that the sort of 100-percent Americanism that they boast of?

Mr. WILDER. Yes, sir. Might I suggest also that you might inquire of the Treasury Department who made the overnight loan at a quarter of 1 percent at the time that Stanley Dollar got his loans from the Shipping Board at one-quarter of 1 percent for 20 years? That loan provision was supposed to

be at the Government's current rate of interest on similar loans. Unfortunately, it did not say "similar length." In other words, they made overnight loans and Congress finally had to fix a definite interest rate, so that these patriotic gentlemen have gotten these big loans at an interest rate of one-quarter of 1 percent, three-eighths of 1 percent, and one-half of 1 percent.

Senator VANDENBERG. That has been corrected, Mr. Wilder.

Mr. WILDER. Yes, sir; that has been corrected.

Senator VANDENBERG. I introduced the legislation.

The Merchant Marine Act of 1928 was discussed by Mr. Laurence R. Wilder, former president of the New York Ship and active lobbyist for the companies in connection with the Jones-White Act (Jan. 31, 1935, galleys 21-22 AS) :

Mr. RAUSHENBUSH. We find from the Black Committee files that Mr. Bardo was questioned about it, and that on the bidding on the *Manhattan* and *Washington*, that Newport News and Bethlehem had bid exactly the same figures, which I believe was \$9,750,000, and New York Ship had bid just a little under. And there was further discussion also on the agreement between certain of these shipbuilding companies, apparently on some of the other ships. A letter from Robert Haig, of the Sun Ship, to Mr. Bardo was introduced, appearing at page 6734 of the record showing that Newport News and Federal and Bethlehem had promised to go along on these Gulf Pacific boats, and he was trying to get New York Ship to do so.

Do you know anything about that as a customary practice?

Mr. WILDER. It evidently is, sir. You have developed a great deal of it, and I have dug out some myself. It apparently has been going on for as long as these shipyards have been together. You see it is easier now. Prior to the war there were quite a number of independent yards; that is, before Bethlehem bought them up, and now there are only three. When we get into the 1934 question, it is a little different.

Mr. RAUSHENBUSH. When the Jones-White bill was being put through, did the American public at any time have any idea that that was what was going to happen; that a few shipbuilders would get together and agree on what their bids would be on the terrifically large merchant-marine program?

Mr. WILDER. No, sir; no, sir. The Jones-White Act has been to me a horrible disappointment. My own efforts, and my own desires, were to put us back on the high seas right.

At that time I had not had sufficient time to study the situation. I believed that we could not build American vessels at competitive cost. I have changed my view completely as a result of 4 or 5 years' further study, that we are designed to build new, sound, safe, fireproof ships. It has been horribly abused. I am with Senator Bone if he wants to take it off the books.

Mr. RAUSHENBUSH. Were you aware, in that connection, that the vice president of the United States Lines, Mr. Sheedy, was apparently informing shipbuilding engineers that he was giving the Shipping Board incorrect information as to the British bidding on the ships, stating that he gave the amount of the bids from British yards to the Shipping Board at a figure lower than actual for mail-contract reasons?

Mr. WILDER. When you brought it out in the testimony, it was the first I heard of it. That is just the way the act has been treated, as evidenced in the Black and Post Office investigations.

Mr. RAUSHENBUSH. This was a measure put through for the purpose of securing adequate national defense, was it not, Mr. Wilder?

Mr. WILDER. Adequate defense; yes, sir.

Mr. RAUSHENBUSH. Here we come into a situation where the American public did not know that a considerable number of things were happening: First, that the shipbuilding companies were going to agree on what the prices on those ships would be; second, that the Shipping Board was going to be incorrectly informed by responsible shipping companies concerning English figures, for mail-contract purposes; and now we have a third thing that the American public did not know that the safety at sea would not be adequately covered by those ships built under that act.

A letter from the then Washington representative of New York Ship, A. G. Foster (Exhibit 1460) stated that the vice president of the United States Lines had given the Shipping Board figures on

British building costs lower than the accurate ones "for mail-contract reasons" (Jan. 24, 1935, galley 65 GP):

Mr. RAUSHENBUSH. Before leaving this question of the merchant ships, I call your attention to a letter dated August 12, 1931, signed by A. G. Foster, and addressed to you, Mr. Bardo. Was Mr. Foster at that time your Washington representative?

Mr. BARDO. He was both in New York and Washington. He was at New York first and Washington later. Is that dated New York or Washington?

Mr. RAUSHENBUSH. It is interoffice correspondence. I cannot make out where it comes from.

Mr. BARDO. I think that is while he was in the New York office. That would be my feeling about it.

Mr. RAUSHENBUSH (reading):

DEAR MR. BARDO: As requested by you, attached hereto, please find papers which I received from Mr. Sheedy this morning.

Mr. Sheedy apologized for not having been in town when you called and explained that he did not reach New York until late last night.

He wished me to emphasize the fact that the attached bids for the 705-footers were based on the original 82-foot beam and that correspondence from British shipyards suggesting increase in beam crossed our revised plans calling for 86-foot beam.

Mr. Sheedy said that he would be very glad for us to make copies of all this correspondence; however, naturally wishing us to keep it confidential.

There was some British bidding on the ships? Was there not?

Mr. BARDO. There was.

Mr. RAUSHENBUSH. And the explanation of that is in this last paragraph which reads:

Mr. Sheedy said that he gave the amount of the bids from British yards to the Shipping Board at a figure lower than actual for mail-contract reasons.

Mr. BARDO. I know nothing about that. You will have to ask Mr. Sheedy about that. I know nothing about that.

Mr. RAUSHENBUSH. I will offer that letter for the record.

(The letter referred to was marked "Exhibit No. 1460" and is included in the appendix.)

Mr. RAUSHENBUSH. What advantage would there be in portraying to the Shipping Board a picture that the shipyards in Britain were bidding a great deal under the American yards? Can you give any information on that?

Mr. BARDO. They were not a great deal under. As a matter of fact, as I recall it, there was only about \$700,000 difference in what one of the bids was and our bid, between one of the British yards and ourselves.

Mr. RAUSHENBUSH. One of them was over \$2,000,000 under, was it not?

Mr. BARDO. Not as I recall the figures.

Mr. RAUSHENBUSH. John Brown & Co., Ltd., Clyde Banks, Scotland, \$7,295,260. That is over \$2,000,000.

Mr. BARDO. That would be, if that was one of them.

Mr. RAUSHENBUSH. And the other one, Fairfield Shipbuilding & Engineering Co., \$8,169,000. That is again over \$1,000,000 under.

Mr. BARDO. I think it would also be enlightening to the committee, if you understood something as between the difference that applies in building a ship in an English yard and what applies in building that same ship in an American yard.

Mr. RAUSHENBUSH. That is a long and complicated question, Mr. Bardo, and we expect to get back to it later.

Mr. BARDO. All right.

Mr. RAUSHENBUSH. But at the moment the point here is that the Government was given incorrect information. Mr. Sheedy was president of the United States Lines at that time, was he?

Mr. BARDO. No; I think he was the executive vice president. Mr. Chapman was president, as I recall it.

Mr. RAUSHENBUSH. The Government was given incorrect information on a bidding arrangement under which the American yards arrived at a very similar price in two cases and apparently expectation that that would influence the mail-contract rates, if the Shipping Board thought, or was told, that the British yards could build a great deal cheaper than they actually could.

Mr. BARDO. Of course, that is something which Mr. Sheedy can tell you. I could not answer that question.

Mr. Wilder, who had charge of the lobby for the Jones-White bill in 1928 for the shipbuilders and owners, agreed to the statement that "they skinned the Government out of its eyeteeth in writing into law such legislation" (Jan. 31, galley 22 AS):

Senator BONE. May I point out that that clause you spoke of yesterday about the recapture of ships, is an amendment and was not in the original act.

Let me at this point, Mr. Wilder, read this queer and peculiar provision of the Jones-White Act under which ships that have been sold to private ship companies for as low as one-seventieth of their cost—I have in mind some steamers sold to a line, which got a mail contract, and for hauling one letter across the ocean that they received almost the entire price of those boats. You are aware of that weird sort of picture, are you not?

Mr. WILDER. Yes, sir.

Senator BONE. Under the Jones-White Act which made that sort of raid on the Treasury, we find this sort of language [reading]:

The following vessels may be taken and purchased or used by the United States for national defense or during any national emergency declared by proclamation of the President—

and it goes on to define these vessels which have been sold, on which loans have been made, and which are operating under these particularly juicy mail contracts that Senator Black referred to [reading]:

Any vessel in respect of which an ocean-mail contract is made under title IV of this act, at any time during the period for which the contract is made.

In such event—

that is in the event of the Government taking them for war purposes—

* * * the owner shall be paid the fair actual value of the vessel at the time of taking or be paid the fair compensation for her use based upon such fair actual value.

In other words, it means if we sell one of these beautiful steamers to a private outfit, or make a loan to one of these outfits, and the Government has given them the vessel almost as an outright gift, and wants to take it back, they must pay the entire-value price if they take it back.

Mr. WILDER. That is the way it was written.

Senator BONE. And they skinned the Government out of its eyeteeth in writing into law such sort of legislation?

Mr. WILDER. I would say they did.

Senator BONE. Is that typical of the patriotism of these gentlemen? Is that the sort of 100-percent Americanism that they boast of?

Mr. WILDER. Yes, sir.

Further discussion of the passage of the Jones-White Merchant Marine Act was had on April 5 with Mr. Wilder on the stand (galley 83-85 WC).

E.—SECURING OF P. W. A. FUNDS FOR NAVAL CONSTRUCTION

One of the most successful moves on the part of the shipbuilders was to secure the allocation of \$238,000,000 of P. W. A. funds to the Navy for shipbuilding. Ships were started which will require an additional \$40,000,000 to \$50,000,000 to complete.

Public Works Administrator, Harold L. Ickes, testified on February 22 (galley 81 FS, seq.).

He stated that \$238,000,000 was allocated from the Public Works funds to the Navy Department for construction of naval craft in 1933. An additional \$39,409,459 was allocated for other purposes. The Executive order allocating this money was issued June 16, the day the act was passed (galley 81 FS).

Up to December 31, 1934, the sum of \$66,547,913 had been expended out of the \$238,000,000 allocation.

Secretary Ickes stated that the purpose of the Public Works program was to afford employment.

Detailed information furnished by him was read by the chairman (galley 82 FS):

The CHAIRMAN. Mr. Secretary, in the information furnished the committee by your office a paragraph is devoted to the progress on private contracts awarded out of Public Works Administration funds. I want to read from that. It shows that of ship construction, hull and machinery, there was devoted for hull and machinery construction on contracts awarded \$113,488,600; for ordnance, \$18,728,175; of the hull and machinery contracts awarded, of work actually performed, there was only \$35,411,965, and of ordnance \$10,515,000.

Other purposes to which this P. W. A. funds were devoted were the purchase of aircraft, \$5,709,806, and of that award \$3,297,075 had been delivered as of December 31, 1934; radio equipment, there was provision made in the contract for \$678,633 worth, and \$278,314 worth had been utilized on December 31; purchase of machine tools for ordnance, and so forth, \$268,908. Practically all of that had been utilized as of December 31, your figures showing \$266,218 of it having been used.

For the purchase of machine tools for shore stations, and so forth, there had been awarded for contracting \$1,738,240. Of this \$1,636,500 had been used.

For the purchase of equipment for supply department, and so forth, \$170,949 had been awarded and \$170,915 had been used.

For the construction and improvement at shore stations (including storm-damage repairs) \$19,977,064 had been awarded and \$16,186,231 had been spent as of December 31, 1934.

It seems evident from this, Mr. Secretary, that there may be question as to how much employment was actually afforded by these expenditures, since it is altogether likely that a great deal of the supply that was bought was from stock and did not occasion any new employment to make it available.

Are you at all conversant with the actual facts in that connection?

Mr. ICKES. No; not at all.

The CHAIRMAN. Do you know anything about it at all?

Mr. ICKES. I know nothing about that, Senator. The allocations were made, and after that it was up to the Navy.

Mr. Ickes stated that he was not Administrator when the Executive order was issued (galley 83 FS).

The CHAIRMAN. There has been furnished the committee a chart showing the division of work under P. W. A. money as follows, which I think you have before you, showing the name of the company which had ships under construction, and the percentage of completion shown as of January 1, 1935.

Mr. ICKES. I have not got that here, Senator. Was not that furnished by the Navy?

The CHAIRMAN. This shows the name of the company, and the Chair will ask that the chart be made a part of the record as an exhibit at this point.

(The chart referred to was marked "Exhibit No. 1629" and is included in the appendix.)

The CHAIRMAN. In the last column it shows the percentage of completion as of January 1, 1935.

Mr. ICKES. Yes, sir.

The CHAIRMAN. The Newport News Shipbuilding & Dry Dock Co., for example, building two air aircraft carriers from P. W. A. funds, was awarded the contract in 1933, and on January 1, 1935, had completed its job to the point of about 29.6 percent; the Bethlehem Shipbuilding Co. had a percentage of completion of 47.1 percent; and the New York Shipbuilding Co., under its various jobs, had a percentage all the way from 15.6 to 31.4, and so on down through the entire exhibit.

Have you had any larger showing of the affording of actual employment through other allocations than has been true as respects allocations to the Navy Department?

Mr. ICKES. Yes, Senator; but I have not brought those figures, not knowing they would be asked for. We can supply them, if you need them, if you want them.

The CHAIRMAN. Roughly, can you indicate to the committee how direct and immediate has been the effectiveness of other Public Works Administration allocations?

Mr. ICKES. Public roads have give us the best results of immediate and direct employment, but we have not got the figures here. But a good many others run way ahead of this.

Senator CLARK. There was a very large amount of money spent on river work, which is direct employment; is it not, Mr. Secretary?

Mr. ICKES. Yes; river and harbor work, reclamation work, and railroads.

The CHAIRMAN. Since this naval allocation was one of the first, if not the first, appropriations from the Public Works funds, can you indicate to the committee who of the Navy Department appealed to the Public Works Administration for these funds for this allocation?

Mr. ICKES. You mean for shipbuilding?

The CHAIRMAN. For shipbuilding.

Mr. ICKES. It came under an Executive order.

The CHAIRMAN. The Navy Department did not come direct to Public Works for the appropriation?

Mr. ICKES. No; we got an Executive order the same date that the act was signed.

The CHAIRMAN. On the same day that the act was signed?

Mr. ICKES. That appears to be the date of the Executive order, June 16, 1933.

The CHAIRMAN. Had the Public Works Administration given any consideration prior to this Executive order to the request of the Navy Department?

Mr. ICKES. No; the Administration had been set up but had not begun to function.

Senator CLARK. Had you been appointed Administrator?

Mr. ICKES. The same order that allocated the money for roads, \$400,000,000, and the \$238,000,000 for Navy, set up the Public Works Administration, the Special Board of Public Works, and the Acting Administrator.

The CHAIRMAN. You were then the Acting Administrator?

Mr. ICKES. No; Colonel Sawyer was Acting Administrator. I was not appointed Administrator until about July 9.

Senator CLARK. So that the \$238,000,000 for ship construction had been subtracted from the \$3,300,000,000 before the Administration was set up, or at the same time the Administration was set up?

Mr. ICKES. Yes.

Senator CLARK. And was never turned over? This \$238,000,000 never came under the control of the Public Works Administration?

Mr. ICKES. We adopted a resolution at the first meeting of the special board ratifying it, although it had been designated and set aside by the Executive order.

Senator CLARK. May I ask, Mr. Secretary, whether you know whether the \$238,000,000 allotted by this Executive order was expected to complete the 32 vessels or only to begin them?

Mr. ICKES. Senator, I thought it was to complete them, but I cannot say that I had any clear understanding about it.

Senator CLARK. I just wondered what information you had on that subject. Senator VANDENBERG. And you have no information, as I understand it, as to why the figure was set at \$238,000,000?

Mr. ICKES. None at all.

Senator VANDENBERG. You do not know whether it was set there for the purposes of building a Navy or for the purposes of creating employment?

Mr. ICKES. I simply know that the Executive order was issued setting up the Public Works Administration and designating these allocations.

The CHAIRMAN. What was your first knowledge of this allocation?

Mr. ICKES. When the Executive order was issued.

The CHAIRMAN. That was in June 1933?

Mr. ICKES. It was issued on June 16, 1933, setting up a special Public Works Board, and it designated an Acting Administrator.

Senator VANDENBERG. Have you a copy of the Executive order before you, Mr. Secretary?

Mr. ICKES. Yes; I have.

Senator VANDENBERG. I think that ought to be put in the record.

The CHAIRMAN. Let it be made a part of the record, but before would you let the committee see it, please?

(The Executive order referred to was marked "Exhibit No. 1630.")

The CHAIRMAN. The Executive order reads:

EXECUTIVE ORDER—ADMINISTRATION OF PUBLIC WORKS

Pursuant to the authority of an act to encourage national industrial recovery, to foster fair competition, and to provide for the construction of certain useful public works, and for other purposes, approved June 16, 1933, and in order to effectuate title II—Public Works and construction projects—thereof:

1. I hereby appoint Col. Donald H. Sawyer to exercise temporarily the office of Federal Emergency Administration of Public Works.

2. I hereby appoint a Special Board for Public Works consisting of the following: The Secretary of the Interior, chairman; the Secretary of War; the Attorney General; the Secretary of Agriculture; the Secretary of Commerce; the Secretary of Labor; the Director of the Budget; Col. George R. Spalding; and Assistant Secretary of the Treasury Robert.

During the ensuing 30 days the Federal Emergency Administrator of Public Works shall have authority to allot the sum of not to exceed \$400,000,000 provided for in title II of said act for highway building for distribution among the States, Territories, and the District of Columbia, and authority to allot the sum of not to exceed \$238,000,000 to the Department of the Navy for the construction of certain vessels, the construction whereof conforms to the London Naval Treaty and has heretofore been approved by me.

The distribution of the money herein allocated for public roads shall be subject to the approval of the Board for Public Works.

The Federal Emergency Administrator of Public Works is hereby authorized to employ such necessary personnel on a temporary basis as may be approved by the Board.

During the next 20 days it shall be the duty of the Federal Emergency Administrator of Public Works and the Board herein constituted to study and report to me on all public-works projects which have heretofore been submitted or shall hereafter be submitted.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,

June 16, 1933.

The order is indicated as being no. 6174.

This order, Mr. Secretary, declared that not to exceed \$238,000,000 was to be allocated to the Department of the Navy. Yet the full amount was at once allocated?

Mr. ICKES. It was; yes.

The CHAIRMAN. Upon whose determination was that full allocation?

Mr. ICKES. The Special Board of Public Works voted the allocation and then it followed the usual procedure and was submitted to the President for his ratification.

Senator POPE. Do you have the resolution that was adopted by the Board, Mr. Secretary?

Mr. ICKES. No; but I will be very glad to furnish it.

Senator Clark questioned on the difference between an allocation of funds to roads and to the Navy (galley 84 FS).

Senator CLARK. Mr. Secretary, if I understand this Executive order correctly, there is one very essential difference in the handling of funds allocated to highway construction and funds allocated to naval construction, and I would like to see if my understanding is correct.

That under the order the funds allocated for naval construction were turned over to the Navy Department and passed out of the control of the Public Works Administration?

Mr. ICKES. Yes.

Senator CLARK. The Board of Public Works. On the other hand, by the terms of the order, the distribution of the money as allocated for public roads was subject to the approval of the Board of Public Works, which meant that the Board of Public Works retained supervision of the expenditure of that money?

Mr. ICKES. That is right.

Senator CLARK. That is correct?

Mr. ICKES. That is correct?

Senator CLARK. So that the allocation for naval construction passed entirely out of your control?

Mr. ICKES. That is right.

Senator CLARK. But the allocation for other types of work remained within the control of the Public Works Administration and subsequently the Administrator?

Mr. ICKES. When you say "other types", you mean roads?

Senator CLARK. I mean roads in this order and, as a matter of fact, all other allocations did subsequently, did they not?

Mr. ICKES. No; they did not Senator. As a general thing, when we made an allocation to another department, Agriculture, Treasury, or whatnot, it would pass out of our control and they used it for the purposes specified.

Senator VANDENBERG. You did not make any "whatnot" allocations, did you?

Mr. ICKES. The "whatnot" referred to the department and not to the allocations.

It was brought out that the Navy had advertised for bids the same day it received the allocation (Feb. 22, galley 85 FS).

Senator VANDENBERG. When were you appointed Administrator?

Mr. ICKES. I think it was July 9.

Senator VANDENBERG. July 9. When did you and your board make this allocation?

Mr. ICKES. The date of the order of the transfer of the funds was June 21, and our meeting was probably a day or two prior to that. I have not the exact date.

Senator VANDENBERG. That would be approximately when?

Mr. ICKES. Oh, it would be June 19 or 20, along in there.

Senator VANDENBERG. June 19 or 20. How do you explain the fact that the Navy Department advertised for bids on June 16, the very day the Executive order was issued, 3 or 4 days before the money had been allocated under the terms of the Executive order, and the Navy Department advertised for bids for the entire \$238,000,000 worth of work?

Mr. ICKES. That is not a matter within my knowledge, Senator. I did not know that they had advertised for bids on that date, and, therefore, I cannot explain it.

Senator VANDENBERG. Would not the fact that the Navy had immediately acted, the moment the President signed the Executive order, explain the reason why you and the board felt no latitude in allotting less than \$238,000,000?

Mr. ICKES. I do not think we were advised that the Navy had advertised for bids on that date, Senator. So that it could not have entered into our consideration.

Senator VANDENBERG. If the Navy did advertise for bids on June 16, it advertised without authority, did it not?

Mr. ICKES. Well, yes; but that was not taking a very long chance. They could reject bids, if there was a failure in the allocation. I suppose, after all, it was

to the credit of the Navy that they wanted to get to work as soon as possible in anticipation they would have money to spend.

Senator VANDENBERG. Obviously they depended upon the complete allocation because of the Executive order.

Mr. ICKES. It was not an unreasonable expectation, Senator.

Senator VANDENBERG. In other words, the President was handling the matter personally right from the start?

Mr. ICKES. The Executive order speaks for itself.

Senator VANDENBERG. And the action of the Navy Department corroborates that prospectus.

Mr. Ickes also testified that the P. W. A. had allocated to the War Department for military purposes \$99,646,518, for nonmilitary purposes, including river and harbor work, \$346,813,228—a total of \$446,459,746.

The question of the efficient use of Public Works Administration funds in providing employment came up several times (Jan. 29, galley 93 GP). Navy officials estimated that within the first 2 years \$150,000,000 of the \$238,000,000 allocated would be used up.

Senator VANDENBERG. Admiral, if that is a fair anticipation of what you expected, how could you have hoped to use P. W. A. money for the purpose it was intended, namely, to create immediate employment?

Admiral LAND. Senator, we actually did relieve unemployment outside the shipyards and the navy yards, and, more important, we kept people who were employed from being let out by virtue of this program.

Senator VANDENBERG. How?

Admiral LAND. By the construction of this program.

Senator VANDENBERG. How much money did you get from P. W. A.?

Admiral LAND. \$238,000,000.

Senator VANDENBERG. How much of that money do you think actually went into unemployment relief?

Admiral LAND. I know how much we spent the first contract year.

Senator VANDENBERG. How much?

Admiral LAND. We estimated \$46,000,000, and including both of these 32 ships and the 5 increased Navy which were let at the same time, we spent \$47,000,000 the first contract year on construction.

Senator CLARK. That was for both wages and materials?

Admiral LAND. That is everything which was spent out of the Treasury.

Senator CLARK. Total expenditure for that year?

Admiral LAND. Out of the Treasury; yes, sir.

Senator CLARK. \$47,000,000, Admiral?

Admiral LAND. \$47,000,000 plus. Our own private estimate was about \$43,400,000 on these ships, and we spent about \$43,700,000 on the 32 ships. The \$47,000,000 covers the 37 ships.

Senator VANDENBERG. Your own estimate was that you were going to expend \$43,000,000, as I understand it.

Admiral LAND. On the 32 ships.

Senator VANDENBERG. Out of \$238,000,000.

Admiral LAND. The first year of construction.

Senator VANDENBERG. Was not the \$238,000,000, so far as the P. W. A. was concerned, in contemplation of complete expenditure in 1933?

Admiral LAND. No, sir; it is not my understanding. The law extends for 2 years, and by interpretation of the authorities, the funds are available under our contracts until expended.

Senator VANDENBERG. But the P. W. A. money was not for the purpose of building battleships?

Admiral LAND. No, sir.

Senator VANDENBERG. It was for the purpose of creating immediate employment, was it not?

Admiral LAND. Yes, sir; as I understand it; but it was 2 years. I am not sure. You know more about that than I do. I think it was 2 years.

Senator VANDENBERG. Let us say 2 years. How much out of the \$238,000,000 would you spend in 2 years?

Admiral LAND. I can give you a pretty accurate estimate of that. I cannot do it now because the end of the 2 years is not yet.

Senator VANDENBERG. In general.

Admiral LAND. The last figure we had was something like \$87,000,000 up to around the first of January, and the average expenditure is running anywhere from \$7,000,000 to \$9,000,000 a month, with very much of an upgrade as to expenditures.

Senator VANDENBERG. You made your total estimate for 2 years?

Admiral LAND. Yes, sir; for the first 2 years of construction. I would be glad to submit that.

Senator VANDENBERG. Can you not make an estimate now just broadly? Our governmental practice now is so loose in handling millions that we will not hold you down very closely on your estimate.

Admiral LAND. I think around \$150,000,000.

Senator VANDENBERG. \$150,000,000. That would be \$70,000,000 more than you have spent up to date?

Admiral LAND. Yes, sir; in the first 2 years of contractual construction.

Senator VANDENBERG. And you have no information as to whether or not the P. W. A. thought you were going to use the \$238,000,000 in 1 year to serve the unemployment problem for which the P. W. A. was created?

Admiral LAND. I do not believe I can answer that question, Senator.

Senator VANDENBERG. Probably you cannot. You can see what challenges my interest.

The question of the efficient use of P. W. A. funds was discussed also by Admiral Robinson (Jan. 29, galley 95 GP).

Senator VANDENBERG. Admiral Robinson, you cannot translate that for us into dollars and cents, in a general estimate as to how much of the \$47,000,000 probably went for labor and how much for materials?

Admiral ROBINSON. We have a figure which we use for estimating labor and material which is, as I remember it, about 70-30, 70 labor and 30 materials. That is a rough figure which we use for covering all our work. It is fairly accurate.

Senator VANDENBERG. Seventy percent of \$47,000,000 is about \$34,000,000?

Admiral ROBINSON. That is about right; yes, sir.

Senator VANDENBERG. That would be the outside figure on labor, would it not?

Admiral ROBINSON. I think it is just about the correct figure.

Senator VANDENBERG. \$34,000,000 out of \$238,000,000 was spent for labor the first year in round numbers?

Admiral ROBINSON. Yes, sir; about that.

Senator CLARK. Admiral Land, did I understand you to say a moment ago that after the first allotment of \$238,000,000 of P. W. A. funds, then in 1934 they got an allotment of \$40,000,000 from P. W. A. funds?

Admiral LAND. No, sir; I did not say that. I am unable to differentiate accurately as to just what the second allotment means or its source. I know what we call it. It covers new ships. It covers 20 new ships. It is not the same program at all but an entirely different program.

Senator CLARK. I am speaking of the program. You do not know where you got the money?

Admiral LAND. Yes; I know where we got it, but I do not know how it is allocated.

Senator CLARK. Was it authorized in any act of Congress and appropriated for in an appropriation bill?

Admiral LAND. Not under increase in the Navy; no, sir.

Senator CLARK. If you only spent \$87,000,000 out of the \$238,000,000 during the first year, what was the cause for granting an additional \$40,000,000?

Admiral LAND. A new program.

Later:

Senator VANDENBERG. You said that the \$40,000,000 was for a new program?

Admiral LAND. Yes, sir.

Senator VANDENBERG. You mean a new Navy program?

Admiral LAND. A new Navy program, of which \$25,000,000 was allocated to ships, 20 ships, in the 1934 Navy shipbuilding program.

Senator CLARK. What I am getting at, so far as the reemployment is concerned, Admiral, was in spite of the fact that you were only able to spend for that purpose in the first year \$87,000,000, and had approximately

\$150,000,000 unexpended in the first allocation, why you came back and got another \$40,000,000 in the second year.

Admiral LAND. That is what we got.

Senator VANDENBERG. Have you an application with them for further allocation for the coming year?

Admiral LAND. We have a bill before the Congress for increase of the Navy under the present appropriation bill of 24 ships. That is all.

Senator VANDENBERG. Have you an application with the P. W. A.?

Admiral LAND. Not for ships, so far as I know.

Senator VANDENBERG. Have you an application with the P. W. A. for anything?

Admiral LAND. I expect so. I think so.

Senator VANDENBERG. Do you recall what it is?

Admiral LAND. No, sir. It is not in my province.

Senator VANDENBERG. Is not the Navy asking for \$100,000,000 more from P. W. A.?

Admiral LAND. I do not know.

Senator VANDENBERG. You have not heard that was the figure?

Admiral LAND. I have not heard that figure. I know the Navy is asking for something, and I have seen the break-down of the items, but it comes more directly under the Bureau of Yards and Docks, that is the public-works part of the Navy Department.

Senator VANDENBERG. I am not quarreling with you, Admiral, or with the Navy, but I am trying to discover whether P. W. A. money is being spent for P. W. A. purposes or Navy purposes.

It was brought out that the \$238,000,000 of P. W. A. funds were used to begin ships which it would take an additional \$40,000,000 to \$55,000,000 to complete (Jan. 29, galley 97 GP).

Senator VANDENBERG. Admiral Land, when you allocated this \$238,000,000 to the various ships to be constructed, did you allocate the complete cost of the ship, or did you divide the \$238,000,000 among a considerably larger number of ships than the \$238,000,000 would pay for in total?

Admiral LAND. No, sir; this was a specific sum, for a specific number of ships which were advertised for, and contracts awarded to private yards, the remainder being allocated to navy yards.

Senator VANDENBERG. Do you mean that \$238,000,000 would pay the full bill for all the ships that were started under the allocation?

Admiral LAND. Thirty-two ships. That was our estimate.

Mr. LAROCHE, Admiral, I believe I can throw a little light on that. I think that what the Senator has in mind is that these ships will not be completed on this money, exactly as in the past ships have been completed under increases in the Navy. In other words, are there not some extras which are considered an essential part of that, which are not provided on these ships?

Admiral LAND. That is probably correct. These were estimates based on ships complete and ready for sea, and there will be some reserves, particularly ordnance reserves, that we will have to get, probably get additional funds for. Also, conditions have very materially changed since the estimates were made. We all know that prices have gone up since that time, and they may go up further, so that no one can give you an accurate estimate as to the final cost of these 32 ships at this time.

Senator VANDENBERG. Could you give me a general idea of how much more than \$238,000,000 is necessary to finish the one job which was started with the \$238,000,000?

Admiral LAND. Yes, sir; somewhere between 40 and 55 million dollars is the estimate as of today. That includes, as I say, all reserves which were not originally estimated on.

The CHAIRMAN. That will complete the job for which the Public Works funds were allotted?

Admiral LAND. Yes, sir.

F—LACK OF CONTROL OVER OWNERSHIP

In spite of the claim that the Navy needs the large shipyards as part of the preparation for national defense, the Government has no effective control over them: New York Shipbuilding Corpora-

tion, when it was named American Brown Boveri Corporation, imported Swiss and put them in charge of vital parts of the plant. Two other companies, according to the Navy, "lost" copies of cruiser designs. No prosecutions under the espionage acts were brought, although the Navy considered them.

The lack of stable control was indicated in the New York Shipbuilding Corporation history. A former president, Mr. Laurence R. Wilder, used the company's stock as collateral in support of his own speculative interests. When he defaulted on these loans, the stock went into the hands of bankers, who pledged it against loans of their own. When these failed or were liquidated, the controlling stock went into the hands of banks whose main interest in it was to get rid of it. They would have been glad to sell it to anyone, and were, of course, in no position to find out whether or not the purchaser would find it convenient to act for or against the interests of national defense in an emergency.

At about the time of the naval awards on the big program of 1933 the stock passed into the hands of speculators, who testified to the effect that the only reason they bought it at all was because of the fact that it looked like a good speculation, in view of the new naval building program. The stock could just as easily have fallen into the hands of some foreign investors who, in time of war, might be potential enemies and who could, without any great difficulty, wreck the organization almost overnight. The company is not, in 1935, in the hands of experienced or professional shipbuilders.

The detailed story of this last transaction was developed in the committee's hearings.

Plans for acquisition of control of New York Ship stock were begun by Mr. John O'Connor, who according to his testimony, took up the matter with Mr. George Buchanan, who took it up with Mr. Bernard Smith between March 4-10, 1933 (galley 61 YD, Apr. 15). Mr. O'Connor was to get 5 percent of the sales price of the stock from Chase National Bank, which held 50,000 shares; also a call on 2,000 shares. He offered to split commissions with Mr. Buchanan (galley 61 YD). The negotiations of Chase were handled by Mr. Earl G. Hines, vice president of Chase Securities Co. (galley 61 YD).

