

**Report of the Special Committee on Investigation of the Munitions Industry (The Nye Report), U.S. Congress, Senate, 74<sup>th</sup> Congress, 2<sup>nd</sup> sess., February 24, 1936, pp. 3-13.**

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FINDINGS

I. NATURE OF THE MUNITIONS COMPANIES

The committee finds, under the head of "the nature of the industrial and commercial organizations engaged in the manufacture of or traffic in arms, ammunitions, or other implements of war" that almost none of the munitions companies in this country confine themselves exclusively to the manufacture of military materials. Great numbers of the largest suppliers to the Army and Navy (Westinghouse, General Electric, du Pont, General Motors, Babcock & Wilcox, etc.) are predominantly manufacturers of materials for civilian life. Others, such as the aviation companies and Colt's Patent Firearms Co., supply the greatest portion of their output to the military services. In addition to the manufacturers there are several sales companies which act as agents for various manufacturers. There are also brokers dealing largely in old and second-hand supplies. In case of war, other companies, not at present producing any munitions, would be called upon to furnish them.

The Army manufactures its own rifles, cartridges, and field artillery. The Navy manufactures most of its own propellant powder, its own guns, and half of the battleships.

II. THE SALES METHODS OF THE MUNITIONS COMPANIES

The Committee finds, under the head of sales methods of the munitions companies, that almost without exception, the American munitions companies investigated have at times resorted to such unusual approaches, questionable favors and commissions, and methods of "doing the needful" as to constitute, in effect, a form of bribery of foreign governmental officials or of their close friends in order to secure business.

The committee realizes that these were field practices by the agents of the companies, and were apparently in many cases part of a level of competition set by foreign companies, and that the heads of the American companies were, in cases, apparently unaware of their continued existence and shared the committee's distaste and disapprobation of such practices.

The committee accepts the evidence that the same practices are resorted to by European munitions companies, and that the whole process of selling arms abroad thus, in the words of a Colt agent, has "brought into play the most despicable side of human nature; lies, deceit, hypocrisy, greed, and graft occupying a most prominent part in the transactions."

The committee finds such practices on the part of any munitions company, domestic or foreign, to be highly unethical, a discredit to American business, and an unavoidable reflection upon

those American governmental agencies which have unwittingly aided in the transactions so contaminated.

The committee finds, further, that not only are such transactions highly unethical, but that they carry within themselves the seeds of disturbance to the peace and stability of those nations in which they take place. In some nations, violent changes of administration might take place immediately upon the revelation of all details of such transactions. Mr. Lamot du Pont stated that the publication of certain du Pont telegrams (not entered in the record) might cause a political repercussion in a certain South American country. At its February 1936 hearings, the committee also suppressed a number of names of agents and the country in which they were operating, in order to avoid such repercussions.

The committee finds, further, that the intense competition among European and American munitions companies with the attendant bribery of governmental officials tends to create a corrupt officialdom, and thereby weaken the remaining democracies of the world at their head.

The committee finds, further, that the constant availability of munitions companies with competitive bribes ready in outstretched hands does not create a situation where the officials involved can, in the nature of things, be as much interested in peace and measures to secure peace as they are in increased armaments.

The committee finds also that there is a very considerable threat to the peace and civic progress of other nations in the success of the munitions makers and of their agents in corrupting the officials of any one nation and thereby selling to that one nation an armament out of proportion to its previous armaments. Whether such extraordinary sales are procured through bribery or through other forms of salesmanship, the effect of such sales is to produce fear, hostility, and greater munitions orders on the part of neighboring countries, culminating in economic strain and collapse or war.

The committee elsewhere takes note of the contempt of some of the munitions companies for those governmental departments and officials interested in securing peace, and finds here that continual or even occasional corruption of other governments naturally leads to a belief that all governments, including our own, must be controlled by economic forces entirely.

