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May 22, 1940  
10:45 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Joseph  
Kennedy: Hello, Henry.

H.M.Jr: Yes, Joe.

K: Do you know the name E. G. O-l-l-e-y?

H.M.Jr: E. G. what?

K: E. G. O-l-l-e-y.

H.M.Jr: No, I don't.

K: Well, he's at the General Motors building in Detroit.

H.M.Jr: Yes.

K: He represents that company; he's being advised to proceed at once to Washington.....

H.M.Jr: Yes.

K: .....and he's to find out and maybe will work out the plans of what you want.

H.M.Jr: Good.

K: They're willing to do so.

H.M.Jr: Yes.

K: The only thing they can't spare you is a man at this time because they're using them all here.

H.M.Jr: I see.

K: But they're -- you can have their plans and you can have anything like that if you want -- if they want to send a man on here but I would think that after you have finished talking to Olley then you could decide what you wanted to do.

H.M.Jr: That's right.

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K: E. C. Olley.

H.M.Jr: Right.

K: Now listen, the only thing about it is that I'm probably a little faster than the -- than their people.

H.M.Jr: Yes.

K: Because they're -- the head of the company has been in conference here with the topside people.

H.M.Jr: Yes.

K: And he is getting in touch with Olley.

H.M.Jr: Right.

K: Now, he may be a couple of hours behind me but I thought that if you wanted to save time you might tell him to come on then and then when he gets the information have it transferred to Washington.

H.M.Jr: I'll do that. General Motors building in Detroit.

K: Yeah.

H.M.Jr: I'll -- I'll call him right away.

K: And then you can tell him to go there and he's going to get the instructions -- and he will probably get the instructions while he is en route to Washington.

H.M.Jr: I see. I'll do that, and incidentally I checked that -- your cable of yesterday hasn't come in yet to me.

K: Do they say it's there?

H.M.Jr: I -- they haven't been able to locate it. I'm raising hell about it.

K: Well, it's right there, Henry. I mean, I -- I'll send them the time and everything. It went -- around -- it left here yesterday sometime around three or four o'clock. That would be around ten o'clock your time.

H.M.Jr: Well, I'm going to raise hell about it.

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K: Yeah, well it went.

H.M.Jr: Right.

K: And I'll find out about it right this minute.

H.M.Jr: And the question of which size I take it this fellow will know.

K: Yeah, I think he is the fellow that -- tell him what you want. All I can tell you is that they are meeting here at which the topside people -- they agree to do -- work it out whichever way you wanted it. The only thing that there's going to be trouble about is trying to send you any people.

H.M.Jr: I see.

K: But you can have everything else.

H.M.Jr: I see. Well, that's.....

K: They will let me know because they just notified me that over the telephone.

H.M.Jr: Well, I'm very much obliged and I'll get in touch with Olley right away.

K: All right. If there's any question or there's any delay in anything, let me know again.

H.M.Jr: I'll do that.

K: All right, Henry.

H.M.Jr: Very much obliged.

K: Not at all.

H.M.Jr: Goodbye.

K: Goodbye.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

May 22, 1940

FROM E. H. Foley, Jr.

I have had an examination made of the statute creating the office of the Assistant Secretary of War and delegating functions and duties to such office. All of the powers of this office having to do with industrial mobilization and national defense must be carried out under the direction of the Secretary of War.

While it is true that the Assistant Secretary of War has certain functions under the National Defense Act which cannot be transferred by the Secretary of War to other offices in the War Department, nevertheless the Assistant Secretary of War discharges these functions under the direction of the Secretary of War.

*E. H. F.*

## RE AIR EXPANSION PROGRAM

May 22, 1940  
2:30 p.m.

Present: Mr. Carmen  
Mr. Lombard  
Mr. Hinckley  
Mr. Milliken  
Mr. Young  
Mr. Mead  
Mr. Warner  
Mrs Klotz

H.M.Jr: I appreciate you gentlemen coming this way so fast, and so forth and so on. Have you had any opportunity to know - to have explained to you what I want to do?

Milliken: We have had a few moments' conversation with Mr. Young.

Young: I talked with them a few moments before we came in on the general problem.

H.M.Jr: You didn't bring Taylor with you, did you?

Mead: No, I can get him.

H.M.Jr: No, it is all right.

Well, let me explain it to you and then you gentlemen tell me what you can do to help me. For the time being, I am trying to do a job for the President until he can get somebody better to do it and that is largely for the moment the production of airplane engines. It is engines at the moment.

As you gentlemen most likely know - besides doing this for the Government, I have handled the Allied purchasing as far as the contact with the Government is concerned and our whole pursuit ship program is built around Allison, as you know, and Allison, I think, has turned out six engines so we are all very much worried about Allison. That is number one.

Number two, we want to increase our engine production over and above what the present production is that the Allies have placed with us and that

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gets down to a question of possibly licensing other companies to manufacture. For the moment we think some of these smaller horsepower, the four and six hundred horse - take it away from either Pratt & Whitney or Wright and give it to somebody else. Keep Pratt & Whitney and Wright in production up to the time that these new plants get under production, but we are trying to look ahead for several years and not just for several months. Then the question is, where can we get another in line liquid cooled engine so all our eggs are not in one basket and the Government has assisted and helped Continental who have what they call a flat engine. So also does Lycoming.

Then we secured, after great difficulty and a great length of time, a Rolls Royce engine which went on the test block today at Dayton, and if we think it is good, the United States Government can get a license from the British Government direct.

Then there is another program of the British Government that is to consider building a plant either in Canada or the United States itself to manufacture the Bristol engine.

Of course, there would be a great deal of production of engines in the smaller class for - what do you call it, your pilots?

Hinckley: That is training planes.

H.M.Jr: Two or three hundred horse, isn't it?

Hinckley: The Army uses two hundred and three hundred, don't they?

Mead: Two hundred, four hundred and six hundred are the horsepower.

H.M.Jr: For the moment it is all engines, because we are in simply a deplorable condition.

Well, to give you an example - we are talking here

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very confidentially - one of the many problems I've had dumped in my lap, unless I can get five Allison engines between now and the first of June to send down to Curtiss-Wright to go into the Curtiss P-40, it will delay their whole program by two months, because they have never put an Allison engine in a P-40, which is designed for the French, and the design is a little different - I don't know, but what should be on the right hand is on the left and vice versa. It is different and they would have to fit these engines in, you can understand that, and unless we can get them five engines to try the thing out, their whole program is set back two months and you might just as well ask - I don't know, five - something very rare, if you can think of something very rare. What is the great diamond? You might as well ask me to give you five more Hope diamonds as to give you five Allison engines.

Now, that is the present problem and in going over this thing with Mr. Hinckley and Mr. Warner here in the East, Mr. Mead is available, plus Mr. Taylor from M.I.T. and I wondered what California Tech. can do for the immediate problem to help us on this.

Have I stated it about right, Bob?

Warner:

I might perhaps add a word, Mr. Secretary, as the people from California were not here yesterday, that when this was discussed yesterday we had a committee composed of Mr. Hinckley and Dr. Hunsaker and Dr. Mead and Paul Johnston and myself and we all counted ourselves out almost immediately and said this was an engine problem, design and production, and George Mead is the man who has had engineering experience and it should be completely turned over to him with the discretionary power of finding his own assistant. So Mr. Hinckley and I in this respect are bystanders and Dr. Hunsaker has gone home.

Hinckley:

Dr. Mead is carrying the ball at the moment.

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H.M.Jr: Well, but don't misunderstand what Mr. - he is talking for himself.

Warner: Yes.

H.M.Jr: I mean, it sounded --

Warner: I say we have withdrawn ourselves. There has been another group in here and Dr. Mead is the engine expert.

H.M.Jr: Yes. In other words, he is the only survivor from yesterday.

Warner: Right.

H.M.Jr: Is that fair?

Warner: Right.

H.M.Jr: I mean, he is the only survivor out of yesterday who would stay after I described the thing.

Now, how do you gentlemen feel with this thing as to the method - as to this great difficulty concerning engines?

Carmen: .... (unintelligible accent) ....there are two different schools of thought. Some of them say, "Give us more power, something like engines with two thousand horsepower, and we will do the same thing that a smaller engine will do." Now, it is a questionable problem. I think that we are inclined to believe that - the top performance should reach reasonably --

Lombard: The top speed can be reached with a liquid cooled. The top rated climb probably would be reached with the air cooled.

H.M.Jr: Which one of you is Milliken?

Milliken: I am.

Carmen: I don't know what your --

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Milliken: Yes. I say that the most surprising thing to me as a result of our survey - we talked to all of the major manufacturers yesterday and discussed this thing in some detail. The thing that was most surprising to me was the lack of interest, with one or two exceptions, in the liquid cooled engine. That is primarily because California has not concentrated on the pursuit type of airplane. The manufacturers were not interested in pursuits, didn't want any liquid cooled engines, didn't see any use for them. The manufacturers - one manufacturer who had been producing pursuit planes said they weren't interested in liquid cooled, that they thought the two thousand horsepower air cooled engine was the thing for a pursuit.

The other people that we talked to who have been considering pursuit planes and have designed pursuit planes feel that what they want is a fifteen hundred horsepower liquid cooled pursuit. The twelve hundred horsepower, they say, was satisfactory until the new military requirements appeared. There has been such a demand for increased fire power and armor that the twelve hundred horsepower engine, they now feel, is a little too small and fifteen hundred horsepower is what they think is necessary.

Carmen: A large number of guns and armor plate.

Milliken: But in general we found a surprising lack of interest in the liquid cooled engine with these one or two exceptions.

H.M.Jr: Did you talk with Vultee?

Milliken: Yes.

E.M.Jr: And they are not interested?

Milliken: Vultee is interested in the air cooled engine.

Lombard: Vultee believes entirely in the air cooled.

H.M.Jr: And North American?

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Carmen: Similarly, with somewhat more power.

H.M.Jr: You (Young) be sure that these fellows meet Ziegler. Ziegler is the chief designer for the French Government, civil, and I think that it would be interesting to meet him. He is very intelligent.

You were talking about these engines. You were saying that there is very little interest in the liquid cooled.

Carmen: Yes.

H.M.Jr: Well, it is important to decide whether the Government wants to put its money into something that we might expect to have in a year and a half or two years and have something which we hope will be a little bit better than anybody else's. That is why the President is having me do this, because I have no preconceived notions. I mean, I am not riding a liquid cooled hobby or air cooled hobby. I want something that will hit a little harder and fly a little faster than anybody else has got. That is all I want.

Lombardi: One of the manufacturers in particular pointed out that he thought the air cooled engine was the more reliable engine with less maintenance trouble and that with a fleet of air cooled military airplanes, you could have them in the air more of the time than you would with a liquid cooled engine. Every time you have a bullet go through your liquid cooling system, of something of that sort, that engine is put out of commission, whereas it takes a more vital shock to put an air cooled engine out of commission, so that, from the point of view of merely keeping the airplanes in the air, he was very much in favor of the air cooled engine.

H.M.Jr: Well, if you will talk with Colonel Jacquin and Mr. Ziegler of the French Mission, they will tell you that that argument doesn't bother them, but I mean I heard that argument two months ago and the French Mission has crossed that bridge

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and I think it would be interesting to have you talk to Colonel Jacquin and Mr. Ziegler, because the English haven't anybody comparable to those people here, but I heard the very same thing and then when they got all through and done, they wanted the liquid cooled engine.

Lombard: I see.

H.M.Jr: Now, what they have done to overcome that is, they have armor plate around the engine.

Lombard: Oh, yes.

H.M.Jr: They put armor plate around the engine and around the pilot and they say it doesn't make any difference. Now, I can't argue with you technical people, but these two Frenchmen can.

Hinckley: Is that really the problem right now, Mr. Secretary? The problem is to get out some motors, isn't it?

H.M.Jr: That is right.

Hinckley: Any kind, with horsepower.

Lombard: Of course, the problem is tied in with what type of motor you want and we are --

Hinckley: Well, it is eventually, but right now the crying need is more motors.

Warner: We know there are high performance ships that have been designed around liquid cooled engines in this country. We are waiting on the Allison, for example, right now and if there aren't Allisons, there won't be any airplanes of the type on which time has already been spent.

Lombard: Liquid cooled versus air cooled - we thought of another question which you didn't mention, the question of the trainers.

Carmen: You see, the Allies like to use the Menasco engine.

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Milliken: The primary trainer.

Carmen: Primary trainer, which is an air cooled engine but built light and I believe that it is - it will use more than Allison, because it will be harder to get them. You need some survey about the two factories, the Menasco and Kinner, I see, and I mean some survey about the production now and about the possible production. I mean six months or a year from now.

H.M.Jr: You have those.

Carmen: We have those data.

H.M.Jr: Well, what I would like you to do, when we get through here, would be if you gentlemen would go with Mr. Mead and if Mr. Warner cares to go with them it would be good, and sort of put your heads together and talk the thing over. Mr. Mead has had a day's head start and he has been with General Brett, who does procurement for the Army and Captain Kraus, who does procurement for the Navy, and exchanged information.

Now, one thing that I wanted to ask about, have you people in California developed anything along the plastic line where they can turn out either small or big planes fast?

Milliken: There is one development about which I think none of us knows very much. Colonel Clark is interested in it. They have so far, I think, produced one airplane.

H.M.Jr: And what is that, Mr. Milliken.

Milliken: It is a trainer, essentially a primary trainer type.

Mead: That isn't the plastic airplane, really, is it?

Milliken: That is the Timm. Howard Hughes is making it with a technical expert.

Warner: That is a plywood, adhesive and varnish airplane.

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- H.M. Jr: Is that something which the Government ought to look into and put some money into?
- Warner: I think the Government ought to look into that general type of production. I think for trainers undoubtedly if we want a very large number of identical planes, they can be built with much less labor from plywood than from other materials.
- Carmen: It is not a real plastic, it is plywood.
- H.M. Jr: Is that a West Coast company?
- Warner: There is a company on the East Coast, also, New Jersey, that is working on very similar lines.
- Carmen: It is a private --
- Warner: It was originally Sherman Fairchild's and it migrated to California about a year ago.
- Milliken: They have split it, as I understand. Sherman and Hughes are working on it, Sherman in the East and Hughes on the Coast.
- Warner: There are several studies going on in various parts of the country.
- Milliken: Those are certainly in the experimental stage, though, and not even in the beginning of the production stages.
- Warner: Yes, but they have built fuselages. They have the dies for building fuselages. They can reproduce those. There is no reason to doubt that they can be put into production as rapidly as dies can be built for relatively simple fuselages. Possibly for wings, though that is not certain. They have made wings and tail surfaces in New Jersey.
- Carmen: It seems to me they have done it with England, but I don't think it has reached the productive stage.
- Warner: That was a more truly plastic airplane.

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Carmen: About two years ago, but this was also in the experimental stage. I suspect Germany also will go very far this year in that line.

H.M.Jr: But if we need a lot of trainers, and we do, would it be worth while looking into this plywood plane?

Warner: Very much.

Carmen: I think so. Time and price would be important.

Warner: If we wanted to turn out a thousand of any one model and required them to be rugged enough for training service, I think that would be the quickest and most economical method of making many of the parts.

H.M.Jr: Have you (Mead) a room where you can meet?

Mead: Oh yes, sure.

H.M.Jr: Mr. Mead has been here 24 hours, so he feels at home.

Mead: Thanks to you.

H.M.Jr: He is already - I mean, I am sure he has got a lot of Treasury red tape in his pocket. Why don't you gentlemen sort of get together and I will be back here from the White House around 5:00 and if you have some ideas by that time, I would be glad to talk again and sort of rub the edges off a little bit and maybe you won't be quite so formal back in the other room as you are here. I think from what I have stated and plus what you (Warner) know and Mr. Mead knows, I think you have got what our immediate problem is. As Mr. Hinckley says, we need a lot more engines as of yesterday and we find ourselves in a very embarrassing situation and we would like to - so I think if you would go back to wherever they have given you a room and then when I come back from the White House, I would be glad to talk some more.

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- Warner: May I ask one short question, the general answer to which you may be interested in? In your study of the production capacity of Menasco and Kinner, you were assuming their present types of engine which would require new airplanes. There has been some talk also of licensing the Whirlwind and Wasp, Jr. in those planes.
- Milliken: We studied that.
- Carmen: Menasco believes for military combat it would be better to build something for the license.
- H.M.Jr: What you ought to know is, we are signing contracts today or tomorrow with both Pratt & Whitney and Wright, the Government is, so that we can license other manufacturers to make the four and six hundred horsepower Wright and Pratt & Whitney, so we will be in a day or two in a position to negotiate with other manufacturers to license them to make the four and six hundred horse, either Wright or Pratt & Whitney.
- Carmen: It is a period of time we are talking about.
- H.M.Jr: The Government will have the right to license other people in a couple of days. When I come back, if you gentlemen are still on friendly terms, and so forth and so on, I will be glad to see you.

RE SMOKELESS POWDER

May 22, 1940  
3:30 p.m.

Present: Mr. Purvis  
Mr. Picot  
Mr. Young  
Mr. Sullivan  
Mr. Bloch-Laine  
Mr. Bradway  
Mrs Klotz

H.M.Jr: Mr. Bradway, the reason I wanted to see you was, this Allied Purchasing Commission works with me at the President's direction. You may or may not know it.

Bradway: Yes, I know it.

H.M.Jr: And on this question of powder plants, you evidently wanted to get the clearance of the State Department and I take it you have got that.

Bradway: I haven't. I have the letter ready to present and Mr. Yost said he had made a date for me to come and see you at 3:30 and that I should keep the letter until after the conference. I have the letter written.

H.M.Jr: What is the letter?

Bradway: Well, it is just a form letter.

H.M.Jr: You mean you want to clear it with the State Department?

Bradway: It is just the form letter we send.

H.M.Jr: Well, can I handle it for you?

Bradway: If you wish. As far as I am concerned, I would have gone back and given it to Mr. Yost.

H.M.Jr: Well, I would be glad to handle it for you.

Bradway: That would be all right.

H.M.Jr: Now, on the assumption that the State Department says yes and that we get the green light from the Army, on that assumption, see, could you

- 2 -

be saving time for yourself and the Allied Purchasing Commission and get it down - to get together up to the point of signing a contract?

Bradway: You mean so far as the information we are going to give to CIL?

H.M.Jr: Yes.

Bradway: I am not sure that there would be a contract there.

Purvis: There would be no contract in that case between you. We are going ahead, so far as the Canadian contractor is concerned, as if that permission is going to come.

H.M.Jr: Well, I mean, are you waiting on anything, pending this permission?

Purvis: For the moment we are going straight ahead. There would be a moment in the very early future where if it wasn't there, it would begin to hold things up, but we are assuming things to be favorable.

Bradway: You understood our position, Mr. Morgenthau, is this: We have received from the Canadian Industries a letter making a formal request for the "know-how" and technical assistance with the proposed powder plant. The duPont company, assuming that we get clearance from the State Department, will not make a contract for that technical assistance. It won't be necessary. In so far as that - now, in so far as the - it is my understanding in the first place that from the United States Government's angle - you may correct me if I make a mistake here - from the United States Government's angle, they were prepared to release this information to Canadian Industries, Limited, if and when the Allied Purchasing Commission had made a contract with the duPont company or - or any other company for a capacity with a minimum, I believe, of 20,000 tons.

H.M.Jr: Twenty-four.

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- Furvis: No, twenty-four is probably what we will do, but twenty thousand is on the record.
- Bradway: Yes, twenty-four thousand is the figure, but twenty thousand is what we were talking about.
- H.M.Jr: The understanding was that if they sign up with United States manufacturers for a given amount of tonnage - it was twenty thousand tons.
- Furvis: Twenty thousand tons.
- H.M.Jr: When that was done, that in return we would give them technical Assistance.
- Bradway: We would give the CIL the information, technical information, or make some arrangements --
- Furvis: The only question now is whether we can run the two things together, because I have given you my word that we shall be making an arrangement for those quantities. I am just bringing the thing along in parallel.
- H.M.Jr: Well, before I can tell the State Department to release this, I will have to talk with the Army, because that is the understanding I have with the Army and we will make this another thing I have to give to General what's-his-name.
- Bradway: Of course, the duFont company has no particular part in this procedure at the moment.
- H.M.Jr: I didn't know just what it was, but the thing I am interested in - and I did pass the word of the President on - and that is that twenty-five hundred - two million five hundred thousand pounds of powder that the Navy released.
- Bradway: Yes.
- H.M.Jr: Has that ever been cleaned up?
- Bradway: No. We expect a letter from the Secretary of War any day. It hasn't come in yet. The moment that comes in, we will make a contract.
- H.M.Jr: You are waiting for a letter from the Secretary of War?

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Bradway: The Secretary of War. You see --

H.M.Jr: I thought Colonel Burns instructed you people to go ahead with it.

Bradway: We had no letter from the War Department. It was agreed, yes, that they would release the powder, in so far as the War Department was concerned.

H.M.Jr: What kind of a letter do you want?

Bradway: They know exactly what to write. There is a paragraph of the agreement that was reached in General Harris' office --

Purvis: A point, I think, has arisen which may be delaying this, Mr. Secretary, and that is that when you talked with me your belief was that it would be possible for us to get this release as from the first of June.

H.M.Jr: That is right.

Purvis: Now apparently as a result of a meeting they had down here in Washington, it is the first of October. It is to recapture that that we are anxious to do.

Bradway: Just a moment, Mr. Purvis. The Navy released that capacity to us and their release was based on the amount of powder they would have asked us to make beginning the first of October for granulation, not delivery.

Purvis: The first of October?

Bradway: Granulation, that is right.

Purvis: Or the first of June.

Bradway: No, no, first of October.

Purvis: Well, that may be the answer.

Bradway: You see, that comes down to that, that they have unfinished at the present time a certain amount

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of powder. They cancelled their proposal that they put out for 700,000 pounds. There remains unfinished on their orders a certain amount of powder. Right now we are making 600,000 pounds.

- H.M.Jr: Yes, but Mr. Bradway, may I ask a question, because I think this goes to the heart of the problem.
- Purvis: My understanding was that the first release we got from the Navy, 600,000 pounds, at the rate of 150,000 pounds a month, approximately - that you remember.
- Bradway: That is right.
- Purvis: As I understand it, when that release was given us, there was a quantity of 565,000 pounds in process of manufacture which had to be held back, is that right, on order?
- Bradway: More powder on order, oh yes.
- Purvis: Now then, when we get finished on the fifteenth of July with that 600,000 pounds, doesn't the 565,000 come under that?
- Bradway: Not all of it. You see, that is quite involved.
- Purvis: You see, there is a new  $2\frac{1}{2}$  million pound capacity over and above the 600,000 pounds.
- Bradway: That two and a half actually will amount to about two and a half million pounds, but that doesn't begin until the first of October, in so far as our powder schedules are concerned and the Secretary of War's letter will release it as of that date.
- Purvis: May I ask you one other question? If an additional  $2\frac{1}{2}$  million pounds over and above the original 600,000 pounds - if the capacity for that  $2\frac{1}{2}$  million has been released as from the first of June over and above the 600,000 pounds capacity --
- Bradway: Yes, but it wasn't released as of the first of June.

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Purvis: I see. I thought the 565,000 pounds belonged to the 600,000 pound capacity and that this 2½ million was something fresh that was cancelled with you.

Bradway: I know, but Mr. Purvis, after all, there the Navy schedules would run over a period of 18 months.

Young: Did the Navy set that date of October 1, Mr. Bradway?

H.M.Jr: I set the date with Mr. Compton of June 1 and Mr. Compton agreed to it and the President directed him to do so.

Bradway: I am sorry, but there must have been some misunderstanding there.

H.M.Jr: This 2½ million pounds that I am talking about is a contract between the Navy and you, isn't it?

Bradway: There is no contract.

H.M.Jr: Well, it was an order.

Bradway: No, we had no orders. It was simply a statement by the Navy to us that, "We will require for the next four or five years, based on our ship construction schedule, more powder from you than we anticipated. We will want 2½ million pounds." We said, "All right, we will make a mental reservation of that," and we have that lined up on our production schedule along with the other requirements.

H.M.Jr: Were you making it?

Bradway: No.

Purvis: Were you prepared to make it?

Bradway: We can in October, yes.

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Purvis: In October?

Bradway: Yes, certainly. That is the capacity that is released, that is exactly it. What the Army is going to release --

H.M.Jr: The impression that I was under, and certainly the impression that Mr. Compton and Admiral Furlong left me under, was that you are manufacturing at the rate of 10,000 pounds a day for the Navy.

Bradway: No.

H.M.Jr: Now look, would you do something for me?

Bradway: Our manufacturing schedule, if I may interrupt, is very complicated and unless you are familiar with --

H.M.Jr: Now, I will tell you what I would like you to do. I would like you gentlemen to go to the Assistant Secretary of the Treasury Sullivan's office now and let's get this thing down in black and white, how much the Army and Navy - and so forth and so on - because we have given these people our word that they could get it, but evidently from what you have told me we have given our word on something that doesn't exist, so let's get it - because this takes more time than I have got. Couldn't you all go in Mr. Sullivan's office and put it down in black and white? If there is something - you expect a letter, you expect a release, you expect this and that, if I know what it is --

Bradway: I can tell you. As far as --

H.M.Jr: I want to get it down in black - it is impossible for me to carry all these things in my head and everybody - it is no reflection on you - but everybody in the Government, I will put it that way, tells you a different story.

Bradway: Of course, I haven't told you any story yet.

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H.M.Jr: I said the Government, so why don't you go -  
is that agreeable with you?

Bradway: Yes, of course.

H.M.Jr: Go to Mr. Sullivan's office. Have you gentlemen  
got time?

Purvis: Too much of it.

Bradway: As far as we are concerned, remember this, that  
we are in the hands of the Army and Navy or the  
Government, if you want to put it that way, and  
we can make no statements for the Army or Navy.  
We are speaking for duPont.

H.M.Jr: Well, you talk with duPont and maybe you could  
get - maybe you could get Louie Johnson and  
Compton each to send somebody over to the office  
right away. Maybe Admiral Furlong or somebody.  
I want it on a piece of paper what they are talk-  
ing about. One person says they get this, and  
the Army says this, and the Navy says that. DuPont  
says something else. Now, try to get it together.

Sullivan: All right, sir.

Bradway: They have it in the Secretary's office now, the  
formal letter they are going to release to us,  
with the very paragraph of the agreement that  
was made over in General Harris' office.

Young: Release it as of October 1.

H.M.Jr: Mr. Compton said June 1. Thank you for coming  
down.

Bradway: Thank you; glad to have met you, Mr. Morgenthau.  
Maybe we can straighten this out and this other  
thing on the release from the State Department,  
you will take care of that?

H.M.Jr: Definitely. The way I would start it, get Mr.  
Purvis to tell you what I said the Administration  
would do.

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- Purvis: I have the memorandum that I made then.
- H.M.Jr: And then if necessary let Johnson and Compton either come themselves or send somebody over, but see if you can't sweat this thing through so at least we can get together, because somebody is haywire.
- Sullivan: Then shall I get in touch with you as soon as we finish?
- H.M.Jr: When it is all on a piece of paper and it needs action, when it gets down to details, Mr. Woodring or Mr. Edison decide something, or Mr. Hull, when it is down to that, inform me, but not until it is in the form that it needs the signature of a Cabinet officer. When it is in that form, bring it to me.
- Thank you very much.



E. I. DU PONT DE NEMOURS & COMPANY  
INCORPORATED

WILMINGTON, DELAWARE

EXPLOSIVES DEPARTMENT

May 22, 1940.

Mr. Joseph C. Green, Chief,  
Division of Controls,  
Department of State,  
Washington, D.C.

Dear Mr. Green:

The Canadian Industries Limited of Montreal, Canada, in which concern the du Pont Company has a financial interest, has requested that we furnish them with plans and technical assistance in the construction and operation of a plant to be used for the manufacture of nitrocellulose smokeless cannon powder. The powder manufactured at this plant will be supplied to the British Government for military purposes.

The du Pont Company would like to be advised by the State Department as to whether compliance with the request of Canadian Industries Limited would contravene any treaty or statute of the U. S. Government.

Very truly yours,

SMOKELESS POWDER DIVISION

*F. W. Bradway*  
F. W. BRADWAY - MANAGER.

FWB/c

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May 22, 1940

The original of this was given to  
General Marshall today at 4 p.m.

GERMAN AIRCRAFT ENGINE & PROPELLER

Some time ago one of the aviation engine makers (Curtiss Aircraft Co.) expressed the wish to obtain from the French Air Ministry a German fuel injection engine and a VDM propeller.

The French Air Ministry has just replied that they did not see their way clear to comply with the request of one particular engine maker but that they were quite willing to deliver engine and propeller into the hands of the U. S. Air Corps for them to use and to place at the disposal of any engine maker that they thought fit. Shipment will be made as soon as Air Ministry knows to whom to address it.

May 22, 1940

Memorandum of Conference of the President

held at The White House at 4:30 p.m., May 22, 1940.

Present: The President  
Secretary Morgenthau  
General Marshall, Chief of Staff, Army  
Admiral Stark, Chief of Operations, Navy  
William H. McReynolds, Administrative Assistant to the  
President  
Brigadier General Watson, Secretary to the President  
President's Naval Aide

Secretary Morgenthau explained to the President that the volume of work developing in connection with the preparedness program, particularly with respect to handling foreign orders which intimately affect the army and navy preparation program, was becoming so great as to make it vitally necessary that some more formal organization and authority be set up for handling this work to make sure that it functioned efficiently. He pointed out that the Allied Purchasing Commission had placed in his hands requests for munitions and equipment in such quantities as to make it necessary for this country to place the manufacturing production facilities of the country for the types of material involved practically on a war mobilization basis in order to meet that situation.

As a first step, the Secretary suggested that the plan outlined in the memorandum to him, dated today, by Colonel H. K. Rutherford, be fully put into effect with certain modifications indicated on the chart which the Secretary himself had presented. The President looked at the memorandum and chart briefly and immediately stated that he did not want to do the job that way; that he felt the whole program would get out of balance if this were done because of the emphasis placed on the industries immediately involved to the detriment of other essential functions; and that he was himself planning to reconstitute the Council of National Defense, which is a legal organization provided for this purpose; that he had in mind the persons to serve. As far as the Cabinet members were concerned, he would add the Secretary of the Treasury and he also would add the Director of the Bureau of the Budget. He also stated that he would expect McReynolds to act as the Executive Secretary for that Board.

In the discussion that followed the President had the Chief of Staff review the problems raised by the Allied Purchasing Commission with respect to their request for the transfer to them of munitions, planes and other equipment now either in the hands of the military

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branches in this country or under order for delivery. The President agreed with the suggestions made by General Marshall as to what could be done and what couldn't; asked that he ascertain how such transfers of material could be legally made to the allied governments; and directed that the twenty-five bombing planes bought in the "first lot" by the Navy, which are now considered unsafe to fly and ready for the junk heap, be offered if the Allies should decide they could make use of them.

May 22, 1940

MEMORANDUM FOR THE HONORABLE HENRY MORGENTHAU, JR.

Subject: Organizing for Emergency Production of Munitions.

1. In compliance with your verbal request, the following information on the above subject is submitted.

Since its organization eighteen years ago, the Army and Navy Munitions Board has given its entire attention to the problem of preparing for the prompt and effective production of munitions in an emergency. The plans which it has developed over these years are the product of no individual or group. They have been evolved gradually and carefully. They are based on World War experience, modified and improved upon by advice and counsel from a multitude of sources - within Army and Navy - from other Government Departments and from outside agencies and individuals. The sole desire actuating those who have worked on the plans has been to perfect our measures of national defense so that in time of need they might be practical and immediately effective. The fact that these plans have been reviewed and approved by so many qualified individuals justifies the conclusion that they are sound and will be effective in an emergency. The following is a general summary of the activities which have been involved in preparing these plans:

a. Determination of types and computation of requirements for a major war effort. This task has been completed for general situations but may need some slight revision to adapt the results to the specific situation now confronting us.

b. Completion of an industrial inventory of the country and earmarking suitable plants for the war-time production of specific items of munitions. In the past twenty years, some 20,000 plants have been inspected and over 9,000 are now earmarked for the production of problem items. Training of those plants for their war missions is proceeding as rapidly as available funds will permit.

c. Army and Navy plans for procurement in war have been coordinated, and combined where possible, in the interest of effectiveness and to avoid competition and conflict of interest. Requirements of the Maritime Commission have been included. The essential needs of the civil population have been allowed for in allocating plants for war production.

d. Detailed studies have been carried out regarding important economic factors upon which the success of the industrial war effort depends. Other interested Government Departments, technical societies, organized industrial and business groups, and qualified individuals have

contributed to the completion of the plans for meeting these problems.

Among the more important activities on which studies were initiated by the Army and Navy Munitions Board and for which plans have been prepared or are in process are the following:

- New Construction for munitions production
- Strategic and other materials
- Power and Fuel
- Transportation
- War Trade
- War Credits
- Machine Tools and Equipment
- Labor Supply and Industrial Deferments

It is the belief that these plans outline sound and practical methods of organizing for the effective prosecution of warfare on the industrial and economic front, whatever agency or agencies be decided upon to execute them.

It is believed, however, that the Army and Navy Munitions Board, with some strengthening of personnel can meet the present emergency effectively. It is already organized as a going concern and can expand its activities without delay. It enjoys the confidence of industry and can readily obtain full cooperation.

It is therefore recommended that the following steps be taken:

a. The functions of the Army and Navy Munitions Board be clarified and confirmed by a statement from the President and such additional funds and personnel as may be needed for its effective action be made available.

b. An "Advisory Committee for Munitions Production" be organized by the Army and Navy Munitions Board to assure maximum effectiveness in the utilization of all industries essential to carrying out the munitions program now being launched.

The attached diagram outlines the organization proposed above with some additional suggestions regarding the possible activities of the new committee.

Incl.

H. K. RUTHERFORD,  
Colonel, Ord. Dept.,  
Director, Planning Branch.

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 PRESIDENT
 

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JOINT BOARD	AERONAUTICAL BOARD	ARMY AND NAVY MUNITIONS BOARD	JOINT ECONOMY BOARD

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 ADVISORY COMMITTEE FOR  
 MUNITIONS PRODUCTION
 

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AIRCRAFT	OTHER MUNITIONS	MACHINE TOOLS	FACILITIES Including CONSTRUCTION	MATERIALS	FOREIGN ORDERS

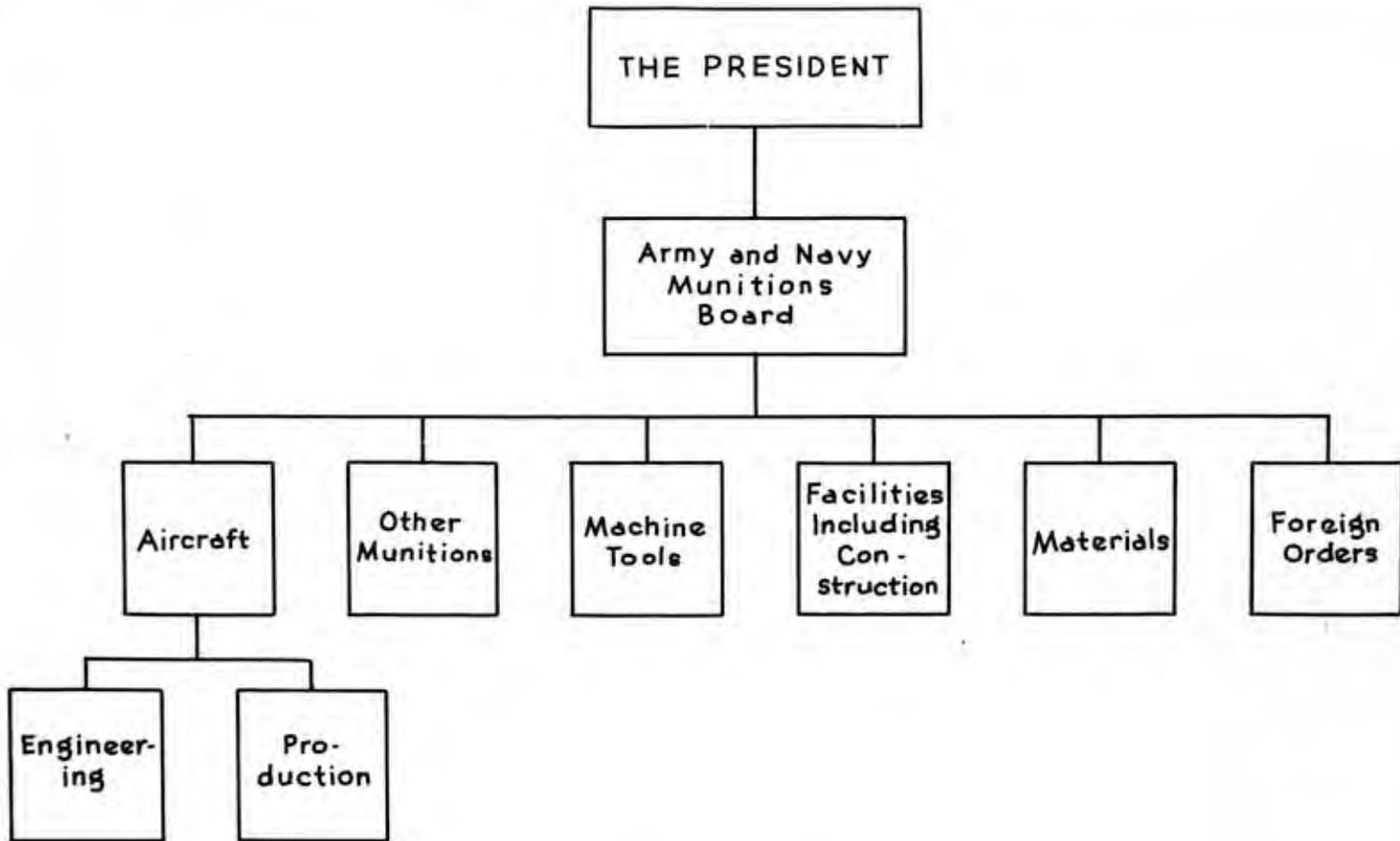
May 23, 1940.

MEMORANDUM FOR THE SECRETARY:

I checked with Ed Foley with respect to the Council of National Defense and find that that is a statutory organization limited in membership to the

Secretary of War  
Secretary of Navy  
Secretary of Interior  
Secretary of Agriculture  
Secretary of Commerce  
Secretary of Labor

and may not be supplemented by the addition of other ex officio members or outside members. It seems likely that the President would want to use the authority contained in the 1916 law as a substitute for the Council of National Defense and create by Executive Order a "Board of Mobilization of Industries Essential for Military Preparedness" which would permit him to place on such a board anyone he selects.



## RE AIR EXPANSION PROGRAM

May 22, 1940  
5:45 p.m.

Present: Mr. Warner  
Mr. Mead  
Mr. Milliken  
Mr. Lombard  
Mr. Carmen  
Mr. E. N. Taylor

H.M.Jr: Well, where do we start, Mr. Warner?

Warner: Well, I just came in. I was with them the first part of the afternoon, but Dr. Mead had better start.

Mead: Well, I think that Mr. Carmen has some doubt of what the gentlemen who come to us from the Pacific Coast could contribute and I think he might tell us about it.

Carmen: We have been following five points in our discussion. The first one would be the immediate need for Allison engines. We say this is a job for engineering production specialists, and one suggestion that came up was a lowering of the existing requirements since this engine has the highest requirements in the United States and many of them should be reconsidered.

....(unintelligible accent) ....

Dr. Mead believes we should raise the horsepower up to 1500 or more.

Now, the third question that must be discussed is the problem of shifting the engine production for the trainers off from the big companies and to the smaller companies. Now, we gave out the data of our survey and I don't think that we can have much of a part in it. On Menasco and Kinner, we gave Dr. Mead the data on the present production and future production connected with this. The first question is the standardization. I think we agree that the types for the larger engine are pretty well determined and we gave Dr. Mead the information that we got from these companies. The problem is a thing to be worked out with each type which is desirable for the small trainer ship.

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.... (unintelligible).

The fifth question is what you mentioned, the plastic or plywood airplane. I have been asked to report about the present status of these new plywood airplanes, to find out how far they are from production.

H.M.Jr: I should think unless we were duplicating something that somebody else is doing that it would be very useful to know whether they could get out a plastic or plywood primary trainer, wouldn't you think so?

Warner: Yes, by all means. I think we ought first to find out how far the Army and Navy have gone. I know that this particular airplane that is under development in Glendale has been subject to a certain amount of study by the Army. They had under consideration giving of service test orders for the airplanes over a year ago and there is a certain amount of history which I don't know, but which ought to be looked up.

H.M.Jr: Could you get that tomorrow?

Warner: We will discuss it and see that it is secured, whether I get it or whether somebody else does.

H.M.Jr: But I mean, and make it available? I am thinking that if this group from California could concentrate on that, I think that might be a real contribution, because these primary trainers - well, what is the estimate of what they think they will need?

Mead: I don't know just how many --

H.M.Jr: It is a great many, anyway. I can tell you roughly that it is about 3,000.

Carmen: Three thousand.

Mead: That is the Army only.

