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May 20, 1940
4:32 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

R. A.
Millikan: Hello.

*Chairman Exe. Council
Cal. Inst. of Technology*

H.M.Jr: Mr. Millikan.

M: Yes.

H.M.Jr: Henry Morgenthau, Jr.

M: How do you do, sir.

H.M.Jr: How are you? Mr. Millikan, you got my message about the kind of people I wanted?

M: I did.

H.M.Jr: Now.....

M: Now -- all right, shall you go ahead or shall I?

H.M.Jr: You do, please.

M: All right. I judge, from what I heard this morning, that what you're trying to do is to develop new facilities for the manufacture of engines -- aeroplane engines on the coast somewhere.

H.M.Jr: Well no, that isn't exactly the picture. Hello?

M: Yes.

H.M.Jr: For the time being I'm sort of coordinating for the President the needs of the Army and Navy and the Allies. Hello?

M: Yes.

H.M.Jr: I want what I call disinterested advice on engines -- aeroplane engines and possible new sources for engines or new designs. Hello?

M: Yes.

- 2 -

H.M.Jr: And I don't want to rely on the -- just the Army and Navy and the manufacturers; therefore, I'd like -- I want to go to you and to M.I.T. and ask them who do they have who are not on somebody's payroll.

M: Yes.

H.M.Jr: Who has a financial stake. Now that's what I want and who there was that you have who knew aeroplane engines and was -- from the engineering standpoint.

Well now, I'll give you an example. Hello?

M: Yes.

H.M.Jr: Take the Rolls-Royce engine. Is that something we should try to manufacture here or have we something as good, or haven't we. You see?

M: I see.

H.M.Jr: Now we have two of those Rolls-Royce engines at Dayton that just arrived. Is the engine that the -- the new flat engine made by Continental, is that something we should push or isn't it?

M: I see.

H.M.Jr: Where are we -- how are we going to develop a Deisel aeroplane engine.

M: Yeah. It's disinterested advice then.

H.M.Jr: Disinterested advice.

M: Well now, I think I can -- I would answer that as follows. I think you probably know where the biggest experience in the whole aeroplane field is in the institutions -- that is in the universities or technical schools.

H.M.Jr: Well, I'm not sure if I do or not.

M: Well, I would say that -- the juvenile laboratories here have unquestionably -- I think -- you can go to somebody else because I might be prejudiced in their favor.

- 3 -

H.M.Jr: Well, I was sent to you as one of the best sources. I have gone to you and to Dr. Compton.

M: All right. Well then what you really want -- then I've got it -- exactly what you want.

H.M.Jr: Yeah.

M: And our group here -- you see, we're here -- our group here has done an amazing -- has been very closely associated with the development of the aeroplane industry in this area.

H.M.Jr: Yes.

M: that manufacturers will tell you, but we have no -- the men whom I am going to speak to you about have no connections with them of any kind.

H.M.Jr: I understand.

M: What -- and our two men -- three men here would know the field pretty well. That's on our staff. The first would be Theodore von Carmen, who is, I think, recognized as the foremost authority in the world on engine -- on aeroplane design.

H.M.Jr: Yes.

M: He is in the inter-dynamic side other than on the engine side, but he's a highly trained and a very competent engineer.

H.M.Jr: I see.

M: Who would be told by -- well, I think if you'd go to M.I.T. and ask.....

H.M.Jr: Well, they've suggested Hunsaker.

M: All right. He's their man.

H.M.Jr: Hunsaker.

M: He's good.

H.M.Jr: Yes.

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- M: But if you'd ask Hunsaker who the foremost man in that line in the United States, or in world, he'd say it was Carmen.
- H.M.Jr: I see.
- M: I think Carmen -- he and Carmen have worked together for -- for years. Hunsaker is the man who knows their -- is the best man on their group.
- H.M.Jr: Yes.
- M: At M.I.T. Carmen is the best man on our group, unquestionably.
- Now, the second man who has had a great deal to do with this also is Mr. -- he's my son.
- H.M.Jr: I see.
- M: Who is in the group in our laboratories.
- H.M.Jr: Right.
- M: C.B. -- Clark B. Millikan, and you can get advice from him -- about him from anybody who knows anything about the aeroplane game in the country rather than taking mine.
- H.M.Jr: Well, I'm more than willing to take yours.
- M: Well, those two men, although one of them is my son, two men are outstanding in the -- in the whole aeroplane field.
- H.M.Jr: Yeah, Clark B. Millikan.
- M:that that is the case as far as our group here is concerned.
- H.M.Jr: Now, let me ask what may be a very silly question. What is the nationality of Theodore von Carmen?
- M: Carmen is a Hungarian.....
- H.M.Jr: Oh.
- M:naturalized citizen of the United States.

- 5 -

H.M.Jr: You mean, he's not.....

M: A man of Jewish blood.....

H.M.Jr: Yes.

M: And.....

H.M.Jr: Well, being a Jew.....

M: In fact, I got him over here.

H.M.Jr: I say, being a Jew myself, I have no prejudice.

M: No. Well, I haven't either.

H.M.Jr: But I just didn't know whether he was a Nazi.

M: You needn't have any worries about -- about Carmen.

H.M.Jr: I see.

M: But if you want to know what kind of a man he is, let me give you this little incident, if you can take the time to.....

H.M.Jr: I have plenty of time.

M: A little amusing talk over the phone.

H.M.Jr: Yes.

M: When he came to us he kept the -- his professorship in Germany, so far as the roll was concerned. He didn't have any income from there but he kept his title there. When the -- when the -- Hitler Regime came in they sent him a telegram and insisted upon his going back.

H.M.Jr: I see.

M: And you see, of course, the reason -- because he's probably -- two men in Germany who had the reputations and the experience that he had. He brought it to me and showed it to me and he said, "I'll send them my profile."

H.M.Jr: I see. That's amusing.

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M: Well, that's very typical of Carmen. He's a -- he's a very broad, extreme, outstanding man in every particular, who has -- in spite of the fact that he has the handicap of speaking with a -- not very good English, and also of being somewhat deaf. He never gets into a group but what they all are eating out of his hand. That's.....

H.M.Jr: Well now.....

M:the kind of a man he is.

H.M.Jr:Mr. Millikan, I'd like Theodore von Carmen and Clark B. Millikan to come to Washington at the expense of the Treasury. We'll pay for their railroad fare, or rather air transportation, both ways and their living expenses and I don't what arrangement the University -- your University makes in regard to whether you want us to pay them or not. Hello?

M: Yes.

H.M.Jr: We can -- what we -- in the Treasury we could pay \$25 a day, their air transport, and \$5 a day for their subsistence. Hello?

M: All right. That's all right. They are not after.....

H.M.Jr: But I mean -- that's the maximum the law allows.

M: I understand that, and I've been doing -- I've done a lot of this type of thing myself.

H.M.Jr: So if they could start tomorrow.

M:financial then I am.

H.M.Jr: I say, if they could start tomorrow and get here Wednesday.

M: Well, I should have to wire you. I'll have to get in touch with them and find out.

H.M.Jr: Will you?

M: Yes, I'll be glad to do it.

- 7 -

H.M.Jr: Well, get them started just as soon as they can, and send me a telegram, and as I say, we can pay all of their expenses plus -- well, the regular Government thing. I think it's either \$22.50 or \$25 a day, plus \$5 of subsistence. We give them the maximum the law allows from the time that they start.

M: There is another young man who is a more of an engine man, directly an engine man than either of these two are, but they know the aeroplane game and the question...

H.M.Jr: Well, if there's an engine man let him come.....

M: for fifty.....

H.M.Jr: Well, as I say, if you've got a third man -- have you got another man who is particularly an engine man?

M: Yes.

H.M.Jr: Let him come on.

M: All right, fine.

H.M.Jr: What's -- let him come on just the same.

M: All right. Then I'll try and see if I can't get -- Lombard is the other man's name.

H.M.Jr: Lombard.

M: A young man but a very able man, and he's in engines to a larger extent than they are. They are in the side.

H.M.Jr: Well, it's the engine thing.....

M: The position of the engine to the plane, and that's what you want.

H.M.Jr: Well, but -- also engines.

M: All right.

H.M.Jr: I mean, we've got to start with the engine first.

M: All right. I understand that.

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H.M.Jr: So if you can get them to come as soon as they can and -- and send me a telegram to the Treasury.

M: I'll do so, Mr. Morgenthau.

H.M.Jr: And we've got George Mead coming down also.

M: Who's this?

H.M.Jr: Isn't that his name, -- wait a minute?

M: Mead?

H.M.Jr: Yes, George Mead.

M: Geologist at M.I.T.

H.M.Jr: No, no. No, no. This man used to be with Pratt and Whitney.

M: Oh well then -- Yes, well, he's more of an engine man than any of these are.

H.M.Jr: Yes, he used to be with Pratt and Whitney.

M: I know who he is.

H.M.Jr: We've got Mead and Hunsaker coming down.

M: Yeah, they're good.

H.M.Jr: Both of them.

M: All right. Very well then, I'll see if I can't get them -- come on tomorrow.

H.M.Jr: Fine.

M: When are you going to have your meeting?

H.M.Jr: Well, we'll have it when they get here.

M: All right, sir.

H.M.Jr: We'll have it.....

M: I'll see if I can't get them to come down.

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H.M.Jr: We'll have it when they get here.

M: All right.

H.M.Jr: Thank you.

M: Thank you, Mr. Morgenthau.

9-A

May 20, 1940
11:33 a.m.

H.M.Jr: Hello.

Operator: Dr. Compton.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

Dr. Karl T.
Compton: Oh, hello.

H.M.Jr: This is Henry Morgenthau, Jr.

C: Oh yes, good morning.

H.M.Jr: How are you, sir?

C: Lieutenant McKay told me what you were calling up about.

H.M.Jr: That's right.

C: Now, I have a list of men here. Would you like, perhaps to put a stenographer on the line and let me pass them on to her, or shall I give them to you just in person.

H.M.Jr: You just give them to me and I can take them down.

C: Yes. Well, I -- I think the number one man, in our judgment here, would be George J. Mead.

H.M.Jr: I see.

C: He is retired, although he is a relatively young man. He was formerly chief engineer of Pratt and Whitney.

H.M.Jr: Yes.

C: And he's now the Vice Chairman of the National/Com-
mittee for Aeronautics and Chairman of its Power
Plant Committee. Advisory

H.M.Jr: Right.

*Mass. Inst. of
Technology*

- C: Then other men that are thoroughly first-class in both design and production of aeroplanes are Leonard Hobbs -- H-o-b-b-s.....
- H.M.Jr: Yes.
- C:of the Pratt and Whitney Company in Hartford, and Roland , who is Vice President and Chief Engineer of the Allison Engineering Company of Indianapolis.
- H.M.Jr: Well, Dr. Compton, I was thinking of people more like Mr. Mead who are outside the industry, who are not interested in it, you see?
- C: Oh, I see.
- H.M.Jr: I mean, some -- I mean, -- well, for example, if I want to ask the question, "Why don't we have a Deisel engine?" There's no use going to the industry because they haven't produced one.
- C: Yes.
- H.M.Jr: I mean, it's questions like that. Now, Mead -- they tell me your man Hunsaker is very good.
- C: Well, Hunsaker -- Hunsaker is a first-class man. He's -- he's not primarily an engine man.
- H.M.Jr: Oh.
- H.M.Jr: We have two very good engine men on our staff. C.F. -- they are two brothers -- C.F. Taylor, and E.S. Taylor.
- H.M.Jr: I see.
- C: C.F. Taylor used to be Chief Engineer of the Wright Aeronautical Corporation and E.S. used to be on their staff but they've both been with us now for some fifteen years.
- H.M.Jr: Well then, the engine people who are not connected with the industry gets down to Mead and the two Taylors?

- C: Yes, they're the only ones I have on my list. I hadn't realized -- Lieutenant McKay said you didn't want men in Government service.
- H.M.Jr: No, and I don't want men.....
- C: And I hadn't realized that the -- exclusion of industry.
- H.M.Jr: Well, because I take it that they're doing everything that they can.
- C: Yes. Well now, I should say George Mead is the number one man in any case, and C.F. and E.S. Taylor are both good men.
- H.M.Jr: C.F. and what's the other one?
- C: E.S.
- H.M.Jr: E.S., yeah.
- C: E.S. Taylor and C.F.
- H.M.Jr: Right.
- C: Now, of those two E.S. is the younger but I think he has the better judgment of the two.
- H.M.Jr: I see, but George Mead is sort of the granddaddy of them all?
- C: Yes. Yes, I should say so. And he's independent now of the industrial -- industrial connections.
- H.M.Jr: Right. Well, I'm ever so much obliged.
- C: Hunsaker is an exceedingly good man for general advice and he's -- has a good deal of statesmanship.
- H.M.Jr: Well, I may.....
- C: He's primarily an engine man.
- H.M.Jr: Now, if I need any of these people from your M.I.T. should I do it through your office?
- C: Well, it could be done in that way or directly with them. I wouldn't care.

H.M.Jr: Well, I'll do it through your office.

C: Yes. All right.

H.M.Jr: I'm very much obliged.

C: Well now, Secretary Morgenthau.

H.M.Jr: Yes.

C: Perhaps in going back to discuss with my people to go outside of the industry, I could send you several more names. If so should I send you a telegram?

H.M.Jr: If you would do that.

C: All right, I'll do that.

H.M.Jr: Thank you so much.

C: Goodbye.

May 20, 1940
4:46 p.m.

H.M.Jr: Hello.

Robert
Hinkley: Mr. Secretary.....

H.M.Jr: Hello, Bob Hinkley.

H:if it's agreeable to you I think we'll have
come down just Mead and Hunsaker and leave the
Taylors out.

H.M.Jr: O. K.

H: And we'll pick up Paul Johnstone here in Washington,
who is a former editor of "Aviation" and is now
working for M.A.C.A.

H.M.Jr: Good.

H: And then I'll have another suggestion on somebody
that might be extremely helpful to you, who is now
with an engine company.

H.M.Jr: Yes.

H: He's with Wright. His name is T.P. Wright, but he
would leave and resign all connections in order to
do some public service. I've been trying to use
him for some time past and I think he'd be a corker.

H.M.Jr: Well, before we ask him that, we'd better -- you
know, it's a responsibility.

H: What's that?

H.M.Jr: That'll be a responsibility to ask him to give up a
regular job.

H: Oh, yes. Yes, I realize that. I just want to get
his name in your mind now.

H.M.Jr: Swell.

H: Ted Wright.

H.M.Jr: O. K.

- 2 -

H: One of the best engineers and a production man.

H.M.Jr: Wonderful!

H: Yeah.

H.M.Jr: Snappy work.

H: Yeah.

H.M.Jr: Thank you.

H: All right, sir. I-- I haven't got any other gentlemen yet but we're trying to get them for three o'clock tomorrow.

H.M.Jr: O. K.

H: Fine. Goodbye.

File 1/20

12

CONFIDENTIAL

Scheduled Deliveries, by Months, of Airplane Orders of British and French Governments
Classified by Manufacturers and by Type of Plane, May 15, 1940

Manufacturers and type of plane	Adjustments from prior months			Scheduled deliveries for future months												Inter- lulls												
	Total unfilled orders as of May 15	Behind schedule	Ahead of schedule	1940													1941											
		as of May 15	as of May 15	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.				
		(to be added to future scheduled deliveries)	(to be deducted from future scheduled deliveries)	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.				
Boeing Co. 107 2-engine bomber	99	74	25																									
Durles-Wright Corp. Buck 75A pursuit Buck 75A pursuit Buck 81A pursuit Buck 86A pursuit	20 210 700 360	40	15	20	24	24	33	15	4	16																		
Total Durles-Wright Corp.	1,290	40	15	20	24	24	33	15	4	16																		
North American Aviation NA54 basic trainer NA66 basic trainer	141 599	39	20	40	40	50	30																					
Total North American Aviation	740	39	20	40	40	50	30																					
Douglas Aircraft D37 2-engine bomber D37A 2-engine bomber D37B 2-engine bomber	150 100 360	27	15	40	40	30																						
Total Douglas Aircraft	610	27	15	40	40	30																						
United Aircraft Corp. P106 Chance Vought bomber	30																											
Consolidated Aircraft 25-5M2 2-engine bomber 25-5M7 2-engine bomber 13-5C 1-engine bomber	60 40 60																											
Total Consolidated Aircraft	160																											
Grumman Aircraft G36 navy fighter	41																											
Wheeler Aeronautical Corp. Pursuit	168																											
Bell Aircraft Corp. P39 Airacobra pursuit	200																											
Lockheed Aircraft Corp. 30 2-engine reconnaissance bomber 31A 2-engine reconnaissance bomber 311 102A 2-engine reconnaissance bomber 311 205A 2-engine reconnaissance bomber	280 78 24 96	3	13	22	24	37	10																					
Total Lockheed Aircraft Corp.	438	3	13	22	24	37	10																					
Total All Companies	3,259	194	79	89	125	164	240	220	253	224	268	237	252	290	229	270	246	208	192	190	121	0	5	60				

Treasury Department, Division of Research and Statistics.

May 15, 1940.

Source: Anglo-French Purchasing Board.

* Represents one half of scheduled deliveries for May.

CONFIDENTIAL

Regraded Unclassified

May 20, 1940
8:45 a.m.

Harry Woodring: I have General Arnold and General Brett in the office here and we were just talking about the meeting this morning.

H.M.Jr: Good.

W: Now look, are you going to take up the motor thing first?

H.M.Jr: I'm going to take up the motor thing first.

W: Yes.

H.M.Jr: I have Guy Vaughn and Mr. Wilson of Pratt and Whitney coming at nine. Nobody else from the outside.

W: Now, the second thing is that -- you want us to leave word over here that when these plant -- aeroplane plant manufacturers come in that they're to come over there.

H.M.Jr: Well, that was what the President suggested.

W: That's right. Now -- as I understood it. Now, where -- we want to leave word here, where do they -- for them to come.

H.M.Jr: Just a second, they have a room to -- can you hold the wire a minute?

W: Yes.

H.M.Jr: And I'll ask. Just a second. (Aside: What's that room they say they fixed up downstairs, the meeting room? No, it isn't. Ask Mr. Bell, he has fixed some room. There's some -- yes, I want the room number. Hurry, please.)

While they're getting in the room number, Harry.....

W: Yeah.

H.M.Jr:I wish you'd be thinking about this. Who is going to go down and talk to these people and what they're going to talk about, you see.

W: Well, that won't be in the same -- with us, will it?

H.M.Jr: Well -- I mean, don't you want to go down.....

W: Yes, I think that I'd like to. I'd like to go into both meetings. I want to know what they're doing.

H.M.Jr: Fine. Well now, don't you.....

W: Will you go down?

H.M.Jr: Just a second -- the room is 81 in the Treasury.

W: 81 in the Treasury.

H.M.Jr: Yeah. Room 81.

W: Yeah. Well look, will you go down?

H.M.Jr: Well, I'll go down if you'll go down.

W: Well all right. I think we should.

H.M.Jr: Supposing I just went down and said I'd like to welcome them to the Treasury and we'll all work together and then say I'd like to turn this meeting over to Mr. Woodring.....

W: Yes.

H.M.Jr:the Secretary of War.

W: All right, before -- after you do that I want to know this. At that meeting -- of course the main work would fall on Arnold and Brett.

H.M.Jr: Right.

W: Now, I don't want -- but I'd want to guide them as to what to take up. Don't you think that it's all right to take up the immediate program of deliveries with them and then the second one take up the 2700 program and then the third -- then the expansion and of the 50 thousand.

H.M.Jr: Well, if you're asking me for suggestions.....

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W: That's what I'm asking.

H.M.Jr: I'd keep it in generality and I wouldn't get down to brass tacks at all.

W: Yeah.

H.M.Jr: I'd keep the meeting, as Brett put it, a sort of a pep meeting.

W: Yes.

H.M.Jr: I think it's a mistake, because I really don't think that they know and I think it would be nice if Compton, as acting secretary of the Navy, if he went down and said a few words.

W: Yes, I.....

H.M.Jr: Cooperation between the industry and the government, and I think leave it on that plane and not get down to too much detail because I don't believe we know ourselves.

W: Well now -- then what about a -- a follow-up meeting later?

H.M.Jr: Definitely! And then call in the particular people. And I -- I've gone far enough in this thing to realize that before we can talk about planes we're going to have to settle this engine business.

W: Yes, I do too. I saw your statement and I'm -- I agree with you.

H.M.Jr: Now -- I mean, for instance I understood they were going to say some things about wages and hours and the Walsh-Healey Act and taxes, and all of that is a mistake.

W: I think so too.

H.M.Jr: I think if they just talk -- keep it on the plane of cooperation between industry and the government.

W: Yeah.

H.M.Jr: The government and the industry.

W: Well now, I'm glad to hear you say that because unquestionably that there will be some people who think that we ought to go into these other items.

H.M.Jr: Well, my own feeling is to keep it on a general plane and no details because I'm convinced that neither the Army or Navy knows what they want or need.

W: That's right. Now, then -- with the idea that later on we'll have a general meeting of the whole three services, Treasury, Navy and Army, on -- when we get around to the aeroplane plant expansion. Is that all right?

H.M.Jr: Surely. I mean -- I take it that Brett, who was with me yesterday, --- reports to his superiors.

W: Yes.

H.M.Jr: And what he talked about with me.

W: That's right.

H.M.Jr: And I've asked both Brett and Kraus to bring back a program as to how they think it should be done.

W: Well, I think that's o.k. and that's the way we'll do it.

H.M.Jr: And they have no program.

W: Not yet.

H.M.Jr: And that's why I think that we ought/^{not}to go off the deep end.

W: O. K.

H.M.Jr: Now the other thing is they've got a bunch of movie-tone fellows outside, and I don't know what they want to take a picture of. Think about it. They're all in my outer office there. They want a picture of that meeting.

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W: Well, I don't want to spend a whole lot of time doing it. I'll do whatever you folks say but I don't want to spend much time.

H.M.Jr: Well, think about it. Now, what time will these people come over to this room?

W: Well, they'll call here at ten o'clock and we're letting them come on so I imagine it'll be ten-fifteen before they come over to that room.

H.M.Jr: I see.

W: So if we got down there by -- I imagine if we got down by ten-thirty it would be plenty of time. Why couldn't I leave to tell Brett and Arnold that we probably would be there at ten-thirty, although we don't want them starting out until we get there. Maybe ten-fifteen.

H.M.Jr: I think if we told them we'd be there by ten-fifteen it would be time enough.

W: All right, and I'll tell Brett and Arnold not to start anything until we get there.

H.M.Jr: You're coming over here at nine, aren't you?

W: I'm coming at nine. We're leaving in a few minutes, with General Annold and General Brett.

H.M.Jr: Thank you.

W: O. K. Goodbye.

RE LICENSING OF AIRCRAFT
ENGINE MANUFACTURE

May 20, 1940
9:00 a.m.

Present: Mr. Johnson
Mr. Compton
Mr. Young
Mr. Collins
Captain Kraus
Colonel Burns
Mr. Sullivan
Mr. Wilson
Mr. Vaughan
Mr. McReynolds
Mr. Hinckley
Major Persons
Major Griffiss
Colonel Brett
Admiral Furlong
General Arnold
General Marshall
Mr. Foley

H.M.Jr: I want to be as brief as possible. At Cabinet the President asked that the Army and Navy and Treasury and Civil Aeronautics get together with the industry and try to work out a program whereby the Government and industry can accomplish what he would like and I think what the Congress would like and the people of the United States would like.

The reason that I asked - do you want to sit up here, Mr. Vaughan?

Vaughan: I would like to, thank you. It is terrible to get old.

H.M.Jr: I know. I am afraid I talk very low.

Vaughan: This is fine, thank you.

H.M.Jr: In the little that I know about this problem, I felt that the engine problem really came first. I mean, we can't have planes unless we have engines and therefore I asked Mr. Wilson and Mr. Vaughan to come here first and we had a preliminary meeting at my house last night whereby we discussed this question of language and both Mr. Vaughan and Mr. Wilson told me that irrespective of whether they think it

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is wise or not, they are willing to license any manufacturer that the Government wishes to produce their engines. Is that correct?

Vaughan: That is correct, sir. I would advise against it.

H.M.Jr: You do. I don't know whether Mr. Wilson does, but irrespective of the advisability, you are ready to play ball?

Vaughan: Yes, sir.

H.M.Jr: And as I told them, we would argue this week, but while we were arguing I want to - a contract drawn up and they are sending their attorneys down here to meet with Mr. Sullivan and Mr. Sullivan will keep in touch with the attorneys of the Army and Navy to get a contract you gentlemen think is fair, so that we can have it in our pocket if, after we have given the industry plenty of chance to argue, we still think we want to license. Is that about the way to put it?

Vaughan: Yes, sir.

H.M.Jr: In order to save time, if at the end of a week you should happen to lose the argument, then we want to be able to do business. So the first step, that is the licensing, has been accomplished if we want to do it, you see. Now, these gentlemen are here. I don't know whether you want to ask them anything or whether Mr. Compton wants to ask them anything.

Furlong: I think it would be well to outline what, if any, program of coordination and cooperation between us, all of us, on this thing - if there is anything you want to tell us further about the plan, is the only thing I can suggest.

H.M.Jr: Well, I think that is all I would like to say at this time and then I am going to ask these gentlemen if they will withdraw and then come back to this meeting at 10:15 in Room 81. So, there is

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going to be another meeting in Room 81 in the Treasury at 10:15.

Vaughan: All right, sir, we will be there.

H.M.Jr: Thank you very much.

(Vaughan and Wilson left the conference)

The way I operated, on a minute to minute basis, is this: I got this memorandum which was drawn up under great pressure and I thought great skill by General Brett and Captain Kraus in an hour and a half, which I sent everybody copies of. You (Furlong) got a copy and you (Johnson) got a copy.

I had a chance Friday to show that to the President and explain to him that that was - how should I say - well, something done under great pressure, but I thought it showed great skill. Until I am advised differently by Army and Navy, I take it that that is the way they would like to have us proceed. I asked General Brett and Captain Kraus whether they would come in with a program as to how they thought we could build up the engine capacity of this country sufficiently to take care of 50,000 planes and they said it would take a couple of days. Is that right?

Brett: We plan to have that by tomorrow noon, sir. I think that was our program. Captain Kraus is working on it. We are working on it at the present time and it follows out the lines we discussed yesterday.

H.M.Jr: And then I asked these two gentlemen if each of them would submit a memorandum, if they would write the ticket, how they would like to do it.

Johnson: You mean the engine people?

H.M.Jr: Yes. I am not going to have them together again. It worked pretty good, but not too good. I will have them separate.

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Now, I am doing this thing temporarily for the President. I am trying to do it as well as I know how with as little friction as possible. I don't pretend to have any preconceived notions on any of this business and I will simply be a filter for the thing to go direct to the President. I take it that when I worked with General Brett and Captain Kraus, that they keep their superiors advised what I am doing. I work with them because they are the procurement officers of the two departments. When I asked to see them, I arranged for it through the office of the Secretary of War and Secretary of Navy. We are all moving very fast. I am personally under great strain and if I make any mistakes as I go along, I hope you will all be charitable.

Furlong: I don't think it is any time right now to stand back on too much formality as to how you ask and when. Any time you want them, I think you ought to have them. As far as we are concerned, there is not going to be any trouble over that.

Compton: I can assure you that goes for Navy, too, Mr. Morgenthau. We are ready to cut all red tape procedures to get the job done.

H.M.Jr: How about you, Mr. Johnson?

Johnson: I go further. When you want them, just summon them. They will keep us advised so we know what is going on. There is a job to be done and everybody has got to pull.

H.M.Jr: General Marshall?

Marshall: Are you asking me for any comment?

H.M.Jr: Please.

Marshall: I have none to make, sir, except that I think you are proceeding on the right lines because everybody wants to cooperate and it is a question of how you do it and it seems to me you are doing it the best way you can.

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H.M. Jr:

Well, I say, in talking for a number of hours yesterday and in going to school with them just the way I went to school with you (Marshall), this engine thing - in the room - the picture is so terrible. These two gentlemen, I pushed them and pushed them and they say they cannot increase their production over what they are doing one iota. They say the orders that they have, that they are absolutely at their maximum.

In the case of Pratt & Whitney, they are working seven days a week, three shifts. In the case of Curtiss, three shifts, six days a week. They don't believe in the seven-day week. Far be it from me to argue with them. So they say it is impossible - he said all the money in the world wouldn't make them turn out engines any faster. They just can't do it.

Now, the thing that pleased me particularly with these people, they didn't ask any changes in the tax law; they didn't ask any changes in the wages and hours; they didn't ask for any changes in the Walsh-Healy Act. They said they can get along. I complimented them on their attitude and said I thought it would make an excellent impression in the Administration, the fact that they didn't ask.

Now, in talking last night with the President, he said that he would see that when the time came - I think it is on the first of October - that they would have to drop back from 42 hours to 40, he would keep it at 42 hours. He is willing that we do away with competitive bidding, but he feels that the profits in the industry are too high and he wants that shaved down. He feels that the industry is making too much money. Beyond that, as of last night, he wasn't ready to go and I think, Ed, you had better get together - and John - and look over those Army and Navy bills because I think there are things in that that the President doesn't want. I think there are certain provisions which he doesn't want, such as the transfer of evaluating the Vinson-Trammell Act.

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- Sullivan: Determining what should be allowed against the contract.
- H.M.Jr: I don't think the President wants that, but if he does, it is all right. I think we had it up once at Cabinet and he said to tell your people to lay off, as I remember it.
- Compton: We did, we backed away from it. That situation, as I understand it now, Mr. Secretary, will go through with a spread of losses over four years for the shipbuilding industry and stop there until next session of Congress, that is the way it is now.
- H.M.Jr: Well, I understand the President doesn't want it.
- Compton: Spread losses? I had it from him in a memorandum, sir, that it is all right, about three days ago. Maybe he has changed since then.
- H.M.Jr: I brought up that particular thing.
- Sullivan: I think the change in the new bill is to reintroduce a transfer of the Treasury functions to the Navy, reviewable only by the President.
- Compton: I don't know about that. All I know is the last word we had two or three days ago where the spread of losses was approved by both Treasury and Navy and had the White House approval in a memorandum.
- Sullivan: That is the carryover of four years of losses, not of deficiency of profit.
- H.M.Jr: Is it all right with you?
- Sullivan: It is, sir.
- H.M.Jr: All right, I will withdraw.
- McR: I think you have got to do it.
- Compton: Well, the shipbuilding industry - I am not too familiar with the aircraft industry, but with the shipbuilding industry it is highly desirable

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to have that spread of losses over four years.

In regard to the Walsh-Healy Act, Mr. Secretary, there is no occasion that I can see for any change in the fundamental law, because there is a provision right in the fundamental law that when the head of any executive department of the Government certifies to the Secretary of Labor that the best interests of national defense be served thereby, the Secretary of Labor shall grant exemptions, exceptions. Now, that word "shall", in my interpretation of the English language, isn't simply futurity, it is mandatory, so that in the basic law there is a provision to make an exception. For instance, on this 42 hour a week thing, it would be simply on the certification of the Secretary of War or the Secretary of Navy.

- H.M.Jr: Well, my two watchdogs are Sullivan and Foley and they are going to watch that; as they think that you fellows are encroaching on any of this special legislation, they are going to let me know, and I understand the Attorney General has also been asked by the President to watch this particular phase, so you have got the Attorney General, plus Sullivan, plus Foley, watching you.
- Compton: If the law is followed out as written, Mr. Secretary, you will have no trouble with the Navy on the Walsh-Healy Act.
- H.M.Jr: Plus Frances Perkins, who is very much worried, so you have got the Attorney General, Frances Perkins and these two gentlemen here and if there is anything wrong, they will yell.
- Compton: All the Navy wants is the law carried out the way it is written, Mr. Secretary. That is the truth. I insist on that point.
- Sullivan: You recall, Mr. Compton, we agreed that in return for the four years' carryover of losses, we would drop the other phases of the provisions.

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Compton: Oh yes, that is all dropped until next year and as I understand it --

Sullivan: Have I authority to tell Mr. Vinson you still agree with me on that subject? That is in your present bill.

Compton: Well, I want to talk to you about that.

H.M.Jr: Well, you can talk to him --

Compton: As far as my understanding is, the spread of losses over four years --

Sullivan: Let's talk today on that one. I want to move fast.

H.M.Jr: Is there anybody I have overlooked? General Arnold, do you want to say anything?

Arnold: I just want to bring out that I am as anxious to cut red tape as anybody, so anybody you want in the whole Air Corps, they are yours for the asking. All you have to do is go direct, through channels or any other way. They are yours.

H.M.Jr: Well, anybody I want in the War Department, I will do it through the office of the Secretary of War and the office of the Secretary of the Navy and I will start from the top down, but I appreciate the offer. I will do it through your office (Johnson's) and the Secretary of the Navy to see that everybody in the Army and Navy knows what is going on and as I say, tomorrow the President wants somebody else to do this, so there will be two happy people in Washington. One is my wife and the other is myself.

As to this meeting at 10:15, I understand that these people are coming over and I simply thought I would go down and welcome the people and then turn it over to the Army and Navy. Is that all right?

Furlong: Yes, but I think we ought to discuss the thing you and I discussed.

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H.M.Jr: What would you like to talk about?

Furlong: I think it ought to be a general meeting on that until we can get a plan worked out here. Brett tells me they haven't got it ready yet and then have a later meeting to discuss the details of the thing.

H.M.Jr: Well, if that is - I mean, supposing I just go down. I will not say more than fifteen words, and then if you say a few words, possibly Mr. Johnson and Compton and General Arnold --

Arnold: No, sir, I will not be here this morning. General Brett will handle it for me, sir.

H.M.Jr: General Marshall?

Marshall: I am to go to a committee hearing.

Furlong: What about CAA?

H.M.Jr: And Mr. Hinckley.

Hinckley: Yes, sir.

H.M.Jr: I would just like to say my fifteen words and then withdraw, and who would you like to have run the meeting, stay and act as chairman?

Furlong: Well, I think Mr. Johnson.

Johnson: I think there that they will get into technical stuff very largely and after we have all said a word, we can just withdraw and they can call us back if they want to.

Arnold: May I suggest General Brett run the meeting?

Brett: Mr. Morgenthau, if that is the case, I would certainly like to get an approval on what I am going to say so that I won't step into anything. I have an outline here of about what I considered might be said in case - no matter who said it, it could be checked on.

H.M.Jr: Do you want to do it now?

Brett: Yes, sir, may I?

H.M.Jr: Please. On what you are going to say, though, please don't look to me for approval. Please look to your own superiors.

Brett: Whether or not somebody ought to explain the new set-up as to the coordination activity between the Treasury and the Army and the Navy. Would you care to do that, sir?

Johnson: Well, he is doing it. Suppose I do that.

H.M.Jr: All right.

Brett: The next point would be this: They would just simply be told that we gathered them together to think about certain things in connection with the future and that the possibility of increasing deliveries under present contracts - are there any steps, are there any things that can be done to increase those deliveries and to improve present conditions and any aid that could be asked for from the Government. In other words, we are not suggesting anything. We are asking them to think about it.

Now, the second thing, what steps could be taken to increase and double or consider the possibility of increasing their production, their productive capacity. The first was deliveries and the second was productive capacity.

Then, going even a little further, what suggestions might they consider and what thoughts would they have and would they please give it some thought as to methods of doing it. Then the troubles that they may have would be brick and mortar, machinery, machine tools, raw materials, training management, engineering supervisory personnel, and the training of mechanics, which is a very, very pertinent bottleneck and could they give us any suggestions as to the methods of doubling up or tripling up on each and every machine that they have for the purpose of training, starting schools and how - what would their suggestion be as to methods of payment, because somebody has to pay for that.

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What would their suggestion be as to the Government's part in endeavoring to immediately build up a much greater mechanical force, and then the last item would be the elimination or considerable thought spent upon the question of inspection, Government methods of procedure at the present time pertaining to completed items and how or what can we do to eliminate many of the little things that we have demanded in the past which are not war-time requirements.

Now, that was all I was dealing with, sir.

Furlong: Well now, as I understand it, General Brett, you are leaving that with them just to take home with them.

Brett: That is it.

Furlong: And study and to come back for a later meeting at which they will be prepared to --

Brett: Give suggestions pertaining to it.

Furlong: But you don't want any discussion this morning of that, do you?

Brett: No discussion at all. This is just thoughts we would like to have them consider.

Johnson: You can't shut them off, Mr. Secretary, if they want to ask questions and talk.

Furlong: I think the more you avoid getting into more than a general discussion this morning when they are not prepared, the better it is for the meeting.

Johnson: I agree to make it as short as you can along that line, but if we tried to shut them off from talking, it might give a bad impression.

Furlong: I think General Brett can handle it.

H.M.JR: Is that all, General Brett.

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Brett: Yes, sir, unless there are some suggestions.

H.M.Jr: Is that all right with you?

Marshall: Yes, sir.

H.M.Jr: Now, this is the most difficult. As a result of the White House announcing this meeting, since 8:00 o'clock this morning there have been Movietone people outside who want to take a picture of the big meeting. What are you going to do with them?

Johnson: It is up to you.

H.M.Jr: I don't see what they are going to get.

Marshall: Can it do any harm?

H.M.Jr: I don't think so.

Marshall: It does a little good, doesn't it?

H.M.Jr: I think it might. I think it might help.

Marshall: People are aware of the fact that we are trying to do something.

H.M.Jr: What do you think, Compton?

Compton: I think it will have a good reaction on the public to see a meeting of Government and industry on this problem of aviation. It is a live subject. It is public relations.

H.M.Jr: Supposing --

Compton: It takes time and a lot of confusion.

H.M.Jr: Bob, got any reaction on it?

Hinckley: Well, of course the civil side is always in favor of a little publicity.

H.M.Jr: All right.

Hinckley: These are wartimes and I will have to refer to the departments.

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- H.M.Jr: Could the War and Navy send somebody over to cooperate with my fellows to handle these boys? My man's name is Chick Schwarz. Can they send somebody over to cooperate with him, whoever handles the press for you with Movietones?
- Compton: Where is Mr. Schwarz' office, where will we find him?
- H.M.Jr: He is most likely sitting outside with the perspiration running down his forehead. Since 8:15 he has been on my neck.
- Marshall: I must leave now.
- H.M.Jr: All right, General, I will see you later.
(General Marshall retired from the conference)
- Johnson: You have no objection to our having our own Army and Navy photographers?
- H.M.Jr: No.
- Hinckley: Mr. Secretary, will this licensing business be discussed at all in this meeting this morning or is that all settled?
- H.M.Jr: It is settled. I can't discuss this thing in a big meeting.
- Hinckley: I was afraid of that and I was wondering if some of them would bring it out.
- H.M.Jr: Well, I want to go along - the thing that we have accomplished is, we are going to have a contract with each of these people and we can license them, see, that is the point, and then the question is --
- Hinckley: What is their objection?
- H.M.Jr: Their objection to licensing is this: They say that if you license somebody, say, for the Pratt & Whitney engine, the fellow, if he falls down, he is going to say the engine is no good and they themselves can do it better than anybody else.

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- Hinckley: Do they say that if they did license it would not increase the production?
- H.M.Jr: No, I think the easiest way to sum it up - the thing is that they just want to hold on.
- Hinckley: I think that is logical, but I wondered if they said it would not increase the production even though they did license this lower horsepower motor.
- H.M.Jr: No, what they said repeatedly was that there was nothing they could do to increase their own production over the present situation in the next three months. There is nothing they can do. They said money means nothing to them.
- Furlong: How much could they increase the production of the large motors, if and when the small ones were taken out?
- H.M.Jr: The amazing thing they came through with, what took our breath away, was that they both suggested that as an alternative that they be permitted, or that the Government build a factory for them. This is the industry. They wanted us to let them run it with a management contract. My own people last night were amazed. So I said all right, "You gave us a plan along those lines. How would you like to have it run, if you were writing the ticket?" Rather than license, they would like us - now, Wright said you could take a factory 500 miles or 2500 miles away and build it for them and they will run it. Pratt & Whitney say they can't do it, because all their supply is in New England and you would have to move into New England with them, so there is the difference, but Curtiss would like to have the Government build a plant and lease it to them at any place in the United States that the Government wants to put it.
- I am trying to take this slowly, because both the Army and Navy are not ready with a plan. These engine fellows are not ready. I was earnestly impressed with this list that General Brett gave me, showing the additional plant

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capacity which is available. It is amazing how many of them run out of orders very soon and they go from something like - I forget the square footage which is available here, but I was simply amazed that in the plane industry the productive war capacity is - in present use, is 7,600,000 feet and the man hours is - no, 8 $\frac{1}{2}$ million man hours and with the present floor space, they would go to 21 million. It shows what could be done without any more brick and mortar, so that all goes back to the engines.

With Brett and Kraus working day and night to bring in a plan, these engine fellows working to bring in a plan, by the end of the week we ought to have something that we can sit down and say, "This is what we would like to do with the engines. Army and Navy would like to do this."

Maybe your fellows (Hinckley's) can work on this, too.

Hinckley: Sure.

H.M.Jr: And just to make sure we don't overlook anything, I am going to get some engineers not in the Army and Navy and I think by the end of the week we will have an engine program and I think we will be doing swell if we have one by the end of the week.

Then the other thing which I impressed on these people is, I think the Navy is a little bit ahead of the Army on their paper work, when the bill passes, as to letting contracts. Maybe that is unfair.

Brett: We have gone as far as we could with options.

Johnson: Oh, we are pretty well set.

H.M.Jr: Are you sure?

Johnson: We are in pretty good shape.

- H.M.Jr: If there was no competitive bidding and the bill passed a week from today, would you be ready to let the contracts?
- Johnson: As soon as the typewritten forms are ready, we are just ready for them.
- Brett: I don't mean to say that the signature would be on the contracts so the contractor would start working.
- Johnson: We can sign contracts in 24 hours after we get the money, sir. These men know what they want and --
- H.M.Jr: You have got a lot of witnesses here, Louie.
- Johnson: We did it once before. We can do it again.
- H.M.Jr: We will hold you to it.
- Johnson: We will do it. Oh, there may be some isolated instance there, but I mean the bulk of them can be done in 24 hours.
- H.M.Jr: But this engine thing - and I was thinking of the possibility of calling up Mr. Sloan and asking him to come down here tomorrow because that Allison thing is a mess.
- Johnson: Did you get hold of Chrysler?
- H.M.Jr: He is coming in at 10:30. Unfortunately, the story is out in the newspaper about Chrysler. They knew it Friday. The Times reporter asked me about it and I said I wouldn't lie, but they are coming in at 10:30. If I could work this way for the time being with General Brett and Kraus and then having them - it is up to them to keep feeding their superiors the stuff. It saves me - it makes it much easier for me. Is that all right?
- Compton: Perfectly all right.
- Johnson: It is the smart thing to do.

- 17 -

H.M.Jr: And you (Hinckley) sit in, too. They will know --

Johnson: If they don't, we will shoot them as the first war casualties.

H.M.Jr: They will know and if they don't tell you, it is on their heads, but it makes it much easier for me.

Sullivan: I would like, if possible, to get a list of the licensing rights both the Army and Navy have from Pratt & Whitney and Curtiss-Wright. The Curtiss-Wright licensing fellow, their attorney, is in town right now and we are going right to work on that.

Johnson: It oughtn't to take very long. What is the name of the Major that has got that stuff?

Brett: Colonel Bogan.

Johnson: Yes. Will you phone him, General Brett?

Brett: Yes, sir.

H.M.Jr: Gentlemen, just use my room in any way you want. I am going in the other room.

41-A

May 20, 1940
11:26 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis has not returned to his office and they are trying to find him and ask him to call you.

H.M.Jr: Will you do that?

O: Right.

H.M.Jr: Thank you.

11:27 a.m.

H.M.Jr: Hello. Hello.

Arthur Purvis: Arthur Purvis speaking.

H.M.Jr: How are you?

P: Good morning. Fine, except that there's about a nine-ring circus going on and I'm sure it must be just as bad as worse for you.

H.M.Jr: Now, I'm calling -- can I get what I have off my chest first?

P: Yes.

H.M.Jr: I've been working on this engine business, and I really -- it -- we have no inlined air cooled engine that -- with the exception of Allison and we're not getting any of those. Therefore, we'd like your Government -- hello?

P: Yes.

H.M.Jr: To consider as promptly as possible -- hello?

P: Yes.

H.M.Jr: Whether they'll give the United States Government a license to manufacture the Rolls-Royce engine.
Hello?

P: Yes.

H.M.Jr: And we in turn will turn that over to Chrysler Motors. Now, Mr. Keller just left here and he says he's a great friend of yours.

P: Yes, I know him.

H.M.Jr: He's going to leave on the four o'clock train to go up to New York, and he'd like to see you tonight and talk to you about it.

P: Yes. Now, that would be fine except that I'm terribly -- I've got a terrible list of stuff that I wanted to talk with you, if I could.

H.M.Jr: Well, I know but -- I mean, could you see Keller tonight?

P: Of course I will. Yes. My only hope was that I might have come down and been able to talk with you but perhaps if you would let me by sending in some memoranda on the very most urgent things through Ballantyne to Young for you to look at, perhaps we could carry on on the telephone until after I have seen Keller and then for me to come down tomorrow, if you could spare the time.

H.M.Jr: Well now, Keller is here. He just -- you could see him here.

P: Yes, my thought was to come on down this afternoon anyway immediately -- I've got two other urgent appointments that I ought to make that bear on the same kind of things and then I thought I'd come down and await the opportunity of a talk with you. But I could see him there and would be there this afternoon.

H.M.Jr: Well, will you hold the wire just a minute?

P: Yes.

(Brief pause.)

H.M.Jr: Hello.

P: Yes.

- 3 -

H.M.Jr: The best I can do would be to see you at my office tomorrow morning at nine o'clock.

P: Yes.

H.M.Jr: Now, that's the best I can do.

P: Well then, in that case it might be better for me to get my stuff all together and see Keller this afternoon.

H.M.Jr: Well, any way that you want but the best that I can do would be nine o'clock my office tomorrow morning.

P: Good. Now then, in that case may I make one other observation. If I get into a great difficulty on for instance Colt guns or something like that, can I pass word through Young today?

H.M.Jr: Yes, you can.

P: Good.

H.M.Jr: Now what would you like me to tell Keller?

P: That I will see him if he would -- if he would telephone me when he gets in I will be sure to see him this afternoon.

H.M.Jr: Well, where could he reach you?

P: He can reach me at my office on Hanover 246 -- Hanover 2-2460 -- Hanover 2-2460.

H.M.Jr: Well, Hamilton.....

P: Hanover 2

H.M.Jr: Well, will you be there? He'll get in there about 7:30 or 8:00 you know.

P: Well, in that case he'd better have the Hampshire House, and I shall be available at the Hampshire House.

H.M.Jr: At the Hampshire House?

P: Yes.

- 4 -

H.M.Jr: Just call Hampshire House.

P: If he calls Hampshire House he'll get me.

H.M.Jr: Right. Then I'll see you at nine tomorrow morning.

P: All right, fine.

H.M.Jr: Thank you.

P: Thank you very much.

"Monday's meeting" 32
was 5/20/40.

H.M.J.

Read before
Monday's meeting
& return

JHR

Miss G. Howard

Will you please
give this to the President?

I think it extremely important

Louis Tolson

5:30 p.m.

May 15, 1940.

MEMORANDUM FOR THE PRESIDENT.

Subject: Program for Creation of Air Power.

1. Events in Europe of the last few months, and especially of the last few days, convince me that this government and this country must accept the fact that air power is not simply an auxiliary to land and sea forces. It has become a paramount factor in national defense.