No commission was paid to Mr. O'Connor, according to his testimony, although the stock changed hands through Mr. Smith (galley 63 YD). Mr. O'Connor also testified he did not receive the promised calls, although the stock rose in the market. Mr. Buchanan filed an affidavit with the committee to the effect that he had not contacted Mr. Smith in the matter early in 1933 (galley 63 YD, exhibit 1952). This was in contradiction to Mr. O'Connor's testimony.

The question of the connection between the market activity of the stock and the naval program was raised (Apr. 15, galley 64 YD).

Mr. Henry H. Farley wrote to the Koppers Co. (a Mellon interest); also to Sun Oil, Bethlehem Steel, and United States Steel regarding the possibility of purchasing control of New York Ship with a down payment of only \$450,000 (Apr. 15, galley 67 YD). He had an agreement with Mr. Hines, of Chase, for a 5-percent commission.

Mr. S. H. Vallance, senior partner of Vallance & Co., testified (Apr. 15, galley 68 YD) that Mr. Farley approached him on the matter of acquiring stock control from Chase late in June 1933. Chase Bank and Bancamerica-Blair had 89,880 shares which they

were holding for \$20 a share (galley 68 YD). He testified that Mr. Hines, of Chase, had offered his firm 5-percent commission. That was approximately \$90,000 in commissions. In a Vallance & Co. office memorandum (exhibit 1971, Apr. 15, galley 69 YD) the New York Ship Co. was described.

He stated that he had secured the information of New York Ship's expectations of getting between \$30,000 and \$50,000 for Mr. Earle Hines (Chase), H. H. Farley, and Joseph W. Powell (United Dry Docks). He was questioned on this matter by Senator Vandenberg (galley 70 YD, Apr. 15).

Mr. Powell denied that he had talked this over with Mr. Vallance at this time (Apr. 15, galley 71 YD).

Mr. Vallance discussed the stock control matter with Mr. Williams Burden, of Edward B. Smith & Co., identifying him as a friend of Mr. Frederick H. Prince (galley 70 YD). Mr. Burden, according to the testimony of Mr. Vallance, reported about July 6, 1933, that Mr. Prince (galley 70 YD) was now interested, provided Mr. Powell would recommend the purchase of the company (galley 71 YD). He quoted Mr. Powell as saying \$20 was too high (galley 71 YD).

Mr. Powell stated that the P. W. A. program had changed his views concerning the company's stock (Apr. 15, galley 72 YD).

At a meeting on July 11, 1933, Mr. Prince stated that he wanted Mr. Ben Smith in on the purchase (galley 73 YD), according to Mr. Powell's testimony.

Apparently Vallance had no knowledge that a bid was made for Mr. Prince (galley 75-76 YD) and Mr. Hines (Chase) informed Mr. Vallance that one of the conditions of the sale on July 20, 1933, was that the identity of the purchaser would not be disclosed by the bank (galley 76 YD). He wired Mr. Burden on August 9 (Exhibit 1978, Apr. 16).

It was explained by Mr. Hines (Apr. 16, galley 80 YD) that the company, though retiring a certain amount of its stock through open-market purchases, had made the blocks of stock in the control of Chase Securities and Bancamerica-Blair an absolute majority with voting control (Apr. 16, galley 80 YD). In a memorandum dated May 16, 1933 (exhibit 1989, Apr. 16, galley 80 YD) Mr. Flook was cited as having pointed out the result of the company's retiring stock and the blocks which the banks held; i. e. it would make the bank's share more valuable. It was developed that Mr. William Flock, chairman of New York Ship bought the stock for his own account (Apr. 16, galley 81 YD).

Testimony of Bernard E. Smith (Ben Smith) (Apr. 16, galley 81 YD-89 YD) clears up the testimony of the other witnesses. It reveals that Smith first heard that this stock was for sale as early as April 1932, through a lawyer named Sumner, of New York (galley 81 YD), but was not interested and paid no attention to the matter until early in July 1933, when approached by Frederick H. Prince and agreed to act with Prince in the purchase of the block of approximately 90,000 shares of New York Ship Founders stock, controlled by Chase Bank and associates. The testimony of Farley, Vallance, Burden, and Powell is substantially confirmed, but Smith would not go through with the deal with Joe Powell as president.

Smith stated that his present interest in this stock lay in advantages to be gained by New York Ship getting their share of the new

naval contracts (galley 81 YD). Information he received came from statistical reports, plus information from Joe Powell, representing Print. It was brought out that Smith actually made a bid for the stock through Mr. Prentiss, of Hornblower & Weeks, of \$17 a share, which was turned down (galley 82 YD). It was also brought out when Hines received the information that such a bid had been made he passed the information on to Vallance stating that the bid was too low and "Tell your friend not to make a run around the end. I am handling this, not Jonas Anderson", indicating that he knew that it was Smith's bid (galley 75 YD).

A day or two later Hines contacted a friend of his, Mitchel Taradash, who was also a friend of Smith's, and arranged for Taradash to introduce him to Smith, which was done within the next 2 days (galleys 82 YD, 85-86 YD—also see affidavit dated Apr. 11, 1935, to committee by Taradash and galley 91 YD—exhibit 1933). Smith instructed Taradash to see what sort of a deal he could work out with Hines, Taradash's part in the picture being identical with that of Prentiss, of Hornblower & Weeks, who made the first bid for Smith, which was turned down. Smith admitted buying the stock at prices of $15\frac{1}{2}$ for 30,000 shares and $16\frac{1}{2}$ for the balance, or approximately 60,000 shares, and instead of splitting with Prince, as originally intended, kept same for himself, and a week later closed a deal with the Cord Corporation, selling them half interest, or 45,000 shares, at a $3\frac{1}{2}$ - to 4-point profit, netting him a profit of \$169,000 (galley 83 YD). Commission of 50 cents a share was indirectly paid to Smith through a reduction in the price.

Smith confirmed the fact that Gene Tunney was placed on the board of directors to represent his interests, which were pooled with those of the Cord Corporation under a 2-year agreement, which provided that the control would remain where it was and that the Cord Corporation would take care of the management of New York Ship (galley 83 YD) (exhibit 1990, galley 84 YD). He also testified that the Cord Corporation had no authority to offer this stock for sale without consulting him, which had not been done (galley 83 YD).

Funds for the purchase of this stock came from the Cliffwood Corporation of New York and the Sevenoaks Corporation of Canada, both wholly owned by Ben Smith and Tom Bragg and the actual receipt and deliveries of the stock was made in the name of these corporations through some of their various brokerage accounts. Mr. Smith was questioned regarding John O'Connor and denied that he had ever had any dealings with him, or that George Briggs Buchanan had approached him in behalf of John O'Connor.

Smith's testimony substantiated Mr. Buchanan's affidavit, previously mentioned. It was also brought out that Smith had been associated with Bernard M. Baruch and had picked up 5,000 shares of New York Ship stock for Baruch's account but that Baruch had advised him that inasmuch as New York Ship expected to get Government contracts he did not want the stock, and therefore Smith took it back (galley 86 YD).

Further questioning of Smith regarding the sale of New York Ship stock to a Mr. Wanger showed that Smith had sold some stock in order to establish a \$43,000 tax loss (galleys 87 and 88 YD).

Hines' testimony resumed after Ben Smith had been heard (galleys 89 and 90 YD) substantiated, to a great extent, the previous testi-

mony of O'Connor, Farley, Vallance, Burden, and Powell, but he would not admit that he had agreed to pay any commissions. He did, however, admit that the matter of commissions had been discussed, and that the usual commission in such instances is considered 5 percent.

He also admitted that he had approached Mr. Taradash in an attempt to negotiate directly with Ben Smith and that as a result a deal was consummated (galleys 91 YD and 95-96 YD). It was also noted, however, that Hines' testimony did not agree with memorandums signed by himself which were submitted to his superiors in the Chase Bank (galley 93 YD) (exhibit 1998, dated July 19, 1933). Through examination of Frank J. Quinn, confidential secretary to Ben Smith, Smith's testimony was substantiated (galleys 97-98 YD).

Continued examination of L. B. Manning, chairman of the board of New York Ship, disclosed the fact that the Cord Corporation in joining with Ben Smith in the purchase of New York Ship founders stock, thought that they were in on this deal on the same basis as Mr. Smith had gone into it, and did not know that they had paid a premium of approximately \$169,000 for their stock (galley 99 YD). It was also indicated that they had no knowledge of, or had been interested in, shipbuilding prior to that time. Mr. Manning reiterated some of his former testimony concerning politics in the organization (galleys 2 and 3 PP) and intimated that C. L. Bardo had dominated the business and that the board of directors were not particularly active. It was also brought out that New York Ship had been forced by the United States Shipping Board to take over control of the Export Steamship Corporation and then only a few months ago (about Feb. 1935) had received word from the same organization to dispose of their holdings in the steamship company.

Mr. Manning's testimony reveals that negotiations with the United States Shipping Board for the acquisition of the Export Steamship Corporation by New York Ship had been handled by C. L. Bardo, and in answer to further questions, Mr. Manning admitted that he did not believe that it was right for a shipbuilding company to have stock ownership in, or control of, a steamship line; that they did not want it; and that they would be very glad to turn it back if there was some way in which they could get their money back (galley 3 PP).

In addition to the Cord Co.'s entrance into the transportation field, it was noted that they had a further interest in the munitions business through the Stinson Air Craft Corporation, which had been selling planes to South America, Central America, and China (galley 4 PP).

SECTION VII.—ATTEMPTS TO LIMIT PROFITS

The failure of the Navy Department to turn the navy yards into effective yardsticks by which the charges of private shipyards could be measured and kept down has resulted in leaving the profits of the shipbuilders practically uncontrolled.

In 1933 and 1934 the companies secured contracts from the Navy Department whereby the companies are indemnified by the Department for rises in the cost of labor or materials. In other words, they made the Government bear a large share of whatever risk there was in the business.

The companies knew that the Navy Department needed the ships and frankly stated that they were bidding so high on a fixed-price basis as to make it impossible for the Navy to accept those prices. (Testimony of Ferguson, galley 48 FS, Feb. 20; Wakeman, galley 58 QD, Feb. 28.) To the extent that the Navy needed those yards, this was a very effective method of forcing the Government to bear a large share of the risk, something it had never done before, except during the war.

The allowances for increased prices were quite unequal in various categories of ships. In 1933 there was a limitation of 15 percent on the amount the Government would pay for increased prices on labor and material on light destroyers. On the two aircraft carriers, however, which were contracted for at \$19,000,000 each, the limitation was \$4,000,000, or 21 percent.

In 1934 the Navy went further and took off all limitations. The light cruisers, destroyer leaders, and light destroyers, as well as the submarines, were all contracted on an adjusted-price basis without any limitation on the amount of risk the Government would have to carry for the benefit of the shipbuilders.

In 1934, before the Navy took off all these limitations, and by so doing practically underwrote the companies and did the gambling for them, the Congress had passed the Vinson-Trammell bill, which was intended to limit the profits of the shipbuilders to 11.1 percent of actual cost (10 percent of the total charge to the Government).

Various of the companies stated on the stand that they had in no way opposed this bill.

Very shortly after the bill was passed the shipbuilders and the large suppliers and Navy subcontractors, and later the comptrollers of these various groups, got together in long sessions to determine how the interpretations of the bill could be arranged to suit their interest. The main question was how to increase costs.

It will be remembered (sec. IV) that the Navy has no information at all about costs in private yards. Neither the Comptroller General nor the Treasury have examined the costs, ratios of overhead, etc., since the war.

The law provides that all profits over 11.1 percent shall go into the Treasury. A ship takes from 2 to 3 years to build. Another half

year passes before adjustments resulting from the final trials are made. Another half year elapses before the company puts the final figures of cost and profit on its books. Three or four years have gone by at the time the profits are reported to the Treasury on any particular ship.

The Treasury is not expected to be willing to put auditors to work to go through 4 years of vouchers, or to analyze the accuracy of a company's statement that 60 percent or 90 percent of all the overhead in its yard should be allocated to a naval ship.

There is absolutely no effective control of costs possible without a huge policing system of auditors and inspectors constantly on the premises.

Some indication of the awareness of the shipbuilding companies of this fact is given in the abstracts of testimony quoted below taken from the minutes of their meetings.

Mr. Powell, president of United Drydocks, pointed out that "the thing will go along all right until somebody turns back some money." Mr. Smith, president of the trade association, thought it important to get unanimity on the large subject of overhead. Mr. Gillmor, president of the Sperry Gyroscope Co., Navy suppliers, said: "If the shipbuilders, boiler manufacturers, and electrical manufacturers act in accordance with uniform rules, it will be so strong that I think the Income Tax Bureau would have a hard time resisting it."

The Navy Department disclaims all intent to enforce this bill, since the duty to collect the taxes is laid upon the Treasury Department. Nevertheless, according to the minutes, Mr. Blewett, of Newport News, informed the associated groups that the Navy had allowed his company an increase in overhead of 10 percent on changes. How the Navy could allow this while in complete ignorance of all the figures concerning the company is hard to understand.

Later Mr. Ferguson, of Newport News, testified that an addition to plant of \$900,000 was being put into the overhead of the two aircraft carriers. This is already an increase of over 2 percent in the total of \$38,000,000, or 3 percent on the expected actual cost to the company.

If this practice of allowing larger overheads for Navy work continues, it should be noted that an additional 10 percent overhead for Newport on the two aircraft carriers would equal \$2,000,000, a sum equal to more than 5-percent profit.

In this connection it is interesting to note (sec. VIII) that an arbitrary allowance made by the Emergency Fleet Corporation in 1918 of an overhead of 50 percent was \$2,152,976 more than that actually paid out by the New York Shipbuilding Corporation (Jan. 21).

Presumably the Treasury would have to allow any increase claimed overhead approved by the Navy.

The Navy has no responsibility in the matter of this profit-limitation law, but its decisions can completely invalidate the act.

The intent of the shipbuilders to get an agreement on a theoretical overhead instead of an actual one can be seen in the statement by Mr. Shick of Bethlehem:

We should decide what we are going to do. For our own protection it would be a good thing if we did have an understanding so that on the completion of

these contracts the overhead rate will not be out of line. If Bethlehem had 60 percent, Newport News 50 percent, and somebody else 40 percent, they will ask what is wrong. Therefore, it is important for the shipbuilders to have a very clear definition as to what is direct labor if that is the base of distributing overhead. I believe we can agree on a definition of direct labor (galley 24 VW).

The shipbuilders asked the Treasury Department to allow them to charge State income taxes and selling expenses into costs. E. I. du Pont de Nemours asked the Treasury Department to allow these items and also Federal income taxes and unemployment-insurance costs.

The shipbuilders arranged to have the subcontractors charge them no more for work than cost plus 10 percent. Instead of turning the difference over to the Treasury, it is in effect turned over to the shipbuilder, thus giving him a larger margin of profit on which to operate.

The reliability of the shipbuilders' figures was already referred to in section IV, where almost \$2,000,000 in profits was not mentioned by the shipyard in a comparison of the cost to the Government of the *Chester*. On certain claims after the War, the president of Newport News filed a bill against the Government for \$14,973,165 at the same time he was writing the president of the company that the minimum claim was \$6,635,000.

There is some evidence that Bath Iron Works transferred an item of \$60,000 incurred on a lighthouse tender and a tug to the destroyer *Dewey*. The ability of companies to do this has a hearing on all attempts to limit profits.

Abstracts of this evidence are given below.

The discussion by the shipbuilders of the provisions of the Vinson-Trammell bill in limiting profits to 11.1 percent of cost was referred to during the testimony of Mr. Parker, of New York Ship (Feb. 6, galley 30 to 33 ZO):

Mr. RAUSHENBUSH. Now, Mr. Parker, coming to the various meetings held by the shipbuilders after the Vinson Act had been passed, I show you a memorandum, treating of a meeting held on May 8, 1934, and ask you to follow that, at which were present the representatives not only of the "big three" but from the "little three" and suppliers, such as United Dry Docks, Sperry Gyroscope, Babcock & Wilcox, Worthington Pump & Machinery, Westinghouse Electric, General Electric, Electric Boat Co., and so forth [handing paper to witness]?

That is the summary of a discussion, is it not, that the representative officials of the shipbuilding companies and the main suppliers had concerning the effect of the Vinson bill on their business? Do you recognize that?

Mr. PARKER. I did not attend that meeting.

Mr. RAUSHENBUSH. No; but you attended a subsequent meeting, for which this was the basis. You have had this in your possession, have you not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. And you have studied it? The answer is "Yes"?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH. I turn to page 4, where there is discussion of how much overhead should be allowed, and discussion as to what the Treasury Department will do, and what the Navy Department will do. It refers to Mr. Smith. He is president of the council, is he not?

Mr. PARKER. Yes.

Mr. RAUSHENBUSH (reading). At the top of the page, Mr. Smith says:

Yes. That is where it is going to be unless there is a change in the law. The Navy Department does not want to deal with it.

Mr. GILLMOR. They do not want to get into it.

Mr. SMITH. The man who drafted this bill drafted it with the purpose of allowing some leeway.

Mr. KING—

of Babcock & Wilcox—

Are you going to be allowed your actual expense? Will they allow the actual overhead or a predetermined one?

Mr. SMITH. I think you can collect your actual overhead as long as it goes against all work.

Mr. GILLMOR—

of Sperry Gyroscope—

They point to this provision in the act that the contractor must make his statement under oath.

Mr. NIVEN—

of General Electric—

They go on to say that the books shall be open for inspection at all times.

Mr. GILLMOR. I believe their present idea is to make check inspections only.

Mr. POWELL—

of United Dry Docks—

This thing will go along all right until somebody turns back some money.

Mr. GILLMOR. I think the only thing to do is act in unison.

Mr. SMITH. Supposing you do have 10-percent profit and a few dollars left over. The industry may find itself in a situation where there are items of cost which could have properly gone in but were not included. It seems to me very desirable that so far as the outstanding items of overhead are concerned there should be unanimity of opinion.

Does not that give pretty much the tone of the general discussion? The shipbuilders here wanted to get together and decide very definitely what proportion, predetermined proportion, they would agree upon as an overhead charge.

Mr. PARKER. No, sir; I do not think that is the case at all. I think that what the shipbuilders and the main material suppliers were trying to find out is what the Vinson Act meant so far as their particular business is concerned.

Mr. RAUSHENBUSH. Let us follow on with the rest of it through and see where we come out.

Turn, please, to page 7, Mr. Parker. They are starting to discuss overhead, as I understand it [reading]:

Mr. SMITH. When you say "actual", I suppose you mean your actual average—

Of General Electric—

Mr. WHITESTONE. No; I mean actual expenditures.

Mr. SMITH. As supplied to that particular contract?

Mr. WHITESTONE. In the case of shipbuilding, it will probably apply to a whole ship.

Mr. SMITH. If you had one plant using actual and another normal—

Mr. POWELL. Suppose three or four yards take contracts on a competitive basis. Then one fellow turns in actual and has a very low overhead and he turns back a lot of money—it simply throws out your whole idea of competitive bidding. It seems to me you have almost got to come to a basis of agreeing with the Treasury Department on some fixed overhead. If we could spread our overhead over 10 years, I would say it would be high enough. I think it would be high enough so that you would not have to worry about your 10-percent profit. The average overhead would be plenty high enough to satisfy anybody.

They are beginning the discussion, or resuming it, are they not, of trying to agree on a fixed percentage of overhead that all companies could charge, and that the Treasury would have to approve?

Mr. PARKER. These expressions, Mr. Raushenbush, are expressions of individuals, thinking of their own particular business, how this act affects their own particular situation, but the purpose of it all was to find out how it affected everybody, and particularly how it affected the prime contractor, the shipbuilder.

Mr. RAUSHENBUSH. Turn to page 8 in reply to that [reading]:

Mr. SMITH—

President of this conference and of the council—

What is your reaction to this: You have the shipyards and the allied groups, but your uniformity should be attained first amongst the shipbuilders themselves and then there can be some approach to uniformity between the shipbuilders and the allied groups.

Mr. GILLMOR. If the shipbuilders, boiler manufacturers, and electrical manufacturers—

That is taking in a rather large group, is it not?—

act in accordance with uniform rules, it will be so strong that I think the Income Tax Bureau would have a hard time resisting it.

Is not that the reasonable idea of this whole matter, that not only the shipbuilders but the operators who have a definite interest in the work and in the Vinson bill should get together and put up uniform rules; and is it not Mr. Gillmor's idea that if they do that they will be so strong that the Income Tax Bureau will have a hard time resisting it? Is that not what they are trying to do there?

Mr. PARKER. They were trying to find some way by which those elements of actual cost would be unquestioned by the Treasury Department.

Mr. RAUSHENBUSH. Now, on the next page, Mr. Parker, Mr. Bardo comments after this statement [reading]:

If the shipbuilders, boiler manufacturers, and electrical manufacturers act in accordance with uniform rules, it will be so strong that I think the Income Tax Bureau would have a hard time resisting it.

Mr. Bardo comments:

They could not break it down. You have two established recognized systems of accounting in the two principal groups with which we do all our business. We should get our accounting offices together. I do not think we can decide anything.

Mr. Bardo, a little later, says:

I think we should get the shipbuilders together first on a uniform plan.

Mr. SMITH. HOMER—

of Bethlehem—

what do you think about it?

Mr. HOMER. The method of determining the 10-percent profit is to be established by the Treasury Department, and the obvious thing is that the industry will have to establish something for its protection.

Mr. JACKMAN—

Worthington Pump & Machinery Corporation—

They can establish it, but the Treasury Department will have to approve it.

And the whole discussion turns, as I look at it, on whether it is possible for the shipbuilding companies to get any agreement, and they decide that the comptrollers of the companies better meet together, and then you and others meet directly a little later, at the same place—11 Broadway. You were present for New York Ship, together with Mr. Langell, Mr. Ferguson was present for Newport News, and Mr. Shick and Mr. Harper and Mr. Rittor for Bethlehem Shipbuilding Corporation, Ltd.

Mr. PARKER. That is correct.

Mr. RAUSHENBUSH. I do not know whether I have an extra copy of this. I want to offer that for the record—the meeting of the shipbuilders—as “Exhibit No. 1531.”

(The document referred to was marked “Exhibit No. 1531” and is included in the appendix.)

Mr. RAUSHENBUSH. Turn now to this meeting at which you were present, and at which the subject was gone into further, and Mr. Blewett, of Newport, makes a comment here on which we would like to have your comment. I will have to show you this until we find our extra copy [handing paper to witness].

On page 3 of this mimeographed memorandum, Mr. Blewett says:

We have recently gone through the cost of changes. We asked a higher overhead on the changes than on normal overhead. We asked for 20 points higher and they granted us 10.

He means the Navy granted them 10, does he not?

Mr. PARKER. I assume so, speaking of Navy changes.

Mr. RAUSHENBUSH. Speaking of Navy changes [reading]:

In other words, they admitted naval work called for higher overhead than commercial work. If we could obtain 20 percent higher it would cover everything such as equipment, development charges, and all items. So far as going into a uniform cost-accounting system, that is a job of 5 or 10 years rather than a month or so.

You remember this meeting fairly well, do you not?

Mr. PARKER. I do.

Mr. RAUSHENBUSH. Mr. Blewett, speaking for Newport News, was trying constantly to make the point, was he not, that the shipbuilders should definitely agree upon an overhead that was normally uniform but was very considerably higher for Navy work than for merchant marine work? Is that not correct, so far as your memory goes?

Mr. PARKER. Mr. Blewett was trying to make the Navy work bear an actual proportion of overhead which Navy work should bear. It is a fact that with all of the limitation of Navy work, inspection and various changes and consequential damage from changes, the actual overhead applicable to Navy work is truly higher than to other work, and when you spread that to all work on the same basis, Navy, of course, gets the benefit and the other work gets some penalty.

Mr. RAUSHENBUSH. He was trying very definitely to get it on a fixed basis higher than other work, 20 percent?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. He reports Newport News asked for 20 and had gotten 10 and was apparently suggesting that the other companies agree on their overhead, too. That, of course, involved an agreement on what labor was, so that overhead could be determined.

Here is a copy, if you want to follow it [handing paper to witness].

Mr. Smith at page 6 shows some considerable anxiety that everything is going to be put into cost by everybody, so that some of the shipbuilders do not charge the Government too little. Mr. Smith says:

I would not do that. This group ought to go away satisfied as to what items get into cost. Each and every one of us should be assured that we are going to put into cost everything that properly belongs there.

In other words, they do not leave out anything, and not, as Mr. Gillmor said in the other meeting, so that some money does not get returned to the Government and then the Government forces them to get into action.

Can you explain the comment on page 7 of Mr. Shick, of Bethlehem, where Mr. Blewett said:

Didn't we have such a thing as adjusted prices during the war? We took such things as cost of machinery and put it into an adjusted price.

To which Mr. Shick replied:

That was a cost-plus contract. You only got 10 percent of it. I can give you an example of what happened on a gun contract. The Navy wanted a 16-in. gun. We had to buy the equipment to machine it. Daniels—

that was the Secretary of the Navy, was he not?

Mr. PARKER. I suppose that is who he is speaking of.

Mr. RAUSHENBUSH (continuing reading):

said, "All right, this is not the last order we are going to give you for 16-inch guns. We will let you add \$35,000 per gun so you can amortize this equipment. We will let you amortize part of the cost through this job so you will get paid for your new equipment, but you have to take a little chance." They did that for the reason they did not want to say to us, "We will pay you for this." If they did, then they would own it, but they wanted it to stay in our possession. We were only amortizing \$35,000 on that job.

Do you have any comment on that? Does it mean anything to you?

Mr. PARKER. No.

Mr. RAUSHENBUSH. It seems to be an illustration of where the Government was paying very definitely for the equipment but just because they did not

want to own it they let the gun people, in this case Bethlehem, charge up an extra \$35,000 per gun and amortize it immediately.

The discussion goes on at some length, and the net result of all this was that there was an interchange of information among the companies, was there not, as to definitions of their costs as regards direct labor and overhead?

Mr. PARKER. That is correct.

Mr. RAUSHENBUSH. On page 12 Mr. Shick, of Bethlehem, makes one point:

We should decide what we are going to do. For our own protection it would be a good thing if we did have an understanding so that on the completion of these contracts the overhead rate will not be out of line. If Bethlehem had 60 percent, Newport News 50 percent, and somebody else 40 percent, they will ask what is wrong? Therefore, it is important for for shipbuilders to have a very clear definition as to what is direct labor if that is the base of distributing overhead. I believe we can agree on a definition of direct labor.

After that these interchanges of information took place, did they not?

Mr. PARKER. They did.

Mr. RAUSHENBUSH. So that the point of all of this was, Mr. Parker, quite frankly, to have the shipbuilders agree on something that was not an actual cost that came out of it—and if that was so they would not need any agreement—but they agreed on a perfectly arbitrary amount of overhead, which they would unite on in trying to have the Treasury Department accept as a basis for fixing profits under the Vinson Act, thereby agreeing or following out the suggestion made by Mr. Gillmor in the earlier meeting that if they all got together they would be stronger than the Income Tax Bureau.

Mr. PARKER. Not at all. That is not my understanding.

Mr. RAUSHENBUSH. If that is not true, what is your understanding?

Mr. PARKER. I never heard the theory advanced that there should be a definite rate of overhead applied to every yard alike.

Mr. RAUSHENBUSH. They were certainly discussing the possibilities of it all through here, were they not?

Mr. PARKER. No; the only discussion that this refers to is that the books of each of the companies will reflect the actual and proper charges to cost that the contract provided, so that in any one of them, if they should inadvertently submit some cost, or by his method, or changing his method so that it would result in a question for the whole group. But only, of course, included those items which are proper elements of cost.

Mr. RAUSHENBUSH. What is all this discussion about as to fixed percentage of overhead, Mr. Blewett's idea that they asked for 20 percent for naval work; That is an arbitrary thing, rather than an actual one?

Mr. PARKER. That is on changes, alone, Mr. Raushenbush.

Mr. RAUSHENBUSH. That is on changes?

Mr. PARKER. The practice has always been on changes to fix a definite rate of overhead.

Mr. RAUSHENBUSH. These are changes, but, still, changes often amount to a very considerable amount in the cost of a ship, do they not?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. In some cases a million dollars more than what the bids were.

Mr. PARKER. What Blewett was talking about was just a rate of overhead which was a proper rate of overhead. We already have a fixed rate of overhead applicable to changes, fixed by the board of changes.

Mr. RAUSHENBUSH. On page 4, if you will follow that—

Mr. PARKER. Back again?

Mr. RAUSHENBUSH. It gets into the normal overhead, and Mr. Bates, of United Dry Docks, says:

You mean a standard or normal overhead?

Mr. BLEWETT. Yes.

Mr. SMITH. Let me ask you this, Blewett: You say you asked for so many points higher; would you do that on the basis of each plant saying here is my average overhead, we want 20 points higher for naval work taking into account no two plants might have the same?

Mr. BLEWETT. Yes.

Mr. SHICK. Only if you get it high enough.

Mr. SMITH. That is the point where I see difficulty with the Government.

They are talking about overhead for naval jobs rather than for changes at that point, are they not?

Mr. PARKER. No; I believe they are still referring to changes.

Mr. RAUSHENBUSH. There is no mention of changes right at that point.

Then later on the quotation I read from the Bethlehem man, he was particularly talking about the general overhead rather than the changes, was he not?

Mr. PARKER. I do not know what he was talking about particularly.

Mr. RAUSHENBUSH. On page 12. Look at it again. All the way through—I do not want to bore the committee with reading the whole story, but I want to put it into the record.

By the way, what percentage of overhead did the Navy board on changes allow you on changes in ships before this bill went through?

Mr. PARKER. It varies. Periodically the Navy makes an investigation of the actual overhead of the plant and sets a rate of overhead to be used on changes. The rate varies with the average variance of overhead rates in the yard generally, some place between 70 and 90 percent.

Mr. RAUSHENBUSH. Do you not make quite a lot of money on changes?

Mr. PARKER. No, sir; we do not make money on changes. No one ever made any money on changes. The consequential damages and delay due to the interruption of work, which are never paid for, make changes the most unprofitable part of Government work.

Mr. RAUSHENBUSH. The changes are all paid for, are they not?

Mr. PARKER. The changes and the actual material, but no one can collect consequential damages.

Mr. RAUSHENBUSH. You are taking in a lot of territory when you say no one makes any profit on them. You mean your own company?

Mr. PARKER. I mean my own company, and am sure the business of the other companies are so closely related that their situation is identical.

Mr. RAUSHENBUSH. I will offer this as exhibit no. 1532.

(The document referred to was marked "Exhibit No. 1532" and is included in the appendix.)

Mr. RAUSHENBUSH. The upshot of all this was several things, was it not, Mr. Parker? The companies got together and agreed on what they wanted to ask of the Treasury Department, and, in addition to any informal conversations they had with the Treasury Department, they did ask for several specific changes. They asked the Treasury Department the allowance for the income taxes, did they not?

Mr. PARKER. I believe a brief was filed by the National Council requesting that.

Mr. RAUSHENBUSH. That is the protest of the National Council of American Shipbuilders on rulings of the Commissioner of Internal Revenue excluding State income tax as items of cost? There was a definite protest on that, and they wanted selling expenses as a proper item, did they not?

Mr. PARKER. Correct.

Mr. RAUSHENBUSH. They also made a point about compensation insurance. That was all touched on in the conversations with the Treasury Department, and any other arrangements that had been made. Then we find here a letter from the Du Pont Co. as to the Vinson Act, together with comments from the National Council of American Shipbuilders, in which the Du Ponts say that in addition to all the items that the shipbuilders wanted charged into the costs under the Vinson Act, they also want to have Federal income taxes. Do you remember that?

Mr. PARKER. I remember reading the letter.

Mr. RAUSHENBUSH. They wanted to charge the State income tax in, the Federal income tax, they wanted to charge unemployment insurance costs in. So that they went you one better, a little bit, did they not? You people were not asking for the inclusion of Federal income taxes any longer as an item of cost, were you?

Mr. PARKER. No.

Mr. RAUSHENBUSH. This was the Du Pont idea, and they included it in a letter to the Bureau of Internal Revenue, explaining why they wanted to have that allowed under the Vinson Act. I offer that series of correspondence for the record as exhibit no. 1533.

(The documents referred to were collectively marked "Exhibit No. 1533" and are included in the appendix.)

Mr. RAUSHENBUSH. Then, Mr. Parker, you worked out yourself, did you not, a way of handling the subcontractors under the Vinson Act, a way of seeing that they never made more than 10-percent profit?

Mr. PARKER. No; I would not say that I worked it out myself.

Mr. RAUSHENBUSH. Who else gets credit for it?

Mr. PARKER. I think it is a composite idea which several people contributed to.

Mr. RAUSHENBUSH. Could you describe that very briefly, what you had in mind when you tried to do that?

Mr. PARKER. The Vinson Act, in attempting to limit the profit to 10 percent—and I am fully in accord with the limitation of profit—does not guarantee 10 percent nor does it prevent you from sustaining a loss of 10 percent, 20 or 50 percent. The Vinson Act, as we understand its intent, is a profit-limitation matter, but it intends to limit the profit of the contractor and requires that contractor to require of all his subcontractors an agreement to the same profit limitation that the contractor subscribes to. The problem was to find a way by which the intent of the act or the profit limitation could be passed on to the subcontractors who were limited in profit in the same manner that the contractor was.