Carmen: The primary trainer --

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- Mead: But you must realize that that depends on what basis they are starting from. They were talking about a certain assumed number of airplanes and if so, then they would have six thousand or three thousand of these ships.
- Warner: You can figure about eight in a year in a ship.
- H.M.Jr: We could find that out from General Brett very easily. Could you find that out and make it available to these gentlemen?
- Warner: Yes. I think Mr. Hinckley already has some information on the training requirements.
- Carmen: We believe this is a good airplane and so designed as to make for more or less easy manufacturing, so it looks like it should be investigated. It is not yet in production.
- Milliken: No.
- H.M.Jr: You (Warner) could find out if they want anything done, if they are entirely satisfied in the primary trainer field that they can put the thing into mass production fast; I mean, whether it is so far off that you can't fool with it.
- Warner: Yes.
- Milliken: Is there any question of Allied purchases on a large scale of primary trainers or is the Allied production capacity adequate to their needs?
- H.M.Jr: The thing changes so fast. As of yesterday, they weren't interested in the market.
- Milliken: They were not?
- H.M.Jr: Yes. Today they practically are looking to us for all their purchases, everything, so I mean it is - but they didn't list that in the big list they gave me today, but - I mean, it just changes over night. Today the question is, "What can you give us?" Yesterday they were bargaining on five cents. Today it is, "What have you got?" That is how quick the thing changes.

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- Warner: Of course, the Allies want a ship that is in production, they want something that they can put into the Canadian training fields this fall if possible, certainly by next summer.
- H.M.Jr: Well, Mackenzie King called up the President and asked him for 300 trainers tomorrow, that is what he wanted, 300, just like that. He wanted 300 trainers right away.
- Warner: We haven't any 300 real training airplanes. We have a considerable number of light planes that are available for the very first stage of primary training that can be used precisely as they have been training the C.P.T., the Civilian Pilot Training boys this year. We can get a great many of those in a short time.
- H.M.Jr: I should think unless that study is being made that that would be an excellent study and a very useful one, what is there in the primary training field which could be put into mass production immediately.
- Warner: Of course, the plastic would be at the very least for 18 months and probably for two years away. To get the production process developed, which is the smallest part of it, to get out a design which is found satisfactory, which has even a minimum amount of testing and is brought to the point where it can be put into production - I think to get them running in any considerable number within two years would be quite a remarkable feat.
- H.M.Jr: Well --
- Warner: Is that right?
- Milliken: I don't know how far they have gotten at all. They have been very secretive about it.
- Warner: I am assuming that the production process is well along, but the development of design - and to put it into production in a brand new material would take close to two years.

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- Milliken: This North American trainer that Carmen mentioned was flown 39 days from the time the first sketch was made and the general over-all shape is something which I should think could be done in a plastic or could work quite satisfactorily. Now, if the company can do that - if the production facilities are available, it should be possible to do it in a much shorter time, but I don't know how far along they are with the process.
- Mead: That, I think, covers the ground pretty well, Carmen. That covers the ground pretty well that you had in mind?
- Carmen: Everything we talked about this afternoon.
- H.M.Jr: Well, the thing that seems to me - so that we would not be duplicating each other here and any other Government effort, if the Civil Aeronautics could find out tomorrow what is the situation, the research and production in the primary training field, and these gentlemen can see what it is and then find out whether there is a job to be done there.
- Warner: Yes, we will get that for you tomorrow.
- H.M.Jr: And then if they would meet on that and then if they care to meet with me again tomorrow afternoon, I will be available.

May 22, 1940

9:50 a.m.

Present:

Mr. Bell  
Mr. Gaston  
Mr. Sullivan  
Mr. Foley  
Dr. White  
Mrs. Klotz

HM, Jr: I asked you gentlemen, and ladies, to come in as friends of mine and I can't impress on you how much I don't want this thing talked outside of this room. See? Because I was disturbed the other day -- well, I will be frank and use this as an example if you (Sullivan) don't mind this, that you evidently discussed with Lauch Currie, Biggers coming in. I don't understand why you did.

Mr. Sullivan: No, sir.

Mr. Gaston: I will say about Biggers that Perlmeter met Biggers in the hall .....

Mr. Sullivan: He knew that you were seeing somebody and he wanted to know whether or not anything had definitely been done about it. I told him I thought it was now being negotiated and that's the phrase I used.

HM, Jr: But you must have told him the name.

It's not important other than I just want to illustrate please be extra careful these days.

Mac isn't here because he's talking to Colonel Rutherford. What I wanted to ask you -- I used you as the whipping boy.

Mr. Sullivan: That's all right.

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HM, Jr: Colonel Rutherford is on the Munitions Board. He's the man who worked with Stettinius on this whole broad business and all the rest of the stuff. And he comes in here with the plan of 1916. There was a Council of National Defense made up of six Cabinet members and under that comes an Advisory Committee and then comes the Munitions Board. Now if they are going to get things done, set up six members of the Cabinet of which the Treasury is not a member, they might just as well have a Cabinet meetings and they don't do anything. Advisory Committee -- President at this time hasn't got anybody. It does not fit the picture. The machinery is in the Munitions Board.

Mr. Bell: There is a Council of National Defense.

HM, Jr: Statutory, yes.

Mr. Bell: I thought there was ....

HM, Jr: On the statutes it exists. Six Cabinet members.

Mr. Bell: And such other people as the President wishes to appoint. They never meet. It does exist, because there is the nucleus .....

HM, Jr: What I was thinking, in order to get this thing going -- as General Marshall said yesterday, the Allied orders which I gave him to advise me what they could do, puts this country on what do they call it? On "a mobilization basis". The Allied orders I received yesterday puts this country on a mobilization basis.

Now, the thought I had in mind -- and Mac is sitting in with this fellow now. For the present, to implement this Army and Navy Munitions Board and if he wants the thing done Mac says for me temporarily to go in as Chairman until the President can know where he is at. Now, I don't know whether I ought to do the thing physically or for other reasons and I would like your advice to see what you think about it.

-3-

MacReynolds agrees that the next move for the President is to blow up that Munitions Board, enlarge it with people he wants, but they have the machinery so you could touch a button and do this, that, and the other thing.

Brett sends me word "You have to do something for machine tools". I can't do this thing without a staff. The question is should I drop out and tell the President to give the whole works to the Munitions Board or go in as Chairman of the Munitions Board. I don't know.

Mr. Bell: I don't know how the Munitions Board is tied in with the industrial mobilization plan.

HM, Jr: They are it.

Mr. Bell: As outlined in the statute.

HM, Jr: But, as I recall, the statutory powers are vested in the Assistant Secretary of War.

Mr. Bell: So it may be he is Chairman.

HM, Jr: They say they are joint chairmen, but the President would have to tell Johnson and Compton that for the time being Morgenthau is going to preside for him as the representative of the President. And Johnson said the other day that he realized that the statutory authority was his, but by direction I was doing all the stuff and it was perfectly agreeable to him.

Mr. Foley: I don't think that's true. I think that's what he says, but that isn't true. He gets those powers to be exercised under the supervision of the Secretary of War.

Mr. Bell: No, he doesn't.

Mr. Foley: Yes, he does, Dan.

Mr. Bell: Have you read the Act?

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Mr. Foley: Yes.

Mr. Bell: Well, funny Act. It certainly directs the Secretary of War to do it.

Mr. Foley: Under the supervision of the Secretary of War and the job was created in connection with industrial mobilization to be of assistance to the Secretary of War and I think when he keeps talking that way he's not talking accurately.

Mr. Bell: I hope you are right, but I know we studied it when I was in the Budget.

HM, Jr.: Take a look at it. We looked at it once before and the thing seems to flow directly to him.

Mr. Bell: When I was in the Budget we looked into it and we thought it was a terrible way to write a statute.

Mr. Foley: It's like all these things, Dan, it's ....

Mr. Bell: Like the Comptroller of the Currency.

Mr. Foley: Take United States Housing Authority, in Interior. If you have a strong man at the head of it he will dominate it. If you have a weak man, like Woodring, then a stronger man, like Johnson, will walk away with the powers and he will say they were given to him and acts independently of the Secretary of War.

HM, Jr.: Like the Assistant Secretary of the Treasury (meaning Bell). After he's appointed I have to go around and ask him.

Mr. Foley: Same thing.

Mr. Bell: I don't think so.

Mr. Foley: We took a look at it the other day.

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Mr. Bell: Then you are more current.

HM, Jr.: Well, it's a detail, because the President .....

Mr. Foley: It's a matter of personality, but it's not a matter of law, I don't believe.

HM, Jr.: But just as a matter of Henry Morgenthau, Jr., and the Treasury Department, what about me?

Mr. Gaston: In your interest I would say no, but I don't think there is anybody else to do it. Haven't got anybody else who is fitted for the job.

Mr. Bell: No chance of getting the situation straightened out over there? Nothing in the cards?

HM, Jr.: Certainly not until after the middle of July. I don't know what happens in the middle of July! I have told him, but I don't think anything. It may if it gets worse.

Harry, you are usually vocal.

Dr. White: I have rather definite ideas on the subject. I feel you can do nothing else and in saying that I am not particularly interested about your health. I will be frank about it. I think the problem is much too important. I am convinced that you could do a swell job at it and I am convinced further that nobody in the Army or Navy could and I am very doubtful about many of the names I have heard mentioned.

Mr. Gaston: You can't bring in anybody from the outside.

Dr. White: I think you would be the ideal man for the job. I think it would be a tough job on you. There are certain mitigating factors which would make it possible to carry it through. One is you have been in the Treasury for a long time and have developed a good organization. I think there are good men who could relieve you of responsibility for routine matters and critical matters that come up need not occupy much

-5-

of your time, so I think you could devote the bulk of your time and if you could surround yourself with other competent men on that angle I think you could carry through. I do think there will be terrific stress and strain and you will pay a great price physically. I am frank to confess I don't weigh that very highly in what I view as the importance of the other sides. It has that degree of importance. So I think if the opportunity is given to you and if you are responsible only to the President so you can have a free hand in the matter and if you have some selection of the men who will work under you and with you, I would definitely say that you can do nothing other than accept.

HM, Jr: Ed?

Mr. Foley: I feel very much the same way Harry feels. I think it's a duty that you have to assume. When you take it on, you have to realize it's going to be the toughest job that anybody could take on. I think there will be an awful lot of sniping and an awful lot of cutting under and all the rest of it, just as there was yesterday in the Vinson-Trammell business. And I think you can do it better than anybody in the Government and I think anybody in the Government that I know, who I would consider qualified to do that job, can do it better than anybody outside, who might be brought in from the outside.

HM, Jr: How about letting Harold Ickes do it?

Mr. Foley: Well, of the people in the Government I think Harold Ickes would be my second choice.

HM, Jr: You don't have to be polite.

Mr. Foley: I am not being polite.

Mr. Gaston: Nobody is being polite.

HM, Jr: Excuse me, I am being polite. (Laughter)  
And Mrs. Klotz is being polite.

Mr. Gaston: I accept the correction.

Dr. White: I think there is something more too from my point of view. Not only do I think you will bring to it that degree of aggressiveness and imagination required of a job of that kind -- it's anything but a job that should be handled in the customary fashion -- but I have fears that if some -- that there is danger of approaching this and forgetting many social considerations which are vitally important and on which there are sometimes decisions to be made in which there is a tendency to overlook matters of fundamental importance to our domestic situation. I think you would bring to that the prestige of conservativeness too which would carry it forward, make possible your defense of things that would come, that I think is very important.

(At this point General Watson phoned and the Secretary explained that the President is seeing HM, Jr, General Marshall, Admiral Stark, at 4:15. HM, Jr explained to his group, "I had to have it to settle this thing.")

Mr. Gaston: It's very simple to me. A lot of sacrifice for you, but we can't get anybody from the outside. They are all tainted and it won't do and there is nobody in the Government who can handle it but you.

HM, Jr: I don't know that the President wants me to handle it.

Mr. Bell: What kind of a man is General Harboard?

HM, Jr: I don't know.

Let me give you an example. I was talking to somebody last night. Do you know what is the trouble with the French Army? They have people who fought the battles of the first World War. You don't see General Hinderburg leading the German army today. You don't see -- where are those people? They are either in the grave .....

Mr. Gaston: They are still muttering: "It's the man with the bayonet who decides a battle".

HM, Jr: And they make a man Vice Premier who is 72 and look at England.

Mr. Foley: He's 82, Mr. Secretary.

Dr. White: Toynbee, who is probably the world's greatest historian, has just finished five volumes. One of his volumes is right on that point and in 1938 -- Huntington Cairns who gets a book as soon as it comes out told me about this -- he has developed that very point. He has shown that all the way back in history, as far as history goes, and he shows how every subsequent war has always been lost when the leaders of the former have been in power in the subsequent ones because they used the techniques and training that they got in the former war and the significant thing is he wrote, in 1938, he more or less prognosticated what would happen in 1940, because they are using the same Generals, with some expansion of course, that they used in the World War whereas the Germans, with an entirely new approach, an entirely new group of men, will utilize new methods.

HM, Jr: To illustrate: the best story I know. For six months or a year the Army has been trying to get hold of two Rolls Royce engines. So they get turned down. I get them two engines. I said, "General Brett, when will those engines be available." He said "Next week, Tuesday or Wednesday." I said, "Where are they?" He said, "They are on a freight train." I said, "Find out where they are, stop them and I will put a truck alongside to take them to Dayton." He said all right. Towards evening, Phil Young was on this thing. He calls him up and he says he was wrong. They are not on a freight train, have never cleared Customs. They are on a dock at New York. So they got Harris out of bed and got those two engines and sent them by express and they started testing them this morning, just one week ahead of what they said. The Army itself -- if I was in there, believe me, Brett would get a dressing down of his life. I don't mind saying, in this room, try to find General Arnold in town. He's not here and he won't be here until we get the bill through. You have to do this kind of stuff around here. They have got to move.

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Mr. Sullivan: I don't think you have any choice.

HM, Jr: As I say, I haven't any idea whether the President wants this or not.

Mrs. Klotz: That's the most important thing whether the President does not feel that you should do it.

HM, Jr: What do you think?

Mrs. Klotz: Your health is a very important consideration.

HM, Jr: I wish you would look up the law in the next hour or two.

Mr. Gaston: You could sleep 20 hours a day and do more in the next 4 hours than the rest of that bunch would do in 16.

Mr. Foley: The Treasury Department is so big and so powerful and has so many ramifications and it touches industry in so many different planes that I think the head of the Treasury Department is the fellow that has to do this job.

HM, Jr: You can't do it -- it's just like -- talking to Mr. Sloan of General Motors. All right, I said, what about Allison? Well, everything is fine. Well, I can't see you. I can't look you in the eye. I don't know whether you mean it. I want you to come down and tell me that across the desk. He said, When? I said tomorrow at 11.

They just made the most terrible mistake on the Allison engine.

Mr. Foley: Well, if the head of Interior was doing it and Sloan said the reason we have not done it was because of a tax situation over there in the Treasury, what could Ickes do? He could not give them an argument. He could not tell them that's not so.

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Dr. White: I agree with Harry, the people they are talking about are just too terrible.

Mr. Foley: I did not get the name of the fellow who is with Mac.

HM, Jr: Rutherford. He's secretary of this Board.

Mr. Bell: He's an Army officer too.

Dr. White: We have had some dealings with him.

HM, Jr: Oh, I wish you would hear him! It's no job for Barney Baruch, or his crowd.

Dr. White: On what you spoke to John about, there is some misunderstanding. I know Currie spoke to me yesterday morning and told me you were getting Biggers.

Mrs. Klotz: I think Mac told because Mac took him down and showed him the room.

Mr. Sullivan: As a matter of fact, he said Biggers. I said who? He said the fellow with Libby, McNeil Glass.

HM, Jr: I just wanted to give my people, who are partners in my crime, a chance to say you ought or ought not to take it. But as far as the Treasury has been going the last few days, it has been going very nicely. Dan looks fairly well. If he does not get enough help -- we have all the money.

Mr. Bell: I think it's too bad that you have to do double duty. It might turn out to be treble duty. Two other Departments. And you certainly can't divorce yourself from the Treasury. I don't see any other choice as the situation has developed. It's unfortunate that another Cabinet officer can't do his job. I certainly don't think Ikes could do it because he would have everybody in the Government and in industry mad in two months, speaking frankly. I don't think they would even cooperate with him.

Mr. Gaston: In two days even.

oOo-oOo

MEMORANDUM

May 22, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference with Mr. Purvis, Mr. Ballantyne, Mr. Picot, Mr. Bloch-Laine of the Anglo-French Mission; Mr. Bradway of duPont; Mr. Young and Mr. Sullivan.

Discussion revealed a misunderstanding as to the date upon which the Army's release of duPont in behalf of the Anglo-French Purchasing Mission was to become operative. The Anglo-French Purchasing Mission, and I believe the Secretary of the Treasury, understood that on an order for the Anglo-French Purchasing Mission of 2,000,000 pounds, duPont was to start on June 1st. Mr. Bradway understood that they were to start on October 1st.

In the absence of Assistant Secretary of War Johnson and Colonel Burns, I talked with Colonel McMoreland who advised me that there had been prepared for the signature of the Assistant Secretary of War a letter addressed to the duPont Company releasing out of capacity reserve for the Army 200,000 pounds per month starting October 1st. After it was explained to Colonel McMoreland that the Foreign Purchasing Mission heartily desired to receive this powder as soon as possible, he agreed to talk tomorrow morning to the Ordnance Department and to find out:

1. If the Army can release its full reserve capacity with duPont of 400,000 pounds per month for 5 months, starting June 1st or,
2. If it can advance the date upon which its release of 200,000 pounds per month is to become operative from October 1st to June 1st.

He is to call me in the morning after the War Department has come to a conclusion on this matter and I agreed to call Assistant Secretary Johnson and explain to him my conversation with Colonel McMoreland this afternoon and to attempt to expedite the matter. Purvis and Bradway are in accord that a contract can be executed within a day or two after the release is received by duPont from the Army. Mr. Bradway states that it may not be possible to start work on June 1st, but they will be able to do so within a few days after

- 2 -

June 1st and certainly soon enough after June 1st to complete the 2,000,000 pound order in 5 months from June 1st. It requires 2 months for the process of manufacture to be completed and accordingly complete delivery under this understanding would be made about December 31st. It is understood that the release being discussed on the 2,000,000 pound order is to be substituted for the pending release of 200,000 pounds per month or the equivalent capacity for 12 months.

This memorandum was dictated in the presence of all participating in the conference and is approved by all.

JLS

TELEGRAM SENT

OK

GRAY

May 22, 1940

5 p.m.

AMEMBASSY

LONDON

936.

FOR THE AMBASSADOR FROM THE SECRETARY OF THE  
TREASURY:

Dear Joe:

The reason I had not seen your 1299 before our conversation was that the message had been received in Washington without any indication therein that it was intended for me.

HULL  
(CWG)

EA:HF:MEG

53

May 22/40

63862



19331 A

Regraded Unclassified

63825



NORTH AMERICAN BC-2

19269 A

Regraded Unclassified

56

BTs in  
Service and  
Our Order

37466



15600 R.S.



53839



SEVERSKY PT-8

23



NORTH AMERICAN P-51 MUSTANG  
SERIAL NO. 44-21378 BY 2ND AIR GROUP RANDOLPH FIELD TEXAS

13343 A.C.

Regraded Unclassified

44  
161

67419



VULTEE BT-13

19726A-C Regaded Uclassified

CG719



NORTH AMERICAN BT-14

19654 6 C

Regraded Unclassified

83

P.Ts in  
Service and  
on order.



40552



43041



16843 R.C.

Regraded Unclassified

54057



STEARMAN PT-13

Regraded Unclassified

C4316



G8201



68022



FAIRCHILD PT - 19

19752 A Regraded Unclassified

643211



19394 A.C

Regraded Unclassified



1981147

Regraded Unclassified

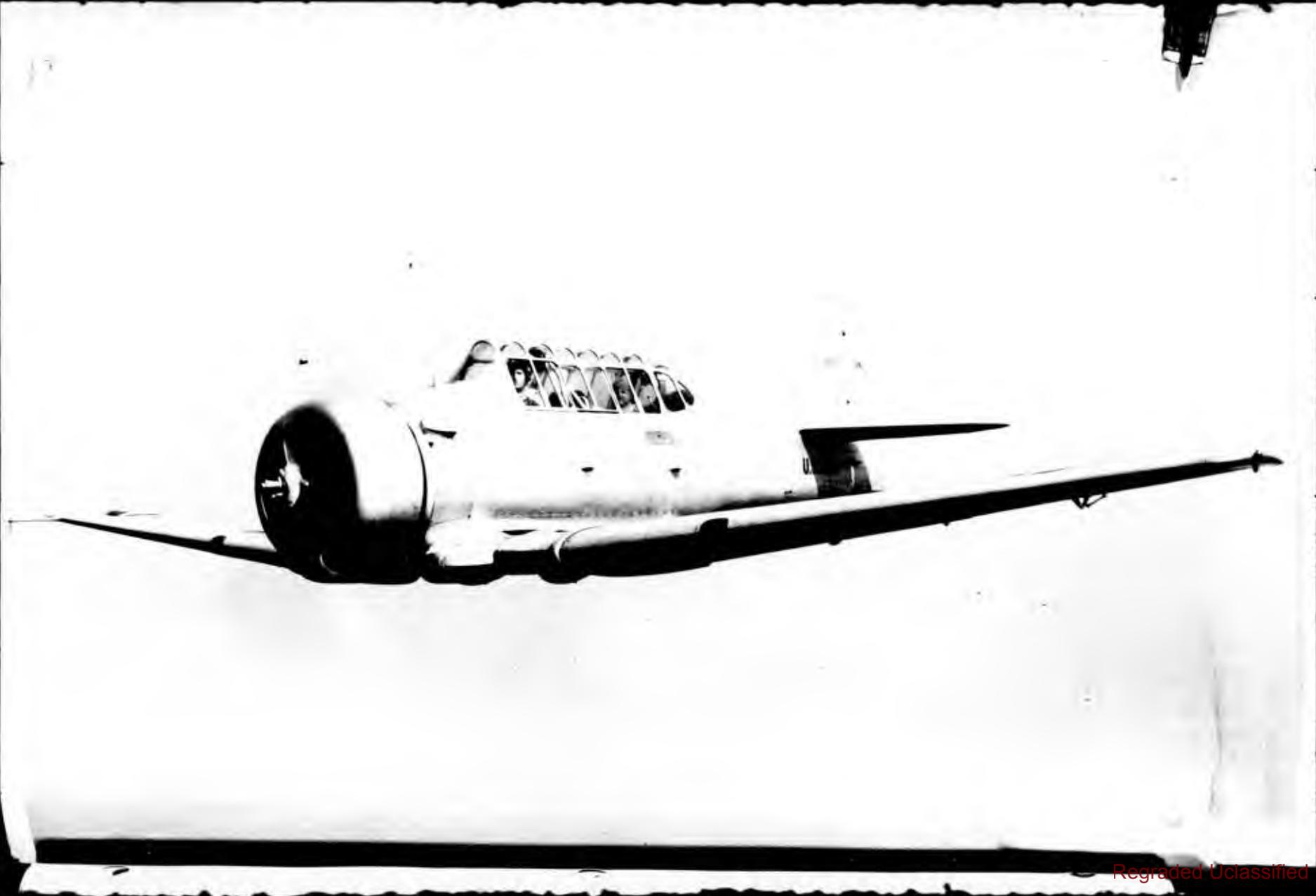
73

Navy Training  
Types



X.34-1      1-11-39      A1-32757      "OFFICIAL USE ONLY"      "NOT TO BE LOANED FROM THIS OFFICE"





May 22, 1940

3 p.m.

Present:

Mr. Purvis  
Mr. Bloch-Laine  
Mr. Young

HM,Jr: Let me tell you what I got. This fellow Gilman would not talk to anybody but me. I got the best engine engineer in the United States, who is free, who is coming to work as my assistant.

Mr. Purvis: Oh, good work!

HM,Jr: He's a marvel! Dr. Mead was chief engineer for Wright; he was chief engineer for Pratt-Whitney and chief engineer for the Air Corps out at Dayton.

Mr. Purvis: That will be a great relief because you have got to have men.

HM,Jr: This fellow know airplane engines.

Mr. Purvis: That's right.

HM,Jr: And he has an assistant now. An engine man from M.I.T., a going production man too.

Mr. Purvis: Good!

HM,Jr: And he says the greatest crime was committed when we let Carl Ward leave the country. But at least I have got technical assistance and the best available in the United States on engines.

Mr. Purvis: Yes. That's very, very good. I. Fedden could have talked to him.

HM,Jr: My wife saw you walking around the White House yesterday.

Mr. Purvis: Of all the extraordinary things to

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happen! I have only once seen a ball game in America in the 25 years I have been here and for the first time since the war news was so bad I could not sleep so we went and saw a baseball game. It was the Treasury and F.B.I. and we found ourselves ardent supporters of the Treasury team.

May I add just one or two things that might interest you?

Pratt Whitney will be signed this afternoon. I have to go back this afternoon and do it, but it is agreed and finished.

HM, Jr.: Will you open a bottle of champagne for us?

Mr. Purvis: I would love to.

Another important thing: that Monnet has telephoned and asked me to send you his best regards and asked us to try and think up in a rather different way the possibilities in regard to producing war materials here, both for the shorter term and for the longer term -- the creation of output -- to think in large quantities and we have word from our people not to ask too many questions over there as to what they want, to try and imagine what they want and start the thing without getting in touch with them.

Mr. Bloch-Laine: In view of what can be had. In fact so far with us undoubtedly they were trying to fill gaps in their production here; sometimes ask us things which were almost impossible to be had, such as certain things that would have taken a new factory to be built for relatively small quantities. Today the outlook is entirely different. There are going to be a great many things as a result of that battle in the north of France that will not be produced, because that north is going to be very much destroyed from the point of view of steel, especially steel, and some other things that we have in the region of Lille, and certainly they are going to lack a good many things, so it seems to me the problem is reversed and it is not so much a question of how to fill this or that gap, but largely the ones that can be found in this country relatively and quickly or which are the best ones on which to

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concentrate or what are the things on which production can be doubled up on account of your own preparedness program. Such a kind of entente can be reached and then instead of trying to tell us, there would be a reverse of the situation in view of what can be done here. We would tell them this, that or the other thing can be done. And they could adjust themselves.

HM, Jr: I don't mean to interrupt you.

Mr. Bloch-Laine: No, I said everything I meant to say.

HM, Jr: After all, what you gave me yesterday morning was a large order.

Mr. Purvis: It was.

HM, Jr: General Marshall is coming here at four o'clock and the President of the United States is seeing us at four thirty. Now, I cannot move any faster than that, because what you are asking me is a major military decision.

Mr. Purvis: That's right.

HM, Jr: A major military decision has to be made and the Chief of Staff has to make it in the first instance, and then after that it has to be politics. I don't mean political but p-o-l-i-t-i-c.

Mr. Purvis: How it fits in with public opinion as it is today.

HM, Jr: There is no use rushing me. I got it at five minutes of one. At one o'clock the Chief of Staff had it. He's personally behind it. Spending his time on it today and at four thirty we see the President. I appreciate the pressure you gentlemen are under but nobody could move as quick.

Mr. Purvis: Monnet is telephoning anxiously. You see. Could I put it this way? Is it your thought that I would for the moment better stop here and go to New York and come on your call? We would like to get to Monnet as soon as possible the general thought of the way it is liable to go.

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HM, Jr: If I have a message for you after this meeting, both of you, and you go back to New York and I have something which is encouraging, I will give you a ring on the phone.

Mr. Purvis: Thank you very much.

HM, Jr: If it gets down to detail that you can have your five engines or this or that as soon as -- incidentally, you have all of my copies which I want for four o'clock.

The Dupont man has been to the State Department and come here at three thirty. I might just as well see him with you.

Mr. Purvis: Suppose we just hang around.

HM, Jr: Plus Sullivan who has been studying this.

Mr. Purvis: I think it would be splendid.

HM, Jr: You want to give me something else?

Mr. Purvis: One other little something that came this morning from Paris this time.

Mr. Bloch-Laine: I cannot promise that it is the last.

HM, Jr: Didn't you ask me for this in a different way?

Mr. Bloch-Laine: That was powder.

Mr. Purvis: This is T.N.T. This is just plain straight out stock.

HM, Jr: You have not got a ribbon copy of this bill.

Mr. Young: No, sir, that's the only copy there is. You gave the original to General Marshall.

HM, Jr: This you are giving me May 22nd.

Mr. Purvis: This is a little easier. That T.N.T. is something which comes off the shelf and is used by the

- 5 -

British and French or Americans is all the same T.N.T.; whereas nitro-cellulose has to be different size to fit different guns.

HM,Jr: Have you got a copy for General Marshall?

Now, you gentlemen want to wait until Dupont comes?

Mr. Purvis: Yes.

Mr. Bloch-Laine: I don't want to be all the time asking. This is something we don't ask. This is something we offer. Rather amusing.

HM Jr: Wonderful! Handle it the same way.

Mr. Purvis: Through the Commanding Office Wright Field.

H.M.Jr: Yes. Wonderful!

82  
from  
Arthur Purvis  
May 22, 1940

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T. N. T.

We have received from Paris a request to hasten as much as possible the deliveries of T.N.T.

Our Atlas contracts cannot provide us with any T.N.T. for France before August.

Would it be possible to obtain from the United States Army and Navy stores, 2,000 tons for immediate shipment, or a priority on DuPont production for the immediate future?

I have given copy to  
P. Young

May 22, 1940.

May 22, 1940  
4 p.m.

Present:

General Marshall  
Mrs. Klotz  
Mr. McReynolds

General Marshall: In the first place, we have gone from a big reserve to a 15% reserve. The Allied purchasing people, turning to American equipment, for planes. We are then in a position to drop out that reserve and have no reserve over operating planes, because our equipment, the plane they are turning out is readily usable on a broad basis. Then I am of the opinion, and all my advisers are, that in our situation, with what is going on in this part of the world, with the slow deliveries we already have before us, that we could not accept a delay over the present procedure, which is very slow in getting the operating planes for the GHQ air force. They are getting that figure in some exact form with the 15% cut off and on the combat planes feature. But if the manufacturer -- and that is a matter on which you are an expert -- I am told that if the manufacturer could be assured of a continued production, say up to the end of 1941, rather than as some of them have contracts terminating early in 1941 and the others in the middle of 1941, if they were assured of that and had orders to cover that in a big way, then immediately their procedure would be such as to increase production beginning in about the fourth month from now on an increased basis to such an extent that we would go along with the same rate of delivery. We would receive no benefit from that procedure, but the Allies would for all those orders. I am not talking about planes for immediate delivery because, as I see it right now, we have none for immediate delivery.

HM, Jr: May I interrupt you. I had at my house Vaughn and Wilson and they assured me, in one case they are working 7 days three shifts, and the other 6 days three shifts and they said, "Mr. Morgenthau, with all the money in the world, if you gave it to us, we could not increase our engine production."

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General Marshall: That's what I thought you told me the other day. That's the bottleneck.

HM, Jr: So even if we gave them this plane business, we would not get the engines, so it all comes back to engines.

General Marshall: Yes, sir. You are exactly right.

HM, Jr: I know what the plane people are manufacturing because Brett gave me that statement.

General Marshall: The other thing he was to take up was the engine part.

HM, Jr: The engine thing, for the next three or four months is absolutely hopeless and tomorrow morning Sloane is coming in at 11 o'clock. I said I want him to look me in the eye and tell me he is going to do something.

General Marshall: As to engines, there were two things. One, to get five engines to ship abroad and the other was 5 or 6 for delivery at Buffalo and they assure me they are working it out so that can be done.

HM, Jr: That will be swell. Will I get that in a memorandum?

General Marshall: Yes. I will have that over tomorrow morning. But Brett assured me he thought he had that worked out.

HM, Jr: That will be something.

General Marshall: That isn't a very big request either.

HM, Jr: That would make them very happy.

General Marshall: That's a small one.

HM, Jr: But you think we can do something on those half dozen engines.

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General Marshall: Yes. Both different requests, one for five and one for six. Brett has those papers. I will give you a brief on the bomber situation in the same manner that I had the document prepared on the P-36's.

On hand in the Continental United States there are 52 flying fortresses. However, as you are undoubtedly familiar, that is the only real thorough bomber to cope with modern things despite the fact it has not gas proof tanks. There are 52 in the United States.

HM, Jr: And no gun in the tail.

General Marshall: No gun in the tail, now. Out of a total of 136 required for the equipment of the squadrons. Obvious shortage of 93. That is our only modern bomber and, of course, it is not the type of bomber you would use over there unless they wanted to send it over into Germany. 52 planes of this type is far from sufficient for training of pilots now assigned to squadrons. If we send them over now they would have to train the pilots, because there is quite a technique to piloting these and it will be 2 or 3 months before they could use it and this shortage of pilots and crews will be aggravated when additional pilots report. Also, I am going into a conference with Admiral Stark which the Admiral does not know about yet, to try to make a chance in their Naval set-up in the Pacific. One of these is we have to put 52 planes in the water. Of the B-18 -- that's the ordinary 2-engine -- we have now -- there are 240 in the United States. We are using those as a substitute plane for the big flying fortresses. They would be very difficult to ship over there.

HM, Jr: Which are those?

General Marshall: The B-18, of which we have 240. The B-17 could be ferried via Newfoundland. The B-18 can't make that field and can't be sent below deck on a carrier so only a small number could be put on the upper deck. The elevators are too small.

-4-

However, those planes, deficient as they are, are the only means of training pilots. So our situation in bombers is very serious to us, because we have this antiquated force in Panama and Puerto Rico and Hawaii as well as of course in the United States, with the exception of these 52 flying fortresses. Tomorrow I should have a decent memorandum on this thing, tomorrow morning I hope, along with the engine part of it. Now here are the other papers you gave me.

HM, Jr: I have sets of these.

General Marshall: If you turn down here and get to the next thing, I will read and you can look at it if you want to. This refers to all the material other than air stuff.

In effect, the thing is this. We have ignored the legal requirements, both of the Neutrality Act and of the law which states exactly how we will declare things surplus and we have ignored the political implications of any action. We have addressed ourselves simply to the proposition, duly safeguarding our situation of National defense in the light of the present situation, what, beyond that, might we spare if means were found of getting it over to the Allies. It boils down to this:

75 m.m. field guns and ammunition, we have none. The shortage is terrible and we have no ammunition for anti-aircraft and will not for six months so if we gave them the guns they could not do anything with them. Anti-tank material could be produced by industry in quantities in 12 months and it is to our advantage if they want to do it. Anti-tank guns, the situation is similar, a shortage. .50 caliber, our situation is the same.

Now we come to some things we can do. Browning .30 light machine gun. I feel we can release 10,000 as they stand, unmodified, because we have a great many. Automatic rifle, unmodified, I feel we can release 25,000 without jeopardizing ourselves. Enfield rifles, I feel we can release 500,000. Those we can declare

-5-

surplus and manage that under the law. Automatic pistols, we have none. 75 m.m. field guns, of the British design that fires either American or French ammunition, I feel we might release 500.

HM, Jr: I am giving a double line to the legal ones. Could you declare that surplus?

General Marshall: If I could get into church I could. It's pretty nearly surplus, in this respect. On the basis that we are going after 105 guns and we have so many of those that we can't bring other troops up into them until we get new production. So I can stretch my conscience there. Mortars, we can release 500 of those and 50,000 rounds of ammunition. That is a thing we don't want to use. We have a lot of ammunition. Deteriorating very rapidly.

Now here is a tricky one and it's the vital item of the plot. Caliber .30 ball ammunition. The proposal here is we might release 100,000,000 rounds 80% machine gun and 20% rifle. You see, none of those machine guns are worth anything to them without ammunition.

HM, Jr: How's your conscience on this?

General Marshall: Well, the situation there is this. We are running up to production now of almost 800,000 rounds a day of all kinds of .30 caliber. That is tracers, blanks, and things of that sort. Very little powder involved in it. The ammunition is very cheap. We are getting rapid production and it's deteriorating a lot so that we have that excuse for trying to do it, but just to say out and out .....

HM, Jr: I am putting two lines.

General Marshall: Now, in addition to the above, there is a lot of things below that we have declared surplus, but up to the present time the State Department decision has been even though surplus, nothing to be sold to belligerents. If the State Department decides to

sell to belligerents, there's the material that is legal. Any South American country that wants to buy that, we will sell it to them.

I might say there was a request in there that they ask for, in connection with Colt, order for machine guns, and I have not got the dat. They were trying to work out a way with the Assistant Secretary's side and I have not got that for you.

With reference to releasing powder machinery. The War Department is agreeable to releasing such equipment in excess of its own requirements provided it is replaced in kind with new equipment.

With reference to release of 125 tons of nitro-cellulose powder, the War Department cannot agree to such a release. I might say all our ammunition for cannon, rather than small arms, is in such a dangerous situation that there we could not do anything without prejudicing our own situation too seriously.

This memorandum is just in the form it came to me from General Wesson. I had the people concerned go over this with General Wesson. They went over the various items and he was just able to get this to me at 3 o'clock so I have no memorandum to you.

The question of price was spoken of and the general thought was this: that of certain types of materiel where it is of the antiquated pattern, it ought to be about 75%. Of certain types where it has a positive value today or can be readily modified to an excellent weapon, like the modified rifle, it ought to be 100%. That is, again, a question of Governmental policy and that is where I believe the Secretary of War has to bear the burden of the plot. Some of the deteriorated ammunition would be at much less price.

HM, Jr: If you don't mind, I would like to substitute this chart for this one.

General Marshall: That's all right with me.

Mr. McReynolds: Only leaves out the confusion of the other members.

-7-

HM, Jr: Why don't I have both?

Mr. McReynolds: The only change is that we have brought down that aircraft stuff into two sections. (The chart referred to is attached to report of White House meeting at 4:30.)

HM, Jr: If I may take the two minutes I have left before I go over -- depending upon how much time -- the principal thing that I have asked this meeting for, General, is this. The President has got to make up his mind how he's going to handle this question -- I want to try to get the President to make up his mind how he's going to handle all of this program stuff plus the orders from the Allies. They come in today and say "things have changed and we are going to have to buy practically everything here". That puts us, as I think you said, on a mobilization basis.

General Marshall: Something has to be done to put it on a normal basis. This has been catch as catch can. It has to go on a formal basis.

HM, Jr: That's the point. I have had my talk with Pa Watson, with McReynolds because it's an administrative matter, and I asked for this meeting so that the President will make up his mind and not do some of the things which I think he is thinking of doing, taking on three assistants to himself. Continue this -- give one man this.

General Marshall: It's going to get so confused nobody will know where they are.

HM, Jr: That's the purpose of the meeting and I hope I have your backing.

General Marshall: Oh, absolutely! We have to get on a solid business basis right away.

HM, Jr: Here's something to you. They are going to give you something. (Memo of 5/22 "German Aircraft Engine and Propeller".) They made a regular ceremony here. It will be sent to New York, care of the Air Corps, Dayton, Ohio.

oOo-oOo

# SPECIAL

**It is Important  
that this Paper  
should be made  
Special.**

U. S. GOVERNMENT PRINTING OFFICE 2-2020

Treasury Department  
Division of Monetary Research

Date 6/5/40 19

To: Miss Chauncey

From: L. Shanahan

Am returning herewith the Stettinius material - about which you asked the status.

On May 29 a memorandum was prepared to the Secretary, from Mr. White, entitled "Tungsten". The gist of the memo was given to the Secretary orally by HDW and the original sent you for your records.

MR. WHITE  
Branch 205B - Room 210

31  
Mr. White  
Please check  
HWR about this  
10818 105

May 24/40

*Mr. Stettinius Sat  
this 8 AM  
Wed. May 27 at 10:15  
40.*

The chances of an individual or a specific industrial company obtaining the general information requested are extremely poor. As an illustration: a single company would probably be glad to furnish the information to a Government agency confidentially, but would be reluctant to give it to anyone else. A Government agency could probably obtain this information by writing directly to various companies.

On the particular subject of tungsten, a Government agency might be able, however, to get the information more easily through the Bureau of Mines, Department of the Interior, or the Army and Navy Munitions Board. We understand various consumers of tungsten file monthly reports with the Bureau of Mines showing the consumption of tungsten and stocks on hand. Further it is believed that the Army and Navy Munitions Board has made a thorough study of the tungsten situation.

Confidential information on tungsten consumption and stocks on hand of the United States Steel Corporation is as follows: (consumption below is the form of ferrotungsten-W)

In the last four years consumption has varied from 1,000 pounds to 12,000 pounds annually.

In 1939, about 2,900 pounds were used, and it is estimated that 1940 requirements will total between 10,000 and 15,000 pounds.

At the end of April 1940, about 6,200 pounds of ferrotungsten were on hand.

In the past, purchases have been made from metallurgical sources in this country, specific firms utilized being on the list of firms prepared and submitted with letter of April thirtieth.

The Corporation expects to obtain additional supplies when needed through the same or similar sources. If the inquiry relates to the more fundamental question of the availability of foreign and domestic ores, as presumably is the case, it is believed that inquiries directed to some of the dealers on that list might bring results.