### III. THEIR ACTIVITIES CONCERNING PEACE EFFORTS

The committee finds, under this head, that there is no record of any munitions company aiding any proposals for limitation of armaments, but that, on the contrary, there is a record of their active opposition by some to almost all such proposals, of resentment toward them, of contempt for those responsible for them, and of violation of such controls whenever established, and of rich profiting whenever such proposals failed.

Following the peaceful settlement of the Tacna-Arica dispute between Peru and Chile, L. Y. Spear, vice president of Electric Boat Co. (which supplied submarines to Peru) wrote to Commander C. W. Craven, of Vickers-Armstrong (which supplied material to Chile):

It is too bad that the pernicious activities of our State Department have put the brake on armament orders from Peru by forcing resumption of formal diplomatic relations with Chile \* \*

When the proposal to control the international traffic in arms was made in 1924 the Colt licensee in Belgium wrote:

It is, of course, understood that our general interest is to prevent the hatching up of a new agreement plan "under such a form" (as Sir Eric Drummond says) "that it may be accepted by the governments of all the countries who manufacture arms and munitions of war."

It then proposed methods of "lengthening the controversies" and to "wear out the bodies occupied with this question."

The first great peace effort after the war was incorporated in the Treaty of Versailles and in the treaty of peace between the United States and Germany in the form of a prohibition on the manufacture, import, and export of arms by Germany. The manufacture and export of military powder by German companies, in violation of these treaty provisions first took place in 1924 and was known to the Nobel Co. (predecessors of Imperial Chemical Industries) of England and to the du Pont Co., but was not brought to the attention of the Department of State. The du Pont officials explained that the violation was allowed because of the close commercial relations between the British and German chemical companies. Later, United Aircraft licensed a German company for the manufacture of its airplane engines. Sperry Gyroscope also licensed a German company for the manufacture of its equipment. Both the engines and the equipment were of military availability. (See part V, B, secs. II and III.)

The second peace effort was made in 1922, when the Washington Disarmament Conference took place, not long after the American shipbuilding companies had received post-war awards of destroyers at a cost of \$149,000,000, and while battleships whose construction was left pending in 1917 were being completed. The naval part of that conference succeeded in stopping a naval race. There was however, no effective action taken in regard to checking the use of poison gas, which was the other main subject for consideration. The committee's record is incomplete on the activities of the munitions companies in this connection, but does show their opposition to proposals for control of the chemical industry and their interest in the choice of chemical advisers to the American delegation. The conference had been preceded by the sale of all the German chemical patents to the American companies for a small sum, extensive propaganda and expenditures for high-tariff protection on grounds of national defense, and the instigation and writing of news stories from London and Paris designed to give the American public the impression that France and England were engaged in the construction of great poison-gas factories of their own to offset the German ones. Some of these were written by a du Pont agent under an assumed name. The Washington Conference operated in this atmosphere, and contented itself with repeating the declarations of The Hague conventions respecting the use of poisonous gases in warfare which had been violated during the war. Several delegations pointed out that this was no progress at all, but simply a reaffirmation of supposedly existing international law.

The embargo placed at the request of the Central (Nanking) Chinese Government on exports of arms to China was, according to the evidence, violated by American and European munitions

companies. Shipments via Europe and Panama were frequently considered as a means of evading the embargo.

The Geneva Arms Control Conference of 1925 was watched carefully by the American and European munitions makers. They knew the American military delegates to the conference several weeks before the public was informed of their names, and one of them told the munitions makers that he believed a licensing system (the sine qua non of any control) to be undesirable. Du Pont representatives made known their objections to publicity. At a conference at the Department of Commerce (prior to the convening of the Geneva Conference) the objections of the munitions manufacturers were considered carefully and reservations to the draft convention to be discussed at Geneva were made. State Department documents not entered into the record give credit to the American delegation to the Geneva Conference for weakening the proposed draft convention in two important respects. The du Pont representatives (who attended the meeting at the Department of Commerce) later remarked of the final draft of the convention regarding the arms traffic signed at Geneva in 1925:

There will be some few inconveniences to the manufacture of munitions in their export trade, but in the main they will not be hampered materially.