It naturally occurred to several of us that if the subcontractor did not earn in excess of 10 percent, the act was not at all detrimental to him; that under the various codes most industries were permitted to sell at cost, and prohibited from selling at less than cost, and it seemed that since the Vinson Act is, in itself, a cost-plus contract, regardless of the so-called "topside price", which is subject to much adjustment, it is, nevertheless, in the final analysis, a cost-plus contract, and that the contractor having a cost-plus contract on his hands, would necessarily have to make his subcontracts on a cost-plus basis.

Mr. RAUSHENBUSH. Just explain that one point once more, why you say the Vinson bill is a cost-plus contract. How do you figure that, Mr. Parker?

Mr. PARKER. The Vinson Act is a cost-plus contract, unquestionably, because what you finally receive is cost, as determined by the Treasury Department.

Mr. RAUSHENBUSH. Now you are talking, are you, about the bids put in under an adjusted-price basis?

Mr. PARKER. I am talking about any contract under the Vinson Act. The amount that any contractor or subcontractor can receive under the Vinson Act is his cost—that is, the maximum he can receive—is his cost plus 10 percent of his contract price.

Senator BONE. There is no guarantee of that in the bill, is there?

Mr. PARKER. That is the maximum he can receive.

Senator BONE. I understand; but there is no guarantee of that in the bill, is there?

Mr. PARKER. The bill provides that that is exactly what he can get as a maximum.

Senator BONE. The bill provides that he may not get more than 10 percent?

Mr. PARKER. That is right.

Senator BONE. That is the provision of the bill?

Mr. PARKER. That is right.

Senator BONE. That does not guarantee him it.

Mr. PARKER. Not at all. He has no guarantee of 10 percent.

Senator BONE. It is not really a cost-plus contract.

The Navy Department does not undertake to enforce the profit-limitation section of the Naval Act (Feb. 21, galley 77 FS).

Senator CLARK. What I am referring to is the suggestion by Senator Vandenberg, where the Chairman of the Naval Affairs Committee of the Senate wrote the Navy and called attention to this rising scale, shown by the chart, and said that the bids submitted were absolutely exorbitant and a fraud upon the Government, and within a day or two the Secretary of the Navy wrote back to him and told him he was entirely in error and the bids were entirely fair. Unless he was able to determine these various items entering into the increase of cost, I do not see how he could possibly have been in a position to make that answer.

Senator VANDENBERG. Captain, how can you administer the 10-percent profit limitation which is now in the law, unless you have accurate information respecting the cost items, for proving anything before the 10-percent profit is attached?

Captain DuBOSE. The Navy Department will make no attempt whatsoever to ascertain or determine anything in connection with this 10-percent profit. It is incorporated in the contracts, but it is a matter between the shipbuilder, the contractor, and the Bureau of Internal Revenue of the Treasury Department.

Senator VANDENBERG. Then the 10-percent protection in fact is no real protection, so far as the Navy Department is concerned?

Captain DuBOSE. I would not say that; no—because very definitely under the law they limit the profit to 10 percent.

Senator VANDENBERG. But if the shipbuilder put \$1,000,000 into cost, which does not belong there, then what?

Captain DuBOSE. The Internal Revenue people have a perfect right to examine the books of the shipbuilder.

Senator VANDENBERG. Do you mean by that you rely upon the Internal Revenue Department for the integrity of the 10-percent clause in the naval bill?

Captain DuBOSE. There is no possible way for the Navy Department to do anything else.

Senator VANDENBERG. And you do not attempt to do anything else?

Captain DuBOSE. And we do not attempt to do anything else except to provide in the contract the provision of law which is to be taken care of as an administrative procedure by the Internal Revenue Department.

Senator CLARK. Captain, do we understand that the Navy Department feels there is no reason whatever for enforcing the law as to 10-percent profit, except as included in the contract?

Captain DuBOSE. The thing, I state, was agreed upon in a conference between the Navy Department and the Treasury Department. We did not adopt that policy without discussion. There were conferences held between representatives of the Navy Department and the Treasury as to how this thing could be done.

Senator CLARK. But in expending the funds allotted to the Navy Department, either by act of Congress, Public Works authority, or anybody else, the Navy Department has no actual responsibility for determining the cost basis upon which this 10-percent profit is to be figured? Is that what I understand?

Captain DuBOSE. It has been agreed upon mutually by the Navy Department and the Treasury that that particular duty would be taken care of by the Treasury for the Government and not the Navy.

There was further indication that the Navy takes no responsibility for the enforcement of profit limitation (Feb. 21, galley 78 FS).

Senator VANDENBERG. What happens, Captain—let us make this specific and suppose this is a 10-million-dollar cruiser which is being built under contract at a private yard, and this provision of law limits the profit to 10 percent or \$1,000,000. Now, when this private shipyard sends you its costs, do you accept the costs as submitted by the shipyard as valid? In other words, does the shipyard determine what the costs are?

Captain DuBOSE. The shipyard determines what the costs are, yes, sir; and that information is transmitted to the Secretary of the Treasury, and if he thinks it advisable or necessary to investigate in detail, he has that right.

Senator VANDENBERG. Do you know whether he ever does investigate?

Captain DuBOSE. We have had no contracts with this excess-profits clause in it—there are a few—

Senator VANDENBERG. So far as the Navy Department is concerned, it takes no responsibility for the integrity of the calculation which finally leads to the 10-percent profit?

Captain DuBOSE. The Navy Department has nothing whatever to do with the detailed method that a shipbuilder follows in determining his costs. He determines his costs. He submits the statement under oath, and it is then examined by the Treasury Department.

Senator VANDENBERG. And that is satisfactory to the Navy Department, and that ends it, when he files his costs under oath?

Captain DuBOSE. It ends it as far as the Navy Department is concerned, but it does not end it as far as the Government is concerned because the Secretary of the Treasury has got to do something.

Senator BONE. Do you know any statutory provision which authorizes them to go into the operating overhead on the naval contracts?

Captain DuBOSE. The Vinson Act provides that for all contracts placed after the date of that act.

Senator BONE. There is nothing there to limit and circumscribe the character of the operating overheads.

Captain DuBOSE. In that connection I would like to read a provision of our contracts, bearing on that point. This is the law and is also copied in our contracts [reading]:

That the manufacturing spaces and books of its own plant affiliates and subdivisions shall at all times be subject to inspection and audit by any

person designated by the Secretary of the Navy and the Secretary of the Treasury and/or by a duly authorized committee of Congress.

Senator CLARK. When it comes to manufacturing spaces, Captain DuBose, do you depend on the Internal Revenue Bureau to compare the manufacturing processes in determining costs? Is not that a highly technical matter which belongs to the Navy Department?

Captain DuBOSE. The Navy Department could not possibly, without a tremendous force of people, investigate and examine in detail the methods followed by a private shipbuilder in charging for details of the work done. He submits a bid, a lump-sum price, and that is accepted by the Navy Department, if he gets the contract. Now the Navy Department requires, in accordance with the law, that upon completion of that contract the shipbuilder shall make a statement under oath.

We also require, under our contract, that we have the right at any time to make a detailed investigation of his methods, books, and so forth.

Senator CLARK. Yes, sir; but you do not do it, as I understand.

Captain DuBOSE. I do not say we would not do it. There has been no necessity or occasion so far for doing it because the limitation on profit provision has been incorporated in the contracts only recently.

Senator CLARK. I understand that you have not yet had an opportunity, but I understood you to testify, Captain, that you in the Navy Department assumed no responsibility whatever, but put the whole responsibility of determining proper cost, on which profit was to be determined, naturally, in the hands of the Internal Revenue Bureau, which necessarily, of course, would have no technical personnel.

Captain DuBOSE. I do not think the law determines proper course. The law refers to profit.

Further discussion on the profit limitation was had on February 20 (galley 65 FS seq.) with Mr. Blewett, of Newport News, testifying:

Mr. RAUSHENBUSH. Mr. Blewett, as I understand it, from the record on page 3, you say in the discussion of this matter which deals. I take it, with the matter of the shipbuilders direct:

We have recently gone through the cost of changes. We asked a higher overhead on the changes than our normal overhead. We asked for 20 points higher, and they granted us 10.

Is that correct? Did the Navy grant you 10?

Mr. BLEWETT. Yes; we feel that Navy work demands a higher overhead than merchant work. That is fairly understood. If you are building a barge or a cruiser, on a barge your equipment is nothing, and on a cruiser you have to have equipment and personnel.

Mr. RAUSHENBUSH. You were successful on that?

Mr. BLEWETT. They granted us a 10-point additional overhead for that.

Mr. RAUSHENBUSH. Have they done that with other companies, or is your company the only one?

Mr. BLEWETT. I am not prepared to state.

Mr. RAUSHENBUSH. Did you recommend in the other jobs that the other companies generally try to get the Navy to add that much more?

Mr. BLEWETT. Yes; for this reason: We never could get together on a cost-accounting method. It would be impossible for the yards or the shipbuilding companies in this country to agree on any one cost-accounting system. Physical conditions prevent it. So that, in order to simplify matters, I thought if we asked for an additional overhead it would take care of everything. We, at this time, charge more overhead to our naval work than we do to our merchant work.

Mr. RAUSHENBUSH. Yes; I notice that.

Mr. BLEWETT. We charge as overhead on that about 15 percent more to our Navy work than we do to our merchant work.

Mr. RAUSHENBUSH. It was on top of that?

Mr. FERGUSON. No, sir.

Mr. RAUSHENBUSH. The 10 percent allowed to you explains that higher overhead, does it not?

Mr. BLEWETT. Yes.

Mr. RAUSHENBUSH. When did the Navy allow that extra 10 percent?

Mr. BLEWETT. They permitted some changes on the *Ranger*, hull no. 353.

Mr. RAUSHENBUSH. When?

Mr. BLEWETT. 1934, the summer.

Mr. RAUSHENBUSH. After the *Ranger* had been finished and you were doing the accounting together.

On page 4 of the same document, let me read you this, Mr. Blewett:

Mr. SMITH. Let me ask you this, Blewett, you say you asked for so many points higher. Would you do that on the basis of each plant saying here is my average overhead, we want 20 points higher for naval work, taking into account no two plants might have the same.

Mr. BLEWETT. Yes.

Mr. RAUSHENBUSH. That is your proposal, that all the plants ask for a uniform increase in overhead of 20 percent?

Mr. BLEWETT. Ask for an increase in overhead of 20 percent, which would consequently result in a reduction of the common overhead, as applied to other jobs.

Mr. RAUSHENBUSH. The merchant marine jobs would gain the benefit of having the Navy pay a higher cost?

Mr. BLEWETT. That is right. The Navy would pay a higher cost because they demand of us more overhead.

Mr. RAUSHENBUSH. And the merchant marine ships would get the benefit of that to the extent the Navy carries that?

Mr. BLEWETT. They require less equipment or overhead.

The arrangements of the shipbuilders and their subcontractors were discussed in "Exhibit 1534", entered on February 6 (galley 34 ZO), while Mr. Parker, of New York Ship, was on the stand.

Mr. RAUSHENBUSH. There is a memorandum here, Mr. Parker, prepared by a committee of which you seem to be chairman, and I want to offer it for the record as "Exhibit No. 1534."

(The memorandum referred to was marked "Exhibit No. 1534" and is included in the appendix.)

Mr. RAUSHENBUSH. In that memorandum the advantages to the contractor and the advantages to the subcontractor are fairly clearly set out. Under the disadvantages to the subcontractor, you say:

(1) Loss of a part of the maximum profit allowed by the Vinson Act, if it should be earned.

(2) Will require adoption by code authorities of resolutions permitting violation of any code provisions now in effect which would prevent members from bidding on this basis.

(3) Will disclose costs to shipbuilders currently, and perhaps create a precedent which may be difficult to overcome in the future. A similar disclosure may be made under the Vinson Act, but probably at a much later date, and with no certainty that excess profits under individual contracts will be made public.

Then the memorandum continues:

E. Possible general advantages.—(1) Mr. Parker fears that the Vinson Act may lead to a new and permanent form of taxation by the Federal Government on all profits over a certain maximum without regard for losses which may be incurred. The general adoption of this proposed plan of letting subcontracts may, in his opinion, either avoid this possibility entirely or at least limit it to Government work, and then only on the main contract without extension to subcontracts.

Do you remember that whole memorandum?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH. The net result of that is, is it not, Mr. Parker, that by making it impossible for subcontractors to turn back any amounts to the Bureau of Internal Revenue for excess profits under the Vinson Act you have increased the margin between your total costs and your bid price?

Mr. PARKER. The explanation of that is rather lengthy. If you will just bear with me, I will give it to you.

Say, assuming you are familiar with the Vinson Act, that under any sub-contract in excess of \$10,000 the subcontractor must comply with the provi-

sions of the act and must indicate his compliance with the acceptance of it and must certify under oath his costs.

Just shortly after the passage of the Vinson Act it was quite apparent to us, and it was apparent in the requests for tentative proposals to be used in bids that the subcontractors were very fearful of the effect on them of the Vinson Act as applied to subcontractors. Many of the subcontractors were supplying several types of equipment. The "X" company, for instance, would supply one piece of apparatus at \$65,000. Normally and ordinarily we would make that a separate contract. Another piece of equipment would be supplied by the same company or the company's competitors on the basis of competitive bids, which would amount to \$110,000, and the result was that "X" company got in the course of the whole contract there 8 or 10 contracts, each in excess of \$10,000, all of which would be subject, or each of which would be subject, to the Vinson Act.

It was apparent to them that with a limited profit of 10 percent that on maybe 8 or 9 contracts they might lose. The loss was all theirs. And that on the one contract they might win, maybe 25 or 30 percent, and that would have to be repaid, and the net which they would get out of the whole would be a loss. They were a little averse to giving us prices, or averse to quoting. And we recognized the fact that we were going to have great difficulty in performing the contract on this basis, unless we found some solution to it. The solution, then, was just naturally that we would make this on basis of the cost, and instead of making a contract or several contracts, or a dozen contracts, we would make one contract for the ship as a whole. We would give to "X" company all the apparatus on the ship, on a cost-plus 11.11 basis, making one contract out of it. So that if all lost money on one piece of apparatus, due to operating conditions, and made money on another piece of apparatus, he would have the benefit which we do not enjoy, of placing his losses against his profits, and sharing a net profit, if the net profit results.

Mr. RAUSHENBUSH. Just in that connection, let me interrupt with a section of this memorandum, Mr. Parker, where you point out the advantages to the contractor. The first one is:

If the subcontractor should exceed the full 10-percent profit allowed by the Vinson Act, the shipbuilder would benefit by, and the subcontractor would lose, a part of such profit.

Was that not really the reason why you were interested in that thing?

Mr. PARKER. We were interested in that angle, for this reason: We are entering into a contract with a definite price basis, with a limited profit, taking risk on a rising commodity and labor index, where, if we lose, it is just tough luck, and, if we win, our profits are limited. It is like in a poker game, where you can only keep 10 percent of your winning hands, and the losing hands are all your own. In a very short time the poker game will get you. You cannot live under those conditions.

We realize that if a profit is made, if we can through operations, economics, and efficiency of building the ship develop a profit in excess of 10 percent, it goes to the Government, but it was quite apparent to us that if we made arrangements with some of the subcontractors, which include the same sort of contingencies, over a 3-year period, where they could protect themselves and would have to put in 25 or 30 percent in excess of their normal price for extraordinary contingencies, it might develop—and we would have to pay that price—where we might create a situation where we might lose \$2,000,000 on the subcontract and subcontractors might return \$2,000,000 to the Treasury on the subcontract.

The shipbuilding companies stated on the stand that they did not oppose the profit limitation in the Vinson-Trammell Act of 1933 (Eugene G. Grace, Feb. 26, galley 4 QD).

Mr. Parker, treasurer of New York Shipbuilding, was questioned concerning the similarity of the Vinson bill limiting profits to 11.1 percent and the war-time cost-plus contracts (Feb. 6, 1935, galley 29 ZO).

Senator CLARK. Did that contract during the war include provision for assessing the services of your Chinese and Japanese representatives and for wines, liquors, and cigars which you actually put into the cost?

Mr. PARKER. It included all costs having to do with operating the business, and wines and liquors in shipbuilding are just as necessary as steel in many cases.

Senator CLARK. Do I understand that the contract provided for under the Vinson bill should include wines, liquors, and cigars?

Mr. PARKER. Absolutely so.

Senator CLARK. That is very illuminating.

Some light on the impossibility of checking a company's costs and profits is given in a report by the head of the Consolidated Returns Audit in regard to war-time work (Jan. 22, galaxy 47 GP).

Mr. RAUSHENBUSH. Apparently in 1926 the revenue agents went into this thing. I have a document here, and there are a great many pages which I want to put in, but there is just one paragraph to which I wish to call your attention. They say [reading]:

After a very careful study of conditions, viz. the system of bookkeeping and record keeping, the practices of the corporation, etc., it is the opinion of your examiners that it is an utterly impossible task to attempt to determine correct costs in connection with each contract. It is our unqualified opinion that even a large corps of men working for an indefinite time could not even approach accuracy. Thousands and probably hundreds of thousands of vouchers, labor tickets, store requisitions, etc., would have to be examined and reanalyzed, and the books all recast. During the war emergency the plant employed in the neighborhood of 22,000 men.

I would like to offer that for the record.

(The document referred to was marked "Exhibit No. 1435" and is included in the appendix.)

The CHAIRMAN. But there was no real effort made at that time to get away from cost-plus?

Mr. RAUSHENBUSH. There were many efforts made, but in 1926 they go back over the whole thing and find it cannot be done.

I have here a letter which I would like to offer for the record, being addressed to H. B. Robinson, head Consolidated Returns Audit Division.

(The letter referred to was marked "Exhibit No. 1435" and is included in the appendix.)

Mr. RAUSHENBUSH. That letter reads, in part, as follows [reading]:

In the course of our examination of the records of the cost inspector of the Navy, we have noted that it has been the continued practice of the taxpayer to include everything possible in expenses (cost of construction of ships) regardless of whether or not they represented correct costs. We have also noted that approximately \$1,037,000 has been disallowed as expense by the Navy Department on billings to it by the taxpayer; and the items composing this amount capitalized and depreciation allowed thereon. This necessitates the computation of voluminous detailed schedules of depreciation, spread over the years 1918 to 1921, inclusive. Of necessity, in connection with the Navy dealings with the taxpayer, separate schedules of depreciation have to be prepared for every month of every year.

They say here:

We have been informed by the commander in charge of the Navy cost-inspection office that the corporation included in 1 month in the cost of construction of ships a dividend in the amount of \$35,000.

Is that correct, Mr. Parker? Was the attempt made to charge a dividend on preferred stock into the cost of the Navy vessels?

Mr. PARKER. It was charged to expense?

Mr. RAUSHENBUSH. Expense of the ship?

Mr. PARKER. It was charged to the cost, the expense of which was prorated to all work, and a part to naval vessels.

Mr. RAUSHENBUSH. So that you were in a position of asking the Government to pay a certain part of your preferred-stock dividends?

Mr. PARKER. Mr. Raushenbush, you may have read the first cost-plus contract with the Navy Department, in which there was a semblance of a definition of cost, which item provided that costs shall include all taxes. Yesterday it was

brought out by your investigator of the Revenue Department that income taxes to the extent of some \$300,000 were included.

Mr. RAUSHENBUSH. \$377,000.

Newport News, which, according to Mr. Blewett's statement in "Exhibit 1532", had secured an additional 10-percent allowance on overhead from the Navy for naval work, stated that expenditure for plant to prepare for the aircraft carriers, amounting to \$900,000 would be charged into the overhead of the carriers (galley 77 ZO, Feb. 13).

Mr. FERGUSON. In 1933, we agreed to perform the maximum amount of work that we could in 2 years, regardless of ordinary procedures. We have attempted to carry that out, and in doing that have made an expenditure for plant of around \$900,000, for new equipment, for modern equipment in order to carry it through.

The shipbuilding business, or the advantage to any company in the shipbuilding business lies tremendously with the character of the equipment, because the work is very large and difficult. Now, Mr. Archer Huntington, as well as his predecessor, has approved of keeping the plant in fine condition instead of wanting dividends this year.

Mr. RAUSHENBUSH. Of course, with a contract for aircraft carriers of—what was it? \$38,000,000?

Mr. FERGUSON. \$38,000,000.

Mr. RAUSHENBUSH. On aircraft carriers, some expenditure would be justified.

Mr. FERGUSON. You understand that that is charged not against the ships.

Mr. RAUSHENBUSH. No.

Mr. FERGUSON. Of course, that is charged against plant.

Mr. RAUSHENBUSH. And gets into the overhead, does it not?

Mr. FERGUSON. If we should not build any more ships requiring that equipment, a lot of it would naturally be written off.

Mr. RAUSHENBUSH. But it gets into the overhead of these two aircraft carriers?

Mr. FERGUSON. Yes; it does.

It is to be noted that an extra allowance of 10 percent as overhead, referred to by Mr. Blewett, might amount to \$2,000,000 on a contract of \$38,000,000 plus for the two aircraft carriers which Newport News was awarded in 1933.

The reliability of the industry's figures in cases involving the Government was indicated by the Newport News claim for damages and costs because of cancelation of contracts after the war (Feb. 13, galley 87-88 ZO, and Feb. 14, galley 89 ZO).

Mr. RAUSHENBUSH. Coming now to a memorandum from you to Mr. Huntington of May 15, 1924, we definitely get into the question of the cancelation claim you were making against two battle cruisers and the battleship *Iowa*. You add up fixed overhead, Federal taxes, special plant, remainder of fee, interest on unused plant, fixed overhead, and occupancy of plant during scrapping, a sum totaling \$14,973,165.

Then you go ahead and say to Mr. Huntington:

We did not expect to get both fixed overhead and remainder of fee, but I thought there was a good chance of getting a part of the fixed overhead and the whole of the fee. The cancelation board has recommended against giving us any part of fixed fee. We feel, however, that we are entitled to this, so that a minimum I would be willing to take in settlement would be represented approximately by the following—

And you add up various things totaling \$6,636,000.

Now, as we gather this, Mr. Ferguson—

Mr. FERGUSON. I have not got that.

Mr. RAUSHENBUSH (handing paper to witness). As we gather it, what you are doing is putting in a claim against the Government of \$14,973,165 and telling Mr. Huntington that your minimum claim is \$6,635,000.

Mr. FERGUSON. Nothing of the kind.

Mr. RAUSHENBUSH. Will you explain that?

Mr. FERGUSON. I am putting in here the things on which a claim can be based. We made no claim for \$14,000,000. The job was settled in regular order in the Navy Department, and the complete records are there.

Mr. RAUSHENBUSH. You say, "Our claim was"; that is, "Our claim against the Government was as follows":

Mr. FERGUSON. For trading purposes. We did not expect to get it or did not expect to get within a mile of it, but the question was involved as to how our company could be treated justly in these cancelations; and anticipated profits were not waived, but anticipated profits had been disallowed, even where the anticipated profit had been mentioned in figures by the courts, on account of just what I have told you. We still had a claim, and we could have carried it through the courts.

There was also a question of our agreeing during the term of the contract to take the proper proportion of overhead expense. That is a damage claim.

There was, in addition to that, the special plant which had been put up by us and the Navy Department in conjunction, and had to be settled.

While the claim could be stated to be a claim, it is just like any other trading position, where you keep everything you can keep until you reach a point of settlement.

If you went in with a tax, or any other case, and yielded all the talking points you had, it would be contrary to usual practice.

Mr. RAUSHENBUSH. That is all we wanted to get, Mr. Ferguson, that you put in a claim for \$14,973,000 and did not expect to get within a mile of it, and you told Mr. Huntington, in the same breath, you would be satisfied with \$8,300,000 less and put that in as a trading claim.

That interests us, of course, from this angle: That where there is no competition between companies for the Navy work, the question of the guaranties of the Navy Department in paying a higher claim is involved. I mean in bidding for ships you have, or are supposed to have, competition to keep down these trading claims to a minimum. But here you were putting in such a great number of items, and thought the way to conduct the business was to put in for \$8,300,000 more than you expected to get or were willing to take.

Mr. FERGUSON. We knew perfectly well we would not get it.

Mr. RAUSHENBUSH. I will offer that memorandum for the record.

(The memorandum referred to was marked "Exhibit No. 1572", and is included in the appendix.)

Mr. RAUSHENBUSH. There is a good deal more on that, Mr. Chairman.

Senator BONE. Can you tell us, Mr. Ferguson, which of those items were ultimately allowed?

Mr. FERGUSON. The items which were ultimately allowed were the damage item, and a settlement was made under the contracts for what we call "plant rental." That was appraised and adjudicated by the Navy Department, and complete records are there, and also the damage item, which amounted, as I remember it, to around \$4,500,000 for their proportionate share during the life of the contract of overhead expenses.

Senator BONE. What about the item of taxation?

Mr. FERGUSON. That was not allowed in the settlement.

Senator BONE. Just so that we do not get any confusion in our own minds here, I am not referring to income taxes but I am referring to property tax levied on the property by the State of Virginia, or whatever tax subdivision levies taxes on your plant. Was that allowed? That is an overhead operating expense.

Mr. FERGUSON. Yes; the local taxes were allowed, I think.

Senator BONE. That is what I am getting at. In other words, your State or local taxes.

Mr. RAUSHENBUSH. Now, you have stated this, Mr. Ferguson. When you referred to \$6,999,204 as being for damages; that was overhead, was it not?

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. It is overhead you are being paid for at the rate of \$100,000 a month for 46 or 47 months?

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. What position were you stating for the Government paying the overhead on canceled ships, if it was not simply under the head of anticipated profits or to take the place of anticipated profits? You were not building on those ships during this period. You were not paying your own salary, and you were not paying power under that item.

Mr. FERGUSON. We were. They had agreed to take their proportionate share of the overhead expense during the life of the contracts. The contracts were

canceled. It was worked out by the Navy department that for the time the contracts would have extended, if completed, that they owed us their proportionate share of our overhead expense, and it was settled on that basis, and the complete record is in the Navy Department.

Mr. RAUSHENBUSH. We know they gave you the overhead expense. My question was: How much of that overhead expense was actually spent by your company? How much of that \$100,000 a month?

Mr. FERGUSON. It was the overhead expense actually expended.

Mr. RAUSHENBUSH. The question was interrupted. How much of the overhead expense was expended for the purpose of those Navy vessels? You had your ordinary business and could devote the \$100,000 to that; but the question is: How much of that overhead was really spent on those Navy vessels on which construction had stopped?

Mr. FERGUSON. It was spent on the plant as a whole, and our ordinary business would not at that time anything like carry the overhead. We nearly went broke as it was.

Mr. RAUSHENBUSH. This helped out a great deal.

Mr. FERGUSON. Here was this overhead which had been built up to very much larger proportions during the war, as a result largely of these same contracts, and a lot of plant which we still did not need, and we still had to keep our plant a going concern, unless we shut it up and quit, and the Navy Department—who was it settled there? Secretary Wilbur finally settled after several years of investigation on these figures.

Mr. RAUSHENBUSH. This was not several years. This was dated August 17, 1923.

Mr. FERGUSON. However long it was; 2 years.

Mr. RAUSHENBUSH. I still do not feel that the question has quite been answered. We can understand how this helped the company carry itself on as a going concern, to get this figure, but the question was whether any of that was spent on naval vessels whose construction had stopped and whether it was not just a gift by the Navy Department.

Mr. FERGUSON. No, sir; it was in settlement of a canceled contract. You do not accept a canceled contract for \$70,000,000 and tell a man to go chase himself, do you?

Mr. RAUSHENBUSH. We are interested in the way the settlement was made. Why should you not be paid for the cost which you incurred up to date and not be given anything which looks like loss of anticipated profits, \$4,648,000; under the head of Overhead another two-million-odd dollars; under the head of Plant, which was your own plant, the \$6,999,204, except to justify anticipated profits? We see no other possible explanation for it, because you were not using the plant and you were not using the overhead for the benefit of the naval vessels.

Mr. FERGUSON. I do not agree with you at all. The Navy Department worked this out and the Treasury Department, as I remember it, permitted the \$100,000 to be distributed at the rate of \$100,000 a month for the 46 months. I do not see anything strange or irregular about it.

Mr. RAUSHENBUSH. Certainly the Treasury Department would have to allow the distribution of income when you once got it, but the question was whether this was not anticipated profit.

Mr. FERGUSON. If that was anticipated profit, you do not think for a minute that the Treasury Department would not put it in profits?

Mr. RAUSHENBUSH. They did, did they not? They allowed \$100,000 a month for anticipated profits.

Mr. FERGUSON. At the rate of \$100,000 a month.

Mr. RAUSHENBUSH. That is the way it comes in.

Mr. FERGUSON. If it had all been put in at once, it would have given us a very high and fictitious earning for that year.

Mr. RAUSHENBUSH. You could not put it in in a lump sum, because you were not getting it that way.

Mr. FERGUSON. They make you put it in in a lump sum frequently, when you do not get it, if you have an agreement to get it. As a matter of fact, we did get it in a lump sum and distributed it on our payments at \$100,000 a month.

Mr. RAUSHENBUSH. To what account?

Mr. BRANCH. To overhead.

Mr. RAUSHENBUSH. That was allowed as a deduction from the regular overhead?

Mr. BRANCH. Yes; we reduced our regular overhead by that amount.

Mr. RAUSHENBUSH. My other question still remains: As to how much of the \$100,000 which you distributed to overhead, and which carried your going plant, was really spent on these naval vessels. If the answer to the question is you were not building any naval vessels, the naval vessels had stopped, then it was by way of damage, as you say, or, as we say, "anticipated profits."

Mr. BRANCH. It was spent by us to build under naval contracts.

Mr. RAUSHENBUSH. As an indemnity?

Mr. BRANCH. As an indemnity; as a settlement.

There is evidence that Bath Iron Works transferred an item of \$60,000 to the destroyer *Dewey*, thus showing an improperly high cost (galleys 41 WC and 42 WC).

Do you remember any difficulty you had with your auditors, or with anyone else, regarding the putting of a sum of money or having a certain sum of money against the destroyer *Dewey*, which expense apparently was incurred on their negotiation? Do you recall anything of that kind?

Mr. NEWELL. Yes. There was a loss on two of the contracts, that, for book-keeping purposes, was put in on that account. You people were informed, and that whole matter was explained to them when they were in Bath. It was simply a bookkeeping question.

Mr. LAROCHE. Here is a letter on that, which I offer for the record as exhibit no. 1821. This appears to be a letter from you to your auditing firm.

Mr. THEBEAU. I beg your pardon. I think that is written by the chief clerk.

Mr. LAROCHE. From your firm, I meant to say.

Mr. THEBEAU. Yes, sir.

Mr. LAROCHE. Your chief clerk in one place says [reading]:

Your attitude seemed to be that I was a little careless in not calling your attention in my letters of September 9 and 14 to the fact that the transfer above mentioned was included in the *Dewey* cost.

The transfer, as I take it, details a figure of \$60,482.57, which cost was incurred on the lighthouse tender *Hickory* and on a tug. Is that correct?

Mr. NEWELL. That was not put into the cost account of the *Dewey*. It was simply added on the end of the résumé of the *Dewey's* cost account to show the net result of the three jobs. Do I make it clear? It was not there as an item of cost. I think that your committee must have a copy of the résumé of cost of the *Dewey*, that had, as a separate item and last entry on the sheet, a cost item to which you refer, which was added to it, but it was not in any way absorbed or put in the *Dewey's* account. The *Dewey's* account was an item all by itself. I have seen it. I know that, because I talked with your people, when they were in Bath, about that same thing. I said, "That does not have anything to do with the *Dewey*" and it is very clear as to what it was on the sheet which was handed to you.

(The letter referred to was marked "Exhibit No. 1821" and is included in the appendix.)

Mr. LAROCHE. You mean by that, you are saying that that \$60,000 was not at any time entered in your books as a charge against the *Dewey*?

Mr. NEWELL. No; it never was.

Mr. LAROCHE. I submit another letter on that subject for a number, "Exhibit No. 1822." This is a letter from your auditors, in response to the one from your chief clerk. I will read one paragraph [reading]:

I am surprised to note the contents of your letter of the 26th. In calling you regarding the \$60,000 transfer item, included in the cost of the *Dewey* my concern was to make sure that the principals of your company were familiar with the actual outcome on the *Dewey*.

What does he mean by that? Does he not rather strongly state that that was transferred to the cost of the *Dewey*?

Mr. THEBEAU. No.

Mr. NEWELL. No. He says it was not

Mr. LAROCHE. It was not?

Mr. NEWELL. It was not in there at all

Mr. LAROCHE (continuing reading):

In all of Mr. Thebeau's conversations with me—

the letter continues—

he expressed great disappointment that the approximate profit on the *Dewey* was only about \$51,000. We, of course, knew that the costs were burdened with the \$60,000 transfer item, but none of your letters made any comment as to the real profit from the point of view of the management, and we were naturally interested that the management knew the facts.

Mr. NEWELL. We knew it anyway.

Mr. LAROUCHE. Then your answer is that you never did at any time charge that into the cost of the *Dewey*?

Mr. NEWELL. Into the direct cost of the *Dewey*?

Mr. LAROUCHE. Into the costs, direct or otherwise.

Mr. NEWELL. No, sir.

(The letter referred to was marked "Exhibit No. 1822" and is included in the appendix.)

Mr. LAROUCHE. I submit another letter on the same subject for its appropriate number, exhibit no. 1823. I think we can enter that without reading it.

Mr. THEBEAU. Yes, sir.