It should be noted from the figure shown above that the Steel Corporation is a very small factor in the consumption of tungsten. That is probably true of the industry generally as compared with certain other industries such as electric equipment and radio.

- 2 -

In view of those two industries probably being more important consumers of tungsten than the steel industry, it is suggested that perhaps additional information can be secured from companies such as General Electric or Radio Corporation of America.

---

May 22, 1940  
10:40 a.m.

H.M.Jr: Hello.

General Marshall: Good morning, Mr. Secretary.

H.M.Jr: How are you, General. General, I had a fairly satisfactory talk with Colonel Rutherford this morning.

M: Yes, sir.

H.M.Jr: But I told him I wasn't entirely satisfied with his suggestion, and the reason I wasn't is that there were too many paper committees.

M: I see.

H.M.Jr: The the thought that I had in mind for the immediate emergency was the possibility of increasing the Munitions Board.

M: I see.

H.M.Jr: And let that function for the time being.

M: Yes, sir.

H.M.Jr: And let the President put a couple of people in there that he has confidence in. Now, I.....

M: I see. What was Rutherford's reaction to that?

H.M.Jr: He liked it.

M: He liked it?

H.M.Jr: He said.....

M: Well, that strikes me as a very good intermediate step. I'm not the expert on that but that sounds sensible to me.

H.M.Jr: He liked it.

M: Well, that's fine.

- 2 -

H.M.Jr: Now, this meeting at 4:15 at the White House.....

M: Yes, sir.

H.M.Jr: Is at my suggestion, and it's for this purpose.

M: Yes, sir.

H.M.Jr: And I wondered if you could drop over here a little earlier so we could.....

M: Whatever time you say.

H.M.Jr: Well, a quarter of four?

M: I'll be there.

H.M.Jr: And then we could talk a little bit about.....

M: All right, sir, and I'll arm myself a little bit before I get there.

H.M.Jr: But this is the way -- and the suggestion -- the way I'm working it, I know the President and you set up all these organizations

M: Yes.

H.M.Jr: Huh?

M: Well, I'll be there at a quarter of four and I'll talk to Rutherford and boil myself out before I get there.

H.M.Jr: There's just going to be you and Stark and myself.

M: Yes, sir.

H.M.Jr: And the purpose of it is this. And maybe by a quarter of four you could have some answers on all that Allied stuff.

M: Yes, sir. I've got it in my hands and I've got a committee here right now.

H.M.Jr: Thank you so much.

M: All right, sir.

May 22, 1940  
10:50 a.m.

H.M.Jr: Hello.

Operator: Mr. Hoover. Go ahead.

H.M.Jr: Hello.

J. Edgar  
Hoover: Hello.

H.M.Jr: Good morning.

H: Good morning, Mr. Secretary. I just wanted to give you a call to let you know the status of that matter.

H.M.Jr: Please.

H: The verbal instructions came through. The written instructions have not as yet come through because I understand that the party to whom he dictated them is ill and hasn't been able to transcribe her notes.

H.M.Jr: For heavens sakes.

H: But the word came through and we have resumed the contact which I -- with what I know is going to be excellent results here.

H.M.Jr: Well, we -- just never mind the written instructions.

H: Yes. The thing about it is you certainly got the wires cleared for us.

H.M.Jr: Well, let me know if there is anything else because.....

H: I will, and I think maybe in working out some of these things we -- we may want the assistance -- I'm quite sure that we will want it -- of the Coast Guard on some things that they can do on radio, you know.

H.M.Jr: Well, the person to talk to on that is Herbert Gaston.

H: I will. I'll take it up with him.

H.M.Jr: And you'll find him most cooperative.

- 2 -

H: Yes, they've been very helpful on some of the things already, and I think in this thing we'll really be able to get some results now.

H.M.Jr: And they're particularly good at breaking codes.

H: Yes. Well, that -- that of course is the thing. Very fortunately -- this is just for your own information -- we were able last night to send the first message through to the other side for the group that's here.

H.M.Jr: Oh, really.

H: Yes. They have set up on the -- Long Island here -- one of their short wave stations.

H.M.Jr: Yes.

H: Which, however, happened to be two of our men.

H.M.Jr: Yes.

H: And therefore we have the immediate inside of that.

H.M.Jr: Have you -- do you -- was it in code?

H: Yes, it was -- that is, it was in code that we knew of, you see?

H.M.Jr: Oh.

H: Because our men were hired by this particular party to build the set and to operate it.

H.M.Jr: I see.

H: And while our men were not supposed to know the code they did from the facts of a man that we had apprehended about six weeks ago.

H.M.Jr: Was it important?

H: It was just -- no, the message as a matter of fact was meant as the first contact message.

H.M.Jr: I see.

- 3 -

H: But I imagine now most daily we'll begin to get some really important material and I will send copies of that to you if anything turns up there would be of interest.

H.M.Jr: Yes, I'm very much interested.

H: Because I think, naturally, it fits into the whole picture.

H.M.Jr: Yes, it does.

H: It just shows the value of getting this other thing ironed out.

H.M.Jr: Well, thank you very much.

H: Well thank you very much indeed. We are very grateful to you for it too.

H.M.Jr: All right.

H: Thank you. Goodbye.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

May 22, 1940

The Pepper resolution, which was disapproved by the Senate Foreign Relations Committee this morning by a vote of 10 to 1, provided that the President might sell to countries which were subject to unprovoked invasion aircraft, aircraft parts or equipment belonging to the United States which in the judgment of the President could be sold and delivered without imperiling our national defense. Machine guns and other equipment not relating to aircraft were not included.

*E. H. Foley, Jr.*

Secretary Morgenthau

May 22, 1940

E. H. Foley, Jr.

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(100) (100) E. H. Foley, Jr.

EHP:is 5/22/40

TREASURY DEPARTMENT

101

INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Sterling had a steadier tone in the New York foreign exchange market today. The opening quotation was 3.22, as compared with last night's close of 3.17-1/2. During the morning, the rate moved between 3.20 and 3.24, and at noontime it was quoted at 3.22-3/4. It experienced little change in the afternoon session and the closing quotation was 3.23.

The sterling turnover figures given below revealed that there was some expansion in the volume of business. The major part of foreign bank orders to purchase sterling came from Chinese banks.

Sales of spot sterling by the six reporting banks totaled £372,000, from the following sources:

By commercial concerns.....	£264,000
By foreign banks (South America and Europe).....	£108,000
Total.....	£372,000

Purchases of spot sterling amounted to £511,000, as indicated below:

By commercial concerns.....	£117,000
By foreign banks (Far East, Europe, South America, & Near East).....	394,000
Total.....	£511,000

The following reporting banks sold cotton bills totaling £20,000 to the British Control on the basis of the official rate of 4.02-1/2:

£12,000 by the Irving Trust Company
4,000 by the National City Bank
3,000 by the Guaranty Trust Company
1,000 by the Bank of Manhattan
<u>£20,000 Total</u>

On continued selling of French francs by Italian interests, the franc rate declined in New York in relation to both the dollar and the pound. In terms of dollars, the franc touched a low of .0176 this afternoon, and closed at .0176-5/8. The widest cross-rate was 183.52 francs per pound, and the final franc-pound quotation was 182.87. The New York bank which reported yesterday the receipt of orders from Italy to sell French francs, today informed the Federal Reserve Bank that so far it had disposed of about 23,000,000 francs in the New York market for Italian account. Another bank stated today that it was attempting to sell francs here by order of the Italian National Institute of Exchange.

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# CONFIDENTIAL

The Federal Reserve Bank further learned that one of these New York banks dispatched an over-night cable to authorized banks in France, offering them French francs in return for sterling, and that today the New York bank received a cable from France stating that the authorized banks there were unwilling to exchange pounds for francs. From the evidence supplied by this interchange of cables, and from the information received a week ago from New York banks to the effect that French authorized dealers would sell francs against pounds, the following assumption can be drawn: under present conditions, the French authorities will not allow the French franc to strengthen against sterling beyond a cross rate of 176.50 francs per pound in the open market, but are unwilling to place any check upon a depreciation of the franc vis-a-vis the pound.

The other important currencies closed as follows:

Swiss franc	.2242
Canadian dollars	21-3/8% discount
Reichsmarks	.4000

There was little change in the yuan quotations received from Shanghai. Against sterling, that currency improved 1/16d to 4-1/8d. In terms of dollars, it was 5-1/2¢, off 1/16¢.

The Federal Reserve Bank of New York reported the following shipments of gold:

\$50,075,000	from Canada, representing two shipments from the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York for account of the Bank of England. The disposition of these shipments is unknown at the present time.
3,575,000	from Canada, shipped by the Bank of Canada, Ottawa, for its own account, to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office.
860,000	from Peru, shipped by the Central Bank of Peru, for its own account to the Chase National Bank, New York, for sale to the U. S. Assay Office.
235,000	from Hong Kong, representing two shipments from the Chase Bank, Hong Kong, to the Chase National Bank, San Francisco, for sale to the U. S. mint.
<u>\$54,745,000</u>	Total

The State Department forwarded to us cables stating that the following gold shipments would be made:

322,000	from England, representing two shipments by the Chase National Bank, London, to its head office at New York.
198,000	from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N. A., San Francisco.
120,000	from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.
42,000	from England, shipped by Samuel Montagu & Company, London, to the Bank of London and South America, New York.
21,000	from England, shipped by Samuel Montagu & Company, London, to the Guaranty Trust Company, New York.
<u>703,000</u>	Total

- 3 -

Of the above shipments, those being sent from England will be sold to the U. S. Assay Office at New York, and those coming from Hong Kong are for sale to the U. S. mint in San Francisco.

On the report of May 15 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$16,417,000, a decrease of \$171,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION MAY 8	SHORT POSITION MAY 15	DECREASE IN SHORT POSITION
England	\$ 4,515,000	\$4,929,000	\$414,000 (Increase)
Europe	7,993,000	8,181,000	188,000 (Increase)
Canada	177,000 (Long)	641,000 (Long)	464,000 (Increase in Long Position)
Latin America	567,000	173,000	394,000
Japan	3,480,000	3,441,000	39,000
Other Asia	209,000	342,000	133,000 (Increase)
All Others	1,000	8,000 (Long)	9,000 (Increase in Long Position)
Total	\$16,588,000	\$16,417,000	\$171,000

The Bombay gold price was slightly higher at \$36.74.

The Bombay spot silver quotation worked out to the equivalent of 44.36¢, up 3/16¢.

The London silver prices moved off sharply today. The spot and forward quotations were 21-3/16d and 21-1/16d respectively, representing a decline of 1-3/8d in each case. A report from London stated that there was general speculative reselling, with an absence of buyers. The U. S. equivalents, calculated at the open market rate for sterling, were 30.27¢ and 29.86¢. On the basis of the official sterling-dollar rate, the spot price was equivalent to 38.52¢. We have not yet received any authoritative report that the British Government requires silver exports to be paid for in certain foreign currencies or in sterling obtained at the official rate.

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¢.

There were no purchases of silver made by us today.

*B. M. F.*

CONFIDENTIAL

May 22, 1940  
9:45 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Robert  
Doughton: Oh -- Secretary?

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

D: All right, Henry. How are you getting along?

H.M.Jr: Fine. Got any good stories to tell me like outside  
insistence.

D: How's that?

H.M.Jr: Have you got any more funny stories to tell me?

D: I didn't get that?

H.M.Jr: You told me a good funny story the last time you were  
down here.

D: Yeah. Well, I haven't got any more. I'm sorry you  
weren't here the other day. I was down to our  
State Convention when you called.

H.M.Jr: Well, you didn't miss a thing.

D: Jere went down though and told me about what was  
said and done, but somebody is asking me every day,  
every hour, about this tax situation. How soon are  
you going to be able to tell us what you've got on  
your card?

H.M.Jr: Well, I tell you, I don't know anything more than  
when Jere was down here.

D: You don't?

H.M.Jr: Not a thing. I read by the papers the President  
doesn't want any millionaires. See?

D: Yeah.

- 2 -

H.M.Jr: So you and I are going to have to change our habits.

D: Going to have to do -- how was that you said?

H.M.Jr: You and I are going to have to change our habits.

D: In what respect?

H.M.Jr: Well, he doesn't want any millionaires.

D: What?

H.M.Jr: He doesn't want any millionaires.

D: Oh -- well, I -- that eliminates me completely.

H.M.Jr: That's right.

D: Yeah.

H.M.Jr: Now, Bob, he hasn't talked to me.....

D: Huh?

H.M.Jr: The President hasn't said a thing since Friday. Not a thing.

D: He hasn't?

H.M.Jr: Not a word.

D: Well, we can't do anything. Some -- the members of our Committee, you know, some of them are restless and want to know and members of the House and everywhere are pulling on us. Of course we can't tell -- we just tell them that we can't make a move or do a thing until we hear from down there.

H.M.Jr: That's right. Tell them to keep their undershirts on.

D: How's that?

H.M.Jr: Tell them to keep their undershirt on.

D: Well, we're trying to get them to keep their modesty all they will.

H.M.Jr: O. K.

D: All right. Well, thank you.

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H.M.Jr: If I know anything I'll call you.

D: All right. Thank you very much, Henry.

May 22, 1940  
3:21 p.m.

H.M.Jr: Hello.

Operator: Secretary Perkins.

H.M.Jr: Thank you. Hello.

Sec'y Perkins: Hello, Henry.

H.M.Jr: Yes, Frances. I hope you didn't mind my using your name Monday.

P: Not at all. (Laughs) I want to say I think you got -- you helped the President get out an awfully good statement. It was just right, you know, about this -- it's all right for the time being.....

H.M.Jr: On labor you mean.

P: Yes. I think it's fine. What I was going to say is that I heard -- you know, somebody brought me secondhand information that there was going to be a conference today or tomorrow or the next day between you and McReynolds and somebody or other about recruiting labor supply.

H.M.Jr: Well, that, McReynolds is doing in his capacity as Administrative Assistant to the President.

P: Yes.

H.M.Jr: He's handling that himself.

P: Well, is he going to have such a conference?

H.M.Jr: I don't know, Frances. I -- I just know he's been doing it at odd moments. Would you like to talk to him.

P: Yes, I would, because -- I mean really -- I mean, he hasn't talked to anybody here who knows anything about it.

H.M.Jr: Well, do you mind if I -- I could just switch you over to him.

- 2 -

P: I'd love to.

H.M.Jr: Because he's handling it directly and I really don't know much about what he's doing.

P: All right. Fine.

H.M.Jr: Just a second, please.

Operator: Operator.

H.M.Jr: Would you give the Secretary of Labor to talk to McReynolds, please?

O: Surely.

H.M.Jr: Thank you.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

PERSONAL AND  
CONFIDENTIAL

May 22, 1940

*Jason*  
*Basel Harbor* } *Madison*  
*Bohm* } *return*  
*1940*

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest to you, a copy of a statement dated May 21, 1940, which contains information obtained from a confidential source with regard to the present status of Norwegian and Danish commercial shipping.

Sincerely yours,

*J. E. Hoover*  
John Edgar Hoover  
Director

Inclosure

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

May 21, 1940

MEMORANDUM

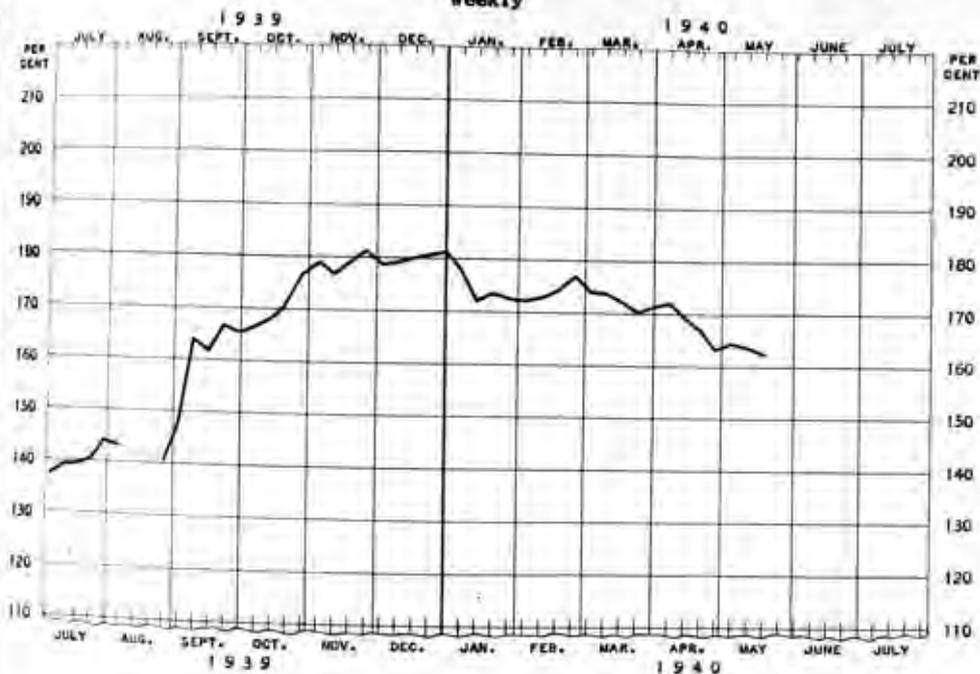
Information has been obtained from a confidential source to the effect that Norwegian Consuls throughout the world have ceased exercising control over Norwegian shipping because of conflicting orders received from Norway. It is reported that the British Navy has assumed responsibility for all Norwegian ships. Norwegian shipping is allegedly operating at the present time under the direction of the British Admiralty. It is further reported that such control over Norwegian shipping was obtained by the British Admiralty due to the fact that insurance cannot be obtained anywhere by Norwegian ships unless it is definitely agreed that the ships will operate under the control of the British Admiralty, particularly with regard to which waters and ports are to be visited by these ships during the course of commercial voyages. It is reported that Norwegian vessels are presently prohibited from entering Spanish, Italian, or Chilean ports. Additional information furnished by the above mentioned source indicates that Norwegian ships are presently being seized as prizes by the British Navy in the event they are unable to exhibit letters from British Consuls in the ports visited by them during the course of commercial voyages. It is also stated that the owners of Norwegian ships now operating under Japanese charters are being encouraged to break such charters, in which connection the British Government is allegedly perfecting arrangements whereby the Norwegian owners in question can plead "force majeure."

Information obtained from the above mentioned confidential source is to the effect that Danish ships are presently being treated by the British as enemy vessels, although efforts are allegedly being expended by the British to obtain control of Danish shipping by promising no interference with such vessels if adequate guarantees are maintained that these vessels will not operate in the interests of Germany and that no money realized through their cargoes or voyages will reach Denmark while that country is under German control.

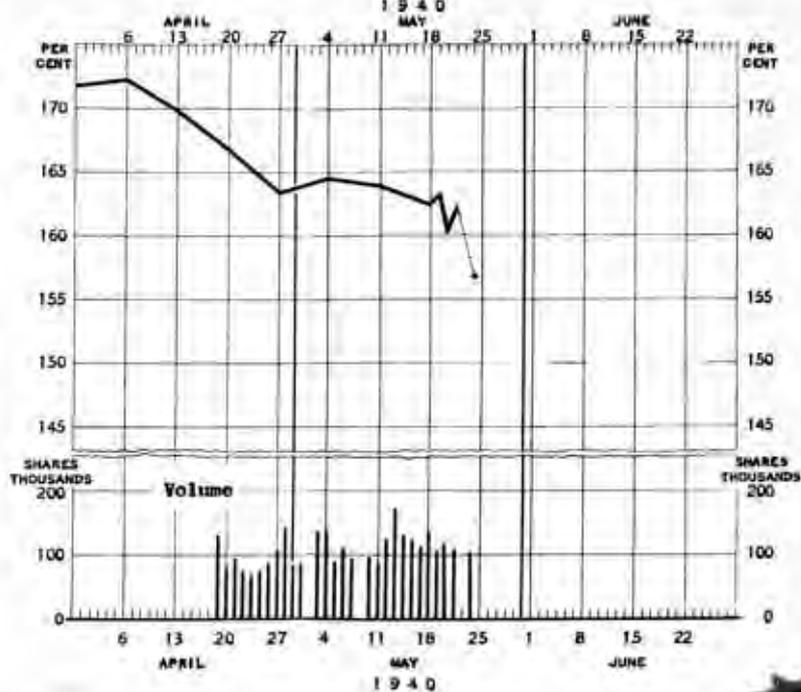
# ITALIAN STOCK PRICES (Milan)

Dec. 31, 1927 = 100

Weekly



Daily\*



\*DAILY FOR LATEST WEEK ONLY

JI

GRAY

PARIS

Dated May 22, 1940

Rec'd 2 p.m.

Secretary of State

Washington

822, May 22, 6 p.m.

FOR THE TREASURY.

Cariguel has just informed a member of my staff that he will immediately advise him should the Bank of France move from Paris.

Cove de Murville whom the Embassy telephoned this afternoon in regard to the lease of a bank building at Locustes for the Guaranty Trust stated that the Finance Ministry had no intention of leaving Paris. It is believed that his remarks referred to the principal officers of the Ministry inasmuch as certain of its personnel has already been moved to the south.

BULLITT

DDM

REB

TELEGRAM SENT

GRAY

May 22, 1940

5 p. m.

AMERICAN CONSUL

MILAN (ITALY)

23

Reference your despatch 677, May 4.

The Treasury Department has noted your statement that a daily index of 30 stocks is computed by a brokers' service bureau and published in "Il Sole".

You are instructed to substitute the index mentioned for the list of individual stock quotations now being transmitted if such can be done without causing delay. Otherwise, the existing procedure should be continued without change.

In the event it is found possible to substitute the index for the individual stock quotations it is requested that the index be cabled for May 4, May 11 and May 18, 1940 and daily thereafter.

The cost of the telegrams involved in this service should be charged to the Treasury Department.

HULL  
(HF)

EA:HF:MEG

JOHN EDGAR HOOVER  
DIRECTOR

*114*

**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

May 22, 1940

PERSONAL AND CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

Supplementing my letter of May 6, 1940,  
I am transmitting herewith a copy of an additional  
memorandum dated May 21, 1940, pertaining to  
Dr. Gerhart Alois Westrick, which may be of some  
interest to you.

*This letter is  
not in my  
possession*

Sincerely yours,

*J. E. Hoover*

Enclosure

May 21, 1940

MEMORANDUM

RE: DR. GERHART ALOIS WESTRICK,  
with alias

The following telegrams were dispatched by Dr. Gerhart Alois Westrick while he resided at the Plaza Hotel in New York City recently.

March 12, 1940, sent to Westrick (probably Dr. Westrick's wife), Neubabelsberg, Germany. "Fortunately arrived in my old rooms at Plaza. Hope to see you very soon. Heartiest wishes."

March 14, 1940, sent to Signalwerks, Berlin, Germany. "Hahnemann happy over information San Francisco, New York. Meetings. Best wishes to all."

March 14, 1940, sent to Emundge, Berlin, Germany. "Hoffman thanks for telegrams San Francisco, New York. Will discuss everything with Stockton. Best wishes."

March 15, 1940, sent to Westcourt, Berlin, Germany. (English). "Please advise immediately re Finkenhof at Washington Mayflower Hotel. In great sorrow as two cables unanswered."

March 18, 1940, sent to Westrick, Neubabelsberg, Germany. "Because of high cost of clothes please if no difficulty cutaway, summer coat, raincoat, Fuehrerschein (could mean driver's certificate or literally leader's certificate). Have you company to Italy. Best wishes."

March 20, 1940, sent to Westcourt, Berlin, Germany. "Agreement fusion (not a German word) Allenburg (could be the name of a person or place) imparted blank power of attorney will be sent tomorrow. Please Easter flowers for Finkenhof. With heartiest Easter greetings."

March 22, 1940, sent to Westcourt, Berlin, Germany. "Heartiest thanks and return Easter telegrams. Settlements properly understood."

- 2 -

March 22, 1940, sent to Westrick, Neubabelsberg, Germany. "With heartiest Easter wishes. Thanks for telegram. Cable about your difficulties and if they can be alleviated from here. On April 12 Easter egg hunt in the Plaza."

March 25, 1940, sent to Westcourt, Berlin, Germany. "Do not send settlements. Please confirm."

March 25, 1940, sent to Westrick, Stallupoenerallee, Berlin, Charlottenburg. "Assume that you also examined Hasea (very likely a name) purpose and have no considerations."

March 28, 1940, sent to Westrick, Neubabelsberg, Germany. "With innermost wishes and do not worry. Heartiest wishes."

March 31, 1940, sent to Westcourt, Berlin, Germany. "Cable if trip started."

April 2, 1940, sent to Kodak, Berlin, Germany. "Heartiest thanks for cable. Accept gladly. Conference Rochester first of May contemplated. Cable if earlier conference required."

April 2, 1940, (English), sent to Stanelges, Berlin, Germany. "Reciprocate heartiest cable greetings. Would be much obliged for copies of every letter to Brofos or Itt by Clipper."

April 3, 1940, (English), sent to Westcourt, Berlin, Germany. "Two number two sets Gillett of utmost importance. Please approach Hewel."

April 3, 1940, (English), sent to Mrs. Sloan Colt, Tuxedo Park, New York. "Thank you very much for your very kind invitation for week end. I am sorry that I am busy this week and for the next one. I expect the arrival of my family with the Rex. Thanking again for your kindness and hoping to see you and Mr. Colt very soon."

April 5, 1940, sent to State Secretary Keppler, Bahren Street 39-A, Berlin, Germany. "Would be especially thankful if my associates Dr. Koener and Mr. Bahner would be welcome for by chance Bahner appears to be of special importance."

April 5, 1940, sent to Westcourt, Berlin, Germany. "Three desired installments will follow direct by cable, agreement telephonically momentarily."

- 3 -

April 6, 1940, (English), sent to Westrick (probably Mrs. Westrick), S.S. Rex. "Most happy about cable Areviderci."

April 7, 1940, sent to Westcourt, Berlin, Germany. "Eric afraid missing Allianz insurance payment, because their Mannix cable of the first and twenty-first not answered."

The following telegrams were sent by Dr. Westrick since he has been residing at the Carlyle Hotel, 35 West 76th Street, New York City.

April 18, 1940, sent to Westcourt, Berlin, Germany. "Seven new address without difficulty in the future name Webster Carlyle Hotel."

April 18, 1940, sent to Westcourt, Berlin, Germany. "Acht cabled Erikas resignation explanation. Attempt before agreement to get insurance against loss of Vorauszahlung (this probably should be Darauzahlung) payments. Signed Webster."

April 23, 1940, sent to Westcourt, Berlin, Germany. "Ten yours four both yes (does not make sense but sentence is not complete) Eric angered over cost of removal. Please (make) closer inquiry reduction insurance premiums because of cost of removal."

April 29, 1940, sent to Signalwerk, Berlin, Hahnemann. "Heartiest thanks to the committee for those friendly thoughts with the hope of seeing each other soon again at the May Bowl (apparently a special May punch) made according to Hahnemann's receipt."

April 22, 1940, sent to Westcourt, Berlin, Germany. "Especially thankful if Farn worked energetically. Please send private address Professor Becker."

April 29, 1940, sent to Westcourt, Berlin, Germany. "Hoernecke will call on Wengenheim May first."

April 29, 1940, sent to Baudotweck, Berlin, Germany. "Sincere hearty well wishes to Gauglison. Wish him future success."

May 1, 1940, sent to Signalwerk, Berlin, Tempelhoff, Germany. "Hahnemann please advise what total purchase "Sch" and "Ko" necessary. Will working capital the limit thereby. Inquire."

May 1, 1940, sent to Westcourt, Berlin, Germany. "Dreizehn (means thirteen; probably misspelled for Reizend, which means charming.

inviting) enthusiastic over Boden lake trip. Properly handled letter April 4. Will eventually hasten entry freight free. Business agreements with Mann must include terms that he can control real estate upon my return."

May 1, 1940, sent to Westcourt, Berlin, Germany. "Zwolf advised Beck that Wagoner (may be Dr. Westrick's secretary inasmuch as she is now living at the Carlyle Hotel under this name) purchased Wiesher three hundred thousand. Understood if Schippert agreeable. Hasten balance remittance."

In connection with the foregoing telegrams, all of them that were not marked "English" were sent in German and were translated as shown above.

In addition to the telegrams sent by Dr. Westrick, there was another telegram sent by Baroness Wangenheim, Dr. Westrick's secretary, from the Plaza Hotel. This telegram was sent to Wangenheim, Joachim Friederich St. 50, Berlin, Halensee, Germany. "Arrived well at Plaza. Everything fine and greetings. Signed Minki."

**STRICTLY CONFIDENTIAL**

(Confidential)

P A R A P H R A S E

A strictly confidential telegram of May 22, 1940, from the American Ambassador at Paris reads substantially as follows:

On the morning of May 22, Mr. Chauvel of the French Foreign Office was informed of the contents of the Department's telegram of May 21 in regard to the transit of goods through French Indochina to China. Chauvel expressed great satisfaction at the approach by this Government as it would assist him in the efforts which he has been making to arrange for the immediate release of the trucks and their shipment forward.

PARAPHRASE OF TELEGRAM SENT TO THE AMERICAN  
EMBASSY, ROME, ON MAY 22, 1940

For Myron Taylor.

Referring to your no. 6, from Florence, and to  
the Embassy's supplementary telegram:

The following is the reply from Treasury:

Treasury has made arrangements with the Federal Reserve Bank of New York to hold the Vatican gold on the same basis as the Federal Reserve Bank holds gold for other foreign account. It will be necessary, of course, that the Bank be furnished with appropriate instructions, signatures and similar documents by the Vatican in order that the Bank will be able to handle the gold account. The gold shipment which is desired by the Vatican does not need to be held up in any way by this, however.

HULL

EA:MSG

lw

GRAY

Paris

Dated May 22, 1940

Rec'd 2:35 p.m.

Secretary of State

Washington

819, May 22, 5 p.m.

FOR THE TREASURY.

The Bank of France has just announced that all Belgian accounts will be blocked until further notice. This prohibition is not applicable however to accounts opened in the name of Belgian nationals who can prove that their customary place of residence is in France or that they have left territory occupied by the enemy.

The market broke this morning under the influence of the frank explanation given by Reynaud to the Senate last evening in regard to the seriousness of the present military situation. The downward movement was checked as a consequence of Reynaud's radio address this afternoon in which he quoted Weygand as saying that the war would be three quarters won if France could hold out for the next month. Rentes dropped fractionally with the exception of the 1925 exchange guarantee issue which

lost

lw -2- No. 819, May 22, 5 p.m., from Paris

lost 3.80 francs and the 1937 exchange guarantee issue which declined by 2.85 francs. French stocks were generally lower although part of the losses sustained in this morning's session were regained in the afternoon. Suez rose 450 points.

BULLITT

CSB

FEDERAL RESERVE BANK  
OF NEW YORK

123

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE May 22, 1940SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND

Mr. Bolton called me at 11:20 o'clock a.m. today. I referred to his recent cable regarding Nederlandsche Handel Maatschappij East and the Banque Belge and told him that the Treasury had issued licenses unfreezing both. In connection with licenses, Mr. Bolton asked whether we had received an application from the London house of Blydenstein. That firm, as he put it, was entirely under the British Control and confidentially it would probably be the bankers of the Dutch Government in London. From our point of view, Bolton added, "they will be pretty well looked after." I replied I had seen no application but would look it up.

I also referred to his recent cable about the routing of confidential messages and confirmed that we would act as suggested. I added that we would use the Postal and the Western Union cable companies in addition to the Imperial. I next mentioned Mr. Catterm's cable to Mr. Sproul of May 13 about British Government assets in this country. I wanted him to know, I said, that the Treasury in Washington had not as yet heard from the British Embassy.

I asked what the status was of Norwegian, Dutch, Belgian and Danish accounts in the London market. Could it be said that they were all blocked? That was not entirely true, Bolton replied, but the situation was as follows:

- (1) as regards Norwegian accounts, all out-payments were subject to license but the Trading with the Enemy Act allowed certain transactions entered into before the

OFFICE CORRESPONDENCE

DATE May 22, 1940.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND

2

invasion of Norway and certain payments if conclusive evidence was furnished that no enemy interest was involved.

- (2) Danish funds were completely blocked.
- (3) Dutch funds were in effect blocked for the time being. The Trading with the Enemy Branch (of the Treasury and the Board of Trade) would allow certain payments to be made for account of people in the United Kingdom, for instance, the settlement of pre-invasion debts, otherwise they were blocked.
- (4) As regards Belgium, they had only today taken steps, that country now being more than half occupied by the enemy. Cautionary notes had been put out today asking banks not to make payments without the consent of the Bank of England.

In a general way, every payment from an account of a resident in an occupied country was under the control of the Trading with the Enemy Branch who were the managers of the Trading with the Enemy Act.

The only other thing he wanted to mention was that if there was an emergency, such as an invasion, he might ask us to sell a large amount of gold for them "to give us disposable funds in case we cannot contact you." I stated that I assumed that that would be gold which was ready for prompt delivery and asked how he would give the instructions. To that he said he did not know now but at any rate they would be given in good time and would be properly authenticated. He added, "I wanted to warn you of what I shall probably want to do if the worst should happen."

LWK:KB

Reception excellent throughout.

The German radio news service during the last week concentrated naturally on the military events. Generally speaking the reports given out by the German military command proved reliable. They displayed great pride and satisfaction, but were not really boastful. The semi-official communications were of a different nature. The news distributed by the Air Ministry with regards to successes against the R.A.F. and against the British navy seem to be far off the truth. Mr. Goebbels' dictations serve always political aims, but he has come more clearly into the open during the last two days. Before that the chief items were supplied by the military command.

On the whole the German reports were straight victory bulletins, hardly anything was said about German losses with the exception of the admitted small losses in air-fighting. It is obvious, however, that the Germans are wondering about the cost of victory. In special broadcasts, as given in the so-called "Deutschland-Echo", German soldiers in Holland, Belgium or France were interviewed about individual actions and usually asked at the end about losses and casualties. They stated always that German losses had been small or even negligible. To-night an officer telling the story of the attack against a fortification in France added, however, that in this particular case the losses of the French had been small, too. I do not wish to give the impression that the Germans, when they will learn the German losses, will do what the British and French were not able to do, namely destroy

Hitlerism. The German people will probably forgive Hitler everything if he achieves a smashing victory. But if Hitler falls short of gaining this victory the losses in German lives will weigh heavily against him. The Nazis seem to be aware of this.

There were two major political objectives in the strategy of the German radio. First, to show that the French and British reports had been unreliable like in the days of the Norwegian campaign. Second, to arouse suspicion against the unity of Great Britain and France. At the same moment, when the appointment of Weygand was announced, Berlin offered the explanation. Gamelin had advised the government to use the French army for the protection of Paris and France, but Churchill had gone to Paris and had insisted on the protection of the Channel ports and England. Thus Churchill had forced the French to continue the bloody battle for the benefit of England. This note has been kept up ever since. To-night it was declared in contrast that the British army was going home, Lord Gort had already returned to London, and the British would leave the French alone in the war on the continent. In London complete confusion rules and in Paris it is even worse. The cabinett Reynaud is not supported by the plain people etc.

Apparently a great deal of thought is given in Berlin to the American attitude. There were no direct reports over the German radio about the reactions of any particular country to the events in Flanders and France. Only general remarks about the overwhelming impression created by the German victories everywhere could be found. In addition there were each time specific quotations from Italian newspapers about the German

strategy. Italy, however, was the only exception to the general rule. But in the special broadcasts to America more can be found. Yesterday "Harry" reading his letter to the folks back in Iowa had nothing but sheer praise for President Roosevelt's preparedness program. The Germans had the fullest understanding of such measures. They all thought very highly of the Monroe Doctrine and hoped that the Americans would enforce the doctrine against evrybody including England! In to-day's news an article from the London News Chronicle"was quoted which had stated that France and England would have to fight the battle all by themselves since not even a declaration of war by the US could have any influence on the outcome of the present battle.

It may perhaps be worthwhile mentioning that to-day the Danish legation in Berlin moved into its new building constructed and given by the German government. The Danish minister, Count Zahle, had at once unfurled the flag of Denmark and Iceland. Iceland seems to be under German protection as well? It is hard to say what other points Germany might raise when Hitler could dictate peace. It has been pointed out by the German radio already that the Nazis consider the present events as the "Goetterdaemmerung" of the system of Versailles "a peace made under the sign of democracy". They certainly think of the peace settlement in terms of a total reorganisation of Europe. To-night Berlin told of the "new continental system" created by German arms, a "blockade of the blockaders reaching from Trondhjem to Boulogne";this was to become the nucleus of a system which England would be unable to disturb for her own selfish ends.

To-night an article was referred to that had appeared in to-day's Voelkischer Beobachter. The article may well reflect Hitler's ideas about the present German offensive. Any new war, it was said, starts where the last left off. The last war had ended with the German offensive in Spring 1918 planned by Ludendorff. But this offensive had been launched four years late when the German army was tired and its equipment outworn. This mistake had been avoided this time, the drive had been launched with fresh troops and first-class equipment. Whereas the Ludendorff campaign had been stopped 25 miles off Amiens the German army in 1940 had passed Amiens and reached the ~~west~~ coast.

However, I feel not sure that the German High Command is certain to gain a complete victory. To-night it was stressed that Franco-British resistance was stiffening and that the Germans were meeting crack divisions. It was added that the British army was particularly well equipped, too. Apparently it is felt in German quarters that the German drive has reached its limits for the time being. But, of course they are still trying to win their Cannae on the last gallon of gas they may have left at the front. I myself do not venture a guess about the outcome of the present battle. More precisely speaking, it seems to me that the third battle has just started. After the battle in Holland and Eastern Belgium, after the second battle of the Meuse, the third battle of the Somme and Aisne has just begun. The Germans are apparently not convinced yet that they can turn this battle definitely against the Allies.

May 23, 1940. 2 a.m.

Hajo Holborn

Ankara, Turkey,

May 22, 1940.

No. 1459

Subject: Account of Hadelin Rothe, Counselor of the  
Belgian Legation at Ankara, in the Banque  
Belge pour l'Etranger.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

With reference to my telegram no. 54 of May 13,  
E. P. M. 1940, regarding the accounts in the Guaranty  
Trust Company of New York of the Belgian Minister to  
Turkey, I have the honor to inform the Department that  
I have now been approached by the Counselor of that  
Legation, Monsieur Hadelin Rothe, in connection with  
his account in the Banque Belge pour l'Etranger at 67  
Wall Street, New York City.

Monsieur Rothe requests that an arrangement be made  
similar to that for Monsieur Paternotte, whereby the  
Banque Belge pour l'Etranger may be authorized to make  
payments on his order out of his checking account.  
The account bears the number 239N.

- 2 -

1/ For the Department's information a copy and trans-  
2/ lation of Monsieur Rothe's letter of May 20, 1940, are  
enclosed.

Respectfully yours,

J. V. A. MacMURRAY.

Enclosures:

- 1/ - Copy of letter dated May 20,  
1940, from Monsieur Rothe;
- 2/ - Translation.

701.1/851.6

RN:rsimej

COPY

Enclosure no. 2 to despatch no. 1459 dated May 22, 1940,  
from the American Embassy at Ankara, Turkey.

TRANSLATION

BELGIAN LEGATION

Ankara, May 20, 1940.

Mr. Ambassador:

Referring to our telephonic conversation of this afternoon, I take the liberty of requesting your good offices with a view to obtaining — as it has been done for Mr. Paternotte — authorization to make free use, should the necessity arise, of sums deposited in checking account No. 2239N at the BANQUE BELGE POUR L'ETRANGER (Overseas) Ltd., 67, Wall Street, New York.

With warmest thanks for the kind intervention which you may make for me in this connection, I take the occasion, Mr. Ambassador, to renew to Your Excellency the assurances of my very high consideration.

(Signed) H. Rothe

Counselor of the Belgian Legation.

His Excellency

Mr. J. MacMurray,

Ambassador of the United States of America

Ankara.

COPY

131-A

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

From: Lima

Dated: May 22, 1940

Rec'd: 10:34 p.m., 10:45 p.m.,  
and 10:42 p.m.

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52, May 22, 5 p.m.

I met yesterday with the Minister of Foreign Affairs and the Minister of Finance, at their request, to discuss the deterioration of the exchange and trade situation resulting in large part from trade and financial pressure applied by the British. It was stated by the Finance Minister: (a) that Great Britain was expected to block surplus exchange for Peru within a few days; (b) that it was expected that there might be such a depreciation in the sol as a result of the disappearance of free sterling exchange that it would be impossible to continue unrestricted importation (he said that automobile importers had already been requested to import Canadian-made instead of American automobiles); (c) that import restrictions and exchange control are opposed by Peru; and (d) that the Peruvian Government hopes that it may be possible to develop some plan for immediate assistance.

It was suggested by the Minister of Finance that a credit of about \$5,000,000 against about 160,000 bales of  
the

the 1940 cotton crop--representing normal British purchases of cotton during the remainder of 1940--would be the most practical form of assistance. This operation, he said, would involve the issuance of warrants by Peruvian banks to producers or exporters in Peru for cotton stored in Peru, which warrants would be discounted in the United States, the proceeds therefrom being used to finance Peruvian purchases in the United States.