2. At the time of Munich, in October 1938, you foresaw the full portent of air power. You inaugurated action looking to a very substantial increase in our air force. You desired large increases in planes, a more extensive program for the establishment of a reservoir of pilots and a very appreciable expansion of the aircraft industry. Your purpose was to add to our air fighting strength and to provide for replacements for the large losses that inevitably result from combat.

3. A program was adopted calling for some 5,400 planes, of which 3,000 would be of the fighter class. Although some funds were made available in May 1939, the program did not become effective through legislation until July 1, 1939. Immediately the War Department set out to achieve its purposes. As early as the fall of 1938, and in anticipation of an expansion program, it had completed plans for the placing of contracts. Most contracts were let as quickly as the funds became available and industry immediately got under way.

4. In spite of these efforts, America today has approximately 1,350 fighting planes. By January 1, 1941, under present conditions, we will have 1,700. On July 1, 1941, we will have 3,000. The original program called for 3,000 fighting planes on or by July 1, 1941, and that number we expect to achieve. Of these 3,000, only 2,000 will be available in fighting units; the other 1,000 will be in reserve. It takes time to build planes and the figures here presented are clearly indicative of the importance of the time factor. In looking ahead, our time factor must include the period between your decision and the availability of the planes as a fighting force.

Our air procurement planning program should also consider the reserve factor. Based on battle experience, it is fair to say that for every two planes available, there should be one held in reserve.

5. Our plans call for 800 planes with the units in our overseas possessions and a reserve of 400 for them. Based on these figures, it is clear that if we were to take care of the full needs of our overseas possessions, we would have in this country today but 150 fighting planes. At the present time, planes are the limiting factor. In a few months, pilots may become the limiting factor. To aid in providing the additional pilots, the program of May 14, 1940, was approved by you. It is important to recognize that the maximum available personnel suitable for pilots in this country is approximately 19,000 per year.

6. It is my conviction that this question of air power must be faced boldly, fearlessly and comprehensively on the basis of having to use it in war in a big way on short notice. The question must be solved in accordance with a simple formula which Congress and the public can understand. Dollars must not control.

7. The following is believed to be a sound objective and one that can be substantially achieved, both as to personnel and equipment:

a. Round out and complete present authorized fighting strength so that it will be ready for continuous combat by July 1, 1941. This calls for 2,000 fighting planes distributed among the Air Corps units and 1,000 in reserve. The program approved by you on May 14, 1940, provides for the realization of this phase of our necessary preparedness.

b. Take the necessary steps to double the present authorized strength so that such a force will be ready for continuous combat by January 1, 1942, on the basis of 4,000 fighting planes among our Air Corps units and 2,000 in reserve. To achieve this objective, orders should be placed immediately for 3,000 fighting planes, complete with engines, armament, radio, organizational equipment, etc. To do this job, the work must be performed on a three-shift basis. Over and above the funds now on approved program, this would call for approximately \$500,000,000.

This phase of the program also would call for personnel training, installations, training planes, etc., to the cost over and above amounts now on the program approved by the President on May 14, 1940, of _____ \$75,000,000.

Finally, this phase of the program calls for construction of additional air fields, depots, etc., to the cost of _____ \$125,000,000.

g. Take the necessary initial steps to quadruple our present force so that such a force will be ready for continuous combat by July 1, 1942, with 3,000 planes in air combat units and 4,000 in reserve. Toward the realization of this phase of the program, it would be necessary to provide for additional airplane capacity to increase output from the present estimated capacity of 9,000 combat planes to 19,000 combat planes per year. This would mean the construction of eight typical factories at the approximate cost of \$10,000,000 or _____ \$80,000,000.

This phase of the program calls also for combat plane engine capacity of some 20,000,000 horsepower in addition to the present capacity of approximately 10,000,000 horsepower per year at a total cost of ~~_____~~ \$40,000,000.

In this connection it may be desirable to create several factories, depending upon conditions.

A third requirement under this phase of the program would be additional training facilities for the training of some 19,000 pilots per year at an approximate cost of — \$200,000,000.

8. These additional production facilities would obviously have to be paid for by the government, either directly or indirectly, as post-war airplane business could not support them. It is believed that the aircraft industry, in view of the critical emergency, would be willing to construct and operate these plants under an agency contract, provided arrangements were included which would not leave these plants as a sword of Damocles over their heads at the end of the war. It is definitely to the interest of national defense to have our military planes produced by private companies.

9. In all these computations an attrition factor must be considered. Provision must be made for replacements both in fighting planes and in pilots. The Chief of the Air Corps feels that the

factor of 30% per month should be used for objective a., 20% per month for objective b., and 15% per month for objective c., all based upon planes within the organization (not in reserve). The same attrition percentages are applicable to pilots as well as to planes.

10. Our potential in pilot training governs our plane program. Since the maximum is 19,000, we adhere to a 19,000 attrition plane program in the third phase.

11. In conclusion, it is believed that a program of the character outlined above should be included in your message to Congress in addition to items already approved by you.

Louis Johnson,
The Assistant Secretary of War.

MAY 20 1940

MEMORANDUM FOR THE PRESIDENT:

I attach hereto for your signature memorandum for the Secretary of War, advising him that the Treasury Department will gladly cooperate with the War Department in the preparation of a revision of the Vinson-Trammell Act.

File to Mr. Thompson

By Messenger J³⁰ Jan

JLS:kb



MAY 20 1940

MEMORANDUM FOR THE PRESIDENT:

I attach hereto for your signature memorandum for the Secretary of War, advising him that the Treasury Department will gladly cooperate with the War Department in the preparation of a revision of the Vinson-Trammell Act.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

By Messenger

JLS:kb



MEMORANDUM FOR THE SECRETARY OF WAR:

In your memorandum of May 14th you state the assumption that the War Department will be given an opportunity to present its views in regard to the revision of the Vinson-Trammell Act.

I am assured by the Treasury Department that it will be happy to work with the Navy and War Departments in the preparation of this legislation.

JLS:kb

THE WHITE HOUSE
WASHINGTON

-41

May 16, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR PREPARATION OF REPLY FOR
MY SIGNATURE.

F. D. R.

Cofey
J. P.

42

WAR DEPARTMENT

Washington

May 14, 1940.

MEMORANDUM FOR THE PRESIDENT:

With reference to your memorandum of May 8, 1940, concerning a revision of the Vinson-Trammell Act being currently prepared by the Treasury Department, the proposed four-year carryover of net losses, which I assume refers to naval vessels, is primarily of interest to the Navy Department and is not objectionable to the War Department.

The other proposed changes which are expected to be considered by the next Congress will be given careful consideration, in coordination with the Treasury and Navy Departments. It is assured that the War Department will be given opportunity to present its views in regard thereto in due course.

(Signed) Harry Woodring.

Secretary of War.

RE AIR EXPANSION PROGRAM

May 20, 1940
3:45 p.m.

Present: Mr. Hinckley

Hinckley: Here is a summary on Edward P. Warner. This is taken from Who's Who.

H.M.Jr: Now, this is what I wanted your help on, if you think it is a good idea.

Hinckley: Here is George Mead. Now, George Mead has the record of one of the three or four best engine designers in the United States. He has also been an executive for the Pratt & Whitney Company and United Aircraft. Then he got in some kind of a row with the new management and he didn't like it any more.

H.M.Jr: That is what I wanted to do. I want to get in here four or five fellows who are not on anybody's payroll, including the Army and Navy, and have them come down here, just fellows that know engines and sit around and talk, "What about this Continental engine and what about this and what about that," because I am not sold at all that the Army and Navy have got the last word.

What I am trying to get is - you see, I called up M.I.T. this morning and they suggested C. F. and E. N. Taylor, George Mead and Hunsaker, see. What would you think of getting those fellows?

Hinckley: I think they would be a great help. Of course, of the three, Mead is tops. Mead's health has been bad and that is one reason he retired from Pratt & Whitney, but he is absolutely outstanding in the field and recently he was put on N.A.C.A. We are trying to set up now, before Budget, a request for some money to go to an engine research laboratory some place in the Middlewest. That is the N.A.C.A.

H.M.Jr: Who is the head of that?

Hinckley: A man by the name of Bush.

H.M.Jr: Am I crossing wires with anybody if I ask --

Hinckley: No, indeed.

H.M.Jr: How about Hunsaker?

Hinckley: You are not crossing any wires. You are calling them not as members of the N.A.C.A. but as individuals.

H.M.Jr: I was going to ask you to do it for me.

Hinckley: All right.

H.M.Jr: I tell you what I thought we might do. Do you think you can get hold of Mead and get him down here tomorrow?

Hinckley: I can try. If his health is good, I think he will come, because he is coming in a few days anyway for an N.A.C.A. meeting.

H.M.Jr: I was going to suggest 3:00 o'clock tomorrow. Do you think that is too short notice?

Hinckley: Well, let's see if we can get him for tomorrow and if we can't, we will make it Wednesday.

H.M.Jr: Then I will put this down, Hinckley, 3:00 tomorrow. I would like Hunsaker. I have got Mead and you mentioned some other name.

Hinckley: No, you had Taylor there. They say there are two Taylors. Are they at M.I.T.?

H.M.Jr: Yes, and I said I would do this through Dr. Compton.

Hinckley: All right.

H.M.Jr: Both C. F. and E. N. Taylor and Hunsaker is there, too. He said if we would call up, he would send them down. Now, have you got Mead --

Hinckley: I will call Mead and you will call Compton, is that the idea?

H.M.Jr: No, I thought --

- 3 -

Hinckley: You want me to call Compton?

H.M.Jr: Do you mind?

Hinckley: Not at all.

H.M.Jr: I can do it. I will have Mac do it. I will get Taylor and Hunsaker down here if you will get Mead.

Hinckley: All right, that is fine. I tell you, though, maybe I should do it all in order to - no, I will call Mead first and if he can come tomorrow then we will get the other fellows --

H.M.Jr: I would rather have you do the whole thing, if you don't mind.

Hinckley: All right.

H.M.Jr: I thought you could kind of keep in touch with them for me, that we would have them meet here and tell them what we have in mind and you would nurse this thing on for me. Would you be willing to do that?

Hinckley: I will be tickled to death to do it and then what I can do, any time I am tied down if there is something else and I am busy as a bird dog on this pilot training thing, trying to get Colonel Knox out of the woods - he has got us all crossed up.

H.M.Jr: Well, either you or - this isn't going to get me in this N.A.C.A. thing?

Hinckley: Not at all.

H.M.Jr: You see, what I want is people not connected with the Army or Navy or on a payroll in industry.

Hinckley: But these people are not down here on research. They are down here to give you expert advice right now.

H.M.Jr: That is right. And then I have got a call in

- 4 -

for the President of California Tech. and I will talk to him.

- Hinckley: Clark Miller might be good on aerodynamics instead of engine engineering.
- H.M.Jr: I told him engines. I find there is quite a distinction.
- Hinckley: Oh yes, indeed.
- H.M.Jr: I am talking just about engines. I want to ask these babies why the hell haven't they got a diesel engine, is one of the things.
- Hinckley: Well, George Mead can probably tell you that. He has been in the N.A.C.A. practically ever since its inception in 1914.
- H.M.Jr: Can he give the answer?
- Hinckley: Sure, he can give you the whole history of diesel engines.
- H.M.Jr: No, I just want an engine.
- Hinckley: You might ask Packard why they couldn't give us a decent one.
- H.M.Jr: If we get these babies together, you can turn this over to Warner if you want to, and if they can't come at 3:00 tomorrow, you let me know.
- Hinckley: All right.
- H.M.Jr: But you think it is a good idea?
- Hinckley: It is the only way you can doublecheck it. I agree with you.

CONFIDENTIAL

May 20, 1940

To: The Secretary

From: Mr. Young

I talked with Captain Collins tonight concerning the message he had received from General Brett with respect to Allison. Captain Collins stated that Allison estimated it could speed up its peak production, which calls for 400 planes per month, to a peak production of 1,000 planes per month.

This would be made possible through using the Allison plant primarily as an assembly plant although certain manufacturing operations would still be carried on there. The rest of the manufacturing operations would be farmed out to other General Motors subsidiaries.

Captain Collins is expecting a more complete report from General Brett in a day or two.

P.Y.

LONDON, May 20, 1940

No. 5274

Subject: Supply of Industrial Diamonds for the
United States

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor
to report the following statement
which is taken from The Financial Times of May
18, 1940:

"With the exception of certain
adjustments which it is intended to

make

make in order that more qualities may become suitable for the United States market we have no intention of raising prices of rough diamonds to U.S. buyers at the sights in London next week,' Sir Ernest Oppenheimer, chairman of De Beers Consolidated Mines and of the Diamond Corporation, said in an interview yesterday.

"The Diamond Corporation and its associated concerns between them control over 90 per cent of the world's diamond sales.

"At the same time,' continued Sir Ernest, 'we are making immediate arrangements to secure that adequate supplies of gem stocks suitable for cutting and polishing are available to the U. S. Trade. In view of the steps taken, therefore, there is no danger of any shortage developing.'

"He strongly asserted that De Beers and the Diamond Corporation have no official agents for the sale of diamonds in the U. S. If certain persons, he said, have been purporting that they are our official agents, this is entirely untrue. We have no representatives in America, but if we decide to have representatives there we should make an official announcement to that effect.

"Questioned as to the future of the important Low Countries' cutting and polishing diamond industries, Sir Ernest said that in conjunction with the authorities of the countries concerned, steps were being taken to re-establish these industries elsewhere. Any decision as to the ultimate destination of the trade could not, however, yet be made since it depended on the turn of events in the Low Countries in the coming weeks.

"He intimated, nevertheless, that the people chiefly concerned may think it more desirable to establish the indus-

try in France than in the U.K. and that others may consider it more desirable to set it up in the U.K. than in the U.S. since there was a very natural desire on the part of Belgian and Netherlands interests to retain their industry as near to its original base as possible rather than run the risk of its being established permanently elsewhere."

The following newstext was also published in The Financial Times of May 18, 1940:

"A factory designed for the cutting and polishing of diamonds for export to the United States has been opened in Brighton by a well-known Brighton-garden diamond merchant. The men engaged are disabled ex-Service men. They received their training in diamond-cutting after the last war at a factory in Brighton which subsequently closed down."

There is enclosed herewith a copy of the annual report of the De Beers Consolidated Mines Limited containing among other things an interesting reference to the effort to develop by means of propaganda and advertising the market for diamonds in the United States.

Respectfully yours,
For the Ambassador:

Alexander V. Dye
Commercial Attaché
10 THE GREAT BRITAIN
LEONARDO T. DE VRIES
NOV 21 1940

Enclosure:
1. Annual Report of De Beers Consolidated
Mines Limited

File 690

ARE-Tab

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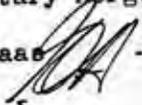
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TREASURY DEPARTMENT

52

INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Haas 

The attached tables and chart show revised figures on employment under the Work Projects Administration. This employment declined by 51,000 persons, from 2,059,000 persons for the week ended May 1, 1940 to 2,008,000 persons for the week ended May 8, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending	Number of Workers (In thousands)
1939-40	
October 4	1,834
October 11	1,875
October 18	1,899
October 25	1,902
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,093
May 1	2,059
May 8	2,008

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,093

Source: Work Projects Administration.

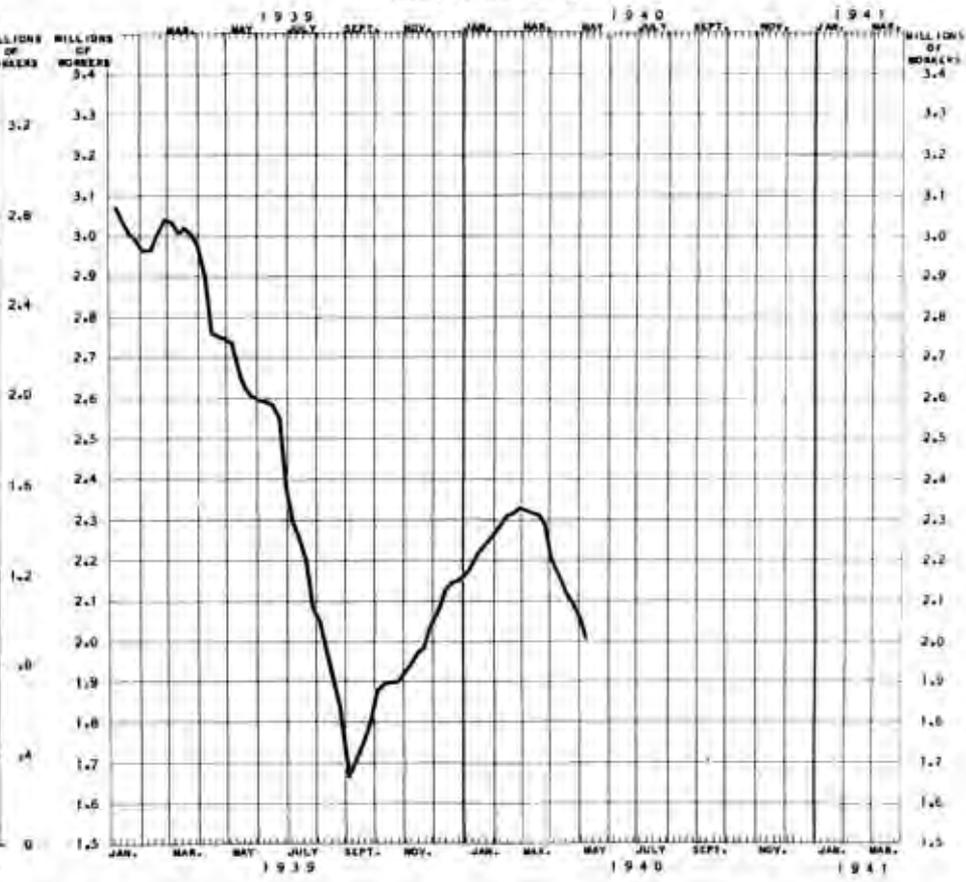
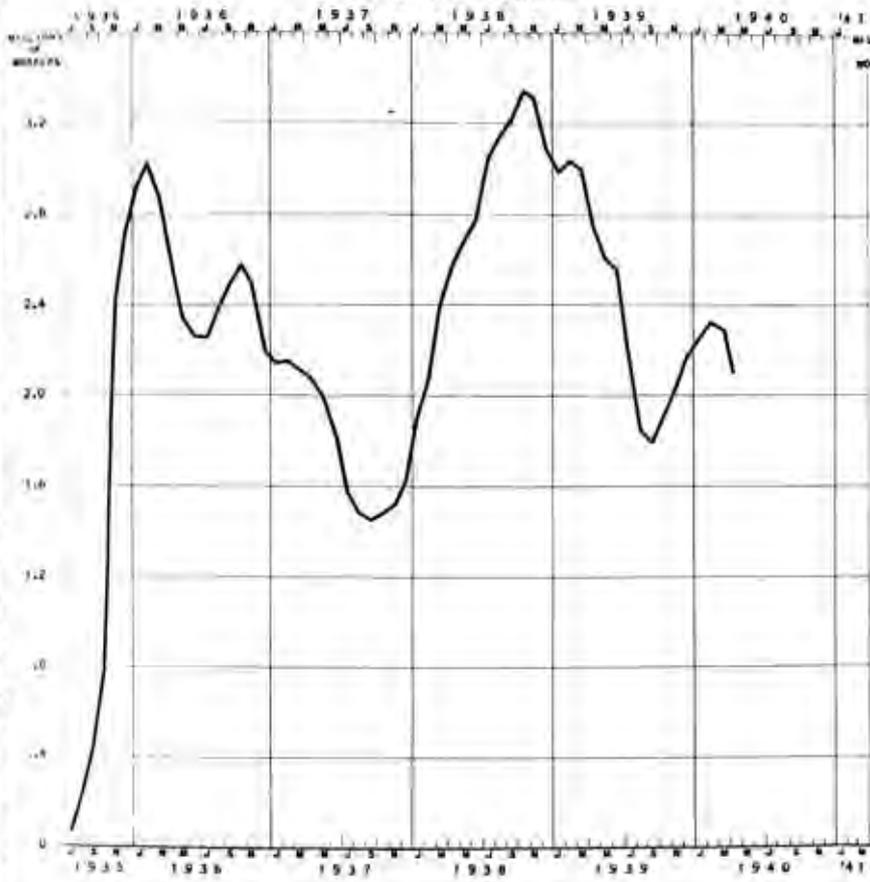
Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment

Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

EN

GRAY

Calcutta

Dated May 20, 1940

Rec'd 2:40 p.m.

Secretary of State,
Washington.

May 20, 5 p.m.

Government of India has introduced a system of control by licenses over the importation of the number of classes of goods among which are included the following: raw cotton, motor vehicles, toilet requisites and soap, proprietary and patent medicines, radios, exposed cinematograph films, beer, manufactures of tobacco, fresh and preserved fruits, jams, pickles, et cetera, stationery, leather, rubber tires and other rubber manufactures, wearing apparel, haberdashery, requisites for games and sports, hardware and clocks.

All goods imported from places in the British Empire except Hong Kong are exempt from above restriction except proprietary and patent medicines, rubber goods, stationery and motor vehicles. All goods listed above imported from France are subject to license except toilet requisites, soap and apparel.

No restriction will be applied to scheduled goods arriving in India on or before 27th May or those ordered

before

-2- May 20, 5 p.m., from Calcutta.

before 15th May and shipped to India by 27th May provided transactions are registered with Import Trade Controller, Calcutta, Bombay, Madras or Karachi before 20th June.

It was understood that licenses for general imports of scheduled goods will be granted only to meet vital requirements.

Goods imported by Central Government for defense purposes are exempt from restrictions as are passengers baggage.

GROTH

DDM

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

58

INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Knoke told me at 3 o'clock this afternoon that the Federal Reserve Bank of New York had today received three cablegrams from Paris, signed by the National Bank of Belgium, in care of the Bank of France. In answer to his inquiry, I told Knoke that we had not received any information from Paris to the effect that the National Bank of Belgium had been transferred to that city.

Knoke mentioned that one of the cablegrams authorized the payment of \$1,000,000 to Mr. Theunis. Knoke asked me the status of this gentleman. I explained that he was an Ambassador sent to the United States on a special mission and had been received by the State and Treasury Department in this capacity. I offered to obtain a certificate from the Department of State as to Theunis' status, and also to inquire of Paris in regard to the present location of the National Bank of Belgium, if Knoke desired. He said he would let me hear from him later.

At 6:30 p.m. Mr. Knoke telephoned to me the attached message. Acting on this I telephoned Mr. Livesey in the Department of State and asked that he send a rush message to the American Ambassador at Paris along the following lines:

"Federal Reserve Bank of New York has received a message from the Banque Nationale de Belgique c/o Banque de France. Please cable confirmation that Banque Nationale de Belgique is established and functioning in Paris."

I shall study tomorrow morning, together with Mr. Bernstein, the correspondence which we have received from the Belgian Ambassador recently, and then consider the matter of requesting anything further from the Belgian Ambassador with respect to the transfer of the Central Bank from Brussels to Paris.



No Title

D R A F T

The Federal Reserve Bank of New York has today received three cables from Paris signed Banque Nationale de Belgique, care Banque de France, Paris. These cables are properly tested according to the cable test arrangement between the Federal Reserve Bank of New York and the Banque Nationale de Belgique. The Federal Reserve Bank of New York suggests: 1. That the State Department request the Belgian Ambassador to confirm that the Banque Nationale de Belgique has moved to Paris and is being operated from there and that this is authorized under Belgian law; 2. That the State Department also requests similar confirmation from the American Embassy in Paris; and 3. That the State Department advise the Federal Reserve Bank of New York of the receipt of such confirmations from the Belgian Ambassador and the American Embassy in Paris.

Taken over phone from Mr. Knoke's Sec. - May 20, 1940.

A handwritten signature in dark ink, appearing to be 'B. M. R.', is located at the bottom center of the page.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Official sales of British owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
May				
13	1,554	127,945	Nil	Nil
14	Nil	Nil	Nil	Nil
15	Nil	Nil	198,000	121,966
16	11,230	897,389	Nil	Nil
17	Nil	Nil	Nil	Nil
18	Nil	Nil	Nil	Nil
TOTAL FOR WEEK	12,784	1,025,334	198,000	121,966
Sales from February 22 to May 11, incl.	1,299,846	44,920,763	1,209,500	1,051,320
TOTAL FEBRUARY 22 TO MAY 18, INCL.	1,312,630	45,946,097	1,407,500	1,173,286

With reference to the transactions carried out on May 15 and 16, Mr. Gifford told Mr. Pinsent that these were single transactions, made outside of the market, and merely completed contracts which had been under negotiation before the market slumped.

While the British officials have made no comment to me on the point, it is, of course, understood that the British have already suffered quite a loss in the value of the American securities which they obtained under the second vesting order, and paid for on the basis of the market value then obtaining. It remains to be seen whether they will make any sales at present prices, other than those necessary to complete contracts, or whether they will await an upturn in the market.

J. M. F.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

61

INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke told me by telephone this morning that the Minister of Sweden was to call at the Federal Reserve Bank this afternoon in regard to a very secret transaction. It appears that the State Department has written the bank directly in regard to a plan whereby the accounts of the Sveriges Riksbank would be transferred to the Swedish Minister.



TREASURY DEPARTMENT

62

INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 1:35 on Saturday, May 18, Mr. Gaston told me that Mr. Welles had telephoned from the State Department to ask us to arrange for President Harrison of the Federal Reserve Bank of New York to receive the Rumanian Minister on Monday.

The Minister desires assistance in obtaining insurance on \$90,000,000 of gold which is to be shipped to New York to be placed under earmark.

I called the Federal Reserve Bank at New York at 1:45. I was not able to reach any officer, but gave Mr. Liddy the message, with the request that it be placed before Messrs. Harrison and Knoke the first thing Monday morning.



TREASURY DEPARTMENT

63

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending May 18, 1940.

Conclusions

(1) The improving business outlook has been strengthened by the expansion and speeding up of the Administration's armament program, which will provide additional volumes of new orders for such important products as steel, textiles, and building materials, that were not contemplated a week ago. Increased foreign orders can also be expected, since the invasion of the Low Countries has cut off important sources of steel and other products. Purchasing agents are planning to increase their buying of materials likely to be affected by the defense program.

(2) The general improvement in business activity has continued for the third successive week. The New York Times index in the second week of May rose to an FRB equivalent of 105, which compares with a figure of 102 in April.

(3) Further improvement is indicated for the following week:

(a) Aided by increased new orders, steel activity has increased sharply to 70 per cent of capacity, and a further advance to 73 per cent is indicated by schedules for the current week.

(b) The usual seasonal decline in automobile production has been retarded by an improvement in sales during the first period of May, and production has instead been increased slightly.

(4) Swift declines in security and commodity prices last week, reflecting a fear that the war might quickly be ended by a German victory, have added an uncertain psychological element to the business picture that cannot at this time be accurately appraised. Its effect on business activity will depend in large degree on whether or not the German successes prove transitory.

- - - - -

Secretary Morgenthau - 2

Defense program strengthens business outlook

The expansion and speeding up of the national armament program will contribute toward a further strengthening of the business outlook, particularly if the program gets quickly under way. While it is obviously difficult to translate the program in terms of its effect on the business picture, it seems likely that it will have some immediate psychological influence in strengthening business activity, in advance of its eventual effect on actual orders for such important materials as steel products, textiles, and building materials.

Press reports indicate that purchasing agents are giving attention to the possibility of a rise in prices for strategic materials affected by the defense program, and are planning to increase their forward purchases of such materials in advance of Government buying. The president of the Purchasing Agents' Association of New York suggests that inventories of commodities primarily affected by the armament program be increased to six months' requirements. Difficulties are said to have already developed in obtaining freely such materials as quicksilver, toluol, and picric acid.

Business improvement continues

Weekly business indices have shown general improvement for the third successive week. Our weekly estimate of the FRB index based on the New York Times index of business activity, after holding unchanged at 102 during the four weeks of April, rose to 103 in the first week of May and to 105 in the week ended May 11. An additional increase seems probable during the following week, since both steel production and automobile production (seasonally adjusted) have shown further substantial improvement.

A decline in the FRB index to 102 in April, as compared with 104 (revised) in March, has been followed by increased activity in steel and some other lines during May, according to a statement last week from the Federal Reserve Board.

The New York Times index for the week ended May 11 rose 1.1 points to 94.7, or about 2 points above the low reached early in April, with increases shown in all components except electric power production. The principal factor in the advance was a marked contra-seasonal increase in steel ingot production.

Secretary Morgenthau - 3

Freight car loadings again moved ahead as a result of further gains in shipments of ore down the Great Lakes, although a contra-seasonal increase in miscellaneous carloadings also contributed to the better showing. Confirming the trend shown by the New York Times index, Barron's index of business activity for the week ending May 11 advanced to 102.3 from 101.0 in the previous week.

Change in war outlook breaks security and commodity prices

In a steep decline, recalling the break that followed President Wilson's peace note in December 1916, security prices last week responded to a radical shift in public sentiment. The widely-held belief in a prolonged war followed by a victory for the Allies was replaced suddenly by the serious possibility of a quick ending of the war with a German victory. The resulting heavy liquidation of stocks held largely or partly as a war speculation dropped the Dow-Jones industrial stock average 16 per cent in 7 days. This compares with a decline of 15 per cent in 11 days in December 1916. Commodity prices, led by wheat, also suffered severely.

It is not possible at this time to appraise the change in the war situation in terms of its effect on our business outlook, since the picture obviously could be radically altered by an improvement in the Allied position. On the other hand, in the event of a German victory a complete re-appraisal of our business situation in the light of a changed world economy would be called for.

To some extent, however, the break in prices will tend to disturb business confidence, and may lead to (1) partial liquidation of inventories that had been carried at somewhat higher than normal levels as a wartime insurance against increased prices, and (2) some curtailment in consumer buying of luxury-type goods due to the present uncertainty.

On the other hand, there seems a tendency to over-estimate the seriousness of the price decline. Actually, industrial stock prices have declined slightly less than they did in March and April 1939, although the break which took a month in 1939 was accomplished this year in one week. Had it not been for the unusually weak speculative situation in wheat, basic commodity prices as a group would doubtless have declined less steeply.

Secretary Morgenthau - 4

Commodity prices sharply lower

A precipitous decline in basic commodity prices last week was centered largely in foodstuffs, which had previously been supported by the general expectation of a prolonged war. (See Chart 1) Wheat was the leader in the downturn, followed by other grains, fats and oils, and cocoa; while hogs and coffee showed resistance to the decline. Prices of raw industrial materials averaged higher for the week, largely because of advances in the price of steel scrap. A comparison of prices last Thursday with those of the preceding Thursday also shows advances for rubber, silk, wool, burlap, tin, and copper.

Price movements of individual commodities in the agricultural group are shown in Chart 2, and those in the industrial group in Chart 3. Steel scrap prices are shown in Chart 4.

Wheat futures, weakened by heavy speculative buying during April, declined the permissible limit on three days last week. It would appear from "open interest" data that the entire speculative account built up during April, representing futures contracts made available by the hedging of loan wheat, has now been liquidated. In five days this week, the open interest in wheat futures has been reduced by 31,000,000 bushels, carrying the total to 93,500,000 bushels, which is below the total at the beginning of April. The present figures suggest that the open interest has now been reduced to below the level of the visible supply, and is therefore less than the amount required to hedge the existing stock of wheat in commercial channels.

Cotton prices have declined more than a cent a pound this week on the realization that the invasion of Holland and Belgium has further reduced the export market for this commodity. A serious weakening in cotton prices may be seen by the time the 1940 crop reaches the market, owing to the impact of a prospective increase in world production at a time when export markets are seriously curtailed. Prices currently are supported by a relatively small available supply outside the Government loan stocks, but distant futures are selling a cent a pound below the near-month future.

Secretary Morgenthau - 5

The domestic sugar futures contract showed relative stability in price, while the world contract declined to a new low for the season in nearly all future months. The world contract apparently ignored the potentially bullish effect of destroyed sugar beet fields and damaged sugar refineries in Europe.

Hide futures prices lost almost 2 cents on Friday and ended at the lowest level of the year on fear of increased sales of hides in the United States from South America, due to the cutting off of important European markets.

Gum rosin prices dropped substantially below Government loan values for the 1940 crop, because of the loss of foreign markets.

Steel orders expanding

New orders reported by the United States Steel Corporation for the week ended May 9 increased to the equivalent of 67 per cent of capacity from 52 per cent the previous week. Since that date, the invasion of Belgium and Holland is reported to have brought increased export inquiries in the steel markets here.

Responding to the higher level of orders, steel operations last week were raised to 70 per cent of capacity, with sharp improvement in a number of important districts. (See Chart 4) A further increase to 73 per cent of capacity is indicated by schedules for the current week. Steel scrap prices (shown on the chart) have risen further, bringing the Iron Age composite price to within a few cents of the average at the beginning of the year.

Some indication that the steel companies have been producing steel in advance of orders, however, is seen in a suspension of all open-hearth operations last week by one company at Buffalo, due to an excessive supply of raw steel. Our studies also indicate a greater than normal accumulation of mill stocks by the United States Steel Corporation.

Secretary Morgenthau - 6

Automobile buying improves

New orders for automobiles during the first period of May were higher than general expectations, holding steady at a time of normal seasonal decline, which has retarded the usual seasonal decline in production and, instead, has led to a slight increase in output during the week ended May 11. Retail sales reported by General Motors Corporation held at a daily average of 6,100 cars, the same as in the last period of April. In both 1938 and 1939, sales declined during the first period of May.

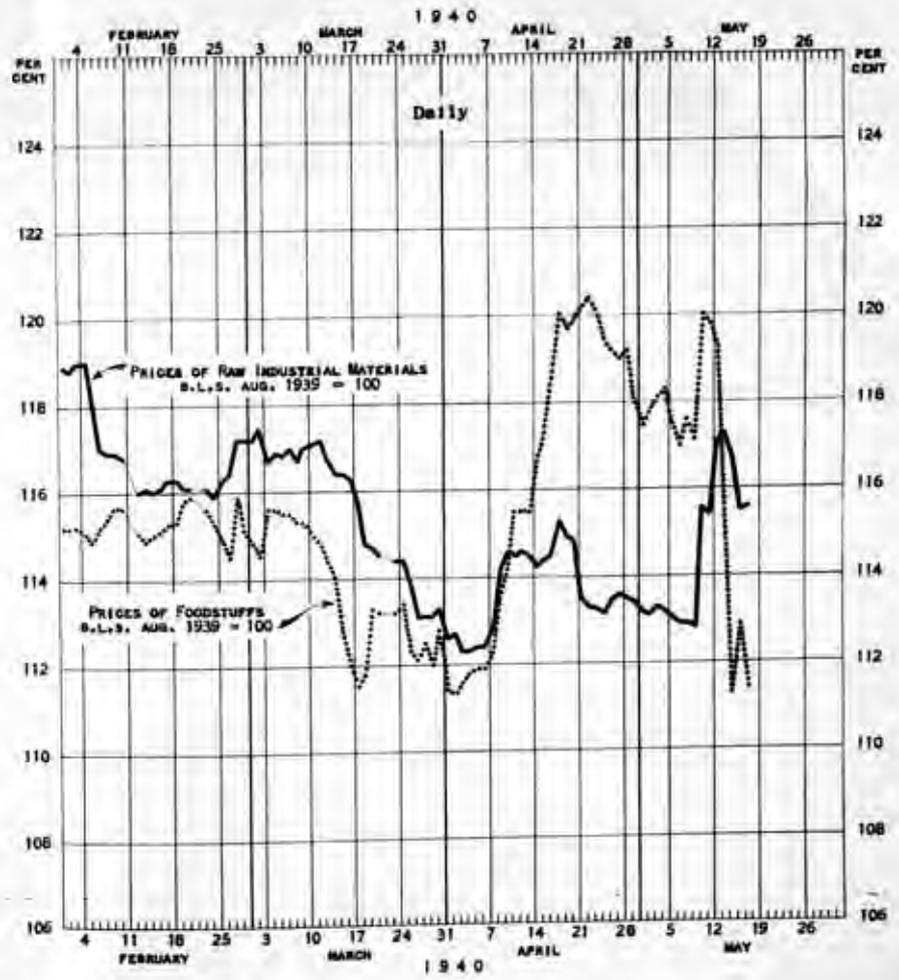
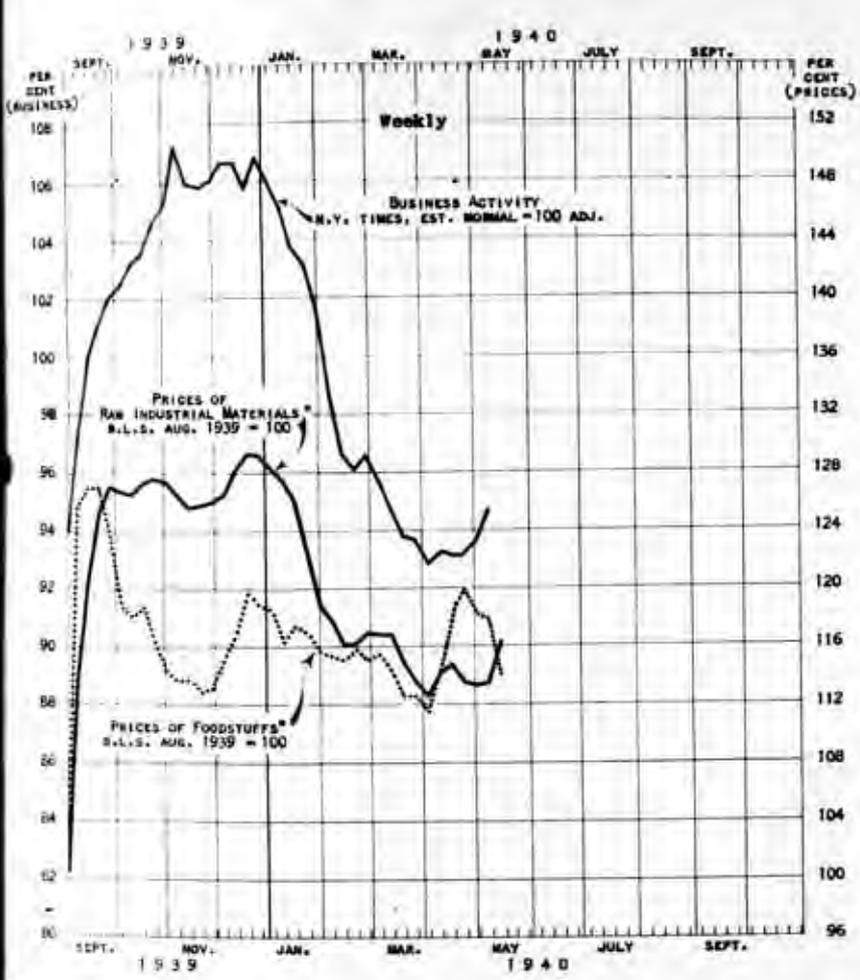
Sales by General Motors during the entire month of April likewise showed a more favorable month-to-month comparison than in either of the two previous years. (See Chart 5)

Business commentators have mentioned the current high level of new and used car stocks as an unfavorable factor in the automobile outlook. Our analysis of stocks as reported by the General Motors Corporation, on the contrary, shows them to be at conservative levels in relation to the volume of sales. (See Chart 6) Factory and dealer stocks of new cars (upper section of chart) have been running consistently lower this season, in relation to sales, than in either of the two previous years. Stocks of used cars (lower section of chart) are in about the same relative position as in the 1939 model season.

New orders index higher

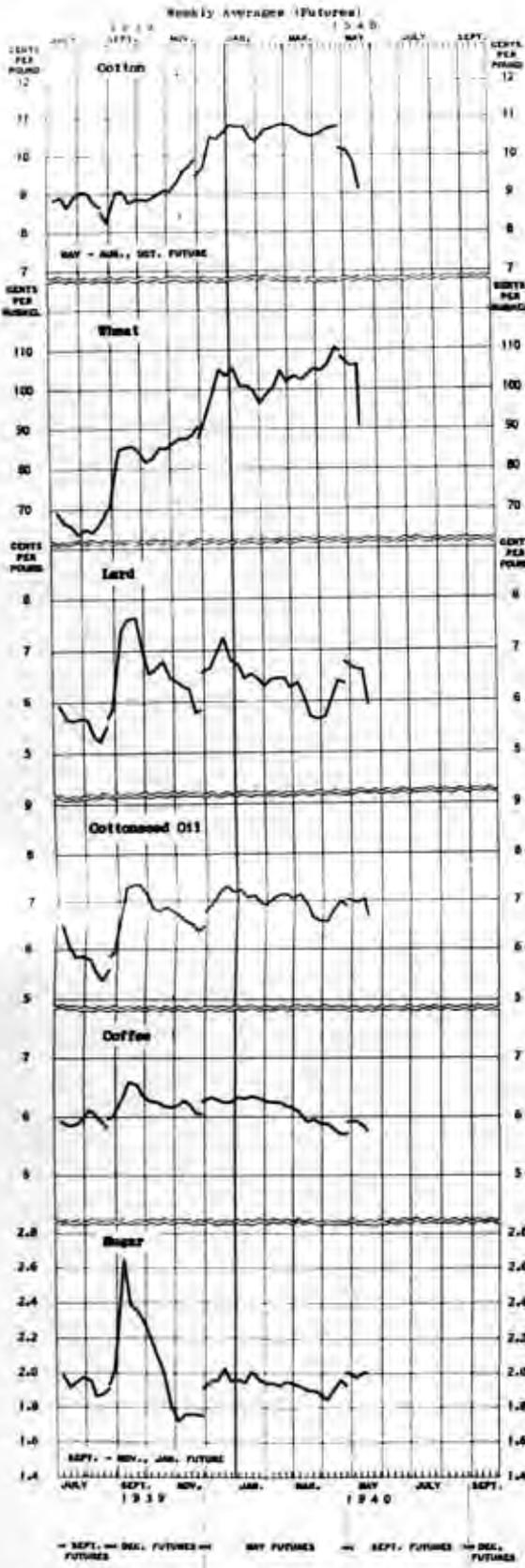
Our weekly index of new orders (shown in Chart 7) has again been increased by the rise in steel orders, while orders for other products on the whole have held unchanged.

BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



* FIVE DAY AVERAGE FOR PRICES

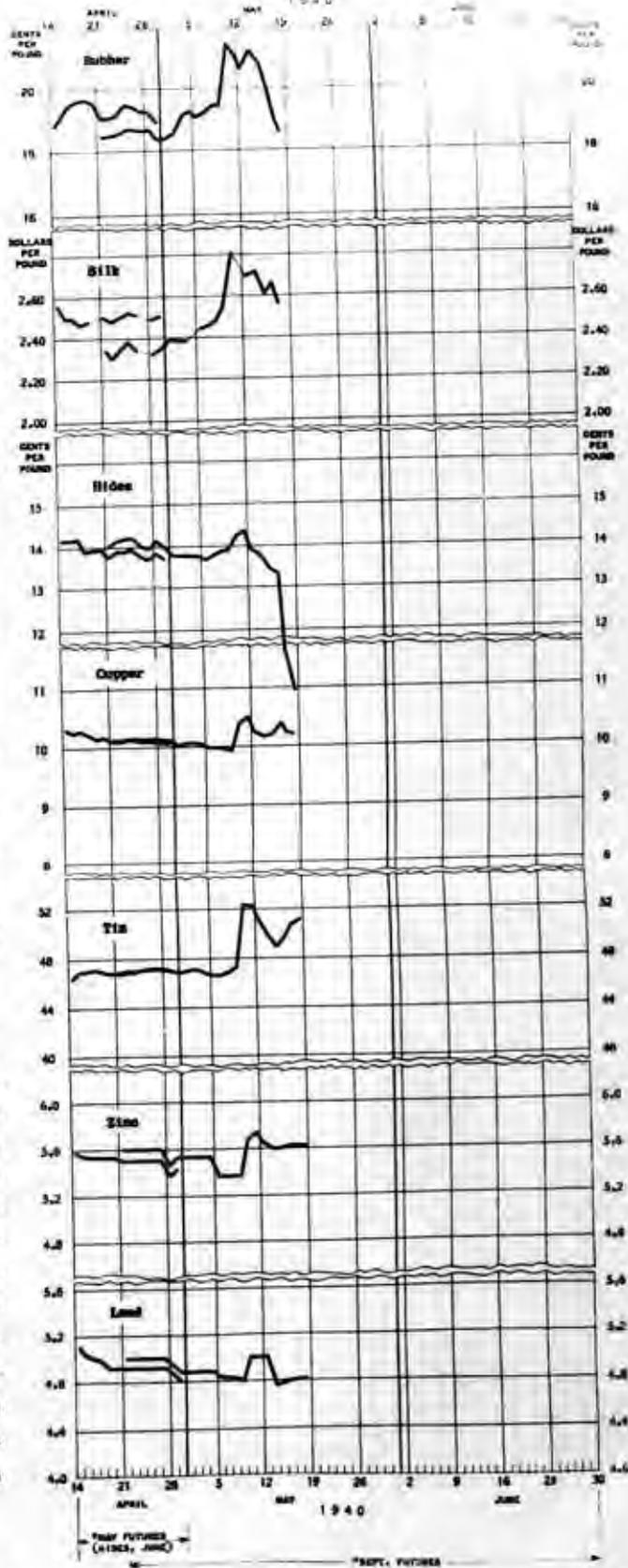
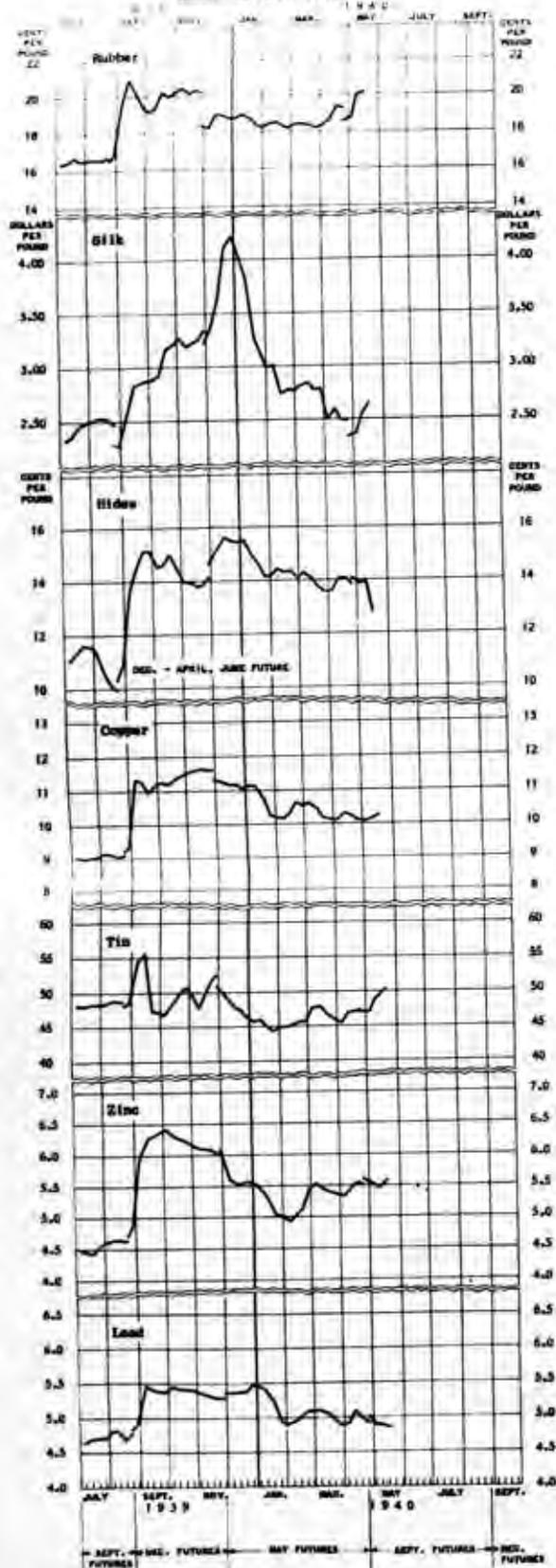
PRICES OF SELECTED AGRICULTURAL COMMODITIES



PRICES OF SELECTED INDUSTRIAL MATERIALS

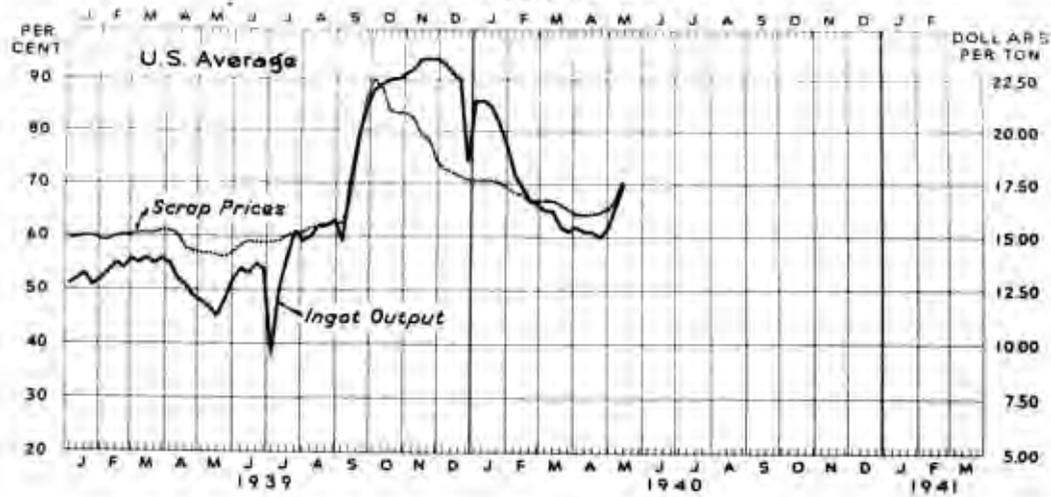
Monthly Average (Futures)

Daily Futures*

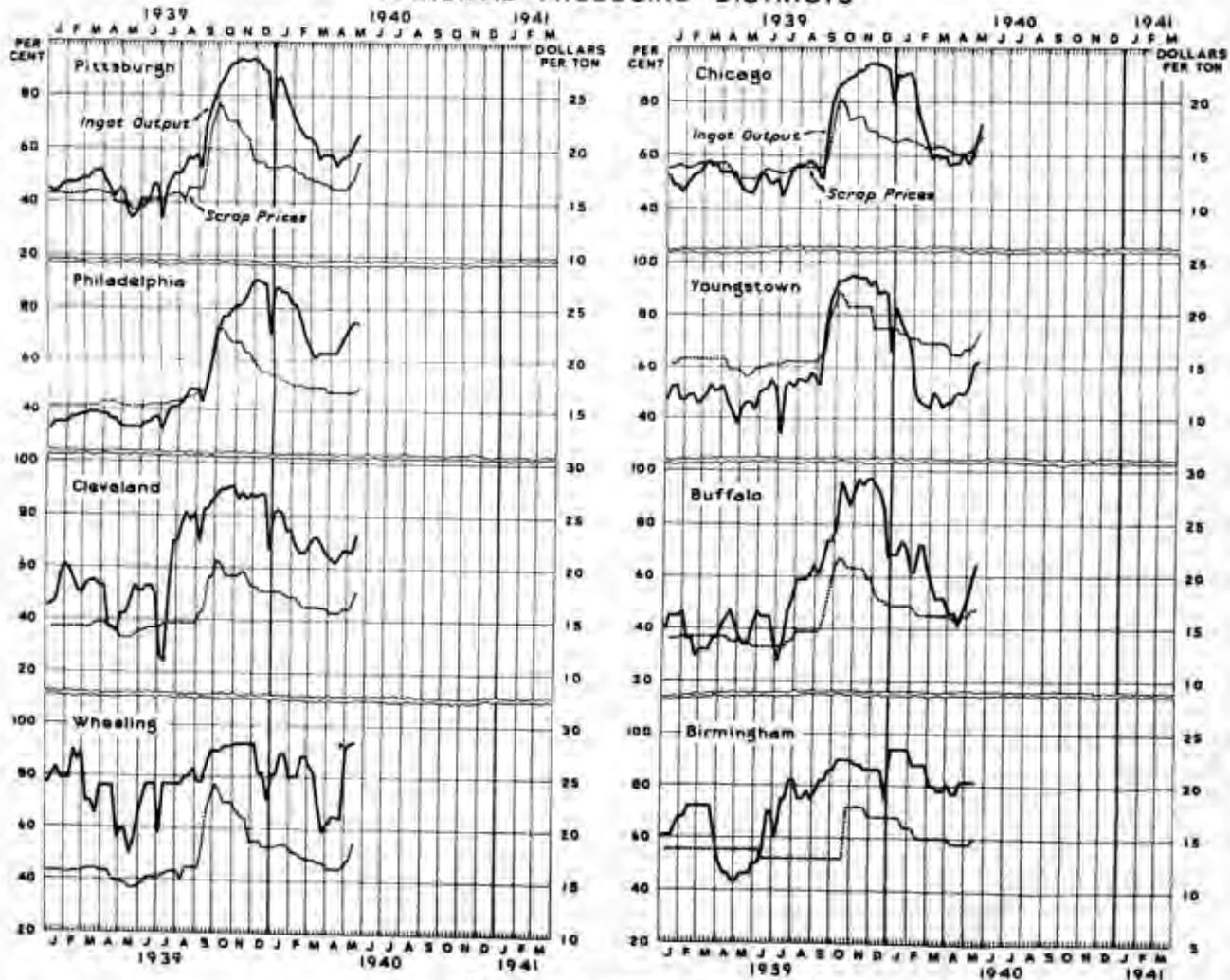


STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity
WEEKLY

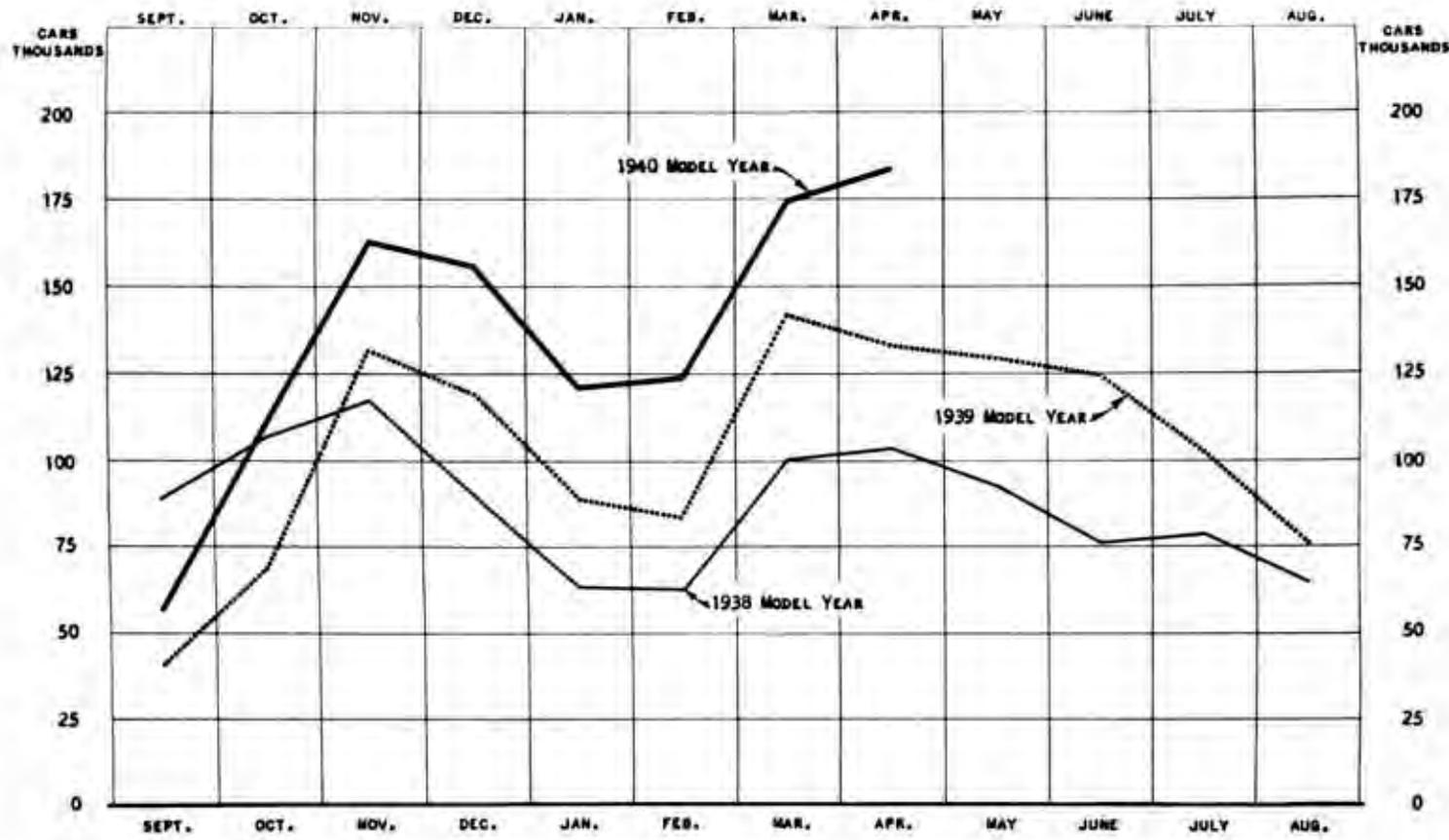


PRINCIPAL PRODUCING DISTRICTS



^a Largely due to reduction in capacity

GENERAL MOTORS
Retail Sales of New Cars during Model Years 1938 - 40



Office of the Secretary of the Treasury
Division of Research and Statistics

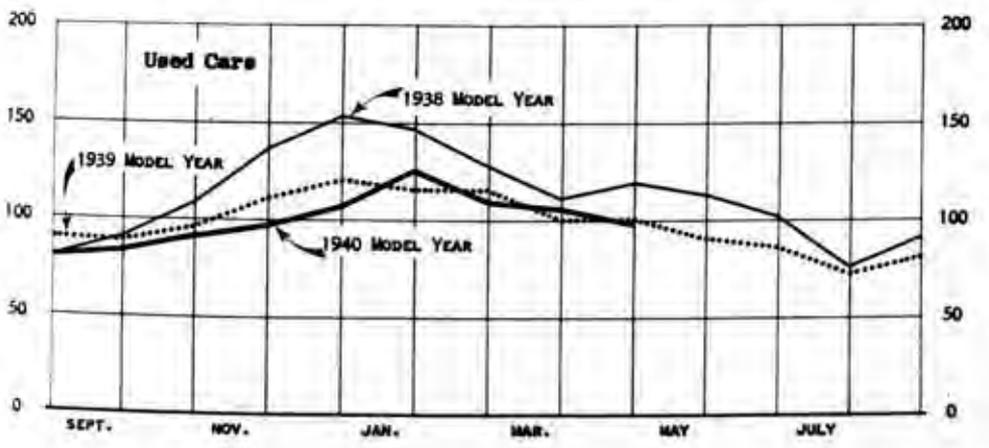
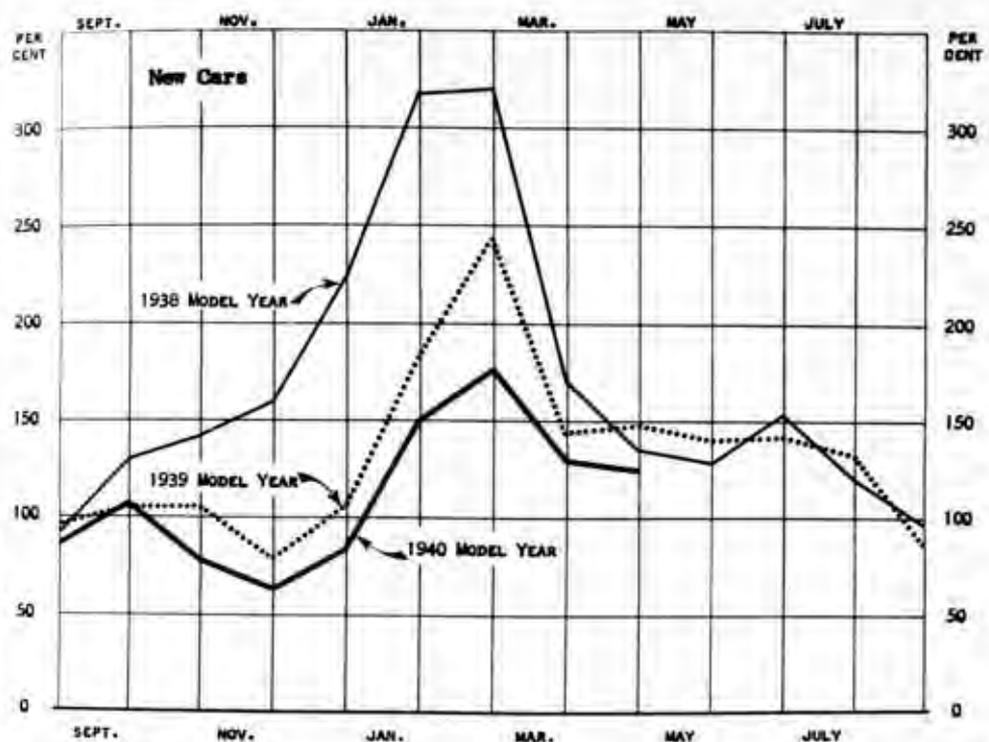
73

1 - 121

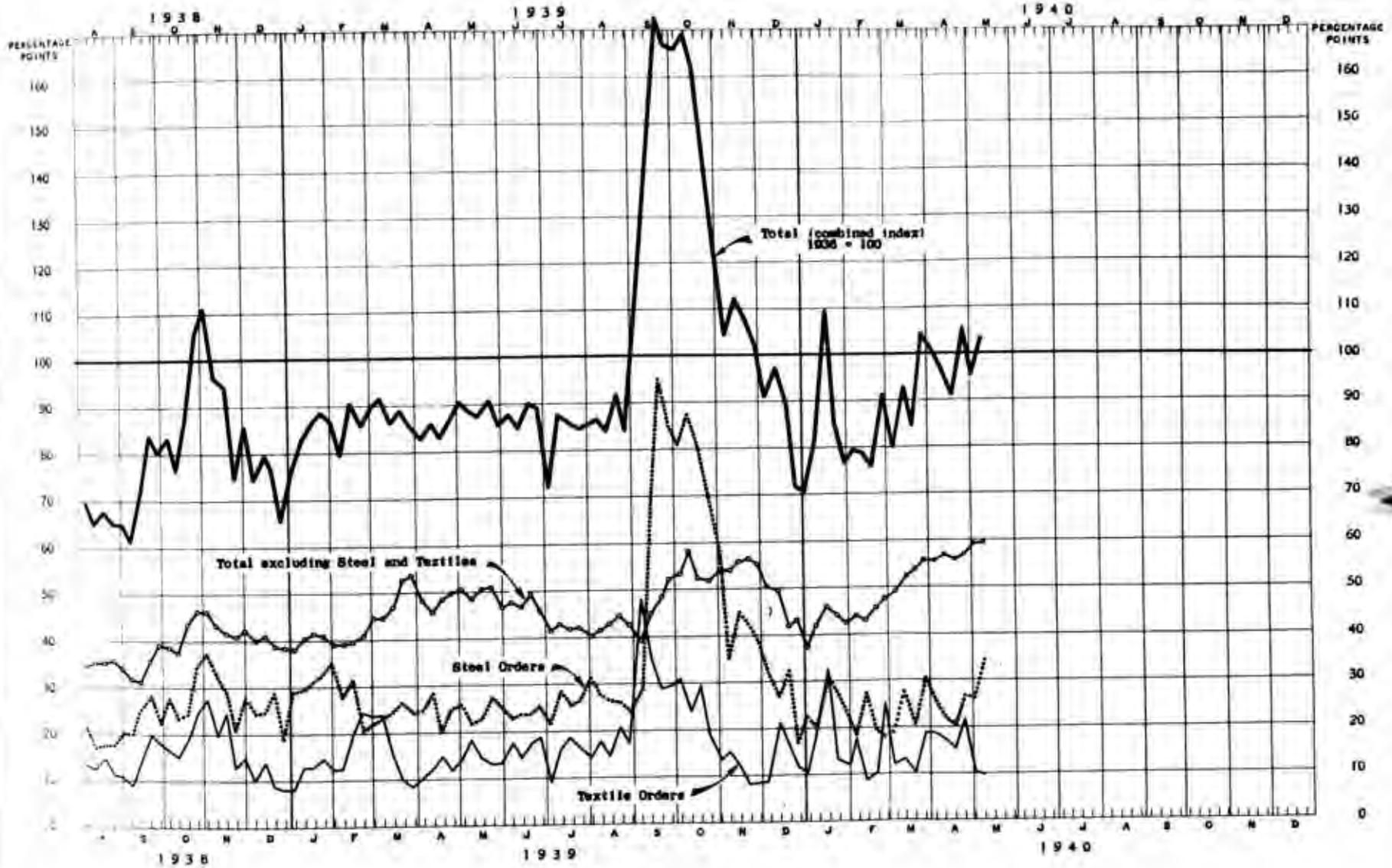
Chart 5
CONFIDENTIAL

Regraded Unclassified

GENERAL MOTORS
Stocks of New and Used Cars, Ratio to Sales



INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



U.S. Bureau of Economic Analysis
Department of Commerce

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2 o'clock on Saturday Mr. Pinsent telephoned me at the Treasury to the effect that a message had been received from his Government which he desired to communicate to us that day. Accordingly, I received Mr. Pinsent at my home at 5:30 p.m. the same day, and he handed to me a memorandum, a copy whereof is attached.

It will be noted that President Trip of the Netherlands Bank has suggested that the United States should prohibit the importation of bearer securities until cessation of hostilities, with exceptions to be made whereby securities which the allied governments desire shipped to this country could be licensed. The French Financial Attache in London agreed with the above idea, which was also expressed in the message which Leroy-Beaulieu gave us on Saturday morning, and which is described in another memorandum. Mr. Pinsent realized that we were doing quite a lot to check possible sales by Germans of dollar securities which they may obtain in invaded territory, but was anxious to learn if we might see fit to do anything along the line suggested by Dr. Trip.



(Handed by Mr. Pinsent to Mr. Cochran
at 5:30 p.m. on Saturday, May 18.)

In order to prevent bearer securities stolen by Germans in Holland being sold in United States it was suggested by Herr Trip Governor of Netherlands Bank just before Dutch [7 surrender] that United States Government should prohibit import of bearer securities until cessation of hostilities. We think it very desirable that immediate action on these lines should be taken provided import under license is allowed and that you are satisfied that licenses would [7 de facto], for duration of war, be given bearer securities certified by His Majesty's Government and French Government and that there would not be delays or difficulties in disposing of our securities. We should not wish to endorse proposal if you feel any doubts on these points. Treasury have spoken to French Financial Attaché in London who agrees in above.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 3:45 this afternoon Mr. Pinsent handed to me the attached memorandum based upon a cablegram received by the British Embassy in Washington from the British Legation at Stockholm. The message from Stockholm was dated May 18, 1940.



(Handed by Mr. Pinsent to Mr. Cochran
at 3:45 p.m., May 20.)

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According to confidential information which has just reached us, but which we have not yet been able to verify, a number of German accounts including official funds are being transferred from Insurance Companies in the United States of America to Banks in Sweden.

According to our informant telegraphic instructions have been sent from Germany to the U. S. A. on this subject yesterday.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

By appointment Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 3 o'clock this afternoon. He stated that one day last week the President in conversation with Lord Lothian, had asked the latter how the United States could cooperate with the British. The Ambassador has now drawn up a letter setting forth certain lines along which cooperation would be appreciated by the British. It was understood that this letter would be presented by Lord Lothian to Secretary of State Hull this afternoon, with the hope that it would be passed on directly to the President, without circulation in the Department of State.

Mr. Pinsent said the Ambassador wanted the Secretary of the Treasury to be familiar with his discussion with the President, and the ensuing letter, since some of the points involved have already been taken up with the Treasury Department, most particularly the matter of prohibition of import of bearer securities, except under license.

I told Mr. Pinsent that a group of us had been studying this morning the memorandum which he had handed to me last Saturday on this question of prohibiting import of bearer securities.

Mr. Pinsent telephoned me at 6 o'clock this afternoon that he would endeavor tomorrow morning to send me copies for the Secretary of the Treasury of the documents which the Ambassador delivered this afternoon to Secretary Hull.

The points upon which the British have requested our cooperation are:

1. Prohibition of import of bearer securities except under license.
2. Blocking of German assets.
3. Possibility of cooperation with regard to navicerts.
4. Possibility of joint arrangement for restricting supplies of key materials to Germany.
5. Restriction of exports of tonnage to Italy.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Weekend political news, such as reports that the Allies were stiffening their resistance to the German thrust in Northern France, had a favorable effect on the sterling quotation today. After opening at 3.24-1/2, three cents higher than Saturday's closing rate, the pound moved steadily upward today, reaching a high of 3.28-1/4 at the close.

Sales of spot sterling by the six reporting banks totaled £369,000, from the following sources:

By commercial concerns.....	£152,000
By foreign banks (Europe and South America).....	£217,000
Total.....	£369,000

Purchases of spot sterling amounted to £477,000, as indicated below:

By commercial concerns.....	£141,000
By foreign banks (Europe, Far East and Near East).....	£336,000
Total.....	£477,000

The following reporting banks sold cotton bills totaling £18,000 to the British Control on the basis of the official rate of 4.02-1/2:

£15,000 by the National City Bank
3,000 by the Bankers Trust Company
£18,000 Total

Developments in the other important currencies were as follows:

The French franc moved with sterling on the basis of a cross rate of 176.40 francs per pound and closed at .0186-1/8.

The Swiss franc was unchanged all day at .2243.

The Canadian dollar had a slightly firmer tone today. The closing discount was 20-3/8%.

The reichsmark closed at .4005.

The yuan in Shanghai experienced a further improvement today. Against sterling, it was quoted at 4-1/4d, up 1/8d, and in terms of dollars, the rate was 5-3/4¢, up 5/16¢. It is interesting to note that the pence value of the yuan is now slightly above the 4-1/8d level which prevailed for a considerable period prior to the drop in that currency on May 2.

We sold \$500,000 in gold to the Lithuanian Bank, to be added to its earmarked account.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$40,000,000 from the Bank of France
25,000,000 from the Bank of England
700,000 from the Central Bank of the Colombian Republic
\$65,700,000 Total

The Federal Reserve Bank of New York received cables from the B.I.S. requesting it to obtain license to transfer, from its account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia, two lots of gold whose combined value was approximately \$3,390,000. Gold in B.I.S. account No. 2 is the property of that institution. The Federal also received a cable from the Yugoslavian bank instructing it to receive and earmark this gold. The Treasury authorized the Federal Reserve bank to make these transfers.

The Federal Reserve Bank of New York reported that the Bank of England had shipped \$626,000 in gold from England. This gold, consigned to the Federal, is to be earmarked for account of the B.I.S.

The State Department forwarded to us cables stating that the following gold shipments had been made:

\$196,000 from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco, for sale to the U. S. Mint.
47,000 from England, shipped by Sharps and Wilkins, London, to the Chase National Bank, New York, for sale to the U. S. Assay Office.
\$243,000 Total

Gold in Bombay was reported to have been priced at \$36.63 today, about 21¢ lower than Saturday's price.

The spot silver quotation in Bombay worked out to the equivalent of 44.92¢ off 3 1/4¢.

The upward movement in London silver prices, which began on May 9, was reversed today. Spot silver declined 7/8d to 22-5/8d, and the forward price was fixed at 22-3/8d, off 5/8d. A comment received from London stated that there was small general selling on the introduction of the British licensing system for silver. It is probable that the British Government will henceforth require that silver exports must be paid for in certain foreign currencies or in sterling obtained at the official rate. If such a requirement is put into effect, the London silver price may be expected to move further downward, since non-Empire purchasers will tend to be discouraged by the sudden increase in the equivalent of the pence price. For example, the U. S. equivalent of today's spot price, on the basis of the official sterling-dollar rate, is over 41¢, as compared with today's "open-market equivalent" of about 32-3/4¢.

CONFIDENTIAL

CONFIDENTIAL

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Handy and Harman's settlement price for foreign silver, which has remained unchanged at $34\frac{3}{4}\phi$ since December 26, 1939, today was raised to 35ϕ , no doubt reflecting the local market's reaction to the current upward movement in Indian silver prices. The Treasury's purchase price for foreign silver was unchanged at 35ϕ .

There were no purchases of silver made by us today.



GROUP MEETING

May 20, 1940
11:45 a.m.

Present: Mr. Bell
Mr. Graves
Mr. Harris
Mr. Haas
Mr. Young
Mr. Sullivan
Mr. Schwarz
Mr. McReynolds
Mr. Cochran
Mr. White
Mr. Viner
Mrs Klotz

H.M.Jr: Here is a short order for Sullivan. I don't know what he can give me. The President wants a report on this legislation from Louie Johnson. It has to do with military affairs. If you can give me something by five minutes to one, I will take it over with me.

Sullivan: Yes, sir.

H.M.Jr: You and Foley.

McR: I guess Foley is up on the Hill.

H.M.Jr: I guess John will have to do it.

Dan, have you and what's-his-name got that thing for the President in answer to his request on debt, taxes?

Bell: Well, I have my tables ready, yes.

H.M.Jr: Are you together on it?

Bell: I haven't tied it in with this tax thing that John just sold you.

H.M.Jr: I will do this when I get over there. I will ask the President - I haven't got time to assimilate it - whether he will let you and John come over.

Bell: We will be ready.

H.M.Jr: Well, when I get in I will call up the Treasury and leave word for you two people if he wants

- 2 -

to see you at a quarter of 2:00, because I just can't assimilate it. But you will be ready?

Bell:

Yes, sir.

H.M.Jr:

Is there anything else very pressing, Dan?

Bell:

No, I haven't anything that needs to be taken up. You asked me about the gold - moving the gold to Fort Knox. The President approved the memorandum and the Budget used that as a basis for a message to Congress.

The other thing was, you asked me to get ready to discuss this Swiss problem of securities. I am ready, but I have never heard anything from anybody. I just wondered where that was coming from.

H.M.Jr:

Well, Wallace was to tell his brother-in-law.

Bell:

Then I will just wait?

H.M.Jr:

Yes.

Have you heard anything from the Swiss?

Cochran:

No, sir.

H.M.Jr:

Mac, everything all right?

McR:

I am having a luncheon conference at half past 12:00 on this bringing in the CCC and National Youth, personnel survey for training program. I have told the Navy what we are doing.

H.M.Jr:

Well, you had better tell Hopkins, because I gathered from talking last night that Hopkins is in on that, too. Go ahead and see what Hopkins has to say. You do it your way.

McR:

I will call him.

H.M.Jr:

I think Harry is in on that, too. This is aviation pilots, isn't it?

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McR: No, this is for workers. We are not going to touch the aviation now, because they have got that covered in their program, I mean training pilots. We are interested in mechanics and trained, skilled workers and things of that kind. We will survey industrial boys as well as other kinds of people and we are trying to keep the boys who are working on the production capacities informed of what we are doing so there can't possibly be any clash.

H.M.Jr: Harold?
George?

Haas: This is just that report.

H.M.Jr: Send it up to the house.
Chick, how did things go?

Schwarz: They turned out fine, thanks. It is over. It was pretty hot, but they worked out well and they responded pretty well to General Brett's talk.

H.M.Jr: Did you hear him?

Schwarz: Yes, sir.

H.M.Jr: Was it your impression that it was good?

Schwarz: It was very good. It was quite general, but he was pounding away for speed and he said that more orders would be the answer for them and he hoped that they would act quickly when they got them and they all said they would. It was a good morale.

H.M.Jr: You don't think they went away feeling it was a dud?

Schwarz: No, I don't believe so. I talked to some of the manufacturers' representatives.

H.M.Jr: Harry, anything important?

White: I have this report on your request about the U. S. Steel products company. The company that

- 4 -

made the investigation in Brazil is about - and then I also happened to meet socially the chief engineer of the Boeing Airplane and he gave me some information that I have jotted down here and I think he is very worth while to talk with, if you have a few minutes. He is here for the next day or two.

H.M.Jr: It isn't U. S. Steel products that I wanted.

White: Well, they are the concern that had the engineers that made that investigation. I have the investigation here.

H.M.Jr: No, what I want is Davis --

Young: Ford, Bacon and Davis.

H.M.Jr: Yes, Ford, Bacon and Davis is the one I want.

White: I will look them up but they are not the ones who made that investigation, a copy of which I have.

H.M.Jr: O. K.

Jake, have you got enough --

White: I have two other minor questions. One is, the State Department called up and wanted this department to prepare legislation on the Inter-American Bank. I said before we did anything I wanted to speak to you.

H.M.Jr: Do what?

White: Prepare the legislation for the Inter-American Bank.

H.M.Jr: In the Cabinet, the President said that Jesse Jones should do it.

White: Shall I transmit that to the State Department?

H.M.Jr: Mr. Hull heard the President say so. I don't want anything to do with it. It is entirely in the hands of Jesse Jones.

- 5 -

White: They are also requesting somebody to go to Ecuador.

H.M.Jr: Take it up with Bell and you fellows decide. I don't give a damn.

White: That is all.

H.M.Jr: Jake?

Viner: Could I have a minute with you afterwards?

H.M.Jr: Not right after this, but sometime after lunch. Would you tell McKay when I come back from the White House, please?

Phil, are you all right?

Merle?

White: Pardon me, did you want me to investigate that company or --

H.M.Jr: No, I have got --

White: The information.

H.M.Jr: I tell you, I am working with Dr. Compton of M.I.T.

Viner: That was the advice on that that I had, was that you talk to him and that you talk to the President of Cal. Tech. That is all right. Those are the two men.

H.M.Jr: Isn't it just as easy to talk to one?

Viner: The only point is that Cal. Tech. has been specializing in airplane engineering.

H.M.Jr: California Tech.?

Viner: Yes, sir.

H.M.Jr: You don't know who it is?

Viner: I have forgotten the name.

- 6 -

H.M.Jr: Where are they located?

Winer: Pasadena.

H.M.Jr: I have heard of it. What about the people I have already got? I have got George Nead and the two Taylors. Now if I get California Tech. I am all right, but I have talked to them today.

Winer: That is what I was going to advise you. You are ahead of me. It is all right.

Cochran: At the request of the State Department, I arranged for the Federal Reserve Bank people in New York to receive the Roumanian Minister this afternoon. He wants to arrange about a shipment of 90 million dollars of gold to be placed under earmark. They are also receiving the Swedish Minister this afternoon. He is getting a power of attorney that has been cabled through the State Department, so he would have control over it as far as the Sveriges Riksbank is concerned.

The third message I had was the message which Pinsent handed to me on Saturday night that was the suggestion which originated with President Trip of the Netherlands Bank just before the Netherlands surrendered, that we be asked to put on a block forbidding the entrance into this country of bearer securities.

H.M.Jr: I am not getting any of it.

Cochran: Well, I have taken it up with Dan.

H.M.Jr: Take it up with Dan. I am not getting any of it.

Waller: It isn't in writing, Mr. Secretary, but we have discussed it this morning.

H.M.Jr: Well, you have got enough people here. Dr. Winer is here.

- 7 -

Bell: Dr. Viner was in on this discussion.
H.M.Jr: You will just have to handle it. I can't.
Sullivan: What time do you want this thing?
H.M.Jr: Five minutes of 1:00.
Sullivan: Yes, sir.

HSM

GRAY

Milan

Dated May 20, 1940

Rec'd 12:50 p. m.

Secretary of State,
Washington.

35, May 20, 5 p. m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 191.50; 332; 507;
not listed; 975; 195.75; 1610; 59.75; 219.50. Volume
104,500.

Market active but quiet. Prices recovered
steadily and closed generally higher than Saturday
due renewed confidence.

SHOLES

CSB



DEPARTMENT OF STATE
WASHINGTON

May 20, 1940.

My dear Mr. Secretary:

I am enclosing for your information a copy
of paraphrase of strictly confidential telegram
No. 765 of May 20 from the American Embassy,
Paris.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Paraphrase, No. 765
of May 20 from Paris

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 20, 1940, 1 p.m.

NO.: 765

STRICTLY CONFIDENTIAL.

FOR THE TREASURY.

An Embassy staff member just visited Cariguel about the authentication of certificates for securities which are destroyed. Cariguel told him that the necessary instructions would be issued to the banks for preparing such certificates. As for having the securities destroyed in the presence of banking officials whose signatures are registered with the New York Federal Reserve, Cariguel said that would be practically impossible, in view of the fact that the Federal Reserve has on file comparatively few signatures, and those Bank of France officers whose signatures are known to it would probably be too busy to witness the securities' destruction. Because of all this the banks will be told that should it be necessary to destroy securities, a ranking bank officer, such as a director or under director should witness the destruction. Cariguel said they had "long ago" removed to a place of safety all the American securities which are held by the Bank of France.

All the gold in the Ruhr, Cariguel stated, has been taken away and placed in vaults in the southern part of France.

- 2 -

France. They have also transported to "a place of safety" all the bank notes in excess of current needs. They have evacuated to the South an "advance guard" of the personnel of the Bank, but unless the situation should become more critical, the principal Bank officers do not intend to leave the City; as far as he knew, for the present the Ministry of Finance also intends to remain in Paris.

Since Thursday, he said, there had been changed into French francs approximately 100,000,000 Belgian francs, and there were no signs of abatement of this movement. Cariguel said that the line in front of the Bank of France nearly a half a block long, which the Embassy staff member had observed, was composed of Belgian refugees.

Cariguel was inclined to criticize the Belgian National Bank, asserting that not enough banknotes to meet an emergency had been prepared by the Bank, and this was why funds could not be withdrawn by many Belgian refugees. The Bank of France, despite instructions to the contrary, was exchanging Belgian silver currency for francs although the rate for Belgian banknotes is slightly higher. Such conversions are made by the Bank of France only for refugees who do not have Belgian banknotes in their possession.

The number of refugees coming into France, from Belgium, Cariguel said, was considerably greater than it had been

in

- 3 -

in 1914 because a "taste of German occupation" had already been experienced by the Belgians.

BULLITT.

EA:LWW



DEPARTMENT OF STATE
WASHINGTON

May 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his confidential information one copy of paraphrase of Section Three of telegram No. 765 of May 20 from the American Embassy, Paris.

JS

PARAPHRASE OF TELEGRAM RECEIVED
SECTION THREE, TELEGRAM NO. 765 OF MAY 20, 1940 FROM
PARIS.

STRICTLY CONFIDENTIAL.

Reference is made to telegram of May 17, No. 725 from Paris. The Belgian National Bank has moved from Ostend but Cariguel did not disclose where it was at present. He merely remarked that at present the Governor, Under-Governor and several other officers of the Belgian Bank are here in Paris.

Cariguel said that since Thursday the run on French franc deposits has not been as great as it was in September of last year.

On Thursday afternoon he said the Bank of France had received an order from the Government that all its records should be burned, but it had not yet complied with this order. Cariguel was inclined to be critical of Baudoin, whom he does not consider as a man who can be relied on in an emergency situation.

In conclusion Cariguel said that this morning he thought the military situation was a little better.

END MESSAGE.

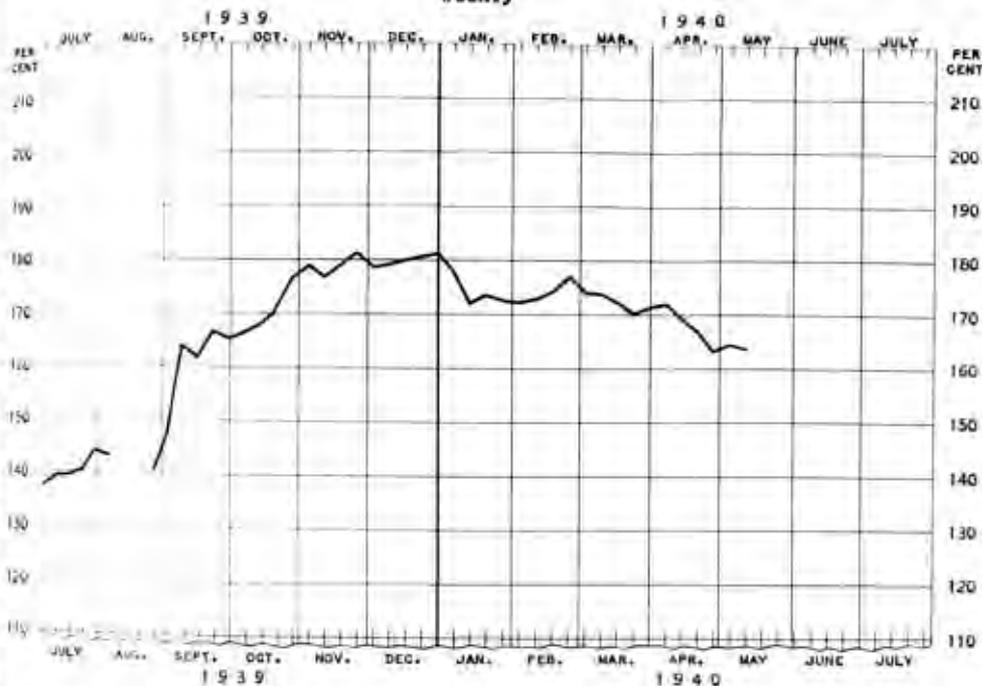
BULLITT.

EA:LWW

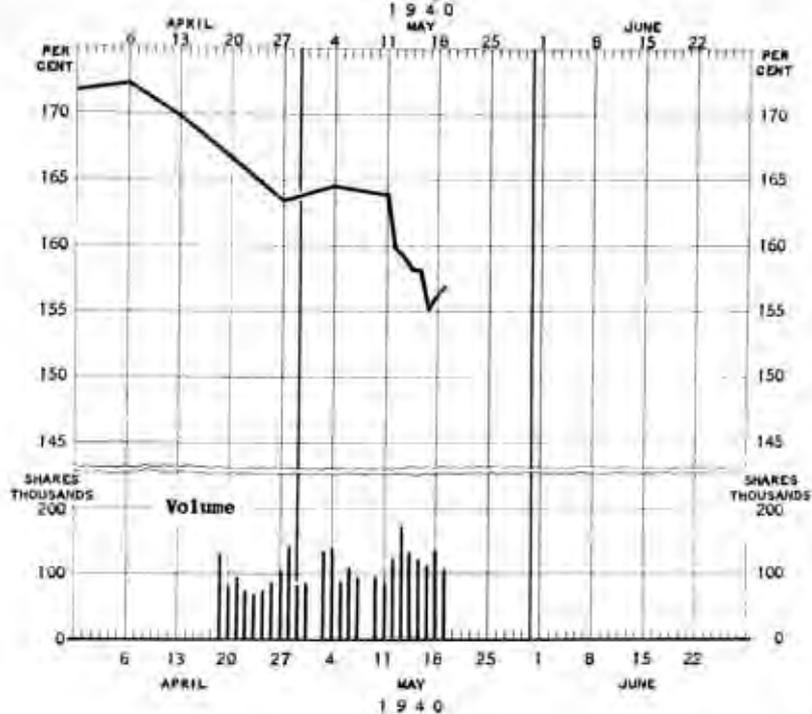
ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily*



*DAILY FOR LATEST WEEK ONLY

U.S. GOVERNMENT PRINTING OFFICE: 1940



CANADIAN LEGATION
WASHINGTON

May 20, 1940

Private and Confidential

My dear Mr. Secretary,

You were kind enough to receive me this morning to convey to you personally a message from the Prime Minister of Canada which was communicated to me in a telegram reading as follows:

"I should be obliged if you would inform Mr. Morgenthau personally that I took first opportunity of communicating to Prime Minister of United Kingdom the views that he had expressed during our conversation in Washington, and have now had a reply that expresses the appreciation of communication and adding that it has been brought to the attention of the members of the British Government immediately concerned with the question."

I am, my dear Mr. Morgenthau,

Yours sincerely,

Lucretia M. Mackenzie
Chargé d'Affaires

The Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

MEMORANDUM FOR THE SECRETARY20
MAY 17, 1940.Shipping Situation.

The Port of New York Authority announces that there is moving through New York export traffic comparable in volume to the monthly average of 1918, the peak year of the World War. In April 1940, 475,000 tons of export freight were delivered to ships. This is only 6% less than the 1918 monthly average.

Exports to Europe in March 1940 through New York were valued at \$100,000,000. compared with \$92,500,000. in February 1940 and \$50,000,000. in March 1939.

The number of cars of freight lightered for export on May 16th was 676. The number of export cars awaiting lighterage on May 16th was 3666 compared with 3472 on May 6th. Export freight in railroad storage facilities on May 16th was 4289 cars compared with 4213 on May 9th.

Approximately two thirds of the storage facilities of the railroads at the port are unused. Lighters on demurrage May 16th numbered 70.

Grain in railroad cars, elevators and boats is practically unchanged from the previous week, about a million and a quarter bushels.

Carloadings for the week ending May 11th were the highest for any week this year and were 105% of the average for the corresponding week of the ten preceding years.

Steel output increased about four points and is currently running at 70% of capacity. Pronounced increase in the export steel business is anticipated, not only to belligerent countries but to neutrals as well who have been drawing large quantities from Belgium.

-2-

There was naturally no berth business in grain to Antwerp. Grain rates from the River Plate to Ireland and the United Kingdom continue to decline. The grain rate on liners from the River Plate to north of Hatteras has dropped from \$10.50 to \$9.00 per ton.

Chartering on net form or time basis is inactive, offering rates in general having decreased approximately 20%, equivalent to about 27½¢ net form from North Atlantic and 30¢ from Gulf ports.

Basel Harris

TREASURY DEPARTMENT

102

INTER-OFFICE COMMUNICATION

DATE May 20, 1940.

TO Secretary Morgenthau
FROM Mr. White

In a conversation with the chief engineer of Boeing Airplane Company (an acquaintance of one of the men in my shop), I obtained the following information that may be of interest in connection with contemplated survey of air plant location possibilities:

1. A special committee was appointed, he believes by General Arnold, several months ago to make a study of the airplane industry under the auspices of the National Academy of Science, with a view to determining and evaluating the various factors that enter into the cost of producing airplanes. This committee is headed by Colonel Horner and is supposed to consist of a staff of engineers who are contacting the various airplane manufacturers and surveying such matters as cost of labor, transportation, material, availability of raw materials, etc.

2. W. J. Austin Company of Cleveland, Ohio, is the largest firm specializing in location selection and construction of aeronautical buildings.

3. Coverdale and Colpits, an industrial engineering survey organization, is tied up with some of the airplane lines and is supposed to be experienced in problems of location and construction of airplane factories.



TREASURY DEPARTMENT
WASHINGTON

May 20, 1940.

MEMORANDUM FOR THE SECRETARY:

The Italian Steamship FORTUNATA, loading at 16th Street, Hoboken, is now expected to clear Thursday morning, May 23rd, and sail late that same day for Italy. From her export declaration she expects to load 370 tons of glycerine and 3,450 tons of toluol.

Bail Harris.

THE WHITE HOUSE
WASHINGTON

May 20, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND
RETURN FOR OUR APPOINTMENT FILE.

F. D. R.

*No! no!
Nanette!
H.M.G.*

THE WHITE HOUSE
WASHINGTON

May 10, 1963.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND
RETURN FOR OUR APPOINTMENT FILE.

no!
Manette!
to

CONFIDENTIAL MEMORANDUM

May 18, 1940

THE WHITE HOUSE

MAY 18 11 11 AM '40

The President

Jerome N. Frank, Chairman
Securities and Exchange Commission

I would like respectfully to suggest that consideration be given to using Floyd Odlum in some important position. I know from conversations with him last fall that he would be willing to drop his business and do anything to help in the crisis.

He is one of the most imaginative financial men in the country. He is not an operating utility man, but he had a lot to do, first as a lawyer and then as financial man, with building up some of the utilities.

Perhaps a good place for him would be on the National Power Policy Committee, assuming that it is to play an important part in expanding and coordinating power production. His ingenuity in helping to finance such a program would be invaluable.

CONFIDENTIAL MEMORANDUM

May 18, 1940

TO: The President

FROM: Jerome N. Frank, Chairman
Securities and Exchange Commission

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VRH

PLAIN

Shanghai, via N. R.

Dated May 20, 1940

Rec'd 2:50 p.m.

Secretary of State,

Washington.

NOT TO BE DISSEMINATED WITHOUT
THE CONSENT OF COMSEC

436, May 20, 5 p.m.

FROM COMMERCIAL ATTACHE. Special financial.

Shanghai open market foreign exchange rates continued their firming tendency this morning due to lessening desire on part of holders to hold foreign currencies in light of reported German gains to Europe. Interbank spot selling closed at noon at five three quarters and four seven thirty second (latter rate highest since February 19), May delivery five eleven sixteenths and four three sixteenths, June delivery five one half and four one sixteenths. Selling orders increasing and Anglo-Chinese stabilization committee is believed to have recovered equivalent one million pounds sterling on Saturday and this morning's trading, thus easier cash conditions expected. Technical position of exchange market confused as it is uncertain whether market is now overbought or oversold. Chinese financial circles believe that should European news favorable to Allies

develop

-2- # 536, May 20, 5 p.m., from Shanghai, via N. R.

develop it is likely to cause easier rates as greater faith in sterling and United States dollars is then likely to recur, also believe that control unlikely for time being to set any definite level for stabilization thus to compel speculators to exercise caution. However April Shanghai recorded adverse trade balance with non yen bloc countries is estimated to have been more than United States dollars sixteen million, but much of the imports may be for hoarding purposes rather than for consumption thus smaller imports near future not unexpected. Inform Commerce. Reported to Chungking and Peiping.

BUTRICK

CSB

110

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY BILL OFFERING

	<u>Aver. on 1st 100 mil. New York</u>	<u>Aver. on 1st 100 mil. NY & Chi. last week</u>	<u>Aver. for country last wk.</u>	<u>Total tenders recd. New York</u>
91-day bills	0.039	0.019	0.016	\$126,895,000

May 20, 1940

MEMORANDUM FOR THE SECRETARY:

Pacific Coast Shipping Situation

The Pacific Coast freight and charter market continued in a state of unrest last week and, if anything, was softer under the impact of war developments.

The time charter market moved up and down between \$4.25 and \$5.50, depending on length of charter, but late in the week it was reported that charterers ideas were around \$4 to \$4.50. Most of the time activity was taking place in New York, and the Pacific range remained relatively dead.

In the Oriental range two vessels were fixed at \$16 and \$18 respectively, for case oil to Siam and Bangkok. After these fixtures were closed the market was said to have weakened considerably and shippers were offering around \$14 for the same type of business. No time charters for Oriental business were reported. Scrap was offering in fair volume and the berth lines were quoting \$16 for melting and around \$14 for rails. Space for general cargo was fairly tight. Lumber from the Pacific Northwest was quiet due to restricted space conditions, and a soft market.

A steamer was taken at \$4.25 on a time basis for lumber to North Hatteras, and another vessel was taken for lumber on a trip at undisclosed terms. Although space for general cargo in the eastbound intercoastal trade was slowly becoming easier, the lumber operators could not get enough to fill requirements. Westbound offerings seemed to be holding well, but the tendency was for an easier market due to seasonal declines.