(The letter referred to was marked "Exhibit No. 1823" and is included in the appendix.)

Mr. LAROUCHE. I submit this letter for a number, exhibit no. 1824, being a letter from S. L. Eaton, chief clerk of the Bath Iron Works Corporation, to Henry Brout & Co., 295 Madison Avenue, New York, N. Y.

(The letter referred to was marked "Exhibit No. 1825" and is included in the appendix.)

Mr. LAROUCHE. You would not say that that \$60,000 item had anything to do with your claim for increased cost?

Mr. NEWELL. No, sir.

Mr. LAROUCHE. It had nothing to do with it?

Mr. NEWELL. Absolutely no.

Mr. LAROUCHE. I submit a letter from you to Mr. Spear, for its appropriate number.

(The letter referred to was marked "Exhibit No. 1825" and is included in the appendix.)

The CHAIRMAN. Mr. LaRouche, what is the general direction of the matters which you are bringing into evidence at this time?

Mr. LAROUCHE. Merely that there seems to be some impression gained from this correspondence that this \$60,000 was somehow transferred as a bad debt from one job to another, with the apparent result that the data show a naval ship, a destroyer, was burdened with a charge that was not properly assigned to it.

The CHAIRMAN. I see.

Mr. LAROUCHE. Mr. Newell says that was not the fact.

Mr. NEWELL. What you really mean to infer is that we were trying to get that \$60,000 out of the Government, which was not so, and it was not in there, and it had nothing to do with the *Dewey* cost or in any way had anything to do with the building up of the amount of money which we claimed was due us under the conditions imposed upon us by the code. Is that clear?

The CHAIRMAN. Mr. Newell, there would have been large advantage, shortly after that, would there not, in your being able to put a larger cost, a larger production cost, in light of the fact that the Vinson bill, limiting the profit that could be had from the building of ships, came along shortly thereafter?

Mr. NEWELL. No; the Vinson bill did not enter into this at all. The bill passed by Congress extending relief to contractors who were caught under the code—

The CHAIRMAN. That was not my question, as to whether the Vinson bill had entered into the consideration. But the advantage would have been yours, if you could have increased that showing of cost by \$60,000?

Mr. NEWELL. I know, but we honestly could not do a thing like that. That is impossible and unthinkable. No; you could not do a thing like that, Senator. It was absolutely wrong, and it could be very easily checked.

The CHAIRMAN. Is there anything in this correspondence with which you are dealing, Mr. LaRouche, that indicates that that was in the mind of the company at the time?

Mr. LAROUCHE. No; I am not prepared to say that the correspondence shows clearly that that was in the minds of the officials of the company.

Mr. NEWELL. I can say—

Mr. LAROUCHE. I think the letters should be in the record and should tell their own story.

Mr. NEWELL. It absolutely is not that way.

The CHAIRMAN. Proceed, Mr. LaRouche.

Mr. NEWELL. I do not like even the thought of it. I do not think there is anything there that makes that possible.

The CHAIRMAN. Mr. Newell, I do not see what there would be more repulsive about your doing that—I am not wanting to give it a bill of health, by any means—but I see nothing more repulsive in that than your organization inviting improper propaganda for the purpose of instilling a fear of war to the end that a number of contracts might be let for more ships, and that your company did do prior to the Vinson naval building bill.

Mr. LAROUCHE. I think, Mr. Chairman, to shed a little further light on that, that some of this correspondence might well be read, and perhaps Mr. Newell can explain it.

Your firm of auditors, Henry Brout & Co., writes on September 27, 1934 [reading]:

I am surprised to note the contents of your letter of the 26th.

This is to Mr. Eaton:

In calling you regarding the \$60,000 transfer item, included in the cost of the *Dewey*, my concern was to make sure that the principals of your company were familiar with the actual outcome on the *Dewey*.

Then he says further [reading]:

In all of Mr. Thebeau's conversations with me he expressed great disappointment that the approximate profit on the *Dewey* was only about \$51,000.

He says:

We, of course, knew that the costs were burdened with the \$60,000 transfer item * * *.

What does he mean by that?

Mr. NEWELL. I do not know.

Mr. LAROUCHE. What could he mean but that the costs on the *Dewey* were burdened with \$60,000 which did not belong there?

Mr. NEWELL. I would think the same as you, but I do not understand that. Maybe Mr. Thebeau can answer it.

Mr. THEBEAU. The auditor might have recommended it, but that is no fair test of it at all. With regard to our claim, we have to give a detailed account, a sworn statement, to the commission that we filed the claim with, showing how our costs have been kept, both as to material and as to labor. That is absolutely all in detail when we present our claim, which we are working on now. But that \$60,000, you can see he was referring to me, and I do not recollect now, but I know it is not charged to the *Dewey*, and would not be handled that way. It is impossible to handle it that way.

Mr. LAROUCHE. How do you account, then, for this further language:

We, of course, knew that the costs were burdened with the \$60,000 transfer item, but none of your letters made any comment as to the real profit from the point of view of the management, and we were naturally interested that the management knew the facts.

Did you know the facts?

Mr. NEWELL. Of course, we did.

Mr. LAROUCHE. You did know the facts?

Mr. NEWELL. Yes. I do not know what the auditor means by that. I would suggest that the committee either get the auditor down here or write and ask for a written interpretation of it.

Mr. LAROUCHE. What is your explanation of the language?

Mr. NEWELL. It puzzles me. I have a clear picture in my mind as to the set-up of the final cost résumé of the *Dewey*, and that \$60,000 was a separate item in it, and it showed the net result of those three jobs, as far as net profit on the three was concerned, just the same as you would set it up for your income-tax purposes. It does not have anything to do with the costs of the *Dewey*. It had nothing to do with the cost of operation, whether those three jobs were going along together.

Mr. LAROUCHE. He says further—this is the auditor's letter, again [reading]:

Let me also add that I was rather shocked to read the submitted copies of your schedule of cost of construction of July 31 and August 31. I hardly think you meant to use our name in the item describing the transfer of labor and overhead. It was not a very politic thing to do, especially if you consider that the information and the theory for this method of treatment was obtained from Mr. Newell, who undoubtedly approved it, bearing in mind the primary interest of the company.

Why was he so shocked?

Mr. NEWELL. I do not know. I do not know what he refers to.

Mr. LAROUCHE. He says [reading]:

I would further suggest the impropriety of making such reference in the corporate books. If by chance our name has been used in the books, as authority for this or any other entry, please make the correction by deletion immediately, and I would appreciate your advising me to this effect at once. Also, please show this letter to Mr. Thebeau, since it affects the fiscal affairs of the company.

This auditor apparently wanted no part of it.

Mr. THEBEAU. I can answer that. He objected to his name being written in the accounts, saying that he authorized this or he authorized that. That is the point. He did not want his name written in authorizing the account.

Mr. LAROUCHE. Because he was shocked, according to his language?

Mr. THEBEAU. That is the way I interpret it.

Mr. LAROUCHE. In the way the entries had been made.

Mr. THEBEAU. He might have recommended certain changes, and he objected against the chief clerk writing his name opposite them. Auditors do not always agree with accountants.

Mr. NEWELL. Why can you not ask the auditor who wrote the letter about it?

Mr. LAROUCHE. We thought perhaps you could throw some light on it.

Mr. NEWELL. I cannot tell you anything more than I have already.

Mr. LAROUCHE. There is just a further pertinent paragraph. Your chief clerk, in replying to the auditing firm, says [reading]:

I am very sorry if I have done anything out of order.

What does he mean by that?

Mr. NEWELL. I do not know.

Mr. LAROUCHE. Apparently Mr. Brout, the auditor, is accusing him of having done something improper.

Mr. THEBEAU. I can answer that. He considers it improper writing his name opposite the entries.

Mr. LAROUCHE. He says:

I have tried very hard to cooperate in every way with both you and Mr. Stoler, as I think Mr. Stoler will testify.

Who is Mr. Stoler?

Mr. THEBEAU. He is one of the auditors for Mr. Brout.

Mr. LAROUCHE (continuing reading):

I have tried equally as hard to keep accurate accounts and to place the facts before the officials of the company at all times, and to cooperate with them in every way.

I understand Mr. Stoler is coming here next week and at that time I will go over all the adjusting entries I have made, with him.

The shipbuilders hold a different idea of what the Navy knows about costs than the Navy officials. Mr. Bardo, on April 6 (galley 99 WC), informed the committee that the Navy knew the cost of building the ships.

SECTION VIII.—WAR-TIME COSTS, PROFITS, AND TAXES

Undoubtedly one of the greatest favors done for the private shipyards during the war period was expressed in the order to have ships begun after the armistice, the keels of which had not been laid up to that time.

The result of this order gave the companies a great amount of work at profits which were not subject to the war-time taxes.

The work on destroyers alone, whose keels had not been laid at the time of the armistice, was distributed as follows (galley 19 VW) :

Bethlehem-----	\$90,540,975
New York Ship-----	22,014,041
Newport News-----	5,332,504
Wm. Cramp & Son-----	31,103,702

During the war years the large shipbuilding companies made very considerable profits. They secured cost-plus contracts and added questionable charges to the costs. They took profits on these ships after the war taxes had been repealed. They secured changes in contract dates to avoid the war taxes. They bought from the Government very cheaply yards which had been built at Government costs. One yard built additions only under the threat of being commandeered. Exorbitant claims were knowingly filed against the Government for cancellations. Huge bonuses were paid.

Much of this evidence is spread out in exhibits not printed at the time of the preparation of this preliminary report (June 1935). Some indication of it, however, can be gained from the following excerpts from the testimony :

New York Ship had received an assurance from Director Schwab (United States Shipping Board) that it would receive such improvements after the war as a gift or compensation (Jan. 21, 1935, galley 27 GP) :

Mr. RAUSHENBUSH. Before you went into the construction of that \$14,000,000 south yard did you and your company make an arrangement with Director General Schwab, of the Emergency Fleet Corporation, determining on what terms that would be given back or be sold to the company?

Mr. PARKER. There was an agreement made by which we would be permitted to repurchase the property on the basis of an appraisal or on the basis of earnings.

Mr. RAUSHENBUSH. So that before you acceded to this threat of the Government commandeering, an arrangement was made with Schwab, who was head of the Emergency Fleet Corporation, determining pretty definitely the terms on which you would get that at the end of the war. Is that not correct?

Mr. PARKER. That is right.

Mr. RAUSHENBUSH. In that connection, Mr. Chairman, I would like to read a letter from Charles J. Fay, of the firm of White & Case—White & Case have been your attorneys on these matters, have they not?

Mr. PARKER. Up to 1933.

Mr. RAUSHENBUSH. The letter is dated May 25, 1923, and is addressed to James W. Talbert, of the Emergency Fleet Corporation. [Reading:]

DEAR MR. TALBERT: This is to confirm the appointment you gave Mr. Neeland and myself for Thursday morning, the 31st inst. Mr. Neeland and I will endeavor to be on hand promptly, and my thought is to be there

at 9:45 a. m. (standard time). If you cannot see us at that time, we will wait until you are free.

I enclose a memorandum regarding this plant-acquisition matter by the New York Ship of the improvements made at the cost of the Fleet.

As the situation now stands, the acquisition arrangements (which was formulated in 1918 to avoid a possible war tax cash liability for the ways and shop improvements which Director General Schwab intended, and proposed, should be acquired by New York Ship without specific payment therefor but in the nature of a gift for added fee or compensation) was, and is, based on the improvements themselves, providing their valuation through earnings.

Does not that indicate fairly clearly that this whole arrangement by which you got the property, and in which the Emergency Fleet Corporation had sunk \$14,000,000, for one-half million dollars, was determined before you went into that supervision of the construction of the yard?

Mr. PARKER. It was recognized at the time the work was undertaken that the land belonged to the New York Shipbuilding Corporation. The facilities placed on that land and attached to that land by the Shipping Board became a part of the realty.

Nevertheless, there was an agreement executed by which the Government would be paid for that on basis of the earnings, which earnings developed from the operation of that unit.

Mr. RAUSHENBUSH. So that there was not only the threat of commandeering, but there was a promise obtained from Mr. Schwab, as quoted, "in the nature of a gift or added fee or compensation" before you went into this?

Mr. PARKER. That was not a motive to agree. That was rather a motive to make us avoid, because, if, by any chance, it was a fee on the construction, or if, by any chance, it was a gift, it would have been subject to tax, and we would be in position of having an obsolete, nonoperating plant, which would be subject to a high rate of income tax. It would be having a bear by the tail.

Mr. RAUSHENBUSH. The arrangement was to get around the tax there, by having that sort of an arrangement, and it should not be exactly a gift, but in the nature of a gift or added fee or compensation.

I would like to offer the letter for the record, as "Exhibit No. 1417."

(The letter referred to was marked "Exhibit No. 1417" and is included in the appendix.)

Bethlehem Shipbuilding Co. paid \$12,639,000 in taxes out of a profit for the war years of \$68,205,000 (Feb. 27, 1935, galley 15 QD).

Mr. RAUSHENBUSH. So that you could allocate as much as you wanted of the total taxes to be borne to any one of your hundred-odd companies, could you not?

Mr. SHICK. We could, if we thought that that would be advisable to do, but we did proportion it more or less, based on the earnings of the particular companies. That was the basis of our proportion.

Mr. RAUSHENBUSH. What sort of proposition is that?

Mr. SHICK. For instance, in the years 1917 to 1921, we proportioned out of the total taxes, \$12,639,000 in taxes to the Bethlehem Shipbuilding group, which included the six subsidiary companies.

Mr. RAUSHENBUSH. That would be in a ratio of 12 to 68 million net income before taxes, would it not?

Mr. SHICK. That is about right.

Mr. RAUSHENBUSH. That is our figure.

Mr. SCHLOTTMAN. \$12,069,000.

Mr. RAUSHENBUSH. On the final settlement it is \$68,205,000, according to our figures.

Mr. SCHLOTTMAN. All right.

Mr. RAUSHENBUSH. That would be about one-sixth of it, somewhere between a fifth and a sixth, would it not?

Mr. SCHLOTTMAN. That is correct.

Bethlehem Ship during the war used a rental system which made its profits appear lower than they actually were. The "rentals" were larger than the plant values of the companies (Feb. 27, galley 13 QD, also 16 QD).

Mr. RAUSHENBUSH. Mr. Shick, in examining the figures presented by you to the committee on the net income of Bethlehem Ship during the war years, we checked with the Bureau of Internal Revenue and found that there were very large rentals to other companies. Could you explain the point and purpose of those rentals?

Mr. SHICK. At the time the Bethlehem Shipbuilding was organized, in October 1917, there were certain properties that were owned by other subsidiaries of Bethlehem, which were not grouped in the Bethlehem Shipbuilding Corporation at that time, and until that could be done there were rentals. These properties were rented to the Bethlehem Shipbuilding Corporation for certain years, with an idea of just making the distribution of the profits that were earned on ships that were manufactured by those facilities.

Mr. RAUSHENBUSH. Were those so much rentals of property as a profit-sharing arrangement?

Mr. SHICK. There was a profit-sharing arrangement. That was the basis of it.

Mr. RAUSHENBUSH. Do you have the terms of that?

Mr. SHICK. I have a synopsis of the leases here, which explains the rental of the plant to the Bethlehem Shipbuilding Corporation, and the basis of the rental was from November 1, 1917, to December 31, 1918, and in the case of the Hunter's Point Drydock Co., at Hunter's Point, San Francisco, was from November 1, 1917, to December 31, 1918, and for the Potrero and Alameda works of the Union plant, at San Francisco, from November 1, 1917, to December 12, 1924. Here is the information [handing paper to secretary].

Mr. RAUSHENBUSH. The sheet you hand me shows what you describe a profit-sharing arrangement, 35 percent of all profits up to and including \$2,000,000, 15 percent of all profits in excess, and so forth. In the case of the Potrero and Alameda works, 85 percent of all profits. I will offer that for the record.

(The document referred to was marked "Exhibit No. 1641" and is included in the appendix.)

Mr. RAUSHENBUSH. That was a profit-sharing arrangement, somewhat, more than a rental arrangement, was it not?

Mr. SHICK. It was really a profit-sharing arrangement for the purpose of renting those particular facilities.

Mr. RAUSHENBUSH. And the rentals paid to those particular companies were far larger than the plant value of those companies?

Mr. SHICK. No doubt that might be true, because we did not know at the time what the earnings would be from those facilities, and in order to distribute those to profits, that was the basis on which the rentals were made.

Mr. RAUSHENBUSH. Do you have the sum total of those rentals before you?

Mr. SHICK. I do not think I have.

Mr. RAUSHENBUSH. Do you have those, Mr. Mitchell?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. You have been sworn before, Mr. Mitchell?

Mr. MITCHELL. Yes, sir.

Mr. RAUSHENBUSH. Will you give those rentals by years?

Mr. MITCHELL. According to the income-tax returns filed by the Bethlehem Steel Corporation, which is a consolidation with the companies including Bethlehem Ship and so forth, the rentals paid by Bethlehem Ship Co. in 1918 were \$14,049,121.93; and 1919, \$7,535,196.10; in 1920, \$4,934,393.67; 1921, \$8,881,727.63.

Mr. RAUSHENBUSH. Mr. Shick, if those rentals which you describe as a profit-sharing arrangement were added back into this net income of Bethlehem Shipbuilding Corporation, the net income would be somewhat larger?

Mr. SHICK. Yes; it would. In order to explain that situation, I would like to present to the committee a consolidated profit and loss statement and a consolidated balance sheet of those companies to which those rentals were paid with the idea of showing a complete picture of the shipbuilding operations [handing paper to secretary].

Mr. RAUSHENBUSH. May we see to what extent that checks with the figures which we have been able to obtain from the Bureau of Internal Revenue? Is this after taxes, Mr. Shick?

Mr. SHICK. That is the net income after taxes.

Mr. RAUSHENBUSH. After paying Federal taxes?

Mr. SHICK. After paying Federal taxes.

Mr. RAUSHENBUSH. Do you have any sheets prepared showing the income before taxes for this consolidated group?

Mr. SHICK. I have it from the summary, showing it.

Mr. RAUSHENBUSH. For this consolidated group?

Mr. SHICK. For this consolidated group, by dividing it between the war years and the years after the war, showing the amount of business that was done, the net income before interest charges but after depreciation, and the net income, profit-and-loss statement, and here is the amount of the income and excess profits which have been deducted [indicating] so that by adding this back to this income here [indicating] that would be the income.

Mr. RAUSHENBUSH. You have not got it by individual years, though, before taxes? That is the usual way that the Bureau of Internal Revenue determines the net taxable income.

Mr. SHICK. We have not got it in exhibit form, but we could readily prepare it.

Mr. RAUSHENBUSH. I wonder if you would check with our figures. I do not think it would be very long. We found that by grouping these various shipbuilding subsidiaries of Bethlehem Steel, we arrive at certain figures which were reported, in fact, by these companies themselves for each individual year, and we would like to get that for 1917, 1918, 1919, 1920, and 1921.

Mr. Mitchell, can you give us the information you secured from the Bureau of Internal Revenue as to the company's original reports on these consolidated groups of shipbuilding companies as far as invested capital and net income or loss go for these years?

Mr. MITCHELL. Yes, sir; do you want the individual companies, starting off with Bethlehem Shipbuilding?

Mr. RAUSHENBUSH. No; let us group them. List the ones which you have so that Mr. Shick can check them.

Later the question was discussed again (galley 16 QD).

Mr. RAUSHENBUSH. Mr. Shick, coming back a minute, I did not quite understand what was the purpose of this siphoning procedure, this rental procedure, of giving such large rentals to the other companies? Did that have something to do with the taxation question, or what was the point of it?

Mr. SHICK. It had nothing to do with taxes.

Mr. RAUSHENBUSH. What was the point of it?

Mr. SHICK. It was distributing the profits over to the facilities which the Bethlehem Shipbuilding Co. were using and on such facilities they were using there, trying to put it back to profits, because they had the use of the facilities. There was no advantage from the taxation point of view. That is all.

Mr. RAUSHENBUSH. Those rentals were away out of relation to any plant investment in them?

Mr. SHICK. But they were getting the earnings on those facilities from Bethlehem Ship. It was the proportion of the earnings of each plant that was being used.

Mr. RAUSHENBUSH. Mr. Mitchell, do you have the plant investment of some of the companies which got these high rentals?

Mr. MITCHELL. Yes, sir; I do. From the revenue agent's report, and from the balance sheet submitted, I have taken the net plant values, which consist of the plant costs, less reserves for the following subsidiaries:

Union Iron Works Co. had a net plant value in 1918 of \$4,982,591.63. Rental was paid to the company for the use of plant of \$11,305,216.21, which for that year was 227 percent of the plant's value.

Union Iron Works Drydock Co. received \$556,000 rent for their net plant of \$3,913,379.

Fore River Shipbuilding Co., for 1917, received \$2,187,906 rental for a plant value of \$3,235,000 odd. Those figures are for 1918.

For 1919, the only plant receiving rental from Bethlehem Shipbuilding Co. was the Union Iron Works Co. It had a net plant value for that year of \$4,454,302, for which it was paid rental of \$7,535,196, which was 169 percent of the plant value.

For 1920 its plant value was \$4,142,686, and it received rental of \$4,934,393, a return of 119 percent.

1921 net plant value shown by the balance sheet was \$3,609,614, for which it received rental of \$8,881,727, which was 227 percent of the plant value for that year.

These plant-value figures are taken from the balance sheets at the beginning of the respective years.

Mr. RAUSHENBUSH. Mr. Shick, would you mind stating your answer to my other question again? I did not quite understand it. Did you describe these rentals as the proportion of the profit which those companies earned?

Mr. SHICK. Those particular facilities earned.

Mr. RAUSHENBUSH. Those particular facilities earned?

Mr. SHICK. Yes; which belonged to the former companies.

Mr. RAUSHENBUSH. So that rental was not the phrase at all; was it?

Mr. SHICK. We used the term "rental."

Mr. RAUSHENBUSH. How much was paid in dividends to the Bethlehem Steel by these various companies, would you say, Mr. Shick, by Bethlehem Shipbuilding Co. during those years, Fore River and Union Iron Works?

Mr. SHICK. It was our practice to have those companies practically pay out all their earnings which were available over to the Bethlehem Steel Corporation because the Bethlehem Steel Corporation was the one paying dividends to the stockholders. There was no reason leaving the earnings accumulate in those companies, so that they were paid over to the Bethlehem Steel Corporation.

Mr. RAUSHENBUSH. Do you have the dividends before you?

Mr. SHICK. I do not.

Mr. RAUSHENBUSH. Do you have them, Mr. Mitchell?

Mr. MITCHELL. I have them, as obtained from the revenue agent's working papers of the income-tax unit. He analyzed the surplus for the various years, and, according to the books, the dividends paid were as follows:

Bethlehem Shipbuilding Corporation, Ltd., paid in 1919 \$1,782,500; in 1920 it paid \$1,705,000; and in 1921 it paid \$20,282,700—a total for the years 1917 to 1921 of \$23,770,200.

The Fore River Shipbuilding Corporation paid in 1917 \$90,000; in 1920, \$4,010,400—a total of \$4,100,400.

The Union Iron Works Co. in 1917 paid \$400,000; 1918, \$1,130,000; 1919, \$1,400,000; 1920, \$5,697,928.19; 1921, \$24,000,000—a total of \$32,627,928.19.

The total dividends paid by these three companies to Bethlehem Steel Co. amounted for those years to \$60,498,528.19.

After the war, Newport News filed a claim against the Government for \$14,973,165 (Ex. 1572). At the same time the president of the company was informing the owner that the company should be satisfied with \$6,636,000. This was "for trading purposes" (galley 87 ZO, Feb. 13).

Newport News also bought facilities added by the Government during war time at a much lower cost (Feb. 13, 1935, galley 81 ZO—82 ZO).

Mr. RAUSHENBUSH. Now, coming to the war-time facilities which the company got out of this, the Navy at various times advanced considerable sums to the company, did it not, to build additional vessels?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. Have you the figures there of how much that was?

Mr. PARKER. That is the plant rental, is it not? Do you recall the question?

Mr. FERGUSON. What number is it?

Mr. RAUSHENBUSH. War-time facilities that the Government added.

Mr. PARKER. Do you remember the number of the question?

Mr. RAUSHENBUSH. I do not think it was in a question.

Mr. Ferguson, in this Price, Waterhouse report, we find the following:

Total cost of facilities known as plant rentals A, B, and Shipping Board special fund, \$10,167,272.50—

and—

Net cost of same to the company, including estimated value of the facilities under destroyer contracts transferred to the company in settlement of canceled destroyers, \$2,168,333.92—

which leaves an—

Excess of cost over net book value thereof, \$7,988,938.58.

Does that figure accurately represent the gain in money value to the company of the facilities?

Mr. FERGUSON. No, sir.

Mr. RAUSHENBUSH. Will you explain that, please?

Mr. FERGUSON. I can only explain it in general terms, Mr. Branch would have to give you the details.

Further (galley 82 ZO):

Mr. RAUSHENBUSH. Is there any question on that? We found this in the Price, Waterhouse report and assumed that that was correct, that the company had gained practically \$8,000,000 in its war-time facilities through advances by the Navy Department, which it then retained.

Mr. FERGUSON (examining book handed witness by secretary). I have never seen it before, Mr. Raushenbush, and I am trying, in answer to one of your queries, to answer it, which tells what benefit there accrued to us in response to the taking over by purchase in final settlement of the facilities provided by the Navy Department and the Shipping Board, and if I can get the number of the question, I can find the answer.

Mr. RAUSHENBUSH. I do not remember having asked the question in that form about facilities.

Mr. FERGUSON. As I understand it, you are asking me if we get the benefit of \$7,988,000.

Mr. RAUSHENBUSH. That was not one of my questions. I am asking it now.

Mr. FERGUSON. My answer to that is that we did not, but I have got to see it. Will you repeat the question?

(The pending question, as above recorded, was read by the reporter.)

Mr. RAUSHENBUSH. The question prior to that was a reference to the Price, Waterhouse report, showing that the total cost of facilities was \$10,157,272, and the net cost of same to the company was \$2,168,333, and the excess of cost over net book value to be \$7,988,938. The question was as to the accuracy of the Price, Waterhouse computation in that manner. Is that accurate?

Mr. FERGUSON. So far as I know it is accurate as to the figures in the total settlement, but I would like to say that in putting in plant for the Navy Department—I do not remember the Shipping Board—it was agreed that the Navy Department would advance 50 percent of the cost of the plant, approximately, and we would advance the other 50 percent, and in our contracts it was provided that at the conclusion of the work this plant which had been put in would be appraised by the Navy Department and the price to be paid by us for this additional plant would be fixed by them, and that was done. The reason was that you could not tell. It was generally assumed at the beginning that the plant would cost, as shown by the agreement, approximately at that time twice what it would cost, let us say, in normal times. And after the contracts were terminated and these three large contracts were settled, this proposition of plant appraisal was made, after years—I do not know how many, 2 or 3 or 4 years—negotiation with the Board in the Navy Department that had cognizance of it, and the settlement was made by that Board.

Mr. RAUSHENBUSH. Let me interrupt just a moment, Mr. Ferguson.

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. Was not the basis of that arrangement fixed way back in 1919?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. So that the matter was all settled then, rather than later?

Mr. FERGUSON. It was written, Mr. Raushenbush, into the contracts.

Mr. RAUSHENBUSH. Here is a letter of yours to Mr. Huntington of January 7, 1919, which I want to read in this connection on the phase of appraisal of values:

I wired you Saturday the status of the two new battleship contracts, as we had to get our letter in the hands of the Department today. I have since been in telephone communication with Mr. Gauntlett—

Who was Mr. Gauntlett?

Mr. FERGUSON. He was our Washington representative.

Mr. RAUSHENBUSH. Is he the representative of any other companies?

Mr. FERGUSON. Yes, sir; two or three more.

Mr. RAUSHENBUSH. Which ones?

Mr. FERGUSON. He is a representative of the Aluminum Co. and the Matson Navigation Co.

Mr. RAUSHENBUSH [continuing reading]:

I have since been in telephone communication with Mr. Gauntlett, who informs me that the Department will probably agree to give us these two

battleships at a cash profit of \$1,250,000 each, and will agree to make the necessary plant extensions to take care of them, at a cost of not more than \$2,500,000.

This was after the war, was it not? This was January 27, 1919.

Mr. FERGUSON. It was after the armistice, but the war, I think, officially went on some time longer.

Senator VANDENBERG. It is still going on.

Mr. RAUSHENBUSH. Here it says about the plant extensions:

* * * the plant extensions to be turned over to us at the end of the contracts, and if the appraised value at that time is $1\frac{1}{2}$ million, or less, they will become our property, and if more than $1\frac{1}{2}$ million, we will pay the difference between the $1\frac{1}{2}$ million and the appraised value, the appraisers to be appointed, 1 by the Navy Department, 1 by ourselves, and the third to be selected by those 2. I do not think that the appraised value for the $2\frac{1}{2}$ million plant extensions, such as is contemplated of shipways, piers, etc., will be as much as $1\frac{1}{2}$ million, and I instructed Mr. Gauntlett to tell the Secretary that we will agree to this arrangement.

Then it goes on with an explanation which I would like to have you explain [reading]:

The Department's interest in the matter lies in the fact that they are not willing to show on the face of a contract that they are paying more than 10 percent as profit. At the present time the total cash profit of $2\frac{1}{2}$ million on the two battleships, plus the $1\frac{1}{2}$ million they are willing to allow us as profit on the plant, will amount to \$4,000,000, which is 10 percent of the estimated cost of the two vessels.

Here, apparently, if this letter is correct, Mr. Ferguson, the Department was, after the war, making an arrangement to allow more than a 10-percent profit by giving you an increase in your facilities which would amount to a considerable sum over the 10 percent. Is that letter correct that way?

Mr. FERGUSON. No such arrangement was made.

Senator CLARK. You indicate in that letter that the Navy Department was just trying to beat the devil around the stump to try to allow you more than 10 percent, do you not?

Mr. FERGUSON. We did not take a contract for the two battleships, Senator.

Senator CLARK. But that was your impression at the time you wrote this letter, that that was what the Navy Department was trying to do, to figure out a scheme to give you additional plant facilities, to keep it from appearing on the actual face of the contract that they were giving you more than 10-percent profits. That was your impression at the time of writing the letter?

Mr. FERGUSON. It was; but it was not done.

Senator CLARK. The only reason it did not go through was because you were not satisfied with the arrangement?

Mr. FERGUSON. No; this was preliminary to a two-battleship contract. It was actually changed to a one-battleship contract, and the contract for the battleship indicates exactly the arrangement made.

Senator CLARK. Why was it that the Navy Department did not want it to appear on the face of the record what the transaction actually was? In paragraph 2 of this letter, Mr. Ferguson, you state:

The Department's interest in the matter lies in the fact that they are not willing to show on the face of a contract that they are paying more than 10 percent as profit.

Mr. FERGUSON. Yes, sir.

Senator CLARK. The arrangement suggested was in effect paying more than 10-percent profit, was it not?

Mr. FERGUSON. The arrangement suggested; yes.

Senator CLARK. Yes, sir. Do you know why it was that the Navy Department was not willing to have it shown on the face of the contract exactly what the real transaction was?

Mr. FERGUSON. All I can say, Senator, is that the arrangement—I had forgotten the letter—did not go through, and I have here the contract.

Senator CLARK. I understand it did not go through, Mr. Ferguson, but what I am interested in is, on January 27, 1919, in writing to the owner of your company you explained the fact that the Navy Department was not willing to have

it shown on the face of a contract what the real transaction was intended to be. That is correct, is it not?

Mr. FERGUSON. I have no doubt, Senator, that it was discussed, from this letter, with the representatives of the Navy Department, but it was not done.

Senator CLARK. Yes, sir; but it was stated to you, or at least you stated to Mr. Huntington, that the Navy Department's interest in the matter was to cover up what the exact transaction was to be.

Newport News attempted to have its war-time taxes lowered on the ground that its war-time naval contracts were force contracts (Feb. 12, 1935, galley 73, 74, 75 ZO).

Mr. RAUSHENBUSH. I am not making any recrimination about it. That is the inference shown by these letters.

There are some more things about this tax business which we are going into, not to do anything more—and I hope you understand this—than to plan for taxes for any possible future war, because the tax matter worked out in the last war is about the only light we have guiding us for any future taxes.

We find something which interests us quite a little bit: That in 1924, apparently one of your employees, Mr. Gatewood—he was the manager at that time, and still is?

Mr. FERGUSON. He is manager now; at that time naval architect.

Mr. RAUSHENBUSH. This letter dated December 11, 1924, to Mr. Rearick, of your legal staff, is signed by "W. Gatewood, manager."

Mr. FERGUSON. He may have been.

Mr. RAUSHENBUSH. This is a rather long story, and I think we can shorten it somewhat, but he got the idea, did he not, that all these somewhat profitable contracts you had made with the Government for warships were not contracts at all but they were force orders imposed upon you by the President?

Mr. FERGUSON. They were order contracts, and our war contracts for these vessels were under Presidential order, and so stated in the contracts.

Mr. RAUSHENBUSH. And so stated in the contracts, as you contend?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. And Mr. Gatewood goes on in this letter to Mr. Rearick, which I offer for appropriate number, to state:

No opportunity was afforded the taxpayer to decline to make the contracts or to adjust his price to suit the excessive tax. This provision of the act which seemed to be *ex post facto* even though the larger part of the income from the contracts subject to the excessive tax would not accrue until after the date of the act.