The Minister of Finance believes that the continued demand for Peruvian cotton despite the outcome of the war would result in the credit's being self-liquidating. He said that offers have been received from the Japanese for the purchase of more Peruvian cotton on a barter basis, but that Peru desires to avoid obligating itself to Japan any further.

It was also observed by the Minister of Finance: (a) that he believed it would be contrary to existing legislation to borrow against legal reserve gold and that it would be necessary to withdraw needed exchange to borrow against gold production, since most of the gold is exported; (b) that he concedes that it would now be very useful to make some token settlement of Peru's debt default in recognition of this difficulty; (c) that although \$600,000 is as much as Peru can afford at present for its participation in the Inter-American

Inter-American Bank, it has nevertheless agreed in principle to such participation; (d) that, in the circumstances, he hopes it will be possible for the Governments of Peru and the United States to cooperate in a plan which will include comprehensive industrial and agricultural developments, on a complementary basis, by the use in Peru of capital from the United States, and that such a plan will lead to a permanent and profitable relationship; and (e) that the policy of the Peruvian Government regarding possible restrictions of imports to conserve foreign exchange, in the near future, will be influenced as a result of this effort to obtain a credit of some kind from the United States.

A trade agreement was not mentioned. I explained to the Minister of Finance the details of the organization of the United States Government through which financial assistance might be extended to foreign governments. Beltrán was to be informed of our conversation by the two Ministers. The air-mail pouch leaving May 24 contains a memorandum by the Minister of Finance.

In connection with a request for financial aid, I recognize the weakened position of Peru and the rather poor economic risk. Nevertheless, much greater importance must, I believe, be attributed to considerations of policy and a long-range program. There is reason to believe that our  
action

-4-

action in this connection may have a decided influence on the success or failure of the Prado administration, and I believe the present Government is a good moral risk. It may be assumed, however, that other similar requests for assistance might follow this one.

The Department's observations or alternative suggestions would be appreciated.

NORWEB

RA:RFW:GMB

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Purcell of the S.E.C. Commission telephoned me at 10 o'clock this morning. He said that the Chairman had asked him to bring up two points with the Treasury. The first was as to whether American securities had been destroyed in the Netherlands or in Belgium under the arrangement which had been discussed at the Secretary's residence when Mr. Frank was present. I gave Mr. Purcell a full story on this subject, with the conclusion that we were not aware that any American securities had been destroyed in Europe so far under the arrangement which had been discussed.

Secondly, Mr. Purcell asked that we provide, with the assistance of the Federal Reserve if necessary, most recent information in regard to sales of securities, say from May 10 on, made for Norwegian, Danish, Dutch or Belgian account. The Commission wanted this information particularly because of the statement made in Congress that German selling of the above-mentioned securities had been responsible in part for the recent drop in the security market. I told Mr. Purcell that I would discuss this matter with my colleagues who are interested in the assets of the above-mentioned countries.

*B. M. P.*

EDA

GRAY

PARIS

Dated May 22, 1940

Received 12:02 p.m.

Secretary of State

Washington

807, May 22, 1 p.m. (SECTION ONE).

FOR THE TREASURY.

Barrett has just informed a member of my staff that all the American banks intend to remain in Paris until officially ordered to evacuate by the Bank of France. Meanwhile the banks are endeavoring to obtain quarters in the South of France which could be used in the event that evacuation orders are received.

All civil works both public and private which are financed by funds derived from loans or from recourse to the financial market are suspended as from today until the end of hostilities. This prohibition, of course, does not affect the activities of companies engaged in filling national defense orders. In the decree concerning this measure which was published in today's Journal Officiel it was stated that this step had been taken "in order to reserve for the national defense all resources and means of production of the country."

KLP

BULLITT

HSM

GRAY

Paris

Dated May 22, 1940

Rec'd 9:15 a. m.

Secretary of State,  
Washington.

807, May 22, 1 p. m. (SECTION TWO)

Another decree provides for the creation of a special control service which will concern itself with the enforcement of measures relating to the control of prices, restrictions on consumption and declarations of stocks of commodities. The service will be attached to the National Economy Section of the Finance Ministry. Special control officers acting in liaison with prefect will be appointed in each department.

The rationing of sugar will commence June 1, 1940. Each individual consumer will be entitled to buy 750 grams of sugar per month.

An additional sum of 50 million francs has been allocated for refugee relief purposes thereby bringing the total thus far authorized for this work to 3,750 million francs. (END MESSAGE).

BULLITT

KLP

## TREASURY DEPARTMENT

185

## INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO: Secretary Morgenthau  
FROM: Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent called on me at 12:45 today and left with me an unsigned copy of a message which his Embassy had received on May 20 from London, and which he understood had also been sent to the British Legation at Berne. This message read as follows:

"We think it desirable that United States Government should immediately instruct their consular officers in Switzerland to give assistance as regards witnessing lists of securities in same way as was done in Holland. Please take appropriate action."

Mr. Pinsent thought it urgent that an instruction be sent to our Legation along the same lines as he understood we had instructed our Legation in the Netherlands and also our Embassy in France. I explained to Mr. Pinsent that we had sent these instructions only upon the specific request of the Dutch Minister and the French Financial Attache, respectively. I told him that we had not sent a message to Belgium since the Counselor of the British Embassy in this city had felt that it was not necessary. I told him that we could not indicate in any message to Berne that the Swiss had requested us to send it. Mr. Pinsent stated that he had been in contact with the Counselor of the Swiss Legation and that the latter was sympathetic with the idea of an instruction to Berne by us, but that he could not request it in the absence of instructions from his own Government.

I told Pinsent that Secretary Morgenthau had, through Secretary Wallace, let the Swiss Minister know that we were at his service, and would be glad to receive Swiss bankers from New York for consultation on the question of securities, if the Swiss Minister might desire it. We had received no reaction from the Swiss Legation in the premises. I told Mr. Pinsent that I would draw up a cablegram along the lines of the one which we had sent to The Hague and Paris, for the information and appropriate guidance of our Minister if he should be called on by the Swiss to render similar services, but that I was not sure this would be approved by the Treasury and State Department officials. He understood fully the difficulties involved.

Messrs. Bell and Bernstein approved the draft of a cablegram in the premises. They took the matter up with the State Department, before sending over any draft. Mr. Livesey thought a matter of policy was involved which only Mr. Berle could decide. Consequently I spoke with Mr. Berle last night at 7 o'clock. He preferred that no message should be sent to Switzerland without some indication from the Swiss that they wanted our cooperation. He thought that Switzerland had an even chance of escaping invasion, and he was impressed by the apparent Swiss

-2-

desire to avoid anything which could be interpreted as a fear that neighbors might come in and steal their securities.

I told Mr. Bell this morning that I had not sent the draft cablegram to the Department of State, after speaking with Mr. Berle. Mr. Bell let me know that he had mentioned the matter to the Secretary this morning. Mr. Bell agreed that we should take no further action at present. Consequently, I am filing, attached to this memorandum, the draft cablegram which was never sent.

A handwritten signature in dark ink, appearing to be 'W. M. R.', is centered on the page below the main text.

sent from London  
to Washington  
and Bern  
Received 20/5.

We think it desirable that United 137

States Government should immediately instruct  
their Consular Offices in Switzerland to give  
assistance as regards witnessing lists of  
securities in same way as was done in Holland.

Please take appropriate action.

MAB

1945 MAY 20

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 21, 1940

TO Dr. Feis  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Will you kindly send the following cablegram:

"AMERICAN LEGATION BERNE:

For your confidential information and for your appropriate guidance in the event that similar services may be requested from you by Swiss authorities, there is quoted cablegram #404 which the Department sent to the American Embassy at Paris, May 18, 1940:

The Financial Attache to the French Embassy has informed the Treasury that his Government is considering advising its nationals to destroy American securities in their possession where there is danger that such securities might be lost or captured. In such cases the French Government will probably advise the owners to accomplish the destruction in the presence of an appropriate notary or judicial officer and also a responsible official of a bank, preferably one whose signature is on file with the Federal Reserve Bank of New York. It is further intended to have the owner and these witnesses certify to the securities so destroyed, identifying them appropriately, and to request authentication of the signature of the Government officer by a consul of the United States, after which such certificates of destruction would be left with the consul to be forwarded to the United States by pouch.

Consuls are authorized to receive such certificates and to authenticate the signatures of appropriate Government officials who have witnessed such destruction. In cases of importance and if circumstances permit they may, if requested witness such destruction and state that fact in the document. They may also transmit such certificates by pouch. If requested execute in triplicate retaining one copy, giving one copy to interested party and forwarding original to Department. They should point out that authentication and transmission of such a document does not constitute an assurance that the destroyed securities will be replaced, but only creates documentary evidence which might be of assistance in case replacements is later sought. They should

-2-

To: Dr. Feis

also make it clear that while every care will be taken to ensure the safe transmission and custody of such certificates the United States Government and its officers accept no responsibility in that connection.

Repeat foregoing to Consuls.

American freezing system would not be effective to block transfer or sale of bearer obligations or certificates, as such securities might appear in other markets. 18

JI

PLAIN

London

Dated May 22, 1940

Rec'd 1:43 p.m.

Secretary of State

Washington

1326, 22nd.

FOR TREASURY FROM BUTTERWORTH.

The most far-reaching and drastic legislation in British history is being passed through all stages of both houses of Parliament today giving the British Government power of complete control over all persons and property.

In introducing the bill Mr. Attlee, the former leader of the Labor Party and now the new Government's leader in the House of Commons, said that the gravity of the situation made it necessary for the British Government to have these powers but they were not requested in a spirit of panic. However, his explanation of the use these powers would be put to in the near future was not in most instances precise.

For example, he said: "There may have to be control of the finances of the country and the banks;

it

-2-#1326, May 22, from London

it may be done centrally; it may be if conditions require it it will have to be done through regional commissioners." He was precise in that the excess profits tax is to be at the rate of 300 percent. There will be power to inspect premises and require employers to produce their books. Some establishments may be completely controlled immediately, others later on and the controlled enterprises will "in effect be working on government account with wages and profits under government control". He indicated that other establishments may be ordered to carry on though perhaps at a loss and that they will receive adequate remuneration. "The essential thing is that over a wide field of industry (how wide one cannot say at the moment) industry will be carried on for the community in effect and not for private profit." Mr. Attlee also stated that the Minister of Labor will be given power to direct any person to perform any service required.

KENNEDY

KLP

JI

GRAY

Milan

Dated May 22, 1940

Rec'd 1:45 p.m.

Secretary of State  
Washington

38, May 22, 6 p.m.

FOR TREASURY DEPARTMENT.

Today's prices as follows: 190; 325. 50;  
505; not listed; 976; 193; 1610; 59. 25; 220.  
Volume 114,375.

Increased buying in active trading enable  
most issues recover points lost during preceding  
week. Market closed tomorrow.

SCHOLES

HTM

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Mr. Irigoyen telephoned me from Buenos Aires yesterday afternoon at 3 o'clock. He wanted the latest news of the European war, and also details with regard to our commodity and stock markets. He stated that the Buenos Aires market was principally governed by spot news from Europe, and that Argentine Government bonds had been depressed to such an extent that Government support had been necessary.



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 5 o'clock yesterday evening Mr. Livesey telephoned me from the State Department in regard to the receipt through Ambassador Phillips at Rome of a message from Mr. Myron Taylor, concerning the desire of the Vatican to have gold earmarked in this country. Mr. Livesey stated that the State Department warmly favored our rendering this service. A memorandum of the message from Mr. Phillips, which is highly confidential, was being sent to me. Mr. Taylor had received the communication from the Vatican while at his home in Florence. He is proceeding to Rome on Wednesday, May 22, and has an appointment at the Vatican for May 23, so a reply should leave Washington on May 22.

I telephoned the memorandum to Mr. Knoke at the Federal Reserve Bank in New York last night and let him know that the State Department had indicated its interest in this service being arranged, and that the Secretary of the Treasury, to whose attention I had brought the matter after I had consulted our legal division, also favored our arranging the service. Mr. Knoke promised to look into the matter at once.

At 9 o'clock this morning Mr. Knoke telephoned me in regard to the Vatican gold. He said that the Federal Reserve Bank counsel thought that the Federal Reserve Bank should not itself earmark the Vatican gold. The following alternatives were suggested:

- (1) The Federal Reserve Bank at New York might earmark the gold as fiscal agent of the Treasury, as in the Brazilian case;
- (2) The gold could be earmarked in the name of the B.I.S., although this would lead to publicity since the matter would have to pass through the various officers of different nationalities operating the B.I.S.;
- (3) The Vatican has an account with the National City Bank and with J. P. Morgan and Company. Since they already have this setup with private banks in New York, Knoke suggested that we might let the gold be consigned to the Federal and then be earmarked with the Federal in its vaults, in the name of the National City Bank in an account marked "X". Another possibility would be for the Treasury to give a license to the National City to hold this gold in its own vaults.

I indicated to Mr. Knoke our desire that the transaction should not be a special one involving any one of the above alternatives. Our preference was for an ordinary earmarking account by the Federal itself. When Knoke raised the question as to the status of Mr. Taylor and of the Apostolic Delegate in Washington, I called him back, after talking with Mr. Livesey of the State Department and Mr. Bernstein of the Treasury.

I told Mr. Knoke that while the President did have Mr. Taylor as his special representative in contact with the Vatican, there was no exchange of accredited Ambassadors and that the papal representative in Washington was not on our diplomatic list. I told Mr. Knoke that the National City and Morgan must have had some satisfactory arrangement with respect to signatures, the point upon which Mr. Knoke seemed chiefly concerned. I told him that we could certainly undertake to obtain through diplomatic channels, whether it be Ambassador Phillips or Mr. Taylor, such facts and signatures as may be necessary to safeguard the Federal in accepting and handling the account. I insisted upon the necessity for speed, and told Mr. Knoke that if he could not work out an arrangement today with his officials and those of the Federal Reserve Board in Washington, we would have to send a cablegram to Rome that we were agreeable that the gold should be shipped, and that an arrangement for taking care of it would be consummated as early as possible. Mr. Knoke said that in any event the New York bank looked to the Government to prepare the draft of any message answering the Vatican request for such assurances as other states with deposits in America are granted that the gold will be intact and free.

When I brought this matter to Mr. Bell's attention, after speaking with Mr. Knoke, the Under Secretary called Governor Harrison at 11:20 this morning. Mr. Bell explained to Mr. Harrison our interest in seeing the Vatican gold taken care of without too much legal contravention and without any special arrangement which might eventually attract publicity and add to the difficulties of this Government maintaining a special representative such as Mr. Taylor. Mr. Bell explained our willingness to write a letter to the Federal Reserve Bank at New York indicating that we would be pleased if the Federal Reserve Bank would accept the earmark deposit, and that we would obtain through diplomatic channels such signatures and other confirmation as might be required. While Mr. Harrison favored one of the other alternatives, he said that he would try to meet our request. In answer to Mr. Bell's inquiry as to whether the Governor would take the matter up with the Board in Washington, or whether the Governor would do this, the latter replied that he would attend to it.

It will be necessary, therefore, for us to send a letter to the Federal Reserve Bank at New York, and also to get a message to the State Department yet today for transmission to Rome.



C A B L E

PARIS

May 22, 6 p.m.

No. 822

FOR THE TREASURY.

Carignol has just informed a member of my staff that he will immediately advise him should the Bank of France move from Paris.

Couve de Murville whom the Embassy telephoned this afternoon in regard to the lease of a bank building at Locustes for the Guaranty Trust stated that the Finance Ministry had no intention of leaving Paris. It is believed that his remarks referred to the principal officers of the Ministry inasmuch as certain of its personnel has already been moved to the south.

Telephoned from State Department.  
May 22, 1940 - 4:35 p.m.

PA

5/22/40

WARNER, EDWARD P., engineer, editor; b. Pittsburgh, Pa., Nov. 9, 1894; s. R.L. and Anne (Pearson) W.; B.A., Harvard, 1916, B.S., 1917; B.S., Mass. Inst. Tech., 1917, M.S., 1919; m. Joan, d. of William H. Potter, Feb. 13, 1931. Instructor in aeronautical engineering, Massachusetts Institute Tech., 1917-18; aero. engr. U.S.A., 1918; chief physicist Nat. Advisory Com. for Aeronautics, 1919-20; tech. attache N.A.C.A. in Europe, 1920; asso. prof. aeronautical engineering, Mass. Inst. Tech., 1920-24, professor since 1924 (non-res. prof. since 1926); asst. sec. of Navy for aeronautics, 1926-29; editor of Aviation, 1929-35; now cons. engr. Chmn. Mass. State Bd. Aeronautics, 1922-25; ex-chmn. Boston Municipal Air Bd.; chmn. sub-com. on aeronautics branch of Business Advisory and Planning Council for U.S. Dept. of Commerce; vice chmn. Federal Aviation Commn., 1934-35; mem. Nat. Advisory Com. for Aeronautics, 1929-35. Fellow Inst. Aero. Sciences, Royal Aeronautical Soc.; mem. Am. Physical Soc., Soc. Naval Architects and Marine Engrs., Am. Soc. Mech. Engrs., Soc. Automotive Engrs. (v.p. 1929; pres. 1930); pres. Am. Bur. of Aircraft, 1930-35. Clubs: Cosmos (Washington, D.C.); Harvard (New York). Author: Aerostatics, 1926; Airplane Design—Aerodynamics (awarded medal of Aero Club de France as leading work in aviation of year), 1927; Aviation Handbook, 1931; Airplane Design—Performance, 1936. Contbr. many papers on scientific, industrial, and ednl. subjects. Recipient of Wright medal, Soc. Automotive Engrs., 1932. Appointed Member of Civil Aeronautics Authority, April, 1939.

May 22, 1940

Dr. Feis

Mr. Cochran

Will you kindly send a cablegram along the following lines:

"American Consul Milan

Reference your Despatch 677 May 4

The Treasury Department has noted your statement that a daily index of 30 stocks is computed by a brokers' service bureau and published in 'Il Sole'.

You are instructed to substitute the index mentioned for the list of individual stock quotations now being transmitted if such can be done without causing delay. Otherwise, the existing procedure should be continued without change.

In the event it is found possible to substitute the index for the individual stock quotations it is requested that the index be used for May 4, May 11 and May 18, 1940 and daily thereafter.

The cost of the telegram involved in this service should be charged to the Treasury Department."

(init.) H. M. G.

*Smith* G.H.

EMG/rmm 5/22/40

May 22, 1940

My dear Mr. Hoover:

I have your letter of May 21.

Thank you for giving me the opportunity of reading this confidential material which I shall guard with the greatest of secrecy.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director  
Federal Bureau of Investigation,  
Department of Justice,  
Washington, D. C.

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Mr. J. Edgar Hoover, Director  
Federal Bureau of Investigation,  
Department of Justice,  
Washington, D. C.

JOHN EDGAR HOOVER  
DIRECTOR

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**Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.**

May 21, 1940

Personal and Confidential

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

Dear Mr. Secretary:

There has just come to my hand the inclosed letter, the contents of which I thought were of such interest to call to your personal attention. As you note, the writer imposes a great degree of secrecy upon this matter. I am having an immediate inquiry made into the situation to ascertain what the facts are.

Sincerely yours,

J. Edgar Hoover

Inclosure

Baltimore, Maryland.  
May 20-1945.

Mr. John Edgar Hoover,  
Federal Bureau of Investigation,  
Washington, D.C.

Dear Sir:

I desire to submit to you for your information and action the following information, which I request you hold in confidence until such time as it is necessary to reveal same. Both the men whose names and addresses, I am handing you also myself have to work for a living and should this information by any chance reach our employers, we know only too well what our fate would be. We have tried to plan some way in which we could take this matter up with some official of the organization but as they all seem to belong to the same clique we have decided to place the matter in your hands.

I have been employed by the Glen L. Martin, Company, Middle River, Md. for the past year during which time time I have had ample time to not only observe for myself conditions as they exist throughout the plant but also to hear other loyal employees discuss and condemn these conditions.

First let me say that almost ninety percent of all department heads or sub-foremen, throughout the entire organization are either Germans, by birth or in sympathy with the German nation. For the past several months they have become more bold in their outspoken praise of Hitler, and his hordes, the superiority of all makes of German, makes of planes, artillery, fighting ability and living conditions. They have become more domineering each day and due to the fact that every key position is now held by one of this type they are now in position to not only slow down production but to close the plant entirely. The experimental department, Navy ship department in fact every department is under the supervision of one or more Germans, some of whom have difficulty in speaking the english language. While it is true these men are Supposed to have citizenship papers, it doesnt take one long to form an opinion after seeing them congregate each morning and praise the exploits of Hitler, and his war machine and plan what the next step will be. Just this past week several of them were passing around a pamphlet called, Wake up America, and while I wasnt able to get hold of one of them I was informed by others it was propoganda advocating the persecution of the Jews, and other non believers.

For instance, this past winter I was transferred to the department where the bombers for France were being assembled and it was there that my eyes were really opened. Having been an investigator for the Government, at one time I naturally looked for things and really found them. Holes punched in gas tanks and covered over with tape, rivetts drilled and filled with soap and other things that would lead to delay. On one occasion I removed the entire skin from a center wing and in the spars instead of one eighth holes some had been enlarged to a quarter inch which weakened the spar. I took a number of these to the office and reported what I had found and shortly after was transferred back to my old department.

Just this past week we started working on the new army bomber and on one of the engine mount tubes I found some so badly burned in welding I was able to break them off with my hands, yet each is supposed to carry a load of twenty seven hundred pounds. This of course could have been accidental, yet could have caused a number of deaths if not detected. It is true the government inspectors are supposed to watch for these things yet I see things every day that get by the inspectors.

Another thing that roused my suspicion was a case of a German fellow who works in my department and who by the way is a personal friend of the foreman of this department. This fellow always made sketches of every job that was handed him to work on. He suddenly quit and returned to Germany where he remained for three or four months, then returned to this country and is again working at the same job. Another fellow who is a well known communist, and secretary of the CIO union, and who threatened to call the men out on strike, because of his attitude was taken off bench work and appointed an inspector a position which he now holds.

I could go for hours mentioning things that are happening there every day but for the time will conclude, I am at your service at any time or place as are the men whose names I hand you and we will be only too glad to assist you in any way possible in eliminating what is sure to become a serious situation later on if let go.

Any of the men whose names appear below can and will tell you a story that I am sure will prove worth your investigation.

Thanking you again for any interest you may take in the above matter and again requesting that this be held in confidence, I remain,

*George W. Vandenberg*  
George W. Vandenberg,  
3243-Baltimore, St.  
Baltimore, Md.

Names.	Length of service.	Address.
Fred W. Burkmar.	Five years.	100- So. "D" St. Glen Burnie, Md.
Frank Reiss.	Twelve years.	4631-Kayon St. Balt. Md.
Joseph Chester.	Three years.	1611- Ashburton St. Balt. Md.
A.G. Aldrich.	Seven years.	11- Broadship Road. Dundalk MD.
John J. Kiel.	Eleven years.	2312- Longwood St. Balt. Md.
Charles C. Eckert.	Six years.	516- N. Edgewood St. Balt. Md.
Charles J. Dewa.	Eight years.	3133-Wilkens Ave. Balt. Md.

P.S. I am positive there is something worth while to be uncovered here and once it is started there are plenty more men who will be more than glad to give you further information. Just check the overtime sheets and you will readily see that the old adage of, The devil takes care of his own applies here one hundred percent.

*GW.*

MAY 22 1940

My Dear Mr. President:

You will recall early in December you publicly announced that the payment to be received from Finland on December 15, 1939, in the amount of \$234,693, on account of its indebtedness to the United States would be held in suspense and that you would recommend to the Congress such amount be used for the benefit of the Finnish people. Following your announcement, and at your direction, I instructed the Treasurer of the United States to hold the amount received on December 15, 1939 from Finland in a suspense account, without formal covering into the Treasury. Upon receipt of the funds from the Finnish Minister I made reference to your instructions to hold the payment in a suspense account pending your recommendation to the Congress.

In your letters of January 16, 1940, to the President of the Senate and the Speaker of the House of Representatives reference was made to your directions to hold the Finnish December 15, 1939 payment in a separate account pending such action, if any, as the Congress might desire to take with respect to it, and after briefly reviewing the Finnish situation and Finland's need for assistance, it was suggested that the most reasonable approach would be action by the Congress authorizing an increase in the revolving fund of the Export-Import Bank to enable it to finance exportation of agricultural surpluses and manufactured products, not including implements of war. As a result of this recommendation the lending powers of the Export-Import Bank were increased.

However, no action has been taken by the Congress with respect to the amount received from Finland on December 15, 1939 or additional amounts which are due semiannually on the relief indebtedness which was incurred in 1919 and 1920. In the event

- 2 -

you desire to take further action with respect to this matter I shall be glad to prepare the necessary draft of legislation and letters of recommendation for your signature to the President of the Senate and the Speaker of the House.

It would be appreciated if you would indicate whether you desire to:

1. Take no further action at this time;
2. Recommend the return to Finland of the payment made on December 15th last; or
3. Recommend the return of the December 15th payment and the postponement of all payments due from Finland within the next two or three years.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House,

Washington, D. C.

By Messenger 5<sup>30</sup> pm

File to Mr. Thompson

WHT:vd  
May 20, 1946.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 22, 1940

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Replies to telegrams regarding sales and new orders  
for the week ending May 18.

To date, reports have been received from 21 reporting companies. Of these, 14 report no significant change in sales during the week ended May 18 as compared with the previous week, 2 report a perceptible decline in sales, 3 report a substantial increase, and 2 will send figures later when compiled.

Quoting those reporting a decline in sales:

Sherwin-Williams Co.: "Current indications are that business is slowing off very perceptibly, in spite of the fact that this should be the peak of our season."

American Locomotive Co.: "Re telegram. Orders received last week show sharp decline from level prevailing during previous two months period. Inquiries and quotations requested show no material change."

Those reporting a substantial increase in sales above those of recent weeks are:

U.S. Steel Corp.: In the week ended May 16, new orders increased to 236,000 tons (70 per cent of capacity), the highest since last November, which compares with 226,000 tons (67 per cent) in the previous week.

American Woolen Co.: Sales last week increased to \$981,000, the highest in five weeks, and more than double the previous week's figure. Increased sales of knitting yarns were responsible for the upturn.

General Electric Co.: Sales last week rose to \$8,900,000 from \$7,900,000 the previous week, reaching the highest figure since early February.

Secretary Morgenthau - 2

The following companies reported no significant change:

International Harvester Co.: "No significant change in new business last week over previous month's report. Reaction to market is usually not immediate in our business, but a continuation of downward trend of commodity prices will have an adverse effect on consumer sales."

Westinghouse Electric Co.: "Your telegram twentieth. No significant increase or decrease in new business last week. May business expected slightly less than April."

Texas Co.: "Reference telegram May 20. Sales last week slightly off but no significant change. Our domestic gasoline sales first 15 days May 1940 2,033,177 barrels, compared with 2,046,593 for same period last year, decrease 13,416 or .66 percent."

American Brake Shoe and Foundry Co.: "In reply to your telegram of May 20th regarding our business during the last week, I beg to advise there has been no change from preceding weeks. It has been running along on about an even keel for some time."

Air Reduction Co.: Sales of \$464,000 during the week ended May 14 remained practically unchanged from the figure of \$460,000 for the previous week.

American Car and Foundry Co.: "Reports received to date do not indicate any significant increase or decrease in new business of our Company last week. To my thinking there is nothing in this situation to require comment."

Baldwin Locomotive Works: "Replying to your telegram, there was no noticeable increase or decrease in new business last week, nor so far this week."

Standard Oil Company of New Jersey: Domestic sales, at the moment, are entirely normal. "Foreign shipments show a falling off, but this was also the case over the past five or six months and we do not place any new significance on the situation so far as exports are concerned."

Secretary Morgenthau - 3

Cannon Mills Co.: Sales last week showed no significant change, totalling \$310,000, versus \$342,000 in the previous week and \$196,000 two weeks previous.

Pacific Mills: Sales last week showed no more than normal fluctuation, totalling \$652,000, versus \$663,000 in the previous week and \$813,000 two weeks previous.

J. C. Penney Co.: "We have not received figures recent enough to reply in a definite way to the wire of May 20.... However, from what information is available it appears that no significant increase or decrease was operative for that period. Our business appears to be developing at about the same pace as experienced for the last thirty days."

American Steel Foundries: "There has been no appreciable decrease or increase in our business during the past week."

Sears, Roebuck and Co.: "We have been watching very closely the effect of the present disturbance on our business. Our feeling is, that our business is continuing at about the same rate as before the present disturbance in the stock and commodity markets. This is true of both our retail and mail order business. There has been no significant increase or decrease in the sales of our company in the last week."

International Business Machines Corp.: "Our reports do not indicate any significant increase or decrease in new business of this company during the last week. However, during the past two weeks the volume of new orders received by this company shows a tendency to fall off as compared with the two weeks prior to that time, although the new orders received in the past two weeks show an increase over the new orders received in the same two weeks last year."

Reports were also received from two companies that will send figures later:

Johns-Manville Corp. will send us weekly sales figures when compiled on Thursday.

Secretary Morgenthau - 4

General Motors Corp. will send figures at the end of the week covering retail sales during the second period of May, together with their comments. "Based on the number of new cars financed by General Motors Acceptance Corporation in the week ended May 20th there is no indication of any significant change in volume. However, due to a lag in the financing figures, this probably reflects in part retail sales during the first ten days of May."

MEAD, GEORGE JACKSON, aeronautic engr.; b. Everett, Mass., Dec. 27, 1891; s. George Nathaniel Plumber and Jenny (Lehman) M.; prep. edn., St. George's Sch., Newport, R. I., and Choate Sch., Wallingford, Conn.; student Mass. Inst. Tech., 1911-15; m. E. Cary Hoge, May 18, 1921; children — George Nathaniel Jackson, Mary Randolph, Peyton H., Charles Cary. Exptl. engr., Sterling Engine Co., Buffalo, N. Y., 1916, Wright Martin Aircraft Corp., 1916-19; engr. in charge power plant labs., U.S. Air Service, Dayton, O., 1919; chief engr. Wright Aeronautical Corp., 1920-25; v.p. Pratt & Whitney Aircraft Co., 1925-30; v.p. man. exec. com. and chmn. tech. advisory com. United Aircraft & Transport Corp., 1930-34; cons. engr. United Aircraft Corp., 1934-35, v.p. and dir. since 1935. Mem. Am. Soc. M.E., Soc. Automotive Engrs. Instn. Automobile Engrs., Inst. of Aeronautical Sciences, Royal Aeronautical Soc. Republican. Episcopalian. Clubs: Hangar, Engineers (New York); Hartford, Hartford Golf, Farmington Country,

May 22, 1940

Dr. Feis

Mr. Cochran

## STRICTLY CONFIDENTIAL

The following is suggested as a reply to the strictly confidential message received from Mr. Myron Taylor, which was the subject of a memorandum transmitted from the Department of State to the Treasury Department on the evening of May 21:

"WE HAVE ARRANGED WITH FEDERAL RESERVE BANK OF NEW YORK TO HOLD VATICAN GOLD ON SAME BASIS AS BANK HOLDS GOLD FOR OTHER FOREIGN ACCOUNT. OF COURSE IN ORDER FOR THE BANK TO BE ABLE TO HANDLE THE GOLD ACCOUNT IT WILL BE NECESSARY FOR THE BANK TO BE FURNISHED APPROPRIATE INSTRUCTIONS, SIGNATURES AND OTHER DOCUMENTS FROM THE VATICAN. THIS NEED NOT IN ANY WAY HOLD UP ANY GOLD SHIPMENT DESIRED BY THE VATICAN."

  
HMC:dm

May 22, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

**"AMERICAN EMBASSY LONDON.**

**For the Ambassador from the Secretary of the Treasury.**

Dear Jess:

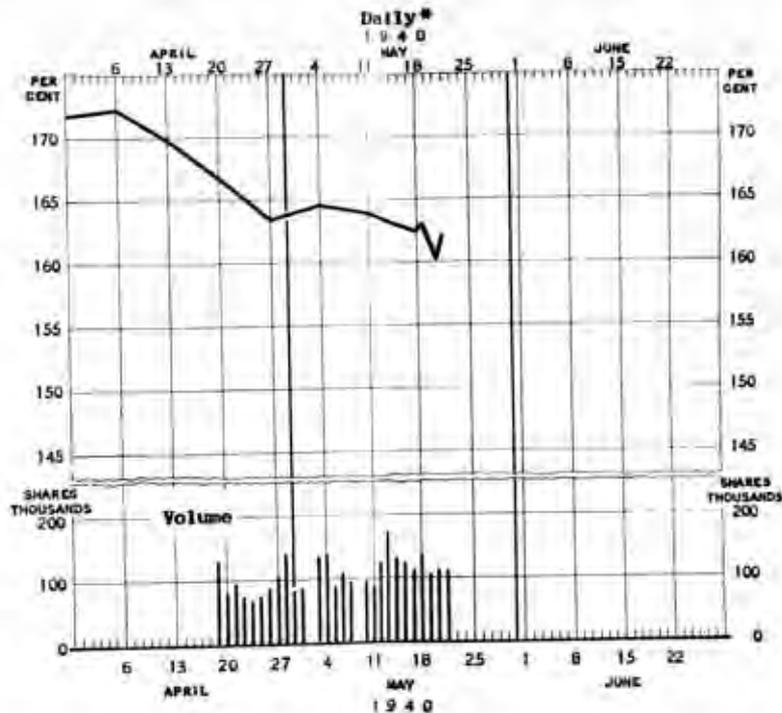
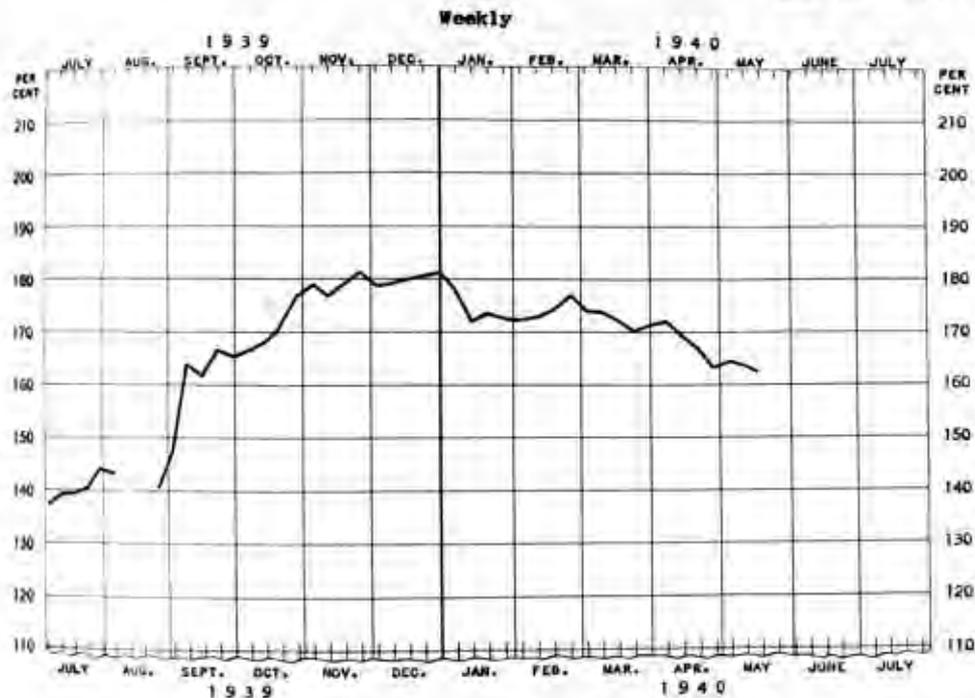
The reason I had not seen your 1299 before our conversation was that the message had been received in Washington without any indication therein that it was intended for me."



RMO:ouk:5.22.40

ITALIAN STOCK PRICES  
(Milan)

Dec. 31, 1927 = 100



\*DAILY FOR LATEST WEEK ONLY

No. 313

## AMERICAN CONSULATE GENERAL

Rangoon, Burma, May 22, 1940

STRICTLY CONFIDENTIAL

Subject: War materials for China; statistics of imports at Rangoon re-exported to China during the period from April 1 to April 15, 1940.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to transmit herewith statistics of the transit shipments of war supplies for China made during the period April 1 to April 15, 1940.

The supplies reexported to China from Rangoon in the period stated were valued at Rs. 1,932,909 or at the rate of exchange now prevailing (one rupee equals \$0.30), \$579,872.

The total value of all war supplies for China shipped through Burma up to April 15, 1940, was Rs. 117,374,722 or approximately \$40,518,907.

Respectfully yours,

W. Leonard Parker  
American Vice Consul

In quintuplicate to the Department

800  
JO

WAR MATERIALS FOR CHINA

Statistics of imports at Rangoon re-exported to China during the period April 1 to April 15, 1940.

Type of Material	Number of Packages	Description and Quantity	Country of Origin	Value in Rupees	
Explosives	1,508,644	TNT	1,200,000 cases	United States	879,556
		Tetryl	38,184 cases		271,582
		Smokeless powder	220,460 cases		536,220
Aircraft parts	62	Parts	8 cases	Hongkong	150,649
		Parts	39 boxes)	Hongkong	82,092
			9 drums)		
		Parts	1 box	United States	3,760
		Parts	1 case	United States	1,257
		Radio transmitter	2 cases	United States	5,071
		Cotton fabric	2 boxes	United States	2,722
				Rs. 1,932,909	

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WAR MATERIALS FOR CHINA

Statistics of imports at Rangoon re-exported to China during the period from April 1  
to April 15, 1940

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RECAPITULATIONVALUES BY COUNTRIES OF ORIGIN

Country of Origin	Value in Rupees	Value in U.S. Dollars
1. United States	1,700,168	510,050
2. Hongkong	<u>232,741</u>	<u>69,822</u>
	1,932,909	579,872

VALUES BY TYPES OF MATERIAL

Type of Material	Unit	Quantity	Value in Rupees	Value in U. S. Dollars
1. Explosives	case	1,508,644	1,687,358	506,207
2. Aircraft parts	package	62	<u>245,551</u>	<u>73,665</u>
			1,932,909	579,872

COPY

American Foreign Service, Hanoi, Indochina,  
May 22, 1940.

No. 91

Subject: Release of Trucks held at Haiphong.

The Honorable

The Secretary of State,  
Washington.

Sir:

I have the honor to refer to my despatch no. 88 of May 17, 1940, in regard to the measure taken by the Government General of Indochina to prohibit the exportation of trucks from Indochina, particularly to that paragraph (page 4) dealing with the transshipment to Rangoon of trucks in boxes. The Department will recall that the boxes now at Haiphong contain only parts of trucks, the other parts having already been transhipped to Rangoon.

Under date of May 18, 1940, the Secretary General of the Government General of Indochina, Mr. Delsalle, informed the Chinese Consul General that the boxes (234 in all) containing parts of trucks may be transhipped to Rangoon as originally planned. At the same time, the circulation of the remaining trucks within Indochina limits was authorized, thus permitting cargo to be carried from Haiphong, or from the railhead at Nham, to the frontier, where such cargo can be transhipped into trucks entering from China.

The

- 2 -

The situation therefore appears to have become considerably easier, both in so far as the "blocking" of trucks (whether assembled or in boxes) and the flow of transit cargo over the Caobang road are concerned. From the tone of Mr. Delsalle's letter to the Chinese Consul General and from his conversation with me, I believe that, if events in Europe evidence a lessening gravity, there will be a relaxing of the incontestable tension in Indochina with a corresponding relaxing of the restriction upon the exportation of trucks.

Respectfully yours,

For the Consul at Saigon,

Charles S. Reed II.  
American Consul.

In triplicate to the Department (By air mail)  
Copies to the Embassy, Chungking and Peiping  
Copies to Consulates General, Hongkong and Shanghai  
Copies to Consulates, Kunming and Saigon

815.4/800

CSR:car

COPY

May 23, 1940  
9:03 a.m.

H.M.Jr: Hello.

Operator: Secretary Woodring.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello. Hello. Hello.

O: Well, I thought he was on there.

H.M.Jr: All right.

O: I'll ring him right back.

H.M.Jr: All right. Hello.

Harry Woodring: Yes.

H.M.Jr: Harry.....

W: Yes, Henry.

H.M.Jr: Good morning.

W: Good morning.

H.M.Jr: Harry.....

W: Yesh.

H.M.Jr: .....when I was with the President yesterday he's asked me to call in the machine tool industry.

W: A little louder, I can't hear you.

H.M.Jr: He's asked me to call in the machine tool industry.

W: Yes.

H.M.Jr: And I would like, if you would, to detail some officer who knows machine tools.....

W: Yes.

- 2 -

H.M.Jr: .....that could work with me on this.

W: Yes.

H.M.Jr: If it's agreeable to you, and if he could come to my office at 2:30.

W: Today?

H.M.Jr: Today.

W: All right. Now, is there any information that we could in the meantime prepare for you and send over to you -- a memorandum or anything that would help you?

H.M.Jr: No, just -- first, what are the Army's own needs, you see?

W: Yes.

H.M.Jr: In that field, and what information have they as to the needs particularly as it affects aviation. See?

W: I see.