Basil Harris

CONFIDENTIAL

May 30, 1940

To: The Secretary

From: Mr. Young

Reporting on the success of shadow factories in the Birmingham area, Mr. James R. Wilkinson, American Consul, states as follows:

"The war has seen more private industrial plant in the Birmingham area become idle than new plant built. Private industrialists, for several reasons, rather adapt old plant to war purposes than expand. If the Government has a hand in expansion, the industrialist fears loss of independence. Expansion gives rise to two serious labor problems: (1) That of finding workpeople at all and (2) that of finding the kind of workpeople who, under labor union rules, are eligible for the jobs made available through expansion."

Mr. Wilkinson goes on to state that shadow factory operations have fallen about 40 per cent short of what they were expected to do. Difficulty with the supplying of material accounts for about 5 per cent and trouble with labor accounts for about 95 per cent of this inefficiency.

The statement is made further that it is the general attitude of organized British labor not to permit the employing classes to use the war as an excuse for impairing the results of the progress which has been made in obtaining fair treatment for British working people nor to relax efforts to further the interest of such working people during the war.

Mr. Wilkinson made the following general comment:

"The industrialists are, as a class, not directly concerned about the matter as shadow factories are operated by the Government which, they hold, can, when

- 2 -

it is considered expedient, tell labor what it is to do and make labor do it. They have, however, pointed to the fact that, as a result of the attitude labor has adopted regarding shadow factory problems, the United Kingdom is spending millions upon millions of pounds sterling in the United States and Canada for aircraft, and add that, though shadow factory plans looked well on paper, they warned the Government that they could, if left to their own devices, more satisfactorily from all points of view do the work shadow factories were expected to."

Ry.

May 20, 1940

Told Foley to see Christy Sullivan, leader of Tammany Hall, and say that I wanted the two votes in New York on Banking and Currency; first for the Treasury against RFC and second in connection with the Housing Bill.

If we get these two that will give us five Democratic votes which is two more than we need.

COPY

↓
Paraphrase of telegram No. 218 from Bucharest, May 20, 1940

Secretary of State,
Washington.

By revaluing the national bank's gold stock at 299,999 lei per kilogram instead of 153,333, a premium of 50% the Rumanian Government by decree of May 19 completed the de facto devaluation of the leu which was begun in March. Subsequent to the eleventh of April this premium has been paid on new gold purchased. More than twenty-one billion lei was reported in the gold stock as of April twenty-seventh so the profit from devaluation amounts to more than ten and a half billion lei. According to the provisions of a supplementary decree five billion seven hundred million lei will be expended in the repayment of state loans from the national bank and the remainder will be expended on national defense.

The banks gold D coverage for several months has been near the thirty-five per cent legal limit of sight obligations, so there is legalized by this decree a fifty percent inflation of the currency if it is considered necessary. It seems inevitable that there will be a considerable degree of further inflation because of the mounting costs of national defense and the increasing cost of imports. Since August there has been an increase of two and a half billion in the subsidiary coinage against which reserves are not required, or more than fifty percent. There has been an increase since August of
forty

- 2 -

forty percent in the retail price index in Bucharest.

Owing to political developments lately there has been a jump in the illegal rate, though the official dollar buying rate has remained at 211.65 lei.

GUNTHER

DCA:GHK:MMK

VM

PLAIN

London

Dated May 20, 1940

Rec'd 4:25 p.m.

Secretary of State

Washington.

1279, May 20.

FOR TREASURY FROM BUTTERWORTH.

The quotations in the London Stock Exchange bear no relation either to reality or to the mood of the city for it is impossible to deal in any significant amounts. Although dividends are being remitted to neutral foreign non-residents the effect of the formalities imposed by the licensing system is restricting foreign sales of British securities which is playing its part in upholding the free sterling rate. The British Treasury is improvising right and left to meet the situation created by Holland and Belgium becoming Allied powers pending the conclusion of definitive agreements, and on the major question of expenditure is apparently authorizing anything that is asked for.

KENNEDY

CSB

RECEIVED
TREASURY DEPT
MAY 20 1940

REB

TELEGRAM SENT

GRAY

May 20, 1940

9 p. m.

AMERICAN EMBASSY

PARIS

RUSH

422

FROM TREASURY.

The Federal Reserve Bank of New York has received a message from the Banque de Belgique in care of Bank of France, Paris. Please cable confirmation that the Banque de Belgique is established and functioning in Paris.

HULL
(HF)

EA:PL:LWW

JR

GRAY

Paris

Dated May 20, 1940

Rec'd 2:48 p.m.

Secretary of State,
Washington.

777, May 20, 6 p.m. (SECTION ONE)
FOR THE TREASURY.

The magazine ECONOMIE FRANCAISE has just published its unofficial index of the French wholesale prices in April of 45 foodstuffs and industrial raw materials. On the basis of prices in the months immediately preceding the war equal to 100 the index for April is placed at 139 an increase of one point over the March estimate and a figure eight points above that for December. Imported foodstuffs are placed at 143 and domestic at 142. Imported industrial raw materials are estimated at 155 and domestic at 121.

BULLITT

CSB

REB

GRAY

Paris

Dated May 20, 1940

Rec'd 2:09 p. m.

Secretary of State,
Washington.

777, May 20, 6 p. m. (SECTION TWO)

Food ration cards are now being distributed. Bread is the only commodity thus far covered by them.

The securities market was irregular today. Rentes gained fractionally except for the 1925 sterling exchange guarantee issue and the 1937 dollar exchange guarantee issue which lost 3.70 francs and 4.25 francs respectively. French industrial stocks were irregular a few showing fairly substantial gains while others sustained moderate losses. Suez rose 1325 points on the strength of Italy's statement yesterday regarding its non-belligerent status.

(END OF MESSAGE)

BULLITT

CSB

COPY

Rio de Janeiro, May 20, 1940

No. 3024

Subject: British Negotiations for a Payments Agreement with Brazil, likely to be carried on in London.

ORIGINAL AND THREE COPIES BY AIRMAIL - CONFIRMATION COPY BY STEAMER.

CONFIDENTIAL

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

Although the Brazilian Government wished to have discussion of the payments agreement recently proposed by the British Government carried on in Rio de Janeiro as well as in London, as reported in my despatch No. 2998 of May 11, 1940, I have the honor to report, for the Treasury Department also, that an official of the Ministry of Foreign Affairs said this morning that it now appears that the negotiations will probably be carried on entirely in London as desired by the British Government. They are still in the stage of preliminary discussion, he said.

Respectfully yours,
For the Ambassador:

Ware Adams,
Second Secretary of Embassy

Extra copy for American Embassy, London.

File No. 631
WA:AM

CONFIDENTIAL

May 20, 1940

To: The Secretary

From: Mr. Young

Conference in General Brett's office at 2:00 P.M. with Mr. Keller and Mr. Hutchinson of Chrysler. In addition to General Brett, Messrs. Keller, Hutchinson, and Young, also present were Captain Kraus, and Colonel Echols (General Brett's Chief Engineer).

General Brett asked me to outline the purpose of the meeting, which I did in general terms, and then asked Mr. Keller to outline in more detail the situation as it had developed from his conference with you this morning. Mr. Keller gave a brief summary of the Continental Motors situation outlining the difficulties which would confront Chrysler if the latter attempted to buy it.

He mentioned the fact that Continental had a book value of approximately \$6,000,000 but a speculative market value of about \$12,000,000. Further that certain assets included in the book value could only be regarded as doubtful. In addition, Continental had approximately 22,000 stockholders plus the fact that development work on a large motor had not yet progressed sufficiently to put such a motor on a production basis.

Mr. Keller mentioned the possibility of building the Rolls Royce engine which was a comparable type. A deal with Rolls Royce would be very much simpler and would expedite the production of motors. General Brett interrupted Mr. Keller's remarks by stating that he wished to talk a little about the Continental background before discussing the Rolls Royce possibility in order that Mr. Keller could truly appreciate the situation.

General Brett went on to say that the Army had put a good deal of money into financing the development of this

- 2 -

Continental motor. Further, that the Continental cylinder when properly developed would be far superior to any now available. It was primarily because of the cylinder design that the Army was so anxious to see some one like Chrysler with its management and engineering ability take hold of that motor and really push it.

Mr. Keller inquired as to what the legal situation was on the Continental motor and as to whether or not it were a patented design. General Brett replied that it was not patented but that the Army held the rights. On being questioned further by Mr. Keller, however, the General made the statement that it had never been the practice of the Army to withdraw the manufacture of such a product from the company which had been doing the developmental work.

Mr. Keller was considering the possibility of the Army turning over the Continental motor to Chrysler without the latter having to buy out the Continental Company. Mr. Keller seemed to be pretty much of the opinion that if the Army knew the design and type which it wished developed Chrysler would just as soon start from the ground up and develop a new motor with the help of the Army engineers.

Mr. Keller inquired as to whether or not there was a Continental motor available for inspection in order that Chrysler might determine, not only production difficulties which might be involved, but also potential cost. It turned out that the only Continental motor of the large size, although owned by the Army, was being tested at the Continental plant; a situation which might be embarrassing if Chrysler walked in to inspect it.

With respect to the Rolls Royce motor, the Army knew very little. Two of these engines are due at Wright Field at Dayton some time next week, one for test purposes, and the other to be disassembled for inspection. Thus, it would seem that at the present time little progress can be made until Mr. Keller and his engineers have a chance to inspect in detail both the Rolls Royce and Continental engines.

It was arranged that Mr. Keller should send his engineers to Wright Field as soon as he receives word from Colonel Echols that the Rolls engines have arrived. At that time his engineers would also discuss in detail with the Army engineers the potentialities of the Continental engine. As soon as this study and

Inspection has been made at Wright Field, you will receive a report from Mr. Keller outlining his recommendations. In the meantime, Mr. Keller is continuing a selling trip through New England and New York State, returning to his office in Detroit on Saturday. Attached is a detailed schedule of his movements for this week.

I see little hope for expediting development of the Continental motor as long as General Brett sticks to his present policy. On the one hand, Continental evidently has not the financial resources, the management ability nor the engineering ability to develop the large Continental motor within a reasonable time; on the other hand, the Army, although it owns the rights to the motor and has financed a large part of the development costs, states that it cannot turn over the job to another manufacturer.

If this is truly an emergency and the development of that motor is necessary, more independent money must be put into Continental and adequate management and engineering ability hired, or some going concern with the necessary resources must be persuaded to make what looks like an unwise business investment by buying control of Continental, or the Army must set a precedent by withdrawing that motor from Continental and giving it to some one else.

In this connection, I might add that it was stated definitely Chrysler at this time does not contemplate establishing a permanent aircraft division. Manufacture of aircraft engines by that company would be regarded solely as a temporary operation during an emergency period. This point of view necessarily raises the fundamental question as to whether Chrysler should be asked to help in any major capacity on such a basis. Probably other automobile manufacturers, such as Ford, Packard, and Studebaker, should also be consulted to see if they were interested from a long term point of view.

FL

INTER-COMPANY CORRESPONDENCE

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TO _____ FROM _____
 MR. K. T. Keller _____
 DEPT. President, Chrysler Corporation _____
 PLANT Highland Park _____
 DATE May 15, 1940

SUBJECT: CHRYSLER CORPORATION DAY BUSINESS LUNCHEON MEETINGS - May 21, 22, 23 & 24, 1940

Mr. Cosart has requested me to inform you that arrangements have been completed for Chrysler Corporation Day Business Luncheon Meetings as follows:

BOSTON, MASSACHUSETTS:

On Tuesday, May 21st, at Seiler's Ten Acres, at 12 o'clock Noon. Seiler's Ten Acres is located at Wayland, Massachusetts, about fifteen miles west of Boston on the Old Boston Post Road.

PORTLAND, MAINE:

On Wednesday, May 22nd, in the Eastland Hotel, Main Ballroom, at 12 o'clock Noon.

SPRINGFIELD, MASSACHUSETTS:

On Thursday, May 23rd, in the Hotel Kimball Ballroom at 12 o'clock Noon.

SYRACUSE, NEW YORK:

On Friday, May 24th, in the Onondaga Hotel, Grand Ballroom, at 12 o'clock Noon.

Eastern Daylight Saving Time is in effect at all the above places.

At all four points the Chrysler Corporation Executives' group will meet with members of the press and perhaps a few bankers and other influential citizens, at 11 o'clock, in a separate room at the place where the luncheons will be held. The rooms for these 11 o'clock meetings are as follows:

Boston, Terrace Room, Seiler's Ten Acres; Portland, Private Dining Room 2, Eastland Hotel; Springfield, Parlor A, Hotel Kimball; Syracuse, Parlor D, Onondaga Hotel.

A private Pullman car has been arranged for to accommodate all members of the executive group. The name and number of this car, the Pullman space assigned to you and proper identification so that you can have access to the car at all times during the trip, will be forwarded to you later.

All railroad tickets and Pullman space have been arranged for you from the time you leave Detroit at 4:53 P.M. Monday, May 20th, until you arrive back in Detroit Saturday, May 25th, at 7:20 A.M.

We are informed that a copy of the chartered car schedule has been forwarded to you by Mr. vanDerZee.

MEMORANDUM

May 20, 1940.

TO: The Secretary
FROM: Mr. Sullivan

Conference with Secretary Morgenthau, President Keller of Chrysler Motors, Mr. Hutchinson of Chrysler, Philip Young, and Assistant Secretary Sullivan.

Keller reported that since talking with the Secretary on the telephone he had investigated the situation in Continental Motors. The stock in this company is widely scattered, so much so that it would be very difficult to obtain control of it or to secure an option. There is also now being considered by the SEC the formation of a new company to take over the aviation end of Continental Motors. After discussing the terms of such a transaction he stated that it would be entirely impracticable for Chrysler to attempt to take on this engine and that Chrysler could undoubtedly do better by starting from scratch and developing a motor.

The Secretary then suggested to him that there were in this country two Rolls Royce - Merwin airplane engines. This is a liquid cooled engine which is performing well under combat conditions. The Secretary asked Keller if his company would be interested in building these for our Government either under its own financing or in Government-owned plants leased to Chrysler. Keller said that he thought his company would be interested but they would like to see the motor or at least the designs.

Arrangements were made for Mr. Keller, Mr. Hutchinson and Mr. Young to meet with General Brett and Captain Kraus at General Brett's office at 2 p.m. today.

The Secretary offered to handle the licensing problem for Chrysler and attempt to communicate with Mr. Purvis. Mr. Keller said he imagined he would be able to get adequate relief from other commitments to the U. S. Army for shell cases, fuses, and recoils. The Secretary believed that he would.

The Secretary asked Keller to look at the motor and then to submit estimates as to the cost and speed of production of this motor in units of 100, 200, 300, 400, 500 per month. Mr. Keller was to do this and report back on these schedules on the basis of private financing and on the basis of leased Government property and equipment.

JS

May 20, 1940
5:24 p.m.

H.M.Jr: Mr. Morgenthau. How did things go today?

General
Brett: Oh, I thought they went beautifully.

H.M.Jr: You did.

B: Yes, I hope I didn't say anything I shouldn't have said.

H.M.Jr: Well, I haven't.....

B: And yet everybody seemed to be -- of course they were calling for one thing that I couldn't give them, and that was a program.

H.M.Jr: Or some orders.

B: You see. Now, we're just working -- the Air Corps is working just as tight as they can go on a program.

H.M.Jr: Well, I think it worked out all right.

B: What's that?

H.M.Jr: I think it worked -- the day worked out all right.

B: Yeah, I really felt very, very satisfied when I got through. I went in very dubious.

H.M.Jr: Yeah.

B: But I thought everything worked out beautifully before we got through.

H.M.Jr: Good. I'm glad you're happy. General.....

B: Yeah.

H.M.Jr:as a matter of -- Mr. Young is sitting here with me.

B: I'm sorry, sir. I can't hear you.

H.M.Jr: On this Rolls-Royce engine, couldn't you put somebody on your staff -- get one person to trace that thing through so we could rush it through?

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- B: I'm having it traced just as fast as I can, sir. I had that conference with Chrysler and I gave them all the background on the Continental -- that is, I mean our background.
- H.M.Jr: Yes.
- B: Now, we're getting -- we're rushing those other engines as fast as possible. We hope to have a conference out there about Monday or Tuesday.
- H.M.Jr: Oh, that's
- B: You see? Now, they at that time -- they will go into the engineering background on the Continental and we hope to have the Rolls in a position where they can take a look at that.
- H.M.Jr: Couldn't you speed that conference up until about three days?
- B: Well, I'm afraid not, sir. Simply because they have got to -- they are insistent upon looking at the engine.
- H.M.Jr: Yeah. Well, I mean, couldn't they get a look -- see, quicker.
- B: Well, except the engines are on freight. As near as we can find out they're between New York and Dayton right now.
- H.M.Jr: Listen, if you can find out where they are and hold that car tomorrow, I'll have a truck there -- I don't know where, and I'll take them off and I'll put them into Dayton in ten hours.
- B: Well, fine. I'll look that up right away and let you know.
- H.M.Jr: If you can have that car put on a siding tomorrow morning.....
- B: Yes, sir.
- H.M.Jr:I'll have a truck there and back them up and run them in a truck immediately to Dayton.

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B: O.K., sir.

H.M.Jr: If you'll just let me know the first thing tomorrow morning, or let Philip Young know, see?

B: Yes.

H.M.Jr: You let Philip Young, if you can -- they can catch that car somewhere and have it somewhere tomorrow morning, we'll get a truck -- if you'll have an Army officer or somebody there to open the car, so that a Treasury truck can back up to that thing and take the things out.

B: Well, I'll do my best to locate those engines right away.

H.M.Jr: Well, we'll either get a -- I'll get a truck -- either a Treasury truck or a Chrysler truck.

B: Yes, sir.

H.M.Jr: Or I'll send one of my farm trucks.

B: Yes, sir, I'll have them traced right now and see if I can get any locate on them -- and if I can get a location on them -- I mean, where they're plugging right along, why if they're pretty near there why O.K., but otherwise not. Now, we just made that -- this -- one of the gentlemen who has to do the talking apparently was on a trip and he was planning to go to Portland -- up to Boston and Portland and he was.....

H.M.Jr: Well, I'll get them back. Now, the President of the United States wants a complete answer on this thing on Friday and he's not going to take any alibis.

B: All right, sir.

H.M.Jr: He wants an answer Friday. He wants a program Friday.

B: O. K., sir. That'll be done.

H.M.Jr: And I'm no Englishman.

B: Yes, sir. That'll be done.

H.V.Jr: O. K.

B: Now, did Captain Collins call you about the Evens -- the Allison setup.

H.V.Jr: No, he didn't.

B: On expansion. I think, as I told Captain Collins, that I do believe that you should talk to Mr. Evens and tell him -- his possible plan is to regard increased plant capacity and increased production as an entirely different setup from the Wright and Pratt and Whitney. That is purely for your own information.

H.V.Jr: This is Evens of.....

B: Evens of General Motors.

H.V.Jr: Well, I'm available. I don't know what happened to Collins.

B: Well, I don't know, but I believe that for your own information you should just get a picture of what he would plan to do under similar circumstances.

H.V.Jr: O. K. All right. I'll -- I'll find out why Collins didn't tell me.

B: All right, sir.

H.V.Jr: And then you're going to put a fellow.....

B: I'll put a man on this right away, sir.

H.V.Jr: 'Attaboy.

B: O. K.

H.V.Jr: Thank you.

B: Righto.

CONFIDENTIAL

May 21, 1940

To: The Secretary

From: Mr. Young

Re: Rolls Royce Engines.

In accordance with your instructions to General Brett, namely, to locate the two Rolls engines and to expedite their delivery to Wright Field, General Brett called me about 6 o'clock last night to say that the engines were supposed to be on "St. Mary's dock", New York, and that he was asking one of his Army people to investigate the situation as he presumed the engines were probably still tied up with Customs.

I located Mr. Basil Harris at home and asked him if he could arrange to have the engines cleared through Customs immediately, so that the Treasury would have no responsibility for delay. After a good deal of difficulty both on the part of Major Johnson of the Air Corps stationed at Mineola, L.I., and on the part of Mr. O'Keefe of Customs, the engines were located at Pier 90, North River, and Mr. Harris advised me at 10:15 last night that they were clear of Customs and ready for shipment.

In talking with General Brett shortly thereafter I was informed that the engines would leave New York early this morning by express for Wright Field where they should arrive late tonight and be ready for initial inspection early Wednesday morning.

General Brett seemed hesitant about calling Mr. Keller, so I telephoned Mr. Keller about 11:30 last night at the Ritz-Carlton Hotel in New York and explained the situation. He promised that his engineers would be at Wright Field at 8 o'clock Wednesday morning ready to go over the Rolls engine and to talk with the Army engineers about the Continental engine. You will receive some kind of a report from Mr. Keller by Friday morning. Mr. Keller emphasized, however, that the time was very short to make any kind of a complete survey but that you would receive the best report he could make in the time allowed him.

May 21, 1940
3:58 p.m.

H.M.Jr: Hello.

Operator: General Brett is in General Marshall's office.
Shall I get him there?

H.M.Jr: Yes, please.

O: Right.

4:00 p.m.

O: Go ahead.

H.M.Jr: Hello.

General
Brett: Yes, sir.

H.M.Jr: General Brett....

B: Yes, sir.

H.M.Jr:Morgenthau. I have brought down here several
civilians to advise me, people like Dr. George Mead.

B: Yes, sir.

H.M.Jr: And some other people from California Technology.

B: Yes, sir.

H.M.Jr: Now, they'll be here tomorrow and I'm having them
sort of heard together by, I think it's Warner, of
Civil Aeronautics, you know.

B: Yes, sir.

H.M.Jr: Now, I've given them what I've got in my mind and
what I'm trying to do to be helpful, but I'd like
to get them -- have them get directly also what
you see -- the problem, particularly on engines.

B: Yes, sir.

H.M.Jr: And this big engine, and licensing. I've told them
the whole business and I'd like you and Kraus to
see them sometime tomorrow morning.

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B: Yes, sir.

H.M.Jr: Now, what time could you and Kraus see them?

B: Why I could -- I could be there at any time, sir.

H.M.Jr: No, they'll come to your office.

B: Oh, they'll come to my office?

H.M.Jr: Yeah.

B: Well, let's make it at half past nine.

H.M.Jr: 9:30.

B: Yes, sir. Now, you want me to get in touch with Captain Kraus?

H.M.Jr: Would you mind?

B: No, sir. I'll arrange that with him.

H.M.Jr: Would you mind? It saves me one telephone call.

B: No.

H.M.Jr: And I'll tell these gentlemen to come to your office at 9:30 and I'll have Mr. Warner bring them.

B: Yes, sir.

H.M.Jr: You know Warner of Civil Aeronautics.

B: Yes, sir. Now, exactly what do you want me to specifically go into, Mr. Morgenthau?

H.M.Jr: Well, what I'd like you to go -- is this question of another -- well, in the first place I'm going to ask Mr. Mead to go out to Allison. That's number one. And take a look at it.

B: Yes.

H.M.Jr: I mean, what he thinks is the matter out there. I also want them to tell me what they think is the best bet for another in-lined liquid cooled engine, a big one.

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B: Yes, sir.

H.M.Jr: Also, we're going to license who they think is the best.

B: Yes, sir.

H.M.Jr: In other words, I'm setting up a little group to advise me on these sort of matters. The things that you and I have been talking about about engines....

B: Yes, sir.

H.M.Jr:I'd like this little group to know, because I'm going to use them because I know so little about it.

B: Yes, sir.

H.M.Jr: See?

B: Yes, sir.

H.M.Jr: So.....

B: Well, of course, that subject should gradually develop, sir; as they begin to pick up information.....

H.M.Jr: Right.

B:why then we can feed them additional data, which will put them in a much better position to make recommendations.

H.M.Jr: I understand. Now, the other thing, I'd like them to have permission to go out to Dayton and see the Rolls-Royce on the test block.

B:

B: Yes, sir.

H.M.Jr: If you would arrange that.

B: Well that'll -- you got the message on that.

H.M.Jr: Yes. (Hearty laughter) I got a good laugh out of that too?

B: Why?

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H.M.Jr: It was down on the docks they tell me.

B: Yeah, it was on the dock.

H.M.Jr: Yeah, not on the railroad train.

B: No, sir. It was on the dock but it's being delivered at Dayton tomorrow morning at 7:25.

H.M.Jr: Well, I think that's very snappy and I congratulate you.

B: I -- believe me, it took me a good part of the night to do that, but it was done.

H.M.Jr: Well, that's the way -- but we've all got to move faster these days. But as much -- I'm delighted it's there.

B: Yes, sir.

H.M.Jr: Now, I'll have these men at your office at 9:30 just so they can talk, ask some questions, check up -- they'll want to check up on what I've told them., and then I'm going to see them again in the afternoon.

B: Yes, sir.

H.M.Jr: And I took the liberty of giving them a copy of the memorandum you sent me on the program.

B: Yes, sir.

H.M.Jr: So I'll be seeing you soon.

B: Yes, sir. O. K., I'll attend to them.

H.M.Jr: Thank you so much.

B: Righto.

WAR DEPARTMENT
AIR CORPS
MATERIEL DIVISION

ADDRESS REPLY TO

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Washington, D. C.,
May 21, 1940.

MEMORANDUM FOR - Lieutenant E. S. McKay

Recently comparative tests on the P-40 and the Spitfire were conducted in Ottawa, Canada, by personnel of the Air Corps Materiel Division.

High speed runs at altitude could not be obtained due to weather conditions existing during the entire period of tests. However, the following conclusions are drawn from the flight tests conducted:

1. The high speed of the P-40 and the British Spitfire are substantially the same, with the P-40 eight to ten miles faster at its best altitude.

2. The rate of climb of the P-40 is definitely superior to the Spitfire due in part to the constant speed propeller of the P-40 against the two-position propeller of the Spitfire.

3. The airplanes are equally maneuverable, the minimum radius of turn being dependent in each case on the capacity of the pilot to withstand the high acceleration forces encountered.

The data requested on the Merlin engine is being compiled and will be furnished at an early date.


A. G. LYON
Major, Air Corps.

Excerpt from meeting held on May 21, 1940,
at 9:15 a.m., at which were present Purvis,
Bloch-Laine, Jacquin, Young, Ballantyne,
and Mrs. Klotz

- H.M.Jr: I want to tell you something before you start in with me. In order to save time and save a day, I called up Mr. Kennedy at a quarter past six this morning and asked him if he wanted to go and see the Air Ministry because if I waited to see you I would lose a day. He said he would see the Air Ministry at once. I said in order to save time I wanted to know if His Majesty's Government would license the American Government to manufacture the Rolls-Royce engine. Then I had some other manufacturer in mind. I did not know whether the engine was one we could use or not, but in order to save time would they get a very capable person and give him all the papers and plans to duplicate the engine and let him come over? Furthermore I thought, as an ace-in-the-hole for the British Government to have those plans in this country, was worth something. I don't want to be gloomy, but if you had a complete set of plans in the United States -- he's going to call me back this afternoon as of London time, but that does not in any way conflict
- Purvis: No, no. Anything that will save time.
- H.M.Jr: That saves time and he can go right into the Air Ministry and he will have an answer for me by this afternoon, because, well, our Army isn't helping me any. Have we heard where the Rolls Royce is?
- Young: Yes, I got her on the train this morning, going by express to Dayton, and will be there tomorrow.
- H.M.Jr: Just to show you, the Army was going to send it by slow freight.
- Young: They never even got it out of New York. They were on the dock. I got Mr. Harris out of bed.
- H.M.Jr: They went by express last night?

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- Young: Early last night and they are on their way now and should be there tonight.
- H.M.Jr: They were still on the docks. How long had they been there?
- Young: I don't know. They did not even know when they came in.
- H.M.Jr: They are going to have this demonstration Monday or Tuesday and they will be there tomorrow.
- Young: Late tonight.

RE-AIR EXPANSION PROGRAM

May 21, 1940
3:30 p.m.

Present: Mr. Hunsaker
Mr. Hinckley
Mr. Mead
Mr. Johnston
Mr. Warner
Mr. Young
Mr. McReynolds

Hinckley: All of this group, Mr. Secretary, are in Government and Mr. Warner, of course, as you know, is in Civil Aeronautics and Dr. Mead and Mr. Johnston are with the N.A.C.A. and they are there because the Government feels and industry feels that they are the best men in aviation.

H.M.Jr: Let me just get this. I want to know this. It shows how little I know, at least about aviation. Now, this N.A.C.A., is that financed - out of what appropriation?

Hinckley: They have their own appropriation, an independent agency, National Advisory Committee for Aeronautics, responsible to the President, in charge of all aeronautical research for the Government.

McR: It was started many years ago.

Hinckley: By Wilson in 1915.

McR: And has a very high standing from a scientific standpoint.

H.M.Jr: Now, Mr. Mead is on that, aren't you?

Mead: Yes, sir.

Hunsaker: Mr. Mead is Vice Chairman of it.

H.M.Jr: And Mr. Johnston is on it?

Johnston: Yes, sir, coordinator of research, not as a member of the Committee.

H.M.Jr: But you are on their payroll?

Johnston: Yes.

H.M.Jr: And Mr. Hunsaker is up at M.I.T.?

Hunsaker: The members of the N.A.C.A. are on no one's payroll.

H.M.Jr: Where do you get your money from?

Hunsaker: We don't get paid.

H.M.Jr: Then you are paid by M.I.T.?

Hunsaker: For being a Professor, not for working for the Government in Washington.

H.M.Jr: And Mr. Johnston is paid by --

Johnston: By the Government.

H.M.Jr: And Mr. Mead?

Mead: Nobody.

H.M.Jr: You are just --

Warner: There are fourteen members on the Committee, of whom eight are ex officio representatives of various Government departments, six, including Dr. Mead, Dr. Hunsaker and myself, being appointees of the President to give only a part of their time to the Committee.

H.M.Jr: Well, I asked Mr. McReynolds to sit in and keep me straight, because he is Administrative Assistant to the President and I just wanted to get - he is on leave with me for two weeks. I wanted to make sure I wasn't overlapping on anybody.

Now, I asked three other gentlemen to come down and they may be on this committee, too, from California. That is Carmen, Milliken and Lombard. Do you know these people?

Mead: Yes.

H.M.Jr: They are all good on it?

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Mead: Yes, they are. I don't know Lombard.

Warner: Yes.

H.M.Jr: He is engines?

Warner: No, Lombard is a specialist in aerodynamics. He went back to California to take his PhD about two years ago.

H.M.Jr: Milliken?

Warner: He is Professor of Aeronautical Engineering there. He is also in aeronautical aerodynamics.

H.M.Jr: And Carmen?

Hunsaker: He is also aerodynamics.

H.M.Jr: Now, what will there be here tomorrow, anyway? What I am trying to do for the President so we can find a better way to do it, he has got me coordinating this Army and Navy program, plus the Allied Purchasing program and I am working directly with General Brett and Captain Kraus on purchases of planes. We have got the job of getting the planes for the Army and Navy which are in the present bill, plus the job of trying to make a plan, if you want to produce 50,000 planes, to have the engines and so forth and so on, and how to do it. The thing that I wanted - and incidentally, I have got money, Mr. McReynolds tells me, so we can pay any of you people - we can pay \$22 a day.

McR: Yes, and transportation expenses and \$5 per diem, plus \$22.22 a day.

H.M.Jr: So, if anybody is not being paid, I can pay that from now until the first of July. I have funds. Right?

McR: That is right. A little over 20 thousand. You wouldn't spend that much.

H.M.Jr: I don't think this crowd will, but I just wanted to let you know I had it.

Now, here is the thing. It will take me a couple of minutes and then you can cross-examine me. Maybe everything I am saying is being done.

In this program as it was tentatively given to me by General Brett and Captain Kraus, they want so many engines - I forget, 24 or 25 hundred engines for the trainers and in that connection they have recommended that we get a license from Pratt & Whitney and Curtiss, from Pratt & Whitney on their R-1340 and their R-985 and from Curtiss their R-975, and both of these companies recommend against it, but the contracts are being drawn to give the license to the Government, the Government to reassign these to any person they want. Now, it gets down to which factories can best - should be the factories who should be licensed and can go ahead and make these 400 or 450 or 500 horsepower. That is one problem. A lot of suggestions have been made. Pratt & Whitney have a favorite that they would like to give it to. Curtiss-Wright have their own suggestions. I have no favorites.

Then the Army desperately needs a big engine, in line, liquid cooled. The only thing that they have gotten today is the so-called Continental flat engine which at present, I believe, has 50 hours on it and I think - you people can correct me - it develops a thousand horse.

Winchley: You are talking in addition to the Allison?

Wright: Yes. And the thousand horse is no good and they want a 1500 horse. Now, again I see in the morning's papers that Lycoming has a flat engine which they announce in the newspapers, but neither the Army nor the Navy wants us to put any particular money into it at this time. They are desperately anxious that the Administration put a lot of money in this Continental. They would like to order 1500 of them.

One of the first things I want to ask you people is, that if we want to - this is the only place

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where maybe I have notions and you can knock them out of my head. We have two good radial aircooled engines. We have one liquid cooled engine, Allison. They have produced six engines so far, but God knows when they will produce any more and then they don't know whether they will get them flying, a lot of them, or whether they will develop weaknesses. My thought was to try to develop for the Army and Navy another in line liquid cooled engine so we would have something else to depend upon besides General Motors and Allison. We have started with the British Government to get the license for Rolls Royce and the two Rolls Royce engines were picked off the dock in New York last night and are being sent by express today to Dayton to be available to be seen. Is that Wednesday they are going to be available?

Young: They are on the train now. They will be there at 7:29 tomorrow morning.

H.W.Jr: We picked them off the dock last night. The Army thought they were on a freight train and didn't know where they were and I raised hell and Phil Young finally discovered them on the docks and we got the Commissioner of Customs out of bed and on his way down there.

I am giving you the stuff and this may be all an old story. You people may have heard this all; it may be all an old story, but at least I am giving it to you as of today. We are working on what is the best in line aircooled engine for the Army. Are they right that they want another one? The ones that are available, in the process, they claim the only one available is Continental. The Continental Company is in very bad financial shape and bad off in management. I asked Chrysler to look in to see whether they would buy it and they said well, they were buying an empty shell and didn't think it was worth the money.

Runsaker: May I interrupt, Mr. Secretary? My information doesn't go inside the Army and Navy as much as it might. Are the Army and Navy both satisfied

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that this Continental engine is ready for production, has passed all the tests?

H.M.Jr: Well, I have talked with Brett and Kraus and they gave me a joint memorandum recommending --

Hunsaker: I would accept their word for anything of this nature.

H.M.Jr: Well, they gave me a joint memorandum recommending that - I think it was that we buy 1500, wasn't it?

Young: Yes, sir.

H.M.Jr: Around 1500 of these Continental engines, of 1500 horsepower each.

Warner: Continental, as I understand it, has only now reached the point - the trouble that is now developing - are the difficulties with the Allison supposed to be irremediable?

H.M.Jr: Mr. Sloan is coming down Monday morning to talk to me about it, of General Motors. There is another thing. There is another engine called the Bristol engine which the English Government are themselves considering having manufactured in Canada. I am just letting you know - I guess you (Young) have got the whole thing.

Here is the thing. Can I get from you people, plus these people tomorrow, a recommendation and one of the first things, I think, would be to take a look at this Rolls Royce engine to see what it can do. It seems to me that one of the first things would be to look at that, to tell me so that I can tell the President of all the in line liquid cooled engines, which is the best one that the Government should back as a - so we won't be entirely dependent upon Allison. It seems to me that is about the first problem.

Hinkley: That would mean taking a good look at this Lycoming, too.

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H.M.Jr: The Lycoming, Continental, and Rolls Royce, those three.

Warner: There are two more or less incommensurable problems. In the case of the Lycoming and Continental, the risk is that of bringing into large production an engine that hasn't been tested, or only to a very limited extent, and the qualities are as yet indeterminate. The problems - the Rolls Royce is known to be a good engine, but there is a problem of adapting a European design to an American engine. Dr. Mead has had a good deal of experience.

Wad: I presume you want engines - at least, I feel the country needs them and having gone through the last war trying to make engines in large quantities, I think it is much better to start with something we have. The bugs in something, as we call it, are more readily eradicated than to start from the bottom up. Now, parallel to that undoubtedly it would be wise to have another liquid cooled engine, but I should think if the immediate need was to get quantity that we ought to try some way to see that Allison get into large production. That ought not to be an insurmountable problem.

H.M.Jr: Couldn't you do both of those things?

Mead: Oh, simultaneously, yes.

H.M.Jr: Couldn't everything be done to help Allison, if there is any way of helping them, so we are not completely dependent upon one company and one engine, and start another one going?

Mead: Absolutely.

H.M.Jr: Is that impractical?

Mead: No, but I wouldn't rely on the second source for the immediate production.

H.M.Jr: Granted.

Mead: Because we had the experience in the last war of taking French engines which were all designed -

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we had samples like your Rolls Royce and I chased one all over the United States so I can visualize the problems that we had. We had the best automobile company here building Simplex automobiles, a crowd that knew what they were doing, and in a year we didn't produce any engines. It was only in the second year when we began to produce engines and we had everything to do it with, so that it was really three years before a large quantity came out of that plant.

H.M.Jr: Well, what suggestions would you have that the Government would do to help Allison get underway?

Head: Well, I would like to know what Allison's problems are, not that I feel egotistical and able to solve them, but perhaps if we knew what they were we could better deal with them as to how soon they could be solved and whether it is a matter of entirely redesigning the engine or whether it is just something they don't know and the rest of the crowd do know and they could be told.

H.M.Jr: Well, I am not going to attempt to tell you. I was at the plant and as a layman walking through, it seemed to me that the trouble was organization. They haven't had enough engines out to know yet whether they will fly, but it is an organization problem. Now, do you think that some of you gentlemen could be helpful by going out there and looking the thing over?

Head: Well, in order for me to tell you anything intelligent, of course, I would have to know what the problem was and I may be able to find it out from Kraus or Brett. I haven't talked to them about it.

H.M.Jr: They don't know. I think it would be a waste of time, but don't take my word for it.

Head: Of course, if I might continue on that general subject a moment, I am concerned, having been abroad quite a little and seen what was done

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in our own industry there, that we must move fast and if you take a leaf out of their book, which is perfectly simple, you don't find any plant making more than one or two models of engine.

Now, are Wright and Pratt-Whitney - and I happen to have been chief engineer of both of them in my lifetime - building a large number of engines, which naturally spread your thinking? Now, neither the Germans nor the English are doing that. Rolls are building just one engine, that is the regular thing, and so are the Germans building just one engine in each plant and it is very desirable, I think, to do, as you spoke of to begin with, split off certain things which are not so important to the fighting forces and let those companies who originated the engines carry on with them, Wright and Pratt-Whitney, oh, say, two models and this smaller engine that Kraus and Brett recommend being put elsewhere, I would certainly think is very sensible because there is a training engine that doesn't need to be made so beautifully and somebody else could certainly make it.

E.W.Jr:

And carrying it out, I suggested to Brett that the Army and Navy adopt the same 400-horsepower engine for both their needs instead of one big --

Wheat:

Well, that is the other thing I would like to see done if we could only have a small group to sit down and iron out some of these things, where the two services will order almost the same thing but not quite.

E.W.Jr:

Well, the time has arrived that - they are ready to do anything that they are asked to do. The way they do, one buys a 400 and the other buys a 450, each from a separate company. From now on they are willing to both buy one or the other, whichever way it works out. They will forget their favorites.

Wheat:

Of course, I don't know what your plan is, but both Wright and Pratt & Whitney build two engines

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that are in large production and have been used extensively in military aircraft. I think if they could concentrate on those, it would be a big step.

H.M.Jr: You are talking of small horsepower?

Mead: No, big engines.

H.M.Jr: Oh, the thousand horse?

Mead: Yes, from 1200 to 2000.

H.M.Jr: Well again, the thought was not to interfere with their present production in the 400 and 600 horse class until we got another plant going and when the new plant came into production, say that we gave any one of these companies this business as soon as this new thing was delivering what you need. Then you tell Pratt & Whitney and Wright to stop that engine and concentrate on the stuff over a thousand horse, that was the idea, but not to tell them to stop that until you had somebody else actually producing. Does that sound sensible?

Mead: That sounds sensible as long as you don't keep on giving them orders.

H.M.Jr: Well, they could - you see, we are fortunate in that - I say again for the time being I have sort of a supervision over both the Allied Purchasing and this other, so that we can swing it any way we want and purchasing power is so tremendous that they will listen.

Mead: You are holding the whip hand, all right.

H.M.Jr: I mean we have been very - I have tried to listen and not to be arbitrary and I have had a nice relationship with all of them so far and I would like to keep it that way, but we can do it, you see, and then this whole question when we get into this licensing thing - I mean, everybody in the Army and Navy said it couldn't be done, but under this 1918 Act we just can take this stuff and let them sue us in the Court of Claims,

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so if we want to be arbitrary we could just take the stuff and then let them sue the Government and they would get their money later, but we don't want to do that and everybody has been lovely and there has been no trouble and everybody has cooperated and it has been a splendid spirit and I haven't had to use this vast power that I have temporarily and don't want to.

Would you gentlemen like to talk to Brett and Kraus, sort of have a talk with them and then maybe - how would you like to work?

Hunsaker:

As to the work on the Allison problem, I don't believe any of us here are in a position to give any intelligent advice. My own knowledge of Allison's development is second and third-hand, but it has been unsatisfactory for about seven years. They are always getting the engine along and always having trouble and curing that trouble and discovering another and we have thought some time ago that the engineering personnel may have been not quite on the job, who have had to learn such a hard and slow way, but now if there is production trouble I don't know what that is. Certainly the motor companies must know more about that than anybody in the world, so there must be some engineering bug in it which ought to come out on the tests. I think the Army did place orders last year before the engine had gone through all of its tests, did they not, Ed? They took a chance.

Wagner:

I think part of the trouble in the seven years has been repeated redesigns, trying to catch up with the times. It has always taken a little longer than anticipated to bring the engine to the point of production and by the time it is ready, it seems to have been obsolete so they have taken a fresh start. There has been a succession of models.

Winkley:

You mean, Dr. Hunsaker, that you would really have to go out there --

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Hunsaker: I personally am not enough of an expert engine designer to go out and do any good.

Hinckley: Or Dr. Mead could go out there.

Hunsaker: Mead, I think, would do well. I think that other people - it is pretty hard to get experts out of the Wright Company and the Pratt-Whitney Company to help Allison. They aren't set up to do it. You might get Eddie Taylor. I would take Eddie Taylor's views on that.

Hinckley: Well, Dr. Mead is detached enough from both companies, don't you think?

Hunsaker: Yes, a combination of Mead and Taylor to make an engineering inspection of the situation. I would agree with anything those two men would find.

Warner: I think, Mr. Secretary, possibly it would be helpful if it could be clearly defined what this group is and what it is expected to do. I, for one, didn't know and I don't believe that Dr. Mead and Dr. Hunsaker, both of whom received information about today's meeting from me, knew just what was desired except that we talk on engine production. I don't think any of us knew whether it was policy or proceeding or methods or the non-adaptability of aircraft factories to aircraft work that was in prospect.

On the details of engine design construction, I will withdraw myself. I have no qualifications in that field. I know of many of the engineering problems, but so far as I am engaged in engineering work at all, or have been, I am primarily an airplane man. That is equally true of all three of the men you have from California and Dr. Hunsaker, and Mr. Johnston has been engaged in research, but the only real engine specialist you have so far is Dr. Mead, who is qualified to do all of these things. But if you want a committee to actually work on looking into the fitness of any particular engine for production, you probably need to seek farther for some different personnel.

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S.W.Jr:

Well, I have told you what I have before me and I keep saying repeatedly I am doing this temporarily for the President and what I want is advice, because I am in the fortunate position that I don't have any preconceived notions on airplane engines, so you are dealing with a person who is willing to listen and the things are - I will go over it again so you can see what I have.

I have got here before me on top of this - here comes a memorandum from Brett called "Aircraft Engine Facilities," and this goes toward a Government owned and operated factory, its advantages and disadvantages, private owned and operated factories, Government owned and privately operated factories, the whole question of the additional plant capacity necessary for this program and also stand-by factories.

Now, again I just don't want to take - without any slight to General Brett - I don't want to take his word as the last word on what is the way to do this, and I want engineering advice outside Army and Navy, outside of - not connected with the industry.

Let me list the problem and then you people tell me. Now, I think - I would almost say the first problem is, what can we do to help Allison. Now, who can help me? Dr. Mead?

-aguer:

Dr. Mead could do that, here or elsewhere for that matter.

S.W.Jr:

Can you get people to help you?

S.W.Jr:

I would suggest this, that the first thing is to know what the problem is and then if it is engineering, that is all right. If it is production, it is Dr. Hunsaker or perhaps you had suggested that maybe a man of their own organization --

S.W.Jr:

Well, the first thing is to have somebody go out there and take a look at the factory and say, "Well now, these are the things," and until you get these things cured you are not going to get

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anywhere and then you would have the whole pursuit program of the Allied Governments tied up in Allison. The whole God damned program is tied up in Allison. They have delivered six engines in the last several months.

Mead: I would be very glad to do what I can, which would be to start by talking to the people here and then go there and tell you what I find and do it right away.

H.M.Jr: Well, and will you take the responsibility of getting anybody that you need to help you?

Mead: Yes, if you can give me some way to do that. I can, through Kraus and Brett, I know.

Oh, I see what you mean, to help me get to a decision, yes.

H.M.Jr: If you don't mind, I will arrange - I don't suppose it is necessary, as far as getting into the factory, but I want to go outside the Army and Navy, because they have wrestled with this problem and here we are, so I think it takes outside brains.

Mead: What I meant to be clear was that I would have to get permission to get there properly and I could - once having that, get some additional help to do the work.

H.M.Jr: We will send you out in a Government plane with the proper escorts and everything else.

Mead: Well, that isn't important --

H.M.Jr: No, but I will get you in there - Philip Young will see that the Army and Navy and everybody approves your going.

Mead: That is all I need.

H.M.Jr: I will take care of that, but I meant as to anybody else that you need besides yourself.

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- Mead: I don't think of anything in that line at the minute, but if I do I can get them, I am sure.
- H.M.Jr: When would you be ready to go?
- Mead: Well, I can go anytime, right away. If possible, I would like to get a quick general idea, whether today or tomorrow, on the program as a whole so that I can judge a little better --
- H.S.Jr: You mean stay with me for another day or so? I think it would be good.
- Mead: If I can listen in, I would like to know more about it.
- H.H.Jr: But you are going to take care of Allison?
- Mead: All right.
- H.N.Jr: Which of you gentlemen can go out and take a look at the Rolls Royce and say if it is any good?
- Warner: That is again a design problem for which you need an engine design specialist. Again, it is true that Dr. Mead is the only one here. There are others who are not here, but there are not very many outside the industry. Dr. Hunsaker has mentioned one man.
- Hunsaker: That is Professor Taylor of M.I.T., who is as competent an engineer as could be found outside the industry. I would think that to judge the difficulty - we know the Rolls Royce engine is good, there is no question of that, and we know its performance. I am sure that Wright feels that the Army has had samples and know about it.
- H.S.Jr: Rolls Royce? They only get there tomorrow.
- Hunsaker: Haven't they had samples in the last couple of years? They are worse than I thought they were.
- H.H.Jr: If they have, they certainly haven't had the information for a year because they have tried

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for six months and couldn't get it and I had to personally get them two engines.