What he was trying to do through here, was he not, if you will remember the situation, Mr. Ferguson, was trying to avoid the payment of taxes at the 1918 rates, the high rates by stating and making a case that these many contracts you had with the Government were not contracts but were force orders and consequently did not come under the head of the taxes imposed on war contracts, which were high?

Mr. FERGUSON. I am not familiar with the letter.

Mr. RAUSHENBUSH. You are familiar with the whole company's attitude?

Mr. FERGUSON. I am familiar with their attitude; yes.

Mr. RAUSHENBUSH. You know that the company took this up with its attorneys and then the attorneys and Mr. Montgomery made complaint to the Government, protest to the Government?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. Under this, do you mean?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. They did attempt to have all your war contracts, the taxes on all your war contracts thrown out on the ground that they were not contracts but were force orders?

Mr. FERGUSON. I do not know whether they attempted to have them thrown out.

Mr. RAUSHENBUSH. You have the high taxes thrown out. We have your protest by Bickford and Rearick, your counsel, before the Bureau of Internal Revenue to that effect.

(The letter referred to was marked "Exhibit No. 1559" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Mr. Chairman, the point of going into this is this: The field seems to offer some opportunities. Quite a constitutional question is

made here, not only by the company, but its attorneys, that if you are in a state of war, and a contract is forced on you, it is not a contract, and so if Congress comes along and says an 80-percent tax shall be imposed on all war contracts, between certain dates, that that does not go for the business of some of the companies because of their contracts being on force orders and therefore the taxes would not apply.

And in planning taxation matters that field should be plowed one way or the other. If I may, with the consent of the committee, I will go ahead on that for just a moment.

We have here a letter from Mr. Bickford. He was of your counsel, was he not?

Mr. FERGUSON. General counsel at that time.

Mr. RAUSHENBUSH. To Mr. Rearick. He was special counsel for you?

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. Stating in the second paragraph:

I concur with Mr. Gatewood that it is unjust and unconstitutional, but I think it would be dangerous to urge the grounds which he assigns as they fly too far and expand the case unnecessarily.

Mr. RAUSHENBUSH. I offer that as "Exhibit No. 1560."

(The letter referred to was marked "Exhibit No. 1560" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. Following that we have a claim before the Commissioner of Internal Revenue, and if you care to follow this from the book, or we have copies of it here, you may. We have taken extracts out, if you care to look at that, and it makes the whole case there. In the first paragraph it says:

Taxpayer was required to proceed with the orders without any of the power, privileges, or profits of a contractor, therefore the provisions of the Revenue Act of 1918 imposing an additional tax in the years 1919, 1920, and 1921 on profits derived from "Government contracts" made between April 6, 1917, and November 11, 1918, was not intended to and did not apply to work performed pursuant to the mandatory orders of the President of the United States.

The claim is then made, and the evidence is shown to the extent it can be compiled, that these were not in any sense contracts or contractual money was not involved, so that the 80 percent rate in the 1917-18 war contracts should just be wiped out.

Senator VANDENBERG. I assume the Government denied that claim and subsequently was successful. Is that right?

Mr. RAUSHENBUSH. This is a claim made up by Mr. Montgomery, Senator, in this matter: Protest against income and profits tax deficiencies proposed for the years 1917 to 1921, inclusive; and the Government, in reply to your question, did throw out the contention, but Mr. Montgomery made this statement in a part of the brief:

It was clearly not the intention of Congress to tax at what are really penalty rates, income derived from the execution of the President's orders.

After making the point about these contracts not being contracts [continuing reading]:

Section 301 (c) of the Revenue Act of 1918 was inserted by the conference committee, and in explaining it to the House, the Chairman of the Ways and Means Committee said:

"Though the 80-percent war profits tax is eliminated for the next fiscal year—since there are no war profits for 1919-20—the conferees put in a provision extending the 80-percent war profits tax for the calendar year 1919 to catch the profits that are derived in 1919 from war contracts made in 1918 and 1917, so that the profiteers will not get off with 80 percent eliminated after January 1, 1919."

Mr. Montgomery goes on:

The owners of shipyards who were prevented from undertaking lucrative commercial work and were commended to devote all their facilities to the production of vessels for the Government at prices stipulated by the Government, can hardly be considered the profiteers the conference committee intended to reach.

That is the point, and the returns on the revenue agent's findings, now not on invested capital, according to any agreement, but on the revenue agent's findings show that for 1918 the company was getting a return of profit to invested capital, as the revenue agent found it, of 76.1 percent and in 1919 of 71.5 percent.

(Document marked "Exhibit 1561" and is included in index.)

Senator VANDENBERG. How was the price fixed in one of these forced contracts?

Mr. RAUSHENBUSH. We have here one of those contracts included in the company's protest. It is a regular form contract. Mr. Ferguson can probably give you the actual fixing of the price. It says "cost plus 10 percent", and the definitions of "cost" are given, including all taxes there. We had this discussed when New York Ship was here.

Senator VANDENBERG. Mr. Ferguson, when we are discussing this so-called "force contract", are we discussing the cost-plus-10-percent contracts?

Mr. FERGUSON. Some of them were cost plus 10 percent. They were all changed to cost plus a fixed fee. Some of them were cost plus a fixed fee in the first place. The only cost-plus-10-percent contracts which we ever completed was the first of a group of destroyers—

Senator CLARK. Was that during the war, Mr. Ferguson?

Mr. FERGUSON. Yes. The battle cruiser contracts were signed in 1916, and they were cost plus 10 percent, but later on changed to cost plus a fixed fee of \$2,000,000. The battleship *Iowa* was cost plus a fixed fee from the beginning. A group of tankers we built for the Navy Department were cost plus a fixed fee, plus one-half of the savings under a certain price.

Senator VANDENBERG. This is after the war, is it not?

Mr. FERGUSON. No; this was during the war. It was during the war period. I do not remember just when the battleship *Iowa* contract was settled.

The first contracts provided that taxes of all kinds would be included as an item of the cost, before the war taxes were set. The later contracts, I am quite sure, showed that they included taxes except Federal profit taxes.

Senator VANDENBERG. The first contracts included income taxes and everything else?

Mr. FERGUSON. They included taxes of all kinds.

Senator VANDENBERG. What was there about a cost-plus-10-percent contract which so invaded the ordinary contractual prerogative that it ought not to be considered in ordinary tax practice?

Mr. FERGUSON. I take it—it is a legal question with which I am not acquainted—but I take it that being a Presidential order contract—

Senator VANDENBERG. I am not asking about the legal phase. I would not undertake to enter that field, either. I am talking about the practical phase. Do you not invite the inference that if you consider a cost-plus-10-percent contract an invasion of your ordinary contractual privileges, do you not invite the presumption that a 10-percent profit above all cost items is a great hardship, and a great invasion of your usual opportunity of doing a great deal better than that?

Mr. FERGUSON. No.

Senator VANDENBERG. It seems to me that you do. Go ahead, Mr. Raushenbush.

Mr. RAUSHENBUSH. The point that you were to accomplish by these protests which were laid before them by Mr. Montgomery and your learned attorneys and others was simply to reduce the taxes on all the Government work during the war, on the ground that it was a force contract? That is not to say that 10 percent was too much or too little, but that the taxes were too much. Was not that the point of it?

Mr. FERGUSON. I presume so.

Mr. RAUSHENBUSH. Then we turn to all the changes which were made, Mr. Ferguson, in your contracts. We find here a letter from you to Mr. Huntington, dated July 14, 1919, in which, in the second paragraph, you say:

We also discussed changing the battleships and battle cruisers to cost plus a fixed fee, and, although we reached no conclusions, I think it likely that we will do so. We would like to change the battle-cruiser contracts absolutely so as to get the date of the contracts out of the war period, and avoid the high tax on profits. The Secretary did not raise any particular objection to \$2,000,000 fixed fee on each of the 2 battle cruisers, and \$1,350,000 on each of the 2 battleships.

And it is very clearly stated, is it not, Mr. Ferguson [reading]:

We would like to change the battle-cruiser contracts absolutely so as to get the date of the contract out of the war period, and avoid the high tax on profits.

That was the point of changing all these contracts from a cost plus to a cost plus a fixed fee, was it not, and getting the date on them changed to get them out of the period when an 80-percent tax was put on contracts?

Mr. FERGUSON. Contracts were entered into for battle cruisers before the war. Then, after the war period, we changed to cost plus a fixed fee, and naturally, if we could and if they were not war work, were not done during the period of the war.

Mr. RAUSHENBUSH. You say—

so as to get the date of the contract out of the war period, and avoid the high tax on profits.

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. You are talking about Government contract work during the war. Then on December 17, 1919, in a letter to Mr. Huntington, you state:

Last Friday in Washington I went to see Secretary Glass, of the Treasury Department, at the suggestion of Secretary Daniels, in regard to the Federal tax on our two battle cruisers, the contracts for which were signed on May 25, 1917, or during the war period.

This was during the war period and not before or after. These were signed during the war period.

Mr. FERGUSON. I thought they were signed in 1916.

Mr. RAUSHENBUSH. You say to Mr. Huntington—

in regard to the Federal tax on our two battle cruisers, the contracts for which were signed on May 25, 1917, or during the war period. There is a special war excess-profit tax on Government contracts made during the war period, and before agreeing to any change in our contracts for the battle cruisers, we wanted to develop whether these cruisers were to be held by the Treasury Department to have been contracted for during the war period as the award and the agreements relative to the construction of these cruisers were actually settled before the war.

The Treasury Department officials appeared to be very willing to give us an opinion as soon as we could put up our case, which we will do with our income-tax returns for this year, if not before.

Then we go on to April 12, 1920, in a letter from you again to Mr. Huntington, on the second page, fourth paragraph:

We are engaged in shifting our two transports from a cost-plus-fixed-fee basis to a fixed-price basis, which will give us a greater profit than we would otherwise make, and I am quite sure will relieve us of a great deal of annoyance in having the Fleet Corporation auditors around the place.

Here are these transports for the Emergency Fleet Corporation?

Mr. FERGUSON. These were two transports we got for the Emergency Fleet Corporation on a cost-plus basis, and those were changed, at my suggestion, to a fixed-price basis, agreed upon between them and ourselves, and we made more than we would have made on the original contract, and the transports cost the Government about \$1,000,000 less apiece than other transports that were furnished on the cost-plus basis.

Mr. RAUSHENBUSH. Others not in your company?

Mr. FERGUSON. No; but in other companies.

Mr. RAUSHENBUSH. We hardly know the circumstances of the other companies.

Mr. FERGUSON. I am saying that we made more money and the Government saved \$1,000,000 apiece.

Mr. RAUSHENBUSH. At the time of the shifting you state that the shifting from a cost-plus-fixed-fee basis to a fixed-price basis—

will give us a greater profit than we would otherwise make, and I am quite sure will relieve us of a great deal of annoyance in having the Fleet Corporation auditors around the place. These transports, or passenger ships as they will now be, are getting along very well and we will launch the first one in the summer. We have not yet shifted our 2-battleship and 2-battle-

cruiser contracts from cost-plus-10-percent to cost-plus-fixed-fee basis as the Navy Department wants to do, for the reason that we have not been able so far to find out just how to do it and be safe.

What do you mean by "how to do it and be safe"?

Mr. FERGUSON. I do not remember what I meant.

Mr. RAUSHENBUSH (continuing reading):

I think that the best method would be to simply agree to a fixed fee as a change under the contract instead of 10 percent and have all the rest of the contract remain as it is.

You are still on the question of changing the base on those, are you not?

Mr. FERGUSON. No, sir; that means as you make changes under the contract, as was done, that a new contract was not made.

Mr. RAUSHENBUSH. Are you sure of that?

Mr. FERGUSON. A supplemental contract, but a new contract was not made, taking the cruisers out of the war period.

Mr. RAUSHENBUSH. Are you sure of that?

Mr. FERGUSON. Yes; I am quite sure.

Mr. RAUSHENBUSH. Mr. Branch?

Mr. BRANCH. That is correct.

Mr. RAUSHENBUSH. Then all these attempts came to nothing?

Mr. FERGUSON. It looks so.

Mr. RAUSHENBUSH. You kept after it year in and year out, apparently, explaining to Mr. Huntington in a letter of June 1, 1920:

Last week we changed our contract with the Shipping Board for the last two troop transports from a cost-plus-fixed-fee basis to a fixed-price basis. Our fee was to be \$350,000 for each ship plus one-half of the saving under a certain estimated price. We are now to get a little over \$6,100,000 per vessel, and we think we should make about \$750,000 profit on each vessel. We have canceled the former contract and written a new contract which we believe will take it out of the war period completely, and so we will not have to pay the extra tax on war profits on it since February 23, 1920, on these contracts. Mr. Palen negotiated this trade which I think was very advantageous from every point of view.

Then it goes on:

In regard to the two battle cruisers, we have tentatively agreed with the Navy Department, as previously discussed with you, to change these contracts from cost-plus-10-percent to cost-plus-a-fixed-fee basis, the fixed fee being agreed upon as \$2,000,000 per cruiser. For almost a year the Department has wanted us to write a new contract and particularly to change our old contract with regard to taxes. We have refused to do this and now will hold to our old contract, but simply agree in a letter to accept a fixed fee of \$2,000,000 for each vessel instead of 10 percent.

Why did the Navy Department want you to write a new contract there? Do you remember that?

Mr. FERGUSON. I do not remember. Presumably to cut out taxes as an item of cost.

Senator VANDENBERG. This is after the war, is it not?

Mr. FERGUSON. Yes, sir.

Newport News met opposition from the Treasury in its attempt to shift profits to the post-war years in which tax rates were lower than in the war years (Feb. 12, 1935, galley 72 ZO, 73 ZO).

Mr. RAUSHENBUSH. You were aware of the fact that the Treasury Department was opposed to your attempting to shift the profits out of the high war tax years into the lower post-war tax years, were you not?

Mr. BRANCH. That is true; we were conscious of it as it went along.

Mr. RAUSHENBUSH. You were not only conscious of it but you had acceptance of it because of this confidential report to the Treasury Department concerning this price?

Mr. BRANCH. I might say that I knew of the report, Mr. Raushenbush.

Mr. RAUSHENBUSH. I want to offer for the record "Confidential report of the internal revenue agent examining the Newport News books, dated March 30, 1927", which I will show you [handing paper to witness].

(The document referred to was marked "Exhibit No. 1557" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. I show you on the second page, the third paragraph, a comment on what seems to be this practice of shifting profits around to what the revenue agent thinks avoids the higher war taxes.

This, Mr. Chairman, is in point upon this question: If very high war taxes are put on, and this sort of practice is possible, then everybody who is taxed under a high rate will probably wait and do their best to postpone the settlement and postpone the taking of their profits until after the war is over, when everybody will think taxes will drop, as they did during the last war.

The paragraph reads:

About the time of closing the books each year many memoranda are not actually issued until January of the following year, and the auditor is told by Mr. Ferguson (dictated often by Mr. Gatewood) how to close certain long-term contracts. Particular reference is made to memorandum dated January 11, 1922, pertaining to 1921 closing, regarding contracts for hulls 261 and 262, which states "no change from present instructions." This memorandum bears initials of Mr. Gatewood. These are the contracts where \$2,283,474.88 profits were not reported until 1922, although contracts were fully paid and work had ceased for several months prior in 1921. Mr. Gatewood and Mr. Ferguson should each be required to state under each why this large amount of income was not reported in 1920 and 1921, when only 10 percent of expenses was taken as profits each month in those years. Certainly at the end of 1920 they knew what percentage of the contract was completed and should have adjusted the profits in 1920 to show the proper income for 1920 as required by article 36 of regulations 62. Again, they should have restated their profits at the end of 1921 when the contract was actually closed. The same condition appears in many other contracts, which are detailed in my report in exhibit H.

I do not wish to accuse these gentlemen of any wrong intent, or even intimate such, but I cannot help but feel that such action was intentional, whatever the motive. But I have refrained from making any suggestions of wrongdoing in my report, but I hold that the income properly belongs in 1920 and 1921 and a penalty for negligence should be added for not restating same.

Another paragraph on the third sheet states:

Mr. McMurrin—

Was he the auditor at that time?

Mr. BRANCH. Yes, sir.

Mr. RAUSHENBUSH. Was he your predecessor, Mr. Branch?

Mr. BRANCH. Yes.

Mr. RAUSHENBUSH (reading):

Mr. McMurrin, the auditor, declined to come to the conference on March 12, 1927, stating that, as Mr. Gatewood had taken charge of the tax matters, he (Gatewood) should assume full responsibility. Mr. McMurrin stated that, if he (McMurrin) had been allowed to close the books, the profits would have been reported in accordance with the income-tax law, no matter what tax developed. I could not help noticing an apparent friction between Gatewood and the auditing department.

The letter then ends up:

The corporation is owned and controlled by wealthy people, fully able to pay the Federal taxes when properly determined, plus interest and penalties.

After consideration of this letter, it may be thought that more drastic action should be taken and fraud penalties.

That was the very thing you were talking about, was it not, Mr. Branch, and which the Treasury Department thought should be one way and you thought should be another?

Mr. BRANCH. Yes, sir.

Mr. RAUSHENBUSH. Do you want to comment on that, Mr. Ferguson?

Mr. FERGUSON. May I state in connection with 261 and 262, which were mentioned, that they were two oil ships, the largest ever built, for the Standard Oil Co. of New Jersey. These vessels were of new design and were much

larger than any ships that had ever been built up to that time. The guarantee on those ships ran for 1 year after delivery.

The company was liable for the ships for a year. The income-tax people said that the profit should be taken at the time when the money was paid. We held that on account of the risk involved through a year's guarantee on a ship of a tremendous size, and different from any other oil ship, that we or anyone else had built up to that time, that we should be protected until our guarantee period should elapse.

In the case of other ships he refers to, they were two oil ships building for the A. G. W. I. interests. In that case the company became involved in financial difficulties. We kept the ships for 6 months. We accepted the bonds, which could not be sold, in payment for these ships. We did not wish to enter the profits on the ships until the bonds had been paid, or could be sold by us. The Treasury Department ruled that we had to take the profit when we accepted the bonds and could not wait until the bonds had been demonstrated to be good.

Mr. RAUSHENBUSH. There are some letters on that, Mr. Ferguson, which seem to include something more than the A. G. W. I. ships.

Senator BARBOUR. May I ask, if I may interrupt, were the bonds good?

Mr. FERGUSON. They were eventually paid off; yes, sir; and we took the profit when the notes represented by the bonds were paid.

Senator VANDENBERG. Did the postponement of the profits into subsequent years result in a tax advantage to the company in net result? Would it have resulted in a tax advantage?

Mr. FERGUSON. It would have but it did not.

Senator CLARK. How great a tax advantage, Mr. Ferguson? Can you tell us roughly what the difference would have been between the two constructions of the tax?

Mr. FERGUSON. I beg your pardon?

Senator CLARK. Can you tell us roughly what the difference in the tax would have been under the two constructions?

Mr. FERGUSON. I do not know.

Senator CLARK. Do you have anything which shows that, Mr. Raushenbush?

Mr. RAUSHENBUSH. I cannot work it out exactly, but there are several letters here showing definite attempts.

The CHAIRMAN. It would be quite interesting and the record should carry a completed study on that, showing just what the difference would be, if you will make note and have that prepared.

Mr. RAUSHENBUSH. All right, sir.

We have here a letter from Mr. Ferguson to Mr. H. E. Huntington, dated January 10, 1922. Mr. Huntington was the sole owner of the company, was he, Mr. Ferguson?

Mr. FERGUSON. He and his wife.

Mr. RAUSHENBUSH. He and his wife were the sole owners of the company?

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. It says in the second last paragraph:

In connection with the tax situation, we have decided not to take any of the profit we earned last year on the big naval ship work as we do not know at this time just what we will be called on to do, what disposition will be made of the hulls, or whether we will have to bid on them to finish them. * * * I am in hopes of working down our profits for last year to such a point where our taxes will not be so heavy, and legally we do not have to show profit for tax purposes until a job is completely finished and all of our responsibility in connection with it ceases.

I will call your attention to this:

I am in hopes of working down our profit for last year to such a point where our taxes will not be so heavy * * *.

Last year, being 1921, when the taxes were higher than 1922.

I offer that for the record.

(The letter referred to was marked "Exhibit No. 1558" and is included in the appendix on p. —.)

Senator VANDENBERG. What is that letter?

Mr. RAUSHENBUSH. A letter from Mr. Ferguson to Mr. Huntington, and I was calling attention to a paragraph on the last page.

In addition to that, I call your attention to a letter of February 2, 1922, again to Mr. Huntington, signed by Mr. Ferguson. The third paragraph says:

In going over our tax situation in detail, we find that our taxes for last year will be very much less than I have heretofore indicated to you, as the two Standard Oil ships have guarantees which do not expire until the latter part of this year. It is also probable that we will not take profits for last year on any of the Government work which is canceled, as there is no way of telling what that profit will be.

That is a little more inclusive than the Standard Oil ships, is it not; postponing the profit taking on all Government work?

Mr. FERGUSON. The Government work had been suspended, or partially suspended, and there was no means of telling then what the profit would be.

Mr. RAUSHENBUSH. Do you know to what extent you had accepted it for 1921?

Mr. FERGUSON. The final settlement on the Government contract was made in 1925.

Mr. RAUSHENBUSH. On the canceled ships, as a result of the disarmament conference, you mean?

Mr. FERGUSON. Yes.

Mr. RAUSHENBUSH. The final settlement was made but the arrangement, I thought you were going to say, was made in 1923. You knew you were going to get \$100,000 a month on that, did you not, from 1923 on?

Mr. FERGUSON. I do not remember that.

Mr. RAUSHENBUSH. We will come to that matter.

I call your attention further to a letter on the question of postponing profits of March 6, 1922, again addressed to Mr. Huntington [reading]:

Our tax return as made up for this year gives us a total Federal tax on income of only \$153,628.62. The reason for this is that we did not put in the AGWI ships as they are still here awaiting final settlement. We wrote off an additional \$600,000 on the plant and did not put any profit on most of our Government work, as that is in the process of being canceled, and we do not know where we will land.

Mr. FERGUSON. What date was that?

Mr. RAUSHENBUSH. This letter is dated March 6, 1922.

Mr. FERGUSON. The Disarmament Conference met in 1921. It was finally approved and ratified about 1923. In the interim, when there was just a very small amount of work going on, we had no means of knowing what kind of a settlement the Government was going to make.

Mr. RAUSHENBUSH. We will just check the statement about the settlement to be made on the ships, Mr. Ferguson.

I want to call attention to the last part of this paragraph—

We did not put in the main profits of the Standard Oil ships as we have a 12 months' guarantee on these ships which does not expire until the latter part of this year. Of course this will make our taxes for the year 1922 very much larger than they would have been—

1922 was a lower tax year, 15 percent, was it not?

Mr. FERGUSON. Yes, sir.

Mr. RAUSHENBUSH. And 1921 was about 40 percent.

The letter goes on [reading]:

but under the circumstances I felt justified in keeping our taxes for 1921 as low as we legally could.

There was a letter indicating that what you were trying to do was to take the profits in the higher tax years and put them in the lower tax years?

Mr. FERGUSON. Yes.

Wines, liquors, cigars, etc., were charged into the war-time contracts as proper expense (Feb. 6, galley 29 ZO):

Senator CLARK. Did that contract during the war include provision for assessing the services of your Chinese and Japanese representatives and for wines, liquors, and cigars which you actually put into the cost?

Mr. PARKER. It included all costs having to do with operating the business, and wines and liquors in shipbuilding are just as necessary as steel in many cases.

Senator CLARK. Do I understand that the contract provided for under the Vinson bill should include wines, liquors, and cigars?

Mr. PARKER. Absolutely so.

Senator CLARK. That is very illuminating.

Senator VANDENBERG. In the case of those cost-plus contracts during the war, do I understand that the items which you included in cost, and which were subsequently eliminated, such as income taxes, and so forth, do I understand that you were authorized to include those at the time in the first instance?

Mr. PARKER. The contract, the first cost-plus contract, provided as one of the items of cost all taxes. That seemed to be authority to include income taxes.

The subject was raised a little later (Feb. 6, galley 30 ZO):

Senator CLARK. Mr. Parker, I would like to have a little further explanation of your very surprising statement a little while ago that wines, liquors, and cigars were fully as important elements in the shipbuilding business as steel. Will you just explain why it happens that wines, liquors, and cigars are just as important in the manufacture of a ship as steel?

Mr. PARKER. Senator, if I would paint a picture of what the use of wines and liquors in the shipbuilding business is—

Senator CLARK. Since the Government has to pay for them, and then pay you an additional percentage of profits on top of them, I think that picture would be very interesting.

Mr. PARKER. All right. Wines and liquors have more to do with the building of the ship than just the champagne bottle that we push it overboard with or the few drinks that may be passed around on a trial trip, which Congressmen and Senators enjoy sometimes. [Laughter.]

In days of old when a trial was conducted, and I am sure we all remember the stories we read of the issuance of grog aboard ship, particularly in a time of stress, of storm, of extraordinary effort, that when a ship is required to go on trial, and you have the picture of 20 men throwing big, hand-picked coal in the furnaces, there are 5-gallon demijohns of liquor alongside them, and they have their drinks of beer and whisky just the same, and it is a matter of rule and routine and just as much a part of the business of operating a ship under these conditions as it is in a restaurant where the service is allowed.

Senator CLARK. Is there any more necessity for dealing out liquor and beer to these men on a trial trip than there is when the ship is in commission in the Navy? Of course, they are sweating from shoveling coal when the ship is on a regular cruise in the Navy, are they not? Is there any particular reason why they should get drunk on a trial trip any more than on a regular cruise? As a matter of fact, Mr. Parker, what this item of wines, liquors, and cigars amounts to is this, is it not: You go on a trial trip and the shipbuilding company is permitted to invite a large number of influential or distinguished people, some of whom may be Congressmen, Senators, or other Government officials, and a general jamboree is held by all, with fine, rich food and fine wines and liquors, and the Government not only pays the bill for that, for the purpose of making friends for the shipbuilding company, but also, under this program arrangement, has to pay you an additional amount for the privilege of allowing you to give a party? Is not that correct?

Mr. PARKER. Senator, when you go back to 1917 and 1918, that was the practice up to that time. That is 18 years ago. The practices which were in existence before the war were continued during that period, of course. But we did not run jamboree parties in naval vessels and never do. The only people on a naval vessel are the trial board and the representatives of the contractor and representatives of auxiliary manufacturers. There is no general jamboree on that.

Senator CLARK. I notice on naval vessels constructed after the war a very large item set down—I forget exactly when it was, but I referred to it when you were last here—a very large item for wines, liquors, and cigars in the construction of those vessels, set down as a part of the cost, on which the Government was required to pay an additional commission to you.

Mr. PARKER. They were Shipping Board vessels, Senator.

Senator CLARK. Whether they were naval vessels or Shipping Board vessels, the jamborees took place, did they not?

Mr. PARKER. They did.

Senator CLARK. You considered that part of the national-defense scheme, did you not, Mr. Parker, to have jamborees?

Mr. PARKER. Well, it certainly had a part of it. It was the first time that many of these Senators from the West and Congressmen from the West had ever seen a real ship in operation.

Senator CLARK. After having taken this pleasure trip, you felt they were better educated as to national defense, and more susceptible to suggestions of the New York Shipbuilding Co. and other members of the "big three"? Do I understand that to be your statement? As a matter of fact, that was the purpose of the trial trip, was it not, Mr. Parker?

Mr. PARKER. I would say that would be true from their attitude. They surely knew more about ships after that.

Senator CLARK. And also the shipbuilders, too, did they not; and had a wider education in the matter of wines and liquors?

Mr. PARKER. Yes, sir.

New York Ship did not give the Treasury the greatest degree of cooperation in its attempt to determine taxes. A report by Treasury officials illustrates one difficulty (Jan. 22, galley 42 GP) :

There is further description along the same line, and then it continues [reading] :

To verify the correctness of the taxpayer's returns, or books, it is most essential to procure the schedules referred to and to examine the computations of earned profit on each contract that was made by the taxpayer and appear thereon. Such schedules have been requested of the taxpayer, first over 3 weeks ago, and photostats thereof were promised by Mr. Norman F. Parker, assistant treasurer, almost daily after the first request.

Is that yourself, Mr. Parker?

Mr. PARKER. Yes, sir.

Mr. RAUSHENBUSH (continuing reading) :

Last Saturday, on request again for the schedules, Mr. Parker informed us that he had been "stalling" and that we knew it, but that the corporation's counsel had advised him to delay giving the schedules to us. He called his counsel by telephone, a Mr. Orr, connected with White & Case, attorneys, while we were present, and explained the situation, and stated to Mr. Orr that he believed we were entitled to the schedules and should get them. Mr. Orr's advice, we were informed, was not to deliver them.

To date, the situation remains the same, the schedules have been refused on the advice of counsel, so we are informed by Mr. Parker and Mr. J. T. Wickersham, the treasurer.

The points raised by the Solicitor have developed other points that make it imperative, in the opinion of your examiners, after their investigation thus far, that a reexamination be made of the taxpayer's books for the period extending from 1918 to 1921, inclusive.

Their investigation thus far, with the information we have been able to gather, results in an increase in income over income as determined by the revenue agent from Trenton, who made the last examination for the period 1918 to 1921, inclusive, of approximately \$8,000,000.

It is the positive opinion of your examiners, with the information gained thus far, that there should be recommended to the Commissioner that a reexamination be made of all of the taxpayer's books and records for the years 1918 to 1921, inclusive; and that the taxpayer should be duly notified under the provisions of section 1105 of the Revenue Act of 1926 that such investigation has been ordered.

That was just preliminary, Mr. Parker, was it not, to the examination which was made in great detail in 1926 that resulted in this increase in taxes?

Mr. PARKER. It was just at the beginning of that examination, as I recall it.

Mr. RAUSHENBUSH. Do you have any comment to make on the statement here that you had been "stalling" under the advice of your attorneys?

Mr. PARKER. None, except that that was true.

Miscellaneous items, such as securing business from Japan, were charged into the cost of Government contracts on war vessels (Feb. 6, 1935, galley 28 ZO) :

Mr. RAUSHENBUSH. Coming back, then, to this matter of the employment of Mr. Joyner, do you remember back that far, or have you ever had it called

to your attention, the matter of a somewhat mysterious check for \$5,000 which he apparently received back there?

Mr. PARKER. What date Mr. Raushenbush?

Mr. RAUSHENBUSH. That was back on December 31, 1920. There is an order here to make it out for expense, and Mr. Joyner writes Mr. Wickersham [reading]:

Inserted special on expense ship. If this is improper for your purposes, let me know. Mr. Neeland will tell you what the expense is for.

Mr. PARKER. What date is that, sir?

Mr. RAUSHENBUSH. Back in 1920. What was he doing for you at that time, if you remember, Mr. Parker?

Mr. PARKER. I do not recall. I checked Mr. Joyner back for the period—may I see that letter just a second?

Mr. RAUSHENBUSH. Yes, sir; 1920 to 1923. [Handing paper to witness.]

Mr. PARKER. That is right. I recall it.

Mr. RAUSHENBUSH. But you do not recall?

Mr. PARKER. I recall the amount and the purpose of it.

Mr. RAUSHENBUSH. What was the purpose of that?

Mr. PARKER. Mr. Joyner, as stated in my letter, was engaged to be the New York Shipbuilding Corporation representative for certain work, on a basis of salary and commission. Through his efforts we obtained a Japanese contract for the construction of a naval oil tanker, *Kamoi*.

Senator CLARK. About when was that, Mr. Parker?

Mr. PARKER. About 1921 or 1922. The basis of his commission was not less than 5 percent of the net profits earned by the company on that particular contract. On the basis of the anticipated profits on the contract, he was paid \$5,000 commission in advance. That is the check to which you refer. He actually received, in final settlement, thirteen-thousand-some-odd dollars, which I have noted there.

Mr. RAUSHENBUSH. If that was a commission, what was the point of putting it in as an expense item? So that he could avoid the income tax on that? Is that the point of that?

Mr. PARKER. That is something I know nothing about.

Mr. RAUSHENBUSH. He definitely puts it in as an expense item [reading]:

Inserted special expense ship. If this is improper let me know. Mr. Neeland will tell you what the expense is for.

Mr. PARKER. That was a matter of arrangement between Mr. Neeland and Mr. Wickersham, the then treasurer.

Mr. RAUSHENBUSH. It has nothing to do—

Senator CLARK. Did that expense item go into overhead, Mr. Parker?

Mr. PARKER. Yes, sir.

Senator CLARK. That was the Japanese representative about whom we were talking when you left here?

Mr. PARKER. Yes, sir.

Senator CLARK. In other words, the services in Japan in getting this tanker contract were partly charged up to the Government for overhead on the naval construction work which you were doing at that time?

Mr. PARKER. Yes, sir.

A considerable portion of the keels of ships authorized during the World War were not laid down until later. It was from this post-war construction, under war-time impetus, that the shipbuilders made considerable profits relatively free from high war-time taxes (Feb. 6, 1935, galley 29 ZO).