H.M.Jr: In other words so we can take care of the Army and Navy first. So.....

W: That's right. I'll do that, at 2:30.

H.M.Jr: Yeah, and I'm asking the Navy to do the same thing.

W: The same thing.

H.M.Jr: Yeah.

W: All right, Henry, we'll be there -- we'll have him there at 2:30 at your office?

H.M.Jr: If you please.

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

May 23, 1940  
9:05 a.m.

H.M.Jr: Hello.  
Operator: Secretary Edison can be reached at the hotel.  
He'll be in his office in an hour.  
H.M.Jr: Oh! Well, let me talk to him at his hotel.  
O: All right.  
H.M.Jr: Hello.  
O: Yes, sir.  
H.M.Jr: And tell Phil Young to be in my outer office in  
about three minutes.  
O: Right.

9:06 a.m.

H.M.Jr: Hello.  
O: Secretary Edison.  
H.M.Jr: Thank you.  
O: Go ahead.  
H.M.Jr: Hello.  
Charles Edison: Good morning, sir.  
H.M.Jr: Good morning, Governor. How are you?  
E: (Laughs) A little premature -- a little premature.  
H.M.Jr: Well, I like to be amongst the first.  
E: (Laughs) O. K.  
H.M.Jr: Charlie.....  
E: Yeah.  
H.M.Jr: .....the President asked me, in connection with what  
I'm doing for him on aviation, to call in the machine  
tool industry as well. Hello?

E: Yes.

H.M.Jr: And I wondered if you couldn't detail some officer who knows machine tools and knows what the Navy needs.....

E: Yes, sir.

H.M.Jr: .....to work with me on this thing.

E: Yes, I will. We've got a very good one.

H.M.Jr: And could he be over here at 2:30 at my office?

E: 2:30 your office.

H.M.Jr: Yeah. Somebody who knows what the Navy needs.

E: All right, sir. I'll have him there.

H.M.Jr: Fine. How are you otherwise?

E: Oh, I'm pretty good, pretty good.

H.M.Jr: I see. You're not -- you don't want any jobs up in Detroit -- I mean in New Jersey.

E: Any jobs?

H.M.Jr: Well, all politicians want jobs.

E: (Laughs) Oh, I want a -- I want the right to hand out a few, that's all.

H.M.Jr: O. K. All right. All right, Charlie.

E: All right, I'll have him there, Henry, and I think -- we made quite a study on that machine tool thing and we've gotten up a very fine book on it, a catalog of where they are, the kind they are, specifications, what's needed, and all that.

H.M.Jr: Good.

E: I think it would be very helpful.

H.M.Jr: Thank you so much.

E: All right. Goodbye.

H.M.Jr: Goodbye.

RE AIR EXPANSION PROGRAM

May 23, 1940  
9:15 a.m.

Present: Mr. Mead  
Mr. Olley  
Mr. Ballantyne  
Mr. Young

H.W.Jr: Did you get your instructions from England?

Olley: No.

H.W.Jr: That helps, doesn't it?

Olley: I will take your word for it.

H.W.Jr: Well, I can tell you - I can't lay my hands on the cable, but Ambassador Kennedy saw Lord Beaverbrook with the president of your company and Lord Beaverbrook was supposed to have seen the Prime Minister yesterday and I don't know the name of the president of your company, but he said the president of Rolls Royce - he saw him with Lord Beaverbrook and then Lord Beaverbrook asked for an appointment with the Minister. I spoke to Mr. Kennedy and he said that it was all fixed and he said that they want Olley to come to see us and they said he ought to get the cable shortly, but he said, "Tell him to take our word for it."

Olley: O. K. I would do that, anyway.

H.W.Jr: Now, here is what we would like, you see. What I have asked for is, if the British Government would license the United States Government to manufacture this engine. I want it between Governments and then we would assign it to whoever we thought could do the job best, consulting the Rolls Royce, but - in other words, we want to keep it between Governments and we, the Government, want the license on that thing and that is the way I put it up to him.

Now, let me ask you this: We have got these two engines of yours which are supposed to have gone on the test block yesterday.

Olley: Yes.

- 2 -

H.M.Jr: Do you know what models those are?

Olley: Those are Merlin 10, two-speed super charger.

H.M.Jr: Is that the latest?

Olley: There is a Merlin 20, about which they have sent me no details. The Merlin 10 is the latest production model. From what I understand, the Merlin 20 is more or less experimental.

H.M.Jr: Well now, the Merlin 10, how much horsepower is that, what is that rated at?

Olley: They don't take me into their confidence very much, but 1200 horsepower at twelve thousand feet.

Mead: That sounds conservative enough.

Olley: That is the latest information I have.

H.M.Jr: Did you see the Bristol man when he was over here?

Olley: Whitehead, you mean?

Mead: Fedden.

Olley: No, I haven't seen Fedden.

H.M.Jr: Well, the point that you (Mead) want to ask is - I mean, is this a sufficiently recent model for us to go in production on if everything went along all right?

Mead: Well, I think we want at least the most proven one they have, if we want to get going immediately.

H.M.Jr: That is right.

Mead: So I should think 10 would be the one.

Olley: Yes, I think 10 would be the one.

H.M.Jr: Now, the only bad news of this picture - and I am not going to take it - they won't send anybody over. Is that necessary, though? Should I put

- 3 -

up a big fight that we must have somebody or are you that person?

- Olley: I am not really so terribly competent as you might think I was by being stuck over here, because I have only just been snatched back from General Motors. I have been with them for nine years.
- H.M.Jr: Where?
- Olley: First of all in Detroit and then two years in Foxhall in England.
- H.M.Jr: Are you an engineer?
- Olley: Yes.
- Mead: I might add he is very modest.
- H.M.Jr: I see.
- Olley: No, I have that reputation, but it is wrong.
- Mead: But I don't think we could manage this big a program with just one man. It would mean more.
- Olley: No.
- Mead: Even if they were willing to let us have your motor.
- H.M.Jr: Well, Mr. Mead, isn't this the thing, before we get into the thing, as long as Mr. Olley has nothing from his company or his government, I suppose we might just as well go on out to Dayton and take a look at the engine.
- Mead: Well, I think after we are through here, if Mr. Olley has time, we could clear away a good deal of the questions we need to get answered of a general character, in so far as he is willing and able to answer them. It might help us a good deal. For instance, you spoke of two runs. Well, if we got a complete set and questions of that kind perhaps you would be willing to help us on.

- 4 -

- Olley: I will help you every possible way I can. Why I say I am not quite sure how competent I am is that I haven't worked for Rolls Royce recently. As you know, I helped design the old engine, the old Eagle engine of the last war as Royce's personal draftsman on that stuff, and after that I was ten years with Rolls Royce at Springfield in the American plant building the motor cars, and after that I was nine years with General Motors putting the independent suspension on it, doing the independent suspension job, and then I have just been recently snatched back to aircraft engines, so I am not really up to date on aircraft engines. I have had a rather intensive training on this engine, because we have been trying to get - we have been getting tools and material for it.
- W.H.Jr: That is what you have been doing?
- Olley: Yes.
- W.H.Jr: That is just what we need help on.
- W.H.Jr: You have been getting the tools and the materials?
- Olley: Yes.
- W.H.Jr: Then you know what they need.
- Olley: Pretty well, yes. That has been our job, you see, to get the machine tools and the tooling and some of the material over here, so I could help along those lines.
- W.H.Jr: You brought somebody down with you from Canada, they say.
- Olley: No, we called for the only Rolls Royce test man on this side. He is a fellow called Osborne, who is working at Fort Williams for the Canadian Car & Foundry, putting Merlin engines into Handley Paige planes which are being built in Fort William. I telephoned him yesterday to come and see me in Detroit, with the idea of his going down to

- 5 -

Dayton to be what help he could on dismantling and inspecting this engine and particularly to bring any tools that he had which were necessary for the job.

- Mead: I talked to Colonel Paige this morning and the engine is down. The other one is on the stand.
- Olley: Colonel Paige has got some darned good men there, then.
- Mead: Well, they worked all night.
- H.M.Jr: Are the Chrysler people there?
- Mead: I don't know about that. It was half past seven in the morning and he wasn't at the office yet.
- H.M.Jr: You (Young) could check and find out.
- Young: Yes. They should have been there yesterday morning.
- Olley: Now, on the general proposition of manufacturing the Rolls Royce engine in this country, we shall be up against exactly the same thing that we had to face in '17 and '18, and that is that it has to be redesigned in the auxilliary details for American production. I know that from the struggle we have had to buy some of the material over here.
- Now, George Mead was saying that that might delay us. It will delay us much worse if we don't do it.
- Mead: I think that is something that you and I will have to go into a huddle on.
- Olley: May I offer one piece of evidence? I know George Mead will --
- Mead: You mean to show me a picture of the rear of the engine now?
- Olley: No, sir, to show you a picture of one detail of the starter.

- 6 -

- Ward: I agree where we can take off a whole unit and put on another one, we can probably do it.
- Olley: That thing, I would turn the Eclipse Bendix boys, Ray Lansing and his gang, loose on that right away and put it up to them.
- Ward: But I think generally speaking we would agree that in so far as it is humanly possible it ought to be a perfect copy, because there will be the least delay in going into production.
- Olley: Yes. Well, there is this about that engine. The main portion, if you will just look at those drawings, for example, or my arrangement drawings up in Detroit, the main portion of that engine is simple.
- Ward: I know. You see, I spent several days with --
- Olley: Crankcase, crankshaft, con rods, pistons, cylinders, cylinder liners, reduction gear, all that stuff is simple and straightforward. When you get to the rear end of the engine, you have got an absolute Chinese puzzle of stuff there that definitely needs redesigning for production purposes. Otherwise, it will be a sheet anchor around the whole thing. You will never get anywhere.
- Ward: Of course, I think we should bear in mind that if the war goes on, this is a source of supply for you if you need more engines.
- Olley: Yes.
- Ward: And consequently we don't want to go very far afield to spoil the installation interchangeability.
- Olley: That is one thing where we should get, to my mind, where we should get a small gang together with those two points in mind, that we have got to make the thing producible and we have still got to keep it usefully similar.

- 7 -

- Mead: It seems to me if we went on that basis, that Rolls had more reason than ever to give us a hand, that perhaps they will never get any of this source of supply, but still it is the potential --
- H.M.Jr: Right. Well, I said this to them over the phone, to Ambassador Kennedy. I said, "Certainly as an ace in the hole I don't know what they could do better than to start us producing these engines in this country," and the fact that the Government itself is contemplating doing the Bristol engine and the French are planning to do the Hispano.
- In the case of the Bristol, the British Government is thinking of doing it itself and in the case of the Hispano, the French Government. Now, we want to come along and do this thing with our own money and so I should think that the British Government would welcome this.
- Olley: They certainly should.
- H.M.Jr: I gather that they have. Well, I don't think there is much more that I can do. I think the best thing to do - have you any suggestions?
- Ballentyne: Well, I was going to suggest, sir, that I think Mr. Purvis remarked to you about an engine with a higher horsepower. I think it was a Rolls Royce engine, a Vulture.
- Olley: I certainly would not touch the Vulture at this time. That is the 24-cylinder square engine and as I get it, by word of mouth, there are two projects in mind. One, the - you remember the Snyder Company 12-cylinder six-by-six.
- Mead: Six and a half, wasn't it?
- Olley: Yes, and one project was to make - to moderate that a little bit to make a good military engine out of it. That appealed to me right away because it is a simple engine and it should be fairly reasonably simple nowadays to make the stunt engine of 1939 into a practical military engine of 1940.

- 8 -

The other scheme is this square 24-cylinder Vulture. Of course, I haven't seen any details of that at all, but as a manufacturing proposition I wouldn't touch it at this time. It means articulated rods.

Mead: It meant a considerable headache at Darby, too. I have seen the engine.

Olley: They have had a dogfight on the rods, I understand, for quite a while.

Mead: It seemed to me that our immediate urge was for something that was proven and ready to go, because even then we can't get it out fast enough, so that all these other sizes would be a matter of thinking of after this and in place of it.

Olley: Yes. The Merlin engine is a well worked out design that started in 1935 or 1936 and has quite a lot of background to it, and it has been stepped up in power very much like the Wright Cyclones.

W.V.Jr: I am going to turn you over to Mr. Mead, see, and thank you very much for coming in. I just want to say one word to Mr. Mead.

May 23, 1940

Comdr. Carney said the Packard 4M engine is very close to the Rolls Royce engine but has greater horsepower. It is a marine type but with very minor changes would be available for aircraft engines.

Packard could produce 20 engines per day after 12 months.

D.E.M.

CONFIDENTIAL

May 23, 1940

To: The Secretary  
From: Mr. Young

General Brett advised me by telephone at 2:00 P.M. that the Chrysler engineers had been at Wright Field since yesterday morning. He added further that Chrysler had backed off on the Rolls engine because it used the metric system and was now studying the Continental.

Evidently, Chrysler was inclined more and more to the idea of designing an engine of its own from the ground up.

*DY.*

WAR DEPARTMENT  
AIR CORPS  
MATERIEL DIVISION

184

Washington, D. C.,  
May 23, 1940.

*File*

The Honorable Mr. Henry Morgenthau,  
RECEIVED FOR - The Secretary of the Treasury.

Subject: Characteristics of the Rolls Royce-Merlin Engine.

In accordance with request of Lieutenant McKay of your office, the following information concerning the Rolls Royce-Merlin engine is furnished:

1. The highest known continuous output of a Rolls Royce-Merlin engine is obtained from the Model "RM2SM". This engine is similar to the Merlin "X" in that both are fitted with two-speed superchargers, but the "RM2SM" has been designed specifically for operation with 100 octane fuels. This engine has a take-off of 1320 horsepower and a maximum power in high or low gear ratio of 1160 horsepower at 16,730 feet. The engine is of the standard 12-cylinder "V" type, cooled with Ethylene Glycol. The dry weight of the two-speed "X" Merlin engine is quoted at 1390 pounds and the Model "RM2SM" engine weight has been estimated the same by our Military Attaches. A particularly fine feature of this engine is the two-speed internal supercharger blower. The Air Corps has been interested in this blower for several years.

2. The comparison of the Merlin and the Allison is given also in tabular form:

	Rolls Royce- Merlin	Allison (P-40 Engine)
Take-Off Power	1320 HP	1090
Power at Altitude	1160/16,730 ft.*	1090/13,200 ft.
Supercharger	Two-Speed	Single Stage
Dry Weight	1394 lbs.	1340 lbs.
Displacement	1641 cu. in.	1710 cu. in.
Frontal Area	5.85 sq. ft.	5.5 sq. ft.

\* The engine in the Spitfire flown in Ottawa only had a normal rating at 16,730 ft. of 1050 HP. Other Allison models have a military rating of 1150 at 12,000 ft.

*G. H. Brett*  
G. H. BRETT,  
Brig. General, Air Corps,  
Chief, Materiel Division.

*Have given copy to Mr. George Wood.*

May 24, 1940

Since Mr. Olliv was unable to reach Mr. Hines yesterday afternoon it was decided that HM, Jr would speak to Ambassador Kennedy this morning at 6:00 a.m. However, late last night Mr. Ollie did get through his call to Mr. Hines and it was not necessary, therefore, to send this cable to Ambassador Kennedy.

May 23, 1940

Note for transmission to the American Embassy in London

The Secretary of the Treasury requires the following questions to be transmitted to Rolls Royce, Derby, England, attention of Mr. E. W. Hives, General Manager.

- (1) Recognizing the importance of building a proven engine and assuming that special efforts will be made on this side to enable the production of engines in twelve months, would Rolls Royce recommend building the Merlin X engine, the Merlin XX, the Vulture, or the Griffon?
- (2) What is the essential difference between the Merlin X and Merlin XX engines?
- (3) What are the rated powers of all four engines, and at what altitudes and for what running times are these powers obtained?
- (4) What are the weights and displacements of these engines?
- (5) How quickly can Rolls Royce send a complete set of prints either blue or Van Dyke of assemblies and detailed parts and essential prints of manufacturing tools, such drawings to refer to whichever engine they believe should be built? It is suggested that preliminary prints should be sent immediately by airplane also handbooks and other instruction literature.
- (6) How quickly can Rolls Royce send a production engineer, preferably Mr. Blackstone, also a design engineer and a test engineer?

Olley

May 23, 1940  
9:48 a.m.

H.M.Jr: Hello.

Operator: Secretary Edison. Go ahead.

H.M.Jr: Hello.

Charles Edison: Hello.

H.M.Jr: Charlie.....

E: Yes, sir.

H.M.Jr: Henry. Henry Morgenthau.

E: Yeah.

H.M.Jr: Charlie, could I have Captain Kraus of the Navy, you know, the engineer.

E: Could you have Captain Kraus what?

H.M.Jr: Could I borrow him for a couple of days to help me on this aircraft business?

E: Why yes, I think so. He's more or less assigned to your work anyway, isn't he?

H.M.Jr: That's right. That's right. He has been but I just didn't -- wanted to make sure it was all right.  
Hello?

E: Yes, it's all right me, sure.

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

E: I don't know what he's doing -- I thought he was working with you.

H.M.Jr: He is. He is. Is he -- are you at the Navy now?

E: No, I'm at my office in the hotel.

H.M.Jr: Oh.

E: However, I'll be at the Navy shortly. Why?

- 2 -

H.M.Jr: Well, just if you'd tell somebody that -- I don't know, maybe it's not necessary -- that I can -- I'll be calling on Kraus for quite a lot for the next few days or a week or so until we get this thing straightened out.

E: Well, you go right ahead and call on him and if -- if there's any -- I mean, if he's on some special assignment -- he's here in town, isn't he?

H.M.Jr: Oh, yes. I'll call him if it's agreeable to you, and say I spoke to you.

E: It's agreeable to me.

H.M.Jr: All right.

E: Perfectly. Unless you hear from me to the contrary that he's on some life-saving mission, why you can have him.

H.M.Jr: Fair enough.

E: (Laughs)

H.M.Jr: Thank you.

E: Say listen, Almy is coming over. Did your secretary tell you?

H.M.Jr: No.

E: Well, I -- I.....

H.M.Jr: Almy?

E: I called right back and said that Captain Almy would represent the Navy at your meeting at 2:30 on machine tools.

H.M.Jr: Good. Thank you.

E: All right, sir.

H.M.Jr: Ever so much obliged.

E: Goodbye.

H.M.Jr: Goodbye.

May 23, 1940  
9:53 a.m.

H.V., Jr: Hello.

Operator: Captain Kraus.

H.V., Jr: Hello.

Kraus: Captain Kraus speaking, Mr. Secretary.

H.V., Jr: Good morning.

K: Good morning, sir.

H.V., Jr: I was just talking with Mr. Edison and I said I was going to lean on you even more heavily than what I have been and he said, "Fine," unless you had some life-saving detail that he didn't know about.

K: All right, sir.

H.V., Jr: And he said if I didn't hear from him again why I could call on you as much as you could take it physically. Now, the immediate thing is this. You most likely know Mr. Mead is coming down to help me until I get this particular assignment finished.

K: Yes, sir.

H.V., Jr: And he would like very much to have your assistance, and would it be convenient for you to come over to the Treasury at 11:30?

K: I think I can get over there, Mr. Secretary. I have a rather important engagement here at ten, but I think I'll be clear of that by that time.

H.V., Jr: Would twelve o'clock be better?

K: No, I think 11:30 will be all right.

H.V., Jr: He's in room 296.

K: 296.

H.V., Jr: On my floor.

- 2 -

K: All right, sir. I'll be over at 11:30 then.

H.M.Jr: At 1130, at -- room 290 -- 296.

K: 296 at 11:30 with Mr. Mead.

H.M.Jr: Righto.

K: All right, sir.

H.M.Jr: Thank you.

THE ASSISTANT SECRETARY OF THE NAVY  
WASHINGTON

23 May 1940

MEMORANDUM TO SECRETARY MORGENTHAU

In further reference to our conversation at the Cabinet Meeting on Friday, May 17, concerning the availability of duPont powder for the British, please be advised that I asked Admiral Furlong to obtain for me the exact status of this situation.

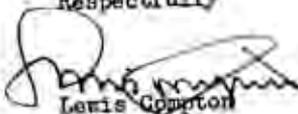
According to Mr. Bradway of the duPont Company, with whom Admiral Furlong conferred, this firm is now producing powder for British account from the 600,000 pounds on which we deferred delivery sometime ago. In addition to this, they are working on the replacement of the 600,000 pounds which we will need. The 2,500,000 pound capacity apparently can not be worked on by duPont until October with deliveries starting 1 December at the rate of 200,000 pounds a month.

We could and would be willing to accept a second deferral of our requirements which would shorten our current needs somewhat. However, if we did this, there is only 225,000 pounds of the 600,000 pounds of the kind that the British would want. This, you will recognize, is only a drop in the bucket. Even if we did this, deliveries could not start until 1 November from the duPont line which, as you see, is only a thirty day saving in time.

I am informed by duPont, although I have not verified this, that the Army of course is still requiring 7,000,000 pounds a year from this source and no doubt that, too, has some effect on their production capacity and ability to make earlier deliveries than those indicated above.

I can assure you that Admiral Furlong indicated very definitely to Mr. Bradway of the duPont Company the necessity for expediting deliveries to the British.

Respectfully



Lewis Compton

# SECRET

WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
SUPPLY DIVISION, G-4  
WASHINGTON, D. C.

G-4  
RCM

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May 23, 1940.

*copy to Phil Young sent 5-27-40*

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: Availability of Ordnance Materiel for Release without Adversely Affecting National Defense.

1. The following items have already been declared surplus and are available for sale under existing laws:

	Quantity on Hand	Serv.	Unserv.
a. Cal. .30, Lewis machine gun, ground, M1917	1,157	18%	82%
b. Cal. .30, machine gun, Vickers, ground type	7,071	43%	57%
c. Cal. .30, Marlin tank machine gun	2,602	67%	33%
d. Cal. .30, Marlin aircraft machine gun	15,638	94%	6%
e. Cal. .30, Vickers aircraft machine gun	5,124	70%	30%
f. Cal. .30, Lewis aircraft machine gun	38,040	34%	66%

2. The following items may be declared surplus without detriment to the National Defense for reasons stated after each item:

a. 10,000 Cal. .30 Browning machine guns, Model 1917, Unmodified.

There are 64,929 of these machine guns on hand of which 8,407 have been or are being modified by changing elevating devices to permit use against aircraft and 7,430 are being converted into air cooled light machine guns, leaving a surplus over and above PMP requirements of 49,092 of these guns. This would provide for an augmentation to a force of 4,000,000 men and still leave a surplus of 1591 guns. However, a new light machine gun is under development which could be put into production in 9 months after adoption as standard. If the new type light machine gun is slow in its development, arrangements have been made with the General Motors Co. by educational orders already placed to manufacture the Modified Browning gun in ample quantities, and in ample time, for augmentation.

b. 25,000 Browning automatic rifles, M 1918, unmodified.

There are 81,250 of these on hand of which 8000 are being modified by adding new sights, new butt plates, a bipod at the front, stock rest at the rear, and a rate reducer, leaving a surplus over and above PMP requirements of 73,250 of these guns. This would provide for an augmentation to a force of 4,000,000 men and still leave a surplus of 49,260 guns.

# SECRET

## SECRET

g. 500,000 Enfield Cal. .30 rifles.

There are 1,800,000 of these rifles on hand. There are also 900,000 Springfield rifles on hand and 240,000 new Garand rifles either on hand or in prospect for procurement by June 1942, or perhaps sooner. The requirements for 4,000,000 men amount to about 2,000,000 rifles. Hence it is evident that, excluding the Garand rifle altogether, there is a surplus of 700,000 shoulder rifles over and above the requirement for 4,000,000 men.

d. 500 - 75mm British design guns.

These guns cannot use the British ammunition but can use the French 75 mm ammunition. There are on hand a total of 4470 of 75mm guns, of which 530 are British type which are in storage, 320 of the American type which are in storage and 3450 of the French type of which 1675 have been modified to permit towing by trucks and 1439 are in the process of being converted into the split trail types. The PMP requirement in 75 mm guns is 1439. There are not sufficient field artillery guns on hand for a force of 4,000,000 men but it is agreed that the British type gun will not be employed in the theater of operations and that further production of field artillery guns will probably be restricted to larger calibers.

e. 500 - 3" Stokes Mortars (World War Type) and 50,000 rounds of Stokes Mortar ammunition.

This weapon has been replaced by the 60 mm Mortars and 81 mm mortars which are being produced at a rapid rate.

No requirement exists for the Stokes Mortar either for the PMP or augmentations thereto.

f. Cal. .30 ball ammunition.

None can be declared surplus but the question of exchange of old ammunition for new ammunition is under consideration by the Chief of Ordnance.

R. C. MOORE,  
Brigadier General,  
Assistant Chief of Staff.

SECRET

*copy to Philippines*  
WAR DEPARTMENT *part 5/27/40.*

OFFICE OF THE CHIEF OF THE AIR CORPS  
WASHINGTON

184  
SECRET

May 23, 1940

MEMORANDUM for the Chief of Staff

SUBJECT: Release of Army-Owned Aircraft for Export

1. The attached request of the Anglo-French Purchasing Board involves the immediate release of airplanes now being used for training, and airplanes now on contract for initial equipment of units of the GHQ Air Force.

2. a. Manufacturers have stated that deliveries on current contracts can be accelerated by substantially increasing present orders for airplanes now in production.

b. Immediate orders for 3,000 airplanes of similar types now on order will accelerate deliveries to a degree that will assure the completion of the Aviation Expansion Program on schedule, provided:

That airplanes released for export, over and above requirements of Army delivery schedules, conform to Air Corps specifications with respect to details, design, armament and equipment;

That current delivery schedules are maintained with exception of 15% for reserve in the continental United States and 25% for reserves in foreign possessions;

That attack airplanes, Type A-17, are replaced in kind by advanced training airplanes, Type AT-6;

That the Government immediately initiate action leading to the acceleration of engine deliveries.

- 1 -

SECRET

Memorandum for the Chief of Staff  
May 23, 1940

SECRET

3. There are two possible methods of realizing accelerated delivery rates, i.e.:

a. Additional Army Purchases.

This method would require the expenditure of approximately \$300,000,000 by the Government, for the purchase of airplanes. It would have the advantage of:

- (1) Utilizing the maximum potential capacity of aircraft manufacturers of critical Army types;
- (2) Substantially increasing delivery rates within four to six months from date of order, and of providing positive initial steps toward the augmentation of the combat strength of the GHQ Air Force.

The principal disadvantage of this method is the difficulties incident to incorporating improvements in design and changes in equipment that are constantly necessary at frequent intervals under present world conditions. On the other hand, placing large orders for present advanced types now in production would allow the manufacturers to plan and coordinate their production in a manner that would provide for the economical and timely incorporation of new features as required.

b. Additional Foreign Purchases.

This method envisions the placing of large orders, by the Anglo-French Purchasing Board, for airplanes identical to Army types now in production. It would have the same desired effect on delivery schedules as the placing of additional orders by the Army.

This method has the disadvantage of placing a large percentage of the total potential capacities of key manufacturers under control of foreign purchasers. It would require the complications of commandeering, if there is an early requirement, additional combat airplanes for the discussed expansion of the Army Air Force.

SECRET

Memorandum for the Chief of Staff  
May 23, 1940

SECRET

4. In the final analysis, additional orders for Army types would serve the dual purpose of accelerating deliveries for export and provide for a timely and orderly expansion of key manufacturing facilities. "Piecemeal" releases of Army types for export will seriously interrupt and delay the execution of the present Aviation Expansion Program as well as hinder the initiation of an orderly and adequately planned production program for augmenting the Air Forces of the United States.

*G. H. Brett.*

Incl. 1  
Part No. I, Aircraft  
& Engines - 7 sheets

SECRET

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Dr. Mead

I am sending you herewith two sets of tables which show the status of the training aircraft on order for the United States Army Air Corps and the United States Navy. You will note that the Navy uses but three types of engines in their training aircraft and that the Army uses a considerably greater number.

The Army situation is being studied, however, with a view toward reducing the total number of types employed. The items marked with an asterisk on the Army tables indicate those engines which are now on order for the present expansion program. We have had some indication also that the Army may still further simplify its engine procurement problem by the elimination of the so-called basic trainer type.

In addition to the moves that are being made to solve the engine problem, a study of all methods of manufacture which may lead to more economical and more rapid production is being undertaken as a part of this program. One of the first moves in this direction is a survey of the so-called plastic method of construction as applied to training aircraft.

Gen. J. Mead

*Meads memo given to [unclear] 5/23/40.*

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TRAINING AIRCRAFT U. S. ARMY

General Classification.	Manufacturer.	Model No.	Approx. No. on hand or on order.	Engine make and model.	Hp.	General type.
Primary trainer	Consolidated	PT-3	5	Wright R-790	235	Biplane fixed landing gear
"	"	PT-3A	61	"	"	"
"	Stearman	PT-9B	1	Lycoming R-680	180	"
"	Consolidated	11-D	20	Lycoming R-680-3	200	"
"	Stearman	PT-13	21	Lycoming R-680-5	215	"
"	"	PT-13A	130	Lycoming R-680-7	215	"
"	"	PT-13B	180	Lycoming R-680-11	220	"
"	Waco	XPT-14	13	Continental 670-5	220	"
"	St. Louis Car	XPT-15	13	Wright R-760 E.T.	225	"
"	Ryan	XPT-16	15	Menasco L-365-1	125	Low-wing monoplane fixed landing gear
"	Stearman	PT-17	150	Continental R-6705	220	Biplane fixed landing gear
"	"	PT-18	150	Jacobs R-755-7	225	" "
"	Fairchild	PT-19	270	Ranger L-440-1	175	Low-wing monoplane fixed landing gear
"	Ryan	PT-20	30	Menasco L-365-1	125	" "

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General Classification.	Manufacturer	Model No.	Approx. No. on hand or on order.	Engine make and model.	Hp.	General Type
Basic trainer	Douglas	BT-2	68	P & W R-1340-C	450	Biplane fixed landing gear
" "	Consolidated	BT-7	5	P & W R-985	300	"
" "	Seversky	BT-8	20	P & W R-985-11	400	Low-wing monoplane fixed landing gear
" "	N. American	BT-9A	62	Wright 7-975	400	"
" "	" "	BT-9B-C	163	Wright 7-975-7	400	"
" "	" "	BT-10	1	P & W R-1340-49	550	"
" "	Vultee	BT-13	300	P & W R-985-25	450	Low-wing monoplane
" "	N. American	BT-14	251	"	"	" "
Advance trainer	" "	BC-1-2	170	P & W R-1340	"	Low-wing monoplane with retractable landing gear
" "	" "	BC-1A	83	P & W R-1340-49	550	"
" "	" "	AT-6	94	P & W R-1340-49	"	"

## TRAINING AIRCRAFT U. S. NAVY

General Classification.	Manufacturer.	Model No.	Approx. No. on hand or on order.	Engine make and model.	Hp.	General type.
Primary trainer	Stearman	NS-1	47	Wright R-790	220	Biplane - wheel or float
" "	Naval Air. Fact.	N3N-1	167	Wright R-790 or Wright R-760	220 235	" "
" "	" " "	N3N-3	150	Wright R-760	235	" "
" "	" " "	N5N-1	1	Wright R-760	235	Monoplane
Advance trainer	N. American	NJ-1	40	P & W R-1340	500	Monoplane - wheels
" "	" "	SNJ-1	16	"	"	" "
" "	" "	SNJ-2	36	"	550	" "

## Engines used in Navy trainers:

Wright R-760  
Wright R-790  
P & W R-1340

## ENGINES USED IN ARMY TRAINERS

Make	Model	Rating (Sea-level, unless indicated)
Continental	* R - 670 - 5	220 hp.
Jacobs	* R - 755 - 7	225 hp.
Lycoming	R - 680 -	180 hp.
	R - 680 - 3	200 hp.
	R - 680 - 5	215 hp.
	R - 680 - 7	215 hp.
	* R - 680 - 11	220 hp.
Menasco	* L - 365 - 1	125 hp.
Pratt and Whitney	R - 985	300 hp.
	R - 985 - 11	400 hp.
	* R - 985 - 25	450 hp.
	R - 1340 - B-c	450 hp.
	* R - 1340 - 49	550 hp. (at 5000 ft.)
Ranger	* L - 440 - 1	175 hp.
Wright	* R - 760 - ET.	225 hp.
	R - 790	235 hp.
	R - 975	400 hp.
	R - 975 - 7	400 hp.

\* Engines for present expansion program.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

202  
*only copy*  
*B.G.*  
*Secretary has*  
*not seen.*

May 23, 1940

MEMORANDUM FOR MR. PHILLIP YOUNG

There is attached hereto a letter just received from Admiral Furlong, Chief of Ordnance, Navy Department, which is self-explanatory.

att.

IN REPLY ADDRESS  
BUREAU OF ORDNANCE, NAVY DEPARTMENT  
AND REFER TO NO.

NAVY DEPARTMENT  
BUREAU OF ORDNANCE

WASHINGTON, D. C.

23 May 1940

Memorandum for Captain Harry Collins,  
Director of Procurement.

The DuPont Company is now manufacturing powder for the British on the 500,000 lb. deferment made by the Navy some months ago. This powder will all be manufactured and pecked ready for delivery to the British by July 31st. Some of it will be finished by July 1.

Of the 2,500,000 lb. capacity that the Navy released to other orders, it is stated by DuPont that the Company will not start manufacture until October and will make the first deliveries on it in December at rate of 200,000 lbs. per month.

I asked the DuPont representative if the Navy should give up all the remaining capacity that DuPont now has in process of manufacture for us, what amount that we are getting could be made available to the British. He stated that only 225,000 lbs. of our capacity in their powder lines could be used to make the kind of powder the British want, and that they could start to make this in September and deliver it to the British in November.

I am willing to further defer this amount for us although it is such a small amount as to be of little help to the British. If we really want to help the British at DuPonts, it would be necessary to cancel some of the 7,000,000 lb. capacity that the Army has now under manufacture and let DuPont turn whatever is cancelled or deferred right over to the British.

The Bureau of Ordnance of the Navy is willing to again defer, as stated above, all of the capacity we are using in the powder line that makes the size of powder the British want. The small amount we retain is for 1 1/2 and 5" antiaircraft powder, made on machines that can not make the British powder. I am willing to go the limit on our own deferments or even cancellations to help the British.

RECEIVED

*W. R. Furlong*  
W. R. FURLONG  
Chief of Bureau.

Telephone Conversation - Mr. Louis  
Johnson called Mr. Sullivan at 10 a.m.  
in response to call from Mr. Sullivan  
at 9:40 a.m., May 23, 1940.

Sullivan: Hello Louis.

Johnson: Hello John.

Sullivan: I called you yesterday.

Johnson: Yes, I know, powder. I went over those figures this morning with Colonel McMoreland. He is on his way over there now, if he isn't already sitting outside. I told him to show you the exact status. I don't see how in the world we can do it, John, -- with another powder plant coming along we are actually out. With powder the White House released to Finland, and Mr. Morgenthau's request to release to the Allies, -- we are in a critical state with our own present program. Not that I don't want to help those people, but I think we have reached the bottom on those figures. We are going to do whatever the Administration's program wants. That's why I sent McMoreland to you with the exact figures right away to show you the whole breakdown. You can see that it is just what I told you. We are trying to be good soldiers, John.

Sullivan: All right, thanks very much.

MEMORANDUM

May 23, 1940.

TO: The Secretary.

FROM: Mr. Sullivan

CONFERENCE: Present: Colonel McMoreland of the office of the Assistant Secretary of War; Mr. Ballantyne of the Anglo-French Purchasing Board; Mr. Young and Mr. Sullivan.

Colonel McMoreland stated that it would not be possible to advance the release date on powder for the British ahead of October 1st, 1940, nor to increase the amount to be released beyond 200,000 pounds per month without disrupting the present loading schedule and closing down arsenals. In his figures we discovered that there was an allowance of 600,000 pounds for the Finns and he called the Finnish minister to find out whether the Finns were to exercise this option. The Finnish minister called back to say that he was waiting for advice on this matter. McMoreland said the Army would gladly release Hercules from this 600,000 pounds if the Finns did not want it. As to the balance of the present British requirements, when he left he agreed to go through the loading schedule again to see if he could in any way advance the date of increase of the amount beyond 200,000 pounds per month starting October 1st.

Mr. Young and I concur that unless the Army revises its requirements for its loading schedules, the only other chance of securing this powder for the British is through an additional release from the Navy, which in view of the present releases, appears doubtful.

In regard to the contract pending with Colt for 15,000 machine guns, Mr. Ballantyne acknowledged that the situation in regard to a capital advance for the purpose of increasing facilities is identical with the situation they faced in aircraft and engine factories. This had not been hereto appreciated by Mr. Ballantyne or Mr. Purvis and when the conference ended Mr. Ballantyne agreed to call Mr. Purvis in New York and we believe he will recommend the advance of \$2,500,000 for additional facilities. In return for this the Army will agree to release half of its capacity on the 50 millimeter aircraft machine guns starting in December, 1941. Mr. Young and I believe that the demands of the Army are reasonable and that the Anglo-French Purchasing Board should advance the \$2,500,000.

JLS

EMK:

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Mrs. McHugh would like to know where the enclosure  
to this despatch is.

ka

*No inclosure received by  
State Dept.*

No. 564

*Enclosure*

207

American Consulate General,  
Amsterdam, Netherlands, May 23, 1940.

Subject: Delivery of a Personal Message from the  
Secretary of the United States Treasury  
to the President of the Netherlands Bank.

The Honorable

The Secretary of State,

Washington.

Sir:

In reference to the Department's telegram number 29 dated May 8, 6 p.m. in which was transmitted a personal message for Mr. Trip, President of the Netherlands Bank from the Secretary of the United States Treasury, and my reply thereto contained in Despatch No. 559 dated May 9, 1940, I have the honor to transmit herewith for record purposes and in connection particularly with the last paragraph of the despatch referred to above, a copy of a letter dated May 10, 1940 from Mr. Trip to me in which he expresses his thanks for the action taken by the United States Government and particularly Mr. Morgenthau.

Very respectfully yours,

Frank C. Lee,  
American Consul General.

In quintuplicate to the Department of State;  
Copy to the American Legation, The Hague.

File No. 102.1/FCL/prf.

COPY

## THE MACHINE TOOL PROGRAM

May 23, 1940  
2:30 p.m.

Present: Mr. McReynolds  
Mr. Young  
Captain Almy  
Major Hauseman

H.M.Jr: Captain, just to be sure I have enough to do, the President asked me in connection with this airplane thing that I am doing for him to look into the machine tools, and Mr. McReynolds explained - he is Administrative Assistant to the President and I am just borrowing him and the thing that I wanted to know was this: After all, airplanes are important and just because I am doing them, I don't want to distort the thing and I wondered how far the Navy has gone, first, as to tools they need to take care of the existing program, what tools do they need when this bill passes, and furthermore, what about the machine tools which are on order for foreigners.

Almy: I am not sure I have much information in regard to the aviation requirements of the Navy, other than those that they will require in their own plants; that is, for their manufacturing and maintenance plants and for those additional stations that are being built. I wasn't able - after I got word to appear over here, I was unable to get in touch with the planning officers that have this plant extension program in hand and I am not sure that they know too much about what they want to do. I am quite sure they don't.

H.M.Jr: Well, this is giving you a little notice. The machine tool people are due in here, a committee representing the industry, Monday at 11:00 o'clock, see, and I would like you, if you would, to come back at 10:30 Monday, at which time you and whoever the Army sends here - and maybe you could get together with the Army man before that, you see, so that - I would divide it up like this: First, what are the requirements that the Navy needs for its own program.

Almy: We know that very definitely now.

H.M.Jr: All right, then if you could segregate that, general, and then off on the side would be

- 2 -

aircraft, and if - I don't know whether you have it by companies or by tools. I don't know how you do that, you see.

Almy: We have it in the form of what we call plant deficiencies. In other words, we have for each plant or each station a deficiency index which tells us exactly the tools that they want to bring up their activity to any specified level within the capacity of that plant. That is true of aviation as well as Navy Yards and --

S.M.Jr: That is within the Navy?

Almy: That is within the Navy.

S.M.Jr: I mean that doesn't include the - I mean, 10,000 long distance bombers, you don't know how many tools it takes to make those 10,000 long distance bombers?

Almy: I can't speak authoritatively for that - for them right now.

S.M.Jr: Well, I am giving you notice, so to speak, and you see what I mean. Then I am particularly interested if you and the Army can say, "Now look, Mr. Morgenthau, here is a list of tools which we need and by countries, England, France, Russia, Japan, Italy," wherever they are. "Now, these are the things we need. What can we do about that?" I know they have been grabbing it. I know they have grabbed a lot, but they haven't begun to grab enough.

Almy: They grabbed everything that - I have already set up the machinery in the Navy Department with the connivance of some of the Customs and Coast Guard and have been grabbing everything that we want, and we use our discretion as to what we want, that is designed for export, that is on order or for export, and I am gradually collecting all the information of all the tools that are on order in this country and I - some of this equipment that was on order and ready for shipment I have purchased outright by proprietary means and had to use the big stick to fortify these companies

- 3 -

because they have definite contractual obligations and probably you should know this, that this morning I asked the Customs to investigate a foreign shipment that was alongside a vessel of - in New York, and this was part of a two-car shipment of one machine that the President has ordered us not to let get away from us.