- Mead: I spent several days in Rolls plants, so I know pretty much about the engine already.
- Hunsaker: I think it is Mead again on this judgment as to the difficulties of adapting the Rolls Royce engine to American - finishing and assembling and I imagine the parts our people can make.
- Turner: Would you find it useful to draw on production men outside the aircraft industry, presumably as this expansion goes on? Are there any production men in the automobile factories you would like to take on to check the engine with you for American production? Do you know whether Roy Fedden is in this country? He is the chief engineer and really the presiding genius of the Bristol Company.
- H.M.Jr: He was here. He left at noon today. He had a hurry-up call. He left at noon, didn't he, Phil?
- Young: Yes, sir.
- H.M.Jr: He left on some means of transportation at noon today. Am I right?
- Young: Yes, sir.
- H.M.Jr: He left at noon today. The one word that he left, that he sent to me, above everything else, is to go to the biggest engine that you can go to, the two thousand horsepower if possible. He spent last night with Keller, president of Chrysler. He went over the whole thing last night with Keller but he said, "You must go to the big horsepower. Don't fool with --" what was it, less than two thousand?
- Young: Eighteen hundred, seventeen or eighteen hundred, no less than that.

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- Mead: Well, you have got one engine about ready to go into large production on two thousand horsepower rating.
- H.M.Jr: What is that?
- Mead: That is the 2800 Pratt & Whitney and the Cyclone 2800, Wright engine, is something less than that.
- H.M.Jr: Well now, the Allison is one and then the other thing is to have somebody look at the Rolls Royce. You say that is Dr. Mead again?
- Mead: Well, Dayton and Indianapolis are fortunately close together.
- H.M.Jr: He is going to be a busy man. Then the question, which factories are best equipped to take these - one, say, to take a 400 horse engine and the other to take a 600 horse engine, Wright and Pratt & Whitney, which factories are the best equipped.
- Hunsaker: I take it your Rolls Royce problem has to be discussed with the factory people who are likely to try to make it.
- H.M.Jr: They will be there. The Chrysler engineers will be on the ground.
- Hunsaker: I think it would be a smart thing to have the Chrysler people assigned to that thing and not be shoving around among all of them.
- H.M.Jr: No, the Chrysler people - I asked them whether they would do this and Mr. Keller is very much interested and he was in charge of production of the Liberty engine for General Motors. We went all through that. He is with General Motors. He is going to be there and their engineers are all going to be there and he is personally taking an interest.
- Hunsaker: I should think Mead's discussion with the Chrysler engineers would be the most useful one. The Chrysler people, if anything, are likely to be

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too optimistic and to underestimate the difficulty of adaptability of that Rolls Royce.

S.S.Jr: To get them to do this, we are just going to have to push them. They don't want to get any airplane engines. They don't like it. I think you will find they will find all kinds of fault why they shouldn't go into it. He went through that on the Liberty engine. He doesn't like the business and doesn't want to get into it, but time will tell.

Young: He is also talking on the Continental with the Army engineers out there.

S.M.Jr: Oh, yes. Now, there is a question. Should the Government put a lot of money into the Continental flat engine? That is what the Army wants us to do. And then there is the Lycoming engine.

Winkley: It would be starting back from the ground up.

S.M.Jr: That is right, and there is the Lycoming engine and you people may know of other engines around which haven't been called to my attention.

Nead: I should think it would be wise to look into the question of letting those companies you just mentioned make some of these training engines which we need badly. Now, the Rolls, engineeringwise, is a pretty good engine. It is only the difficulty of having to start from the beginning, but the Allison engine, as far as I know, ought to be a solvable problem, so there you would have your two liquid cooled engines. On the other hand, they are not very large units. Of course, being as the Germans are fighting with - that is, not the Allison, the Allison is a - well, the Allison and Rolls are just about the same.

Sunsaker: Eleven hundred horse.

Nead: Both of them are small compared with the Germans'.

S.S.Jr: The Germans' are above eleven hundred?

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- Mead: The Germans have a big engine in the matter of bored stroke and they run slowly and they get considerable altitude performance out of them, while the Allied engines have to be pushed very hard.
- Hunsaker: The same order of power with both of them.
- H.M.Jr: And then there is this other thing, the question of this factory business.
- Mead: I think you have got more work than any one of us could reasonably undertake and that the only thing we could do to be helpful would be to go into a huddle and see if we can't figure out a group that could really solve these problems for you in a reasonable period. Otherwise, I think it would take a long time, don't you, Harry?
- H.M.Jr: I am going to give you in confidence this memorandum which I have not yet read from General Brett which - and then these people I should think would be - Dr. Milliken said he would arrive early Wednesday morning. We have plenty of room in the Treasury. Would you gentlemen like to meet here or would you like to meet over at Civil Aeronautics?
- Warner: We might meet here for the time being. There might be something more to communicate with you this afternoon.
- H.M.Jr: Mac, where is there a room?
- McR: They can meet in 296.
- H.M.Jr: When they go down, will you show them where that is? And then what we will have to do when these gentlemen come in tomorrow, put them in touch with these people because I have booked myself up for tomorrow and I won't be available until 2:30 tomorrow afternoon, I mean for an uninterrupted hour. Possibly you people in the morning would like to meet with Brett and Kraus. I could get them to come over here.

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Head: I would, very much, because they would be able to save a great deal of time in getting us up to date on where the problem rests.

Warner: It might be better to go where they are. They have all the information in the files.

H.S.Jr: Phil, will you arrange that at a time agreeable to these people and to General Brett and Captain Kraus for tomorrow morning?

Young: Yes, sir.

H.S.Jr: And will you explain to General Brett what I am trying to do or should I explain it to him? I think I will call him and tell him myself and I will ask him for what time tomorrow. I will do it now. What do you think, Bob, do you think that is about right?

Hinchley: I think you are starting right.

H.S.Jr: As I understand, Dr. Warner is going to kind of see me through on this thing, right?

Warner: I will help if I can.

H.S.Jr: Are you overworked?

Hinchley: Yes, he is overworked.

Warner: I am not a specialist in design.

H.S.Jr: Or would you rather let somebody from N.A.C.A. --

Hinchley: I think Ed can go along and keep us --

H.S.Jr: Somebody, so that when they want to contact me through some one person, you call me and I can call on the person.

Warner: I will do that for the time being.

H.S.Jr: I am ever so much obliged. I hope you realize how much --

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Warner: If we come to any decisions this afternoon, can we see you again?

H.M.Jr: Yes, just call Phil Young. It is ever so kind of you to come down.

Hunsaker: Well, Mr. Secretary, I am glad to give any help I can, but this would be out of my knowledge and acquaintance. I am not an engine designer.

H.M.Jr: But stick with us another day. Don't you want to stay with us another day?

Hunsaker: I don't see that I can do any good. I think the thing is to depend on George Mead and my advice to George Mead is to get Ed Taylor.

Mead: Well, I think if we could get you for another - a little while, it would be a great help because you have got such a general knowledge, Jerry, and you have lived through the last war with the rest of us.

Hinckley: I think you can spend another day.

Mead: Don't leave us all alone. I am not a superman, you know.

H.M.Jr: What about this man Wright you were speaking of, C. P. Wright.

Warner: He is an airplane specialist.

Hinckley: He is associated now with --

H.M.Jr: It is engines, isn't it?

Hinckley: Pratt-Whitney, isn't he? No, Curtiss-Wright.

Mead: He is Vice President of Curtiss-Wright.

H.M.Jr: Engines, that is the trouble. The time that I spend on this thing right now, on these engines --

Hunsaker: You will have to get the engine fellows to do the job, not Ed Warner and me and Paul Johnston.

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- W.M.Jr: Well, talk it over and I am in good hands and I will listen to you.
- Warner: It is exclusively an engineering problem at the present time. Aircraft production will come along more rapidly than the engines.
- Minkley: I think that is correct, of course, in this engine problem. You have got to discover some plant facilities and who are you going to farm this lower horsepower stuff out to?
- Munsaker: I think that is a continual job.
- Minkley: It is a continual job and of course on that front, I think C. P. Wright would be willing to - if he would be willing to sever his present connection, would be a very helpful person.
- Head: On the engine problem.
- Minkley: I am talking about engine production. He is a production man.
- Warner: No --
- W.M.Jr: Wright builds engines now.
- Head: May we think in terms, as I am afraid we must, in some sort of a continuing small group to lend a hand and we can go after it on that basis.
- W.M.Jr: That is right. Whoever does this thing for Mr. Roosevelt, it will be a continuing job. I mean for the moment, he has got me doing it, but whoever has got any sense, he will have to leave - a gentleman of your experience - I am just not going - this is no disrespect to the Army and Navy, but I am not going to let them write the ticket without checking it, any more than I am going to let any particular engine company write the ticket. I am a great believer in college professors.
- Head: Well, you have got some good ones here. That lets me out.

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H.M. Jr: Well anyway, they have helped. I never could have done this job if it hadn't been for the Universities.

Treasury Department

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TELEGRAPH OFFICE

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PASADENA CALIF MAY 20 1940

MAY 21 AM 8 31

HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

KARMAN MILLIKAN AND LOMBARD PLAN TO ARRIVE WASHINGTON EARLY
WEDNESDAY MORNING AND WILL COME AT ONCE TO YOUR OFFICE..

R A MILLIKAN

740A

May 21, 1940

Mr. Sullivan reported the Navy Bill in the House does away with all social legislation. He has an appointment with the President at 12:30 pm today.

May 21, 1940

4:15 p.m.

Mr. Welles called HM, Jr over the White House phone at 4:15 p. m. and said they were considering the Pepper amendment and, leaving out the implications of neutrality and international law, Welles wanted to know how I felt about.

(The following is HM, Jr's side of the conversation.)

"I received a long list today from Purvis of what their needs are. They want every airplane that we have. I turned over the list to General Marshall and he was going to advise us, from the standpoint of national defense, as to what we can do for them. We did turn them down on the P-36's several days ago. General Marshall wrote me a two page memorandum saying that it was impossible. He has the rest of the stuff right now. If this situation gets worse, we may want to give it to them. The way the law is it is difficult to give them anything without using trickery. Leaving out the international law and all of its implications, if the Chief of Staff would recommend this and if this resolution passed, it would make it possible. Simply from that angle I have no objection. It would be helpful if we wanted to do it."

May 21, 1940
11:27 a.m.

H.M.Jr: Hello.

Sloan: Hello.

H.M.Jr: Mr. Sloan?

S: Yes.

H.M.Jr: Henry Morgenthau, Jr.

S: Yes, Mr. Secretary.

H.M.Jr: Mr. Sloan, the reason I'm calling you.....

S: I don't hear that, Mr.....

H.M.Jr: The reason -- can you hear me now?

S: O. K.

H.M.Jr: Hello?

S: Yes, O. K.

H.M.Jr: I'm calling you because I'm very much worried about production at Allison Motors.

S: Yeah.

H.M.Jr: And I'd like to talk to somebody -- you, or whoever you designate, to talk that situation over.

S: Well, that's fine. Of course we'll do anything we can, Mr. Secretary. I want to point out to you, however, that the -- it's almost out of the realm of possibility to start a new plant and to have everything coming the way it ought to within a period of 60 days after one gets into the plant.

H.M.Jr: True, but I was out there and -- about two weeks ago and went through the plant and so much depends upon this both for ourselves and for the Allies that I do want to talk it over with somebody.

S: That's all right. I think you have every reason -- every right to, and I'll be awfully glad to see that that's done immediately and that you're given every information -- bit of information as possible. If there was anything there that -- I'm very much concerned with it also. Not concerned so much about the present situation, because I think that's inherited with what we're trying to do, but more particularly on the great responsibility from the standpoint that you're talking.

H.V.Jr: Well now, who is it.....

S: But nobody has got that -- I want to assure you that nobody has got that more at heart than I have.

H.V.Jr: Well that's why I wanted to talk to you rather than to have -- have a half an hour rather than with some subordinate and just.....

S: Well, all right -- all right then. That's fine. Now, I'd like to say this, however, that I could -- my conversation with you would have to be in terms of generalities to some extent rather than policy; rather from the standpoint of whether day after tomorrow we're going to

H.V.Jr: Well, I understand and.....

S: If you understand that why that would be fine.

H.V.Jr: Well, I'm very -- it'll have to be generalities for me to understand.

S: Yes, that's right. I -- because I wouldn't -- I'm familiar with the general trend of things and that sort of thing but.....

H.V.Jr: But I want to look you in the eye and see how much interested you are in this.

S: (Laughs) Well, all right. I wish I could -- I wish -- I tell you frankly that there aren't words in the English language to express how I feel about it.

H.V.Jr: Well now, how soon and how early could you come down?

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S: Well now, let me see now. Would Thursday morning do?

H.M.Jr: Thursday morning would do.

S: Now, you're awfully tied up -- do you want to make a date with me -- say -- say in the -- two o'clock? Well listen, Mr. Secretary, you're a lot more busy than I am.

H.M.Jr: Well, we're on standard time.

S: Well, whenever you say now.

H.M.Jr: Well.....

S: You just set the time.

H.M.Jr: Well, are you coming by -- do you come down by train?

S: I'll come down by plane.

H.M.Jr: By plane? Well.....

S: Don't put it to my convenience, Mr. Secretary, for God's sake. It's too important. Put it to your -- your.....

H.M.Jr: Yes. Well, I think you'll find that you can get a plane and get here at eleven.

S: Get there at eleven.

H.M.Jr: At eleven o'clock?

S: That's -- that's Washington city time?

H.M.Jr: Yes.

S: I'll be there, and I'll be at your office at 11:15.

H.M.Jr: You could -- no, I mean -- no, you can get a plane that will get you to my office by eleven.

S: Oh, it gets to your office by eleven. All right then.

H.M.Jr: Just a minute -- wait a minute, I can ask.
(Brief pause.)

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H.M.Jr: Hello.

S: Yes.

H.M.Jr: They say if you leave on a plane that leaves at ten o'clock New York City time -- you see that gets you here a little after ten o'clock standard time.

S: That's right.

H.M.Jr: Would that -- and that would get you here to my office by eleven.

S: And I have an appointment with you then, at eleven o'clock on Thursday morning, day after tomorrow.

H.M.Jr: Right.

S: O. K.

H.M.Jr: Now, Mr. Sloan.....

S: Yes.

H.M.Jr:as a matter of fact, Mr. Purvis is in the room here with me now and I want to talk to you about the possibility of your Canadian corporation doing something for the Allies on a -- on a Bristol engine up there.

S: Well, I'm -- did Mr. Purvis tell you that he's had a conference with me on it?

H.M.Jr: Yes, but he's asking us here how the Government would feel about -- and the question of machinery.....

S: Well, I made it clear to him that -- that there's a question arises there, Mr. Secretary, that I wish you would discuss with Mr. Purvis while he's there, if I may make such a suggestion.

H.M.Jr: Go ahead.

S: Pardon me?

H.M.Jr: Please do.

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- S: And that is this. That I think that from the standpoint of the time element there's a tremendous gain that could be made if that development could take place in the United States.
- H.M.Jr: Well, that -- I'd like to talk the whole thing, and I don't know -- your Mr. Evans sent me a message about additional plant capacity at Indianapolis, and so forth and so on and I don't know just what he had in mind.
- S: Well, I wouldn't -- this would be -- this project is so momentous it would be an entirely separate thing.
- H.M.Jr: Yes.
- S: I think we'd better -- I think it's awfully important; I think we should sit down and talk it through.
- H.M.Jr: I'd like to because.....
- S: And -- all right. Now, another thing, Mr. Secretary, I'm -- this thing -- I have been discussing this thing with my governing group here this afternoon and I think probably by Thursday I can tell you pretty generally what our attitude is toward it.
- H.M.Jr: Well, that will be very helpful.
- S: But I want to emphasize the fact, Mr. Secretary, that I -- we wouldn't touch this under any consideration unless it was from the pure standpoint of patriotism.
- H.M.Jr: I understand.
- S: There isn't any amount of money that would -- with the things that we have to contend with and all, there's -- any amount of money that would justify us doing it except pure patriotism.
- H.M.Jr: Now, which thing are you talking about?
- S: What did you say?
- H.M.Jr: Which one are you talking about.
- S: I'm talking about the -- I'm talking about the new project.

- H.V.Jr: Oh, the new project. Well, I -- I'm glad to know that and.....
- S: And there's nothing -- in other words, -- honestly, Mr. Secretary, if the British Government would pay me tens of millions of dollars I wouldn't throw that responsibility on my organization and I wouldn't take the headaches and the -- and the difficulties that might come out of it. Just pure patriotism and I'm coming down to discuss it with you.
- H.V.Jr: And feel free to bring anybody with you that you want.
- S: All right. Thank you, Mr. Secretary. Eleven o'clock Thursday.
- H.V.Jr: That's eastern.....
- S: O. K.
- H.V.Jr: All right.

May 21, 1940
11:45 a.m.

H.M.Jr: Hello.

Operator: The British Ambassador is with Mr. Welles. Would you like to wait or.....

H.M.Jr: No, he could just as well listen.

O: All right.

H.M.Jr: There's nothing but what he can hear.

O: I'll have him in just a second.

(Brief pause)

H.M.Jr: Hello.

O: Mr. Welles.

H.M.Jr: Hello.

Sumner
Welles: Good morning, Henry.

H.M.Jr: Good morning, Sumner. Mr. Purvis is sitting here with me.....

W: Yes.

H.M.Jr:and they're now ready to move on a powder factory, and it seems that the procedure heretofore has been for Dupont to go to your Mr. Green.

W: Yes.

H.M.Jr: And they're sending down Mr. Yancey -- Y-a-n-c-e-y -- to see Mr. Green. It seems that -- that's the way they've always done it.

W: Mr. Yancey from Dupont?

H.M.Jr: Yes. Now, when he comes in tomorrow, if you could tell them to refer them over to me, I'd appreciate it. I think I can accelerate it.

W: He's to be referred to you?

H.M.Jr: Yes.

W: All right.

H.M.Jr: And I'll try to accelerate it, but I've been on this powder thing now for several months.

W: Yes, Henry, I'll be very glad to see that that's done.

H.M.Jr: Thank you so much.

W: Not a bit. Goodbye.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF THE AIR CORPS
WASHINGTON

Post sent to
6/7/40.
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May 21, 1940.

MEMORANDUM FOR: The Honorable Henry Morgenthau,
Secretary of the Treasury.

SUBJECT: Aircraft Engine Facilities.

There are three methods of expanding the aircraft engine facilities for the production of military engines:

- (1) Government-owned and operated factories
- (2) Privately owned and operated factories
- (3) Government-owned and privately operated factories.

Government-owned and operated factories

Advantages: (1) Theoretically it is a means of protecting the government from profiteering.

(2) It provides for a potential capacity for the repair and maintenance of engines in normal times.

Disadvantages: (1) It places the government in direct competition with private industry.

(2) It would require government management, technical personnel, and manufacturing personnel, which would have to be diverted from present military establishments.

(3) It would require the augmentation of the Army and Navy technical forces by commandeering management and technical staffs from the going aircraft industry.

Privately owned and operated factories

Advantages: (1) It would provide for continuity of management and increased capacity in the minimum time as compared to other methods proposed, and with a minimum of disruption of the present industry.

To: The Honorable Henry Morgenthau
 Subject: Aircraft Engine Facilities
 May 20, 1940.

(2) It would provide for continued production on a strictly competitive basis, regardless of whether authority is granted to waive advertising or not.

Disadvantages: (1) It would result in the unequal expansion of the aircraft industry and the concentration of the entire potential production capacity in a few manufacturers.

(2) Strategic locations would be largely governed by the location of the present major engine manufacturers.

Government-owned and privately operated factories

Advantages: (1) A direct and rapid means of providing required expansion.

(2) It eliminates the objections to government-owned and operated plants.

(3) It provides plant capacity suitable for repair and maintenance purposes in peace time, thereby maintaining stand-by productive capacity available for emergency at all times.

(4) It does not place the government in direct competition with private industry.

(5) It provides for the strategic location of added aircraft engine facilities, both from a military and industrial point of view.

Disadvantages: (1) The delays incident to the construction of suitable plants to best meet the needs of the individual manufacturers for the increased production of proven types of engines.

Management Contract: A management contract based upon the principles set forth in the attached draft would remove the disadvantages incident to the government's undertaking the direct supervision of the construction of government-owned plants.

In consideration of all the foregoing, it is recommended:

(1) That plan 3 for government-owned and privately operated plants be adopted for augmenting the present production facilities for military engines.

To: The Honorable Henry Morgenthau
 Subject: Aircraft Engine Facilities
 May 21, 1940.

(2) That the construction of new plants and the installation of necessary equipment be undertaken by management contracts with:

Pratt and Whitney Aircraft Division
 of United Aircraft Corporation
 Wright Aeronautical Corporation
 Allison Engineering Company,
 Division of General Motors Corporation
 Lycoming Division of Aviation
 Manufacturing Corporation
 Continental Motors Corporation

for increasing their present capacity for engines now in production.

(3) That the first increment of increased production capacity should provide for the following:

Pratt & Whitney - Approximately 300,000 sq. ft., equivalent to 400 1000 HP engines per month

Wright Aeronautical - Approximately 400,000 sq. ft., equivalent to 400 1000 hp engines per month

Allison Engineering - Approximately 400,000 sq. ft., equivalent to 400 1000 hp engines per month

Lycoming Division - Approximately 200,000 sq. ft., equivalent to 400 500 hp engines per month

Continental Motors - Approximately 200,000 sq. ft., equivalent to 400 1000 hp engines per month.

(4) That the attached form of management contract be considered as a basis for negotiations with the foregoing companies.

In accordance with your instructions, this matter was discussed with Captain Kraus, who concurs in the principle and the means advocated for the immediate expansion of the aircraft engine industry.



GEO. H. BRETT,
 Brigadier General, Air Corps
 Chief, Materiel Division

1 Incl.

NOTES ON MANAGEMENT CONTRACTS

1. There are several forms of contracts that can be utilized, where-
under the Government may construct airplane and engine plants and
make such establishments available to selected airplane and engine
manufacturers to operate for the benefit of the Government under a
management contract.
2. Precedent for management contracts are contained in the following:
 - a. War-time contracts.
 - b. Educational order contracts to which domestic concerns and
foreign Government purchasers are parties.
3. The adopted war-time contracts do not appear to be altogether ap-
plicable to the proposed premises. However, they contain provisions
that are applicable and useful to the purposes contemplated.
4. The simplest and most clean-cut way to expand the engine facilities
is to enter into contracts with the manufacturers concerned for
enlargement of facilities and the necessary equipment therefor, the
Government to assume the actual cost of such construction, which is
substantially in accord with the contracts now entered into between
domestic manufacturers and foreign purchasers. A more complicated
method is for the Government to undertake the actual construction
and installation as a separate undertaking, and thereafter make the
same available to private industry under appropriate management con-
tracts. This method would lose to the Government the advantage of
having the parent company undertake the management of actual con-
struction.

May 21, 1940

9:15 a.m.

Present:

Mr. Purvis
 Mr. Bloch-Laine
 Col. Jacquin
 Mr. Young
 Mrs. Klotz
 Mr. Ballentyne (later)

HM, Jr: Sorry I am late, but I went to have myself looked over.

Mr. Purvis: Not a bad idea. Very sensible.

HM, Jr: Yes, once a week.

Mr. Purvis: I think I shall institute the system.

HM, Jr: It's really worth it. If anything is wrong you get it in the beginning.

I want to tell you something before you start in with me. In order to save time and save a day, I called up Mr. Kennedy at a quarter past six this morning and asked him if he wanted to go and see the Air Ministry because if I waited to see you I would lose a day. He said he would see the Air Ministry at once. I said in order to save time I wanted to know if His Majesty's Government would license the American Government to manufacture the Rolls-Royce engine. Then I had some other manufacturer in mind. I did not know whether the engine was one we could use or not, but in order to save time would they get a very capable person and give him all the papers and plans to duplicate the engine and let him come over? Furthermore I thought, as an ace-in-the-hole for the British Government to have these plans in this country, was worth something. I don't want to be gloomy, but if you had a complete set of plans in the United States -- he's going to call me back this afternoon as of London time, but that does not in any way conflict.....

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Mr. Purvis: No, no. Anything that will save time.

HM, Jr: That saves time and he can go right into the Air Ministry and he will have an answer for me by this afternoon, because, well, our Army isn't helping me any. Have we heard where the Rolls-Royce is?

Mr. Young: Yes, I got her on the train this morning, going by express to Dayton, and will be there tomorrow.

HM, Jr: Just to show you, the Army was going to send it by slow freight.

Mr. Young: They never even got it out of New York. They were on the dock. I got Mr. Harris out of bed.

HM, Jr: They went by express last night?

Mr. Young: Early last night and they are on their way now and should be there tonight.

HM, Jr: They were still on the docks. How long had they been there?

Mr. Young: I don't know. They did not even know when they came in.

HM, Jr: They are going to have this demonstration Monday or Tuesday and they will be there tomorrow.

Mr. Young: Late tonight.

Mr. Purvis: I think this gives me a chance to tell you something, which, if you are proceeding long that line, you should know. In the first place, Mr. Feddon, has been over here. He's the senior technician of the Bristol, we have the Rolls-Royce and the Bristol. He arrived on Saturday afternoon -- no, Sunday morning -- and he's sailing this afternoon, having been recalled by Beaverbrooks. The object of his coming was to come and talk with me in regard to the possibility of doing something in Canada with the Bristol engine, the point being, and I take it this from the North American setup might be a good idea, was that Bristol engine might be made, new plant put down, deliveries to start at the end of September, 1941, which is the quickest it could be done

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even under war conditions that obtained in Canada where you can force the issue.

(Mr. Ballastyne came in at this point.)

Mr. Purvis: That plant would be a very big plant if it was done. It would be of the order of -- it would be some 5,800 machine tools. It would need 10,000 workmen. It would mean a very big thing. It would put into North America one more engine factory.

HM, Jr: May I say, that's all to the good. May I just ask this question. I will ask it of Colonel Jacquin. What's the difference between the Bristol engine and the Rolls-Royce?

Mr. Purvis: One is liquid cooled and the other is air cooled.

HM, Jr: Which is liquid?

Mr. Purvis: The Rolls-Royce and the air cooled is the Bristol.

HM, Jr: Is the Bristol a radio engine?

Mr. Purvis: Yes. This brings me to Feddon. Feddon knows as much about as engines as anybody in Great Britain and had he not been recalled my intention was to ask you to have a talk with him. The need for him at home evidently has become very great in the minds of the Air Ministry, but he wants one central point and it has a bearing on any scheme you put down and that is the engine that is made in any new plant should be of greater power than they are thinking of. Next year, at the time anything can come into production that you may be making, would be a great mistake if you built on today's car models because they will not be the ones which are used later on to fight a war.

HM, Jr: That's right. And this afternoon and tomorrow I am surrounding myself with five or six people who are not in the Army and Navy and no engine companies, who are the best engineers in the United States, Massachusetts Institute of Technology and California Aviation School, and by today or tomorrow I am going to have five or six. I don't

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know where my list is. Do you know Hunsaker? These are the very tops and I am going to have them -- for instance, when this Rolls-Royce engine goes on the block I want them to go and see it. I want them to see the engine. They talk so much about Continental. I want them to see Lycoming and of course we don't have a Diesel engine in this country.

Mr. Purvis: We don't feel it is doing very well.

Col. Jacquin: It is not employed.

Mr. Purvis: It is not being used.

HM,Jr: You mean by the Germans?

Col. Jacquin: No, by the Allies.

HM,Jr: But the Germans are using it. I thought the Dolnier boat.....

Mr. Purvis: I know there was talk about it, but I don't know of any going into use.

HM,Jr: If you had the Bristol in Canada and the Rolls-Royce here, let's say in Detroit.....

Mr. Purvis: And the other in Windsor just across from Detroit, I think it might be a good idea. I was so impressed by what Feddon had to report in light of the last experience in engine-making in England under war conditions that I got him in the other day with Keller and Hutchinson at my house and there is at least one American who understands his language, who hasn't got a doubt in the back of his mind.

HM,Jr: You mean Keller?

Mr. Purvis: Keller.

HM,Jr: Wonderful.

Mr. Purvis: He's the man who has risen from the production shops end and I think the thing that impressed him was what -- was speaking as a man who was only desirous

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that anything you do over here shall not be wasted money and wasted effort as it could easily be if smaller engines were made.

HM,Jr: On the Continental, we are talking in terms of 1500 horsepower.

Mr. Purvis: It's low. You must think in terms of 1800 or 2000 horsepower.

HM,Jr: On flat engines?

Mr. Purvis: Now you are getting a little beyond me. But Keller will have this subject down pat for you.

Col. Jacquin: Lycoming is very small inside. Number of the engine means size of the cylinder. Lycoming is 1430 or something like that.

Mr. Purvis: Cubic centimeters.

Col. Jacquin: 1430 for Lycoming. Allison is 1710.

Mr. Purvis: And you must go to 2000 if you are going to be suitable for the conditions that will obtain by the time these engines can be made and I cannot be too impressive because Feddon has completely convinced me.

HM,Jr: It's too bad that Feddon didn't meet any of our Army people.

Mr. Purvis: It's a tragedy from his point of view. He said before he came from England, "You cannot send me." They are desirous of getting something started on this side of the water. They send him over, and then they ran into the very thing they warned him about. He has had no sleep and he told them he must come back, but what I have done is have him feed all his information into Paris and also into Sloan in case General Motors were willing to help us, which they were, only if asked by us and blessed by your Government to produce in Canada the Bristol. If we could have the Bristol with a great organization like General Motors back of it.....

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HM, Jr: Why don't you use Ford in Canada?

Mr. Purvis: That's another one still.

HM, Jr: The reason I say Ford is because General Motors has indigestion now.

Mr. Purvis: Yes, but don't forget there is something quite different here which is important. The Bristol Airplane Company would undertake to provide a complete technical staff on this side, and they would only have to pick up production engineers. It's much more difficult to get a man who only has twelve hours to Ford's place to talk with him than it is to get him to Sloan. It is fortunate Feddon could feed Keller and Sloan his information.

HM, Jr: I don't know how Ford feels about this war.

Mr. Purvis: That's another thing. After all, one can't have any risks on that. As Feddon puts it, this engine building needs a fire-eater because it's a difficult game.

HM, Jr: That was a good evening that Feddon had with Keller.

Mr. Purvis: A good evening and if Feddon by any chance is delayed I would like to send him down for you or anybody here.

HM, Jr: I want to see him.

Mr. Purvis: Then one other thing, in that case could I -- here's a point that Sloan made to us yesterday. He said, "Morris, we are not prepared to consider making an effort at this time unless (1) the British Government asked us to do it....."

HM, Jr: In Canada?

Mr. Purvis: Yes, in Canada. Officially. And "(2) that the United States Government is willing to tell us that it has their approval, because we really believe and that the Canadian Government does the same thing because we really believe -- we already have got the Canadian Government approval -- the British Government I think will

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probably be very prepared to make the request." But before he went any further with his crowd, he wanted to make quite sure that there was no cutting across your policy.

HM, Jr: Well, how soon does he want an answer?

Mr. Purvis: As far as he was concerned, they are pressing him of course to tell us in principle whether he will do it today or tomorrow and I told him I would see you today and he feels that -- General Motors, after all, has had its differences, et cetera, with the Government. He wants not to do anything that you would feel was wrong.

(At this point HM, Jr sent for Lieut. McKay and told him to call up Mr. Sloan and ask him if it would be convenient for him to come down to see HM, Jr tomorrow. He said he wanted to talk to him about Allison and the possibility of his building the Bristol Airplane Engine in Canada. If ten o'clock isn't convenient when would be.)

Mr. Purvis: Support for such things, help with machine tools and materials will be very important.

Mr. Bloch-Laine: One thing I did not tell you, in the same direction, is that an awfully big engine making factory in France is starting preliminary conversations with Studebaker and Studebaker seems rather anxious to have a license for their motor.

HM, Jr: I did not know about it. To make what motor?

Mr. Bloch-Laine: The Gnome Rhone. That is one of the two big ones.

Col. Jacquin: This engine would be 1500 horsepower and they negotiate on this basis: If, for example, some source of supply was destroyed in France, get the Government to help.

HM, Jr: Is that liquid cooled?

Col. Jacquin: That is air cooled, a double one.

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HM, Jr: Well, I don't know what the situation is in Studebaker now. I don't know how strong.....

Mr. Bloch-Laine: Better.

Mr. Young: I think they are in pretty good shape - that is good engineering staff.

HM, Jr: I am not going to do anything about Studebaker or the French at this time. I will talk to General Motors.

Mr. Purvis: In order to make the Canadian thing more concrete I've put into your hands information which Peardon, at high pressure, has gotten out with his technicians, a complete list of machine tools, materials, the man-power required, degree of skilled labor and types and everything here for the output of 300 of these a month in Canada of 2000 horsepower. These are things we would want your help in allowing us to get. Because a lot would come from the United States, it would be a North American effort. But I think that would be of real value to you because it's almost the specifications.

HM, Jr: I will look at it afterwards.

Mr. Purvis: To some extent it's confidential. Because it's a document of the urgency of the situation and general needs, we are all concerned.....

HM, Jr: Have not been any leaks yet.

Mr. Purvis: Correct. Shall we leave engines now?

HM, Jr: Surely.

Mr. Purvis: Or shall we touch for one moment on five very special engines that Colonel Jacquin is anxious about.

Allison has fallen down on monthly deliveries of some engines. By the way, I talked this with Sloan yesterday. I think you will find him reasonable, reassuring, as far as the head man can be. Of course, then there are others, but there are five engines that are short, two for delivery May 15th, one May 22nd, one May 24th, one May 31, and those are of very, very special

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urgency and Colonel Jacquin will make the story.

Col. Jacquin: We knew the schedule of Allison engines would be a little late, so we made arrangements to have the engine not to go to the Curtiss plant, to go directly to New York, so we save a little time, but for the first engine we would like five for test purposes.

HM, Jr.: I can't do anything.

Col. Jacquin: Then there will be a delay of two months.

HM, Jr.: Here's the great General Motors! When we called them down we wanted to help them on tools. They did not need any help from this Administration and they did not come down. Everything was lovely. Pratt Whitney came down and Wright came down and I saw them at my house Sunday night and they have said they never would have been where they are if it had not been for the help I have given on the machine tools. But Allison did not want any help and I understand that altogether they have delivered six engines, four to Curtiss and two to Lockheed, or vice versa. I'll ask them tomorrow but the whole thing gets down to the great Mr. Sloan.

Mr. Purvis: What you (Jacquin) were hoping to get was the release of the first five because it makes a two-months' interval in the whole program because of the tests that have to be run of the first few. It actually sets back the later deliveries because no tests have been made as to the way the engine fits into the plane.

HM, Jr.: Let me ask you. Five Army engines needed for five airplanes for France. These airplanes must be delivered complete.

(HM, Jr. reading from a memo:) "Five engines needed in Buffalo: two, - May 15, 1940; one - May 22, 1940; one - May 24, 1940; one - May 31, 1940; a total of five. First five Allied engines to replace are available: one - June; four - July."

This makes a difference of how much?

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Col. Jacquin: Two months.

Mr. Purvis: Because they are test engines.

HM, Jr: We have no engine in the Curtiss P-40?

Mr. Purvis: Those are coming along.

Col. Jacquin: I know that there are 45 engines.

HM, Jr: We received one. One on the floor and one in the air.

Col. Jacquin: I know that at that moment there will about be 45.

Mr. Purvis: You mean by the end of May. Otherwise they are now coming through.

HM, Jr: You want five?

Mr. Purvis: Just for tests.

HM, Jr: Where do they go?

Col. Jacquin: To Buffalo. We have not exactly the same armaments.

HM, Jr: Where do they go? The Curtiss P-40?

Col. Jacquin: That's right.

HM, Jr: We can find out. I will try anything. All right. This is number one question.

Mr. Purvis: I am afraid, this is a long list. I am sorry.

HM, Jr: That's all right.

Mr. Purvis: It is very important simply because they are test engines.

On the next figures issued.....

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HM,Jr: Excuse me. You put on here this delay means two months' delay to you?

Col. Jacquin: Yes, because they have to test, they have to be sure that the guns will fit all right.

Mr. Purvis: It's a difference in armament, difference in guns, difference in weight. That kind of thing.

HM,Jr: All right. Now what else?

Mr. Purvis: The next big thing that we want is to know whether we can secure full service priorities on the P40 to be delivered in the next few months and some of the bombers, Douglass and Glenn Martin particularly. Is that right Col. Jacquin?

Col. Jacquin: Yes.

Mr. Purvis: About 250 bombers coming out.

HM,Jr: Have you got a list?

Mr. Purvis: Yes. Would it be best to deliver to the Secretary after this meeting a list of that separately or have you something else?

HM,Jr: From what you sent me here.....

Mr. Purvis: We can reduce it to much better form.

HM,Jr: Will you give it to me like that?

Mr. Purvis: I will. Very shortly after this meeting.

Mr. Bloch-Laine: May I try to bring you, in broken English, a French telegram saying an airplane carrier for the French Navy will be in Halifax about May 27th. Can take about 80 pursuit planes, or 40 pursuit planes and 30 bombing planes with the wings clipped off. Give priority to fighting planes. Take all measures to send the planes and foresee means of putting them on the ships. Second, referring previous to Monnet, please ask Mr. Morgenthau if we could have as much as possible on 200 Curtiss P30's, balance of the order of the American Army, also 40 Bell P39's; try to get maximum Douglas A20, Glenn Martin B26

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and North American B25, deliveries August, 1940.

Mr. Purvis: That we will give you in memorandum form.

HM, Jr: If you could do it on one page.

Mr. Purvis: I think it would be better to divide it into two pages, one affecting priorities in regard to deliveries to come in the future, the other affecting possible obtaining of something out of stock. There are, as you have pointed out to me, there are some P36's which you require for training.

HM, Jr: On the P36's I have a formal memorandum from the Chief of Staff that it's impossible. No one could have been nicer or more considerate or given it more attention, but it is impossible. This is the statement on the P36. This might as well go in my file. It's out. It's impossible. That is from General Marshall, Chief of Staff, and he gave it two days' thought.

Mr. Purvis: There is one other possibility which might not interfere with you; that is, 144 Northrup A37-A planes.

HM, Jr: Is that Swedish?

Col. Jacquin: Army.

Mr. Purvis: And they would be very useful if we could get some of those.

HM, Jr: If you give me this thing.....

Mr. Bloch-Laine: In fact, if I may say so, there are two classes of things that we are coming to ask you about and discuss with you. The things that are urgently needed and the other will come, if they could be had, immediately, and it seems the only source of supply in this country would be Army stock. Also on rearmament we have a list and are ready to submit it to you.

HM, Jr: For immediate.

Mr. Bloch-Laine: For immediate. Second, is priorities on things that are actually being made or

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helping us along to get as quickly as possible some of the things that we have already ordered and where we find some difficulties or some hitches and that's the thing, the list, that of course we are ready to submit to you if we are not imposing on you. That might be studied by the technicians. I had a long list prepared for both the French and the British, but got an order of immediate urgency.

HM, Jr: What you want in the next 30 days?

Mr. Bloch-Laine: Yes, that's right, such as getting rifles and things, if it can be done.

HM, Jr: Give me the things you would like to have between now and the first of July.

Mr. Purvis: Yes, I have them but they need typing.

HM, Jr: Make that one list.

Mr. Bloch-Laine: You may say, "No, sorry," or "Yes, perhaps", but I think we can put it before you.

HM, Jr: I know, but I have to have it in a form I can work with.

Mr. Purvis: Just mentioning to you 35 -- you remember the question of possible civil planes. There were 35 DC3's on order. If they could get some of those that were going to be delivered in the next month on transport lines. Is that a possibility?

HM, Jr: That's a possibility. Incidentally, have you gotten the list and the names?

Mr. Purvis: 11,000.

HM, Jr: Have you got the names?

Mr. Purvis: Yes, they sent over the whole thing. Colonel Jacquin, will you tell me if trainers, we think there might be use for. Combat planes he feels definitely not.

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HM, Jr: I am not trying to sell it to anybody, but I just wanted to be able to tell the President that you have it.

Mr. Purvis: We have it and Jacquin had it as soon as I got it and if there is anything you (Jacquin) are going to advise me?

Col. Jacquin: Yes.

HM, Jr: The President said somebody remarked as to the wisdom and it was not up to us to decide. It was up to the Allies. But you've got it?

Mr. Purvis: We have it. Thank you very much. I have it. As a matter of fact, an interesting way yesterday. Skelton had sent down Mr. Keenleyside at MacKenzie King's request to try to get some trainers.

HM, Jr: 300, and they go directly to the President on that. I don't know whether MacKenzie King phoned the President.

Keenleyside (?)

Mr. Purvis: He sent down / and I said if I can help you at any time, here I am. I said, "Colonel Jacquin has arranged for that list to be gone over and there may be trainers in that."

HM, Jr: Let me know if you need any help.

Mr. Purvis: Now then, if we may go to some of the other trifles that are put down here. Subject of guns, small arms.

HM, Jr: Have you signed with Pratt Whitney?

Mr. Purvis: I meant to say that. We agreed to sign last Monday. They went away to make the contract. I mean Monday a week. On Friday night things broke down again - number of their planes had gone down, number of engines gone down, price had gone up from \$8, 100,000 to \$10,500,000 for capital assistance and the options that we would enjoy from that capacity which we had financed would go down from 400,000 units of horsepower to 200,000 units.

- 15 -

Mr. Bloch-Laine: 150,000.

Mr. Purvis: That's including spares. So I got word of Gordon Rentschler immediately. He came to my office the first thing yesterday morning and I simply told him those three things since I had come into it with him as the ones who would steer it. He said, "their delay." I said, "I want it clearly understood we said we would sign. I brought my people to your terms, which were difficult, but I brought them on Monday of last week. We were just prepared to sit and sign on the terms we then thought were wise." He said it's up to me. He went out of the office. He phoned back about three hours' later that unfortunately Wilson was down here and he said, "The minute Wilson gets back from Washington I really think I can bring them back to the line you talked about." So this afternoon they are meeting in the hope they can sign the contract. But we have not changed a bit.

Mr. Bloch-Laine: The delay is not of our doings.

HM, Jr.: Let me know when it is signed, because I don't want to talk to them about additional business until you are through.

Mr. Purvis: I understand that.

HM, Jr.: Incidentally, the deal I put across Sunday night was -- contract might be drawn today or yesterday -- with Pratt Whitney and Wright have agreed to give us licenses on any engines we need. They argued about it and argued for about a week and in the meantime the contract will be signed, but I'll want the contract in my pocket.

Mr. Purvis: If we can get the Bristol in Canada and the Rolls Royce in the United States.....

HM, Jr.: Planning to license to other manufacturers on the 400 - 600 for trainers, to bring in other manufacturers. That's the class we are going to license. Not the big ones. Let Pratt Whitney and Wright concentrate on the types.

Mr. Purvis: Good.

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HM, Jr: Let them continue manufacturing the small business until the other gets into production and then take all the small business away from them.

Mr. Purvis: That might accelerate deliveries of combat engines later on.

HM, Jr: Oh, yes. As soon as the other fellow gets into production we will try to take all the 400 - 600 away from them and let them concentrate on the big ones. Does it sound sensible?

Col. Jacquin: That's very nice.

Mr. Purvis: Have you the original copy of that list that was made because I think the original should be in the Secretary's hands.

HM, Jr: Give me fifteen or twenty minutes and you gentlemen go down to Young's office.

oo O oo O oo

May 2/44

193

Memorandum to HQ
at 9 am Tuesday

I N D E X

o f

Summary of New Aero Engine Factory

1. General Summary of Factory Size - Cost and Number of Employees.
2. Schedule of Staff and Employees.
3. General Summary of Materials.
4. Schedule of Material Requirements.
5. Schedule of Special Machine Tools.

1.

S U M M A R Yo f

Requirements for a Production Factory to produce
three hundred 2000 HP Engines per month.

1. Factory - Plant & Buildings (less land)	£6,500,000 32,000,000 dollars
2. Factory Area	1,000,000 sq. ft.
3. Site	70 acres
4. Electricity	750,000 units per week.
5. Gas	4,000,000 cubic feet per week
6. Water	1,500,000 Imperial gallons per week
7. Machine Tools	2,000 general
8. Machine Tools (special purpose)	400
9. Office Staff	830
10. Plant Employees	8,320

2.

Schedule of Staff & Employees

1. Office Staff	830
2. Machine Operators	3,300
3. Machine Shop Fitters	700
4. Engine Fitters & Erectors	1,000
5. Engine Testers	150
6. Process-Heat Treat-Plate-Polish	750
7. Inspectors	1,000
8. Storekeepers, Electricians, Canteen Laborers	1,000
9. Tinsmiths	120
10. Timekeepers - Process & Progress	<u>300</u>
Total	9,150

3.

General Summary of MaterialsPer Annum

Alloy Steel Stampings	6,400 tons
Light-alloy Stampings	5,000 tons
Magnesium Castings	500 tons
Magnetos	7,200
Carburettors	3,600
Electric Starters	3,600
Petrol Pumps	3,600
Sparking Plugs	108,000
Controllable Pitch Airscrews	3,600

No allowance for extras or spares on finished components except sparking plugs.

4.1

19V40

2000 HP Engine1. Steel Stampings

<u>Description of Parts</u>	<u>Mat'l. Speci.</u>	<u>Range of Stamping Weight Lbs.</u>	<u>No. of Stgs. per Engine</u>	<u>No. of Diff. Patterns</u>	<u>Billet Wt. per 300 Eng. tons</u>
C/shaft Front	S.11	100	1	1	30
C/shaft Rear	S.11	to	1	1	30
Aircscrew Shaft	DTD.306	200	1	1	30
G/shaft Centre	DTD.306	50	1	1	15
Connecting Rod	BAC E 21	to	2	1	21
Bevel Gears	S.82	100	2	2	23.25
Stationary Gear	S.90		1	1	6.75
Red in Gear Drvg. Wheel	S.90	25	1	1	4.5
Bevel Pinion	S.82	to	3	1	12.75
Bearing Housing	S.11	50	1	1	4.5
Articulated Rod	BAC E 21	10	16	1	42.
Crankshaft Gear	S.90	to	1	1	4.5
Centrifuge Gear	S.90	25	2	1	3.0
Spring Drive Gear	S.82		1	1	3.3
Miscellaneous Stampings	S.6 S.11 S.14 S.15 S.28 S.82 S.90 DTD 299 Misc.	1 to 10	175	65	20.25 10.5 6. 6.75 1.5 21. 39 4.5 5
TOTAL	All speci.	1-200	209	80	341.55
Sleeves (if forged)	BAC E 52	85	18	1	210
Summary of Total Billet Requirements	S.6 S.11 S.14 S.15 S.28 S.82 S.90 DTD 299 DTD 306 BAC E 21 Misc.				20.25 75. 6. 6.75 1.5 60.3 57.75 4.5 45. 63. 1.5

4.2.

2000 H.P. Engine

Steel Bars

Specification	Range of Sizes, Round & Hex.	Weight per Engine. Lbs	Weight per 300 Engines Tons
S.1	1/8" - 2 1/4"	50	6.75
S.11	3/16" - 3"	325	45.
S.14	3/8" - 3 1/4"	25	3.375
S.65	1/2" - 2-1/8"	85	12.
S.80	1/2" - 2 1/4"	5	0.75
S.82	1-3/4" CT 1 1/2"	100	13.5
	2" CT 1-3/4"		
S.90	1" - 2-3/4"	105	14.25
DTD 49	3/8" - 1-1/8"	20	3.
DTD 306	3/8" - 2-3/8"	25	3.375
TOTAL	-	740	102.