Mr. RAUSHENBUSH. The question is not intended to cover in any way the cause of the delay, but the question is, rather, how it happened that after the war was all over on November 11, 1918, these ships whose keels were not laid at the time were then laid and continued and completed? Can you throw any light on that? You have explained quite satisfactorily that you had to build a yard, and that was the cause for that delay, but my question was the other one: Why, after the war was over, the contracts were not canceled, but instead you were given 10 destroyers to complete, and there were altogether 91 whose keels were laid subsequent to November 11, 1918. Can you throw any light on that at all?

Mr. PARKER. Not at all, except that we had a contract to build ships. The contract was not canceled, and we built them.

Mr. RAUSHENBUSH. I call the attention of the committee to the hearings in Navy Department appropriation bill, 1933, United States House hearings, Seventy-second Congress, on pages 66 and 67, in which these 91 destroyers, of which New York Ship had 10 whose keels were not laid until after the war, being ordered during the war, are listed, and offer for the record the statement just identified by Mr. Parker in reply to question 20.

(The document referred to was marked "Exhibit No. 1530" and is included in the appendix on p. —.)

Mr. RAUSHENBUSH. There is an illuminating comment on that, Mr. Chairman, by Admiral Pratt, who gives at least one reason why these destroyers, 91 destroyers, were built after the whole war was over [reading]:

Admiral PRATT. That seems like a very fair question. I cannot give you a real, practical, definite reason why, but I should say this: That if you start a big machine moving, such as this production is, it takes a certain amount of time before it gets slowed up and working normally; and I should think that that had about as much to do with it as anything. We just got swept into it, and before we could get our breath and stabilize and get together, there we were with our output.

The result of that is that there were 91 destroyers whose keels were not laid at all at the time of the armistice, but were begun afterwards.

Senator CLARK. The result was we had 91 destroyers which we did not need?

New York Ship bought improvements made during the war by the Government at a cost of \$14,000,000 for \$500,000 (Jan. 21, 1935, galley 26 GP).

Mr. RAUSHENBUSH. That still does not quite answer my question. You did get from the Emergency Fleet Corporation about \$14,000,000 worth of property for about \$500,000, did you not, and that was the exchange price there?

Mr. PARKER. I won't say \$14,000,000 worth of property. We got property which may have cost the Shipping Board \$14,000,000, but its worth was less than we paid for it.

Disallowances of Bethlehem Ship claims on war-time cost-plus contracts were discussed on February 26 (galley 18 QD seq. (ex. 1642)).

Mr. RAUSHENBUSH. Mr. Shick, on these ships which you built for the Emergency Fleet Corporation in your various plants, we find some disallowances here which we have secured from the Shipping Board on these four plans, and I bring up the matter not with any feeling that your company was unusual in this respect, because I do not think it was, but as to the way that, in the hurly-burly and excitement of war, with a great deal of pressure, things got done.

We find here a summary sheet, and several files have been examined after the audits by the Fleet Corporation auditors, and they make a request for a reaudit on various grounds.

I want to offer this for the record.

(The document referred to was marked "Exhibit No. 1642" and is included in the appendix at p. —.)

Mr. RAUSHENBUSH. File no. 35:

Alterations and Forgeries to Form a Basis for a Fictitious Base Rate.

No. 37:

Marine Auxiliaries Overcharge. Overcharges whereby Bethlehem attempted unjustly to defraud the Government.

No. 39:

Capital investment charged to Government. Attempt by Bethlehem to have the Government bear almost \$2,000,000 in the cost of capital investments charged to ship cost under the guise of overhead. The reaudit eliminated \$1,351,456.39 of this improper charge.

No. 41:

Interplant billings. Attempt of Bethlehem to gain a double profit on interplant work.

And there are some more of the same kind. Then we have the detailed sheets. Mr. SHICK. Would you mind giving the total amount of these disallowances.

Mr. RAUSHENBUSH. Not at all.

Mr. SHICK. I mean the amount.

Mr. RAUSHENBUSH. I was going to read them from the plant sheets; \$2,218,404 is the total according to our figures.

Then they give the items yard by yard, and one of the interesting things here, Mr. Chairman, is that the Fleet Corporation totals their savings because of the reaudit, and then gives a final saving, which is a good deal less, and the only point there is that the cost of the audit, of policing the whole job, is often very considerable. Here on this Fore River sheet there is a total saving to the Emergency Fleet Corporation of \$253,000 plus, but the only saving really to the Emergency Fleet Corporation is \$135,000. The whole cost of auditing even a smaller job like this—a relatively small one—there is over \$100,000 plus, and so it goes all the way through.

It cost the Government an awful lot to make those \$2,218,000 savings.

On the Fore River plant the Emergency Fleet Corporation in exhibit A here claims \$253,370 plus savings. On the Sparrows Point plant, exhibit A, it is \$1,059,680. On the Moore plant it is \$531,385 and on the Harlan plant \$973,958.

Then they note the items that have been disallowed and consequently have been a saving to them, and summarize them.

There was dispute between the companies and the Treasury concerning their wartime income.

In the case of New York Ship the company reported net income 1917-21 of \$8,444,858. The revenue agents found \$24,296,957. The final compromise settlement was \$13,240,955 (Jan. 21, galley 28 GP) (exhibit 1420). This settlement was not made until 10 years after 1918.

On its wartime cost-plus contracts the disallowances made from the claims of the company 1917-21 were \$3,597,844 (Jan. 21, galley 29 GP).

During the war on the cost-plus contracts a 50-percent allowance was made for overhead and was paid by the Government. Revenue auditors calculated the actual overhead as \$2,152,976 less than that paid to the company by the Government (Jan. 21, galley 31 GP).

It was developed that a former Bethlehem official, Mr. J. W. Powell, left the company to head the Emergency Fleet Corporation. He received as a bonus from the company "a share in all the profits accruing from the contract covering the building of 137 destroyers for the United States Navy and all vessels built for the Emergency Fleet Corporation" (galley 8 QD, Feb. 26). He was later a witness for Bethlehem Steel in a suit against it by the Emergency Fleet Corporation and later submitted a bill for 5 percent of the principal which the court found due to Bethlehem (galley 9 QD). At the time of the testimony he had not been paid any fee as a witness (Mr. Bromley, galley 9 QD). Mr. Powell referred to the possibility of there being no decision "for political reasons" on March 9, 1934 (exhibit 1639, galley 9 QD). His financial interest in the continuing contracts at issue in the suit was admitted (galley 9 QD).

Bethlehem Ship was able to profit on \$32,000,000 worth of facilities constructed by the Government at its own expense, according to the testimony of its officials (Feb. 27, 1935, galley 15 QD).

SENATOR VANDENBERG. What was the nature of your arrangement with the Government under which this \$32,000,000 was made available.

MR. SCHICK. In the case at Squantum, which was a shipbuilding plant for the building of destroyers, the arrangement was that we go and engineer and build the facility and the Government would pay the bills, which they did. We turned over our organization and all our "know-how" to build this facility, and in building that facility all we did was order the material, do the engineering, and

build the facility, and check the bills and approve the bills, and we turned the bills over to the Government and they paid for them.

Senator VANDENBERG. What was your compensation?

Mr. SHICK. We did not make anything out of that. Our compensation was supposed to come out of the profit which we would get from building those ships. If we did not build the ships and had not finished them before the war, we would not have got anything.

Senator CLARK. Then you took the facilities, after they had been constructed at Government expense, and operated them just as though they had been your facilities?

Mr. SHICK. No; those were the Government's facilities.

Senator CLARK. Yes; those were the Government's facilities, but you operated them just as though they were your own and took the earnings from those facilities?

Mr. SHICK. That was the understanding under the contract.

Senator CLARK. So that that was compensation for your building the facilities, the fact that you were going to be able to run them for your own profit afterward?

Mr. SHICK. Absolutely.

The question of the attitude toward wartime taxation of Bethlehem Steel Co., the owner of Bethlehem Shipbuilding Co., was opened with Mr. Eugene G. Grace, president, on the stand (Feb. 22, galley 88 FS, seq.).

Senator CLARK. None are very frequently injured by being put on the front line.

Mr. GRACE. I think there is a big difference between using capital or man power.

Senator CLARK. It depends on whether you have the capital or man-power viewpoint; does it not?

Mr. GRACE. I have given you my view.

Senator BONE. Is not a man's labor his sole capital in life frequently?

Mr. GRACE. Yes; and we all have that.

Senator BONE. And when that is taken from him by war, he is ruined and he is completely depleted for the rest of his life. He is not even permitted to say whether or not he will do it. He is drafted.

Mr. GRACE. Which is very unfortunate.

Senator BONE. Is there any reason, Mr. Grace, why we should not draft capital in this country in the event of war?

Mr. GRACE. I think so.

Senator BONE. Have you fully expressed yourself on that point?

Mr. GRACE. I have answered the question.

Senator BONE. Is that all you want to say?

Mr. GRACE. Yes, sir.

Later (90 FS):

The CHAIRMAN. Coming back, Mr. Grace, to the example of this mechanic who during peace times was drawing \$2,500 a year, and who was drafted into the service at \$1.25 a day, and who takes thereby in income a loss of approximately 81 percent, we are confronted with this question:

Would the stockholders, for example, of your corporation, accustomed to a 5-percent return annually on their investment, be content to accept a 1-percent return, as would be the case under the example which I have laid before you?

Mr. GRACE. I should certainly advise our stockholders and our ownership that they should expect but very modest returns or so-called "profits on investment" in the case of supplying the Government in war time; yes. Now, just to what extent I could not say.

The CHAIRMAN. Would you go so far as to say an 80-percent reduction in income to stockholders during the war, the same reduction that labor is up against, would be fair?

Mr. GRACE. I would not want to commit myself on what the basis might be, because I have been given no thought to it. I frankly have not. I would want to be sure of your question of having costs thoroughly covered and dealing only with the item of profit. Personally, I should say it could well afford to be a very small profit.

Senator CLARK. Mr. Grace, is not that the real crux of the question, figuring cost?

Mr. GRACE. Oh, no.

Senator CLARK. For instance, we had testimony here 2 weeks ago from the New York Shipbuilding Co. that during the war they had a contract with the Navy Department, had a cost-plus contract—I do not know whether your company had any cost-plus contracts during the war or not—but the testimony here is that the New York Shipbuilding Co. had a cost-plus contract with the Navy Department, and that they undertook to figure out their cost, including not only such items as wines, liquors, and cigars for the trial trips of the ships, running into quite a large sum of money, and not only the salaries and commissions of their Japanese and Chinese representatives, but in which they had actually tried to figure in the element of cost the dividends on preferred stock and also all taxes, including Federal taxes.

So that when the Government levied a tax, let us say, of \$1,000,000 on the New York Shipbuilding Co., the Government not only did not get the \$1,000,000 but had to pay the bonus of \$100,000 under that contract, according to the contention of the New York Shipbuilding Co., for having assessed the tax.

Does it not come back, on any sort of a cost-plus contract or return basis, does it not come back to the element of cost? Is not that the crux of the problem?

Mr. GRACE. But it should not be difficult to determine what is actual cost. You must not expect me to comment on New York Shipbuilding Co.'s conception of cost.

Senator CLARK. I am not expecting you, Mr. Grace, but I have had some experience, first and last, in trying cases before public-service commissions and courts having to do with the fair return on utility investments, which is a comparable situation to a cost-plus contract, as I see it; and the element of cost, of course, is the crux of the whole problem.

Mr. GRACE. And that should not be difficult to ascertain.

Senator CLARK. It has been very difficult in the legal history of the United States.

Mr. GRACE. In a manufacturing establishment like our own, that is our Bible. That is what we have to work against, is it not? We do not get very far in the effective and efficient management of our business otherwise.

The CHAIRMAN. That is true; but experience, Mr. Grace, has been that as a result of dispute arising out of profits that were gained during the World War, industry and the Internal Revenue Bureau have been arguing over the point of "cost" for as long as 8 or 10 years before there could be a determination and agreement.

Later (galley 92 FS):

Mr. CHAIRMAN. Coming back to the point where we rested for sometime a few minutes ago, we were approaching the task of undertaking to administer to the stockholder of a corporation the same identical measure of sacrifice that was being administered to the employee of a corporation who had been drafted into the service, and whose pay, under the draft, was about 81 percent under what it was in peace times.

Then we considered that a like deal for the stockholder, drawing an accustomed 5-percent return per year, would be a 1-percent return per year. Assume, now, that the Government, in times of war or before war, were to provide for the automatic taxing that would reduce that stockholder's return to 1 percent, what is your opinion as to what the stockholders would do? Would they revert to a challenge of the right of the Government under the fifth amendment to the Constitution?

Mr. GRACE. It seems to me you are boiling it down to a very simple question. The Government comes in and says, "I will take your property on a rental basis. What rent shall I pay you for the use of your property?" Correct?

The CHAIRMAN. No.

Mr. GRACE. Is not that where you get?

The CHAIRMAN. No; the question does not involve the Government possessing itself of the property at all. The question is this: Would the stockholder be content with a return of 1 percent per year upon his investment, as compared with what had been a return of, let us say, 5 percent per year? Would he be content with the 1 percent during the period of war?

Mr. GRACE. Frankly, I could not speak for the stockholder. I do not know.

The CHAIRMAN. You are a stockholder?

Mr. GRACE. I should think he certainly would be willing to take a very nominal return, a very nominal return.

* * * * *

Later (galley 93 FS) :

The CHAIRMAN. Coming back now to the question of what might be done and what would be fair in another war, in the way of profit, do you consider that the profit of your corporation, resulting from the World War, was unreasonable?

Mr. GRACE. No; I would not say that our corporation's profit was unreasonable.

The CHAIRMAN. Would the industry have functioned as efficiently if the profit had been less?

Mr. GRACE. I should think the industry would have done everything possible to operate efficiently and patriotically, which I believe it did.

The CHAIRMAN. Now, we are not wanting this morning to get into any discussion concerning the profits that were actually derived during the war. But it has been estimated by some authorities that the Bethlehem annual average profit during the 4 years preceding the World War was approximately \$6,000,000, and that the annual average profit during 4 years of war went from \$6,000,000 to \$48,000,000 or \$49,000,000.

Mr. GRACE. There is not any question but what there was larger profits during the war period than there were the other periods in our company, naturally. There is no question about that. That is not disputable. That is all ascertainable. And you have the facts all here.

The CHAIRMAN. Do you not agree with us, then, that there is large room for effort to reduce that excessive profit which comes during the time of war, in the event of another war?

Mr. GRACE. I should think so.

The question of the financial treatment of industrial executives compared to others during war time was opened (galley 93, 94 FS, Feb. 22) :

The CHAIRMAN. But in case the Army plan for industrial mobilization were put into effect, as it now stands, the bulk of the men in the country are to find themselves drafted into industry without redress as to hours of pay, and any attempt to organize unions is going to result at once in union leaders being sent to the front or sent to prison.

Under these circumstances, Mr. Grace, there may very well be a great deal of social discontent over people who are drawing the higher rates of pay in industry at that time; those who are enjoying the huge incomes. The War Department could not successfully draft a free people into industry unless it can give them assurance that everyone is being drafted, or is at least not receiving these huge incomes.

With that thought in mind, do you think that in a national emergency the captains of industry can fully be trusted not to take more compensation for themselves than the country would consider right and proper for a general?

Mr. GRACE. Whether the executives in an industry would immediately, as soon as they go into war, step their salaries down comparably?

The CHAIRMAN. Salaries being paid those who were directing the armies.

Mr. GRACE. I should not think so, unless there were a national movement. I again say, I would consider it relative in all branches of rendering service, starting any place you please.

Senator BONE. Is there anything in that suggestion, Mr. Grace, that you think would be shocking to the industrial leaders of the country? How would they, as a class, receive that sort of suggestion? What do you think their reactions would be?

Mr. GRACE. I should imagine their reaction would be that it was a very minor contribution to expect, and they would say right away: "If our compensation is relative in our endeavor of service, in our scheme of life, as it exists today, we will take anything that will apply alike through the whole structure." There is no reason why they should not.

The CHAIRMAN. Is there any more important thing to the country in time of war than the leadership of the generals of our Army?

Mr. GRACE. No; that is an industry, however, that is an industry, is it not?

The CHAIRMAN. That is right.

Mr. GRACE. So regarded today in our fabric of industrial scheme of life. That service is all a part of our today's scheme of life.

The CHAIRMAN. It is an institution.

Mr. GRACE. It is an institution; it is an industry. It is being paid for, apparently, on a basis that is satisfactory to the scale of pay in that industry for service rendered, relative to other industries' services rendered. And I do not think we get any place in upsetting a long-established economic scheme of life for an emergency. I think we only get into trouble rather than to facilitate things.

The CHAIRMAN. In time of war morale at home and in the trenches, or at the front, is an all-important thing. To avoid social discontent at home, dissatisfaction with the tremendous incomes which have been known in other wars to have been taken out, do you think that the captains of industry, the leaders of industry, the executives, would do well to take material reduction in their salaries during time of war?

Mr. GRACE. I should say that they would do well not to enhance their earnings, let us say, at the expense of war, if that is the desired thing.

The CHAIRMAN. What check would you suggest might be placed upon the captains of industry to prevent their taking excessive compensation for their service during the war?

Mr. GRACE. I would not know how to make a constructive suggestion on it.

The CHAIRMAN. Do you think that there would be inclination within the industry to adjust that fairly to bring down the rates of pay in time of war?

Mr. GRACE. No; I should think it would be automatically a movement to bring down compensation, because I get back to my other thought in respect to it. I think compensations for services rendered have developed, and I think they have developed to their present situation, recognized as such, and I do not see any reason for taking one particular class, whether he is a captain of industry or whether he is a general or whether he is a legislator, I see no reason for picking out any particular class and asking them to make a sacrifice as against the field.

The CHAIRMAN. The employee in industry in time of peace might have an income of \$1,500 a year, and then he would find himself able to get by only after some fashion. War comes and some increases in living costs, of course, accompanies it, and it would be, of course, very unfair to place on that man the obligation of doing with less during war than he was asked to do when in peace time, would it not?

Mr. GRACE. I think so, Senator; I think so.

The CHAIRMAN. But even though costs of living were to rise in time of war, the executive with a salary of \$50,000 a year could well afford to have this reduced, could he not, in the interest of social content?

Mr. GRACE. He would probably materially have to change his scale of living the same as the workman would have to, which could all be done at a sacrifice.

The CHAIRMAN. Certainly everyone would have to sacrifice.

Mr. GRACE. Everyone would have to sacrifice, except in your example the wage earner is not sacrificing, and I am for the wage earner and I do not want him to sacrifice—

The CHAIRMAN. Under the Army plan he is going to be drafted.

Mr. GRACE. Going to be drafted, to a certain extent.

The CHAIRMAN. Yes; drafted into industry.

Mr. GRACE. Then when he is drafted into industry, it seems to me that he ought to be paid the rates which exist in those industries for the services rendered. If you do not, you will get into a frightfully chaotic situation, I would expect, when he is capable of performing the work in the industry.

The CHAIRMAN. Supposing that the draft program would be extended further. Here is an executive drawing a salary of \$50,000 a year. The top salary paid in the Army to a general is—

Mr. GRACE. Let us say there is a great difference.

The CHAIRMAN. Let us say \$5,500.

Mr. GRACE. I think you are low, but it does not make any difference.

The CHAIRMAN. But at the outside, let us say at \$10,000 a year. Is there any reason why that executive in business should not have his salary reduced to \$10,000 a year?

Mr. GRACE. Yes; I think you will disjoint your whole economic scheme of life structure which exists. Bear in mind that that exists today just the same. Those differences in compensation for services rendered exist today. A man picks out Army life as the industry in which he is going to work.

The CHAIRMAN. When war comes, there is considerably more at stake. There are the lives of millions of men and there are the lives of the industries themselves.

Mr. GRACE. I think there is a great deal at stake every day to keep us out of war. That is where I would like to see us start.

The CHAIRMAN. I did not hear your statement.

Mr. GRACE. I say, I think there is a great deal at stake every day to keep us out of war.

The CHAIRMAN. Yes; and some effort to get us into it.

Mr. GRACE. That is true.

The CHAIRMAN. Would you suggest at all, in any degree, Mr. Grace, the commandeering of an industry as the only way to limit the compensation of the captains of industry to a sum that would be comparable with that received by actual soldiers in the service?

Mr. GRACE. Would I say that it would be necessary for Government to take industry over to accomplish that one particular phase of it, do you mean?

The CHAIRMAN. Yes.

Mr. GRACE. I should think that would be a pretty lame excuse for the Government to take over an industry. If they wanted to accomplish that particular situation, and only that, I should not imagine it would be necessary to take over industry to accomplish that. I should not think so.

The CHAIRMAN. How would you do it;

Mr. GRACE. Admitting that it is the thing to do, how would you do it, you mean?

The CHAIRMAN. Yes.

Mr. GRACE. Admitting that the Government decrees that that should be the case, if it could be done—

The CHAIRMAN. To accomplish the purpose.

Mr. GRACE. To accomplish the purpose—

The CHAIRMAN. How would you go about it to accomplish that purpose?

Later (galleys 95 FS, 96 FS, and 97 FS, date Feb. 25).

The CHAIRMAN. In another war—and we come now to a very important question, Mr. Grace—would your associates and yourself be willing to forego the bonuses which were paid to you and to them during the last war?

Mr. GRACE. That I could not tell. That is a question of the method of compensation in our corporation for services rendered. Our system of compensation is to have the individual interested in the results of the work which he performs.

Senator CLARK. Now, Mr. Grace, do you know of any reason why a man who is engaged in industry during a war, either as an executive or a riveter, or anything else you may take, any capacity you may be pleased to use, should be given a bonus as an incentive to extra effort, any more than a man who is in the Army?

Mr. GRACE. Only as it is human nature. I should say that in the production of a property, from my own experience in manufacturing, even if I were working for the Government on the basis that you have outlined, that I will be made major domo of our institution at an Army salary, to run it efficiently, to get efficiency, to get low costs, that I would want to place the proper interests of my working men on an incentive basis for production.

Senator CLARK. A man who is engaged in military service during the war certainly takes more risks than the man engaged in manufacturing.

Mr. GRACE. Yes.

Senator CLARK. Whether he is a general, a colonel, or a private. He certainly puts in, as occasion may demand, overtime or anything else, and is certainly expected to give his very best effort.

Mr. GRACE. His services; that is true.

Senator CLARK. Without any particular remuneration of any sort except his ordinary pay and his patriotism and idea of doing a good job. Is there any essential difference between industry and military service which makes it necessary, as was done during the last war in some cases, for industrial plants to pay bonuses running into the hundreds of thousands of dollars for services?

Mr. GRACE. I should say that the incentive method of pay in industry is very effective and efficient, and I believe it applies in war just as well as any other time.

Senator CLARK. If a man is drafted, Mr. Grace, and is compelled to fight for the Old Flag for one dollar and a quarter a day, why should not a man engaged in the industrial end of the game—which I agree is very essential, whether he be an executive or a laboring man—also make some sacrifice for the Old Flag?

Mr. GRACE. Theoretically you are entirely right, of course, but can you get the same amount of production, the same amount of effective rendering of service, without the incentive feature put into it? I do not think so. That is all.

Senator CLARK. Of course, that is a matter of opinion, Mr. Grace.

Mr. GRACE. Yes, sir.

Senator CLARK. I do not know a thing about making steel, but I am very well satisfied if you will put an eagle on my shoulders I can get the boys to make steel during a war, and very good quality of steel during a war.

Mr. GRACE. Well, you probably can.

Senator BONE. Mr. Grace, taking your statement of a few minutes ago that there should be uniformity in the rules of the game of war, you were speaking then with respect to salaries. I mean you stated that if there was a horizontal reduction all around, that would be acceptable. But taking that principle, that there should be uniformity in the rules of the game of war, why, then, or how, then, can we justify paying enormous salaries and bonuses to one group—just pick out arbitrarily one group in society and reward them with hundreds of thousands of dollars a year, while all the other groups who are giving their best to the prosecution of the war are kept right on a dead level?

Mr. GRACE. Are you speaking of the man in the service?

Senator BONE. Yes.

Mr. GRACE. Versus the man in industry?

Senator BONE. No bonuses are paid to the men in the service.

The CHAIRMAN. They asked for one after it was all over with.

Senator BONE. They are still asking for it.

Mr. GRACE. And still asking for it. Whether it is advisable to discontinue your scheme of every day in respect to the reward for payment for services rendered in industry during war, during the war period, you must bear in mind that your men are all educated, developed, to be paid for their individual effort. They are with our institution. If I put Mr. Smith on this machine, and Mr. Jones on that machine, exactly identical in every respect, and they work 8 hours a day, and Mr. Smith produces twice as much as Mr. Jones, is not he entitled to more compensation? That is the theory of incentive.

Senator CLARK. If a man is called upon to go through barbed wire entanglements under heavy fire, he is doing more.

Mr. GRACE. But you do not have that scheme in every-day Army life.

Senator CLARK. I am not talking about the fellows who start in with a view of making the military profession their life work. I am talking about the fellows who might be working for your company, and were taken and drafted and were required for \$1.25 a day to crawl out through barbed-wire entanglements, under a barrage, and face the bombs and the poisonous gas and the bayonets of the enemy. They do not get any overtime, and they do not get any bonuses.

Mr. GRACE. No; but maybe we ought to stop and consider a little bit their method of pay.

Senator CLARK. Yes.

Mr. GRACE. The rates of pay which were given to the soldiers. I wonder if it is right to take a man from a \$5 a day job and put him in the Army at \$1 a day. I wonder if we had not better give that man his \$5, or something more, to go into Army service. Have we ever thought of that?

Senator CLARK. Yes; I have, and I am very much in favor of some such scheme.

Mr. GRACE. Maybe that is what we ought to do.

Senator CLARK. In any event, I think it would very much decrease the possibility of war and very much decrease the profits made by the munition manufacturers in the event of war.

Mr. GRACE. I am inclined to think maybe we should give more consideration to that end of it.

The CHAIRMAN. Mr. Grace, have you ever before protested that that was not done?

Mr. GRACE. Have I? No; I have not been a student of war.

The CHAIRMAN. Coming back to the original proposition, are we to understand that the Government got a larger service out of you by reason of the bonus which was paid to you during the war by your corporation?

Mr. GRACE. The Government got a larger service out of me?

The CHAIRMAN. Yes.

Mr. GRACE. For war purposes?

The CHAIRMAN. The Government got a larger service out of you by reason of your ability to draw a bonus, in addition to your salary, than it would have gotten out of you if you had had no bonus?

Mr. GRACE. I do not know how I can answer that question. I am employed on an incentive basis to perform my work. I should say that it has been an inspiration to me.

The CHAIRMAN. The bonus has?

Mr. GRACE. The bonus has been an inspiration in the work.

Senator CLARK. During the war?

The CHAIRMAN. Was it an inspiration to you during the war?

Mr. GRACE. Never thought of it in that time, naturally not.

The CHAIRMAN. Then are we to draw the conclusion that the Government would have gotten the same service from you during the war, if you had had no bonus?

Mr. GRACE. If I was at the head of the Bethlehem Steel Co., at the most nominal salary, I should have done my best for it during the war and have rendered everything I had.

The CHAIRMAN. The bonus played no part in accomplishing what the United States was after in your individual case during the war?

Mr. GRACE. No; it certainly did not in my individual case.

Senator CLARK. Then the bonus was not really an incentive?

Mr. GRACE. I am talking about the bonus generally in the plan prevailing with the Bethlehem Steel Co.

Senator CLARK. Do you not think the rest of them are as patriotic as you are, and the rest of the men would do the same thing?

Mr. GRACE. Are you talking about these workmen?

Senator CLARK. I am talking about your whole personnel.

Mr. GRACE. We would have to change our whole system of pay to our workmen, if we eliminated the incentive for them. We will have to change the whole system of pay, and I should say that that would be very injurious in time of war for the effect it would have on them.

Senator CLARK. How much bonus did you get during the war?

Mr. GRACE. I do not know.

Senator CLARK. Have you any idea?

Mr. GRACE. Yes; it is all here, the whole bonus schedule, the entire bonus, I think.

Senator CLARK. \$1,386,000.

Mr. GRACE. In what year?

Senator CLARK. 1918. That seems to be the figure.

The CHAIRMAN. Before we look into 1918, would we not do well to start in with the bonus program for 1917?

Senator CLARK. I want to ask Mr. Grace one other question. Are you a member of the National Economy League?

Mr. GRACE. The National Economy League?

Senator CLARK. Yes, sir.

Mr. GRACE. I do not think so. I do not know whether I am or not.

Senator BONE. Do you belong to the Liberty League?

Mr. GRACE. Do I belong to the Liberty League? No; I think not.

Senator BONE. Any of your executives?

Mr. GRACE. I do not know. Certainly not active in it. I may belong to it.

Senator CLARK. The National Economy League, Mr. Grace, is an organization that was formed to oppose any compensation to veterans of the World War or any payment of a bonus.

Mr. GRACE. I do not think I am a member of it. I do not think I am.

Senator CLARK. Do you know whether your company has ever contributed to that organization?

Mr. GRACE. I am sure they have not.

The CHAIRMAN. In a letter addressed to your corporation by the committee, question 6 made request for information concerning bonus payments to officers and directors of Bethlehem Shipbuilding Corporation for the year 1917. The response, as submitted to us this morning, is as follows:

Bethlehem Shipbuilding Corporation, Ltd., was organized in October 1917 and began business on or about November 1, 1917. The information for the entire year is given below for the same officers and directors as was previously given for the year 1918, although during part of the year 1917 they acted in capacities other than as officers and directors of Bethlehem Shipbuilding Corporation, Ltd.

Bonuses paid for the year 1917 to officers of Bethlehem Steel Corporation, who were also officers of the Bethlehem Shipbuilding Corporation, Ltd., and of one or more of the other subsidiary companies of Bethlehem Steel Corpo-

ration, and who, respectively, received salaries of \$5,000 or more per annum:

- E. G. Grace, president, \$1,501,532.
- B. H. Jones, secretary and treasurer, \$250,255.
- F. A. Shick, comptroller, \$200,205.
- H. S. Snyder, vice president, \$350,357.

The committee has averaged these four payments and finds the average to be \$575,612.

I read on from the statement supplied by the corporation.

Bonuses paid during the year 1917 to other general officers of Bethlehem Ship Corporation, Ltd., who were also general officers of one or more of the other subsidiary companies, Bethlehem Steel Corporation, and who respectively received salaries of \$5,000 or more per year:

- W. M. Tobias, purchasing agent, \$150,153.
- A. Foster, assistant secretary and assistant treasurer, \$17,136.
- J. W. Powell, vice president, \$70,798.

Bonuses paid during the year 1917 to other general officers and/or employees of Bethlehem Shipbuilding Corporation, Ltd., Fore River plant, and who respectively received salaries of \$5,000 or more per year:

- S. W. Wakeman, general manager, \$4,279.
- H. G. Smith, manager, \$18,492.
- H. Brown, technical manager, \$15,028.

Now your exhibit, known as "exhibit A", which was supplied the committee, revealing bonuses for the year 1918, reveals the following:

- E. G. Grace, president, \$1,386,193.
- H. S. Snyder, vice president, \$323,445.
- B. H. Jones, secretary and treasurer, \$231,032.
- F. A. Shick, comptroller, \$184,826.
- R. E. McMath, assistant secretary, \$6,187.
- E. B. Hill, treasurer, \$46,206.
- H. E. Lewis, vice president, \$323,445.
- J. N. Larkin, assistant to the president, \$9,113.
- J. W. Powell, vice president, \$323,445.
- A. Foster, assistant secretary and treasurer, \$36,714.
- S. W. Wakeman, vice president, \$49,142.
- H. G. Smith, manager, \$112,628.
- H. Brown, technical manager, \$112,628.
- A. W. Christian, manager of materials, \$7,884.
- H. P. Phelps, standardization of plants, \$11,263.
- R. Warriner, chief engineer, \$28,157.
- H. P. Frear, naval architect, \$28,157.

And some few lesser ones. Let us make it complete, as there are only two more to read:

- H. G. Hageman, mechanical engineer, \$5,529; and in the Fore River plant,
- H. E. D. Gould, general superintendent and general manager, \$9,834.

Mr. Grace, in 2 years, according to these exhibits, your return in the form of bonus was \$2,887,725. Did the corporation or the Government get an additional service from you by reason of this \$2,800,000 bonus than it would have gotten if you had had no bonus at all?

Mr. GRACE. The method—I will have to answer that this way: The method of paying executives of the Bethlehem Steel Corporation was authorized by the stockholders on the basis that they would be paid a percentage of the profits accruing in conducting the business.

Senator CLARK. Mr. Grace, I do not think you have answered the chairman's question. Did this \$2,000,000 which you got bring about any additional effort on your part during the period of the war which you would not have given from patriotic motives, under your ordinary salary?

Mr. GRACE. I meant to say that that was not created for the purpose of incentive of service during war time.

Senator CLARK. No, sir; but it was continued during the war?

Mr. GRACE. If you will go on, you will find it was existent prior to that, and it has been existent ever since.

Senator CLARK. Yes, sir; but most people during the period of the war in the United States were on a military footing and were prior to the war and during and after the war.

Mr. GRACE. That I do not know.

Senator CLARK. The chairman's question was as to whether this \$2,000,000 which you got personally brought about any additional incentive for the Government's purposes, turning out materials, than you would have made from patriotic motives on your ordinary salary?

Mr. GRACE. Certainly not.

The CHAIRMAN. What was your salary during those years?

Mr. GRACE. I think \$10,000.