H.M.Jr: Is that a 150-foot lathe? You know, I asked three months ago and Mr. Edison wrote me formally turning me down. Did you know that?

Almy: I knew that. There is a still bigger one than that by that same company.

H.M.Jr: General Machinery, also for Russia?

Almy: Yes, sir.

H.M.Jr: I forget whether the first one was Russia or Japan.

Almy: Both of them were Russia and I --

H.M.Jr: Who do you contact when you want something in Customs?

Almy: Oh, I go directly to the company.

H.M.Jr: I say, who in Customs?

Almy: I handle that through O.N.I. and they telephone --

H.M.Jr: We have that.

Almy: I heard, but I don't recall. But I gave them the car numbers and stuff.

H.M.Jr: Well, could you, as I say, bring me up to date, because we don't want to all be felling all over each other. This aircraft engine thing, the more deeply we go into it, the more difficult it is to do anything.

Almy: I haven't done anything - the aircraft engine industry is interested in two kinds of equipment, particularly, milling machines which they want by the thousands and hammers, forging hammers, and

- 4 -

I haven't yet gotten my fingers on that equipment.

H.M.Jr: I see.

Almy: As perhaps you know, the proposed Naval legislation allows us to - well, commandeer that stuff, place an order for it without competition and direction that this order - or it states that this order has priority over any other demand for export, so that --

McR: Subject to the discretion of the President.

Almy: Oh yes, subject to the discretion of the President. So that I am now just serving notice on these people and when this becomes a law, there is - there is nothing I can do now unless I can bluff them.

H.M.Jr: You are doing no worse - I have got 3500 tons of toluol that the - I have got a request to try to hold in an Italian ship which is supposed to sail every day and by hook or crook we have been holding that for a week now, 3500 tons of toluol.

McR: We wouldn't clear the ship.

H.M.Jr: So we are all in the same business.

Incidentally, don't worry, there is only one copy of that record that goes in my safe, but I can't remember. There is only one copy and the rest is destroyed. If it bothers you, I will stop it. Does it bother you?

Almy: Not at all. Not a bit.

H.M.Jr: I can't remember. I used to try to dictate at night what I thought I said. The thing - you have got what I want, you see, and all I am trying to do is to get - when these machine tool fellows come in and then the other thing which we are thinking about, we have had a lot of talks with many here about plant expansion and these boys don't want to expand.

- 5 -

Ains:

I know.

Ains:

See? Now, yesterday everybody wants to know what was Thurman Arnold doing in here. He came here with his whole staff. He tells me - and this is just in the family - that the minute I get to the point with the machine tool industry that they won't expand or won't play ball, he is going to call 150 of them before the Grand Jury and he says, "You watch them expand," and my understanding with the President on that discretionary money he has got, I am sitting in on it when it is going to be divided up, so when these machine tool fellows say, for instance, that there are certain things that the Army and Navy need, after all, it only goes so far and if these fellows won't build, we, the Government, may have to build the plants. That is one of the things I am looking forward to and that is why I said that the names of the companies, you see --

Ains:

Well, of course in this machine tool industry there is a certain point that they can't expand beyond because they haven't the skilled workmen. I think their best chance of expansion, from talking with them, is that they can buy part from specialists - they can buy gears and link screws and they can buy - set up to manufacture parts to detailed specifications and precision accuracy, which will allow them - the principal builders to do the assembly and the large finish work, and I think that they can, through that means, reach 50 to 100 percent greater production than they have now, but to go out and build a machine tool plant and start from scratch, it would be rather difficult.

Another thing that has been done to some extent, it has not been carried as far as it might, certain equipment manufacturers - for instance, one printing press manufacturer that I know of has stopped making printing presses and he is making machine tools under the patents and a working agreement with a standard maker. That can be carried to a very considerable extent, so I feel confident that we could probably

- 6 -

bring up our production of tools to, say, 75 to 100 percent over what they think they can do.

H.R.Jr: Well, that would be wonderful.

Almy: Now, there is - I think I ought to tell you in advance what our Army and Navy's plans are. They aren't articulate yet so that we can reduce them to paper, but we are both studying them and we have both come to very near the same conclusions. First, we will divide among ourselves as the only people that could get them these tools that are on foreign order that we want to grab. We will distribute those to the arsenals and to the Navy Yards or maybe to some of our principal contractors who may be authorized - may require immediate equipment, allow them to purchase it or sell it to them after we buy them, if there is no plant extension.

The second will be to place on order on our allocation war plan scheme our Government plant deficiency requirements and allocate that to the industry on the plan that we have worked out over a period of years, and it seems to be pretty good.

The third will be the large and the tough one, and that is - we are all agreed up to this point. Now, the third will be on the allocation to the industry and from our very extensive talks with them, this allocation must come - they must be virtually commandeered to deliver according to some plan so much - ten percent of the machine tool builders and twenty percent to the Navy and thirty percent to the Army and forty percent to a certain kind of an industry and that sort of thing. Otherwise, they will be in a jam so that they won't know what to do. They will be afraid to move, because their best customers will be people that they will be afraid to serve and they will lose their good will. That is the stumbling block they have run onto now.

H.R.Jr: Now, have you got any direction as to when you begin to grab this stuff, about grabbing stuff

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belonging to England and France?

Almy: No. So far as I know, it is not in the President's picture to grab anything that belongs to England and France except that they have given to us - that is, the Army has made available to us - we are being furnished information - all the machine tools that they have ordered in this country. We intend to grab some of that for one very good reason, and that is, in this grabbing business we can't show discrimination between nations, so it is our purpose to let some go to Japan, some go to Russia that we don't particularly want, and grab some of the English and French, and I am negotiating for certain Swedish equipment now and probably Norway and Denmark and the Netherlands; they have some, not much, but I certainly will grab some of that just to spread it around.

H.M.Jr: How much English and French are you going to grab?

Almy: I don't think very much.

H.M.Jr: Don't, because otherwise I would have to get the President to give you an order not to.

Almy: Oh, this is unofficial, but I have an agreement with the State Department not to show discrimination. This will have to apply unless the President directs otherwise, to grab something of everybody, but I think I can get or I can find out from them the things that will hurt them least and I don't intend that it will be very much.

(Major Hauseman entered the conference)

H.M.Jr: Did you get lost?

Hauseman: No, I didn't know anything about it until ten minutes ago.

H.M.Jr: Well, I spoke to Woodring at 9:00.

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Hauseman: I am sorry.

H.N.Jr: I am sorry, too.

Alroy: We grabbed the other day - two days ago, we grabbed two large lathes from General Machinery, under order for Amtorg, and the Russian Ambassador appeared at the State Department yesterday frothing at the mouth, but they are not at all excited about it and they will be told in due course, which will be after this hoped-for law passes allowing us to commandeer, that these have been commandeered by the Government.

H.N.Jr: Well now, I would like to explain this, that the Allied Purchasing Commission is accredited to me by the direction of the President. I mean, I see them and Mr. Philip Young is my contact between the Allied Purchasing Commission and myself. The President has assured them through me that anything that we do on our program will be to expand on top of theirs and not to interfere with their program. I would like to explain that.

Now, if you have got to take some little inconsequential piece just to say you took one piece - but I have passed the word of the President to them that --

Alroy: That is in accordance with my instructions.

H.N.Jr: Just so that there is no misunderstanding, because I am doing the same kind of thing that you are doing. I am - by hook or crook, I am holding up 3500 tons of toluol on an Italian boat in New York harbor for about a week. When the Italians will begin to holler, I don't know, but we are doing that sort of chancy thing every day; but on the other hand, I did pass the word of the Administration to the Allies that we would not interfere with them.

What we are going to do in the way of armaments here will be over and above their own program. I would like to keep that word. That is why I asked you to come over here. If you would help me on that - I don't want to go and see teacher unless I have to.

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Almy: I informed Mr. Compton, who has this program in charge, that I intend to grab something from everybody.

H.H.Jr: I understand. We are together.

Almy: I don't think we need be concerned about our hurting them particularly.

H.H.Jr: What I am doing is this: The President asked me last night to take on the machine tool industry for him, in addition to aircraft. They are coming in at 11:00 o'clock Monday. What I am asking the Army and Navy to do, if they would, is to let me know if they could, Monday at 10:30, half an hour before the machine tool fellows come in, what are the needs of the Army and Navy for its own program.

Hauseman: You mean for this present program?

H.H.Jr: When the bill passes. What do you need? What I am interested in is by plants, by companies, you see, because I am particularly interested in aircraft, but I don't want to get aircraft - I mean, just because I am interested in it doesn't mean it is more important than anti-aircraft or tanks or powder or armor plate or anything else, but the thing - our contacts with these fellows before this makes me believe there is a kind of a gentlemen's understanding in the machine tool industry that they are not going to expand their plants. They will work three shifts, but they are not going to expand. I am afraid - I hope I am wrong - that when it comes to a showdown, when we know what the Army and Navy need, plus what we need for aircraft, what we need for civilian plants to fill our orders, we may have to put some pressure on these boys to expand, because they have set very tight and they like to consider themselves rugged individualists, and so forth and so on, and they are.

So if you two gentlemen would get together between now and 10:30 Monday, then I could spend a half hour with you from 10:30 to 11:00 so

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you could say, "Well now, Mr. Morgenthau, we won't give you the whole thing but we have got it. We know what we need, we know which companies to look for --" particularly, if you would have the aircraft people tell you what they think they need so that would be put off to one side and when these people come in now and they say, "What do you want to do?" you say, "Well, here are the following companies that are going to be called upon to give us one and a half or two or three times their present production," so that I can say to these gentlemen, "All right, now this is a rough estimate, gentlemen. We are going to call on you for one, two, three or four times your present production. What are you going to do to meet this program?" That is what we want and we want this committee that is coming in to - you see, they are going to Dayton to a big committee on Tuesday, the whole industry is meeting on Tuesday, so it is an ideal thing to meet on Monday.

Hauseman: This meeting on Monday is just with machine tool builders, Mr. Berner and so on?

H.M.Jr: Tell Berner is coming in at 11:00 and if you two gentlemen come in at 10:30, you would simply say, "Now, Mr. Morgenthau, we have been over this thing and these are the companies which we think --" I wouldn't say we are going to have trouble with them, but these are the fellows that we know are going to be called on for great expansion in this program, do you see.

Hauseman: Of course, we can give you the list of machine tools we will need for our arsenals for the new ammunition plants in the President's program and the new smokeless powder plants. Of course, now, what civilian industry will need we don't - we don't know what companies will get the bids, because this all goes out on competitive bidding. That is a shot in the dark.

H.M.Jr: All right, we are all shooting in the dark, but look, I did a job for Pratt & Whitney

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and Wright. I mean, they were in desperate shape and by calling them in and going over and over again, we finally got down to somewhere between 24 and 30 companies, the particular things that they needed, and it wasn't a question of competition, because - I foolishly told them the story - I didn't mention the name of the man in Philadelphia who makes a valve grinder, I think, a machine tool to make a valve grinder. He has forty men and they say when the fishing is good he goes fishing and he doesn't come back until he has caught his fish and he doesn't care, so I told the story and the damn New York Times ran it and the machine tool people are all mad at me and they say you can't get them to put on more than 40 men. Is there a Hall machinery company?

Hauseman: Yes, in Philadelphia.

A.M.Jr: They say he is a great fellow, but he wouldn't go along. It isn't a question of competition, they just won't make any more. They say there are a great many Mr. Halls in the industry. What we have got to do is - let's say we will expect - so it doesn't make any difference on competition.

As I understand the certain thing, only Mr. Hall can make the damn thing. Is that right?

Hauseman: Well, there is one other company who makes it.

A.M.Jr: If we figure roughly we are going to expect three times as many units of whatever Mr. Hall makes and Mr. Hall sits back and says, "I will be God damned if I am going to expand my plant," then it is up to us and the Department of Justice to have this fellow do it and Mr. Thurman Arnold was here with his whole staff yesterday and he will do anything that we want if they don't cooperate.

Now, I am the last person in the world to use the big stick, but if Mr. Hall won't behave himself and says, "Well, I am going fishing,

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to hell with this thing," then what are we going to do about Mr. Hall? That is where I can be helpful to the Army and Navy and the airplane industry and I will go the limit. I don't expect you to come in with the last word, but I do want something so that when these people go out to Dayton for this convention, we can say, "All right, gentlemen, a very quick survey shows this, that the needs of the Navy, Army, aircraft, these are the companies that are going to be called upon for greatly increased production. Now, what are you people going to do to help the Government?" That is roughly what I want, see. I don't expect to have a finished program, but something so that I can give Tell Berner something and his crowd that are coming here something to take out to this - they sent word their feelings were hurt because we had the aircraft people in Monday and they hadn't been invited in, so O. K., we will invite them this Monday, so I want something to tell them. I want something more than I had last Monday.

W.F.: You are not promising not to hurt their feelings more than you did last Monday?

W.F.Jr: No. That is very roughly what I want. Between now and Monday, could you two gentlemen get together and give me something and come at 10:30 and stay with me when Mr. Tell Berner and his crowd are here and you talk to them and meet them and I can give them a little talk and then they go out Tuesday and they say, "Well, this is a rough idea of what the Government needs."

Almy: Our allocations are by firms.

R.H.Jr: By firms?

Almy: Yes.

R.H.Jr: That is what I want, by firms.

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- Almy: Certain firms are allocated to the Army and certain to the Navy and we allocate within the Navy to certain activities. I don't know whether you (Hauseman) do or not. Do you?
- Hauseman: We don't handle it quite that way. Of course, you are speaking now on a plan of war production, because you don't have that allocation system in effect today.
- Almy: Well, we are going to put it in effect.
- H.K. Jr: All it needs is for the President to declare a national emergency under Section 120, and then you can go ahead.
- Almy: I don't think it would be necessary. I think we certainly can go ahead on our immediate warrants, our immediate deficiencies for our own plants.
- Hauseman: For our own plants, yes, you and I shouldn't have any trouble.
- Almy: Now, for industry as a whole, we have got to do that or we can't protect these manufacturers. They can't work any other way, because if we go and take over the orders - we place orders that affect their contractual requirements or affect their good will to their regular customers, that isn't fair. We have got to set up something that will give them an authority, so they have nothing to do but play ball, but that is what they want. They are going to demand that. I know that from talking with them. I talked with them the other day for about fifteen minutes up in Cleveland and it is very clear that if we are to do business at all we ought to protect them. I think we will find very definitely Monday a demand that we do protect them.
- Now, this will have to be - it can be set up if the President invokes this part of the National Emergency Act or it can be set up if he appoints a Commission.

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H.M.Jr: Do you (McReynolds) understand what they are talking about?

McR: Yes.

H.M.Jr: O. K. I am not familiar with it, but you know.

McR: Yes.

Hauseman: Mr. Morgenthau, may I ask one more question? I want to be sure I understand the thing correctly. Now, this list of machine tools that you want, you want them - you want to know so many lathes, so many - you don't care?

H.M.Jr: No, I want you to put your heads together by companies.

Hauseman: By machine tool companies?

H.M.Jr: Yes.

Hauseman: I see.

H.M.Jr: By machine tool companies, and talk in generalities. I don't want to pin you down. You say to me, "Now look, Mr. Morgenthau, here is a list of companies and for the Army and Navy's needs alone, these are the companies we are going to make the biggest demands on."

Now, if you have got it, private industry in order to supply us with our needs, these are also the companies, you see, so that when you get through you give me one list and you could put after them one, two, three, and number one would be the ones that are going to have the biggest demands on them and number two - rate them, if you wish, by three or by five, and these are the companies which, as far as we can tell under the present program, plus the orders which are coming in from the Allies - this is our best guess that will have to either have to double, triple or quadruple their plants.

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Now, that ought to be simple, because when you say double or triple you are not getting down to how many lathes - I don't want to ask the impossible. I would like to know which companies, so I could say, "All right, gentlemen, if you have got to triple your production, what the hell are you going to do about it?" And if they sit back and say, "We can only give you what we have got," then we will say, "O. K., we will go after you."

Ally: I think, Mr. Morgenthau, they will tell you that they will be willing to expand within the limits of the personnel it will require.

W.P.Jr: That is all right. You understand what I want.

Wauseman: Yes, sir.

W.P.Jr: Now, on the personnel, I want you to hear what McKeynolds is doing.

W.P.: Well, we are merely making a survey of available personnel in these various fields.

W.P.Jr: You are doing this for the President.

W.P.: Yes. First, with respect to the personnel that will be available for your Navy Yard plants and your arsenals and your gun factories and what-not. The civilian personnel that the Government requires. I have got a committee working on that. I have got all the departments working on it. The Army and Navy are working on it, too. That is a committee handling the recruiting program to develop your industry within the - we are going to have to work for the Government, but the same people that we have from Employment Service and Labor Statistics and what-not are the ones that are going to have the responsibility for making some survey in connection with your people with respect to the same kind of individuals that will have to be used by industries.

Now, I have brought in just as an experiment some of the officers of - well, I took the experiment first of the General Motors people.

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I had three of their vice-presidents down here the other day and asked them of their own volition, so we wouldn't be damned for sending out a lot of questionnaires. I said, "You do it." I told them what I wanted to know and asked where they expected to get their personnel. "Well, what do you know about trained personnel, what is the source of it and how much will you need and what plan have you made, and they are going to make a report to me of their own study within their own - whatever plans they have in that company. I think probably we can get some help by calling in the management of these fellows from those various companies and let them use whatever ingenuity they can about the recruiting of personnel and it will give us a little hold-out.

What they did in this Allison plant with respect to machine tools was very interesting. They are not producing them, but that isn't because they have not got machine tools. They asked the machine tool people when they expanded that plant how long it would take them to equip them and then they said a year. They said, "We will give you 60 days; otherwise, we will make them ourselves," and they got them in 60 days. And they would. They are doing some of it. They have turned over some of the stuff to the Cadillac plant and there are a lot of possibilities - well, you mentioned it yourself a while ago with respect to the - cutting down the details of work that would have to be made by the maximum skills and allocating it some place else.

There are a lot of possibilities in that field and what I am trying to do is merely tie in this survey of available personnel so that they can't fool us on what there is and - also so that we won't be running competition between recruiting for our Government plants and the industry - necessary industries recruiting for themselves, not get into a competitive situation. We are trying to cover the field as best we can.

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I make it my principal job to keep our boys off of each other's necks and keep them duplicating and not stop anybody from getting information that they are now doing.

Almy: Of course, that is going to depend - part of it is going to depend on your allocations to the industry.

Wick: Oh, yes. We have got to find out what the capacity is in these various different industries. Now, today the boys are going into this machine tool thing with respect to the plants that now are working on three shifts, those that are working on two, and those who are working on one and don't want to work on but one, what the plant's capacity is if the personnel were available to increase their production up to their maximum --

W.S.Jr: Mac, do you think I made my request too general to these people?

Mac: No, I don't. I think the thing you need to know to talk to the machine boys is merely how much relatively they must increase their production in order to meet the program that you want to put in.

Hauseman: That is right, but if I may be permitted to say so, it seems to me, just knowing the machine tool crowd and Mr. Berner and knowing some of the companies, what would be the best thing to present to them is not by the load that is placed on individual companies, what we want, but how many lathes do we want, so as to give them the problem of saying that we will get so many lathes from American Tool and so many from LeBlond and so many from Lodge and Shipley. I mean, let them study the problem and allocate the number of --

H.S.Jr: Supposing you do it both ways, will you? Can you do it both ways?

Hauseman: Well, I can try to.

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W.H.Jr: Do it by companies, anyway, because it doesn't do me a bit of good to go to Thurman Arnold and say, "I need a thousand lathes and I can only get two hundred." He comes right back and says, "What companies?"

Houseman: As I said, there is where the machine tool builders should come in and say, "Well, my opinion is you should expand American Tool, LeBlond, Lodge and Shipley."

W.H.Jr: Well, give it to me the way I asked you.

Houseman: Yes, sir.

W.H.Jr: And then be prepared to do the other thing, too, if you can. That is fair, isn't it?

Houseman: Oh yes, sir.

W.H.Jr: I mean, do it both ways so if they come back and say, "All right, Major, how many machine lathes do you want?" you have got the answer, but let me do it my way, because I want to have them - let them know that I can call them by name and then if they say, "Well, all right, get down to business, boys, how much does that mean in terms of this and that and the other," and then if you have the answer, swell.

W.H.: Well, your philosophy with respect to your proposal there is the same as mine when I called these vice-presidents in and said, "What will you do?"

Houseman: Yes, sir, you gave me some of the thought on that.

W.H.: You are just as much American as I am. You ought to have the same amount of interest I have in seeing this job done. What will you do and let me know in detail what it is.

W.H.Jr: Don't misunderstand me. So far, I have had nobody refuse to cooperate, nobody, but I would like to have two six shooters and I

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would like to have them loaded for bear in case I need them so I am not just bluffing, but nobody has turned me down yet.

Aloy:

Well, Mr. Morgenthau, the other day I talked with Mr. Rentschler and I got hold of him half an hour after I got the order from the President and he told me he had three million - eight hundred thousand dollars worth of stuff for Japan and Russia and I didn't even know how much money the Navy had or could get and I just simply said to hold it and I said I didn't know how this was going to be financed, I didn't know whether it would be a deficiency bill or whether we would get some money authorized from Congress, or what it was all about, but I was going to get the money and I would buy all that equipment and we talked about it. He gave me a list of it, and so forth. In half an hour he called me up and said, "Are you going to have any trouble financing that?" and I said, "No, I don't think so. If the President orders it, I know I am not. I don't know how it will be." He said, "Don't think of financing. If necessary, I will give it to you. Better still, I will rent it to you for a dollar a year."

Alo:

You are getting that.

W.S.Jr:

Which Rentschler was that?

Aloy:

Fred.

W.S.Jr:

Well, Gordon is the fellow that came to see me three months ago and cried, begging me to take this stuff off and I put it up to your people and they turned me down cold.

Aloy:

Well, of course those particular ladies are no good for anybody but Ordinance. I couldn't interest the Ordinance people in them and I don't know whether the Ordinance is going to take them now or not, but if they don't, I will if I have to stick them out in a cornfield.

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H.M.Jr: I will see you at 10:30, Monday, and get together before, will you?

Thank you very much.

**STRICTLY CONFIDENTIAL**

Number of Airplanes Ordered by the British and  
French Governments from May 16 to May 22, 1940.  
Classified by Manufacturer and by Type of Plane

---

Glenn L. Martin Co.

Martin 187 reconnaissance bomber 480

Douglas Aircraft

DB7B 2-engine bomber 275

Boeing Airplane Co.

DB7B bomber 275

Lockheed Aircraft Corp.

P38 pursuit 800

Total All Companies

1,830

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Treasury Department, Division of Research and Statistics.  
May 23, 1940.

Source: Anglo-French Purchasing Board.

**STRICTLY CONFIDENTIAL**

Number of Airplanes Delivered to the British and  
French Governments from May 16 to May 22, 1940,  
Classified by Manufacturer and by Type of Plane

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Glenn L. Martin Co.

167F 2-engine bomber 12

Curtiss-Wright Corp.

Hawk 75A5 pursuit 23

North American Aviation

NA64 basic trainer 12

Douglas Aircraft

DB7 2-engine bomber 10

Lockheed Aircraft Corp.

H14 2-engine reconnaissance bomber 2

Total All Companies 59

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Treasury Department, Division of Research and Statistics.  
May 23, 1940.

Source: Anglo-French Purchasing Board.

**STRICTLY CONFIDENTIAL**

Number of Airplane Engines Ordered by the British and  
French Governments from May 16 to May 22, 1940.  
Classified by Manufacturer and by Type of Engine

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Wright Aeronautical Corp.

GR2600 (1700 h.p.)	<u>1,824</u>
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Allison

V1710-C15 (840 h.p.)	2,288
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V1710-E4 (840 h.p.)	206
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V1710-F3R (840 h.p.)	<u>875</u>
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Total Allison	<u>3,369</u>
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Total All Companies	<u>5,193</u>
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Treasury Department, Division of Research and Statistics.  
May 23, 1940.

Source: Anglo-French Purchasing Board.

## STRICTLY CONFIDENTIAL

Number of Airplane Engines Delivered to the British  
and French Governments from May 16 to May 22, 1940.  
Classified by Manufacturer and by Type of Engine

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Pratt & Whitney

R985-SB4G (825 h.p.)	24
R1830-SC3G (1050 h.p.)	5
R1830-S3C4G (1200 h.p.)	9
R1830-S1C1G (1200 h.p.)	<u>2</u>
Total Pratt & Whitney	<u>40</u>

Wright Aeronautical Corp.

GR1820-G102A (1200 h.p.)	4
GR1820-G205A (1200 h.p.)	33
GR2600 (1700 h.p.)	<u>12</u>
Total Wright Aeronautical Corp.	<u>49</u>

Total All Companies

89

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Treasury Department, Division of Research and Statistics.  
May 23, 1940.

Source: Anglo-French Purchasing Board.

Scheduled Deliveries, by Months, of Airplane Orders of British and French Governments  
Classified by Manufacturer and by Type of Plane, May 22, 1940

Manufacturer and type of plane	Adjustments from prior months			Scheduled deliveries for future months																				
	Total unfilled orders as of May 22	Behind schedule	Ahead of schedule	1940																				
		as of May 22 (to be added to deliveries)	as of May 22 (to be deducted from May 22 deliveries)	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
<b>Glenn L. Martin Co.</b>																								
157R 2-engine bomber	87	74	13																					
Martin 147 reconnaissance bomber	420																							
<b>Total Glenn L. Martin Co.</b>	507	74	13																					
<b>Curtiss-Wright Corp.</b>																								
2400 7500 pursuit	20																							
2400 7500 pursuit	287		58	8	20	58	44	33	15	4	16													
2400 7500 pursuit	700																							
2400 7500 pursuit	200																							
<b>Total Curtiss-Wright Corp.</b>	1,207		58	8	20	58	44	33	15	4	16													
<b>North American Aviation</b>																								
2A50 basic trainer	129		41	10	40	40	50		30															
2A55 basic trainer	620				3	7	27	25	12	25	25	15	25	25	25	25	25	25	25	25	25	25	25	25
<b>Total North American Aviation</b>	749		41	10	43	47	77	55	42	25	25	15	25	25	25	25	25	25	25	25	25	25	25	25
<b>Douglas Aircraft</b>																								
DB7 2-engine bomber	142	28		2	40	40	30																	
DB7A 2-engine bomber	100				1	5	10	15	20	20	25	1												
DB7B 2-engine bomber	535																							
<b>Total Douglas Aircraft</b>	777	28		2	41	45	40	15	20	20	25	1												
<b>Boeing Airplane Co.</b>																								
297B bomber	275																							
<b>Total Boeing Airplane Co.</b>	275																							
<b>United Aircraft Corp.</b>																								
7150 Chance Vought bomber	50									3	7	11	12	12	5									
<b>Total United Aircraft Corp.</b>	50									3	7	11	12	12	5									
<b>Consolidated Aircraft</b>																								
12-100 2-engine bomber	20									1	2	1	4	3	5	5	4	4	4	4	4	4	4	4
12-100 2-engine bomber	20									1	2	1	4	3	5	5	4	4	4	4	4	4	4	4
12-100 2-engine bomber	20									1	2	1	4	3	5	5	4	4	4	4	4	4	4	4
<b>Total Consolidated Aircraft</b>	60									3	4	3	8	6	11	11	12	12	12	12	12	12	12	12
<b>Grumman Aircraft</b>																								
0300 navy fighter	21																							
<b>Total Grumman Aircraft</b>	21																							
<b>Drewster Aeronautical Corp.</b>																								
2400 pursuit	126																							
<b>Total Drewster Aeronautical Corp.</b>	126																							
<b>Hell Aircraft Corp.</b>																								
233A 2-engine pursuit	200																							
<b>Total Hell Aircraft Corp.</b>	200																							
<b>Lockheed Aircraft Corp.</b>																								
22 2-engine reconnaissance bomber	240																							
210 2-engine reconnaissance bomber	75	7		7	20	24	6	10																
214 2-engine reconnaissance bomber	24																							
214 2-engine reconnaissance bomber	95																							
214 pursuit	300																							
<b>Total Lockheed Aircraft Corp.</b>	1,074	7		7	20	24	6	10																
<b>Total All Companies</b>	5,700	28	57	45	125	144	250	220	253	244	229	223	152	109	116	103	103	103	103	103	103	103	103	103

Treasury Department, Division of Research and Statistics.

May 17, 1940.

Source: Anglo-French Purchasing Board.

\* Represents one quarter of scheduled deliveries for May.

Scheduled Deliveries, by Months, of Airplane Engine Orders of British and French Governments  
Classified by Manufacturer and by Type of Engine, May 22, 1940

STRICTLY CONFIDENTIAL

Manufacturer and type of engine	Total unfilled orders as of May 22	Adjustments from prior months			Scheduled Deliveries for future months																				
		Behind schedule as of May 22 (to be added to future scheduled deliveries)	Ahead of schedule as of May 22 (to be deducted from May 22)		1940					1941															
			Future scheduled deliveries	Future scheduled deliveries	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
<b>Rolls &amp; Whitney</b>																									
4750-R1 (1,450 h.p.)	57	17		5	5	5	10	5	5	5															
2045-222 (1,450 h.p.)	2	2																							
4150-01110 (1,500 h.p.)	2				1		1																		
4150-130 (1,500 h.p.)	80	1			3	7	21	55	55	55	55	72	78	77	78	77	83	82	57						
4250-244 (1,875 h.p.)	67		86	2	125	145	120	148	131	157	115	15	7												
4150-200 (1,750 h.p.)	4				4																				
4150-0251 (1,050 h.p.)	32		31	6	25	52																			
4150-01230 (1,200 h.p.)	254				2	4	6	2	10	24	24	28	16	16	12	11	11	11	12	12	12	12	12	12	
4150-03040 (1,250 h.p.)	1,091	331		64	204	251	220	261	243	297	275	320	237	250	137										
4250-01240 (1,850 h.p.)	208														75	106	106	167	167	167					
<b>Total (Rolls &amp; Whitney)</b>	<b>1,061</b>	<b>361</b>	<b>72</b>	<b>77</b>	<b>401</b>	<b>474</b>	<b>421</b>	<b>451</b>	<b>444</b>	<b>478</b>	<b>460</b>	<b>519</b>	<b>378</b>	<b>377</b>	<b>308</b>	<b>254</b>	<b>260</b>	<b>260</b>	<b>230</b>	<b>230</b>	<b>129</b>	<b>12</b>	<b>12</b>	<b>12</b>	
<b>Wright Aeronautical Corp.</b>																									
4215-041204 (1,200 h.p.)	254	32		16	51	70	55	14																	
4215-041204A (1,200 h.p.)	192							12	17	24	24	24	30	52											
42150-0200 (1,200 h.p.)	1,133												20	44	154	165	176	176	176	176					
42120-0204 (1,200 h.p.)	1,002		11	17	54	88	117	120	117	110	147	100	100												
42500 (1,750 h.p.)	1,184	41		15	124	180	190	200	200	200	200	10	30	150	240	270	250	250	250	250	204				
425004 (1,700 h.p.)	297													35	44	44	44	44	44	44					
42500-450 (1,700 h.p.)	583						22	30	50	40	101	180	190												
<b>Total Wright Aeronautical Corp.</b>	<b>6,021</b>	<b>53</b>	<b>11</b>	<b>32</b>	<b>314</b>	<b>397</b>	<b>384</b>	<b>398</b>	<b>365</b>	<b>414</b>	<b>412</b>	<b>284</b>	<b>261</b>	<b>301</b>	<b>436</b>	<b>475</b>	<b>470</b>	<b>470</b>	<b>440</b>	<b>440</b>	<b>104</b>				
<b>Allison</b>																									
V1710-015 (1,840 h.p.)	1,193	7		2	9	54	73	146	240	270	320	345	313	333	326	276	258	117							
V1710-04 (1,840 h.p.)	296							1	3	5	10	20	21	25	25	25	25	25	21						
V1710-0730 (1,840 h.p.)	815												8	39	43	43	57	137	128	213	225				
<b>Total Allison</b>	<b>2,304</b>	<b>7</b>		<b>2</b>	<b>9</b>	<b>54</b>	<b>78</b>	<b>147</b>	<b>243</b>	<b>275</b>	<b>330</b>	<b>365</b>	<b>344</b>	<b>401</b>	<b>374</b>	<b>356</b>	<b>352</b>	<b>255</b>	<b>214</b>	<b>225</b>					
<b>Total All Companies</b>	<b>10,386</b>	<b>411</b>	<b>83</b>	<b>107</b>	<b>757</b>	<b>812</b>	<b>820</b>	<b>598</b>	<b>1,114</b>	<b>1,217</b>	<b>1,271</b>	<b>972</b>	<b>1,072</b>	<b>1,084</b>	<b>1,114</b>	<b>1,129</b>	<b>1,132</b>	<b>995</b>	<b>950</b>	<b>884</b>	<b>118</b>	<b>12</b>	<b>12</b>	<b>12</b>	

Treasury Department, Division of Research and Statistics

May 25, 1940

Source: Anglo-French Purchasing Board

\* Represents one quarter of scheduled deliveries for May.

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau

FROM Dr. Mead

Subject: Conference of Secretary Morgenthau, Mr. Sloan, and G. J. Mead

The question of Allison production was discussed, and Mr. Sloan stated that he felt that Allison had done a remarkably fine job in getting the new plant in production in such a short period. At present there was little or no production, as they were engaged in trying out the tools and instructing two additional shifts of men. Mr. Sloan stated that the shipments would have caught up and exceeded the commitments to our Government by September; furthermore, that the plant would be operating at capacity in November, at which time he stated the output would be 400 engines per month.

Some of the delay was attributed to changes in design, the necessity for building right and left hand engines, the changes necessary for the Bell Fighter, and the difference between Allied and American requirements. Mr. Evans has been put in charge of the Allison plant, while Mr. Drystatt is responsible for the parts being manufactured at Cadillac. At your suggestion Mr. Sloan agreed that he would meet us at Indianapolis in two weeks' time.

Mr. Sloan raised the question of whether the General Motors Corporation should put 50 million dollars into a plant in Canada to build large Bristol aircraft engines for the British. He stated he had been approached by Mr. Pedden and had been requested to give an immediate answer. His board had

Secretary Morgenthau - 2

authorized him to make the decision, based on your advice. You told Mr. Sloan that you felt it unwise to give him a definite decision for a few days, but in any event the plant should be built in the United States, not in Canada. It was pointed out to Mr. Sloan that the engine in question as far as we knew was not a proven type. It was intimated that we may need the entire production capacity of this country ourselves and that until a survey has been made of our needs we feel it most unwise for General Motors to make any commitment, to which Mr. Sloan agreed.

Dictated by Dr. Mead, but  
not read by him.

CONFIDENTIAL

May 23, 1940

To: The Secretary

From: Mr. Young

On May 21st, General Brett talked with me on the telephone concerning the machine tool situation. On the same day, he also talked with Lt. McKay, who gave you a written note covering the same matter.

It was General Brett's suggestion that a coordinator for the machine tool industry was necessary. He mentioned the names of Mr. Batt, S.K.F., and Mr. Pratt, formerly with General Motors.

In addition, General Brett said he had heard three complaints from airplane engine manufacturers, stating that machine tools were being shipped at high prices to Japan and Russia. General Brett understood these engine manufacturers to say that the same tools could be used in the manufacture of plane engines.

As a matter of fact, Mr. Yost, Acting Chief of the Division of Controls in the absence of Joe Green, told me last week that machine tools were being shipped to Russia and Japan, but that those tools were not the type or the kind which could be used by plane engine factories. General Brett doubted the validity of these complaints.

P.Y.

May 23, 1940

General Brett called and said some sort of a coordinator would seem advisable for machine tools - possibly Mr. Batt (SKF) or Mr. Pratt formerly with General Motors.

Also yesterday some complaint developed about shipments of machine tools to Russia and Japan. Will you talk with him?

May 23, 1940

4:30 p.m.

HM, Jr called Captain Callaghan, the President's Naval Aide, at 4:30 p.m., and the following is HM, Jr's side of the conversation:

\*How are you?

I am alive.

I am calling you in your capacity as the President's Naval Aide. President Gilmore of the Packard Engine Company came in to see me about his engine. He has a 1200 h.p. engine. I told him to keep his shirt on because I was working on the whole engine picture, but he went over to see Edison, through the back stairs, and I understand that Edison promised him a development contract which may run between \$1,000,000 and \$1,500,000. That is not playing ball. We will not be ready for a week on this engine picture and we do not want Packard to get any special treatment. I would like to have the President know this and that he should tell the Navy not to do anything on new aircraft orders unless they are cleared either through the President, you or me. We cannot tell the other manufacturers that there are no orders until we have finished our study and then let Packard get special treatment.

I will keep you posted on what we are doing.\*

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

May 23, 1940

TO Secretary Morgenthau  
FROM E. B. Foley, Jr.

The Council of National Defense was established in 1916 by an Act of Congress. The members of the Council are the Secretary of War, the Secretary of the Navy, the Secretary of the Interior, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of Labor. In all probability legislation would be required to add additional representation to this Council.

However, I wish to call your attention to a power which would enable the President "to appoint a Board of Mobilization of Industries Essential for Military Preparedness." This authority was given to the President in June 1916. So far as I have been able to learn, the authority has never been exercised. This power would seem to give the President the elasticity insofar as membership is concerned which the powers relating to the Council of National Defense would not permit.

It is interesting to note that Executive Order #6166 appears to have transferred from the Council of National Defense to the Procurement Division of the Treasury Department all functions in connection with policies and methods of procurement of equipment, stores and supplies.

In the event you should decide to recommend that the President utilize this power, I should like to have an opportunity to go over the matter with the Attorney General before you speak to the President.

*E. B. Foley*



OFFICE OF THE CHIEF  
U. S. SECRET SERVICE

## TREASURY DEPARTMENT

WASHINGTON, D. C.

May 23, 1940

Memorandum for the Secretary

From Chief, Secret Service

I have just been advised by Supervising Agent Starling that at 2:00 A.M. this morning you advised the switchboard operator at the White House that your telephone rang and that as your telephone had not been rung by the operator at the White House he so advised you.

At 2:28 A.M. the President, from his bedroom, said his telephone had rung but the White House switchboard operators on duty (Abbott and Harley) had not called his room.

At 4:30 A.M. the telephone in the usher's office rang. The switchboard operators did not ring it.

The matter was reported to the telephone company at 8:00 A.M., and they sent two telephone trouble mechanics to the White House to try to locate the trouble.

At 11:00 A.M. Supervising Agent Starling notified me regarding the matter and I called upon Mr. Kelly, wire technician for the Alcohol Tax Unit, to immediately attempt to locate the cause of the wire disturbance and have it corrected.

*[Handwritten signature]*

May 23, 1940  
10:09 a.m.

H.M.Jr: Hello.

Operator: Mr. Berna in Chicago.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Tel  
Berna: Good morning, Mr. Morgenthau.

H.M.Jr: How are you?

B: Very well, thank you, sir.

H.M.Jr: Mr. Berna, the President asked me to get together with the machine tool industry and talk over with them both the aviation problem and the whole problem from the standpoint of the government.

B: Yes, sir.

H.M.Jr: Now, can you get your gang together?

B: We're going to have our spring meeting next Tuesday.

H.M.Jr: Yeah.

B: Unfortunately, that will make Wednesday the earliest possible date.

H.M.Jr: Oh, no, no. I want to see them Monday. Where are you going to meet?

B: In Cleveland.

H.M.Jr: Well, let them come via -- Cleveland via Washington.

B: (Laughs)

H.M.Jr: I don't want all.....

B: ..... of the Committee, Mr. Burke, by long distance phone immediately; Mr. Stilwell is

- 2 -

still on the Committee but he doesn't happen to be Chairman now; and I'll try to arrange that. What time in Washington do you want us? What time on Monday?

H.M.Jr: 11:00 o'clock Monday.

B: 11:00 a.m. Monday.

H.M.Jr: Yes.

B: All right, sir. Now, I'll report back to you by telegram definitely that that's been done.

H.M.Jr: Well, I consider it done.

B: Thank you, sir.

H.M.Jr: You fellows can go to Cleveland Tuesday, and you'll know more about what the Government wants.

B: All right, sir.

H.M.Jr: Seriously.

B: Yes, sir. 11:00 a.m. Monday.

H.M.Jr: 11:00 a.m. Monday, and you -- you send me a telegram who all is going to be here.

B: I'll -- I'm to wire you who is to be here.

H.M.Jr: What's that?

B: Did you ask me.....

H.M.Jr: Wire me who is going to come and keep it down, if you can, to a half a dozen.

B: Yes, sir.

H.M.Jr: Will you?

B: Yes, sir.

H.M.Jr: You don't -- you don't have to have more than half a dozen, do you?

- 3 -

B: No, sir. No, there's just about a half a dozen on that committee.

H.M.Jr: Well, I mean, if it's seven I wouldn't kick.

B: (Laughs) Well, we'll hold it down.

H.M.Jr: All right.