4.3

2000 H.P. EngineAluminium Stampings

Description of Parts	Specification	Range of Stamping Weight Lbs.	No. of Stampings per Engine	No. of Different Patterns	Weight per 300 Engines Tons
Crankcase Front	DTD.246	126	1	1	17.25
Crankcase Centre	DTD.246	228	1	1	30.75
Crankcase Rear	DTD.246	150	1	1	20.25
Flint	BACE.79	10	18	1	24.
Cylinder	BACE.62	60	18	1	150.
Reduction Gear Case	DTD.410	50	1	1	6.75
Isolator	DTD.410	20	1	1	3.36
Miscellaneous	L.40 DTD.297	0 - 5	50	8	1.5
TOTAL STAMPINGS	-		91	15	253.86
<u>ALUMINIUM CASTINGS</u>					
Cylinder Head (Top)	L.35	9.75	18	1	24.
Cylinder Head (Bottom)	L.35	4.5	18	1	11.25
Miscellaneous	DTD.133	0 - 20	15	7	6.
TOTAL CASTINGS	-		51	9	41.25
<u>ALUMINIUM BARS</u>					
TOTAL BARS	L.1			3/16" - 1-7/8" Round & Hex.	1.89

TOTAL STAMPINGS
CASTINGS & BARS

297.

4.4

19.v.40

2000 H.P. EngineMAGNESIUM CASTINGS

Description of Parts	Specn.	Range of Casting Weight Lbs.	No. of Castings per Engine	No. of Different Patterns	Weight per 300 Engines Tons
Volute Casing	DTD.136	75	1	1	10.5
Front Cover	DTD.136	40	1	1	5.4
Blower Casing	DTD.136	90	1	1	12.15
Rear Cover	DTD.136	20	1	1	2.85
Miscellaneous {	DTD.136	0 - 20	51	26	9.0
	BACE.47				
TOTAL CASTINGS	-	0 - 75	55	30	39.9

2,000 H. P. EngineBronze Castings, Stampings, Bars And Tubes

Description of Parts	Spec'n.	Range of St'g. Wt.	No. of St'gs or Castings Per Engine.	No. of Different Pat-terns	Weight per 300 engines Tons
Miscellaneous Stampings	DTD 164 DTD 197 BACE 22		30	11	19.5
Miscellaneous Castings	B.8		20	3	2.25
Miscellaneous Bars and Tubes	B.6 DTD 78 DTD 160 DTD 197 DTD 267			3/32"- 4 1/2" round & Hex.	8.25
Total Stampings Castings, Bars and Tubes					30.0

2,000 H. P. Engine.Summary of Material Requirements

Material.	Rough Material lbs. / Engine	Requirement for 300 engines per month. Tons Per month
Steel Billets & Bars (less Centri- cast sleeves)	3,600	480 (440)
Aluminium Stamp- ings & Castings.	2,350	315 (297)
Magnesium Castings	270	36 (40)

Above figures are a check based on Hercules. Figures in brackets based on foregoing tables.

19 V-40Particulars of Non-Standard MaterialsB.A.C.E. 21

B.N.D. Air Hardening Steel 105 Tons/si
ultimate..3C; .22Si; .43 Mn;.01S .012P;
4.4Ni; 1.33 Cr.

B.A.C.E. 52.

Nichel manganese chrome steel.

B.A.C.E. 79.

Aluminium Alloy Similar to RR.59

B.A.C.E. 62

D. D. 324. 12% Si Al-alloy.

B.A.C.E. 47

Magnesium Tin Alloy
6% Sn; 3% Al. Magnesium.

B.A.C.E. 22

?

5.

SCHEDULE OF
SPECIAL MACHINE TOOLS

Approximate Total No. of Machine Tools 2,400.

Of these 400 are special machines as follows:-

Genevoise Jig Borers
Heald Double and Single ended Bormatics
Cincinatti Multi Spindle Hydrotel
" Auto Millers
Profile Millers
External Centreless Grinders
Internal " "
" Spherical "
Honing Machines
Multi Spindle Vertical Borers
Single and Multi Drills and Tap Machines
Maxi-Cut Multi Tool Lathes
Horizontal Barrel Boring Machines
Duplex Horizontal Boring Machines

May 21, 1940

11:25 a.m.

Present:

Mr. Purvis
Mr. Ballantyne
Mr. Young
Mrs. Klotz

Mr. Purvis: Now, we have the agenda. Part one, aircraft and engines; part two, armaments; part three, general war supplies.

HM, Jr: All right. Part number one, aircraft and engines.

(At this point HM, Jr spoke to Mr. Sloan.)

HM, Jr: He will be here at eleven.

Mr. Purvis: I think you will find him an extraordinarily enthusiastic, interested party.

HM, Jr: He said on Bristol it will have to be pure patriotism and his Government is going to have to tell him to do the things; otherwise he is not interested.

Mr. Purvis: He wants our Government to invite them and know it has your approval.

HM, Jr: He thought we should do it here instead of in Canada.

Mr. Purvis: This is the other side. This is between \$40,000,000 and \$50,000,000 to make 200 horsepower engines per month and I cabled, since you told me this morning, and suggested the importance of your having any license that you get covering the large type of engine. But it's a big proposition if we do it in Canada.

HM, Jr: You mean giving me a license on the biggest horsepower?

- 2 -

Mr. Purvis: Exactly. I think that's important and that's why I cabled, using Feddon's impressive thing on it. The next thing was this is between \$40,000,000 and \$50,000,000. If it is done in Canada we can probably get a Canadian order for putting it up. Number two, we don't have to pay for delivery of engines when they go out of the country. Those may offset any disadvantages as there might be, if we get your real blessing on the thing, but it makes it more than ever important to get the feeling the United States Government would take the broad view, to have another engine plant in North America would be a protection for the Americas as a whole.

HM, Jr.: Let me see if I understand this thing. Is this five engines in here?

Mr. Purvis: That's in "C". Jacquin has now added six more.

HM, Jr.: I am having General Marshall here for lunch and I will give him this stuff. Incidentally, he's a great soldier and very sympathetic.

Mr. Purvis: Is he?

HM, Jr.: But cold-blooded, the way a soldier should be.

Mr. Purvis: Correct.

HM, Jr.: But intelligent and entirely sympathetic.

Mr. Purvis: Good. That's the type that should look at it.

HM, Jr.: Just to digress a matter. While I was shaving this morning I suddenly remembered that there were some Rolls-Royce engines over in this speedboat which are airplane engines. I am finding out where they are and what the tests are so that I can turn that over to Mr. Keller. There are three of them, but nobody seems to even think about it, but this boat we bought from the Electric Boat Company -- everybody has seen it. The other thing I am trying to find out is your report on your

- 3 -

Spitfire that went up to Canada.

Mr. Purvis: I understand five officers went up last week to follow it.

HM, Jr: I am asking for a report.

Mr. Purvis: The wheels of the Gods grind slowly. I am glad to know the Spitfire got into the air.

HM, Jr: You don't say how many.

Mr. Purvis: No, because frankly my cable says anything you can give us we will take.

HM, Jr: This is very good. Is there more than one copy?

Mr. Purvis: I have given an extra copy to Mr. Young.

HM, Jr: I want this so I can give my copy to General Marshall when I am at lunch. You (Young) let me have this.

Mr. Purvis: We will have a further and better analysis.

HM, Jr: I want to give him this at lunch.

Mr. Purvis: Exactly.

HM, Jr: This is clear.

Mr. Purvis: I think we have got it now. As a matter of fact, in a way this is the embodiment of the lists which you have been receiving giving the status as of today of many, many projects.

HM, Jr: Perfectly clear. That will be in the hands of the Chief of Staff by one o'clock. I can't go any faster than that. I am going to ask him to break it down.

Mr. Purvis: If he could suggest a procedure, we will of course have here anybody that would be useful to bring, because naturally they are very anxious on the other side. Monnet phoned me again.

HM, Jr: He moves very fast.

Mr. Purvis: Fine.

Now then, may I ask one or two separate matters. In the first place, the other day you were good enough to indicate on the explosives matter that if we knew and were prepared to say that we were going to put down the new plant here -- and I may say negotiations are moving as rapidly as I can get them to move -- that we with Canada. So what I arranged was, as Dupont suggested, the next day I arranged for a Canadian contractor to address a request to Dupont to change, to reconsider, their previous refusal to give information that we wanted. One has then been sent that way, sent in the form of a letter to the Dupont Company. Now, I understand from the general manager of the explosive end of Dupont that he will be in touch, knowing no other channel for him, with the State Department, Mr. Green, tomorrow.

HM, Jr: Oh, good.

Mr. Purvis: Now, I've stated the proper channels. He said, "Oh, yes! We have always done that and we don't want to offend anybody." and the thing is that I want you to wait so that Mr. Morgenthau knows that this is what you are going to do. The program in the past on an explosive matter they go to the State Department and say, "Will you ascertain from the Army and Navy what we are allowed to do?" That has been the long established way of doing things. And I immediately had the reaction that you had and said, "Don't do it until Wednesday." That's the letter the contractor addressed to the Dupont Company giving specific information which Yancey wanted -- specific authority to release to them tomorrow.

Mr. Young: I think Joe Green is out of town.

Mr. Purvis: I thought if you had any advance information on exactly what had been asked, perhaps we could steer it.

HM, Jr: Who finds this? You do?

- 5 -

Mr. Purvis: No, it is found by the man in Canada.

HM, Jr: But Yancey is going to see Joe Green?

Mr. Purvis: I think he rings him on the telephone and says, "Can you steer this?" He may address a formal letter.

HM, Jr: Got much more?

Mr. Purvis: Not a great deal.

The next thing is in putting down this factory.

HM, Jr: Excuse me. Our stock exchange is only off seven points today.

I've decided not to listen to the radio any more. I have stopped listening.

Mr. Purvis: It is harrowing.

(At this point HM, Jr spoke to Sumner Welles.)

HM, Jr: It's done. Now when Yancey comes, you let me know.

Mr. Purvis: That's exactly what I felt like. If I could steer it that way we would keep it in channels.

In putting up a new plant it has been suggested by Dupont that we set up a company that would have to have, of course, British and French money. Now, I have, therefore, put out a memorandum of what we propose to do with the request, because we thought if a foreign government -- owning stock in a company which was making military supplies -- it's a new question and we have to get your sign of approval.

HM, Jr: (To Young) Let Sullivan read that and when Yancey comes over I will have Sullivan see him. If Sullivan has any doubts, let A.A. Berle see it too.

Mr. Purvis: The next is one I would like your advice. The situation is this. We are expecting to put down a plant at Memphis, Tennessee, which seems to be the site

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which everybody, including perhaps the Army, would like to see used. Now then, the difficulty arises in this. To put it at Memphis, Tennessee, means Dupont, who has the site, which is good from our viewpoint, because they know most about nitrocellulose powder, but they also want some nitrocellulose for the French -- that is gun cotton from which nitrocellulose powder is made -- before the end of the year. The only way to get that would be to use some other contractor, such as Hercules, who can, by accident of circumstances, deliver 2000 tons of nitrocellulose before the end of the year. That means making a sort of hybrid animal, 12,000 tons of nitrocellulose made at Hercules, 12,000 powder made at Memphis, and the balance made by Dupont at Memphis. It makes a hybrid animal which could be much improved if we could have it centrally for the whole thing. Could that be? We have to find 2000 tons of nitrocellulose gun cotton for the French. We are exploring every way we can. We know one way which would be very helpful. Apparently 125 tons a month are going to the Army at the present time from Hercules. If that could be released, we would then have a better kind of plant from the U.S. Army view and so again a picture on it.

HM, Jr: Yes. This thing is a good report.

Mr. Purvis: Now, you want this in a memorandum?

HM, Jr: And before Yancey comes in you had better give me the whole picture. You want so much from Hercules, so much from Dupont, so much from the Army.

Mr. Purvis: May I explain another item? Dupont says there is another way in which they could get over the difficulty. I believe as a result of the Army and Dupont Company working together some two years ago they got a lot of powder equipment. That powder equipment, which is the bottleneck in making this thing.....

HM, Jr: Who owns it?

Mr. Purvis: The United States Government. It can't be turned back to the Company?

HM, Jr: No. The Army won't do it. Absolutely adamant.

- 7 -

Mr. Purvis: Even if it hurts them?

HM, Jr: Well, put it in the picture.

Mr. Purvis: I knew you would say no, but I will put it in the picture.

The next item, and a very important one.....

HM, Jr: How many more have you got?

Mr. Purvis: There are sheaves of others. Cables are arriving faster than I can read them. The other is the Colt?

HM, Jr: That's the last one before lunch.

Mr. Purvis: If I might come again.....

HM, Jr: Is it something you want me to take up with the Chief of Staff and have you got it on a piece of paper?

Mr. Purvis: Not in this form. In a nutshell, we were about to sign a contract with Colt, no capital expansion involved, but at that point the Army comes in. They now want \$2,500,000 from us and we are not placing one more guns than we have already made a deal with. May I give it to you formally? May I have your assistance again?

HM, Jr: As I understand it those are guns that.....

Mr. Purvis: Those are aircraft and we had arranged our program so we would have no capital building at all. The intention of the United States Government was to superimpose on what we had done rather than come in and cut in underneath.

HM, Jr: That's right. What are your plans for the rest of the day?

Mr. Purvis: I shall be around in case there is something more you wanted. I shall probably stay downtown of tomorrow.

HM, Jr: If I want to see you, it will be sometime after 3:30.

- 8 -

Mr. Purvis: Good. Thank you very much. I am ever
so much obliged.

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LIST OF MATERIEL ATTACHED

From 213
Arthur Purvis
May 21, 1940

Part No. I

Aircraft and Engines

A Priorities from orders on which deliveries now pending for U. S. Army and Navy.

B Supplies from stocks on hand with U. S. Army.
Especially urgent.

C Priority for 3 Allison Engines, and for 6 Pratt and Whitney engines.

Part No. II

Armament

Supplies urgently required from orders placed and/or stocks on hand with U. S. Army and Navy.

Part No. III

General War Supplies

Supplies for which priorities or help needed.

PART N^oI
—
AIRCRAFT and ENGINES

Anglo-French Purchasing Board-Aeroplanes.

List "A" Aeroplanes on order for United States Services
for which priorities are desired.

Pursuit planes

- 300 P-40 Curtiss of which it is understood deliveries
will be made to the United States Army
monthly from June onwards.
- 30 P-38 Lockheed of which deliveries to the United
States Army are expected from July onwards.
- 40 P-39 Bell of which deliveries to the United States
Army are expected from July onwards.

BOMBERS

- 180 A-20 Douglas for which deliveries are beginning
shortly.
- 200 B-26 Glenn Martin for which deliveries are beginning
in August.

Transport planes

- 38 DC-3 Douglas planes for transport use due for delivery
to the Air Lines in the next three months.

General

2000 Transport planes
All to be equipped with United States guns and
ammunition; bombs, bombsights and bomb racks.

SPECIALLY URGENT

1461 22 Aeroplanes in stock with U. S. Army and Navy Service which the Allied Governments would be glad to take away immediately (partly in aircraft carriers due at Halifax in a few days).

(144) A-17-A Northrop Dive Bombers.
(If these could be obtained, 100 Vultee Vanguard Pursuit planes could probably be obtained in exchange-- ex Swedish orders on hand.)

General. These planes would have to be equipped with U. S. guns, ammunition, bombs, bombsights, and bombtrucks.

Reason for Extreme Urgency

The existing combat conditions emphasize the extreme need for such bombers.

(2) Transport Carriers B1-2 and B1-3

Ex existing Army stocks.

Dist "C" FIVE ARMY ENGINES NEEDED FOR FIVE
B1-A AIRPLANES FOR FRANCE.

Delays which have suddenly developed at the Allison plant in delivering the first five engines required for test purposes will involve the Allied Governments in a loss of two months because they were the preliminary deliveries required to be fitted to the airframes for testing purposes (adjustments very often necessary).

Can the Army therefore spare five out of the first batch delivered to them in May (estimated at a total of 40 - 45 engines) so as to save the situation.

~~When airplanes were delivered complete in West-14 without engines to New York. Engines will be sent to West-14 airplanes in West-14.~~

5 Engines needed in Buffalo

- 2 - May 15, 1940
- 1 - May 22, 1940
- 1 - May 24, 1940
- 1 - May 31, 1940
- 5 Total

First 5 Allied engines to replace are available

- 1 - June
- 4 - July

**Six Army Engines Needed for Test
Purposes in France on French
Aeroplanes.**

The French Government has placed orders with Pratt and Whitney for the production of Double Vasp engines, to be delivered in 1941. The French Government needs six of these engines, as soon as possible in order to do the engineering work and prepare the installation of such engines on French prototype.

The first deliveries to the Army start in August 1940. It would be very helpful if the Army would think possible to release to the French orders six of their engines, subject to further replacements in April or May, 1941.

PART No II

219

May 20, 1940

SUPPLIES URGENTLY REQUIRED.

1.

37 m/m A.A. and Anti Tank guns, with spare barrels
and ammunition

Possible suppliers:-

National Pneumatic Co.,
Rahway, N.J.

National Forge & Ordnance.,
Irvine, Pa.

The U.S. Government may have stocks or orders
placed which may be released.

2.

3 inch A.A. guns with spare barrels and ammunition.

The U.S. Government may have stocks
or orders placed, which may be released.

3.

Other types of short range A.A. guns (with caliber above .50) for Naval purposes.

We understand no stocks available with manufacturers. There is already a large programme in development for delivery through 1940 and 1941.

We believe the U.S. Government may have a large supply in stock, which might be available for release.

4.

Small Arms and Ammunition(a) .30 Browning Light Machine Gun

These are manufactured by Colts, who have no stocks and whose existing capacity is at present fully occupied.

U.S. Government may have stocks of these, and also of ammunition.

(b) Browning automatic rifle M.1918 A2

We understand that there are no available stocks outside those held by the U.S. Government.

(c) Thompson sub-machine gun

with the Auto Ordnance Corp.

Large orders have been placed for these guns, but we are fearful of delays in their delivery.

It may be that the U.S. Government has stocks of these, which perhaps could be released.

(d) Rifles - e.g. Springfield

We are informed that a large stock (said to be 1,500,000 of Lee Enfield .30 caliber rifles) is held by the U.S. Government which may be considered as surplus to their requirements.

An application for the release of part of these rifles has already been submitted by the French Mission, but has been rejected.

There are also stocks, we believe, held by the U.S. Government of other types which are now considered non-standard, and might also be released.

(e) Colts automatic pistols

We understand the U.S. Government is holding a substantial stock of these pistols, and also has more in process of manufacture at Colts.

It is considered essential that adequate supplies of ammunition for all these arms is also available and released at the same time.

5.

75 m/m Field Guns and ammunition

It is suggested that the U.S. army has large surplus stocks of these guns, together with the necessary ammunition.

Mortar and Mortar ammunition

The U.S. Government may have some stocks of Mortars and ammunition and might ^{also} be in a position to release some manufacturing capacity which is at present occupied for their account.

PART N^o III

Anything which the United States Administration can do to ensure the utmost acceleration of delivery of orders already placed for warlike stores and explosives in the United States through the Anglo/French Purchasing Board so as to expedite delivery would be extremely helpful.

Enclosed are our particulars of the most urgent orders.

Encs

1. Searchlights, Sound Locators and Predictors from the Sperry Gyroscope Co.

Orders have been placed with the Sperry Gyroscope and International General Electric for deliveries up to January 1941. Some deliveries have already been delayed, and it is of the utmost importance that production be accelerated.

2. (a) 9.2-inch Shells from the American Car & Foundry Co.

Orders for 200,000 of these shells have been placed with the American Car & Foundry Co., with deliveries starting in September 1940. These supplies are urgently required.

(b) 6-inch Shells from E. W. Bliss Co.

Orders for 50,000 of these shells have been placed with E. W. Bliss Co., of which over 40,000 remain to be delivered.

3. A.A. Spare Barrels and Field Artillery Gun Liners

(a) We have on order 50 A.A. Spare Barrels with the Midvale Co; these are already substantially delayed.

(b) Tubes, Forgings & Liners of 90 m/m
Educational orders have been placed with Crucible Steel and Bethlehem Steel. The results with Crucible Steel being satisfactory, we have placed an order for 350 tube forgings and 700 liners. If the results with Bethlehem are satisfactory, we shall also give them an important order. It is of the utmost importance that no obstacle interfere with early deliveries.

(c) Tubes of 47 m/m
We wish to place an order for 1,000 tubes. The principal manufacturers are Bethlehem Steel, Crucible Steel and Midvale, whose capacity seems to be fully occupied, and we fear we shall not be able to obtain our requirements at an early date. Priority is very necessary.

4. Tank Parts

Substantial orders have been placed with American Car & Foundry, Buckeye Traction Ditcher and the York Safe & Lock Company. Deliveries are scheduled June 1940 to January 1941. Production urgently required and priorities necessary.

- 2 -

5. Cartridge and Shell Rods

- (a) We ordered 10,000,000 cartridge cases from the Bridgeport Brass Co., deliveries to start August 1940.
- (b) 10,000,000 shell bodies of 20 and 25 m/m for Aircraft Guns and A.A. guns have been ordered from Burgess, Light Battery and National Pneumatic Companies.

The foregoing are urgently required. The daily output of each manufacturer could be greatly increased provided any interference from other orders is removed.

6. Fuse Parts

We are about to place an order for 12,000,000 with the Pollack Manufacturing Co. and the Carter Carburator Company. The need for these is very urgent, but owing to shortage in the supplies of brass rods of the manufacturers, we are fearful of delays in production.

7. BRASS Rods and Strips

Important orders have already been placed with Mueller Brass, Bridgeport, Revere Copper, American Brass, Chase Brass & Copper, Seymour Manufacturing, and we have a further order of 18,000 tons to be placed.

We are advised that the need is extremely urgent, and any assistance which might be given to stimulate production and remove interference from other orders would be very helpful.

8. Machine Tools

We have lately encountered greater difficulties in the placing of machine tool orders. For example: one of our important suppliers, Brown & Sharpe, have advised us that they cannot accept new orders because of expected requests from the U.S. Government. The orders which are at present in production with many suppliers are substantially in delay at the present time, and apparently the only way in which our requirements could be met would be through the granting of priorities.

9. Special Steel

Due to the closing down of factories in Belgium and on the French Eastern Frontier, there will be a large demand for special steel for production of Airplane Engines, Tanks, Armoured Trucks and Guns. A priority over American requirements would facilitate the meeting of our needs which will be most urgent.

The following order has been placed:

Hartford Steel Ball Co. - 100,000,000 balls to be delivered between May and November, and we are about to place orders for Thrust Ball Bearings, which, since S.K.F. in Sweden cannot make further deliveries, can only be obtained from S.K.F. in the United States and Timken. These two firms receive very important orders from all sides, and it is most important that priority should be given over domestic business or other foreign orders.

10. Explosives

The following is the programme for the purchase of explosives:

(a) Rifle and Heavy Machine Gun Powder

Contract with the Hercules Powder Company for 300 tons per month, deliveries to start in November 1940 for one year.

(b) Cannon Powder

2,000 tons from Du Pont and Hercules, deliveries from May 1940 to August 1941. *Some authorities are still required from U.S. Govt.*

(c) T. M. I.

2,000 tons purchased from the Atlas Company, deliveries May 1940 to January 1941.

9,000 tons purchased from the Atlas Company from new facilities to be constructed, deliveries September 1940 to December 1941.

(d) Nitro-Cellulose

American Cyanamid Company 6,000 tons, deliveries July 1940 to September 1941.

Hercules Powder Company 1,600 tons deliveries June 1940 to December 1940

Nitro-Cellulose (continued)

These contracts are now being concluded. Inquiries are now being made from the Hercules Powder Company for 2,000 tons per annum of Nitro-Cellulose to be produced from new facilities.

Hercules Powder Company is at present producing 125 tons a month for the Picatinny Arsenal. It would be very helpful if the United States Government would give a release to the Hercules Powder Company for this amount.

Inquiries are also in progress with the Monsanto Chemical Company for small quantities of Nitro-cellulose. These enquiries have not yet been concluded.

(e) Cannon Powder

Negotiations are being concluded with Du Pont for 20,000 tons per annum of cannon powder. Production from new facilities is expected to commence in January 1941.

We are negotiating for the production of 12,000 tons from Defence Industries Limited, Canada, and the assistance of the United States Government is required for providing the necessary technical assistance to enable this programme to be developed.

11. Light Metals and Alloys

(a) Aluminum

Orders placed :	Tubes	427 tons
	Rods & Hexagonal Bars	2,675 "
	Forging Stock... ..	1,000 "

Further orders are at present under negotiation for Tubes - 800 tons, and Rods etc. - 4,850 tons, making a total of all requirements of 9,752 tons.

Ingot: All recent orders accepted by Aluminum Company have been subject to provision that the time may come when they may not be able to supply the necessary ingot. They have inferred that they must protect the ingot stock because of U.S. Government requests and other domestic requirements.

The manufacturing capacity for Tubes is not, at present, equal to our requirements. If general priority were granted over domestic business for Tubes, it is considered that this would be helpful, although it is questioned, as it is felt that the domestic Tube orders are probably from manufacturers who are building planes for the Allies.

(b) Magnesium

Orders have been placed with the Dow Chemical Company for 1,800 tons, and with the Aluminum Company of America for 50 tons, deliveries extending to December 1941. Additional production is urgently needed to the extent of an additional 200 tons per month up to September 30, 1940, the need for which is very pressing. The Dow Chemical Company has its entire production absorbed by domestic requirements until September 30, 1940. It is suggested that the U.S. Government might grant priorities over any requirements that they may have.

(c) Duralumin

Orders have been placed for sheets, rods and extrusions totalling approximately 15,000 tons with the Aluminum Co. of America and Reynolds. Deliveries extend to March 1941.

There is also an urgent requirement for approximately 2,000 tons of bars and rods for fuses, airframes, engines, etc. and 350 tons of tubes, which we have not as yet succeeded in placing.

Any curtailment of domestic requirements other than for plane manufacture would be very helpful in expediting the production for our needs.

12. Instruments

(a) Low Voltage Generators - D.C.

5,000 generators are required, but we have been informed that a potential bottle-neck may occur due to heavy U.S. Naval demands, as well as domestic industrial requirements. Priorities in this instance would be very helpful.

We understand that enquiries have been received by U.S. manufacturers (Westinghouse Electric) from the Japanese for comparable generators.

(b) Binoculars

Orders have been placed for 4,600 pairs of binoculars with Bosch & Lomb. Deliveries on an increasing basis up to December 1940. Bosch & Lomb are the only manufacturers capable of meeting specifications and deliveries. The International Research Corporation of Ann Harbour, Michigan expect to have samples of binoculars by June 1. They are now in Washington seeking assistance for mass production, which they place at 250 pairs per week.

1 231
all
with
of the
of the

Phil Young has his own
copies of same from
photostat of letter
to Young

MEMORANDUM

Explosives - Nitrocellulose Powder

The present production of the American powder and nitro-cellulose industry cannot meet the needs of the British and French Governments. These Governments must therefore provide facilities to the industry in the United States for the expansion of its production.

However, the American companies to which the Allied Governments can apply for supplies of powder and nitro-cellulose: Du Pont de Nemours, American Cyanamid Company, Hercules Powder Company, do not wish to undertake for their own account the task of increasing their present plant production for war purposes. They see, on the contrary, no objection to building and operating powder plants and nitro-cellulose plants for the account of the two Governments interested.

In these circumstances, there is no other way for the Allied Governments than to own the powder and nitro-cellulose plants to be erected in the United States. It is proposed to increase the capacity of an existing plant at Maynard, Massachusetts, owned by American Cyanamid Company, and to arrange with Du Pont de Nemours to build a new plant at Memphis, Tennessee, and possibly to arrange with Hercules Powder Company to build another plant at Berlin, New Jersey.

The Allied Governments would accordingly wish to know whether the U. S. Government has any objection to their organizing one or more United States Corporations, under the laws of Massachusetts, New Jersey, Tennessee, or any other state, to buy, build or operate munitions factories in the United States. The capital would be furnished by the British and French Governments, and there would be no question of credit given by American banks or industrialists to the Governments for that purpose.

ABP

(The following letter was given over the telephone by Mr. Greville Smith, who advised that the original letter was going forward by air mail to-day)
CANADIAN INDUSTRIES LIMITED.

Montreal, P.Q.

May 18th, 1945.

Mr. E. S. Yancey,
General Manager,
Explosives Department,
E. I. Du Pont de Nemours and Co.,
Wilmington.

Dear Sir,

You will recall our discussion and correspondence earlier this year concerning the possibility of your Company making available to us complete plant and manufacturing information for the production of Nitrocellulose Smokeless powder in Canada. At that time your Company decided after full consideration it was unable to supply the information to us.

The manufacture of Nitrocellulose Powder in Canada has recently been the subject of further discussion between the Department of Munitions and Supply and ourselves. While we are aware of the consideration given to this matter by Du Pont on the action of our previous request for information, we should be pleased if your Company would review the circumstances with a view to re-consideration of the position if possible.

In the event the Du Pont can release the information, we are outlining below for reference the scope of the assistance we requested earlier. Owing to the employment of our engineers and draftsmen on other projects of national importance, we should like Du Pont to prepare a complete plant layout and detailed designs, and in summary a form of assistance we should like to receive is as follows:-

1. Design and full detailed plans of a plant capable of producing 1,000 tons of N.C.T., per month.
2. All information relative to the manufacturing processes and operation of plant.
3. The loan to the Canadian Contractor of 10 Technicians for a period of three months.
4. The training by the United States Manufacturer of ten Canadian Technicians for a period of three months.
5. Such information as to sources of supply of special machinery and appliances, and such assistance in its procurements as may be possible.
6. Such continuing liaison between the United States Manufacturers and the Canadian Contractor as may be necessary for the successful development of production.

A site for the plant has been tentatively selected by the Department of Munitions and Supply and immediately the projects were authorized we should suggest Du Pont engineers visit the proposed site to obtain the necessary information to lay out the plant.

As this is a matter of considerable urgency, we should greatly appreciate if your Company could give the earliest possible consideration to this request.

Yours faithfully,

*Meeting with
Purvis
5/21/40* 233

Anglo-French Purchasing Board

Colt Guns for New Aircraft Programme

Just as we were about to sign our contract with Colt (the negotiations had been completed) the question of United States Army needs intervened.

Up to that time no capital assistance was required by Colt from the Allied Governments as Colt's were able to meet our schedule from existing plant.

On Friday, May 17th we were advised that new United States Army requirements necessitated plant expansion to the amount of \$2,148,100 (possibly plus 10%) which the Allies must therefore pay.

We feel this is not consonant with the policy declared and trust we can be relieved of the burden.

The situation is urgent.

RECEIVED

Anglo-French Purchasing Board

Specification and Inspection Problems

Two types of problems have emerged:

(a) We are unable to obtain United States Government specifications, when on the restricted list, until after we have placed our contract with the contractor, and other than from the contractor, who may or may not disclose to us the whole story.

Inspection is therefore made very difficult.

(b) The United States Navy is so rigid in enforcing their regulations as to result in situations which in practice prevent our making inspection. For instance in the Bethlehem Steel Works a screen had to be erected by the contractor around his shell forging machinery. Now that the weather is too warm the workmen have insisted upon the screen coming down. This means our inspector cannot watch the forging work.

Could the regulations governing these two situations be relaxed a little.

Our Directors of Inspection are available for any necessary discussion.

May 21, 1940

RECEIVED

MAY 21 1940

U.S. DEPARTMENT OF THE ARMY
OFFICE OF THE QUARTERMASTER GENERAL

Anglo-French Purchasing Board
Explosives Programme
Manufacture in the United States

Nitrocellulose and
Nitrocellulose Powder

Negotiations are in active train as follows:

With the DuPont Company for the erection and operation of a new plant at Memphis, Tennessee (subject to verification of water supply now in process) for:

24,000 tons per annum of nitrocellulose powder including 12,000 tons of the nitrocellulose required for this powder.

With the American Cyanimide Company for expansion of their plant at Maynard, Massachusetts, to make 6,000 tons of nitrocellulose to be shipped as such to France.

Negotiations may also have to be undertaken for the expansion of the Hercules Powder Company plant at Parlin, New Jersey, or at Hopeville, Virginia, for the balance of the

2.

12,000 tons of nitrocellulose required to supply the projected Memphis nitrocellulose powder plant.

We would much prefer to make this additional 12,000 tons of nitrocellulose at Memphis, Tennessee, so as to give a balanced operation.

The object of turning to Hercules for half the nitrocellulose requirement is to help in supplying a vital French requirement of 2,000 tons of nitrocellulose in 1940. Hercules can expand their plant quicker than DuPont can build a new one. If that 2,000 ton requirement could be otherwise met, we could do the whole operation at Memphis.

There are two possible ways to meet the situation, at least partially:

- (a) To find some way of overcoming the legal difficulty of transferring nitrocellulose producing equipment held by the U.S. Army as "Spares" to the DuPont Company, thus accelerating their nitrocellulose plant completion prior to end of 1940. This equipment is the bottleneck.
- (b) To obtain a further release of 125 tons monthly of nitrocellulose which Hercules Powder Company is now delivering to Picatinny Arsenal.

In the interests of building a balanced plant at
Memphis can these two things be done?

May 21, 1940

RECEIVED

MAY 21 1940

Division of
Internal Security

May 15, 1940

To Purvis

From Mornet

The British Ministry of Supply and the French Armaments Ministry have now agreed to discontinue the present method for British and French purchases of steel and to make all such purchases through the Anglo-French Purchasing Board in New York.

2. Before this decision is put into effect it is necessary to ensure that the necessary technical knowledge is at the disposal of the Board. For this purpose an Anglo-French Mission of experts is leaving for New York in the middle of next week. This Mission will study the situation on the spot and make, in agreement with you, whatever technical arrangements may be necessary and on its departure will leave behind in New York British and French experts who will be appointed members of the British and French Missions respectively.

3. Meanwhile the British having existing contracts for the supply estimated to be needed till the end of the year do not intend buying any further steel in the U. S. A. except that they may take up an option which they have on 100,000 tons of steel. If they do so you will be informed. The following urgent purchases on the French account which are at present under negotiation will also have to be finalised before arrangements for making purchases through the Board can be completed:

Tubes rounds (sic) (for making bombers)	21,000 tons
Cold rolled strips	4,000 tons
Bricks	400 tons

4. We trust these arrangements will be satisfactory to you and to the American Administration both now and for the future. You are authorised to inform Mr. Morgenthau of the contents of this telegram.

Secretary of State RECEIVED

THE WHITE HOUSE
WASHINGTON

May 21, 1940.

MEMORANDUM FOR

SECRETARY MORGENTHAU:

To speak to me about.

F.D.R.

FEDERAL WORKS AGENCY
PUBLIC BUILDINGS ADMINISTRATION

CHIEF OF BUREAU SUPERVISING ARCHITECT
4 ROOMS, 1000 THE ARCADE BLDG.
222 G ST. N.W. WASHINGTON, D.C. SA- 2A

WASHINGTON

May 20 1942

The President

The White House

My dear Mr. President:

There is a useful service which I think the artist can render at this time. Briefly, it is to cooperate a dignified, pictorial horror of the tremendous power of our country to help offset the wave of hysteria and defeatism in which the country is wallowing. To carry out the plan, I would mobilize a group of the best artists in this country to paint a series of pictures that would effectively show that "it can be done". Within this general theme the artists themselves and our organization could develop the ideas in far-reaching ways.

We operate approximately 45,000 post offices in this country and the daily attendance runs into the millions. Without addition to the present staffs of post offices and through the cooperation of the Post Office Department, we could circulate the pictures produced, reaching as large a public as the mail itself. It seems to me there is a unique means for publicity in a program of this kind both through post office exhibitions and the demand there would undoubtedly be from magazines and the press for paintings which would be effective visual evidence of your defense program. To carry out such a program will require a minute fraction of our time for cent fees in proportion to the construction program connected with rearmament.

If you approve of the idea, which I hope you will, I think we can carry it out without taking any of your time.

Very respectfully,
11

Edward Bruce

Chief of the Section of Fine Arts

May 21, 1940
4:07 p.m.

H.M.Jr: Hello.

Operator: I have Mr. Purvis.

H.M.Jr: Thank you.

O: Go ahead, please.

H.M.Jr: Hello.

Arthur
Purvis: Good evening.

H.M.Jr: How are you?

P: Fine, thank you.

H.M.Jr: Look, I gave everything that you gave me to General
Marshall.

P: Yes.

H.M.Jr: And I have not yet heard anything from him but he
is working on it.

P: Yes, quite.

H.M.Jr: And as he gets a chance to clear any of it he's going
to send it over to me, so I'm going to beg off the
rest of the day because I've got nothing more.

P: No, I think quite right too.

H.M.Jr: And then if -- are you going to be in Washington
tomorrow?

P: I -- I think what I shall do is to stay over say
until after lunch tomorrow then I think I would --
unless there was something that would make it wise
for me to stay more, I would run up -- get my --
keep my stuff up there, and then come down
again the minute you felt it would be useful to
do it.

H.M.Jr: Now, I didn't get that.

- 2 -

- P: I thought that I would stay down until after lunch say tomorrow, anyway; then if by that time there doesn't seem to be any reason for staying any longer I would run up to New York, get my stuff into good shape again, and hold myself ready there for the Institute told me that something could be usefully done here. Then I would come back.
- H.M.Jr: Now, those last three memorandum that you gave me just before lunch.
- P: Yes.
- H.M.Jr: I only had one copy of each and I gave those all to General Marshall.
- P: I think I've given others to Young but I'll check on that, and I'll see that you get further copies.
- H.M.Jr: Well, I'll ask him and if not should he get in touch with Ballantyne?
- P: Yes. Well, I'll see that Ballantyne gets in touch with him. I'll ring Ballantyne straightaway.
- H.M.Jr: Thank you so much.
- P: And I do feel -- I don't know whether it -- it's over-anxiety at all, but it does seem to me now that -- good heavens, any help they can give, maybe a valuable thing for this side as well as the other. Am I wrong in thinking that?
- H.M.Jr: What?
- P: That really any help that can be strayed to give us now -- I mean, if they can find ways as far as technical difficulties in any way -- the fire is burning and I do hope that the legalities of things can -- lawyers are so awfully good in finding loop-holes in their own shoes.
- H.M.Jr: My dear Arthur, I have felt this way for a year and a half.
- P: I'm sure you have, Henry.

- 3 -

H.M.Jr: And I don't have to begin.

P: No, I'm sure of it.

H.M.Jr: So if -- if it's humanly possible.....

P:it'll be done.

H.M.Jr: But that's a big order you gave us.

P: I know. Oh, it's a tremendous order.

H.M.Jr: And General Marshall left here and said he would start at once on it.

P: Oh, and I'm sure he will too.

H.M.Jr: And he works fast.

P: Good!

H.M.Jr: So just see the sights of Washington and keep out of trouble and I'll talk to you in the morning.

P: Good work. Fine. Thank you very much. Good night.

May 21, 1940.

MEMORANDUM FOR THE PRESIDENT:

I am enclosing herewith a memorandum setting forth in brief our objections to H. R. 9822, a Bill to expedite naval ship building and for other purposes. I feel very strongly that this legislation is unnecessary, undesirable and definitely objectionable.

(Signed) H. Morgenthau, Jr.

ORIGINAL FORWARDED TO THE PRESIDENT
FROM OFFICE OF THE SECRETARY

By Messenger 5⁰⁰ pm

JLS:kb

MAY 21 1943

MEMORANDUM FOR THE PRESIDENT:

I have for the first time this morning seen a copy of H. R. 9822 which was introduced by Mr. Vinson yesterday afternoon. Consequently, I have not been able to make a thorough study of all of the provisions of the Bill. However, even a very hasty examination discloses that it is a thoroughly objectionable measure.

Section 1 of the Bill provides that during the period of national emergency the Secretary of the Navy may advance to contractors up to 30% of the contract price. Though I do not see the necessity for such a provision I interpose no objection to it.

Section 2 provides that during a national emergency the Secretary of the Navy may negotiate contracts without the necessity of competitive bidding. The objections to lack of competitive bidding are unnecessary to state. It may be that under the present circumstances the provisions of Section 2 can be justified. However, I feel that if such a provision is adopted, in order to protect the profit limiting provisions of the Vinson-Trammell Act, it is advisable to make further provision so that the profit will be limited to a percentage of cost as well as to a percentage of the contract price.

Section 3 abrogates the provisions of the Walsh-Healey Act and Section 6 modifies the provisions of the Wages and Hours Act. In my opinion there is no necessity, but indeed a positive danger in modifying the provisions of the Wages and Hours Act and in suspending the Walsh-Healey Act. The attitude of labor and its continued co-operation are seriously threatened by such hasty action with respect to laws affecting labor rights.

Section 4 provides that during the period of national emergency the provisions of the Vinson-Trammell Act shall apply only to contracts and subcontracts in excess of \$25,000. The present limitation is on contracts and subcontracts in excess of \$10,000. In my opinion this

section is objectionable and offers a serious loophole unless an amendment along the following lines is added:

"Provided, however, that the contracts of any contractor or subcontractor receiving awards in excess of \$25,000 in any one year shall be subject to all of the provisions of the aforesaid acts."

Section 5 provides for the determination by the Secretary of the Navy of cost or special facilities for the profit limiting purposes of the Vinson-Framwell Act and the amount to be charged to a particular contract. We have previously vigorously objected to such an amendment and on February 3, 1940, Chairman Vinson wrote to me that a similar provision in H. R. 8026 would be withdrawn from consideration. Such a provision would completely demoralize the efficient workings of the profit limiting provisions of the Vinson-Framwell Act. It would remove cost determinations from the Treasury Department which is from every viewpoint best qualified to determine cost and which is entrusted with the administration of the profit limiting provisions of the Act.

Sections 7, 8 and 10 affect personnel and employees of the Navy Department and the naval establishments, and with respect to such personnel and employees permits suspension of provisions of the Civil Service Act and other Acts affecting their employment. I have no information as to whether or not the policy involved in these sections is a desirable one.

Section 9 adds to the authorization \$50,000,000 provided for by the Act of July 30, 1937, an amount equal to the additional costs resulting from the provisions of this Bill. Whatever the policy may be with respect to increasing the authorization of the aforementioned Act, it is certainly undesirable to have the increase phrased in such ambiguous language. The additional costs resulting from the provisions of this Bill are in my opinion a standard for an additional appropriation that is practically impossible to determine.

Section 10 confers upon the President of the United States authority to suspend the Civil Service Act. This law is entirely superfluous as under existing legislation you have adequate authority to grant exemption. The enactment of Section 10 of this law will create troublesome patronage difficulties which in turn will result in friction and confusion.

- 5 -

Section 11 provides that the "national emergency" shall be deemed to include the limited national emergency declared to exist on September 8, 1950. Section 12 provides that the provisions of Bill shall be effective for a period of three years beginning with the date of the approval of this Act. The extent to which these two sections, when read jointly, retroactively affect contracts already awarded is not clear. How can it be clearly determined what will be the effect on contracts awarded during the three-year period and as to which no cost determination has been made prior to the expiration of such period.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

May 21, 1940

Congressman Vinson, Chairman of the House Naval Affairs Committee, has introduced a bill which would, if it becomes law, effectively sabotage the provision of the Vinson Trammell Act insofar as Treasury control is concerned. The provisions of the bill would permit the Secretary of the Navy, subject to the approval of the President, to determine the proportion of the cost of special additional equipment and facilities which would not be included in determining the profit limitations imposed by the Vinson-Trammell Act. In other words, the Secretary of the Navy, subject to the approval of the President would have final say as to the cost of plant expansion and additional equipment which would be allowed to manufacturers outside the Vinson-Trammell Act. Under existing law such determination must be made by the Secretary of the Treasury. The provision is subject to the construction that it would apply to all contracts entered into by the Navy subsequent to September 8, 1939. This means that all of the effective work which we have done in connection with holding down the profits to be realized on Navy contracts by Consolidated Aircraft, Electric Boat and many other companies would be nullified.

I understand that Chairman Vinson discussed this provision with the President at noon today and obtained his qualified approval. I am told that action will be taken on the bill tomorrow morning.

You might want to consider asking the President to call Chairman Vinson and request that he withhold action on the legislation until the President has had an opportunity to hear the views of the Secretary of the Treasury on the matter.

I am attaching a copy of the bill and have marked the provision in question.

John Sullivan and I will be available this evening should you want to talk to us about it.

E. H. F.

Attachment

1 SEC. 3. The President of the United States is hereby
2 authorized during any national emergency declared by him
3 to exist to suspend, with respect to naval contracts, the pro-
4 visions of the Act approved June 30, 1936 (49 Stat. 2036;
5 U. S. C., Supp. V, title 41, secs. 35-45), whenever, in his
6 judgment, compliance therewith would be prejudicial to the
7 national defense.

8 SEC. 4. The provisions of section 3 of the Act of March
9 27, 1934 (48 Stat. 505), as amended by the Acts of June
10 25, 1936 (49 Stat. 1926), and April 3, 1939 (53 Stat.
11 560; U. S. C., Supp. V, title 34, sec. 496), shall, during
12 the period of any national emergency declared by the Presi-
13 dent to exist, be limited to contracts or subcontracts where
14 the award exceeds \$25,000.

15 SEC. 5. During any national emergency declared by the
16 President to exist the decision of the Secretary of the Navy
17 as to the necessity and the cost, including the proportion
18 thereof to be charged against the particular contract, of
19 special additional equipment and facilities required to facili-
20 tate the completion of any naval vessel or aircraft, or parts
21 thereof, in private plants shall be final, subject to review
22 only by the President and the Federal courts. This decision
23 may be made at any time after the contract is awarded if
24 in the judgment of the Secretary of the Navy sufficient data
25 are available to permit of reasonable accuracy: Provided,

1 That the Secretary of the Navy shall report to the Congress,
 2 at the beginning of each regular session, the cost of such
 3 special equipment and facilities to be borne by the Govern-
 4 ment under each contract.

5 SEC. 6. Notwithstanding the provisions of any other law
 6 the regular hours of labor for employees of the United States
 7 Government, and of contractors and subcontractors, when
 8 such employees are engaged in work in connection with naval
 9 vessels or aircraft or parts thereof or other work incidental
 10 thereto, shall, during the period of any national emergency
 11 declared by the President to exist, be a five-day week of
 12 eight hours per day and forty hours per week: *Provided,*
 13 That these hours may be exceeded and that such employees
 14 shall receive compensation for their employment in excess
 15 of the hours above specified at a rate not less than one and
 16 one-half times the regular rate at which they are employed:
 17 *Provided further,* That such compensation for overtime
 18 shall apply only to per diem, hourly, professional, and sub-
 19 professional employees and to blue printers, photostat and
 20 rotoprint operators, inspectors, supervisor planners, esti-
 21 mators, and progressmen, and assistants to shop and plant
 22 superintendents of the CAF service, all as defined by the
 23 Classification Act of March 4, 1923 (42 Stat. 1488; U. S. C.
 24 5, ch. 13), as amended, and by the classification rules of the
 25 United States Civil Service Commission in the case of Gov-

1 ernment employees; and to similar classes of employees of
 2 contractors and subcontractors: *Provided further,* That in
 3 determining the overtime compensation of per annum Gov-
 4 ernment employees the pay for one day shall be considered
 5 one three-hundred-and-sixtieth of their respective per annum
 6 salaries: *Provided further,* That the hours of labor in any
 7 one week shall not exceed forty-eight unless the President
 8 shall declare it necessary in the interest of the national
 9 defense: *Provided further,* That the President of the United
 10 States is authorized to suspend during the period of any
 11 national emergency declared by him to exist, the provisions
 12 of the Act of March 3, 1931 (46 Stat. 1482), if in his
 13 judgment such course is necessary in the interest of the
 14 national defense: *And provided further,* That the Secretary
 15 of the Navy is authorized to modify existing contracts
 16 accordingly.