The CHAIRMAN. We have a note here, \$12,000.

Mr. GRACE. Maybe 12. It was first 10 and then was increased to 12, and remained 12 throughout the subsequent years, where you have the record of the bonus there, Mr. Chairman. You will find a continuing record of our bonus, the results under our bonus scheme of compensation. I think that carries you all the way up to the present years. Is not that right?

The CHAIRMAN. That is right. For these 2 years, bringing this to a head, the total bonuses paid appear to have been in the neighborhood of \$6,000,000.

Mr. GRACE. Whatever those records show. I could not say.

The CHAIRMAN. We have not had a chance to add them accurately, but that seems to be roughly the figure.

Senator BONE. Mr. Grace, where do the odd dollars come in on the bonus? For instance, in the year 1918 your bonus was \$1,386,193. What are those bonuses predicated on? The profits?

Mr. GRACE. Profits of the corporation.

Senator BONE. In other words, they are a definite fraction of the profits of the corporation?

Mr. GRACE. Of the profits of the corporation, right.

These bonuses were not allowed as part of the costs on cost-plus contracts, according to testimony of F. A. Shick, Comptroller of Bethlehem Steel (Feb. 25, galley 98 FS).

He also stated that the bonus system, although set up in 1904, was not authorized by the stockholders until April 3, 1917 (galley 99 FS).

Mr. Shick stated in reply to questioning by Senator Clark that the bonus system was in effect in connection with munitions for Russia and England before the United States entered the war (galley 99 FS).

Mr. Grace stated that he paid \$1,810,000 in taxes in 1917 and 1918, or 66 percent of his taxable income (Feb. 26, galley 1 QD).

The question of why the Navy Department continued its war-time building after the armistice was raised on February 26 with Bethlehem officials (galleys 6 and 7 QD).

Senator BONE. Now, as one of the rather interesting, and what seems to a great many people to be a rather peculiar phase of war, of the last war, after the armistice the Government let a contract for the building of 97 destroyers. The war was over and many of these destroyers were pre-war models, pre-war design. Can you enlighten the committee as to why the Government let that contract?

Mr. GRACE. I cannot.

Senator BONE. Bethlehem Shipbuilding Co. got 44 of these destroyers. That is the case, is it not?

Mr. GRACE. I do not know how many. I know we built a lot of destroyers for the Government.

Senator BONE. Do you not know how many ships your company got out of this post-war program?

Mr. GRACE. I do not. I could not remember, but we built a lot of them. Did you say the contract was let after the war?

Senator BONE. After the armistice. The keels were laid after the armistice.

Mr. GRACE. There is quite a little difference between contracts and keels.

Senator BONE. Perhaps I misstated it. The ships were built and the keels were laid after the armistice. Instead of canceling those contracts and refraining from building those ships, the Government went ahead and had 97 of these destroyers built after the armistice. That is correct, is it not?

Mr. GRACE. That is a question for you to ask the Government, why they did it.

Senator BONE. I am wondering if you can give us any light on it.

Mr. GRACE. I cannot.

Senator BONE. Your company got 44 of these destroyers at a price totaling \$82,199,916. Is the Union outfit a subsidiary of Bethlehem?

Mr. GRACE. The Union Iron Works?

Senator BONE. Yes.

Mr. GRACE. It is a part of our shipbuilding organization.

Senator BONE. Where are they located?

Mr. GRACE. San Francisco.

Senator BONE. They got five of these destroyers, did they not?

Mr. GRACE. I do not know.

Senator BONE. The record indicates that they got five of them at a cost of \$8,341,059.

Mr. GRACE. Whatever the record says would naturally be true.

Senator BONE. For the 49 destroyers built by Bethlehem and its subsidiary or affiliate, the Government paid a total of \$90,540,975. That very astounding performance has interested a great many people and made them curious as to why the Government would actually have laid the keels and have the ships built for 97 destroyers.

Mr. GRACE. Maybe they did not have confidence the war was actually over. I do not know.

Senator BONE. It may be. It is hard for me to believe, but it may be that the Navy Department had heard vaguely that the war was over, after the armistice.

Mr. GRACE. It may be that they were preparing for another. I do not know what prompted them.

Senator BONE. There may be something in that idea. I would like to dally with the thought anyhow.

Admiral Pratt, testifying at a hearing before the House Committee on Appropriations, was questioned about this particular construction. One of the Congressmen said he understood some of the destroyers had been laid down after the war came to an end. He says—

Why was it that, with the experience of mass production to which you referred a moment ago; with the realization that we were not just in desperate need to build destroyers at the rate of so many per month or per year—why was it that there was not at that time a slowing down, so as to take advantage of lessons of the war, and to accomplish, in building, the highest, instead of that which can be criticized when mass production is indulged in?

Admiral PRATT. That seems like a very fair question. I cannot give you a real, practical, definite reason why, but I should say this: That if you start a big machine moving, such as this production is, it takes a certain amount of time before it gets slowed up and working normally; and I should think that that had about as much to do with it as anything. We just got swept into it, and, before we could get our breath and stabilize and get together, there we were with our output.

In other words, the Navy Department could not catch its breath, and that it had plunged off into this program of building 97 destroyers because it could not slow down the momentum. Is there any better explanation which you can give us?

Mr. GRACE. Please do not ask me that question.

Senator BONE. You know, probably, more about this game, Mr. Grace, than anybody else in the country.

Mr. GRACE. But please do not ask me to interpret the policies of our Navy Department, my dear fellow.

Senator BONE. I do not want to embarrass you, but I would like to have you tell me outside.

Mr. GRACE. I really could not even tell you outside.

Senator BONE. I can believe that.

Mr. GRACE. I could not. As I say again, they may not have thought the war was over, or were preparing for another one. I cannot tell you.

Senator BONE. The total expenditure for these destroyers which were laid down and built after the war, was \$181,247,022, of which your company got \$90,510,975, or about 50 percent. So you ought not to complain about the Navy Department's inability to understand its own program.

Mr. GRACE. You are not inferring that we encouraged the Navy Department to go on and build something they did not want, are you, I hope?

Senator BONE. Maybe you can explain whether you would or not.

Mr. GRACE. Encourage them to go on?

Senator BONE. Did you discourage them from going on?

Mr. GRACE. We had nothing to do with it. We executed the work the Navy Department wanted us to do, and we are very proud for having done it. The Navy Department had within itself the power, I assume, to cancel and stop work on those contracts. We were not down there asking them to continue the work. We had a contract or obligation with the United States Government, which we were conscientiously fulfilling and were proud of our performance under that.

Senator BONE. Let us get a little more light on this. These contracts were awarded, and when the armistice came and the ships had not been built, you got no word from the Navy Department canceling them, and you just went ahead with the construction?

Mr. GRACE. Certainly.

Senator BONE. Is that the picture?

Mr. GRACE. I assume it is the picture.

Senator BONE. What in this picture proves, or tends to prove, or tends to disprove, the suggestion on the part of the Navy Department that they wanted to keep private shipyards going and wanted to encourage them in every way? Do you think that experience would tend to bolster up the suggestions of the naval officials that they want to sustain the private shipyards?

Mr. GRACE. The picture which you have just given?

Senator BONE. Yes.

Mr. GRACE. I do not see that that has any bearing on it. I think that is a question, as to whether the Navy Department or the Government want private facilities available as to that class of work.

The war profits of Bethlehem Ship were discussed again on February 26, 1935 (galley 4-6 QD), in the course of which one report, by a Shipping Board examiner, spoke of the Bethlehem war contracts as "unconscionable and against public interest." The case is in litigation in 1935. The company representatives denied such charges entirely.

Senator BONE. Mr. Grace, there is a charge through this brief, through the report of the special examiner of the Shipping Board, that the Bethlehem Shipbuilding Corporation made unconscionable profits out of the Government during the war. If that be the case, and that is the charge solemnly made in a brief and in the pleadings of this case, whether the Government ought to, in the event of another war, subject itself to the possibility of a repetition of that sort of thing, is the point I want to raise. I know you think you did not make unconscionable profits.

Mr. GRACE. That is a question of opinion, of course. But, as I say, I see no reason—I do not mean the word "reason"—but I think we are in agreement that war should not be the vehicle for unconscionable profits. There is no question about that. There is a meeting of minds on that, without argument.

Senator BONE. In the report of Mr. Adamson, the special examiner, whose report was written in 1923, he uses this language:

Bethlehem's enormous profits may not aid in interpreting the language of contracts, but they do show that the Bethlehem contracts were unconscionable and against public interest.

Mr. GRACE. I think that is all being a part of the suit.

Senator BONE. He indicates in his report that there was almost \$50 per ton profit on one Bethlehem contract, and he contrasts the profits allowed to Bethlehem by Mr. Bullitt on three contracts, with profits allowed on contracts with other shipbuilders. In that respect he points out in contract 300 that Bethlehem's profit was \$49.59 per ton; contract no. 226, the profit was \$43.15 per ton.

Mr. GRACE. Have you Bethlehem's answer in respect to that? Have you the findings made by the referee, Mr. Bullitt, which you speak of, there? Have you the Bullitt report?

Senator BONE. I am referring to Bullitt's report right here.

Mr. GRACE. They are in Bullitt's finding?

Senator BONE. They are in Bullitt's finding. Contract 179, a profit of \$44.88 per ton, and the other shipbuilders represented in this report were J. F. Duthie & Co., I presume for a requisitioned ship, with a profit of \$10 per ton.

Mr. GRACE. I could not tell you.

Senator BONE. American Shipbuilding Co. contract, the profits were \$16.27 per ton. The American Shipbuilding Co.'s profit of \$16.27 per ton has been criticized. It is only one-third as much as Mr. Bullitt reports for Bethlehem on contract 300, and that calls for the statement which I made yesterday in this report of 20.5-percent profit to Bethlehem on ships built with Government funds. Again he refers to a statement by Admiral Bowles, manager of the Division of Steel Ship Construction, and G. S. Radford, manager of the Contract Division. This statement is made by them:

We wish to place on record the fact that the Bethlehem Shipbuilding Corporation's representatives have insisted on comparatively high prices for these vessels; that they have only with difficulty been persuaded to quote us on the types of ships referred to, and their attitude has been characterized by the arbitrary refusal to stand behind delivery dates * * *.

While the prices we have agreed to with representatives of the Bethlehem Shipbuilding Corporation are not satisfactory to us, nevertheless they represent a material reduction from the prices quoted by that corporation. Realizing that the Nation will need these vessels, we have been actuated by the belief that further delay in placing the contracts should be eliminated, and we believe we have made the best compromise possible under very difficult conditions.

Why should the Bethlehem people quibble with the Government when war is on over the difference between profits which other companies were getting, or apparently getting, and the profit which you folks wanted?

Mr. GRACE. I cannot analyze the shipbuilding case for you. If you will read the Bethlehem side of it, like you are reading the Government side of it, you may find what the reasons were. If you want to go into that in complete detail, or if you want to go into it in detail, there is a man here prepared to do as much of that as you want, and knows the matter from beginning to end.

Senator BONE. Is not a part of that picture reflected in the fact that the Bethlehem Co.'s profits stepped up enormously during the war? Would not that be the answer?

Mr. GRACE. Bethlehem made a very efficient job of building ships. They may have been relatively cheap ships to the Government. If we made excellent cost in building them, the Government got the benefit of it through our prices, and you will probably find that our ships, when analyzed, were as cheap, if not cheaper, to the Government than some of our competitors' ships.

Senator BONE. Let me go back to this report written by the Government official. At page 5 he says:

Bethlehem refused to accept prices accepted by other builders, but demanded to receive extraordinarily high prices. Now Bethlehem insists that these inordinate prices must be increased by interpreting the contracts the way that Bethlehem says they should be interpreted.

Can you throw any light on that statement as to the controversy over interpretation of the contract?

Mr. GRACE. No; unless you would read the record of the case and see how Bethlehem dealt with those acquisitions. That is the only way I know how to answer your question.

Senator BONE. These were cost-plus contracts?

Mr. GRACE. I do not know what they were even.

Senator BONE. Mr. Grace, you were president of the Bethlehem Shipbuilding Corporation?

Mr. GRACE. Absolutely; but I cannot recognize them.

Senator BONE. You received nearly \$3,000,000 in bonuses in 2 years, and yet you tell me you do not know what was going on in these Government contracts, which were the foundation of the matter?

Mr. GRACE. I beg your pardon. I did not.

Senator BONE. What did you say?

Mr. GRACE. I say, I cannot remember the details of this shipbuilding case, and I cannot.

Senator BONE. This was probably the most outstanding controversy that the Bethlehem Steel people ever had with the Government, was it not?

Mr. GRACE. It was one controversy which we had with them.

Senator BONE. Would you, as president of a big corporation, not advise yourself as to the characteristics of a lawsuit and what it involved?

Mr. GRACE. I just asked you to read the Bethlehem Ship's side of the case.

Senator BONE. That is not the point. You were chief executive of that company and received a large salary, I believe \$75,000 a year plus this bonus. Here is a contract which is probably the most important piece of litigation Bethlehem ever had with the United States Government. Do you want to suggest to us that you do not know the implications of that suit and what it involved?

Mr. GRACE. I do not know the details of it.

Senator BONE. It is an astounding thing how many big executives have come before us and have no knowledge of the affairs of their company. I frankly cannot understand it. I would expect that these men would have all these questions right at their fingertips.

Mr. GRACE. It is quite impossible to carry all those things in mind, in detail.

Senator BONE. This is a major thing, involving many millions of dollars.

Mr. GRACE. Of very long standing.

Senator BONE. Most of us would know about the integrity of our business and the part that the suit plays in relation to the Government. You do a lot of business with the Government, your company does, does it not?

Mr. GRACE. There is such a difference of opinion that the case is in litigation.

Senator BONE. Exactly; and because it is in litigation, involving many millions of dollars, and not only that but involving a very grave principle of business, may involve your company in litigation in the event of another war, and as you have contractual relations with the Government I would think you would know about that.

I do not think we are asking you in this, Mr. Grace, to state a particular situation that you should not know, and yet it is astounding that you, like other executives of big concerns, seem to have very little knowledge of the details of these things.

You cannot tell us whether your company refused to accept prices or opposed prices with the Government that other companies were willing to accept?

Mr. GRACE. No; I could not tell you that.

Senator BONE. Let us go back to the Government's brief a moment and see if we can perhaps refresh your memory a little bit on one other aspect of the question.

Now, on the matter of cost, I am just reading this to you because your counsel will have this volume of the brief of the Government in this particular case [reading]:

It is the position of the Government that Bethlehem is not entitled to retain any sums paid to it on account of "fixed profits" or "half-savings" or to receive any further payments on that account in connection with the contracts in controversy.

Let me digress a moment to ask you if these were not cost-plus contracts?

Mr. GRACE. I do not know.

Senator BONE. You are unable to advise me.

Mr. GRACE. I do not know whether they were cost-plus or cost plus a fee or whether they were fixed-price contracts.

Senator BONE. They were cost plus a fee. The testimony is that the Navy Department set down those contracts and they were so wide and elastic that they permitted a company to charge off its income taxes as an operating expense.

I will resume reading:

Having perpetrated a gross fraud upon the Government in connection with such contracts, it would be unreasonable to hold that, notwithstanding such fraud, Bethlehem should receive as compensation the same amount which would afford just compensation to an honest shipbuilder for doing the same work done by it. Any such decision would mean that Bethlehem had everything to gain and nothing to lose, financially, in attempting to defraud the Government and would encourage dishonest contractors to take advantage of the Government under like circumstances.

No one can say that this country is done with war or how soon a national emergency will again exist calling for the maximum production of every shipyard throughout the United States. At such a time plant requisition will again prove impracticable; there will again be no time for haggling, and the Government will again be obliged to depend upon the integrity and patriotism of the manufacturers with whom it is forced to deal. At such a time there will undoubtedly again be those who will look upon the national emergency as an opportunity to make enormous profits for their respective companies and themselves at the expense of the Government,

and whose patriotism and sense of propriety will not, in themselves, be sufficient to restrain them from taking full advantage of such opportunity.

That is very strong language for the Government to use in a brief addressed to your company. Have you any comment to make on that language?

Mr. GRACE. Very strong and very unfair, and will not be, in my judgment, substantiated when the decision is rendered.

Senator BONE. I read further:

There has been nothing in the conduct of Bethlehem to raise any equity in its favor or to modify the relief requested by the Government. Upon the contrary, its original offense has been seriously aggravated by the methods which it has since pursued in attempting to prevent the disclosure of its fraud and to recover every last penny provided for by the terms of its contracts.

Now, that last language fits right into some of the testimony which we have had here, that the contracts which were sent to some of the private shipbuilding companies during the war were so loosely drawn that they permitted the inclusion of every operating overhead expense that was ever conceived in the mind of the cleverest lawyer which ever represented a utility company, and even permitted the company to charge off as an operating expense their income taxes, but that was not accomplished because that was even too raw for the Government officials who drew the contracts to tolerate. But all of this presents a rather sorry picture.

It is true that these were Emergency Fleet Corporation contracts and not naval contracts, but I am assuming that they were similar in character.

Now here is some argument further in this brief, dealing in a measure with the question of arriving at an understanding of costs. The United States attorney in his brief says:

Instead of volunteering an explanation as to the methods and basis employed by it in arriving at its estimates, as one would naturally have expected it to do if such estimates had been fairly and honestly determined, Bethlehem refused to furnish any such information until March 1927, when it agreed to submit to the Government all working papers used in making up such estimates.

Can you advise us whether that is the case or not?

Mr. GRACE. I do not know. The case is all in litigation, to be decided on its merits, I assume.

Senator BONE (continuing reading):

In pursuance of this purpose, the chart, alleged to have been prepared by Harry Brown, was submitted to the Government in August 1927, as representing the only working paper used by Bethlehem in making up its estimates and as the sole basis for the same.

Instead of offering any explanation as to the method by which the chart had been prepared, or as to the manner in which it had been used, or as to the reasons for the difference between the chart prices and the substantially larger estimates submitted by it to the Fleet Corporation, as it might reasonably have been expected to do if its estimates had been prepared and submitted in entire good faith, Bethlehem steadfastly refused to make any such explanation except upon condition that it might be offered by it in evidence at the trial, in the event of Brown being unavailable as a witness. In June 1928, however, Bethlehem was finally induced to alter its policy to the extent of submitting an alleged explanation of the chart, the Government first being obliged to agree that such explanation would not be used by it except for purposes of cross-examination.

Do you know whether that is a fact?

Mr. GRACE. No; I do not know.

Senator BONE (continuing reading):

As to the estimates submitted by Powell to the Fleet Corporation having admittedly no support other than the chart and as Brown's "explanation" is the only justification offered for the chart prices, Bethlehem's entire position rests fundamentally upon the authenticity and propriety of such "explanation." The evidence clearly shows, however, that this "explanation" offered by Bethlehem was wholly fictitious; that it was invented by it long after the event for the purpose of giving the appearance of sup-

port to the prices shown by the chart; that the explanation was not only false and fictitious, but the method of estimating referred to therein, while pretending to make use of certain past costs for comparative purposes, was so improperly employed as to result in estimates which were grossly excessive, insofar as their use in connection with half-savings contracts was concerned; and that the chart was not intended to represent and did not represent estimates of cost fairly and honestly determined upon a proper basis and by a proper method for use in connection with such form of contract.

The evidence further discloses that the substantial discrepancies between the chart prices and the prices submitted by Bethlehem as representing its honest and carefully considered estimates of probable approximate costs, which discrepancies it had carefully refrained from explaining in advance of trial, actually represented deliberate padding admittedly included without any justification and for trading purposes only.

Your answer to that, I assume, would be the same as your answer to the former question?

Mr. GRACE. Yes.

Senator BONE. You have no personal knowledge as to this suit.

Now, on page 306 of this brief there is this further argument by the Government [reading]:

Meanwhile, although the base prices plus fixed fees named in the Bethlehem contracts in controversy were tremendously in excess of the lump-sum prices named in the contracts covering its ships which had been requisitioned by the Government * * * Schwab—

I take it that is the president of the corporation—

scrupulously refrained from concerning himself in any way with any business of the Fleet Corporation pertaining to Bethlehem and saw no occasion to instruct Piez—

Do you know who he was?

Mr. GRACE. He was general manager of the Emergency Fleet Corporation.

I think I am correct in that.

Senator BONE (continuing reading):

to make sure that Bethlehem likewise would in no event obtain more than just and reasonable compensation under its contracts (R., p. 732), nor did Piez apparently see any occasion to insist upon any modification of such contracts.

As a matter of ordinary fairness and propriety, one would suppose that Bethlehem would be willing to accept for itself the same limitation upon profits which Schwab thought proper to impose upon the American Shipbuilding Co. Bethlehem, however, argues that although Schwab took the position that any profit to the American Shipbuilding Co. in excess of 10 percent of actual cost, even under lump-sum contracts, would be in excess of just compensation, nevertheless it is entirely proper for Bethlehem to receive as profit 23.2 percent of actual cost under the half-savings contract in controversy.

Schwab endeavored to mitigate the effect of his letter of October 2 by testifying that, notwithstanding the statements made therein, he had never demanded any modification of the American Shipbuilding Co. contracts, but that Farr himself had suggested the modification described in the letter in question, and that this letter had been written and signed in order that it might be used for publicity purposes by Hurley.

Assuming that such testimony is true, it does not help Bethlehem. Upon the contrary, the fact that the letter of October 2, 1918, was actually written for publicity purposes and as an object lesson to other shipbuilders would, if true, be even stronger evidence that 10 percent of actual cost was considered as affording just compensation even under lump-sum contracts, and that all shipbuilders dealing with the Fleet Corporation were to guide themselves accordingly.

Schwab's testimony, however, is of special significance in the following respect: It shows that although, according to Schwab, Farr was entirely willing and had previously agreed to limit the profits of his company to 10 percent of cost and had himself suggested the modification described in the letter of October 2, Schwab was willing to sign and deliver to Hurley, for publicity purposes, a letter in which Farr was depicted as having falsely

represented to Schwab at the inception of the contracts that the prices named therein were reasonable; as endeavoring to take advantage of the Government in time of national emergency by obtaining excessive prices by means of such misrepresentation; as demurring to any reduction being made in such prices; and as finally being forced to agree to the modification described by Schwab because of the power vested in the Fleet Corporation to limit shipbuilders to just compensation.

When we find that Schwab, who was the dominant influence in Bethlehem not only by reason of his stock ownership, but because of his experience, ability, accomplishments, and personality, was willing to use his office as director general to publicly impeach the patriotism and character of Farr without the slightest justification, compunction, or apology, we are better able to understand Bethlehem's entire dealings with respect to the contracts in controversy.

Mr. Grace, that is extremely strong language for the United States Government, through the Attorney General, to use. Have you any explanation of those charges?

MR. GRACE. I have no explanation. I say the case is in litigation and I expect it will be settled on its merits. It should be. We do not accept any of those charges as being true, on the other hand.

Dividends paid by shipbuilding subsidiaries of Bethlehem Steel totaled \$60,498,529 (Feb. 26, galley 16 QD).

Mr. SHICK. We used the term "rental."

Mr. RAUSHENBUSH. How much was paid in dividends to the Bethlehem Steel by these various companies, would you say, Mr. Shick, by Bethlehem Shipbuilding Co. during those years, Fore River and Union Iron Works?

Mr. SHICK. It was our practice to have those companies practically pay out all their earning which were available, over to the Bethlehem Steel Corporation because the Bethlehem Steel Corporation was the one paying dividends to the stockholders. There was no reason leaving the earnings accumulate in those companies, so that they were paid over to the Bethlehem Steel Corporation.

Mr. RAUSHENBUSH. Do you have the dividends before you?

Mr. SHICK. I do not.

Mr. RAUSHENBUSH. Do you have them, Mr. Mitchell?

Mr. MITCHELL. I have them, as obtained from the revenue agent's working papers of the income-tax unit. He analyzed the surplus for the various years and according to the books the dividends paid were as follows:

Bethlehem Shipbuilding Corporation, Ltd., paid in 1919, \$1,782,500; in 1920 it paid \$1,705,000; and in 1921 it paid \$20,282,700, a total for the years 1917 to 1921 of \$23,770,200.

The Fore River Shipbuilding Corporation paid in 1917, \$90,000; in 1920, \$4,010,400; a total of \$4,100,400.

The Union Iron Works Co. in 1917 paid \$400,000; 1918, \$1,130,000; 1919, \$1,400,000; 1920, \$5,697,928.19; 1921, \$24,000,000; a total of \$32,627,928.19.

The total dividends paid by these three companies to Bethlehem Steel Co. amounted for those years to \$60,498,528.19.

The company had to be threatened during the war with commandeering before it undertook necessary plant construction (Jan. 21, 1935, galley 27 GP).

Mr. PARKER. I think the record will show in a number of letters where we did everything that was possible to avoid going into this program of plant construction along with ship construction.

The CHAIRMAN. How long from the time that the Government urged you to supervise the construction of that plant—how long was it before you complied?

Mr. PARKER. It was a very short while, Senator, because they said, "If you do not do it, we will commandeer your land and do it ourselves." So that it did not take very long for us to go along with them.

The CHAIRMAN. What time during the war was this?

Mr. PARKER. 1918.

Senator BONE. Was that to be a Government plant?

Mr. PARKER. That was to be a plant operated by the New York Shipbuilding Corporation management.

The CHAIRMAN. But the Government was to build it?

Mr. PARKER. The Government was to build it.

The CHAIRMAN. You were to supervise the building and you were to supervise the operations after it was completed?

Mr. PARKER. Yes, sir.

The CHAIRMAN. And yet the Government was forced to threaten commandeering?

Mr. PARKER. That is correct.

Further difficulties in preventing improper costs during war years were described by the district plant engineer of the Emergency Fleet Corporation (Jan. 22, galley 44 GP).

Mr. RAUSHENBUSH. During this discussion Mr. Freeman, the district plant engineer, refers to himself as "Mr. Freeman" instead of saying "I", because this is supposedly an official report.

After summarizing, in the first three paragraphs, his functions and his duties and obligations, he points out in paragraph 4 one of the few changes he made. That paragraph reads:

Mr. Freeman cut down the force from 35 to 10 at the New York Shipbuilding Corporation and also discovered that there was no check on maintenance at this yard, the cost of which was a cost against the ships in general overhead, and on some contracts an additional 10-percent profit was allowed. This matter was pointed out by Mr. Freeman and he was allowed to place four engineers on maintenance. A record of maintenance, month by month, by the New York Shipbuilding Corporation was kept in regular schedule, and at the date of Mr. Freeman starting activities had reached an amount of \$448,805 per month, which was charged against ship construction at a time when only the north yard was in operation, as the south yard had just gotten started.

Then he goes on to point out how he brought maintenance down from an amount of \$448,000 to \$91,000 plus.

The fifth paragraph reads:

Matters were brought somewhat to a head by the New York Shipbuilding Corporation receiving a letter dated February 20, 1920, from our resident engineer, in which their attention was called to the fact that they were doing considerable work in the yard and charging same to maintenance, which was an improper charge, as it was being done without authority, and 11 items were cited on which the work was going on at that time; and the said corporation was advised that we were requesting our resident auditors to withhold payment on these jobs until same were approved, if they were proper charges. On Wednesday, February 25, 1920, we were advised that Mr. Magoon, senior vice president of the New York Shipbuilding Corporation, was in conference in the home office of the Fleet Corporation; and one of the officers of the New York Shipbuilding Corporation at the yard stated that he was afraid to call him up as he—Mr. Magoon—was in an awful temper about maintenance, resulting from our letter.

6. On the same day Mr. Magoon replied to our letter, stating that he was unable to find any ruling which required him to submit regular application for doing maintenance work for approval and that it was his present purpose to proceed with maintenance work under his usual procedure. On the same day the New York Shipbuilding Corporation wrote to Mr. Frick, manager of construction, Emergency Fleet Corporation, in which they state that the jurisdiction of the plant maintenance by the district engineer's department had been assumed as an extension of its duties in connection with plant construction and that they ask the Fleet Corporation in said letter to issue instructions that will relieve the New York Shipbuilding Corporation from all question of such supervision. It is to be noted that these letters were written the same day as the conference above referred to in the home office. Under date of February 28, Mr. Frick issued instructions to Mr. Miller to remove all engineers in his district whose work was confined strictly to maintenance.

Later on, however, that was changed.

I will now read from paragraph 7:

This department pointed out to various departments further irregularities that the New York Shipbuilding Corporation made in the matter of

plant construction and charged to ships. In one case we discovered one of the old ways that had been there for 20 years had been remodeled from wooden construction to concrete construction at an expense of approximately \$126,000; same had been charged to ship construction and apparently had been paid as a ship cost. This was brought very forcibly before the auditing department; and said department, on their own initiative, made an estimate of the improper cost that had already been paid the New York Shipbuilding Corporation. An estimate of our share, amounting to \$750,000, had been improperly paid, and this amount was held up by the auditing department as made to the New York Shipbuilding Corporation. The Navy Department, hearing of this action, called a meeting and stated that inasmuch as they were paying 50 percent of the overhead, that they be allowed to see this list, as they also desired to hold up funds for improper payments, resulting in a similar amount being held up by the Navy Department on March 3.

Also in the same letter (Jan. 22, galley 45 GP).

The proposal to have adjusted price contracts made the basis of war-time work was made by Mr. Homer, of Bethlehem, on February 28 (galley 54 QD).

Mr. HOMER. The thought has occurred to me in hearing your discussion the other day about what might be done to take the profits out of war contracts, excessive profits, that there is a possibility that the committee might want to give some thought to a plan of this kind as a basis for operating under a plan to take excessive profits out—

Senator BONE. Might it not be said—

Mr. HOMER. It is going at it another way.

Senator BONE. Pardon me. I did not mean to interrupt.

Mr. HOMER. I am talking more or less personally now, if you will pardon me. But going at it the other way, it seems to me that excessive profits in war are not caused by the deliberate attempt to make excess profits but they are usually by conditions which are unforeseen at the time that a contract is made.

One of the major factors in that condition is that the contractor has a fear that he is not adequately protected in taking a contract under conditions which are so variable and uncertain that he may lose a tremendous amount of money when he gets through.

If you can eliminate that fear, Senator, from a contract, you have gone a long way, in my personal opinion, of taking the possibility or chance of excess profits out of contracts, munition contracts, or whatever you want, any contract, so far as that goes. That is just a suggestion. I do not know whether it is worth anything or not.

Senator BONE. It might be said by some, and perhaps with some slight justification, that even under this type of contract that the Government is the one who does the gambling on the contract.

Mr. HOMER. The Government will accept a certain amount of risk, but in the end it will probably save money because it is helping to take the risk of the subcontractor, to a certain extent. I do not believe that the Government assumes all the risk. It does not. It does not assume all the risk under our present contracts, but it is an equitable means of adjusting things to suit conditions.

Later (galley 55 QD).

Mr. RAUSHENBUSH. Before we get off this question of your suggestion, Mr. Homer, about having this sort of a system apply to a war-time emergency, here you have, as I gather it, a system where the Government pays for material increases and pays for increases above a certain level.

Now, if that were done during the war, and all contracts were made that way, the Government doing the gambling on any price increases, what point would there be in a company getting any profit? The point of profit, as I understand it, is to compensate the company for risk, and what point would there be in keeping a profit arrangement like that, if the Government is going to take all the risk for which profit is usually given?

Mr. HOMER. In the first place, I do not agree with you that the Government takes all the risk.

Mr. RAUSHENBUSH. Just about all, does it not?

Mr. HOMER. You mean the Government assumes a certain part of the risk in the case of increases or decreases in prices of material and labor?

Mr. RAUSHENBUSH. That is right.

Mr. HOMER. That is not all in building a ship, Mr. Raushenbush. In the first place, there is no consideration being given to overhead expense of any kind whatsoever in this plan, and the contractor has to assume all the risk for that. It is merely an arbitrary basis which is taken, of 40 percent representing material and 30 percent representing labor and something representing the rest, 30 percent.

Mr. RAUSHENBUSH. Let us talk about the rest of the 30 percent. Let us talk about the overhead, which is a part of it, and the rest of it is profit. The Government could allow, and does in fact now allow, a certain percentage of overhead, does it not?

Mr. HOMER. On what?

Mr. RAUSHENBUSH. On a ship.

Mr. HOMER. In what connection?

Mr. RAUSHENBUSH. You figure that in the Vinson Act it is supposedly a 10-percent limitation on profit, that the Government is going to allow a certain profit on that.

Mr. HOMER. We hope it will.

Mr. RAUSHENBUSH. Let us apply that to the situation which you suggested.

Mr. HOMER. And it is a legitimate part of cost, is what you mean?

Mr. RAUSHENBUSH. Your only risk, I take it, is in the element of overhead, which involves bonded indebtedness. There is no particular risk there.

Mr. HOMER. The only risk is bonded indebtedness?

Mr. RAUSHENBUSH. I am starting to subdivide the overhead, bonded indebtedness, taxes, and supervision. As I gathered it, roughly, what you are proposing is a system that the Government takes all the risk, that the plant will have none of the risk.

Mr. HOMER. Only a very small proportion of the risk.

Mr. RAUSHENBUSH. What is left is that on which private capital should get a profit?

Mr. HOMER. Do you not see that the Government does not take any risk in connection with the construction of the ship?

Mr. RAUSHENBUSH. You mean if it burns or is badly damaged?