The draft convention was widely advertised as a large step forward in the direction of control of the traffic in arms. It has, in 1936, not yet been ratified by sufficient States to put it into effect.

The influence of American naval shipbuilding companies on the Geneva Disarmament Conference of 1927 has been described in the committee's report on Naval Shipbuilding (74th Cong., Rept. 944). Their agent at Geneva claimed credit for the failure of that conference, which came at a time when the Big Three shipyards had been given orders by the Navy for \$53,744,000 in cruisers, which would have been cut materially in case the conference had been a success. He was paid by the shipbuilders into 1929. The Navy has not denied to the committee that this agent of the shipbuilders was in possession of confidential Navy Department documents during the time of his activity at Geneva.

Following the Geneva conference an arms embargo resolution was introduced in 1928 by the chairman of the American delegation to that conference, Representative Burton of Ohio. The munitions manufacturers, cocky with their success at Geneva, consulted with such allied interests as the Sporting Arms and Ammunition Manufacturers Institute, and found it unnecessary to appear in the front ranks of opposition to this resolution. In 1932 Representative Fish introduced a resolution for a multilateral agreement renouncing the sale and export of arms. Du Pont representatives were active in lining up War and Navy opposition to it. In 1932-33 President Hoover supported an arms embargo which drew the comment from a du Pont representative:

Regarding the attempts of Mr. Hoover and the "cooky pushers" in the State Department to effect embargoes on munitions sent out of the country, I do not believe there is the least occasion for alarm at present.

The munitions people were active in opposition to the arms embargo proposal which was adopted in the Senate without opposition. Senator Bingham of Connecticut succeeded in killing

the bill on reconsideration and received the thanks of the munitions people and of their organization, the Army Ordnance Association. The War Department also opposed the embargo.

In 1932, another disarmament conference was held at Geneva. By this time the failure to prevent the rearmament of Germany, described above, had resulted in great profits to the French steel industry which had received large orders for the building of the continuous line of fortifications across the north of France, to the French munitions companies, and profits were beginning to flow into the American and English pockets from German orders for aviation matériel. This in turn resulted in a French and English aviation race, and with Germany openly rearming the much-heralded disarmament conference which convened in 1932 has failed completely. It was pointed out by a committee member that Du Pont representatives were aware that--

the effect of the failure to check the [Versailles] treaty violation even goes to the extent of making a subsequent disarmament convention, if not improbable in its success, at least calculated to produce only an unworkable document.

In 1934, Congress adopted a joint resolution prohibiting, in effect, sales of munitions to Bolivia and Paraguay, then engaged in the Chaco War, for a period of almost 6 years. During these 6 years, the munitions companies had profited largely from the defeat of the Burton embargo proposal, offered in 1928.

The Chaco embargo, according to indictments issued by a Federal grand jury, was violated by the Curtiss-Wright Export Corporation and the Curtiss Aeroplane Motor Co. The lower court has held the embargo unconstitutional on the ground of delegation of power to the President.

Mayrink-Veiga, agents for many munitions companies in Brazil suggested that the embargo could be evaded by the shipment of planes to Europe first, stating that to be the Curtiss and Bellanca procedure.

In 1935, after a year of hearings by the special committee, a neutrality bill was passed including an embargo on arias, ammunition, and implements of war in the event of a state of war between two or more foreign states, and including a munitions-control board with power to issue export licenses. The Secretary of State has announced that not all the companies supposed to register under this law have done so. In 1936 an attempt was made to amend the neutrality law by holding the exports of necessary war materials (oil, copper, steel, etc.) to belligerents to normal quotas. This was defeated. Considerable quantities of those materials were already being exported to Italy, one of the belligerents in the Italo-Ethiopian War, and some of the exporting companies had connections and investments in Italy.

#### IV. THE EFFECT OF ARMAMENTS ON PEACE

The committee finds, under the head of the effect of armament, on peace, that some of the munitions companies have occasionally had opportunities to intensify the fears of people for their neighbors and have used them to their own profit.