17 SEC. 7. Notwithstanding the provisions of section 204
 18 of the Act of June 30, 1932 (47 Stat. 404; U. S. C., title
 19 5, sec. 715), the Secretary of the Navy is authorized to
 20 reemploy during the period of any national emergency de-
 21 clared by the President to exist, retired employees of the
 22 Navy Department and the Naval Establishment, under
 23 such rules and regulations as may be agreed upon by the
 24 Navy Department and the Civil Service Commission. Such
 25 reemployment shall be without prejudice to any rights to

1 retirement or annuity heretofore or hereafter accruing to
2 such employee, as provided by law, except that the pay-
3 ment of such annuity shall be suspended for the duration
4 of the reemployment.

5 SEC. 8. The Act of March 14, 1936, entitled "An Act
6 to provide for vacations to Government employees and for
7 other purposes" (49 Stat. 1161) is hereby amended by
8 adding, after section 7 a new section to read as follows:

9 "SEC. 8. Employees of the Navy Department and the
10 Naval Establishment may, during the period of any national
11 emergency declared by the President to exist, be employed
12 during the time they would otherwise be on vacation with-
13 out deprivation of their vacation pay for the time so worked.
14 Employees who forego their vacations in accordance with
15 the provisions of this section may be paid, in addition to
16 their regular pay, the equivalent of the pay they would
17 have drawn during the period of such vacation. The pro-
18 visions of this section shall be applicable only to employees
19 in those trades and occupations wherein a shortage exists."

20 SEC. 9. The limit of cost of the vessels authorized by
21 the Act of July -30, 1937 (50 Stat. 544), is hereby
22 increased by an amount equal to additional costs resulting
23 from the provisions of this Act.

24 SEC. 10. During any national emergency declared by
25 him to exist the President of the United States is authorized

1 to suspend such portions of the Civil Service Act or the
2 civil-service rules as may be necessary to prevent any delay
3 in obtaining required acceptable civilian employees in the
4 Navy Department and the field service thereof.

5 SEC. 11. As used in this Act, the words "national emer-
6 gency" shall be deemed to include the limited national
7 emergency declared by the President on September 8, 1939.

8 SEC. 12. The provisions herein contained shall be effec-
9 tive for a period of three years beginning with the date of
10 approval of this Act.

70th CONGRESS
3d Session

H. R. 9822

IN THE HOUSE OF REPRESENTATIVES

MAY 20, 1940

Mr. VINSON of Georgia introduced the following bill; which was referred to the Committee on Naval Affairs

A BILL

To expedite naval shipbuilding, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That whenever in the opinion of the President of the United
4 States such course would be in the best interests of national
5 defense during any national emergency declared by the
6 President to exist, the Secretary of the Navy is authorized
7 to advance, from appropriations available therefor, payments
8 to contractors in amounts not exceeding 30 per centum of
9 the contract price, upon such terms as he shall prescribe,
10 and he shall require adequate security for the protection of
11 the Government for the payments so made. He is further

70th CONGRESS
3d Session

H. R. 9822

A BILL

To expedite naval shipbuilding, and for other purposes.

By Mr. VINSON of Georgia

MAY 20, 1940

Referred to the Committee on Naval Affairs

1 authorized in his discretion to make partial payments on the
2 balance of the contract price from time to time during the
3 progress of the work, such partial payments not to exceed
4 the value of the work already done, but to be subject to a
5 lien as provided by the Act of August 22, 1911 (37 Stat.
6 32; U. S. C., title 34, sec. 582), entitled "An Act author-
7 izing the Secretary of the Navy to make partial payments
8 for work already done under public contracts": *Provided*,
9 That the Secretary of the Navy shall report to the Congress
10 at the beginning of each regular session the advance pay-
11 ments made under the authority of this section.

12 SEC. 2. That whenever deemed by the President of the
13 United States to be in the best interests of the national
14 defense during any national emergency declared by the
15 President to exist, the Secretary of the Navy is hereby au-
16 thorized to negotiate contracts for the acquisition, construc-
17 tion, repair, or alteration of complete naval vessels or air-
18 craft, or any portion thereof, including plans, spare parts,
19 and equipment therefor, that have been or may be author-
20 ized, and also for machine tools and other equipment, with-
21 out competition: *Provided*, That he shall determine the price
22 to be fair and reasonable: *Provided further*, That the Secre-
23 tary of the Navy shall report to the Congress at the begin-
24 ning of each regular session the contracts entered into under
25 the authority of this section.

THE WHITE HOUSE
WASHINGTON

file 250

May 21, 1940.

MEMORANDUM FOR

SECRETARY MORGENTHAU:

To speak to me about.

F.D.R.

See you there with this

EG

GRAY

London

Dated May 21, 1940

Rec'd 1 p.m.

Secretary of State,
Washington.

1303, May 21, 5 p.m.

FOR THE SECRETARY OF STATE.

Amid the welter of immediate things let me give you for what it may be worth my conclusions as to what we should not do in our rearmament program if we want to avoid the mistakes which I have seen the British make.

One. Not to underestimate the punching power of a collectivist system.

Two. Not to plan a rearmament program piecemeal.

Three. Not to fail to face up to the capital outlay problem, i.e. either by giving large enough orders initially so that private manufacturers can see their way clear to undertake the required plant expansion or else subsidize that plant expansion directly, paying the management a fee for operating. The strategic location of new plant in terms of its defense as well as the proximity of its sources of supply must also be considered. The importance of quantity production

capacity

-2- #1505, May 21, 5 p.m. from London

capacity at any given time should not be forgotten and provision of quantity capacity should not be delayed for considerations of new improvements no matter how important the development of designs may appear to be.

Four. Not to fail to face the absolute necessity of unification of supply purchases, to avoid competitive bidding for labor, material and finished products, and the need for demarcation as between civilian requirements and armament requirements. A concomitant of this lies in alleviating skilled labor bottlenecks by undertaking, before required, training of such, not forgetting that the fighting services may also suddenly require large numbers of mechanics with just such training and experience.

Five. Above all not to imagine that a formidable armament program can be done cheaply and that waste can be avoided by cutting out or down requirements which the fighting services regarded as essential.

KENNEDY

HPD

May 21, 1940.

Dear Mr. Keeshin:

On behalf of the Secretary, I want to acknowledge your letter of May 13th, which encloses a copy of one dated April 8th and received by you from Mr. Van Patter in China.

Mr. Morgenthau appreciates having this, and the material will be very carefully studied.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. L. Keeshin, President,
Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GEF:lmf

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

May 13, 1940

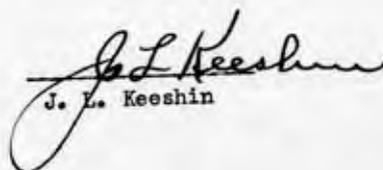
Hon. Henry J. Morgenthau, Jr.
Secretary of the Treasury
Treasury Building
Washington, D.C.

My dear Mr. Secretary,

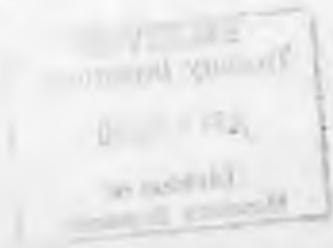
I am enclosing herewith
a copy of a letter which I received from
Mr. C. W. Van Patter, from Kweiyang, China
written under date of April 6, 1940, which I
know you will find interesting.

With kindest regards,

Sincerely yours,


J. L. Keeshin

JLK:LR
Enc.



C O P Y

April 8th, 1940 255
Kweiyang, China

Mr. J. L. Keenan
221 N. Roosevelt Road
Chicago, Illinois

Dear Mr. Keenan:

I have neglected to make any late reports concerning my activity here in China knowing that Mr. Sheehan was returning with all the necessary information pertaining to our work.

On April Fourth, I left Kunming and arrived in Kweiyang on the fifth. May Pan and I travelled by motor car and we noted with pleasure that the highway has been improved considerably since our trip over it last September, particularly the section from Kunming to Kweiyang. The twenty four turns just west of Annan have also been improved to a considerable extent, with the hair pin turns being widened and guard rails installed at all of the dangerous points.

The following will give you a fairly clear understanding of the present maintenance activity here in China.

1. Shop Buildings and Equipment

(a) Hsaiakwan - located on the Yunnan Burma highway. It will be approximately forty days before these buildings are completed in every detail. However, the repair sheds have been finished which will permit this administration to maintain the new trucks until such time as the machine shop building is ready for use. This shop will by far be the largest on the Burma route so therefore all of the major work and rebuilding will be conducted at this location. It is thought that they will operate trucks between Wanting and Hsaiakwan, while the tractor trailer may be used on the Eastern section of this highway. More than sixty five percent of the shop equipment that will be necessary to properly establish this shop has been transported in from Lashio, Burma and is now stored in one of the repair sheds. The remaining equipment will be brought into China in the very near future.

(b) Kunming - The B shop or garage buildings which are located in the extreme eastern section of Kunming are completed and also ninety five percent of the tools and equipment have been distributed to this location and are now being used to a good advantage. It is thought a good maintenance program has been put into effect with very satisfying results.

The A shop located on the Kunming Kweiyang highway seven kilometers East of Kunming, is also complete and equipped with the necessary tools and machinery to do all of the rebuilding of the exchange units for the garage located in Kunming as well as repair motor work or body building on the motor vehicles that are assigned to the A shop for maintenance. Before I left Kunming the power plant had been installed and all of the electrical wiring completed. The motor driven equipment was all checked to be in good order and ready for use. A meeting was held by the maintenance men of both shops and the basic principals for maintenance procedure were discussed and put into effect. These afore-mentioned facilities are adequate to maintain the present number of trucks and busses assigned to Kunming. However, it was suggested that further expansion of the A shop may be necessary to compensate for any additional consolidation of the motor vehicles.

(c) Kweiyang - The garage buildings which are located six kilometers out of Kweiyang on the Kunming highway have been completed while more than ninety five percent of the equipment has been installed and in use. This establishment has been operating for some time and in view of the obstacles encountered here in China at the

present time I think they are doing a very good job. The supervisors and mechanics have improved to a great extent within the past two months so therefore I have high hopes that this shop will take its place among the better ones within a very short time.

(c) Kweiyang - The garage buildings which are located six kilometers out of Kweiyang on the Kunming Highway have been completed and in use. This establishment has been operating for quite some time and in view of the obstacles encountered here in China at the present time I think they are doing a very good job. The supervisors and mechanics have improved to a great extent within the past two months so therefore I have high hopes that this shop will take its place among the better ones within a very short time.

The A shop is not yet operating but the machine shop building is now completed and we are moving in and setting up the necessary equipment for the rebuilding work. It is thought that within the next three months this shop will be operating on a fifty to sixty percent basis. The mechanics have been trained and will be transferred to this location on April 11. I will stay in Kweiyang until this shop has been established and in operation.

(d) Chungking - The buildings at the A shop located 14 KM. south of Chungking are completed and most of the equipment has been transported from Kunming and moved into the machine shop and tool room. This shop will be ready for operation on arrival of the Hercules power plant which is now enroute. The maintenance and running repair work is now in effect at this location.

The B shop buildings at Hsa-Lung-Chiao, a suburb of Chungking are completed while approximately eighty percent of the necessary machinery and tools have arrived and put into immediate use. The remaining twenty percent of equipment that has been assigned to this shop are enroute from Kunming.

(e) Lanchow and Paochen - On the North West highway. The shop and garage buildings which are thought to be adequate to maintain the motor vehicles operated over this highway have been completed only recently. The shop machinery and tools for the Northwest Administration were crated and checked at the Kunming Stores before I left that city. However, I have had word since that time that part of them have been loaded on trucks and are now enroute to their destination.

(f) Luhsien - In view of the present truck operation it was thought that a garage service would be sufficient for this location. The necessary tools and equipment have been trucked in from Kunming and are now in use to a good advantage. It will be necessary to expand the maintenance facilities in this city at a later date due to a contemplated tractor and trailer operation which will no doubt be put into effect within the next four months.

(g) Hwanghsien - The shop in this city has been established and in operation since the Spring of 1939. It is capable of maintaining the present number of motor vehicles that are assigned to that territory. Plans for expansion and better equipment have been made for this shop but in view of the present conditions, it is thought to be reasonable to wait until some future date before putting them into effect.

II CONDITION OF THE MOTOR TRUCKS AND BUSES

A slight improvement is noted in the condition of the trucks and also the road service calls are less which verifies that better maintenance is now being performed by most of the shops and garages.

The bus operation has shown very little improvement partly due to the fact that the bodies were too large in comparison to the motors and chassis for the torturous roads that they have to be operated over. Mr. Y. C. Chen, managing director of CTC has consulted with Mr. Bassi in regard to this serious problem and it was decided that they would build the bus bodies to accommodate sixteen passengers and baggage whereas before twenty four to twenty six people was the usual load.

III PART AND SUPPLIES

The shortage of parts has been quite a problem to the motor vehicle operation. In fact, many trucks will be out of service until such time that an adequate flow of parts into China can be assured. Steps have been taken to correct this evil by the establishment of a large supply depot. But apparently it will be some time before this has any noticeable effect.

IV PARTS MANUFACTURING SHOP

Buildings adequate in size for the establishment of a parts manufacturing shop were erected in Chungking previous to October 1939. The machinery necessary to properly equip this shop was purchased last year in America under the UTC loan. More than sixty percent of the equipment has arrived in China via Kunming and has been re-loaded on trucks routed to Chungking. It is thought to be very doubtful if much benefit will be derived from this enterprise within the next six months.

V. In addition to the afore-mentioned maintenance facilities, small service stations have been established approximately one hundred kilometers apart which are capable of making emergency repairs and service calls on the vehicles passing through their territory.

I will be in Kweiyang until the twenty-third of this month and will then proceed on to Chungking for a short period before accompanying Mr. Bassi to Lanchow. We will travel to this city by motor car and return on a plane a few days after the fifteenth of May.

I am hopeful that Messrs. Sheshen, Dr. Pan and Dr. Buck had a very pleasant return trip to America and also extend my best wishes to you and yours. I also wish to remain,

Sincerely yours,

(signed) C. W. Van Patter

WPA 10 1 1950

(Confidential)

PARAPHRASE

A telegram of May 21, 1940, to the American Embassy at Paris reads substantially as follows:

American Consul Reed reports from Hanoi under date May 16 to the following effect: On account of the uncertain conditions prevailing in the Far East and the alleged need of keeping a stock of trucks which may be pressed into service in case there is an adverse development in the situation, for the time being the Governor General of Indochina has forbidden the exportation to China of trucks, according to information reaching Consul Reed. This action affects about 650 trucks which are at Haiphong now and which were bought through the Universal Trading Company as a result of the Export-Import Bank credits.

The Ambassador is requested, unless he has reason for not taking such action, to convey this report to the French Foreign Office in such a way as seems appropriate to him. He is also desired to request with emphasis that arrangements be made to make sure that purchases made in this country under the credits in question be allowed to proceed without hindrance to China.

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

6-44 1739
259
PERSONAL AND
CONFIDENTIAL

May 21, 1940

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

I thought you might be interested in the following information concerning conditions at two plants of the Carnegie-Illinois Steel Corporation in Ohio.

Information has been received from an official of the above corporation, which is, itself, a subsidiary of the United States Steel Corporation, to the effect that recently apparent attempts were made to deliberately injure the gears in one of the mills in the McDonald Works of this company at McDonald, Ohio, by placing four steel chisels and twelve loose metal rivets in the bottom of the gear box. It was indicated that the gears in question are used to operate a skid table, which is approximately ninety feet long and twelve inches wide, and this skid table serves as a conveyor in moving steel to the furnaces located inside the plant. It was indicated that, fortunately, an inspection of the gear box in question revealed the above condition prior to the occurrence of actual injury, whereupon the foreign material was removed and the gear box properly cleaned. The above mentioned official advised that the discovery of this condition in the gear box undoubtedly prevented serious injury to the gears and that the replacement thereof would have entailed considerable delay and difficulty.

It was indicated that approximately 125 employees ordinarily have access to the portion of the plant in which the gear box in question is located and, further, that such tools as steel chisels and metal rivets could be secured by any employee from various tool boxes in the plant with comparative ease.

It was also indicated that upon another recent occasion apparent sabotage attempts were undertaken in this plant, inasmuch as a portion of ten-gauge bundling wire approximately four feet long was discovered with one end

The Honorable
The Secretary of the Treasury

Page 2

securely fastened to the jumper on the stator of a 2,500 horsepower electric motor within the plant, the other end of the wire being attached to the slip ring bus bar on the rotor of such motor. It was indicated that this wire was undoubtedly attached in the above fashion during a period when the motor was not in operation and that the condition was fortunately discovered before the motor was placed in operation, for which reason no actual damage occurred. According to available information, the stator to which one end of the wire was attached normally carries about 6,600 volts of electricity and it was indicated that operation of the motor in the above mentioned condition probably would have resulted in fire of sufficient intensity to cause considerable damage within the plant.

Upon another recent occasion, a 21-inch metal bolt approximately $1\frac{1}{2}$ inches in diameter was allegedly discovered between the teeth of a small pinion gear designed to mesh with a large drive gear within the Ohio Works of the above mentioned corporation, located in Youngstown, Ohio. This bolt was allegedly discovered prior to commencement of operations by the early morning shift, for which reason no appreciable amount of damage occurred, although it has been indicated that fortunate discovery undoubtedly prevented serious injury.

Information has been furnished to the effect that extensive efforts on the part of the company to ascertain the identity of the individual or individuals responsible for the above occurrences have proved entirely unavailing. It is stated that the company in question has not experienced any recent labor difficulties, the opinion having been voiced that these occurrences did not result from labor disorders.

Both of the above mentioned plants upon some occasions are engaged in manufacturing materials for the Army and the Navy, although the above described occurrences did not entail or threaten actual injury to or destruction of any Government property or property being manufactured for the War or Navy Departments.

The Honorable
The Secretary of the Treasury

Page 3

These data are also being furnished to Brigadier General Sherman Miles, Assistant Chief of Staff, G-2, War Department, and to Rear Admiral Walter S. Anderson, Director, Naval Intelligence, for their information.

Sincerely yours,

J. E. Hoover
John Edgar Hoover
Director

General Bureau of Investigation
United States Department of Justice
Washington, D. C.

PERSONAL AND
CONFIDENTIAL

May 21, 1940

The Honorable
The Secretary of the Treasury
Washington, D. C.

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Information has been received from an official of the above corporation, which is, itself, a subsidiary of the United States Steel Corporation, to the effect that recently apparent attempts were made to deliberately injure the gears in one of the mills in the McDonald Works of this company at McDonald, Ohio, by placing four steel chisels and twelve loose metal rivets in the bottom of the gear box. It was indicated that the gears in question are used to operate a skid table, which is approximately ninety feet long and twelve inches wide, and this skid table serves as a conveyor in moving steel to the furnaces located inside the plant. It was indicated that, fortunately, an inspection of the gear box in question revealed the above condition prior to the occurrence of actual injury, whereupon the foreign material was removed and the gear box properly cleaned. The above mentioned official advised that the discovery of this condition in the gear box undoubtedly prevented serious injury to the gears and that the replacement thereof would have entailed considerable delay and difficulty.

It was indicated that approximately 125 employees ordinarily have access to the portion of the plant in which the gear box in question is located and, further, that such tools as steel chisels and metal rivets could be secured by any employee from various tool boxes in the plant with comparative ease.

It was also indicated that upon another recent occasion apparent sabotage attempts were undertaken in this plant, inasmuch as a portion of two-gauge bundling wire approximately four feet long was discovered with one end

The Honorable
The Secretary of the Treasury

Page 1

securely fastened to the jumper on the stator of a 2,500 horse-power electric motor within the plant, the other end of the wire being attached to the slip ring bus bar on the rotor of such motor. It was indicated that this wire was undoubtedly attached in the above fashion during a period when the motor was not in operation and that the condition was fortunately discovered before the motor was placed in operation, for which reason no actual damage occurred. According to available information, the stator to which one end of the wire was attached normally carries about 6,600 volts of electricity and it was indicated that operation of the motor in the above mentioned condition probably would have resulted in fire of sufficient intensity to cause considerable damage within the plant.

Upon another recent occasion, a 21-inch metal bolt approximately 1 1/2 inches in diameter was allegedly discovered between the teeth of a small pinion gear designed to mesh with a large drive gear within the Chic Works of the above mentioned corporation, located in Youngstown, Ohio. This bolt was allegedly discovered prior to commencement of operations by the early morning shift, for which reason no appreciable amount of damage occurred, although it has been indicated that fortunate discovery undoubtedly prevented serious injury.

Information has been furnished to the effect that extensive efforts on the part of the company to ascertain the identity of the individual or individuals responsible for the above occurrences have proved entirely unavailing. It is stated that the company in question has not experienced any recent labor difficulties, the opinion having been voiced that these occurrences did not result from labor disorders.

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**The Honorable
The Secretary of the Treasury**

Page 3

**These data are also being furnished to Brigadier
General Sherman Miles, Assistant Chief of Staff, G-2, War
Department, and to Rear Admiral Walter S. Anderson, Director,
Naval Intelligence, for their information.**

Sincerely yours,

**John Edgar Hoover
Director**

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

May 21, 1940

Personal and
Confidential

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Relative to your letter of May 14, 1940, referring to information concerning Max Rozan and Henry Unschuld, I have turned over to a representative of the Secret Service Division of your Department a complete summary memorandum upon Unschuld together with all information contained in the Bureau's files relative to these individuals.

Sincerely yours,

J. Edgar Hoover

TREASURY

12252

AC

PLAIN

266

Tokyo via Shanghai and N. R.

Dated May 21, 1940

Rec'd 6:36 p.m., 23rd.

Secretary of State

Washington

ATTACHE COMMERCE.

74, May twenty-first.

During past week there has been growing realization in Japanese business circles that recent European developments may have far-reaching and unfavorable influences on nations foreign trade, and economy as result of inevitable strengthening of import and export controls by neutral as well as belligerent nations. Indications point to probable necessity of revising current materials mobilization plan to meet situation, since plan primarily concerned with securing adequate supplies for military replenishment and industrial productivity expansion schemes in Japan and other yen bloc areas. According statement Finance Minister May thirteenth there is little likelihood that barter arrangement with sterling bloc would operate due fact Japan requires war materials rather than general merchandise. Officials have also emphasized necessity making satisfactory arrangements for importation

vital

JT -2- #74, May 21 from Tokyo

vital materials under present conditions although little hope entertained that Europeans supplies will be in position make further shipment due intensity hostilities. Stock market operations of past week have been characterized by cautiousness due continued uncertainty regarding status future trade relations with Netherlands Indies. Apprehension prevailing regarding future supplies imported raw materials reacted unfavorably on industrial share quotations and prices averaged approximately decline one point during week. Yen sterling rates fluctuated between one shilling five and one eighth pence and one five and thirteen sixteenths. Yen dollars rates unchanged. Due fact seventy per cent income from Japanese deep sea shipping routes received in sterling, recent slump sterling reportedly causing concern in local shipping circles and there has been some agitation in favor quoting freight rates in dollars. Press reports state all shipping companies will join movement if exchange rates fall to one shilling sixpence. In further effort support value Japanese military notes circulating in China, Central China liaison office of China affairs board plans introduce definite measures including restriction of bank loans of military notes and extension scope existing commodities exchanges, through which goods obtained for military notes,

to

-3- #74, May 21 from Tokyo

to include control of commodity distribution. Block five hundred million China incident bonds floated May fifteenth of which two hundred million taken by deposits bureau and balance by Bank Japan. Bank Japan's note circulation May eighteenth reported at three one three naught million, decline six four million past week. Loans fell by thirteen million to four nine three point eight million. Recent firmness money market reportedly responsible for difficulty which South Manchuria railway experiencing in debenture flotations with result that for first time recent years concern forced seek financial aid for banking institutions and negotiations reportedly under way with industrial bank for thirty million. Further sharp expansion bank loans noted during April although net increase total loans which amounted two five four seven five eight thousand over previous months was slightly below increase in deposits which totaled two six two two six one thousand. Total outstanding loans all banks except Bank Japan amounted one one eight two one one five eight thousand end April, increase two nine four five five naught three thousand over comparable. Aggregate deposits same date reached one five nine three seven eight five nine thousand, increase three four four five five seven naught thousand over comparable. Banks security holdings dropped by nine naught five three thousand during April to eight

-4- #74, May 21 from Tokyo

eight seven six four naught eight eight thousand but increased one four four five four naught three over consamper. April bill clearings all Japan totaled four two four three five three one valued one zero seven two eight five seven zero thousand yen, decline one five per cent volume but increase one point nine per cent value compared previous month period compared consamper, April clearings registered seven point three per cent volume and four six point naught per cent value increase. Failure bill clearings show usual seasonal decline value following fiscal year end settlements March reportedly attracting attention financial circles as further indication inflationary trend. Total clearings first four months reached one six five seven eight thousand valued at four zero seven four zero million yen, increase eight point one per cent volume forty point eight per cent value over consamper. Bank Japan's index Tokyo retail prices May fifteenth reported at two six two point seven, advance one point three per cent during month. Of hundred items surveyed eight increased nine declined balance unchanged. Foodstuffs advanced one point one per cent clothing one point nine per cent other one point six per cent fuels unchanged. Bank Japan's Tokyo wholesale index April reported three one three point nine, advance point six percent over previous month. Government reportedly

-5- #74, May 21 from Tokyo

portedly intends revoke Article thirty-one of national general mobilization law which authorizes officials to inspect commodity stocks held by firms or private individuals. Move prompted by desire for accurate information regarding stocks important commodities withheld from market as unofficial military survey principal cities has indicated evidences of hoarding. Ministry Commerce and Industry reportedly considering monetary levy on warehouses textile export goods to stimulate shipments. Plan under consideration provides for taxation, yarn stores over two months, finished cloth over three months and plain cloth over five months. Considerable opposition developing from sugar interests and large consumers to Commerce Ministry's plan for sugar rationing from July first on grounds that proposal to introduce system first in large centers and eventually to agrarian areas will further intensify prevailing shortages in labor areas. Sugar interests are urging Government to adopt ration plan drafted by Council for cooperation in central price control which provides for synchronous enforcement throughout nation and individual quota of point six five pounds months instead of point seven eight pounds. Due difficulty anticipated in securing adequate oil supplies view European situation Railways Ministry has ordered further cut gasoline quotas from June first. Taxi allotment

-6- #74, May 21, from Tokyo

ment reduced from two and one half gallons to two gallons daily. Reported Raw Cotton Dealers Association has decided cancel prohibition on sale raw cotton to cotton mills immediately. Following deliberations on Central Raw Silk Association plan for enforcement raw silk stabilization plan, the Japan Raw Silk Reelers Federation agreed to proposals outlined in last weekly cable and is generally anticipated that formal approval agricultural authorities will shortly be forthcoming and measures made effective from July first. Official estimate of spring silkworm brushing at five six two two nine thousand grams, decline four point two per cent below consumer and lowest yield recent years. Press reports attribute decreased production to lower mulberry leaf production originated from labor shortage and unfavorable weather conditions. Compulsory rice buying scheduled for introduction Aichi prefecture from May twenty-fifth. Foreign trade second ten days read thousands exports one naught nine two nine seven, imports nine naught six naught five nine. Hokkaido spruce exporters reportedly flooded with orders from world markets as result hostilities in Scandinavian countries and expansion milling capacity underway to handle increased business. Government also reportedly assisting exporters of veneer chests by supplying metal strips, nails, and lumber required.

First

-7- #74, May 21, from Tokyo

First quarter shook shipments all types totaled three two six three thousand sets, increase approximately sixty per cent over consamer. Industrial share prices eighteenth average ninety four point ninety six index ninety seven point thirty two weeks average ninety five point forty two index ninety seven point seventy nine.
(END) Signed Smith.

INFORM COMMERCE.

GREW

LMS

RWR

GRAY

PARIS

Dated May 21, 1940

Rec'd 4:55 a.m.

Secretary of State,
Washington.

RUSH

782, May 21, 10 a.m.

FOR THE TREASURY

The Bank of France confirms that the head of the Banque De Belgique is now located in Paris and may be addressed in care of the Bank of France, Paris.

BULLITT

REP

HSM

GRAY

Milan

Dated May 21, 1940

Rec'd 1:44 p. m.

Secretary of State,
Washington.

36, May 21, 5 p. m.

FOR TREASURY.

Today's prices as follows: 189; 322; 502; not listed;
959; 189.75; 15100; 58.75; 213.50. Volume 113,925.

Active selling drove practically all quotations to
new low levels for the year apparently due to pessimism
over political outlook.

SHOLES

WWC

CK

GRAY

Berlin

Dated May 21, 1940

Rec'd 9:45 p.m.

Secretary of State

Washington

1447, May 21, 5 p.m.

My No. 1232 of May 18, noon.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION.

The launching of offensive military operations during the second week of May had no striking repercussion on the Reichsbank to judge from its statement for May 15. Its total investments in commercial and Government bills, securities and collateral loans and its note circulation declined as is usual in the first half of the month although the decline was small in comparison to the large increase in these items during the fourth week of April. Total investments on May 15 stood at 12546 million marks as compared with 128003 million marks on April 30. Offsetting in part however the decrease in investments of the Reichsbank was an expansion in the item miscellaneous assets which contrary to the usual movement during the first half of the month

rose

-2-#1447, May 21, 5 p.m. from Berlin.

rose from 1927 million marks on April 30 to 2087 million marks on May 15 presumably as a result of an increase in direct Government borrowing from the Reichsbank.

Note circulation at the mid month was 12105 million marks as contrasted with 12479 million marks on April 30 and 11737 million marks on April 15. Note circulation would undoubtedly have shown a steep rise had it not been for the fact that the pay and expenses of troops moving into Belgium, Holland and France were being paid by script issued by the Reichskreditkasse (see my telegram No.1443 of May 21, 2 p.m.) which is authorized to loan the Reich (I.E. Issue script) up to 3 billion marks for its expenses in Norway Denmark, Holland, Belgium, Luxemburg and occupied France. Offsetting in part the decrease in note circulation was an increase of sight deposits from 1714 million marks on April 30 to a total of 1925 million marks on May 15 which is the highest figure for sight deposits since December 31 (2018 million marks) a date on which under normal circumstances both sight deposits and note circulation reach the highest point of the year.

KIRK

EMB

HSM

PLAIN

London

Dated May 21, 1940

Rec'd 2:14 p. m.

Secretary of State,
Washington.

1304, May 21, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The British security markets closed unaffected by today's war developments because the British censor held up the news until after that time. In the crucial immediacy of this moment economic considerations are irrelevant, much less finance which in any case in war is merely camouflage requisition.

KENNEDY

AIC

May 21, 1940

My dear Mr. Hoover:

I acknowledge, with thanks, your letter of May 18th with respect to recent activities of the Communist Party. I appreciate your offer to furnish me with additional information when it is available and shall be most interested in having it.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

May 21, 1940

My dear Mr. Hoover:

I acknowledge, with thanks, your letter of May 18th with respect to recent activities of the Communist Party. I appreciate your offer to furnish me with additional information when it is available and shall be most interested in having it.

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(signed) H. Morgenthau, Jr.

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Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

May 21, 1940

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Mr. J. Edgar Hoover, Director
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

May 18, 1940

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Information has been received from a confidential source by one of the Field Divisions of this Bureau concerning the Communist Party Convention held at San Francisco on May 12th.

William Schneiderman, Secretary for the 13th District, began his address with the following "Not a man, not a cent, not a gun for imperialist and military preparations." He further indicated that the Communist Party and the C.I.O. will combine to carry the Party program out effectively immediately, concentrating their activities on delaying production in aircraft factories, chemical plants and shipyards. Orders will be given to the section leaders who will follow their own initiative in delaying production.

After the President's address before Congress, a local Party official advised propaganda against the Government would be intensified. William Schneiderman made a statement on May 17, 1940, that activities would be redoubled against the Douglas, Vultee and Lockheed aircraft manu-

- 2 -

facturers, as "President Roosevelt is not going to get 50,000 aircraft a year while workers are starving in America."

Upon receipt of additional information concerning the above, you will be immediately advised.

Sincerely yours,

J. Edgar Hoover

OFFICIAL

DR. ROBERT M. HITCHINS
PRESIDENT UNIVERSITY OF CHICAGO
CHICAGO ILLINOIS

MAY 21, 1940

IN VIEW OF SERIOUS SITUATION ABROAD WOULD GREATLY
APPRECIATE IF YOU WOULD AGAIN MAKE DR JACOB VINERS
SERVICES AVAILABLE TO THE TREASURY STOP DR VINER
IS RETURNING TO CHICAGO TONIGHT AND WILL GET IN
TOUCH WITH YOU DIRECTLY KIND REGARDS

HENRY MORGENTHAU JR

NC

GRAY

PARIS

Dated May 21, 1940

Rec'd 4:26 p.m.

Secretary of State

Washington

796, May 21, 7 p.m.

SECTION ONE.

FOR THE TREASURY.

The Bank of France has instructed the banks to limit the amount of Belgian banknotes which may be converted into French francs to 2000 Belgian francs per individual per fortnight. Heretofore, the limit for an individual was the same as that for a family namely 5000 Belgian francs per fortnight, please see Embassy's telegram No. 755 May 19, 6 p.m. This new limitation entered into effect this morning. Barrett of the Guaranty Trust who conveyed this information to a member of my staff last evening also said that the accounting section of the Foreign Exchange office had been moved to Vichy yesterday. He believed that other sections of the Foreign Exchange office would remain in Paris for the time being.

END OF SECTION ONE.

BULLITT

LMS

JT

GRAY

PARIS

Dated May 21, 1940

Rec'd 3:55 p.m.

Secretary of State,
Washington.

796, May 21, 7 p.m. (SECTION TWO)

Today's Journal Officiel publishes three decrees designed to increase the Government's gold and foreign exchange resources. The first stipulates that the American or Canadian dollar bank notes owned by any French national who is a resident of France or any French "moral person" (i.e. corporation, partnership, company, et cetera) or the French branch of any foreign "moral person" must either be turned over to the foreign exchange office before June 30, 1940 or deposited before that date to the credit of a dollar account carried on the books of a bank in France. The Minister of Finance will designate the banks which may hold accounts of this type.

BULLITT

OSB

EH

GRAY

Paris

Dated May 21, 1940

Rec'd 4:38 p.m.

Secretary of State,
Washington.

796, May 21, 7 p.m. (SECTION THREE)

Foreign nationals who are residents of France must also deposit in such accounts the American or Canadian dollar bank notes which they hold in France. As from June 30, 1940 no French or foreign resident of France and no French "moral person" or the French branch of any foreign "moral person" may hold American or Canadian bank notes without special authorization of the Minister of Finance.

The second decree provides that all French "moral person" and all French "moral person" whose principal field of activity is in France or French possessions must turn over to the Bank of France before June 30, 1940 all gold in bullion bars or coins owned by them in France or abroad.

KLP

BULLITT

MP

GRAY

Paris

Dated May 21, 1940

Rec'd 4:35 p. m.

Secretary of State,
Washington

796, May 21, 7 p. m. (SECTION FOUR)

The third decree stipulated that all American or Canadian securities held in France or abroad by any French national who is a resident of France or any French "moral person" or the French branch of any foreign "moral person" must be deposited with certain banks to be designated by the Minister of Finance. Similarly the American or Canadian dollar exchange held abroad "in accounts or in any other form" by the individuals or entities mentioned above must be transferred to the credit of an account in their name carried by one of the banks to be designated by the Minister of Finance.

BULLITT

KLP

EH

GRAY

Paris

Dated May 21, 1940

Rec'd 5:58 p.m.

Secretary of State,
Washington.

796, May 21, 7 p.m. (SECTION FIVE)

The Journal Officiel also publishes a series of decrees providing that the "property rights and interests" in France of French possessions belonging to Dutch, Luxemburg or Norwegian nationals must be declared and authorizes the Government to sequestrate such holdings. The above provisions are only applicable to nationals of these countries who are now residing in occupied or enemy territory. It will be recalled that similar measures were introduced in regard to the possessions of Belgian, Danish and Czechoslovak nationals (please see Embassy's telegram number 542, April 29, 6 p.m.)

In a notice to intermediaries appearing today the Foreign Exchange Office announces that certain 'approved intermediaries' have been authorized to ship abroad, previously referring the matter to the Foreign Exchange Office 'Class D foreign securities' (i.e. securities issued in 'hard' currency countries (in order that such securities
may be

-2- 796, May 21, 7 p.m. (SECTION FIVE) from Paris.

may be sold for 'Class A foreign currencies' (i.e. 'hard' foreign currencies). The proceeds from such sales must be turned over to the Foreign Exchange Office within two months.

KLP

BULLITT

MP

GRAY

Paris

Dated May 21, 1940

Rec'd 6:52 p. m.

Secretary of State,
Washington

796, May 21, 7 p. m. (SECTION SIX)

A communique of the Ministry of Finance published in today's press states that all refugees from Belgium Luxemburg and the Netherlands must bring to "an approved intermediary of the Foreign Exchange Office" within eight days following their entry into France all stocks and bonds, securities and coupons and means of payment "which they carried with them on entering France". "Means of payment" are defined as "French, colonial or foreign coins and bank notes, checks, letters of credit, bills, drafts and other sight or short term credits of the same type expressed in any currency whatsoever (with the exception of coupons and government securities and other negotiable securities of a fixed maturity)." The approved intermediary will return these financial holdings to the owner after having drawn up a list of them and certified to its correctness. One copy of this list will be given to the owner and must be shown any time foreign "means of payment

MP -2- #796, May 21, 7 p. m., from Paris

payment" are sold for French francs.

(END OF MESSAGE)

BULLITT

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 21, 1940, 5 p.m.

NO.: 791

FOR THE SECRETARY AND THE SECRETARY OF THE TREASURY.

The Belgian Finance Minister, Camille Gutt, and George S. Janssens, Governor of the National Bank of Belgium called on me this morning to ascertain whether Cudahy had received instructions regarding the authentication of security destruction certificates similar to those contained in the Department's telegram 404, May 18, 5 p.m. (Rueff had discussed the matter with them yesterday).

I told them that I did not know if such instructions had been sent to the Brussels Embassy. They then asked if we would repeat the text to Cudahy. I said that we were unable to communicate with Brussels and added that the Germans undoubtedly would punish severely any Belgian who attempted to have a certificate of this type authenticated by our consular officers. They agreed that it was probably too late to take any action in the matter and said that the only possibility open was for Belgians in occupied areas to "perforate" the American securities in their possession.

Strictly Confidential

-2-

STRICTLY CONFIDENTIAL

One of my staff was informed by Gutt that in his opinion there had been a removal to France, prior to German occupation of Belgium, of the majority of American securities held by the three main banks of Belgium. He was also informed by Gutt that before it was invaded Belgium had sent its total reserve of gold to France. It was the feeling of both Gutt and Janssens that around a third of the Netherlands reserve of gold had been left in the Netherlands. Neither Janssens nor Gutt knew the whereabouts of the stabilization-fund gold of the Netherlands.

The Embassy was informed by Mr. Janssens that he would furnish it with a copy of a letter just sent by him to the Federal Reserve Bank of New York with respect to the status of the National Bank of Belgium at the present time.

BULLITT

EA:MEG

May 21, 1940

5:55 p.m.

(HM, Jr telephoned the following from his home.)

I just talked to Jerome Frank and he said he wanted to close the New York Stock Exchange tomorrow and so did Mr. Eicher, but the other two members did not. I told him as of tonight my recommendation was that we do not close, that we keep it open. He said, "What about it if the war news was worse tomorrow morning?" I said I would be at my office tomorrow at 8:30 and to talk to me then. He said the Federal Reserve Board recommended to keep it open tomorrow.

HSM

GRAY

Berlin

Dated May 21, 1940

Rec'd 10:10 p. m.

Secretary of State,
Washington.

1443, May 21, 2 p. m.

My 1308, May 12, 9 a. m.

FOR TREASURY FROM HEATH AND FOR THE DEPARTMENT'S
INFORMATION.

By two decrees dated May 15 the scope of activity of the Reichskreditkasse established on May 3 to issue German mark scrip for the pay and expenses of the German forces of occupation in Norway and Denmark (see my telegram under reference) has been extended not only to cover issuance of scrip for military and administrative expenses in Holland, Belgium, Luxemburg and occupied France, but apparently also to assume central banking functions since it is empowered "to regulate monetary payments and credit transactions" in these areas. In addition it is authorized to engage in such ordinary banking operations as: (one) purchase and sale of bills and checks, (two) loans on the security of commercial bills, securities and merchandise, (three) loans to public institutions, (four) acceptance of non-interest

ham -2- No. 1443, May 21, 2 p. m., from Berlin

non-interest bearing deposits and performance of monetary transfers, (five) acceptance of objects of value for safe keeping and administration and finally, (six) carrying out "banking commission transactions of all kinds especially collection of bills (drafts) and other paper".

The functions of the new Kreditkassen as expanded in the decree of May 15 approximate those accorded the Reichskreditkassen set up in occupied Poland but which were later supplanted by a new Polish bank of issue in General Government Poland (see my telegram No. 1512, September 30, 1939, noon, and No. 80, January 11, 9 a.m.) However the Polish Reichskreditkasse was not authorized to buy and sell or loan against commercial bills, to accept valuable objects for safe keeping and administration nor to engage in banking commission transactions.

The Reichskreditkasse for Poland was authorized to loan the Reich up to 1,000,000,000 marks and the present Reichskreditkasse as originally constituted for Denmark and Norway 500,000,000 marks. The new decree authorizes the institution to increase its loan to the Reich to a total of 3,000,000,000 marks. In other words the institution can pay out to the military and administrative authorities 3,000,000,000 marks in scrip. In this connection it is to be noted that the loans of the Reichskreditkasse are not included in the monthly statement of the Reich's debt.

In

hsm -3- No. 1443, May 21, 2 p. m., from Berlin

In Poland and in Norway and Denmark Reichskreditkassen scrip was not issued in denominations of less than 50 pfennigs. Now however 5 and 10 pfennigs coins will be issued.

To date no branches of the Reichskreditkasse have been established in Norway and Denmark the scrip being issued directly from the institution's headquarters in Berlin. Branches are now being set up however in Arnheim, Maastricht, Groningen, Herzog, Enbusch and Utrecht in Holland and in the city of Luxemburg. The rates of exchange for the new mark scrip are: 1 Dutch guilder equals 1.50 marks; 1 Belgian franc 10 pfennigs; 1 Luxemburg franc 10 pfennigs; 1 French franc 5 pfennigs. These rates of exchange contrast with the following Berlin official rates on May 9: 1 Dutch guilder equals 1.327 marks; 1 Belgian franc 8.36 pfennigs; 1 Luxemburg franc 10.45 pfennigs; 1 French franc 5.605 pfennigs (internal clearing rate).

KIRK

EMB



DEPARTMENT OF STATE
WASHINGTON

STRICTLY CONFIDENTIAL

May 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for an indication of the reply thereto a memorandum regarding certain gold holdings of the Vatican.

Enclosure:

Memorandum.

MEMORANDUM

299

STRICTLY CONFIDENTIAL

Mr. Myron Taylor has reported to the President that the Vatican State would like to ship to New York for deposit and safekeeping with New York bankers a sizeable amount of gold bars which it does not wish to sell. The Vatican asks of the United States Government such assurance as other states with deposits in America are granted that the gold will be intact and free. The Vatican very much desires to avoid any publicity on the matter.

Mr. Taylor urgently requests a reply to be in his hands at Rome Thursday morning, the twenty-third.

May 21, 1940

Dear Governor:

I have pleasure in transmitting herewith a copy of a third person note from the Department of State, dated May 21, 1940 and initialed by Assistant Secretary of State Adolf A. Berle. Attached to this copy of the note you will find a copy of a letter addressed under date of May 21, 1940 by the Belgian Ambassador to the Secretary of State, stating that the Banque Nationale de Belgique has transferred its administrative seat to Paris, and is operating there legally under the provisions of the Belgian "Arrete Loi" of February 2, 1940. There is also enclosed a copy of the aforesaid law, as received from the Department of State.

Under separate cover I am forwarding you a copy of cablegram #752, dated 10 a.m. May 21, 1940, in which the American Ambassador at Paris reports upon the Banque Nationale de Belgique.

Sincerely yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury

Enclosures.

Mr. George L. Harrison,
President, Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

(init.) W. W. G.
CG

100:10035.21.4)

OPY

in reply refer to
Re

DEPARTMENT OF STATE
Washington

May 21, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and in compliance with the request made of an officer of the State Department over the telephone by Mr. H. Marie Cochrane the Belgian Ambassador has, in a note of May 21, 1940, informed me that the Banque Nationale de Belgique has transferred its administrative seat to Paris and is operating there legally under the provisions of Belgian law. A copy of this note together with a copy of the enclosure thereto is enclosed herewith.

Enclosure:

From Belgian Ambassador
May 21, 1940

(Initialed) AAB

OFF

Washington, May 21st., 1940.

302

D. 5157

No. 1721

Sir,

I have the honor to inform Your Excellency that the "Banque Nationale de Belgique" has transferred its administrative seat to Paris, and is operating there legally under the provisions of the Belgian "Arrete Loi" of February 2nd. 1940, of which copy is enclosed herewith.

I avail myself, Sir, of this occasion, to renew to Your Excellency the assurances of my highest consideration.

The Honorable
The Secretary of State
Department of State
Washington.

(Copy)

No. 57 - 2 fevrier 1940 - ARRETE-LOI relatif a l'administration, en temps de guerre, des societes commerciales en a forme commerciale.

O P I

RAPPORT DU ROI

Sire,

Le projet d'arrete-loi que le gouvernement a l'honneur de proposer a la signature du Roi a pour objet d'assurer le fonctionnement des societes commerciales.

Les dispositions qu'il contient ont notamment pour but de faciliter, en cas de besoin, le transfert du siege social. Elles reglent, pour ce cas, les conditions de la convocation des conseils d'administration, de gerance, de liquidation ou de controle et celle des assemblees generales.

Nous avons l'honneur d'etre,

Sire,

de Votre Majeste,
les tres respectueux
et tres fideles serviteurs,

(Suivent les signatures de tous les Ministres)

LEOPOLD III, Roi des Belges.

A tous, presents et a venir, SALUT.

Vu l'article 1^{er}, 3^o, de la loi du 7 Septembre 1939,
donnant au Roi des pouvoirs extraordinaires:

Considerant qu'il est urgent de pourvoir aux necessites
de l'administration des societes, en temps de guerre;

Sur la proposition de Nos Ministres, qui en ont delibere
en Conseil,

Nous avons arrete et arretons:

/...

Article 1^{er}. Le siege social de toutes societes belges, commerciales ou a forme commerciale, peut, sans que la societe perde sa nationalite, etre transfere provisoirement en tout autre endroit que celui fixe dans l'acte social, meme a l'etranger, par simple decision de l'organe charge de l'administration de la societe, conseil d'administration, gerant ou conseil de gerants.

La decision doit etre declaree au registre du commerce et etre publiee, aussitot que possible, aux annexes du Moniteur belge.

Art. 2. En cas de necessite, il peut etre deroge a toutes les dispositions determinant les modalites de la convocation du conseil d'administration, du conseil des gerants, du college des liquidateurs et du college des commissaires, ainsi que le lieu de la reunion.

Art. 3. Le Roi peut, en cas de necessite, deroger aux dispositions legales ou statutaires concernant les modalites de la convocation de l'assemblee generale et le lieu de sa reunion.

Art. 4. Dans le cas ou, en raison des circonstances, l'assemblee des associes ou des actionnaires ne peut etre tenue a l'epoque fixe par les statuts, les mandats des administrateurs, des gerants et des commissaires venus a expiration sont proroges de plein droit jusqu'au moment ou cette assemblee pourra etre tenue.