Mr. HOMER. No; in building the ship you assume a risk, because you have got to construct something. You start off with nothing, and you finish with a ship, and it is supposed to be completed in accordance with the plans and specifications. You are assuming a certain risk, if you do not do it, are you not?

Mr. RAUSHENBUSH. Assuming a certain amount of competence on the part of the builders.

Mr. HOMER. Your engineering "know how", your organization all the way through, has to be suitable to do it, and you have to know how to do it, and you have to know how to do it within the cost which you have used as a basis for your estimate.

All this plan does is just to take away a certain part of that great risk which a contractor runs in the face of an inflation, or any other change in the economic conditions, which may change the basic factors on which he has established an estimate and his price, covering a contract over 3 years.

The matter of the war profits of Newport News led to some controversy. The Treasury cut the company's figure of invested capital for 1917 from \$10,000,000 to \$3,800,000 in conformance with regulations. The company did not accept this, and asked to have its taxes determined on a basis which did not involve the figure of invested capital. This was done. The tax dispute was not settled until 1931 (Feb. 12, 1935, galleys 69, 70 ZO).

The income figures filed by the company varied greatly with the reports of the revenue agents (galley 70 ZO). For example, in 1921 the company reported taxable income of \$1,366,765, and the revenue agents found \$4,043,000, an increase of 195 percent. The company reported its tax liability for that year as \$153,000. The revenue agents found \$1,663,830. The final settlement in compromise was \$1,303,000, more than nine times what the company reported (galley 70 ZO).

The revenue agent, basing on the finding of an invested capital for 1917 of \$3,826,316 (disputed by the company) found a net taxable

income of \$3,467,605, or 90.6 percent. In 1918, on the same Treasury basis (disputed by the company) the profit before taxes was 76.1 percent. In 1919 it was 71.5 percent. In 1920 it was 52.1 percent.

The company entered into the records figures tending to show the profits of the company for these years as (1917) 15.3 percent; (1918) 8.3 percent; (1919) 16.9 percent; (1920) 23.1 percent (galley 68 ZO).

It was admitted by the company's president, Mr. Ferguson (galley 71 ZO), that these figures could not be considered as income-tax figures, and that, based on the company's own returns to the Treasury, the profits were very considerably higher.

EXPECTATIONS OF CONDUCT IN FUTURE WARS

Shortly after the hearings on shipbuilding had closed, General Hugh Johnson, at one time connected with the War Industries Board and later Director of the National Recovery Administration, explained that the N. R. A. had grown out of the plans developed by the War Industries Board for the conduct of a future war.

It was, he stated, developed directly for the war plans, and was not shown to the industrialists for their approval until practically completed.

In view of that statement, the evidence bearing on the observance of the N. R. A. by the shipbuilding companies has significance, taken together with their record in the past war, in relation to what the country may expect from these companies in the event of another war. Evidence was taken in regard to one of these companies, New York Shipbuilding.

The question of observance of the N. R. A. came up on February 7 (galley 40-41 ZO) when Mr. Philip W. Chappell, a mediator in the Department of Labor was questioned concerning a strike of New York Ship employees in 1933.

The question of the possibility that Navy officials, at the request of the company, intervened in the dispute with the threat of removing the *Tuscaloosa* was also discussed.

Then Mr. Bardo, who conducted practically all the negotiations for the company, endeavored to refer it first to another board. He wanted to refer it to the New Jersey Regional Board, of which, I think, he was then a member. He tried to inject the industrial relations board of the Shipbuilding Code into it, although that board had never been completed. He threatened to turn it over to the Philadelphia Regional Labor Board. But the men, not being affiliated with the A. F. of L., objected to turning their case over to any board on which the only labor representation was A. F. of L. representation.

So, finally, the secretary, or, rather, Mr. Kerwin, who was head of the conciliation service, made an investigation here in Washington, and he wired me along the latter part of April that at that time I was the only Government agency authorized to have any contact with the strike.

Mr. LAROCHE. Mr. Chappell, excuse me, but right at that point, what was the reason for that wire?

Mr. CHAPPELL. Because there had been so much bickering back and forth as to whom was to have jurisdiction.

Mr. LAROCHE. Bickering between whom?

Mr. CHAPPELL. Between the men, Mr. Bardo, and myself, you might say. We would get into a conference and Mr. Bardo would say, "Well, we cannot get anywhere. We will have to turn this over to some other board."

And as a result of that, we were not getting anywhere in our conferences.

Mr. LAROCHE. You did not feel that that was deliberate on Mr. Bardo's part, did you?

Mr. CHAPPELL. Well, I think it was the position almost any employer would take under those conditions.

Mr. LAROCHE. You mean, stall the situation along?

Mr. CHAPPELL. Well, to stall along, yes; because one way to win a strike is to starve them out.

Mr. LAROCHE. Starve them out? Do you think he was trying to do that?

Mr. CHAPPELL. That is what I would have done if I had been in his place.

So, right after that another meeting was scheduled, and, in fact, I had arranged a meeting, and when I arrived at the office of the company I found the committee assembled in the outer office, and I went into Mr. Bardo's private office and was introduced to two gentlemen who had been brought up from Washington, and I inquired if they were to participate in the meeting or expected to, and Mr. Bardo made the remark to me that he had told me that if we could not settle this dispute, that they would have to turn it over to someone who could.

Mr. LAROCHE. Who were those two men?

Mr. CHAPPELL. One of them was Mr. Weaver—I think he was administrator of the shipbuilding code.

Senator CLARK. He was formerly connected with the Newport News Shipbuilding Co., was he not?

Mr. CHAPPELL. Yes; I think he was. I know that he was. And the other was a Captain Williams, of the Navy.

Mr. LAROCHE. What was Captain Williams' job?

Mr. CHAPPELL. At that time I think he was associated in some way with the Shipbuilding Code Authority. I am not sure of that.

I told the two gentlemen and Mr. Bardo—and I showed them this telegram which had been sent to me from Washington—and told them that if they cared to sit in the conference as observers, it was all right, but that if they were going to participate, that I would not go on with the conference; that I had arranged with the men for a conference between the company officials and myself the afternoon before, and that Mr. Bardo evidently knew the afternoon before that these two men were to be there, and that it was no more than fair to the men and myself that he should have notified us.

Mr. Weaver made the statement that they should have no objection, as the President had discussed the matter with General Johnson, and the general had suggested that he come up, and that as he was the representative of General Johnson there should be no objection to his being there; and that as Captain Williams was connected with the Navy, and the Navy was very much interested because of the *Tuscaloosa* being in the yards, that they should not object to him.

However, they agreed not to enter into the discussion. When we went out with the group from the union, the chairman of the union committee made the same inquiry as I had made, and they were assured by both Mr. Weaver and Captain Williams that they were simply there as observers.

However, as the meeting progressed, Mr. Weaver was brought into the discussion in sort of an informal way.

Senator CLARK. Who brought him in?

Mr. CHAPPELL. If I am not mistaken, I did, by asking a few questions in regard to wage rates at Newport News.

Mr. LAROCHE. Excuse me. What sort of questions do you mean, Mr. Chappell?

Mr. CHAPPELL. Well, we had never been able to get from Mr. Bardo any competitive rates, although I felt very confident that he had on file there the rates in the other yards. Mr. Bardo kept contending that his rates were higher than they were in any other yard in the industry, with the possible exception of some of those around New York which were more or less repair yards.

But I think, as I recall, that was the way that Mr. Weaver was injected into it at that time.

Later in the morning, however, Mr. Bardo said that he thought that Captain Williams had something he would like to say, and the captain started by asking some of the men who had been down here in Washington, a committee which had been down here several times, questions as to what they found out while they were down here. And finally he intimated very strongly that unless these men went back to work, that the Navy would take the *Tuscaloosa* out of the yard in an unfinished condition.

Mr. LAROCHE. Who did that?

Mr. CHAPPELL. Captain Williams.

Mr. LAROCHE. He said that, unless the men took Mr. Bardo's terms, the Navy would take the *Tuscaloosa* away?

Mr. CHAPPELL. It practically amounted to that. I objected on the grounds as a representative of the secretary, that I did not feel that any Government agency had a right to come into a meeting of that character and threaten the men that the Government would take that vessel out unless they met the company's terms.

During the meeting Mr. Weaver sat right next to John Green, who was president of the union, and I noticed they had quite a little conversation together. After the meeting adjourned, I went on back to Philadelphia, where I was staying, and that afternoon I had occasion to call up Green, and he seemed very much surprised that I was in Philadelphia because, as he said, Mr. Weaver had explained to him that Mr. Weaver and myself would meet with Mr. Bardo that afternoon and try to get him to come up on his rates to a point where the strike could be settled. And he made an engagement with Green to meet the union committee at the union headquarters that night at 6 o'clock.

Senator CLARK. Weaver made that engagement?

Mr. CHAPPELL. Yes.

Mr. LAROCHE. Unknown to you?

Mr. CHAPPELL. Unknown to me, although I was supposed to be a party to the afternoon meeting.

I told Green to go ahead to the meeting with Mr. Weaver that night, but that I would be there. And I suggested to him that in dealing with Mr. Weaver he deal with him as a representative of Mr. Bardo rather than a representative of the Government.

Mr. LAROCHE. What was that again? Would you mind repeating that statement?

Mr. CHAPPELL. I suggested to Green that he go ahead with the meeting with Mr. Weaver but suggested to him that in dealing with him he deal with him as a representative of Mr. Bardo rather than a representative of the Government, because officially I was the only representative of the Government there.

Mr. LAROCHE. Were you trying to imply that Mr. Weaver was not interested in an impartial settlement? Was that the idea you wanted to convey to the men?

It was brought out that the company had given a check for \$250 to each of two ministers who had interested themselves in the labor difficulty. The checks were marked "This is intended for your personal use" (exhibits 1542, 1543, Feb. 7, galley 42 ZO).

Mr. CHAPPELL. To the men? I was trying to convey to them that it was not necessary for them to deal with him as a Government representative at that time.

Senator CLARK. As a matter of fact, it is true, is it not, Mr. Chappell, that you had sole jurisdiction of the matter on behalf of the Government?

Mr. CHAPPELL. Yes.

Senator CLARK. And this intervention on the part of the deputy administrator of the N. R. A. and the Navy Department, to try to coerce the men, was purely gratuitous on their part?

Mr. CHAPPELL. That is the way I figured it at that time; yes, sir.

At any rate, we met at 6 o'clock at union headquarters, with the committee of the union, and their attorney and myself and Mr. Weaver and Captain Williams and a minister from Camden—I do not recall his name right now—who injected himself into the picture—

Mr. LAROCHE. A minister, did you say?

Mr. CHAPPELL. Yes, sir.

Mr. LAROCHE. Would you know his name if you heard it?

Mr. CHAPPELL. I have it in my notes, I think.

Mr. LAROCHE. Did you say he injected himself into the case?

Mr. CHAPPELL. The ministerial alliance sort of injected themselves into the picture over there several times on several different strikes.

Mr. LAROCHE. It was not Dr. Harold Paul Sloan?

Mr. CHAPPELL. Yes; that is the man. Mr. Weaver, when he came in, told the men that he had spent part of the afternoon with Mr. Bardo and had gone over the whole situation with him, and had gone over Mr. Bardo's figures, and he submitted a list of rates that he considered fair, and he told the men that in his opinion the only thing to do was for them to take that proposition; that if they did not do it, the only course he saw open to himself was to return to

Washington and tell General Johnson and President Roosevelt that they had refused to accept a very fair proposition.

He asked me if I did not concur in that. I told him that, so far as I was concerned, he seemed to have tried to eliminate me from the picture, and that as a representative of the Secretary, I did not feel that I could make any statement of any kind at that time.

The men turned the proposition down entirely.

Senator CLARK. Did this man Weaver give any explanation of telling the men you would be in the conference when, as a matter of fact, you knew nothing about it?

Mr. CHAPPELL. No. At that particular time Mr. Weaver was rather arrogant in his attitude toward the men, and he made no explanation further than that he had been sent there by General Johnson and that he represented the President of the United States.

My recollection is that on one occasion that morning Mr. Bardo had told me that he invited Mr. Weaver and Captain Williams to come up. Another time Mr. Weaver stated that it was at his invitation that Captain Williams had come up. Mr. Weaver himself, in talking to the men, told them that he had definitely been asked to come up there by General Johnson.

A few days after that Mr. Bardo came down to Washington and had a conference with General Johnson in the general's office in the Commerce Building. Thinking perhaps that they might want the committee and myself there, I had suggested to the union that they have a committee here, so that I was here at that time and saw the committee, but no one of us was taken in on that conference.

The question of what kind of war-time observance of regulations can be expected from the shipbuilding companies was again raised on January 25 (galley 87 GP and 88 GP).

Mr. RAUSHENBUSH. Were you taking up with General Johnson and the N. R. A. generally, the question of observance of section 7a?

Mr. FREY. Yes; the Department took that up with General Johnson and with every other authority under N. R. A.

Mr. RAUSHENBUSH. Did we understand you correctly in your earlier testimony to say that there was a good deal of trouble about that in the shipyards?

Mr. FREY. At the present time there is not one of the big three—I take that back. At the present time the Newport News Shipbuilding & Drydock Co. and the Bethlehem Shipbuilding Co., at its plant in Quincy, Mass., and at its plant in San Francisco, are still refusing to carry out the provisions of section 7a.

Senator CLARK. What was that company in Massachusetts?

Mr. FREY. The Bethlehem Shipbuilding Co., at its Fore River plant.

Senator CLARK. That is the Bethlehem Steel Co.?

Mr. FREY. That is a subsidiary company of the Bethlehem Steel.

Senator CLARK. And the United Drydock is controlled by the United States Steel Corporation?

Mr. FREY. I do not know. The same is true of the Bethlehem Shipbuilding Co.'s plant at San Francisco.

Mr. RAUSHENBUSH. Mr. Frey, this is somewhat interesting because of evidence put in in December, when the question of war-industries plans for a future war was discussed, as to the extent of observance of Government regulations one might expect from the various companies during the pressure of a war. You are saying, if I understand your testimony correctly, that even in peace times you are having a great deal of trouble in getting enforcement of certain governmental provisions, 7 (a). Is it correct that there is trouble about that today?

Mr. FREY. Yes; it is impossible for us to have section 7 (a) carried out, and the Government or N. R. A. have made their efforts to prevail upon the shipyards to observe section 7 (a) and those that I named are now not observing it.

Mr. RAUSHENBUSH. Where is your appeal in a case like that, where you find Bethlehem or somebody not observing it? Where do you appeal in that case?

Mr. FREY. There has been set up, under the code, and with the approval of the President, an industrial relations board for the shipbuilding industry. It was provided for in October 1933. Because of the shipbuilders' opposition it was not given an official status until August of last year. Mr. Calvin is one of the labor members of that board. It now has official sanction. It seems to be operating, and we are in hopes that this industrial relations board for the industry will be able to work out the problems which, up to the present have not been worked out.

Mr. RAUSHENBUSH. Let us get this straight. How is this board constituted?

Mr. FREY. It consists of 3 representatives of the shipbuilding industry, selected by the industry, and of 3 representatives of labor who were nominated by the Labor Advisory Board of N. R. A. and who were then appointed by President Johnson—I mean General Johnson.

Senator VANDENBERG. "President" Johnson was not far from it. You refer to ex-President Johnson.

Mr. RAUSHENBUSH. You were being troubled with the provisions of N. R. A. in August 1933 and July 1933, as I understand it?

Mr. FREY. Yes, sir.

Mr. RAUSHENBUSH. And you had no appeal to a board of your own until August or September of this year?

Mr. FREY. September of this last year; yes, sir.

Mr. RAUSHENBUSH. A whole year intervened there?

Mr. FREY. Yes, sir.

Mr. RAUSHENBUSH. Are your complaints in this matter before that board?

Mr. FREY. Some of them are and others will be brought there.

Mr. RAUSHENBUSH. That is a 50-50 board. Suppose they split 50-50 in the matter of interpretation? Where is your appeal from there?

Mr. FREY. That is a question. General Johnson desired to have the board composed of an independent chairman and three representatives on each side. I was strongly opposed to that set-up. I told him that if he named a seventh man, we would then have the atmosphere of a courtroom, with opposing counsel endeavoring to influence him very much. Instead of having three men of each group endeavoring to find a solution for the question before them, we would have those three men planning the best campaign to influence the odd man, and that I felt that until there as a break-down, a complete break-down of that equal number of men on each side, to adjust the questions that would arise, I was opposed to the appointing of a seventh man.

I presume that if there was a seventh man, and his decision was seriously unsatisfactory to one or the other of the groups, that there would be an effort to appeal. I presume that they might appeal to the National Labor Relations Board, or they might carry their appeal to the highest authority in N. R. A., or they might place their problem before the President of the United States.

Mr. RAUSHENBUSH. Let us get down to that exactly. Here it has taken a year, on certain matters, in which you think that the shipbuilding companies have not been observing the laws of the country. There was a year before your authority was officially sanctioned as a labor relations board for the industry.

Presumably, the other day, the President took away from the National Labor Relations Board the authority to hear specific complaints, where industries have their own labor boards.

Mr. FREY. Yes.

Mr. RAUSHENBUSH. That being the situation, where are you going to from your 50-50 board in case the decision, as it may very well, I suppose, split on a 50-50 basis. Just as a matter of routine, of getting things done, of getting them settled one way or the other, how are you going to act, or where can you go under such circumstances?

Mr. FREY. I assume that the President's opinion would be based upon information and advice given to him by a legal adviser who has been active in N. R. A. affairs, because the President's position was similar to the one which Mr. Donald Richberg took when the Jennings case, to which you referred, was first handed down. After the National Labor Relations Board had made its decision, Mr. Richberg went before the Board and told them that they were without authority to make any such decision.

And, if my memory serves me, he requested the Board to surrender any jurisdiction in the case, and the National Labor Relations Board refused to do so, and if the point which the White House announced the other day is on all fours with that which Mr. Donald Richberg took some time before, I would be inclined to think that Mr. Richberg gave the President the reasons why he thought that was necessary. I do not know what we can do.

I have had some experience with industrial relations for many years.

I believe the present method of setting up in an industry an industrial relations board is the most practical one. I would assume that if any dispute in the shipbuilding industrial relations board reached a deadlock, that the case then could be naturally carried to the National Labor Relations Board.

Mr. RAUSHENBUSH. As I understand it, the letter from the President, that would depend upon the desire of that Labor Relations Board for any particular industry, whether it is publishing or coal or shipbuilding, or whatever it was,

to have its board vote it up, to go up to the National Labor Relations Board. That would take a vote which would carry, and you have only a 50-50 board.

That is important to us, Mr. Frey, let me say again, on the questions raised during December, whether during a war there would be any chance of having the matter enforced. Now, there may be very nice plans, but will they be enforced?

Therefore, this peace-time proposition of yours is very much in point.

Then we got an agreement of something similar to the National Labor Relations Board, with respect to labor provisions, and setting it up so that nobody should reject the findings of that board, and it should not go to the N. R. A. or anybody else.

The President's order of the other day, as I understand it, canceled that. So that you are here in a situation where you cannot appeal to the National Labor Relations Board, because you need a majority vote to do it, and you have not got anybody else to go to.

Is it not a fair inference that, in addition to the year or year and a half which has already elapsed, that another year is going to elapse before you can carry that out, with all the desire in the world, and get that up as far as the President? You have no board to go to, have you?

Mr. FREY. My answer in this: Since we have begun to—I was going to say operate; since we have tried to operate under N. I. R. A., innumerable decisions have been made by highest authority, and when it was found that the result of that decision interfered with the adjustment of questions, why, new decisions have been made. In other words, it has been recognized by those active under N. R. A. that it was something novel and new. It was an experiment; that it would be impossible at any one stage to lay down an inflexible rule as to some of them which would govern the processes by which we would adjust ourselves under codes. The experimental feature of it has been recognized. So, when either side feels that it has been done an injury, and makes its protest, secures its hearing, ways have been found which, while not wholly satisfactory, indicate, at least, that it is not a cast-iron system that we are under, but a flexible one.



PROGRESS CHART NAVAL BUILDING, JANUARY 1, 1935

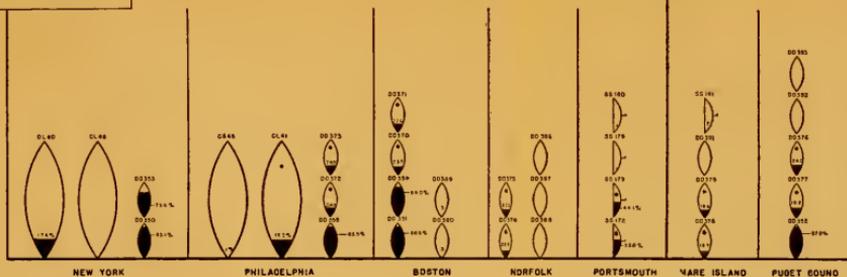
LEGEND

CL & CA = CRUISERS
CV = AIRCRAFT CARRIERS
DD = DESTROYERS (HEAVY
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HEAVY DESTROYERS)
SS = SUBMARINES
* = P. W. A.

GOVERNMENT YARDS

EAST COAST

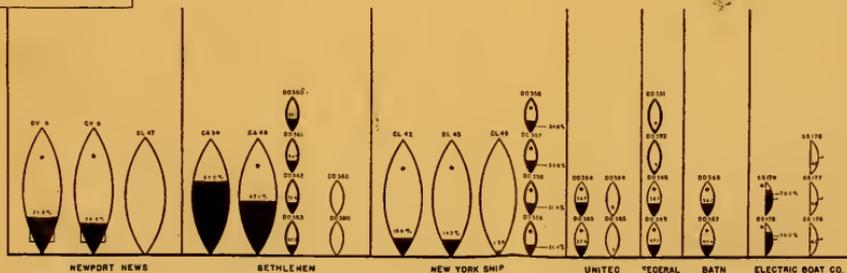
WEST COAST



LEGEND

CL & CA = CRUISERS
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DD = DESTROYERS (HEAVY
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HEAVY DESTROYER)
SS = SUBMARINES
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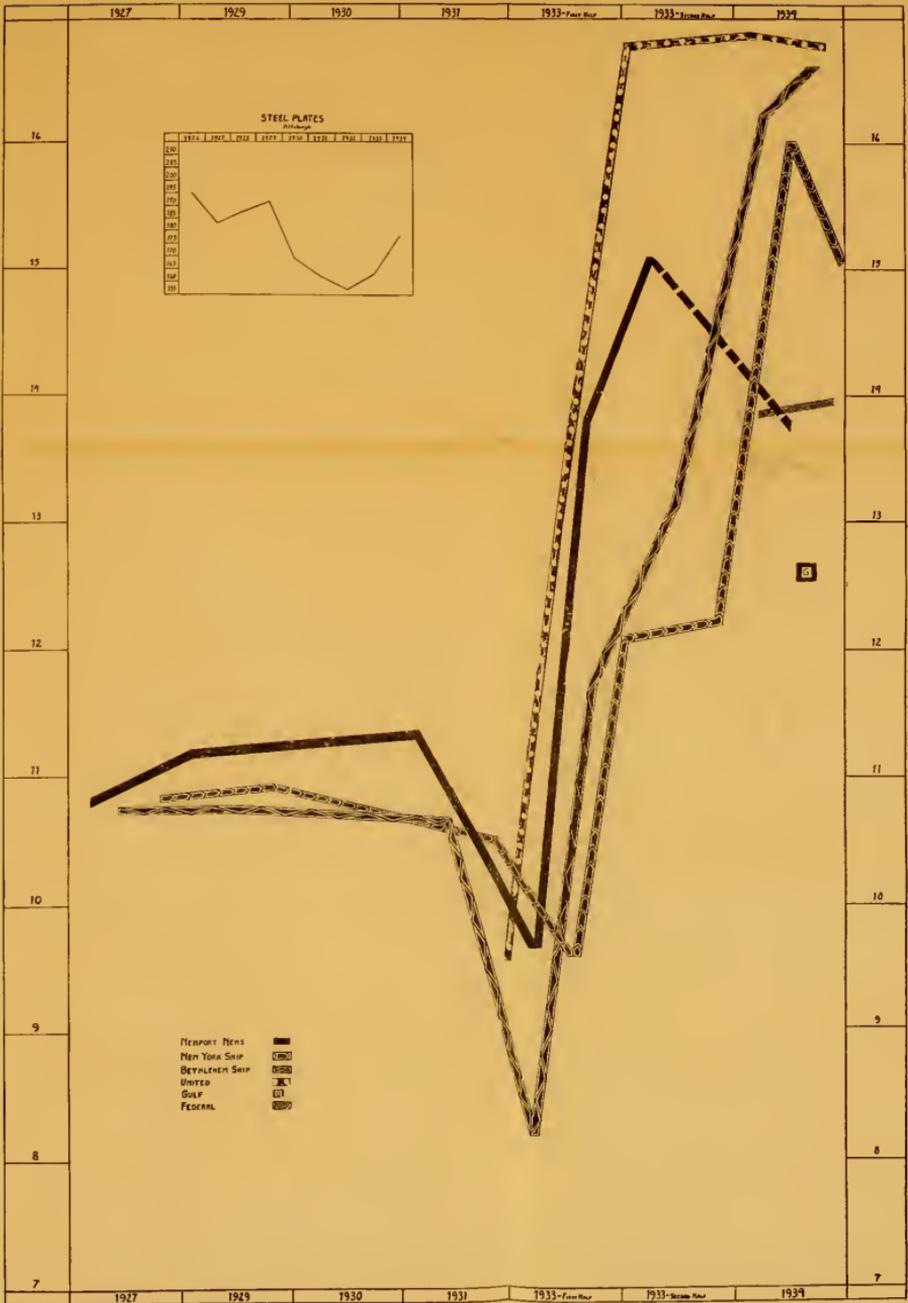
PRIVATE YARDS

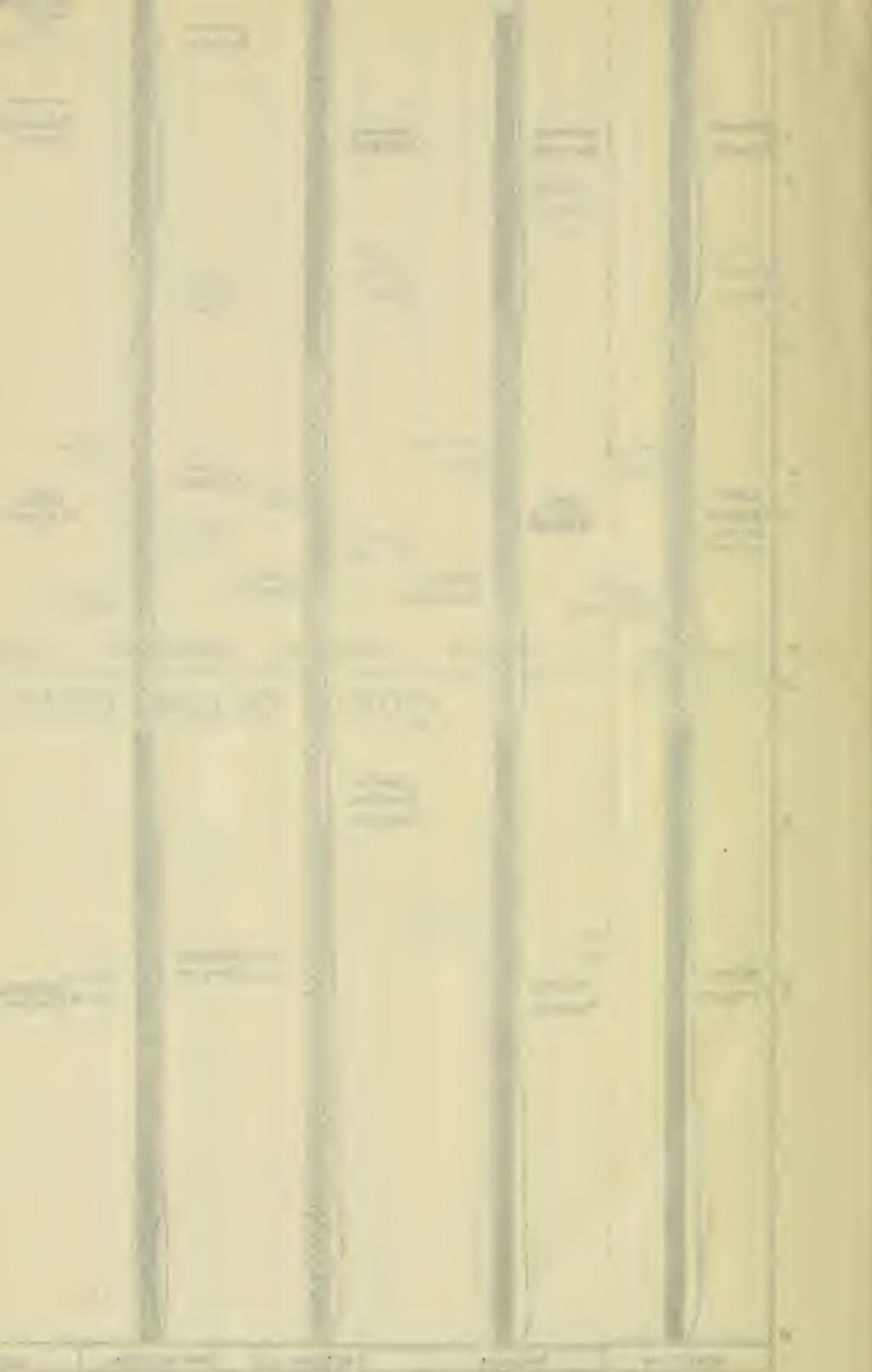


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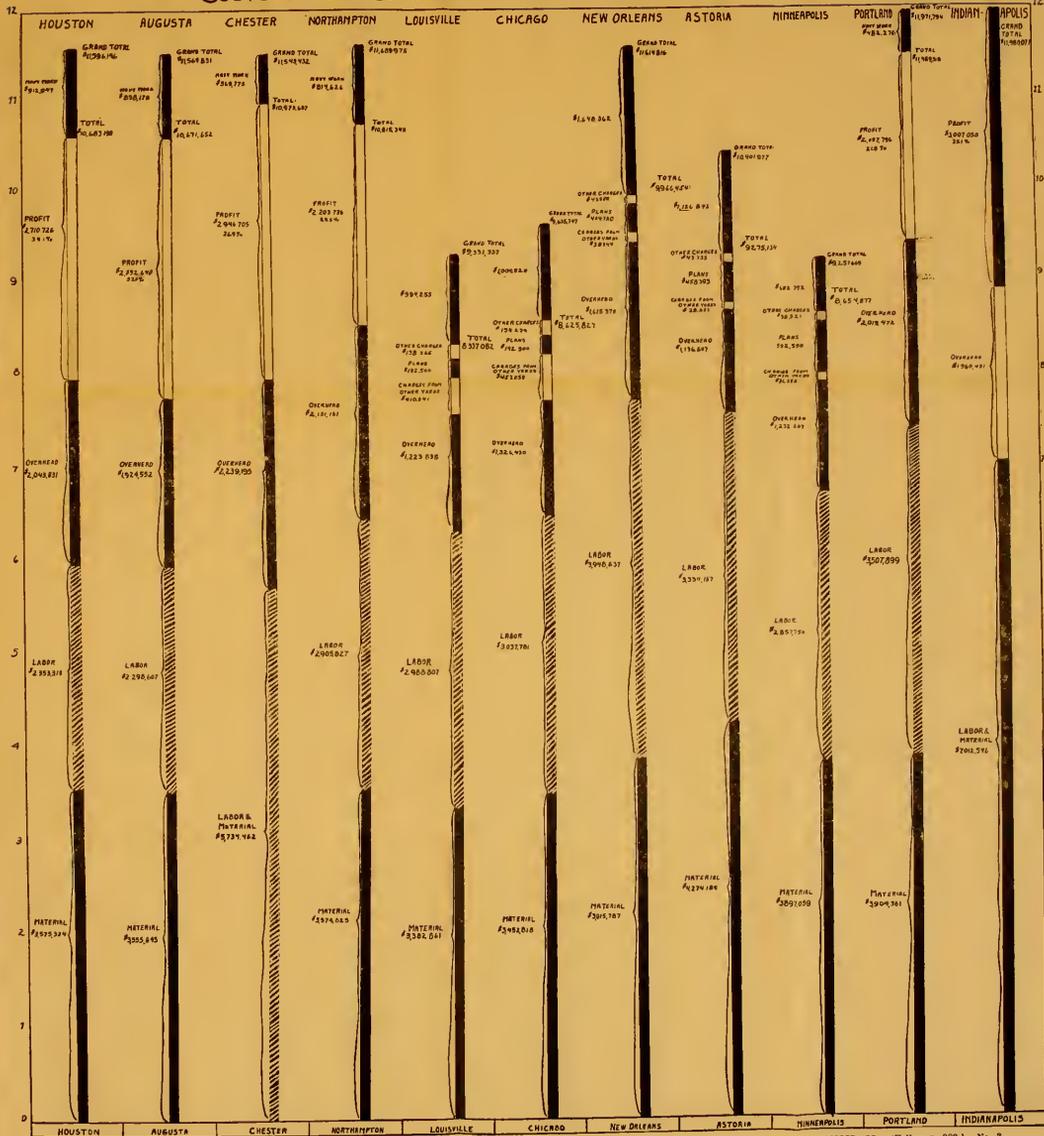
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