The committee finds, further, that the very quality which in civilian life tends to lead toward progressive civilization, namely the improvements of machinery, has been used by the munitions

makers to scare nations into a continued frantic expenditure for the latest improvements in devices of warfare. The constant message of the traveling salesman of the munitions companies to the rest of the world has been that they now had available for sale something new, more dangerous and more deadly than ever before and that the potential enemy was or would be buying it.

While the evidence before this committee does not show that wars have been started solely because of the activities of munitions makers and their agents, it is also true that wars rarely have one single cause, and the committee finds it to be against the peace of the world for selfishly interested organizations to be left free to goad and frighten nations into military activity.

The committee finds, further, that munitions companies engaged in bribery find themselves involved in the civil and military politics of other nations, and that this is an unwarranted form of intrusion into the affairs of other nations and undesirable representation of the character and methods of the people of the United States.

The export field of our munitions companies has been South America and China, with occasional excursions into Poland, Turkey, Siam, Italy, Japan, and other nations. There was less important dynamite loose in either South America or China than in western Europe. The activities of the munitions makers in Europe were of greater importance to the peace of the western world than their activities in either South America or China. It will remain for commissions with full powers in the large European nations to report on the provocative activities of their companies, particularly to investigate the statements made in the French Chamber of Deputies, that Skoda in Czechoslovakia, a subsidiary of Schneider-Creusot, financed the Hitler movement to power, which, more than any one other event, can be credited with causing the present huge rearmament race in Europe, so profitable to the European steel, airplane, and munitions companies.

In South America there have, in the post-war years, been moments of severe tension, occasionally breaking out into war. One of these moments apparently came directly after the World War, when Chile bought from Vickers a considerable battle fleet. This caused agitation in Brazil, Argentina, and Peru, with Vickers taking the lead in Chile and Argentina, and Electric Boat Co. in Peru and Brazil. The situation was apparently so delicate that an administration countermanded an offer from the United States Navy to sell destroyers to Peru inasmuch as the sale might encourage an outbreak of war between Chile and Peru (exhibits 54, 57).

Later tension developed between Peru and Chile over the Tacna-Arica matter and Aubry, the Electric Boat Co. agent, felt that if he brought the contracts for submarines for Peru--

it would be a great blunder going to Argentina, for instance, via Chile (In this business we have to be tactful and a little diplomatist) and so in regard to Brazil as well as to the Argentine now that affairs are going to take place at the same time (exhibit 69).

Mr. Carse, president of Electric Boat, recognized the danger of armament when he pointed out in regard to financing Peruvian purchases "the armament which this money could purchase would not insure victory, as the other nation has much stronger armament and would tend more to bring conflict to a point than if they did not purchase the armament" (exhibit 61). It was sold, nevertheless.

The spreading effects of such fears were reported by Vice President Sutphen of Electric Boat:

It appears that there has been quite an agitation in Bolivia, as you know, and a revolution has occurred there recently, and in the opinion of the bankers it has been instigated largely by Peru to have Bolivia join with her in opposition to Chile (ex. 60).

Chile was the country which bought the original increased armaments. It was in this connection that Spear wrote Craven of the "pernicious activities" of the United States Department of State in helping the resumption of diplomatic relations between Chile and Peru.

The naval armament had its military side. Evidence read into the record during the Colt Co. hearing in 1936 indicated an arms race with intense activity on the part of all machine-gun manufacturers. The country which was credited with starting military armament "out of all proportion with that of other countries in South America" was identified as a country whose officials were the most susceptible to bribes.

The Department of Commerce obligingly furnished Colts the information that the arms race was bringing about a cabinet crisis in one of the countries reluctant to participate in it.

The statement of a Federal Laboratories salesman that "the unsettled condition in South America has been a great thing for me" is the key, and also, "We are certainly in one hell of a business where a fellow has to wish for trouble to make a living."