B: Thank you, sir.

H.M.Jr: Thank you.

B: Goodbve.

May 23, 1940  
3:35 p.m.

Robert  
Winckley: Hello, Mr. Secretary.

H.M.Jr: Hello, Bob.

H: I've had Captain Jacquin, is it, in here.

H.M.Jr: The Frenchman.

H: Yeah.

H.M.Jr: Colonel.

H: Colonel. Well.....

H.M.Jr: Got promoted.

H: All right.

H.M.Jr: O. K.

H: We're going along with him to get some information on private planes that he wants.

H.M.Jr: Good.

H: Yesterday I saw Purvis in your office. He said they might be interested in the D.C. 3's that the airlines have on order.

H.M.Jr: Yeah.

H: Well, they -- if they are going to be interested they should make up their minds on that and we should start to work on it, because that's going to be a difficult and touchy problem.

H.M.Jr: Well, they are interested. They gave me a formal request they'd like to buy them.

H: They did?

H.M.Jr: Yeah, 33 of them I think, or something like that.

H: Well, we'd better start to work on it.

H.M.Jr: Yeah, they'd like to buy them if they could get them.

- 2 -

H: Uh-huh.

H.M.Jr: They'd like to have them right away, of course. Will you work on it?

H: Yeah, I tell you what I would like to do. I would like to get Colonel Gorrell, who is the chairman -- president of their transport association, in to see you on that.

H.M.Jr: See who?

H: See you.

H.M.Jr: O. K. Anytime you say you bring him over. Just give me a day's notice.

H: He has headquarters in -- headquarters in Chicago but I think I could have him here tomorrow.

H.M.Jr: Well, have your secretary call Lieutenant McKay, you know -- my office.

H: Yeah.

H.M.Jr: And fix the appointment, and we'll do it together.

H: Now, I -- on the development of this plastic plane for training, I think Millikan could be given an assignment on that and turned loose.

H.M.Jr: All right, now let me just -- may I check that with Mead?

H: Sure.

H.M.Jr: Just to make .....

H: Oh, by all means.

H.M.Jr: Keep my own office .....

H: Oh, by all means, because I -- I thought that while that is under Millikan's line as engines are in Mead's line.

H.M.Jr: Now, Millikan -- you mean Millikan of California.

H: Of Cal Tech, yes, sir.

- 3 -

H.M.Jr: I'll see him before he leaves.

H: Yes, I think that'd be -- I think that's going to be pretty important because, if these people take all our light planes out of here, it's certainly going to crimp us on a pilot-training program.

H.M.Jr: And turn -- turn him loose on plastic planes.

H: Yeah.

H.M.Jr: Right.

H: I had a -- word from New York today that suggests that we don't try to build such good motors as the British are requiring of us, that we cut down the quality and increase the output. I suppose that's been explored, hasn't it?

H.M.Jr: Well, I tell you when Mead -- Mead is going to explore that. He's going to be at Allison Saturday.

H: Yeah.

H.M.Jr: He's -- tomorrow he's at Dayton.

H: Yeah.

H.M.Jr: And he's got that in mind. Sloan was here for an hour and a half this morning, and he's going to spend Saturday at Allison and he's got that in mind.

H: I see.

H.M.Jr: See?

H: Well, that's fine. That's all I have on my list today, sir.

H.M.Jr: Thank you, and I can't tell you how much I appreciate this fellow Mead. He's a wonder!

H: Yes, he is.

H.M.Jr: He's simply a wonder!

H: Yeah. Well, I'm certainly happy we've got him.

H.M.Jr: Thank you.

H: Thank you, Mr. Secretary.

May 23, 1940  
3:38 p.m.

H.M.Jr: Mead?

George Mead: Yes.

H.M.Jr: Morgenthau.

M: Yes, sir.

H.M.Jr: Bob Hinckley just called, and he said he'd be delighted if you would turn Millikan of California Tech loose on that plastic plane business.

M: All right.

H.M.Jr: I think if I could have a little memo on that thing also before you go to show the President, see.....

M: On the plastic planes?

H.M.Jr: Well, its just that we've got this group -- just so I can show them we are doing something -- I mean, we've got this for the plan of the need for just a one-page memorandum as to the need, you see.

M: Oh, yes. Well, I have all this story together but I haven't any descriptive memorandum which I could try and get out.

H.M.Jr: Do you think that you could do that before five or when you leave? Is there a train at five?

M: Well, I'll get Johnston to do it if I can't.

H.M.Jr: Get Johnston to do it.

M: Yeah. I will.

H.M.Jr: I'll see you in a little while.

M: All right. I've got two or three things before I go that I'd like to talk to you about.

H.M.Jr: I'll see you in about twenty minutes or half an hour.

M: All right.

H.M.Jr: Thank you.

May 23, 1940  
4:40 p.m.

Lewis Compton: Hello, Mr. Secretary, this is Lewis Compton.

H.M.Jr: Talking -- Morgenthau.

C: How are you today, sir?

H.M.Jr: I'm fine.

C: Mr. Morgenthau, we just had a telephone call from Callahan.....

H.M.Jr: Yeah.

C: .....stating that the President made some inquiries about this Packard situation.

H.M.Jr: Yeah.

C: I wanted to give you the full and complete story about it, Mr. Secretary, if I may. It will just take a moment to tell you about it.

H.M.Jr: Surely. I have lots of time.

C: Mr. Gilmer, the president of Packard Motor Car Company, requested an appointment with Mr. Edison, which was granted, and he met Mr. Edison at eleven o'clock in the morning.

H.M.Jr: Yeah.

C: Gilmer had two propositions to make. One was that he is now producing these high-speed, water-cooled gasoline engines for our Scott-Payne motor torpedo boats, you see.

H.M.Jr: Yeah.

C: He said that they are about 75% O. K. for aeronautical work. It would require some additional research and development work to make them so that they would be absolutely useable in aircraft, so that his conversation took two phases. The first phase of it was -- they request that Mr. Edison consider giving Packard a development contract where they manufacture one, or two, or three -- not more than three.....

H.V.Jr: Yeah.

Q: .....engines under a development contract. We have numbers of those out. We've even got two or three out on Diesels for aircraft, for instance.

H.V.Jr: Yeah.

Q: The second phase of his conversation concerned the possibility of Packard getting a license to manufacture engines already approved, such as Allison or Curtiss Wright or any of those names.

H.V.Jr: Yeah.

Q: Mr. Edison listened and made no commitment whatever, of course, and told Gilmer that he would consider both propositions and consult with him further at some future date. At noon or twelve-thirty, Mr. Edison asked me to go to lunch with him, and I went with Mr. Edison and Admiral King, of the General Board of the Navy, and Captain Dale, and Mr. Edison's aide. Mr. Edison told me of this conversation with Gilmer. I immediately recommended to Mr. Edison that this thing, as far as the development contract was concerned, was something to consider with the technicians in the Bureau of Aeronautics, and that Admiral King could run with the ball for Mr. Edison but he should check in with Admiral Towers because it's Bureau of Aeronautics money.

H.V.Jr: Yeah.

Q: Then I said the other phase of it -- this licensing business -- is a matter now being handled by Mr. Morgenthau, the Secretary of the Treasury, and in order to let the left hand know what the right hand is doing and have no confusion in this thing, Admiral King should immediately check in with Captain Kraus, who is the Navy's liaison with Treasury.

H.V.Jr: That's right.

Q: So Admiral King got in touch with Kraus, had a meeting with him yesterday afternoon, at which meeting it was decided, and Admiral King so recommended to Mr. Edison this morning, that the

development thing be dropped -- divorced entirely from this other thing -- and receive consideration along with anything else from your end of it. You see?

W.M.Jr:

Well, that's fine.

C:

Then the development contract -- they haven't even decided on that yet -- Admiral King and Mr. Edison are in conference right now .....

W.M.Jr:

Well, look .....

C:

..... weighing the -- whether or not to go ahead with the development. We do want a water-cooled engine development.

W.M.Jr:

Well, could I ask you to do this, and if you want it direct from the President, I'll ask him to give it direct. I need four or five days more on this engine picture, see?

C:

Yeah.

W.M.Jr:

And then, I hope by Tuesday or Wednesday or next week, I'll want to sit down with the Army and Navy, and then with the President, and try to get a sort of a standardized thing on engines for Army and Navy and the Allies. Because the way the thing is now, it's just cock-eyed and we'll never get production. Now Packard didn't play fair with me. He asked me what the situation was. He said, "All I want to know is development serious." I said, we're damn serious. I said there's nothing for four or five days, but we'll let you know. Now he was around here trying to get one of these licenses.

C:

Yeah, we've shunted him off from the White House -- he got no encouragement here -- we've sent him right back to Treasury.

W.M.Jr:

Well, if the manufacturer can play the Navy off against the Treasury -- the Treasury against the Army, we're not going to get anywhere.

C:

Well, we've refused to do that. You see? In this case, we sent him -- on the license thing -- we sent him right back to Treasury -- wouldn't even talk to him about it.

- H.M.Jr: I think what I'd better do so that there can be no misunderstanding certainly as far as I am concerned, I am going to ask the President tomorrow if he wants it -- that we're sort of at a standstill for four or five days, which isn't very much when you consider the mess that we're in.
- C: Well, that's all right -- entirely all right with us.
- H.M.Jr: And then, after we know where we are on the license thing -- whether we want to give Packard a license or whether we don't, I mean, before I make any recommendations to the President, I'll clear it with Army and Navy first. See?
- C: Well, that's fine.
- H.M.Jr: But, if we could just sort of stand still for four or five days, and find out where we're at -- put all our cards on the table together -- it would make it lots easier for me. It's hard enough as it is.
- C: Well, I wanted you to know that the appointment with Packard was initiated by Packard. In other words .....
- H.M.Jr: ..... well, he stood on my doorstep for twenty-four hours and finally I had him come in and I said won't you come back in a week because we haven't got anything, and then he runs over there, which .....
- C: ..... well, that didn't avail him anything as far as the production of the licensing goes because we just simply didn't talk to him about it. We gave him no encouragement. Now on the development contract, of course, that's something else. That has nothing to do with production anyway.
- H.M.Jr: No, but it's just if the President should decide where he's going to put the development money, see -- I mean, I've tried to give to him the whole picture on the engine thing in the United States, and when he's got it, well, he's going to be as sick as I am.
- D: Well, it's not too good, I know.

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H.M.Jr: But .....

C: ..... well, if you hear anything, Mr. Morgenthau, any rumors, or anybody says anything, if you'll just give me a buzz on the phone here, and if I haven't got the answer I'll get it for you in a hurry.

H.M.Jr: Thank you very much.

C: The lowdown is that the word got to Callahan some how or other that we had a contract with Packard, or had promised a contract to Packard to produce airplane engines. Well, that just isn't true. And that not only isn't true, but we never even thought of doing it, and my first recommendation to Mr. Edison, which he followed immediately, was to get Kraus in the picture right away so that there would be a tie-in with your effort there and would be no confusion.

H.M.Jr: Thank you so much for calling.

C: All right, sir.

H.M.Jr: Thank you.

C: Good-bye.

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, telephoned us this noon from New York. He had received a cablegram from his Government to the effect that the cablegram which had been sent to Leroy-Beaulieu some days ago, and which he had summarized to us, had not only been meant to indicate concern over American securities falling into the hands of invaders in Europe, but also over the possibility of such securities being imported into the United States and sold on this market. I told Leroy-Beaulieu that we had sent the cablegram to Paris, as agreed upon, and that we had received word back that the French officials had been informed by our Embassy as to the services which our officers might render in authenticating the destruction of American securities. I added that the Treasury was also actively studying the other two points covered in the French cablegram, namely, the control of admission into and the sale within the United States of securities which may have been acquired as a result of military invasion. Leroy-Beaulieu mentioned the fact that his Ambassador understood that Lord Lothian had received a message from London on this subject. I confirmed that Pincent had taken the matter up with us, and that we have been studying it this week, but have nothing definite yet to report.

Leroy-Beaulieu asked if there was any basis for the story in this morning's press to the effect that German balances are being transferred to Sweden. He also had heard the rumor of German sales on the New York market of securities of the invaded countries, which was alleged to have contributed to the depression in our market the past few days. I told Leroy-Beaulieu that Pincent had received an unconfirmed report from Stockholm a few days ago to the effect that a number of German accounts including official funds were being transferred from insurance companies in the United States to banks in Sweden, under telegraphic instructions from Germany to the United States. I told Leroy-Beaulieu that we had no knowledge on this point. He stated that he had talked with the Chase Bank and had been informed that this institution was not aware of any recent transfers of the type under reference. I told Leroy-Beaulieu that we were checking over the reports of sales of securities from accounts of invaded lands, but were not yet aware that there had been any German sales thereof the past few days to affect the stock market.

Leroy-Beaulieu referred to the decrees taken in France two days ago in regard to American currency and securities. His people regretted that they could not give us any prior notice, but had taken these steps in very upset conditions which they were sure we would understand. Leroy-Beaulieu thought the general situation and atmosphere of France were a little better today. That is, confidence had been recovered by the populace to a certain extent and panic among the civilians of northeastern France had subsided. He emphasized the confusion that had resulted from refugees from the most densely populated part of the

- 2 -

country endeavoring to move west and south at the same time the French Government was rushing troops in that direction, over the same highways, to meet the Germans. Leroy-Beaulieu insisted that there was no panic as far as the army was concerned, but simply a very difficult situation in establishing communications and getting troops into position to meet the enemy.

Mr. Leroy-Beaulieu will be in Washington tomorrow, Friday, and desires to show us certain confidential information.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Railroad freight movement for export.

Receipts of freight for export at New York increased during the week ended May 18 to about the average level of recent weeks, while receipts at 9 other North Atlantic ports held about stationary. The net change in the week's total for the entire area was an increase of 336 cars. (See Chart 1 and table attached).

The volume of freight exported from New York during the week ended May 18 was further reduced by 207 cars to a total of 3,683 cars, according to figures derived from reported data. (See Chart 2). The reduced exports, at a time when export receipts were increasing, has raised the volume of lighterage freight in storage and on hand for unloading in New York harbor to 7,587 cars, a higher total than in any week since March. (See Chart 3).

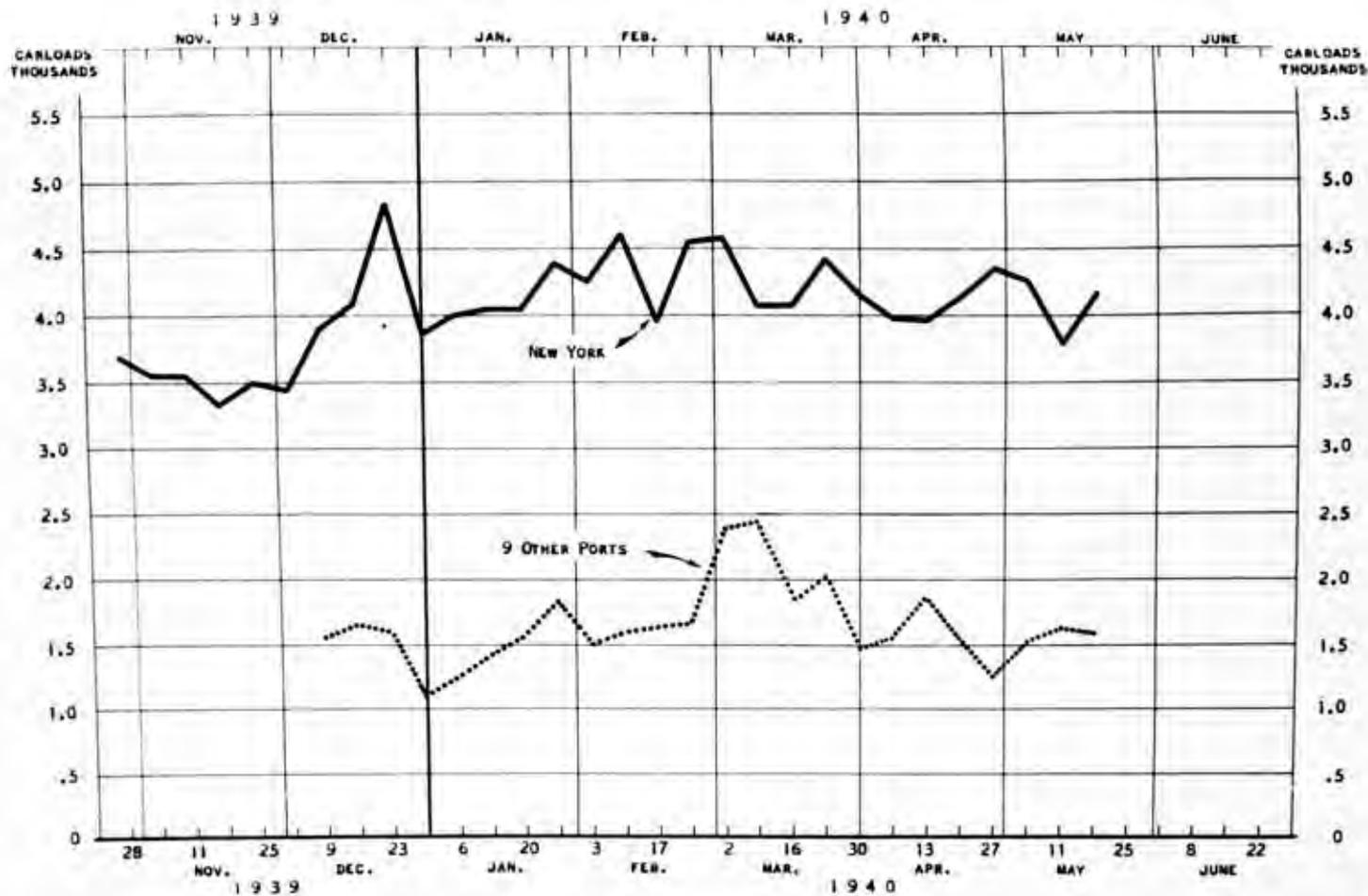
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK  
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u>	9 other North Atlantic ports <u>2/</u> In carloads -----	Total
December 2	3,435		
December 9	3,922	1,548	5,470
December 16	4,088	1,658	5,746
December 23	4,848	1,602	6,450
December 30	3,856	1,104	4,960
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748

1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

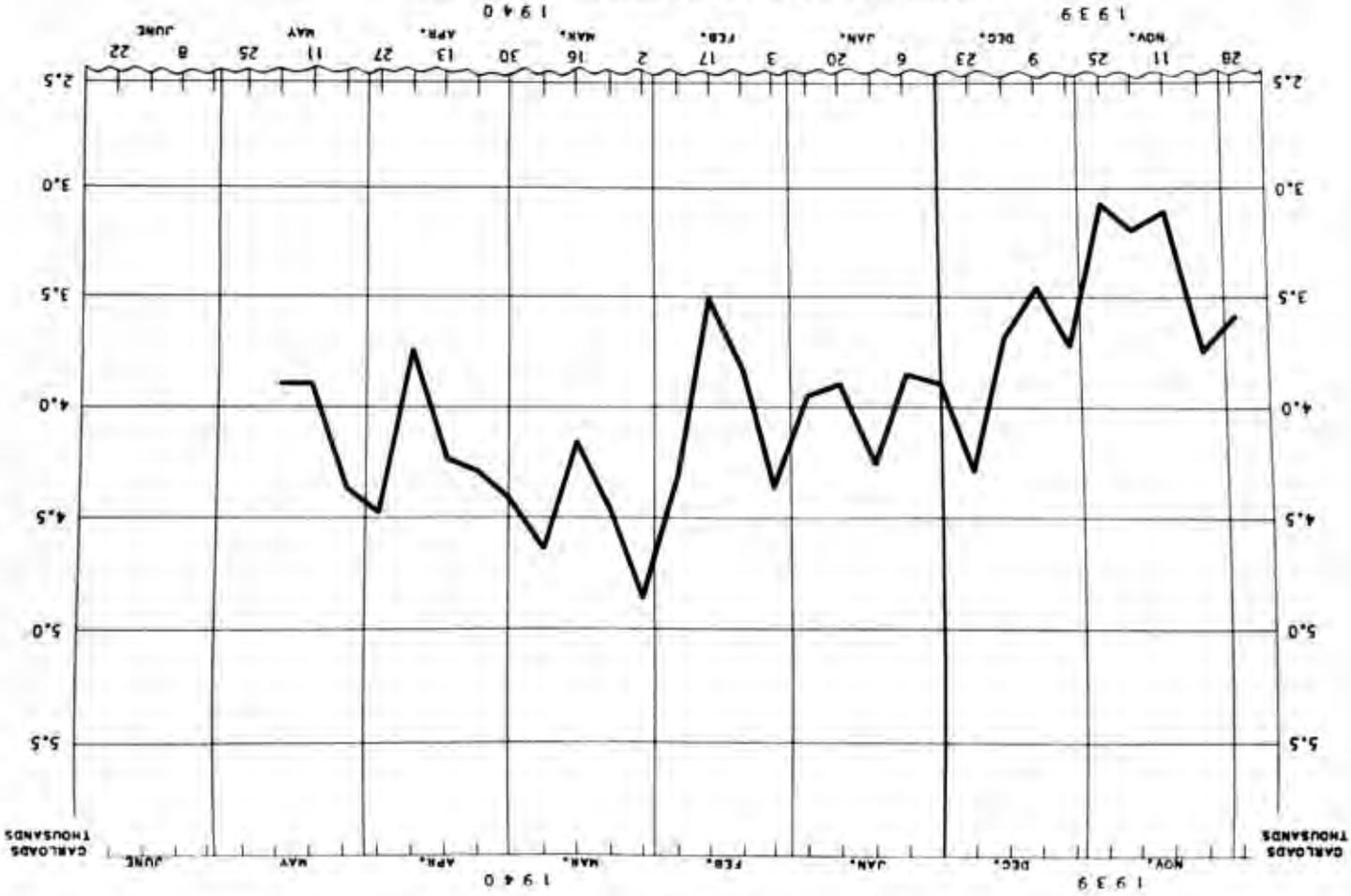
2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Searsport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK  
AND AT 9 OTHER NORTH ATLANTIC PORTS



257 Chart 1

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK \*

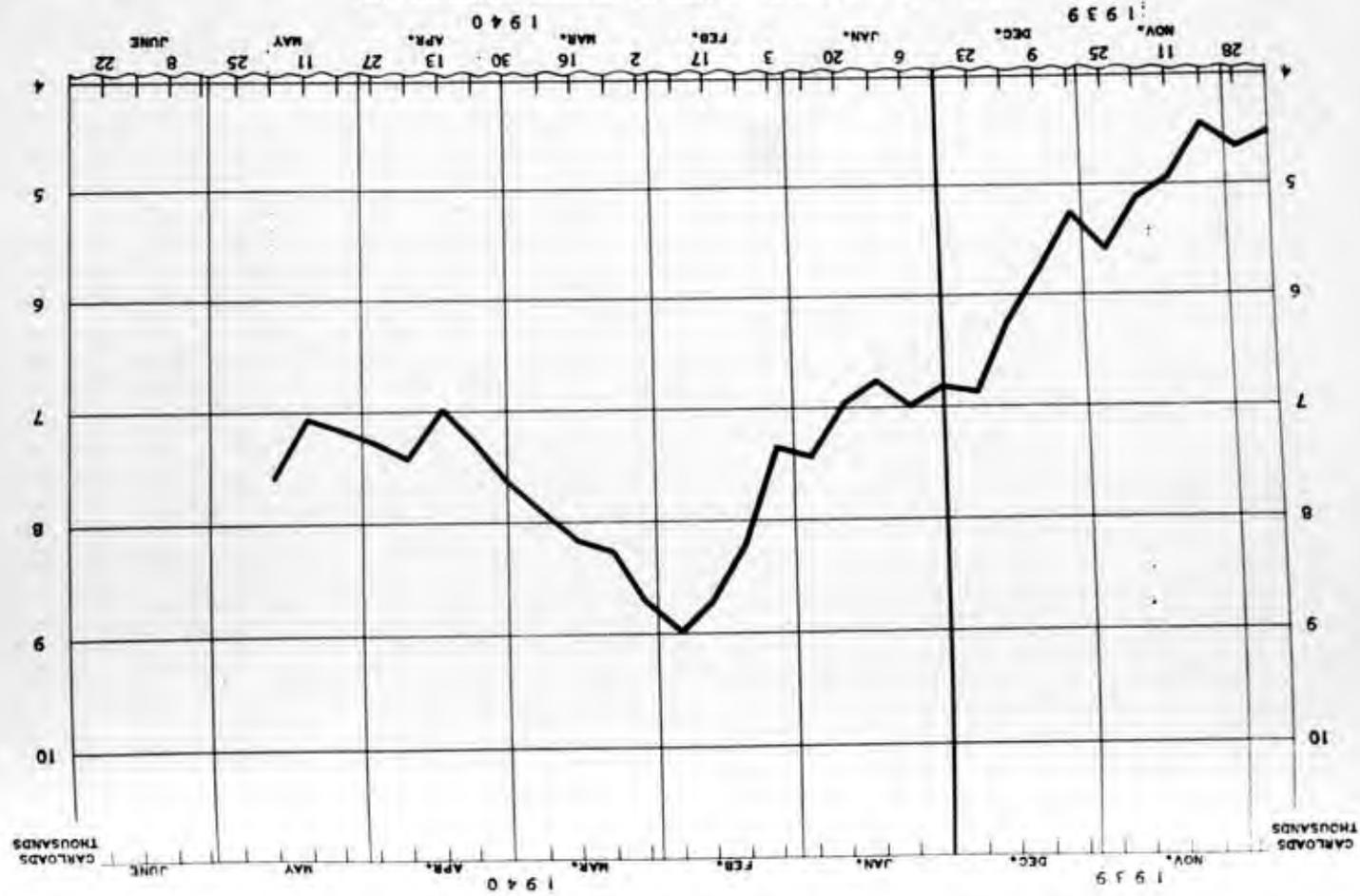


\* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

Office of the Secretary of the Treasury  
Division of Economic and Financial

C - 308

Chart 2  
258



AND ON HAND FOR UNLOADING IN NEW YORK HARBOR \*

\* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GAIN.

Office of the Secretary of the Treasury  
Bureau of Economic Warfare

C - 303

May 23, 1940

Mr. Livesey

Mr. Cochran

There are attached copies which I have had made from a set of copies received from Vice President Logan of the Federal Reserve Bank of New York. The cablegrams included in these documents have been made available to the Treasury, but we were not aware of the advice being given the Minister of the Netherlands, as set forth in the memorandum. It is felt that the Department of State should have available the information contained in the attached papers.



RMC/rmm 5/23/40

COPY

May 22, 1940.

Mr. Bernstein:

Copies of "A" and "B" hereto attached were given to Mr. von Hemert, who called on us at the request of Dr. Loudon, the Netherlands Minister in Washington, to discuss this matter. Mr. von Hemert is sending a copy of "A" to Dr. Loudon, who presumably will use it as the basis of a cable to his Government in London.

W.S.L.

May 22, 1940.

In its cable No. 168, dated Amsterdam, May 13, 1940, De Nederlandsche Bank informed the Federal Reserve Bank of New York that the right to dispose of gold account "F" and dollar account "F" with the Federal Reserve Bank of New York no longer belongs to De Nederlandsche Bank but has been transferred to the Netherlands Government effective on that date. This cable is considered by the Federal Reserve Bank of New York to be a revocation of the credit previously authorized by De Nederlandsche Bank in the amount of \$6,960,000 to be drawn upon by the Netherlands Minister in Washington up to the amount of \$145,000 monthly.

It is therefore suggested that the Government of the Netherlands advise the Secretary of State of the United States through the American Embassy in London (1) that the seat of the Government of the Netherlands has been transferred to London, (2) that the gold in the gold account "F" in the name of De Nederlandsche Bank with the Federal Reserve Bank of New York and the funds in the dollar account "F" in the name of De Nederlandsche Bank with the Federal Reserve Bank of New York are gold and funds of the Government of the Netherlands and that the right to dispose of the gold and funds in such accounts has been transferred from De Nederlandsche Bank to the Government of the Netherlands, and (3) what representative or representatives of the Government of the Netherlands have been designated and authorized to give instructions in behalf of such Government to the Federal Reserve Bank of New York regarding the disposition of the gold and funds in such accounts or any part thereof.

- 2 -

It will also be desirable to suggest that the Minister of the Netherlands to the United States write a letter to the Secretary of State of the United States requesting that the Federal Reserve Bank of New York be advised accordingly, in order that it may be in a position to act upon the instructions given to it in behalf of the Government of the Netherlands.

COPY  
INCOMING CABLEGRAM

Amsterdam, May 14, 1940

Federal Reserve Bank of New York

New York

No. 171

\*ZENYT

De Nederlandsche Bank

\*ZENYT-NETHERLANDS means: in accordance with  
Netherlands cable No. 163 May 10; "We request you after  
receipt of that message (Message containing word "ZENYT")  
no longer to execute any instructions sent to you on our  
behalf if and when such instructions are dispatched to you  
from the Netherlands".

Test Correct

RCA 6 1b

COPY  
INCOMING CABLEGRAM

Amsterdam, May 13, 1940

Federal Reserve Bank of New York

New York

No. 168 STRICTLY CONFIDENTIAL

Will you kindly note that the right to dispose of our gold account "F" and our dollar account "F" with your institution no longer belongs to our bank but have been transferred to the Netherlands Government effective today. If and when the Netherlands Government draws on the said account they will probably do so through the intermediary of the Bank of England.

DE NEDERLANDSCHE BANK

EMH

RCA 53

Test Correct

C O P Y

266

INCOMING CABLEGRAM

Amsterdam, May 13, 1940

Federal Reserve Bank of New York

New York

No. 157

Our number 153 Our credit in favour of the Netherlands Minister in Washington. Credit increased with \$600,000 to \$6,960,000. Monthly drawings now allowed up to \$145,000. Please disregard further instructions our number 153. New instructions reads as follows: In case balance of dollar account F not sufficient to cover said drawings you are authorized to take over as much gold of gold account F as necessary for the purpose.

DE NEDERLANDSCHE BANK

EA

RCA 57 Code  
Test correct

C O P Y  
INCOMING CABLEGRAM

May 7, 1940

Amsterdam

Federal Reserve Bank of New York

New York

No. 153

By order of our Minister of Finance request you to open credit of \$6,360,000 in favor of the Netherlands Minister in Washington This credit is valid until further notice and may be disposed of by drawing not to exceed \$132,500 each month In case balance our dollar account not sufficient to cover said drawings you are authorized to take over as much gold from our gold account as necessary for the purpose.

DE NEDERLANDSCHE BANK

MY RCA 58 Test correct

JR

GRAY

Bern

Dated May 23, 1940

Rec'd 7:20 a.m.

Secretary of State,  
Washington.

47, May 23, 10 a.m.

Reference my telegram No. 31, May 6, 5 p.m.

Official Swiss trade statistics (confidential)  
list imports of gold bars in April as follows in  
millions of francs: Italy 12, Russia 10, Netherlands 4,  
Great Britain 1.7, Germany nil, total 28. Exports:  
United States 90, Italy 10, Netherlands 4.7, total 105.

HARRISON

KLP

HSM

GRAY

Tokyo

Dated May 23, 1940

Rec'd 7:58 a. m.

Secretary of State,  
Washington.

364, May 23, 2 p. m.

The continued decline of the pound is being viewed here with increasing gravity because of the seriously adverse effects on Japanese exports in general and on Japanese imports from British areas. Although in normal times cheap sterling is advantageous in purchasing from British areas considerations involving trade within the sterling area, need for retaining materials for war purposes, et cetera, are making importations into Japan from British areas increasingly difficult. The press this morning reports that the Japanese Government is considering the fixing of sterling at a rate calculated best to serve Japanese requirements, the loss to exchange banks due to differences between such rate and the rates on the free market in New York to be borne by the Government. Until funds can be found to operate the plan importers will be required to fix exchange contracts with banks not later than two weeks after issuance of import and foreign exchange permits.

GREW

RR

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Edouard Jonas, the sender of the attached cablegram, is a prominent French citizen who was in the French Parliament for many years, and may still be. His District is in Southern France, but he is the owner of an important antique and works of art shop on the Place Vendome, Paris, and also has a business in New York. He married a wealthy American widow. It is possible that the Secretary may have met him in Paris. I believe he has been active in relief work.



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Miss Chauncey brought this in to find  
out if you know who Edouard Jonas is.

ek

Treasury Department

TELEGRAPH OFFICE

272

*mak for Brian*

24W

WP179 FO CABLE

REC'D MAY 22 PM 3 04

PARIS 41 MAY 22/1924 1940

LC HIS EXCELLENCY HENRY MORGENTHAU

WASHNDC

I KNOW HOW MUCH YOU ADMIRE FRANCE WE BEG UNITED STATES SAVE US FROM  
BEING SCRATCHED BY GANGSTERS FROM THE MAP OF THE WORLD DO SEND US  
TANKS AND PLANES GOD BLESS YOU

EDOUARD JONAS

303P



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

May 23, 1940

## MEMORANDUM FOR THE SECRETARY

There was received this morning from the Counselor of the Polish Embassy a memorandum requesting:

- (1) - 200 Curtiss pursuit planes, P-36 or P-40
- (2) - Motorized equipment for one division consisting of motorcycles, heavy and light tanks, and motor trucks.
- (3) - 4 anti-aircraft batteries with suitable ammunition.

The Counselor did not have any definite information concerning motorized equipment or anti-aircraft batteries.

In transmitting this request to General Gregory, Army member of the Liaison Committee, he was asked to get information as to the quantity and types of equipment for a motorized division, and also information concerning anti-aircraft batteries that might be built in this country.

*H. Green*



OFFICE OF THE CHIEF  
U. S. SECRET SERVICE

TREASURY DEPARTMENT  
WASHINGTON, D. C.

May 23, 1940

Memorandum for the Secretary

From Chief, Secret Service

On Tuesday morning, May 14, 1940, you handed me a letter to you from Director Hoover relating to a report made to F.B.I. agents by Henry Unschuld in connection with alleged statements made by Mr. Glamini of the Bank of America. At that time you telephoned Director Hoover's office and in his absence talked to Mr. Tam advising him that you had referred the matter to the Chief of the Secret Service. You requested the entire file on the case and you were informed that if Chief Wilson phoned after noon that it would be arranged.

I telephoned at the time specified and explained that we desired whatever was available in their files regarding any of the persons mentioned. I was advised that it would be sent to my office by messenger the next day.

I again telephoned for the papers on Saturday and was advised that it would be ready at 4:00 P.M. on Saturday and placed in the mail or we could have it on Monday morning if we sent a messenger for it. I stated that I would send for it at 10:00 A.M. Monday.

When the messenger from the Secret Service called for it on Monday, they did not understand what papers he desired and he called my office. I again phoned the F.B.I. and talked to Mr. Tam (Assistant Director) and he said that the papers were then ready and would be handed to our messenger, that there had been a slight misunderstanding regarding them. The papers were then turned over to our messenger.

May 23, 1940

Memorandum for the Secretary

From Chief, Secret Service

On Tuesday morning, May 14, 1940, you handed me a letter to you from Director Hoover relating to a report made to F.B.I. agents by Henry Unschuld in connection with alleged statements made by Mr. Giamini of the Bank of America. At that time you telephoned Director Hoover's office and in his absence talked to Mr. Tom advising him that you had referred the matter to the Chief of the Secret Service. You requested the entire file on the case and you were informed that if Chief Wilson phoned after noon that it would be arranged.

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MP

GRAY

Paris

Dated May 23, 1940

Rec'd 3:23 p. m.

Secretary of State,  
Washington

834, May 23, 5 p. m.

FOR THE TREASURY.

A further decree regarding banking intermediaries, please see Embassy's telegram of May 3, is published in today's Journal Official. It provides that (one) "approved intermediaries" of the Foreign Exchange Office may import French and foreign coins and banknotes and all classes of securities, (two) "specialized intermediaries" may import "Class B foreign currencies" (i.e. currencies of foreign countries other than those included in the sterling and "hard" currency groups) and securities payable in "Class B foreign currencies", (three) those "specialized intermediaries" which are authorized to hold "professional accounts" (i.e. business accounts) may import all classes of securities. (END SECTION ONE)

BULLITT

KLP

JT

GRAY

PARIS

Dated May 23, 1940

Rec'd 3:36 p.m.

Secretary of State,  
Washington.

834, May 23, 5 p.m. (SECTION TWO)

Another decree stipulates that overtime in excess of sixty hours per week will be paid at the full wage rate. Heretofore all work in excess of forty hours per week was paid on the basis of sixty per cent of the normal wage rate the remaining forty per cent being turned over to the Government.

In order to maintain stability of domestic prices of tin plate and iron the Government will pay any increases in the cost of importing these commodities resulting from augmented ocean freight.

The market was fairly firm today. Rentes increased fractionally as did most French securities. Suez gained 650 francs.

The Bank of France statement for the week ended May 18 shows an increase in note circulation of two billion francs the total circulation being slightly under 161 billion. Provisional advances to the state increased one and a half billion.

BULLITT

CSB

HSM

GRAY

Berlin

Dated May 23, 1940

Rec'd 12:35 p. m.

Secretary of State,  
Washington.

1475, May 23, 10 a. m.

FOR TREASURY FROM HEATH AND FOR THE INFORMATION  
OF THE DEPARTMENT.

While the German selling rate for dollar drafts to travellers holding a permit to purchase foreign exchange remains around 2.502 marks to the dollar the exchange authorities have allowed the official selling rate of dollar currency to rise from an average selling rate of 2.62 marks on May 3 to 2.91 marks today explaining the action as due to higher costs of shipment and insurance for international transactions in currency and also as an effort to adjust demand to supply.

KIRK

RR

JR

GRAY

Paris

Dated May 23, 1940

Rec'd 2:30 p.m.

Secretary of State,  
Washington.

ESS, May 23, 4 p.m.

FOR THE TREASURY.

Janssens of the National Bank of Belgium has just furnished a member of my staff with a copy of a letter from ~~Cuttler~~ approving the decision of the Bank to accompany the Belgian Government. He also enclosed a copy of the modification in the commercial charter of the Bank necessitated by this decision. Janssens has sent copies of both documents to the New York Federal Reserve Bank and to the Board of Governors of the Federal Reserve System (please see the Embassy's No. 791, May 21, 5 p.m.). A translation of the letter is as follows:

"Brussels, May 15, 1940.

Mr. Governor: I have taken note of the decision which is to be taken by the National Bank, at my request and in the name of the Government, to continue to carry on its monetary functions in a part of the territory not occupied by an enemy power in order that the needs of the Treasury may be provided for, and <sup>to continue</sup> to carry

on

-2- #833, May 23, 4 p.m., from Paris.

on its functions as cashier of the State, and that  
for these reasons the following has been decided upon:  
(END SECTION ONE)

BULLITT

HSM

BJS

GRAY

PARIS

Dated May 23, 1940

Rec'd 3:30 p. m.

Secretary of State,  
Washington

833, May 23, 4 p. m. (Section Two).

In accordance with the provisions of the Royal Arrête of February 2, 1940 relative to the administration in time of war of commercial concerns or concerns having a commercial form the office of the bank is to be established in any Belgian or foreign city in which the seat of the Belgian Government should actually have been moved.

The administration of the Bank is to be assured within the limits of their respective powers by those members of the Board of Directors the Regency Council and the College of Auditors who are able to meet together and consult in that place.

The administrative directive or dispositive powers of members of the Board of Directors the Regency Council and the College of Auditors residing in other localities are suspended.

The position of all those who for any reason whatsoever have the right to dispose of the properties and rights of the bank and who are in a part of the territory occupied

by

-2- 833 May 23, 4 p. m. from Paris

by an enemy power are suspended.

I hereby confirm to you my approval of the above mentioned decisions. Signed Gutt."

Pending final decision as to the French city in which the Belgian Government is to be established (it is understood that the Government is moving from its provisional headquarters at Havre) the National Bank of Belgium will continue to operate at the Bank of France in Paris. (End of Message).

BULLITT

CSE

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: May 23, 1940, 3 p.m.

NO.: 1481

Reference is made to telegram of May 21, No. 1443 from the Embassy.

The following is for the information of the Department and for the Treasury from Heath:

I saw Wohlthat of Goering's organization yesterday. Wohlthat has undertaken a variety of special economic missions for the Reich Government, including the negotiations in March 1939 for a trade agreement with Rumania.

Wohlthat told me that he was leaving today to take the post of Reich Commissar for the Central Bank of the Netherlands. Germany did not intend to replace the guilder by the mark, Wohlthat asserted to me. The job Wohlthat is to do, it is understood, is to reorganize the Netherlands monetary and banking system. It is noted, in connection with the appointment of Wohlthat, that on May 10 he published in the DEUTSCHE VOLKSWIRT an article to which it is understood official approval had been given about the new economic order in Europe. He stated in this article that the Third Reich's aim is to create a Greater Germany as a new strong economic center in Europe. Outside of the political boundaries of this Greater Germany it aims to mark out an area in the northern and southeastern part of Europe which will practice close economic cooperation with Germany but which will  
restrict

- 2 -

restrict its trade with the great powers, as for instance England and France, which had no natural or vital economic relation to the area, according to Wohlthat. It was contemplated that this area of German economic influence would be supplemented by the return of German Colonies, and its boundary on the East would be the Russian sphere of interests.