Art. 5. L'assemblee generale peut, a tout moment, deleguer ses pouvoirs au conseil d'administration ou aux gerants, sauf en ce qui concerne les modifications aux statuts.

Si l'assemblee ne peut etre convoquee en raison de circonstances de force majeure, le conseil peut exercer d'office les pouvoirs prevus a l'alinéa 1^{er} du present article.

/...

- 3 -

Le tout sous réserve de la décharge à donner par l'assemblée générale aux administrateurs, gérants et commissaires, dès que les circonstances lui permettront de se réunir normalement.

Art. 6. Le conseil d'administration, les gérants et le collège des liquidateurs peuvent déléguer pour le cas d'évacuation ou d'occupation d'une partie du territoire, à une ou plusieurs personnes choisies ou non dans leur sein, des pouvoirs dépassant la gestion journalière des affaires de la société.

Art. 7. Les pouvoirs de l'assemblée générale, des administrateurs etc, en général de tous ceux qui, à un titre quelconque, ont le droit de disposer des biens ou des droits de la société sont suspendus en tant que cette assemblée ne réunit ou que ces personnes résident dans une partie du territoire occupée par une puissance ennemie et qu'il s'agit de biens ou de droits se trouvant en dehors de cette partie du territoire.

Art. 8. Les sociétés dont le terme expire au temps de guerre sont prorogées de plein droit pour une durée prenant fin six mois après que le présent arrêté-loi aura cessé d'être en vigueur.

Toutefois, si avant l'expiration du délai ainsi prorogé, l'assemblée générale décide une nouvelle prorogation du terme social, celle-ci ne peut dépasser trente ans à compter du jour où la prorogation prévue par le présent article aura pris cours.

- 4 -

Les droits dus a l'occasion de la prerogative sont assés sur les elements imposables existant lors de la decision de l'assemblee et perçus ainsi qu'il est dit aux articles 8 a 11 de l'arrete royal du 22 aout 1934, et, a partir du 1^{er} fevrier 1940, a l'article 119 de l'arrete royal No. 64 du 30 novembre 1939.

Art. 9. Les dispositions du present arrete-loi entrent en vigueur le jour de sa publication et le resteront jusqu'au jour fixe par arrete royal pour la remise de l'armee sur pied de paix.

Notre Ministre de la Justice est charge de l'execution du present arrete

Donne a Bruxelles, le 2 fevrier 1940.

LEOPOLD

(Suivent les signatures de tous les Ministres.)

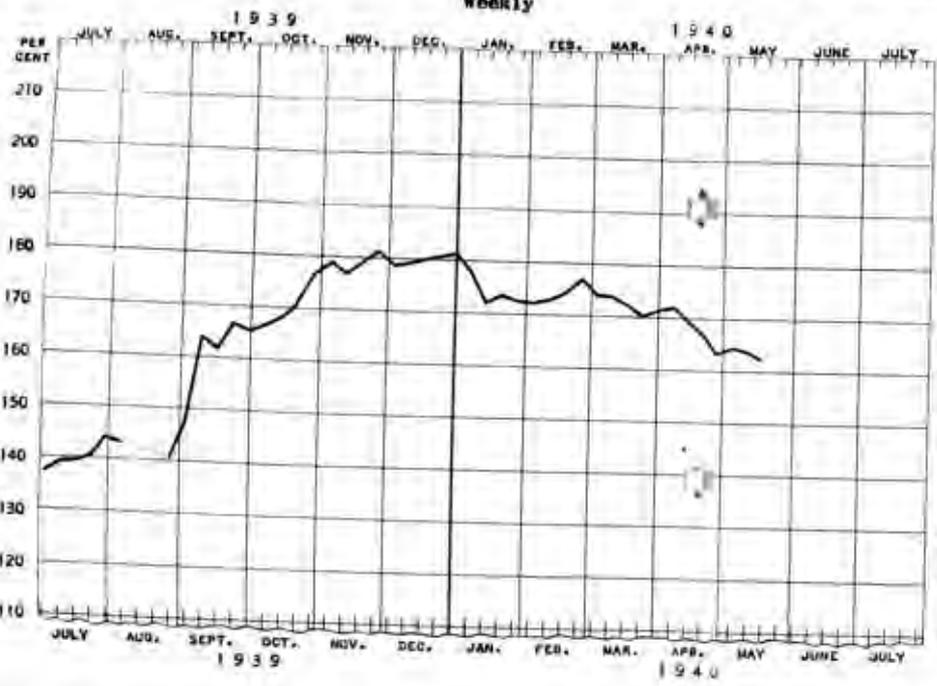
(Publie par le Moniteur belge du 7 fevrier 1940, No. 38.)

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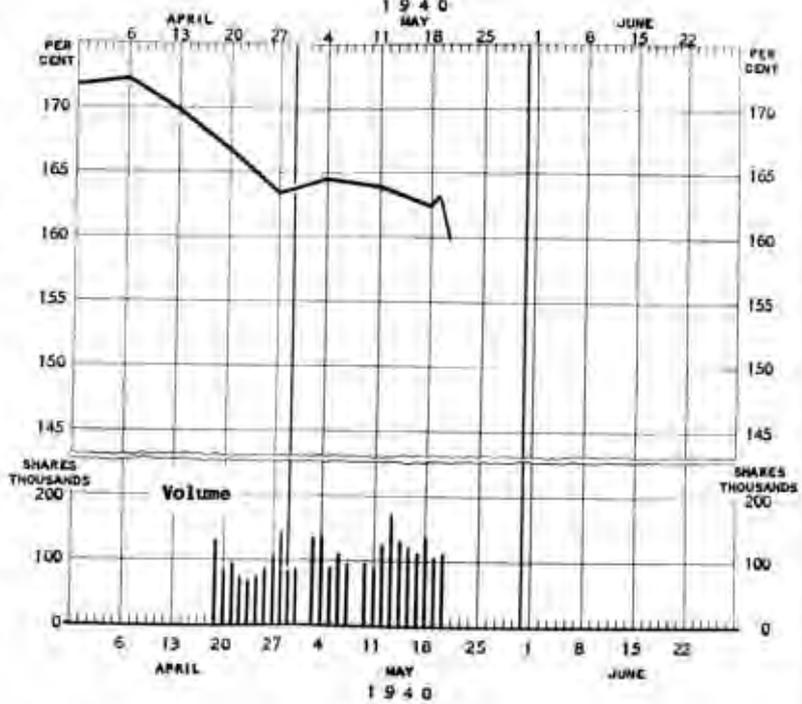
ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily*



Office of the Secretary of the Treasury
Division of Research and Statistics

*DAILY FOR LATEST WEEK ONLY



TREASURY DEPARTMENT
WASHINGTON

May 21, 1940.

MEMORANDUM FOR THE SECRETARY:

The S/S PRUSA, scheduled to sail from New York May 22d, is carrying 3,866 aluminum ingots for Lausanne, Switzerland.

Bail Harris:

TO:

5-21-40

The Secretary

The AP is asking for information on your discussions with John Biggers, speculating on the possibility that he may be called in to help organize industrial facilities for eviction. Do you wish to comment? @

From: MR. SCHWARZ

GROUP MEETING

May 21, 1940
2:30 p.m.

Present: Mr. Sullivan
Mr. McReynolds
Mr. Graves
Mr. Gaston
Mr. Haas
Mr. Schwarz
Mr. Young
Mr. Foley
Mrs Klotz

H.M.Jr: You (Young) are going to get those things back to me, aren't you?

Young: Yes, sir.

H.M.Jr: Now, you (Sullivan) spoke to Mrs. Klotz about John Biggers, or did somebody talk to you about John Biggers?

Sullivan: Lauch Currie talked to me and wanted to know if a man had been selected and I said I didn't know, I thought it was being negotiated and he said, "Well, the President asked me to see Floyd Odlum at 4:00 and I hope nothing definite has been done," and I said, "I don't know."

H.M.Jr: Floyd Odlum for me?

Sullivan: No, the President asked him to see Odlum and get a line on it.

H.M.Jr: Is it all right for me to call up Lauchlin?

Sullivan: Certainly.

H.M.Jr: What else are you worrying about? Get your legislation all in shape?

Sullivan: No, sir. There was a meeting this morning at the White House at 12:30 in regard to the new Navy bill, which I think is extremely bad. It provides for the suspension of the Walsh-Healy, Wages and Hours, and Civil Service and is retroactive on the Navy supervision of contracts to last September. Here is a memo on it.

H.M.Jr: All right.

(Telephone conversation with Lauchlin Currie follows.)

- 2 -

H.M.Jr: Personally, I would rather have his wife.

Sullivan: I will see what I can do.

H.M.Jr: Is Jacqueline her name?

Gaston: Jacqueline Cochran.

H.M.Jr: Sure, we need an aviator around here. What do I do about this?

Sullivan: That is a memorandum to the President telling him how little you think of that Navy bill.

H.M.Jr: It is unnecessary, undesirable and definitely objectionable. Otherwise, it is a swell bill.

Sullivan: That is right. So far as the Bureau and Treasury are concerned, there is no objection to the proposal of the British owning their own explosive plants here. I think the State Department definitely will object. I have called Mr. Berle and he is out and he is going to call me back.

H.M.Jr: Well, hold on to that, will you?

Klotz: I would like to have a copy of that, because I didn't get it at first.

McR: In due course.

H.M.Jr: All right, can you wait? I am glad you are able to.

Klotz: It is too fast for me. I can't keep up with it all.

H.M.Jr: Say that again and make a note when we get on to powder, we will take it up at that time.

(Telephone conversation with Lauchlin Currie follows.)

May 21, 1940
2:35 p.m.

H.M.Jr: Hello.
Operator: Mr. Currie.
H.M.Jr: Hello.
Lauchlin
Currie: Hello, Mr. Secretary.
H.M.Jr: How are you?
C: Fine, thank you.
H.M.Jr: Lauch, I hear via Mr. Sullivan that you're going to
interview Mr. Floyd Odum.
C: Yes, he's with me now.
H.M.Jr: oh. There isn't some place you could talk to me?
C: Yeah.
H.M.Jr: Could you call me back?
C: I will, yeah.
H.M.Jr: Could you do it now?
C: Yeah.
H.M.Jr: Thank you.
C: All right.

2:37 p.m.

Operator: Go ahead.
H.M.Jr: Hello.
C: Hello, Mr. Secretary.
H.M.Jr: Lauch.....
C: Yeah.

- H.M.Jr: All I wanted to know was the President isn't thinking of taking Mr. Odlum and sending him over here, is he?
- C: No, no. I'm partly -- I'm afraid I'm the guilty one here, Mr. Secretary. I was speaking the other night to the President and mentioned the name of the man I knew quite well whom I thought might have some very good ideas through long association with the industry, and he said, "Why don't you talk to him and see what his ideas are?" So that's all I'm doing, see? And I thought if I picked up anything I'd pass him along to you.
- H.M.Jr: Because he tried to put across this phony deal with Curtiss-Wright, you know, just last month and it fell through.
- B: Yeah. It.....
- H.M.Jr: He's just a speculator.
- C: He's a very able man, Mr. Secretary. I mean, I've had some dealings with.....
- H.M.Jr: Well, lots of speculators are.
- C: Yeah. (Laughs) He's very shrewd, and if I think up any interesting ideas or anything good why.....
- H.M.Jr: Just -- and then I hear you -- you don't like Biggers?
- C: I didn't know anything of him. This is the first I've heard of him.
- H.M.Jr: Oh. Oh.
- C: The.....
- H.M.Jr: Well, anyway, on Odlum I just wanted to make sure that he wasn't being recommended to me, because.....
- C: No, the only thing was I was to see what his ideas were and if there was anything helpful I could pick up because he knows a great deal about the personalities and the setup of the industry, and he may have a slant.....
- H.M.Jr: O. K.

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C:that's helpful. That's all.

H.M.Jr: Thank you.

C: All right, Mr. Secretary.

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- H.M.Jr: Oh gosh, thank heavens we can all laugh. Well, you can send this back to the President for his appointment file. I will put on, "No, No, Nanette!"
- Herbert, how is the world?
- Gaston: They had a successful graduation up there.
- H.M.Jr: Did everything go --
- Gaston: Everything went through all right as far as I could see. We had a very beautiful day and very impressive exercises and got back home safely. I am wondering if we might not be called upon for something in connection with this preparedness program. They were planning --
- H.M.Jr: I wish you had a picture to take of Ed Foley. We will get you (Foley) a doll.
- Schwarz: We need a candid camera.
- H.M.Jr: I refuse to be too serious. Don't they have nice big dolls?
- Gaston: Yes, there are several sizes, big and little.
- Klotz: Life-size.
- Gaston: They were thinking about taking in a hundred boys this fall. I think we ought to crowd them to take in all they can, 120 or 125.
- H.M.Jr: O. K. by me, Mister.
- Gaston: We need more room up there. That reservation isn't big enough. We need more buildings. We have got a training station there at Fort Trumbull that is an absolute disgrace, buildings that go back to before the Civil War and we have got people housed in there as thick as they can stick. I don't know why the thing has waited so long.
- H.M.Jr: All right.
- Gaston: Then maybe we can slip something else by. I

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thought maybe we could take some of these emergency preparedness funds for some construction up there. It would be very valuable for that purpose.

H.M.Jr: O. K.

John?

Sullivan: The machine tool people are disappointed that they haven't been called down yet. They have got their bags all packed and waiting for a call.

H.M.Jr: Yes, General Brett called and said they need a coordinator on machine tools. Well, we will just have to wait. There is no use calling any more people down until we have got something to talk about.

Sullivan: The Pratt & Whitney attorneys were in this morning to work with Mr. Kades and they had instructions to discuss only one motor, the 300-horsepower Wasp, and I didn't understand that that was the situation and I talked with Wilson and got him in New York and he had the notes of your first telephone call and he said that was his understanding with you at the time and that he wasn't prepared to say whether they would be willing to discuss the other matters or not and I told him I would check with you and call him back.

H.M.Jr: Pratt & Whitney?

Sullivan: That is right.

H.M.Jr: Got a pencil?

Sullivan: Yes, sir.

H.M.Jr: Wasp, R-1340. Wasp, Jr., R-985. Curtiss-Wright Whirlwind, R-975. Those are the ones that the Army and Navy are asking for.

Sullivan: I didn't get the Wasp - the first number.

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H.M.Jr: The Wasp, R-1340 and the Wasp, Jr., R-985 and Curtiss-Wright Whirlwind, R-975.

Gaston: Those are all light motors, 500-horsepower motors.

H.M.Jr: And for your thing, the 1340 is 600-horse, the R-975 is 450 and the R-985 is 400.

Sullivan: He is right, then.

H.M.Jr: Who is right?

Sullivan: Pratt-Whitney, that those are the ones you discussed.

H.M.Jr: These are two separate engines.

Sullivan: Yes, sir. We want the license on 1340 and 975, both.

H.M.Jr: Let me check and be sure. Did I say Pratt-Whitney, 985 and 1340?

Sullivan: That is right.

H.M.Jr: And Wright engine, 975?

Sullivan: Right. I found out there are very definite preferences on a licensee, which is Packard.

H.M.Jr: They want to license Packard?

Sullivan: Yes.

H.M.Jr: We haven't crossed that step yet. Get me the contract first, will you?

Sullivan: Yes, sir. Now, Mr. Smith in the Budget called Mr. Bell yesterday to discuss the reorganization of the Federal Alcohol Administration and said that he had had a memorandum from the President that indicated it should be set up as a separate bureau and then Mr. Bell asked me to call Mr. Smith and I did and told him I didn't think it could legally be done under the law and he was to send a man over to talk about it today.

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- H.M.Jr: Incidentally, if you want the two best experts in the United States on alcohol, they are sitting there (indicating McReynolds and Graves), bar none.
- Sullivan: They have been through it.
- H.M.Jr: I mean in the administration.
- McR: I think it would be terrible if you let that out.
- Sullivan: We were prepared to abolish the filing of --
- H.M.Jr: Listen, on this question of alcohol tax, you will have to do the best you can. I am perfectly serious. These men helped set it up and run it and everything else and with the advice of those two men, anything that the three of you do, I will take.
- Sullivan: They have already approved the reorganization they planned on.
- H.M.Jr: Don't bother me with it, please.
- Sullivan: All right. I just wanted to inform you.
- H.M.Jr: I am not interested.
- Sullivan: Very well. We are planning on eliminating the duplicate tax.
- H.M.Jr: If you want to know how to mark straight whiskey and blended, and all the rest of it, there is really nobody better than these fellows.
- Sullivan: We are planning on eliminating duplicate tax returns and we were going to break it next week at a meeting of the tax commissioners.
- H.M.Jr: What do you mean, duplicate tax returns?
- Sullivan: The extra copy that is filed is not being used as much as heretofore.
- H.M.Jr: All right, break it.

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Sullivan: And we were going to break it next week, but with possible additional features that might be involved --

H.M.Jr: I am not interested.

Sullivan:and the lack of publicity, I think we had better postpone it.

Foley: Eddie Greenbaum has been trying to get us to do that for more than a year. He thinks it is a tax irritant that is needless.

Sullivan: We agree that it should be done, but I think we had better wait another --

H.M.Jr: Sully, it is yours.

Sullivan: Thank you, sir.

H.M.Jr: C. K.

Sullivan: Yes, sir.

H.M.Jr: Got everything you want?

Sullivan: So far.

Young: I have no problems.

Wlotz: He is not going to ask for any.

H.M.Jr: Tell the story on Sullivan, what happened Sunday night. Do you mind?

Sullivan: Not at all.

H.M.Jr: You tell it, Ed.

Sullivan: I thought that was on Foley.

Gaston: You had better get Ed to tell it, then.

Foley: Well, we were - we had supper out at the Secretary's house and these fellows were there

from Pratt-Whitney and Wright, Curtiss-Wright, and the Secretary said, "Now, if you don't mind, gentlemen, I am tired and I start my day very early and I am going to go to bed." John jumped up and said, "I will drive you down, I will drive you down." The Secretary looked at me and he said, "Wait, I want to talk to you and Phil a minute." So John was on the hook then and couldn't get off. So he took them down.

Sullivan: They got off.

Wiley: We were sitting around just gossiping and all of a sudden in the door comes a streak and here was John back again. The Secretary looked up and said, "My gosh, are you back? I thought we had sent you down town." He said, "I just wanted to tell you one thing, just one thing, what I learned taking these fellows down," so after we got out in front of the house afterwards the Secretary said, "You know, Ed, what I am going to do? I am going to go upstairs and I am going to lock my door so that fellow Sullivan doesn't come running in again."

Ed: Don't worry, John, he has been talking that way about me for five or six years.

Sullivan: I came pretty near running in this morning, I will tell you that.

E.W.Jr: You know, the funniest thing was - he gave us an excuse. He said, "You know, they said so-and-so and so-and-so to me and I thought you ought to know this and that is why I came back," and Ed says, "No they didn't, they told you that at lunch."

Sullivan: No, he was wrong about that.

E.W.Jr: But that is what he said.

Sullivan: That is what he said. I hate to spoil a good story, but he was wrong about that one.

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H.M.Jr: But it really was terribly funny and we were just sitting there and in comes this streak of red. He was afraid he was missing something.

Klotz: That is the funniest story.

H.M.Jr: All right, what else?
Chick?

Schwarz: Nothing.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Have you heard anything from these businesses?

Haas: U. S. Steel replied and Fleming signed the telegram and said their new order for last week would be in tomorrow but that Stettinius was going to see you and he would go over the situation.

H.M.Jr: O. K.

Haas: Maybe in view of the crowd they have seen around the hall, maybe we will get a similar reply from all of them.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Did anybody sign off any more - incidentally, I made the statement - how much was it he won, was it 25 or did he bring back 25?

Graves: In poker, he made 36 thousand in the Philippines, he said. He brought it back - he brought back 75 thousand.

H.M.Jr: But 36 was at poker?

Graves: Yes, he said.

H.M.Jr: All right.

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Graves: He brought back 75 thousand, including --

H.M.Jr: Talking here in the room, you have been complaining to me about Procurement management and I am looking to you, if it is as bad as you say it is, to put some management in there. I wish you would talk about it to Mac. Mac used to run it and he used to tell me it was a swell organization. If it is as bad as you say it is, I think you had better put some management in there. I am serious. Talk it over with Mac. It used to be his pet.

McR: The boss doesn't remember that a few years ago I suggested that we go in and make a survey of it and he said, "Wait."

Klotz: You said that? No, it was the other way around.

McR: Well, he is gone.

H.M.Jr: Well, between you, get me some management over there, will you please?

Graves: We are trying to supply that. I think our present difficulty, as I have said to you, is the financial one.

H.M.Jr: Well anyway --

Graves: That is the acute problem we are trying to solve.

H.M.Jr: The management, too.

Mac?

McR: I have nothing.

H.M.Jr: Mac, I would like you to sit in on this 3:00 o'clock meeting, because you may have some ideas. These people are coming in and I don't know enough about - you most likely do - about the National Aeronautical Association and all the rest of those things. You know which is which. I don't want to overlap. You pick it up as we go along, see. If I am overlapping,

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doing something - what I am trying to do is, I have got three men coming in today, three the next day, who are aeronautical engineers and who are not connected with the Army and Navy or any airplane company. I just don't want to duplicate anything that the Government is already doing, so would you stay?

McR: Yes.

H.M.Jr: And you two gentlemen (Sullivan and Young). O. K.

Sullivan: How about Mr. Berle on that other contract? You said you were going to take that up later.

H.M.Jr: That is up to you.

Sullivan: Yes, sir.

H.M.Jr: Just get to him. I think he is in the other room with Dan Bell.

TREASURY DEPARTMENT

224

INTER-OFFICE COMMUNICATION

DATE May 21, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Today's war developments had a depressing effect upon the principal foreign exchanges today. Both sterling and French francs experienced appreciable declines, and it is interesting to note that the French franc moved downward at a faster rate than did the pound this afternoon, owing to the appearance in the New York market of Italian bank orders to sell substantial amounts of francs.

From an opening of 3.25-1/2, the pound moved downward to a low of 3.14-1/2 in the mid-afternoon. Toward the close, it developed a firmer tendency. At 3.17-1/2, the final quotation was nearly 11¢ lower than last night's close.

During the past several months, the Federal Reserve Bank has received, from time to time, orders from the Royal Bank of the Kingdom of Yugoslavia to sell sterling in New York for its account. Today, however, an order received from that source directed the Federal to purchase £30,000.

Sales of spot sterling by the six reporting banks totaled £361,000, from the following sources:

By commercial concerns.....	£171,000
By foreign banks (Europe and South America).....	£190,000
Total.....	£361,000

Purchases of spot sterling by these banks and by the Federal Reserve Bank of New York amounted to £424,000, as indicated below:

By commercial concerns.....	£245,000
By foreign banks (Far East, Europe, and South America).....	£149,000
By the Federal Reserve Bank of New York (for Yugoslavia).....	£30,000
Total.....	£424,000

The following reporting banks sold cotton bills totaling £10,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 6,000 by the Guaranty Trust Company
2,000 by the Bank of Manhattan
2,000 by the National City Bank
<u>£10,000 Total</u>

Until mid-afternoon, the French franc moved with sterling on the basis of a cross rate of 176.40 francs per pound. At the time sterling touched its low of 3.14-1/2, the franc was quoted at .0178-1/4. In contrast to sterling's subsequent improvement to 3.17-1/2 at the close, the French franc moved further downward to a low and final rate of .0176-1/2. The final cross rate was therefore about 179.88 francs per pound. One New York bank reported that this afternoon

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it had received orders from an Italian bank to sell 11,000,000 French francs, which the New York bank attempted to execute, with only partial success, in this market.

Developments in the other important currencies were as follows:

The Swiss franc remained steady at .2243 during the morning session. In the mid-afternoon, a small amount of business went through at .2229, but the rate then moved back to close at .2240.

The Canadian dollar weakened further, touching a new record low of 22-1/16% discount at the close.

The reichsmark closed at .4000.

The yuan had an easier tone in Shanghai today. The pence quotation of 4-1/16d was 3/16d below yesterday's rate. Against dollars, the yuan moved off 3/16¢ to 5-9/16¢.

We purchased \$20,000,000 in gold from the earmarked account of the Swiss National Bank.

The Federal Reserve Bank of New York reported that the Bank of England made the following shipments of gold to it from England:

\$6,099,000	to be earmarked for account of the Bank of England.
2,248,000	for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time.
<u>\$8,347,000</u>	Total

The dollar gold price received from Bombay by a New York bank today was \$36.71, slightly higher than yesterday's quotation.

The Bombay spot silver price declined the equivalent of 3/4¢ to 44.16¢.

In London, the price fixed for spot silver was 22-9/16d, off 1/16d. The forward quotation, however, moved up 1/16d to 22-7/16d. The U. S. equivalents, calculated at the open market rate for sterling, were 33.33¢ and 32.89¢ respectively. On the basis of the official sterling-dollar rate, the spot price would be equivalent to 41.02¢.

Hendy and Harman's settlement price for foreign silver was unchanged at 35¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

Although no purchases of silver were made by us in the New York market today, we bought 50,000 ounces from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL

May 21, 1940
10:22 a.m.

H.M.Jr: Hello.

Operator: J. Edgar Hoover.

H.M.Jr: I can take it.

O: Right. Go ahead.

H.M.Jr: Hello.

J. Edgar Hoover: Yes, Mr. Secretary. Hoover talking.

H.M.Jr: Are you in Washington?

H: Yes, I am.

H.M.Jr: Did you get any message yesterday?

H: I got word from the Attorney General that a message was coming over from the White House. I haven't as yet received it. It was sent to him and I imagine he will probably convey it this morning, but he said he didn't know what the provisions of it were except that he understood it released us from the restrictions that we've been under.

H.M.Jr: That's right.

H: And I certainly want you to know how much I appreciate that.

H.M.Jr: Was that fast enough?

H: That certainly was fast. It was much faster than anything I've ever seen work down here.

H.M.Jr: Well, as a matter of fact, the orders were -- the verbal orders were to give you a release on it at once and it would be followed up with a written memorandum.

H: I see. Well, it really was one of the finest things, I think, that could possibly have been done. I mean, from the safety and the security of the country, I don't think anything could have been more important at this particular time.

H.M.Jr: Well now, look.....

H: Yes.

H.M.Jr:by tonight if you don't get that, you give me a ring between four and five.

H: I will.

H.M.Jr: Because the orders were that you were to have been released as of yesterday.

H: Yes. Well, if I don't get that before -- I'm going to New York at noon, and if I don't get it by noon or by evening by the time I reach there, I'll give you a ring.

H.M.Jr: Yeah, because you should have had it.

H: Yes.

H.M.Jr: Now, the other thing which bothers me is this. You sent me this report, for instance, on the conditions in Boeing.

H: Yes.

H.M.Jr: And you say you're not doing anything about it. Well, who in the hell is?

H: Well, that -- of course that's a situation that just as soon as we move in on a thing of that kind out there we'll have our LaFollette Committee or the National Labor Relations Board -- the position that the Boeing people take is the fact that they don't dare make any move because they can't dismiss for any causes of that kind.

H.M.Jr: Well, who's responsibility is that?

H: There's no one responsible, Mr. Secretary. In other words a thing of that kind -- all that we can do and all that we're doing right now is to keep ourselves informed about it. Nothing is being done, of course, to correct it as such. Of course the best way to handle it, in my estimation, although the thing I think probably is impractical at the present time, the thing we lack today is able labor leadership.

H.M.Jr: Yeah.

H: If you could call, for instance, John L. Lewis and just sit down between the four walls of an office and tell him some of these things that are happening there would be no doubt that the matter could be corrected if he was in the right attitude. But he's got this fellow Pressman, who is just a mouthpiece for a lot of these subversive groups.

H.M.Jr: I know.

H: And of course, Green on the other side is one of these colorless individuals. Now, I just got word this morning - I'm sending you a memorandum on it because I thought you ought to know about it - I don't know whether this is true or not but I got word from one of our informants that Madam Perkins has appointed a man by the name of Walter Ruther to head the safety device board to make inquiry into factories through the country as to safety devices. Now, Walter Ruther is one of the Ruther brothers, C.I.O. Communist he is, who was educated at the propaganda college in Moscow, and was sent over to this country about eight or nine years ago and was very active in the Detroit area. He's an avowed Communist. Now, this assignment that he's been given, allows him to go into any factory in this country to make his survey and to look over safety devices.

H.M.Jr: Look, why don't you tell Madam Perkins that?

H: Well, you know I can't get to first base with her, Mr. Secretary. I mean, she doesn't believe that -- I don't believe -- that there's a Communist in this country. That's a rather extreme statement. What I was doing was I was sending you a copy and I was sending General Watson a copy.

H.M.Jr: Well then he's got to do it.

H: So that General Watson could probably take it up either with her or with the President. But it's just a thing of that kind -- you can just see what kind of a structure that is and how that sets the picture up.

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- H.M.Jr: Well, I think -- confidentially I think the President expects to bring in one or two labor leaders as of -- on -- put them on his staff.
- H: Yes.
- H.M.Jr: They -- that -- all of this sort of thing would -- they could handle it.
- H: That would be the way. It would really be the practical way to handle it because at this stage for the Government try to step in and do something, you'd be charged right away with violation of civil rights, whereas if it could be done within labor, just as we're trying to do it on this newspaper correspondent situation. We found in New York City a most atrocious condition there. I think there were nearly 70 per cent persons holding credentials for the press who were not entitled to them and with the State Department and
in this bureau, have worked out a plan whereby through the press associations we're going to have them censor their own memberships, so to speak, and tie in locally with an officer of the -- of the Intelligence Services.
- H.M.Jr: Well look.....
- H: Yes.
- H.M.Jr:on this thing that you're waiting to hear from, let's -- because -- let's say by tomorrow morning if you don't hear give me a ring.
- H: I'll certainly give you a ring.
- H.M.Jr: By tomorrow morning.
- H: Yes. Yes, now I'm sending over to you this morning also a copy of a letter that just came to me from an employee in the Glenn Martin factory in Baltimore that I thought you ought to see.
- H.M.Jr: O. K.
- H: It's a very amazing letter. We're investigating it, of course, but the statements in it were just rather startling and rather shocking.

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H.M.Jr: Thank you.

H: Fine.

H.M.Jr: Cherrio.

H: Thank you, very much indeed. Goodbye.

May 21, 1940
10:15 a.m.

H.M.Jr: Hello.

Operator: Mr. Arnold will be in his office about eleven and I might reach him at home now. I'm not sure.

H.M.Jr: Yes, try to get him at home. It's important.

O: All right.

10:30 a.m.

O: Go ahead.

H.M.Jr: Hello.

Thurman
Arnold: Hello.

H.M.Jr: Thurman?

A: Yes.

H.M.Jr: Henry Morgenthau.

A: Yes.

H.M.Jr: How in the hell are you, you big.....

A: Fine, never better.

H.M.Jr:-- big trust-buster. Listen, I've got a fellow in the outside office that I brought down here with the hearty approval of the President to help me on the aeroplane business.....

A: I see.

H.M.Jr:by the name of John Biggers, President.....

A: Yeah. You mean the Pittsburg

H.M.Jr: Yeah.

A: Fine -- yeah, I know him.

H.M.Jr: Now, I brought him down because he's got nothing to do with aeroplanes.

A: Yeah.

H.M.Jr: And he said, "Now, before you tell me anything, Mr. Morgenthau, I'm under investigation."

A: Well, he's -- he's absolutely O. K.

H.M.Jr: You'll give me.....

A: He's under investigation but he's been most cooperative.

H.M.Jr: And you're perfectly willing that I take him.

A: And I would be delighted to have you take him.

H.M.Jr: Well, that's all I wanted.....

A: And I'd like to, at your convenience -- I'd like to have a talk so that I won't get in your way any. I think I can straighten out any possible future relationships with respect to it.

H.M.Jr: Well now how -- what would you suggest, Thurman?

A: Well, I -- I'd like to have a talk with you any time you say.

H.M.Jr: Well, you name it.

A: Well, let me see. This afternoon?

H.M.Jr: O. K. You mean in regard to Biggers?

A: Oh, no, no. Not in regard to Biggers. Any time that -- in regard, generally the relationship of the Anti-Trust Division and your Purchasing program.

H.M.Jr: Fine. How -- well now look, if it isn't Biggers I'm -- how about eleven o'clock tomorrow morning?

A: Fine.

H.M.Jr: Is that all right?

A: Fine, and as far as Mr. Biggers is concerned you tell him for me that we don't know of any businessman under investigation who has been so completely co-operative and so anxious to work along with us; in spite of the fact that he's been under investigation I'm just delighted you got him.

H.W.Jr: Now, Ed Foley is sitting here with with me and he's made this suggestion. Mr. Biggers said is his own time going to be taken up defending a lawsuit.

A: What's that?

H.W.Jr: Is he going to be kept busy defending his company?

A: Well, I don't think so. I'll inquire about that. I don't think he is.

H.W.Jr: Well, if -- if he gets a call I'm going to tell him to go over and see you.

A: Well, I'm -- I'll look up that Plate Glass thing, but it seemed to me when we were talking about it last that he wouldn't be and it seems to me that -- my impression was that it was perfectly O.K.

H.W.Jr: Well, what.....

A: I think that can be ironed out. I think he thinks so too.

H.W.Jr: Yeah. Well, he said this. He said he didn't want to -- he told your people he didn't want to be subpoenaed; he wanted to go along; he consulted you before he engaged Blackwell Smith or one of your men; and he said he's giving your people everything that they're asking for on a volunteer basis.

A: That's right, he is.

H.W.Jr: But there will be considerable publicity for his coming down here to help me on this and we're all one family and if you had the slightest doubts I'd tell him thank you and ask him to go home.

A: Well, I'll -- just offhand, I don't see any reason why there'd be anything in connection with that.

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I'll see how far it has gone and check up, but the matter has been proceeding in such a friendly manner and he has been so cooperative that I think we can iron that thing out all right.

H.M.Jr: Would it be asking too much if you called up your office and called me back?

A: I'm going right down to the office -- I'm working this morning. I'll go right down -- I'm leaving -- you caught me out at my car and I'm going right down. I'll call you back and straighten that thing out.

H.M.Jr: You'll call me back before twelve?

A: What?

H.M.Jr: You'll call me back.....

A: Well, I'll tell you, we'll fix that thing up somehow. I'll -- if you need this man we'll work out some doggone thing in that situation.

H.M.Jr: I tell you, Thurman, why I need him. He came down here to Washington and did that census job for the President and he's a businessman that can get along with the Government. Hello?

A: Yeah.

H.M.Jr: And you know there are so -- a lot of these businessmen come down and they're a bust.

A: Yeah.

H.M.Jr: And this fellow made good under very difficult circumstances, and everybody that I've talked to says he's a New Dealer and he's O.K.

A: Well, he's -- he's been awfully good with us, and if we can't work that out somehow --. You see, we've got -- we've been having a grand jury and I haven't kept up with the grand jury but I'll fix that some darn way or other.

H.M.Jr: Well, that's -- then it's entirely agreeable to you that I take him on.

A: Not only agreeable; I think that from my own relationship with him I'm enthusiastic about it.

H.M.Jr: Well, I'll tell him that.

A: Because -- you see his company has been under investigation and they're -- there are proceedings against it -- I don't mean proceedings, but all sorts of things, and he's been very cooperative. He's been anxious to help us out. He's never shown the slightest resentment at the thing and I think it's up to us to do something when he's taken that cooperation.

H.M.Jr: Fine.

A: And I'm going to try to do that. Now, I think I could guarantee to leave him out personally.

H.M.Jr: Right.

A: I can't guarantee his company just now over the phone.

H.M.Jr: I understand.

A: Because that depends on a lot of other things, but I think we can -- I think I can pull him out personally by some hook or crook and -- in fact, it never has been at all likely that he'd be in it personally.

H.M.Jr: Yeah.

A: Now, the company I can't at this moment give such a guarantee, although I-- I have -- it has been my belief all along that -- the company thing would be all straightened out -- that's my guess.

H.M.Jr: Well, I -- you see I -- what he said to me is this. He said, "Now, Mr. Morgenthau, I'll come down here," -- I don't think he's going to get any pay, but he said, "If my company is going to have to go on trial I've got to give my company my time first."

A: Well, let's -- let me look into that. It doesn't -- it's just one of those things that you just -- it's awfully difficult to give a blanket promise because a man is taken on for the Government. You know

it's one of those things, figuring the grand jury and all that, might cause us some kind of a scandal.

H.M.Jr: Well, Thurman.....

A: But I can -- I can guarantee practically that he won't be in it and I think that with any amount of cooperation we can handle the company.

H.M.Jr: Well, I'm not putting.....

A:

H.M.Jr: I'm not going to put any pressure on you, see?

A: Oh, I know you're not. I -- I'm really like-- you tell him I'd really like to see him down, because I think he's the kind of a fellow that -- particularly with this -- these pressures on the -- which will be on the Department of Justice who has gone through this thing with us and understands the point of view, he'd be the kind of a man I'd like to deal with. It isn't a question of pressure, I like him myself.

H.M.Jr: Well, to sum up, what do you advise me?

A: I advise you to take him on.

H.M.Jr: O. K.

A: I advise you -- you can tell him that I want him taken on. Tell him that so far as he's personally concerned there isn't anything that I know of. So far as his company is concerned there's a remote chance there's some involvement, and I'll check up that. But I don't -- I can't believe it's going to be serious enough to justify paying any attention to it.

H.M.Jr: Well, the thing -- you see, this aeroplane thing -- getting this straightened out is a matter of a month or two, and.....

A: Oh, there's not going to be anything doing within a month or two.

H.M.Jr: Well, that's -- then there's no reason why -- I mean, by a month or two I'll either have made a success

or a failure of this aeroplane program.

A: Yeah. Well, so far as a month/^{of two}is concerned, I'll give you a guarantee.

H.M.Jr: O. K.

A: All right.

H.M.Jr: Make it three.

A: What?

H.M.Jr: Make it three. (Laughs)

A: Well, let me -- let me call my Pittsburg people in and get you back and I'll see you tomorrow about it. You see, I'm going to have to call up Pittsburg and find out just where it is. I haven't thought about it for two or three months.

H.M.Jr: Well, anyway, I'm going to tell him just what you said. Ed's here, he's heard the whole conversation, Ed Foley.

A: Yeah.

H.M.Jr: And I'm going to tell him just what you've said and tell him that you're enthusiastic. I'd like to have him come to work. There's a remote possibility of something about his company but he personally is not involved and that you -- you'd like to have him come here and help me out. Is that right?

A: And tell him that we're hopeful about the company but I just can't tell you over the phone.....

H.M.Jr: Well, I won't say anything about the company.

A: All right. Fine.

H.M.Jr: I won't say anything about the company.

A: All right. Fine.

H.M.Jr: Ever so much obliged, and I'll see you at eleven tomorrow.

A: All right. Fine.

May 21, 1940
11:55 a.m.

H.M.Jr: Hello.

Operator: Mr. Irey is in Mr. Upham's office. I have him on the line.

H.M.Jr: All right.

O: Go ahead.

Elmer

Irey: Hello.

H.M.Jr: Elmer?

I: Yes, Mr. Secretary.

H.M.Jr: What, are you going in for foreign exchange? They tell me you're in Upham's.....

(Balance of conversation not recorded)

May 21, 1940
12:40 p.m.

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H.M.Jr: Hello.

Operator: Mr. Frank. Go ahead.

H.M.Jr: Hello, Jerry.

Jerome
Frank: Yes, Henry.

H.M.Jr: Do you want.....

F: I had called you and then I got word from Miss LeHand that the President wanted me to talk to you about the market.

H.M.Jr: Go ahead. Danny Bell is here, nobody else.

F: What do you think about it?

H.M.Jr: Well, I tell you how I feel. I think I'd stick a little longer. I just saw Dow Jones said that -- just had a flash that a little buying is coming in.

F: Oh, there's a little bit in some things, Henry. I think -- see, I phoned the stock exchange to get their views.

H.M.Jr: Yeah, well I.....

F: And I think probably that's one reason for it. You see they -- hell put in a few buy orders just to make it look good, but I think we're having a steady melting away of values here. I'm not talking of margin customers. They're not ponderable in quantity, but what you're doing is -- I mean, this is one side of the argument. You're reducing the values of thousands of people who aren't selling, not the sellers, but the people who don't want to sell. And, I think looking at the economy and what is ahead of us, that they're selling below values that are justified by what conditions will be.

Now, that's a guess, of course. The other side of the argument is that if you close you hurt morale. Also I talked to Marriner and one of the considerations that affects both you and him is the effect

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of closing the market on the government bond market.

H.M.Jr: Well, that's -- don't worry about that.

F: Well, he's fearful that it might put pressure on the high-grade bonds and government bonds because you couldn't close the market on government bonds.

H.M.Jr: Well, that would -- I'd cross that bridge when we come to it.

F: Yeah. Well, the President sent word through Lauch to me about an hour ago that he didn't want to close it because of the fear of the effect on the morale over across the water. Well, those are high considerations that I can't -- I'll leave up to him.

H.M.Jr: Well, my hunch is and I haven't talked to anybody but you see?

F: Yes.

H.M.Jr: I mean, so I don't know what the street feels.

F: Well, they want to keep it open.

H.M.Jr: They do?

F: Yes. That is the big -- all the big fellows. The pressure for closing it is coming from smaller persons.

H.M.Jr: Well, this is my hunch and I won't leave the building until the market closes. It's a quarter of two up there. You've got another hour and fifteen minutes to go, haven't you?

F: Yes.

H.M.Jr: My hunch is if you leave it open for the rest of the day.....

F: Yeah.

H.M.Jr:and then let's ask the President if he won't see us. Go on over afterwards and have a little talk.

F: Yeah, I think that's right.

H.M.Jr: But my hunch is -- let me just ask Bell -- he's sitting -- (Aside: Have you got any hunch, Bell?)

Dan agrees with me.

F: Well, supposing we do this. After it closes I'll get all the data available and give you a ring and maybe we'd better get together with some of our staff. Now, I should tell you that inside the Commission Leon and Judge Healy are very much opposed to closing until such time as there are pockets -- that is, where there is not what is called orderly selling. Eicher and I feel that you can have it damn nice and orderly but you can melt away values awfully fast even though there are takers.

H.M.Jr: Yeah.

F: And that that's merely looking at mechanism and not results, so I don't know what the Commission as an entity will recommend, but the President is the boss so far as I'm concerned.

H.M.Jr: Well.....

F: He has to be anyhow because we couldn't close it without his approval, but I mean I wouldn't think of even suggesting anything until I.....

H.M.Jr: Well, Jerry, my best hunch is that for another hour and a quarter keep it open.

F: Yeah.

H.M.Jr: But if -- if something -- you say there are no pockets.

F: Not as yet, no.

H.M.Jr: Well, now I'm -- I will not be out of the building from now -- for the next hour and fifteen minutes and I'll leave word if you want me I'll come right to the phone.

F: All right. Well, I've got to run out. I've got to see the Court of Appeals but I'll be -- I'll be gone

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for a short time. I'll be back right after -- shortly after closing.

H.M.Jr: Well, you.....

F: I'll give you a ring then, Henry.

H.M.Jr: But you won't close it without talking to me.

F: Oh, no. No, we can't without the President's approval anyhow.

H.M.Jr: All right.

F: O. K.

May 21, 1940
2:19 p.m.

H.M.Jr: Hello.

Tom Beck: Hello. Secretary Morgenthau?

H.M.Jr: Yeah.

B: This is Tom Beck of Colliers. How-do-you-do.

H.M.Jr: Hello, Tom. How are you.

G: I'm fine. I've got a favor to ask of course.

H.M.Jr: Yeah.

B: You know I'm general chairman of this Aviation Forum that's going to be on the 27th, 28th and 29th.

H.M.Jr: No, I.....

B: And it has the blessing of our Chief, the President.

H.M.Jr: Right.

B: And an exhibit at Bolling Field, and it's all Governmental or non-profit.

H.M.Jr: Right.

B: We're very anxious to have a sign at the head of Pennsylvania Avenue, which would be on the fence -- or just behind the fence of the Treasury where you're looking up from the Capitol -- a neon sign which would say "Attend the Aviation Forum at Bolling Field." It's a moving sign. There'll be no destruction even of lawn or anything.

H.M.Jr: Well now, listen.....

B: And no commercial, no sign -- no.....

H.M.Jr: Now look, old man.....

B: Huh?

H.M.Jr: I don't know whether you're serious, but to call me on a sign I think is kind of silly.

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B: They've called you what?

H.M.Jr: To call me about a sign, -- I don't have anything to do with signs.

B: No. Oh, they told us that you had to approve such a thing.

H.M.Jr: Well, I mean, I don't do those things.

B: Well, who should I see, Henry?

H.M.Jr: Well, talk to Mr. McReynolds.

B: McReynolds.

H.M.Jr: McReynolds, yes.

B: Thank you, I'm sorry to have disturbed you.

H.M.Jr: That's all right.

B: How are you?

H.M.Jr: I thought it was something important.

B: Oh, I'm very sorry.

H.M.Jr: That's all right.

B: But they told me that they had to get it from you. I was misguided.

H.M.Jr: No. (Laughs)

B: How are you?

H.M.Jr: I'm all right. I've still got a sense of humor.

B: -- Thank you.

H.M.Jr: All right.

B: Goodbye.

May 21, 1940
3:51 p.m.

Ed
Foley:He says the man hasn't got any sense and he'd drive everybody crazy that he worked with and he wanted me to pass that along to you.

H.M.Jr: Wait a minute. Say it again. I want Mrs. Klotz to hear it.

F: Yeah. Thurman, after spending an hour with him, says he's impossible. He would drive anybody crazy that had to work with him, and he wanted to withdraw his enthusiastic recommendation that he made to you this morning on the telephone.....

H.M.Jr: Well, I.....

F:which was prompted he said, by the cooperation that he has shown so far. He says he's not involved but if he was he's so scared to death he'd sign a consent to plead anything. But just as an administrator and a businessman charged with the responsibility of carrying out a program of -- like you've got -- he just would be impossible, Thurman says.

H.M.Jr: Well -- and that isn't because -- he isn't doing that because he didn't think I -- because he thought I didn't want him?

F: No, no. No, no. He said he just spent an hour with him.

H.M.Jr: And he drives you crazy.

F: That's right.

H.M.Jr: Well, I was with him for a half an hour and I had one of my sick headaches this morning and I said, "Well, maybe it's me."

F: Yeah.

H.M.Jr: Then I got to thinking about it and I said, "No."

F: No, that -- it's doublechecked now.

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H.M.Jr: Well, then they're coming -- you're coming in with him at four?

F: Yeah, he's outside my office.

H.M.Jr: Well, you.....

F: Is there anything you want me to say?

H.M.Jr: Well, I don't care. You bring him back here and I'll simply tell him that I think that everybody around -- that it's best to -- that -- not to come down, that's all.

F: Yeah. We tried to do this in the Government, or something like that.

H.M.Jr: I'll just tell him -- in order not to have you sitting outside of my office, I'll give you a ring when I'm ready.

F: All right. Thank you.

H.M.Jr: Ever so much obliged.

F: Thank you.

CABLE

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#1299. May 21, 3 P.M., from London

CONFIDENTIAL FOR THE SECRETARY.

I have just had a meeting with Lord Beaverbrook in charge of airplane production and the President of the Rolls Royce Company. I have explained your desires and Beaverbrook has asked for an appointment with the Prime Minister this afternoon to discuss the matter with him and will let me know at his earliest convenience. He is a man of action so he will recognize need for speed.

Will advise as soon as I have information.

KENNEDY

Received by phone from Mr. Renchard of
State Department
May 22, 1940 - 11:00 A.M.