Colombia and Peru, at the time of the Leticia incident, were each kept well informed by the munitions companies of the proposed purchases of the other nation. The evidence of the Colt agent in Peru was that the Vickers agent, after unloading a huge armament order on Peru, had boasted to the Peruvians that he would sell "double the amount, and more modern, to the Chilean Government." When a limited amount of materiel, such as machine guns, was available, Bolivia could be forced into ordering them on the threat that unless she acted quickly, Paraguay would get them. Killing the back-country Indians of South America with airplanes, bombs, and machine guns boiled down to an order to get busy because "these opera bouffe revolutions are usually short-lived, and we must make the most of the opportunity"

In China the munitions companies report that there was a certain amount of feeling between the Central (Nanking) Government and the Canton Government. The Boeing agent was able to sell 10 planes to the Canton Government. Referring to the Nanking (recognized) Government he wrote:

Their anger at us in selling airplanes to the Cantonese is more than offset by the fact that the Cantonese have gotten ahead of them and will have better equipment than they will have. In other words, the Canton sale is quite a stimulant to the sale up here.

The company, interested in making sales also to the recognized Nanking Government, replied:

If the present deal with the Cantonese can be put through, without unreasonable demands being made upon us, it is to our advantage to successfully conclude the business if for no other reason but for the effect it would have on the Nanking Government.

All this may be little more to the munitions people than a highly profitable game of bridge with special attention on all sides to the technique of the "squeeze" play, but to a considerable part of the world's inhabitants there is still something frightful in death by machinery, and the knowledge that neighboring governments have acquired the latest and fastest engines of destruction leads to suspicion that those engines are meant to be used, and are not simply for play and show.

At the time a naval bill for \$617,000,000 was before Congress, the president of the Bath Iron Works in Maine asked the publisher of a string of newspapers to reprint a Japanese war-scare story, although the Chinese source of that story had been thoroughly discredited editorially by the newspaper originally publishing it, the New York Herald Tribune. He thanked the publisher for playing up the scare story (Report on Naval Shipbuilding).

Attempts to sell munitions frequently involve bribery, which, to be effective, must go to those high in authority. This is apt to involve the companies in the politics of foreign nations. Federal Laboratories, by putting itself at the disposal of the administration of Cuba and two opposing factions, all at the same time, is a case in point. The Colt agent in Peru reported on his helping overthrow the general in charge of ordnance orders. American airplane companies reported on the political influence of French and English airplane companies, in a certain European country. Sperry Gyroscope's representative reported on Vickers' (English) political influence in Spain, as did also Electric Boat Co. officials.

The political power of the companies is best indicated, however, by a letter from Mr. John Ball, director of the Soley Armament Co Ltd., of England, in which he pointed out that "the stocks we control are of such magnitude that the sale of a big block of them could alter the political balance of power of the smaller States."

## V. THEIR RELATIONS WITH THE UNITED STATES GOVERNMENT

The committee first, under this head, repeats its report on naval shipbuilding, in which "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", and "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, that the munitions companies have secured the active support of the War, Navy, Commerce, and even State Departments in their sales abroad, even when the material was to be produced in England or Italy.

The committee finds that by their aid and assistance to munitions companies the War, Navy, and Commerce Departments condone, in effect, in the eyes of those foreign officials cognizant of the details of the transactions the unethical practices of the companies which characterize their foreign sales efforts.



The committee finds that the munitions companies have constantly exerted pressure on the War Department to allow the exportation of the most recent American improvements in warfare, and have usually been successful in securing it, and have also furnished plans of important new machines of war to their foreign agents in advance of any release by the War Department.

The committee finds that the War Department encourages the sale of modern equipment abroad in order that the munitions companies may stay in business and be available in the event of another war, and that this consideration outranks the protection of secrets. (General Ruggles was quoted: "It was vastly more important to encourage the du Pont Co. to continue in the manufacture of propellants for military use, than to endeavor to protect secrets relating to the manufacture.")

The committee finds that as improvements are developed here, often with the cooperation of the military services, and these improvements presumably give the United States a military advantage, we are in the anomalous position of being forced to let the other nations have the advantages which we have obtained for ourselves, in order to keep the munitions manufacturers going, so that the United States can take advantage of the same improvements which its companies have sold abroad.

The committee finds, from official documents it has not entered into the record, that the United States naval missions to Brazil and Peru have been given considerable help to American munitions makers, and that their participation and leadership in war games directed at "a potential enemy" have not advanced the cause of peace in South America, and that their activity can be misinterpreted by neighboring countries as support of any military plans of the nations to which they are attached.

The committee finds, from official documents which it has not entered into the record, that the sales of munitions to certain South American nations in excess of their normal capacity to pay, was one of the causes for the defaults on certain South American bonds; and that the sales of the munitions was, in effect, financed by the American bond purchasers, and the loss on the bonds was borne by the same people.

The committee finds that the Army Ordnance Association, consisting of personnel from the munitions companies, constitutes a self-interested organization and has been active in War Department politics and promotions.

The committee finds that the Navy League of the United States has solicited and accepted contributions from steamship companies, the recipients of subsidy benefits, and that it has solicited contributions from companies with large foreign investments on the ground that these would profit from a large navy and that its contributors have at times been persons connected with Navy supplies. The committee also finds that the Navy League together with various Navy officials have engaged in political activity looking toward the defeat of Congressmen unfavorable to Navy League and Navy views.

The committee finds, further, that any close associations between munitions and supply companies on the one hand and the service departments on the other hand, of the kind which

existed in Germany before the World War, constitutes an unhealthy alliance in that it brings into being a self-interested political power which operates in the name of patriotism and satisfies interests which are, in large part, purely selfish, and that such associations are an inevitable part of militarism, and are to be avoided in peacetime at all costs.

The committee finds, finally, that the neutrality bill of 1936, to which all its members gave their support and which provides for an embargo on the export of arms, ammunitions, and implements of war to belligerents, was a much needed forward step, and that the establishment of a Munitions Control Board, under the Department of State, should satisfactorily prevent the shipment of arms to other than recognized governments.

## VI. INTERNATIONAL AGREEMENTS OF MUNITIONS COMPANIES

The committee finds, under this head, that, among the companies investigated, the following have the most extensive foreign arrangements: F. I. du Pont do Nemours Co., Colt's Patent Firearms Co., Electric Boat Co., Sperry Gyroscope Co., Pratt & Whitney Aircraft Co.

The committee finds that the usual form of arrangement is a license to a foreign ally involving rights to manufacture and sell in certain parts of the world, together with more or less definite price-fixing agreements and occasionally profit-sharing arrangements, and that in effect the world is partitioned by parties at interest.

The committee finds that the granting of licenses to manufacture and sell to nations against which there were embargoes, such as Germany, was in practice a violation of the interest of such embargoes and nullified them.

The committee finds that the international commercial interests of such large organizations as du Pont and Imperial Chemical Industries may precede in the minds of those companies the importance of national policy as described publicly by the foreign office or State Department, and that such considerations of commercial interest were apparently foremost in the rearming of Germany beginning in 1924 and in the sale of a process which could be used to manufacture cheaper munitions in Japan in 1932, shortly after Secretary of State Stimson had taken steps to express the disapproval of this Nation for Japan's military activities in Manchuokuo. Several aviation companies also licensed Japan for the use of their material in Manchuokuo at a time when the United States Government refused recognition to it. Recognition by munitions companies may be far more important than diplomatic recognition.

The committee finds that the licensing of American inventions to allied companies in foreign nations is bound to involve in some form the recurrence of experiences similar to those in the last war in which Electric Boat Co. patents were used in German submarines and aided them in the destruction of American lives, and ships, and that in peacetime the licensing involves the manufacture abroad, at lower costs, of American material.

## VII. THE CHEMICAL INDUSTRY AND MUNITIONS

The committee finds a general acknowledgment of the importance of the commercial chemical industry to the manufacture of such instruments of warfare as high explosives and gasses, that most of the large industrial nations have granted their chemical companies considerable measures of protection in the interests of national defense, and that no effective control has to date been established over these large military resources.

These findings were concurred in by all members of the committee.