KIRK.

EA:LWW



TREASURY DEPARTMENT  
WASHINGTON

May 23, 1940.

MEMORANDUM FOR THE SECRETARY:

The attached letter from the office of the Collector of Customs at New York, giving a list of Italian ships in port and their activities, is submitted to you just as a matter of information.

*Basil Harris.*

Encl.

IN REPLY REFER TO:

JGCF:ks



## TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NEW YORK, N. Y.

OFFICE OF THE COLLECTOR  
DISTRICT NO. 10  
CUSTOMS AND EXCISE DEPARTMENT  
15 FINE BUILDING, NEW YORK  
MAY 1940 - 41

May 22, 1940.

MEMORANDUM FOR THE ASSISTANT COLLECTOR:

The following is a list of Italian ships in port and their activities:

Italian SS FORTUNATA loading at Kent Street, Brooklyn. Sails Sat. May 25, 1940 for Genoa. Arrives at Genoa on June 19, 1940 -- or 25 days from date of sailing.

*Thud*  
*(oil)*  
*(Genoa)*

Italian SS SANTAROSA loading at Erie Basin, Freshwater. Sails Thursday, May 23rd for Norfolk. Sails from Norfolk Monday, May 27, 1940 for Genoa, Italy. Will arrive at Genoa June 18, 1940 -- or 20 days from date of sailing.

*(Steel)*

Italian tanker ATLAS loading at Perth Amboy, N. J. Sails Saturday, May 25th for Genoa, Italy. Will arrive at Genoa June 19, 1940 -- or 25 days from date of sailing.

*(Benzol)*

Italian SS SABA loading at pier 3 Hoboken, sails May 23, 1940 for Genoa Italy. Arrive at Genoa June 12, 1940 -- or 20 days from date of sailing.

*(General)*

The above dates are approximate.

*John G. C. Fitzgerald*

John G. C. Fitzgerald,  
Inspector of Customs No. 120.

May 23, 1940.

Dear Dr. Hutchins:

It was very good of you to advise me as you did and I appreciate your prompt and friendly cooperation in the matter of Dr. Viner's work with the Treasury Department. We are looking forward to having him associated with us here, and we appreciate your courtesy in making his services available at this time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Robert H. Hutchins,  
President, University of Chicago,  
Chicago, Illinois.

GEF/dbs

May 27, 1940.

Dear Dr. Hutchins:

It was very good of you to wire me as you did and I appreciate your prompt and friendly cooperation in the matter of Dr. Viner's work with the Treasury Department. We are looking forward to having him associated with us here, and we appreciate your courtesy in making his services available at this time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Robert M. Hutchins,  
President, University of Chicago,  
Chicago, Illinois.

GEY/dbs

May 25, 1940.

Dear Dr. Hutchins:

It was very good of you to wire me as you did and I appreciate your prompt and friendly cooperation in the matter of Dr. Viner's work with the Treasury Department. We are looking forward to having him associated with us here, and we appreciate your courtesy in making his services available at this time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. Robert M. Hutchins,  
President, University of Chicago,  
Chicago, Illinois.

GEF/dbs

**Treasury Department**

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TELEGRAPH OFFICE

25W

WAF31 M 18

1940 MAY 23 PM 12 16

UG CHICAGO ILL MAY 23 1940 1042A

THE HON HENRY MORGENTHAU JR  
SECRETARY OF TREASURY

ASSURE YOU I WILL PLACE NO OBSTACLES IN WAY OF MR. VINER'S  
COOPERATION WITH THE TREASURY. KINDEST REGARDS.

ROBERT M HUTCHINS

1215P

**OFFICIAL**

**DR. ROBERT M. HUTCHINS  
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**

*67 am.  
at 10- atty.*

*9*  
MAY 21 1940

Copy to Mrs. Farrell

May 23, 1940

11 292

My dear Hoover:

This will acknowledge receipt  
of your letter of May 20th, regarding  
the transshipment of cocoa and coffee.

I have read this with interest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director  
Federal Bureau of Investigation,  
Department of Justice,  
Washington, D. C.

May 23, 1940

293

My dear Hoover:

This will acknowledge receipt  
of your letter of May 20th, regarding  
the transshipment of cocoa and coffee.

I have read this with interest.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Mr. J. Edgar Hoover, Director  
Federal Bureau of Investigation,  
Department of Justice,  
Washington, D. C.

May 23, 1940

My dear Hoover:

This will acknowledge receipt of your letter of May 20th, regarding the transshipment of cocoa and coffee. I have read this with interest.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director  
Federal Bureau of Investigation,  
Department of Justice,  
Washington, D. C.

JOHN EDGAR HOOVER  
DIRECTOR

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

May 20, 1940

PERSONAL AND CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

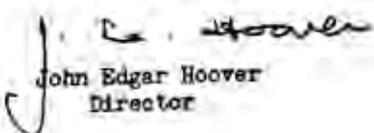
The San Francisco office of this Bureau is in receipt of information from a confidential source to the effect that the American President Lines had been approached by "Sovfracht, Moscow", regarding the transshipment of cocoa and coffee from Brazil for Kobe, Japan. The transshipment would allegedly be made at San Francisco or Los Angeles, California, aboard the S.S. President Garfield or the S.S. President Pierce, or both. It is reported that the letter of credit for freight and handling charges has been arranged in Moscow, Russia, through the Chase National Bank, New York, New York.

The confidential source also displayed a copy of a cable which was written in the "new Boe", a commercial code, dated March 29, 1940, by McCormick, Portland, Oregon, from "Sovfracht, Moscow". The cable requests that arrangements be made for the transshipment of 2500 tons of coffee at Santos, Brazil, and 2500 tons of cocoa at Bahia, Brazil, during the month of April, 1940.

The above data are being furnished to you for your information and are also being furnished to Honorable Adolf A. Berle, Jr., Assistant Secretary of State, Department of State, Washington, D. C. No investigation in this matter is being conducted by this Bureau.

Sincerely yours,

*J. E. Hoover*  
John Edgar Hoover  
Director



JOHN EDGAR HOOVER  
DIRECTOR

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

May 20, 1940

PERSONAL AND CONFIDENTIAL

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

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DIRECTOR

Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.

May 23, 1940

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

My dear Mr. Secretary:

I am transmitting herewith a memorandum covering material in the files of the Federal Bureau of Investigation relative to one Walter P. Reuther, which I thought might be of interest to you.

I have been informed Walter P. Reuther is the individual Madam Frances Perkins, The Secretary of Labor, contemplates appointing as head of the Safety Device Board of the Department of Labor, which Board makes inquiry into safety devices in various factories throughout the country.

With assurances of my highest regards,

Sincerely yours,

J. Edgar Hoover

Enclosure

PERSONAL AND CONFIDENTIAL

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May 22, 1940

M E M O R A N D U M

RE: WALTER P. REUTHER

Information has been received to the effect that Madam Frances Perkins, The Secretary of Labor, contemplates appointing Walter P. Reuther as head of the Safety Device Board of the Department of Labor. This Board makes inquiry into safety devices in various factories throughout the country. The following information appears in the files of the Federal Bureau of Investigation relative to Walter P. Reuther.

Walter P. Reuther originally came from West Virginia. His father was a labor organizer there. He attended Wayne University, Detroit, Michigan, from 1930 until 1933.

It has been alleged that Walter P. Reuther, accompanied by a brother, departed from the United States for Russia during 1933; that after residing in Russia for several months and while there they engaged in a study of agitation propaganda, taking courses allegedly given under the auspices of the Soviet Union. During 1933 Walter P. Reuther is said to have advised the Soviet authorities relative to labor conditions in the United States. The date of his return to the United States is not definitely known. However, upon his return he enrolled in the Brookwood Labor College at Katonah, New York, (now out of existence).

The following is a letter written in 1934 by Walter Reuther and his brother Victor to Melvin and Gladys Bishop:

"Almasavos, Topkini,  
January 20, 1934.

"Dear Mel and Glad:

"Your letter of December 5 arrived here last week from Germany and was read with more than usual interest by Mel and I. It seemed ages since we had heard from you so you might well imagine with what joy we welcomed news from Detroit. It is precisely because you are equally anxious to know to receive word from the 'Workers' Fatherland' that I am taking this first opportunity to answer you.

"What you have written concerning the strikes and the general labor unrest in Detroit plus what we have learned from other sources of the rising discontent of the American workers, makes us long for the moment to be back with you in the front lines of the struggle; however, the daily inspiration that is ours as we work side by side with our Russian comrades in our factory, the thought that we are actually helping to build a society that will forever end the exploitation of man by man, the thought that what we are building will be for the benefit and enjoyment of the working class, not only of Russia, but the entire world, is the compensation we receive for our temporary absence from the struggle in the United States. And let no one tell you that we are not on the road to Socialism in the Soviet Union. Let no one say that the workers in the U.S.S.R. are not on the road to security, enlightenment and happiness.

"Mel, you know Wal and I were always strong for the Soviet Union. You know we were always ready to defend it against the lies of reactionaries. But let me tell you, now that we are here seeing all the great construction, watching a backward peasantry being transformed into an enlightened, democratic, cultured populus, now that we have already experienced the thrill, the satisfaction of participating in genuine proletarian democracy, we are more than just sympathetic toward our country, we are ready to fight for it and its ideals. And why not? Here the workers, through their militant leadership, the proletarian dictatorship, have not sold out to the owning class like the S.P. in Germany and like the Labor Party in England. Here they have against all odds, against famine, against internal strife and civil war, against sabotage, against capitalist invasion and isolation, our comrades here have maintained power, they have won over the masses, they have transformed the 'dark masses' of Russia into energetic enlightened workers. They have transformed the Soviet Union into one of the greatest industrial nations in the world. They have laid the economic foundation for Socialism, for a classless society. Mel, if you could be with us for just one day in our shop you would realize the significance of the Soviet Union. To be with us in our factory Red Corner at a Shop Meeting and watch the workers as they offer suggestions and constructive criticism of production in the shop. Here are

"No bosses to drive fear into workers. No one to drive them in made speed-ups. Here the workers are in control. Even the shop superintendent has no more right in these meetings than any other worker. I have witnessed many times already when the superintendent spoke too long, the workers in the hall decided he had already consumed enough time and the floor was then given to a lathe hand who told of his problems and offered suggestions. Imagine this at Fords or at Briggs. This is what the Outside World calls the 'Ruthless Dictatorship in Russia.' I tell you, Mel, in all the countries we have thus far been in, we have never found such genuine proletarian democracy. It is unpolished and crude, rough and rude, but proletarian workers' democracy in every respect. The workers in England have more culture and polish when they speak at their meeting but they have no power. I prefer the latter.

"In our factory, which is the largest and most modern in Europe, and we have seen them all, there are no pictures of Fords and Rockefellers, or Roosevelts and Mellon. No such parasites, but rather huge pictures of Lenin, ... etc., greet the workers' eyes on every side. Red banners with slogans 'Workers of the World Unite' are draped across the craneways. Little red flags fly from the tops of presses, drill presses, lathes, kellers, etc. Such a sight you have never seen before. Women and men work side by side -- the women with their red cloth about their heads, the men with their fur hats. We work here seven hours per day, five days a week (our week here is six days long). At noon we all eat in a large factory restaurant where wholesome plain food is served. A workers' band furnishes music to us from an adjoining room while we have dinner. For the remainder of our one hour lunch period we adjourn to the Red Corner recreation where workers play games, read papers and magazines or technical books or merely sit, smoke and chat. Such a fine spirit of comradeship you have never before witnessed in your life. Superintendent leaders and ordinary workers are all alike. If you saw our superintendent as he walks through the shop greeting workers with 'Hello Comrade' you could not distinguish him from any other worker.

"The interesting thing, Mel, is that three years ago this place here was a vast prairie, a waste land and the thousands of workers here who are building complicated dies and other tools were at that time peasants who had never before even seen an industry let alone worked in one. And by mere brute determination, by

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"the determination to build a workers' country second to none in the world; urged on by the spirit of the Revolution they have constructed this huge marvelous auto factory which today is turning out modern cars for the Soviet Union. Through the bitter Russian winters of 45 degrees below they have toiled with bare hands digging foundations, erecting structures, they have with their own brute strength pulled the huge presses into place and set them up for operation. What they have here they have sacrificed and suffered for; that is why they are not so ready to turn it all over again to the capitalists. That is why today they still have comrades from the Red Army on guard at the factory at all times to prevent counterrevolutionists from carrying on their sabotage.

"About a twenty minute walk from the factory an entirely new Socialist City has grown up in these three years. Here over 50,000 of the factory workers live in fine new modern apartment buildings. Large hospitals, schools, libraries, theaters and clubs have sprung up here and all for the use of those who work, for without a worker's card one cannot make use of all these modern facilities. Three nights ago we were invited to the club house in 'Seagor' (Socialist City) to attend an evening of enjoyment given by the workers of the die shop. Imagine all the workers with whom we daily work, came together that evening for a fine banquet, a stage performance, a concert, speeches and a big dance. A division of the Red Army was also present as guests. In all my life, Mel, I have never seen anything so inspiring. Mel, once a fellow has seen what is possible where workers gain power, he no longer fights just for an ideal, he fights for something which is real, something tangible. Imagine, Mel, Henry Ford throwing a big party for his slaves. Here the party was no gift of charity from someone above for we own the factory, we held the meeting and decided to have the party and it was paid for from the surplus earnings of our department. What our department does is typical of the social activities which are being fostered throughout the entire factory and the entire Soviet Union.

"Mel, we are witnessing and experiencing great things in the U.S.S.R. We are seeing the most backward nation in the world being rapidly transferred into the most modern and scientific with new concepts and new social ideals coming into force. We are watching daily Socialism being taken down from the books on the shelves and put into actual application. Who would not be inspired by such events?

"And now my letter is getting long and still I have said little, for there is so much to say and so little time in which to do it. We have written Merlin and Coach rather lengthy letters and have requested they forward them to you to save duplication of material.

"I believe there is little in this letter which they have not already received so there will be no need of your forwarding this to them.

"A word about your letter. You mentioned that . . . . .

"Keep your eyes on the S.P. It being affiliated to the Second International I am not so certain it is 'drifting' in the right direction, certainly not in the light of recent events.

"Let us know definitely what is happening to the YPSL and also the 'Social Problems' Club at C.C.C.

"Carry on the fight for a Soviet America.

Vic. and Wal."

The foregoing letter is thought to be significant inasmuch as it definitely reflects the attitude of Walter P. Reuther in January of 1934.

In 1936 Walter P. Reuther was a C.I.O. organizer on the West Side of Detroit, Michigan.

According to information in the files of the Federal Bureau of Investigation, Walter P. Reuther, in May of 1937, at which time he was President of the United Automobile Workers of America, Local #174, was one of the speakers at a Conference for the Protection of Civil Rights (an affiliate of the Committee to Aid the Spanish Democracy). Walter P. Reuther, according to this report, was alleged to have stated that he had made a study of the Fascist situation and that he was a disciple of Anna Louise Strong. He further stated at that time that he had spent two years in the Soviet Union, where he had worked in a factory.

Walter P. Reuther has two brothers, Victor and Roy Reuther, both of whom are said to have been engaged in similar activities.

According to information received, the appointment of Walter P. Reuther was sponsored by Lee Pressman, attorney for John Lewis and other members of the International Juridical Association, 100 Fifth Avenue, New York City.

There is on file in the Identification Division of the Federal Bureau of Investigation a fingerprint record, received April 20, 1937, indicating that one Walter Reuther was taken into custody with one Victor Reuther, in connection with "recent sit-down strikes", and fingerprinted by the Police Department of Detroit, Michigan. There is also a fingerprint record indicating that the same Walter Reuther was fingerprinted, in connection with an application for a pistol permit, by the Police Department at Detroit, Michigan, on January 9, 1940.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Livesey telephoned me this afternoon in regard to the documents which he had sent me last night, consisting of a draft of a letter from the Department of State to the Canadian officials, and from the latter to the Department of State, effecting an arrangement in settlement of the differences over the recent Canadian exchange regulations, requiring Americans temporarily resident in Canada to surrender their foreign exchange holdings to the Canadian authorities, against Canadian dollars.

Mr. Livesey told me that Mr. Coyne, Secretary of the Canadian Foreign Exchange Control Board, had been down here last week discussing the above mentioned matter and has now telephoned from Ottawa wanting to know whether some agreement may shortly be reached, or whether the Canadian authorities should get out a notice extending beyond May 31 the time within which a special arrangement may be negotiated with the United States to exempt American citizens in Canada from the provision of the new act, on a basis of some sort of reciprocity.

Mr. Livesey stated that Mr. McDonnell, Secretary of the Canadian Legation in Washington, finds acceptable the State Department drafts, but that these have not been submitted to the authorities at Ottawa. Livesey explained that Sections 1, 2 and 3 are Canadian draft, while the drafting on reciprocity is principally American.

Mr. Bernstein was in my office when Mr. Livesey telephoned. I told Mr. Livesey that Mr. Bernstein and I had glanced through the file, including the drafts received last night, and that we would let him know as soon as we had some authority from the Treasury Department to express its position.



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Sterling moved downward today from an opening of 3.23-1/4 to a low of 3.18-1/2 late in the afternoon. The final quotation was 3.18-3/4.

Sales of spot sterling by the six reporting banks totaled £497,000, from the following sources:

By commercial concerns.....	£250,000
By foreign banks (Europe).....	£247,000
Total.....	£497,000

Purchases of spot sterling amounted to £338,000, as indicated below:

By commercial concerns.....	£125,000
By foreign banks (Far East and Europe).....	£213,000
Total.....	£338,000

The following reporting banks sold cotton bills totaling £11,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 5,000 by the Irving Trust Company
4,000 by the National City Bank
<u>2,000 by the Guaranty Trust Company</u>
£11,000 Total

A Dow Jones despatch from London stated that Sir Kingsley Wood, Chancellor of the Exchequer, was asked in the House of Commons if he would consider ending the "stop" on American exchange. The Chancellor was reported to have made the following written statement in reply. "If the suggestion is that sterling should be freely convertible into dollars at the official rate for all purposes, I regret that in the present circumstances this is impracticable. If, on the other hand, the suggestion is that the official rate of exchange which has prevailed since the outbreak of the war should no longer be maintained, the reply is that I am convinced it would be most undesirable in the national interests to adopt this suggestion."

In contrast to the weakness in sterling, the French franc showed a firmer tendency today. From an opening of .0179, the rate improved to a high of .0181-3/4 at noontime. It closed at .0180-1/2. The improvement in the quotation was attributed mainly to the cessation of French franc sales by Italian interests in this market. In addition, it was reported that orders to buy French francs were received here from banks located in Zurich. In relation to sterling, the cross rate narrowed from 180.58 francs per pound to 176.59.

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Developments in the other important currencies were as follows:

The Swiss franc was steady all day. It closed at .2242.

The discount for the Canadian dollar narrowed this morning to 20-3/4%, but during the afternoon, that currency had an easier tone. The final discount was 21-7/8%.

The reichsmark closed at .4000.

In Shanghai, the yuan was unchanged in terms of sterling at 4-1/8d. Against the dollar, it improved 1/16¢ to 5-9/16¢.

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

\$20,000,000	from the Bank of France
1,000,000	from the National Bank of Belgium
560,000	from the Royal Bank of the Kingdom of Yugoslavia
<u>\$21,560,000</u>	Total

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$ 3,528,000	from South Africa, shipped by the South African Reserve Bank for account of the Bank of Sweden, disposition unknown.
3,100,000	from England, shipped by the Bank of England, to be earmarked for its account.
2,247,000	from England, shipped by the Bank of England, for account of the Swiss National Bank, disposition unknown.
2,115,000	from Colombia, shipped by the Bank of the Colombian Republic for its account, disposition unknown.
<u>\$10,990,000</u>	Total

The Bombay gold price advanced 13¢ to \$36.87. A trader in one of the New York banks informed the Federal Reserve Bank that his bank had purchased, a few days ago, a small amount of gold in Hong Kong for shipment to India and/or the United States. He stated that this transaction was in the nature of a "trial balloon", and that his bank had hoped to obtain from the Indian authorities a license to import this gold into India. He finally remarked that the Indian Government refused to grant such a license.

The Bombay spot silver quotation moved off the equivalent of 1/8¢ to 44.22¢.

Part of yesterday's recession in the London silver quotations was offset today. Spot silver was fixed at 21-13/16d, up 5/8d, and the forward quotation was 21-5/8d, up 9/16d. The U. S. equivalents, calculated at the open market rate for sterling, were 31.70¢ and 31.19¢ respectively. On the basis of the official sterling-dollar rate, the spot price was equivalent to 39.66¢.

Handy and Harman raised its settlement price for foreign silver to 35-1/8¢ today. The Treasury's purchase price for foreign silver was unchanged at 35¢.

There were no purchases of silver made by us today.

**CONFIDENTIAL**

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

I am this noon informed by Mr. Stone of Secretary Hull's office, to whom I posed the question yesterday evening, that the letter of May 20 to the President from Lord Lothian was delivered promptly to the President, through the State Department. Copies of the letter were made and distributed to five or six officers in the State Department who are studying the proposals made by the British. It is expected that there will be a meeting of those officers this afternoon or Friday morning to make recommendations before Secretary Hull goes to the Cabinet meeting. It is possible that the State Department may communicate with us after this meeting, or that Mr. Hull may take the matter to Cabinet. So far no one in the State Department is in a position to discuss the matters with us, pending a clarification of the State Department's own position, and the selection of a spokesman.



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent today handed to me the attached copy of a memorandum, the original of which had been delivered to Mr. Dunn in the Department of State, concerning financing by the American Bemberg Corporation.

It is my opinion that I should speak to Mr. Dunn on this subject to discuss the question as to whether it should be referred directly to the Securities and Exchange Commission.

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After talking with Mr. Bernstein, I telephoned Mr. Dunn this afternoon, who informed me that this matter had been referred by him to Mr. Livesey. Upon getting in touch with Mr. Livesey I was informed that he was sending one copy of the memorandum to the Treasury and another to the Securities and Exchange Commission. Livesey thought that this matter concerned the Securities and Exchange Commission most particularly.

In my conversation with Mr. Dunn, he told me that the State Department thought we should watch such transactions with some care, since he understood there had been quite a bit of German capital filtering into Dutch or so-called Dutch concerns.



It is understood that the American Benberg Corporation has applied to the Securities and Exchange Commission for permission to issue 70,000 shares of common stock (half of them B stock), value about \$1,300,000. The intention of the company is apparently to use the proceeds of this issue and its own liquid resources to pay to the Algemeene Kunstzijde Unie N.V. of Arnhem, Holland:-

- (a) about \$1,200,000 in repayment to German guarantors of interest paid by them on preference stock in the American Benberg Corporation, the guarantors' claims having been acquired in the latter part of 1939 by the Algemeene Kunstzijde Unie N.V.; and
- (b) about \$850,000 in respect of arrears of sinking fund for preference shares held by the Algemeene Kunstzijde Unie N.V.

It is understood that the real control, both of the American Benberg Corporation and of the Algemeene Kunstzijde Unie N.V., is in German hands (even apart from the present occupation of Holland), and there is a strong probability that any funds reaching the Dutch company would be at the disposal of the German controlling interests and through them at the disposal of the German Government.

It might be asked whether it is legitimate that the proceeds of an issue such as is proposed should be used for the purpose of paying guarantors' claims in respect of interest, and arrears of sinking fund, due by the American Benberg Corporation. It might also be asked whether it is legitimate that the proposed

sinking fund payment should be made in respect of one selected group of preference shares issued by the Corporation. Lastly, it might be asked whether the transaction would not require a licence from the United States Treasury under the Executive Order of May 10th, providing for the control of transactions relating to property interests held by Holland or by Dutch nationals.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent called on me at 12:30 today. He took up three or four matters.

Pinsent stated that after talking with me yesterday he had cabled London that we would issue instructions to our diplomatic and consular officers in Switzerland, along the lines of those sent to the Netherlands, if the Swiss requested it.

Pinsent confirmed the information which he had given me late yesterday evening over the telephone, namely, that the copy of the letter which Lord Lothian had addressed to the President under date of May 20, had been provided the Treasury Department directly by the British Embassy at Secretary Hull's own suggestion, since the State Department was aware that several of the points mentioned therein fell within the Treasury's field.

Mr. Pinsent asked that I let the Secretary know that no reply had been received in regard to the suggested visit of Sir Frederick Phillips to this country. The Embassy does not feel that, in view of recent developments, it is in a position to press this matter unless the Secretary urges it.

Following the conversation with the President which led to his letter of May 20, Lord Lothian has cabled his Government in regard to our concern over the safeguarding of British securities and gold. The Ambassador reported that he was sure we would give the necessary instructions to our consuls in the British Isles if their assistance might be required by the British in connection with the disposal of securities. The British Embassy has asked for instructions in the premises, but has received no word as to what the British officials are doing or may desire from this side.

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

1312

INTER-OFFICE COMMUNICATION

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. Knoke telephoned me this noon to the effect that the Norwegian Minister had desired to draw on funds with the Federal under the new arrangement, but that the authenticated signature which the Federal had requested had not yet been received. Knoke had been informed by the Norwegian Minister that his signature had been submitted to the State Department two or three days ago with the understanding that it would be authenticated and forwarded to the Federal.

I have now talked with Mr. Hugh Cummings, in charge of the Scandinavian desk in the Department of State. He confirmed that the signature of the Norwegian Minister had been received day before yesterday in Mr. Cummings' absence. Mr. Cummings had prepared a letter, upon his return from New York yesterday, but Mr. Berle had not been present to sign it. This letter, transmitting the authenticated signature to New York, was supposed to be on Mr. Berle's desk. Consequently, I spoke with Mr. Berle's secretary and asked urgently that the letter be signed and mailed to New York tonight. I then informed Mr. Knoke as to the above facts. Mr. Knoke, in turn, told me that the transaction which the Norwegian Minister has asked the Federal to take care of is an order from him, set forth in a letter dated May 22, for the Federal to pay \$150,000 to the New York Trust Company, this amount to be placed in a special account "Christiania General Storebrand", for the exclusive use of the Royal Norwegian Legation in Washington. This amount is to be debited to the Norges Bank account. Knoke asked that this matter be brought to Mr. Bernstein's attention for the issuance of a license so that the payment can be made as soon as the signature letter is received from the Department of State. Knoke reminded me that the Treasury was taking care of these diplomatic applications, and hoped our license would not be limited to this single transaction.



6-313  
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 23, 1940

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Current Developments in the High-grade Securities Markets

## SUMMARY

- (1) Treasury securities broke sharply Tuesday on receipt of unfavorable war news, but yesterday's losses were minor. Treasury securities are now at new lows for the current crisis (Charts I and II).

During the week ended May 15 -- the period of greatest market decline -- weekly reporting member banks in New York City increased their holdings of Treasury direct obligations by \$48 millions. Government security purchases by the Federal Reserve System during the current crisis have totaled \$10.4 millions.

- (2) High-grade corporate securities declined markedly on Tuesday, but recovered slightly yesterday (Chart II). The tendency of municipal bond prices has been downward throughout the crisis.
- (3) Recent developments in the European war have resulted in the postponement of at least three new bond offerings in the past week. Despite the unsettlement of the market, however, the United States Steel Corporation last week successfully floated an issue of \$75 millions of serial debentures. This issue is unusual in that each semi-annual maturity bears a different coupon, and that all maturities were offered at par. Offering yields are shown in Chart III.
- (4) The net "rights value" of the 3-3/8 percent Treasury bonds, due June 15, is only 17/32. Rights values on the whole are the lowest since last September and, with that exception, the lowest since the end of 1937 (Chart IV).
- (5) The dollar bonds of foreign governments, except those of Norway and Denmark, fell in price during Tuesday's break, but the general tendency yesterday was one of recovery (Chart V). Paradoxically enough, British consols and French rentes were strong on Tuesday, despite unfavorable war news.

I. United States Government Securities

After a minor rally in the latter part of last week United States Government securities declined sharply on Tuesday, May 21. Further small declines occurred Wednesday in the prices of Treasury bonds (Chart I). Treasury securities are at new lows for the current war crisis. The following table shows the price changes by maturity classes during the sharp break immediately following the invasion of the Low Countries, during last week's rally, and on Tuesday and Wednesday of this week:

		Average price change		
		May 10-	May 15-	May 21-
		May 14	May 20	May 22
(Decimals are thirty-seconds)				

Notes				
1	- 3 year . . . . .	- .13	+ .01	- .03
3	- 5 year . . . . .	- .30	- .02	- .07
Bonds				
5	- 15 years to call . .	-2.16	+ .05	- .16
15	years and over to call	-2.31	+ .10	- .17

The average yield of long-term Treasury bonds increased three basis points on Tuesday to 2.46 percent, but remained unchanged yesterday (Chart II). Since the close on May 9, the price declines of the long-term bonds have caused the average to increase by twenty-one basis points in all.

During the week ended May 15 -- the period of sharp market decline accompanying the invasion of the Low Countries -- weekly reporting member banks in New York City increased their holdings of Treasury direct obligations by \$48 millions, about 60 percent of which sum consisted of Treasury bonds. Reporting banks outside of New York City increased their Treasury bond holdings by \$14 millions. During the current crisis the Federal Reserve Open Market Account has purchased a total of \$10.4 millions of Treasury securities.

## II. Other Domestic High-grade Securities

High-grade corporate bonds fell sharply on Tuesday, but recovered slightly yesterday (Chart II). The average yield of high-grade corporate bonds, moving inversely to prices, closed yesterday at 2.98 percent. This compares with an average yield of 2.70 percent on May 9, just prior to the beginning of the current war crisis. Municipal bonds have fallen almost continuously since the beginning of the crisis.

## III. New Security Issues

The intensification of the European war has unsettled the market for new securities, and has resulted in the postponement of at least three new offerings within the past week. The three referred to consisted of \$60 millions of bonds of the Texas Corporation; \$32 millions of bonds and 150,000 shares of preferred stock of the Indianapolis Power and Light Company; and \$7 millions of bonds of the State of New Hampshire. In the case of the New Hampshire issue, bids were actually received on two separate occasions, but were rejected each time as involving too high an interest cost.

A notable exception to the general tenor of the new issue market was the \$75 millions debenture offering of the United States Steel Corporation, made on Wednesday, May 15, which is reported to have gone well despite the unsettled condition of the market. There was a good demand for the debentures from institutional investors.

The United States Steel issue consisted of serial debentures maturing semiannually from November 1, 1940 to May 1, 1955. In contrast to the usual pricing practice of fixing a limited number of coupon rates and offering the various maturities at different prices, each semiannual maturity bears a different coupon, ranging from .375 percent for the shortest to 2.65 percent for the longest. All maturities were offered at par. Thus the coupon on each maturity is the same as the yield to maturity. Chart III shows the offering yields of the various serial debentures and, for perspective, shows the comparable yields of United States Treasury bonds.

#### IV. Value of "Rights" to Purchase Treasury Securities

The price of the 3-3/8 percent Treasury bonds called for redemption June 15 was 100-24/32 on Wednesday, May 22. This is only 17/32 in excess of a zero yield to maturity. A premium of the latter amount on a new issue offered in exchange would permit a purchaser of 3-3/8's at the current price to "break even" -- assuming that the use of the money between now and June 15 is of no value. This is the lowest "rights value" on a maturing Treasury issue since December 1937.

As previously noted, the prices of short-term Treasury securities -- i. e., those due within the next two or three years -- have fallen along with those of other maturities. This decline may be due to a change in effective interest rates on short-term money, or it may reflect a change in the market's anticipation with respect to future Treasury refunding operations. The market action of HOLC 5/8 of 1 percent notes, due May 15, 1941, suggests, however, that it has been due more to interest factors than to rights factors. The yield of the one-year HOLC notes (with respect to which an exchange offer is not expected) increased from .14 percent on May 6 to .37 percent on Wednesday.

Irrespective of its cause, however, the decline has tended greatly to reduce the extent to which short-term Treasury securities are selling at prices in excess of a zero yield -- and so greatly to reduce "rights values" as conventionally computed. Chart IV shows, as of yesterday's close, all issues of direct Treasury securities selling at prices in excess of a zero yield, either to earliest redemption date or to the next preceding regular Treasury financing date.

As of last night's close, there were only four issues of Treasury securities selling at prices in excess of a zero yield to earliest redemption date and only eight issues selling at prices in excess of a zero yield to the next preceding regular financing date. Both bases have been shown because of the uncertainty with respect to the effect of the war crisis on future Treasury financing operations. On either basis, rights values are now the lowest since last September, and with that exception the lowest since the end of 1937.

Secretary Morgenthau - 5

V. Foreign Government Securities

The dollar bonds of foreign governments, except those of Norway and Denmark, declined in price on Tuesday (Chart V). Four of the issues shown in the chart, however, registered price gains yesterday, Belgian and Italian bonds more than making up their losses of the previous day.

Paradoxically enough, the internal securities of Great Britain and France were strong on Tuesday when the war news was distinctly unfavorable for the Allies. British 2-1/2 percent consols rose 1-1/4 points on that day, but lost 3/4 of a point yesterday, closing at 71-3/4, to yield 3.52 percent. French 3 percent rentes rose 1.55 points on Tuesday to 71.75, but fell back yesterday to 71.20, equivalent to a yield of 4.26 percent.

Attachments

PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS

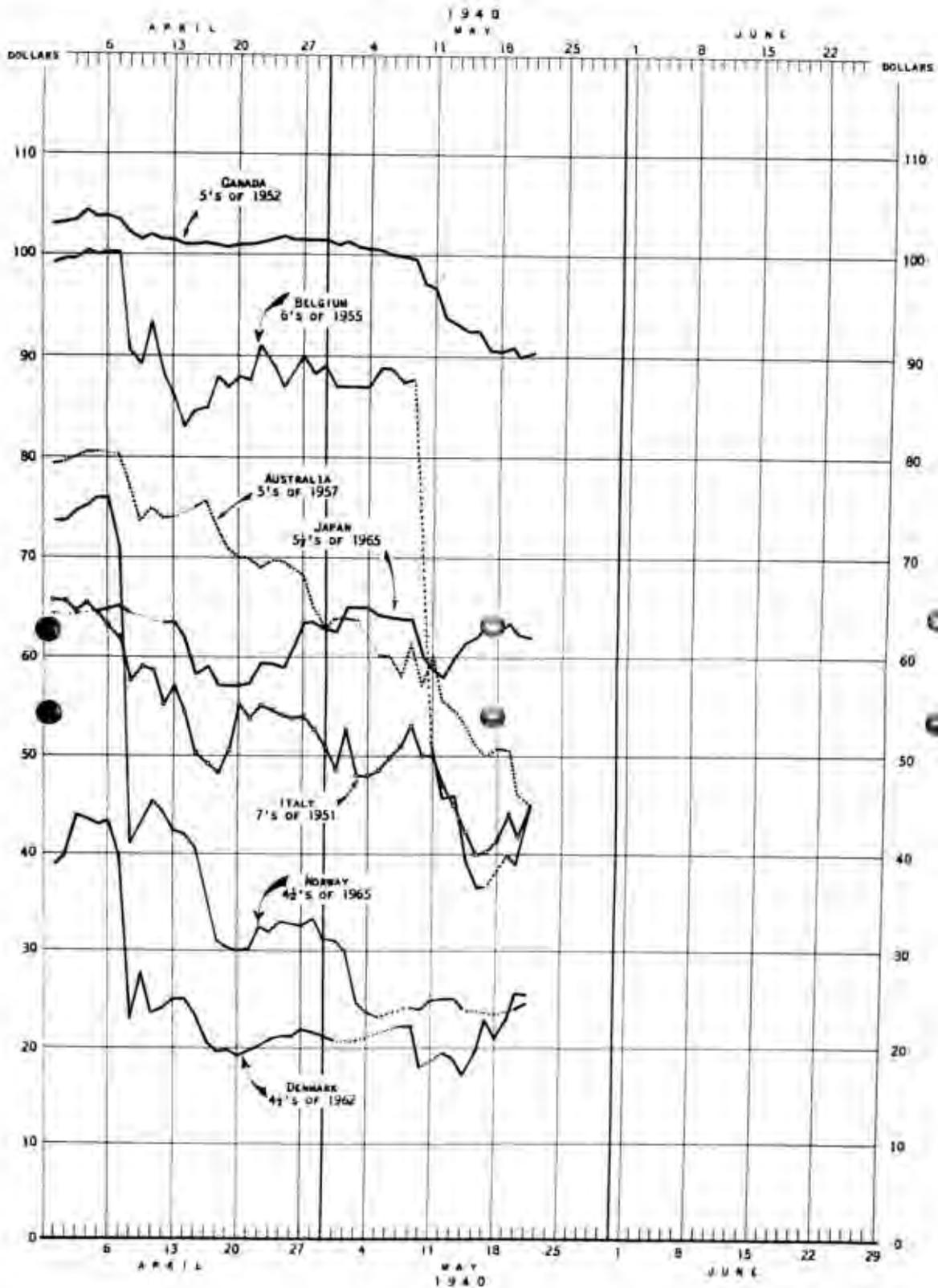
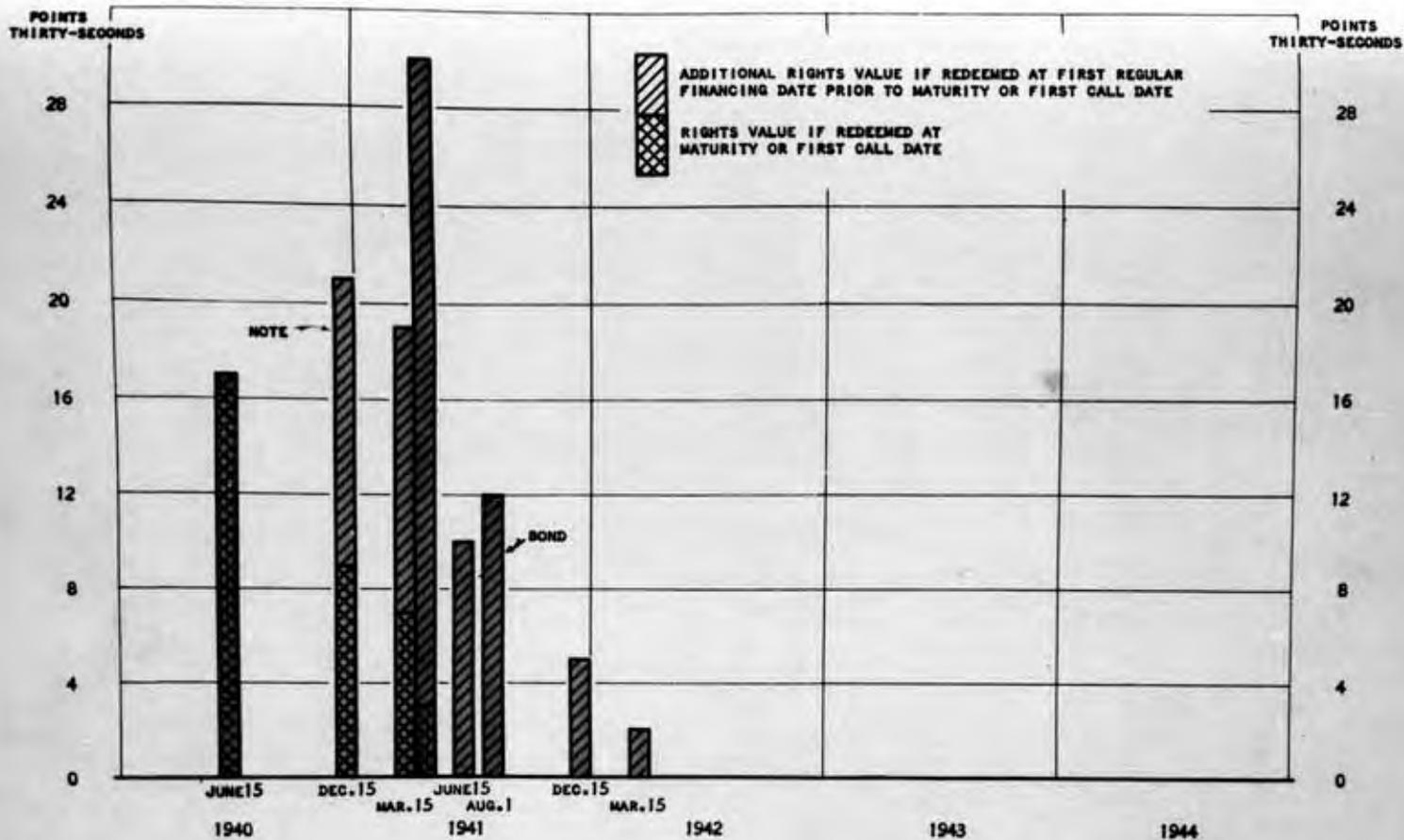


CHART IV  
**RIGHTS VALUES OF TREASURY SECURITIES**  
 May 22, 1940



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OFFERING YIELDS OF NEW SERIAL DEBENTURES OF THE UNITED STATES STEEL CORPORATION  
 COMPARED WITH YIELDS OF TREASURY BONDS, MAY 14, 1940

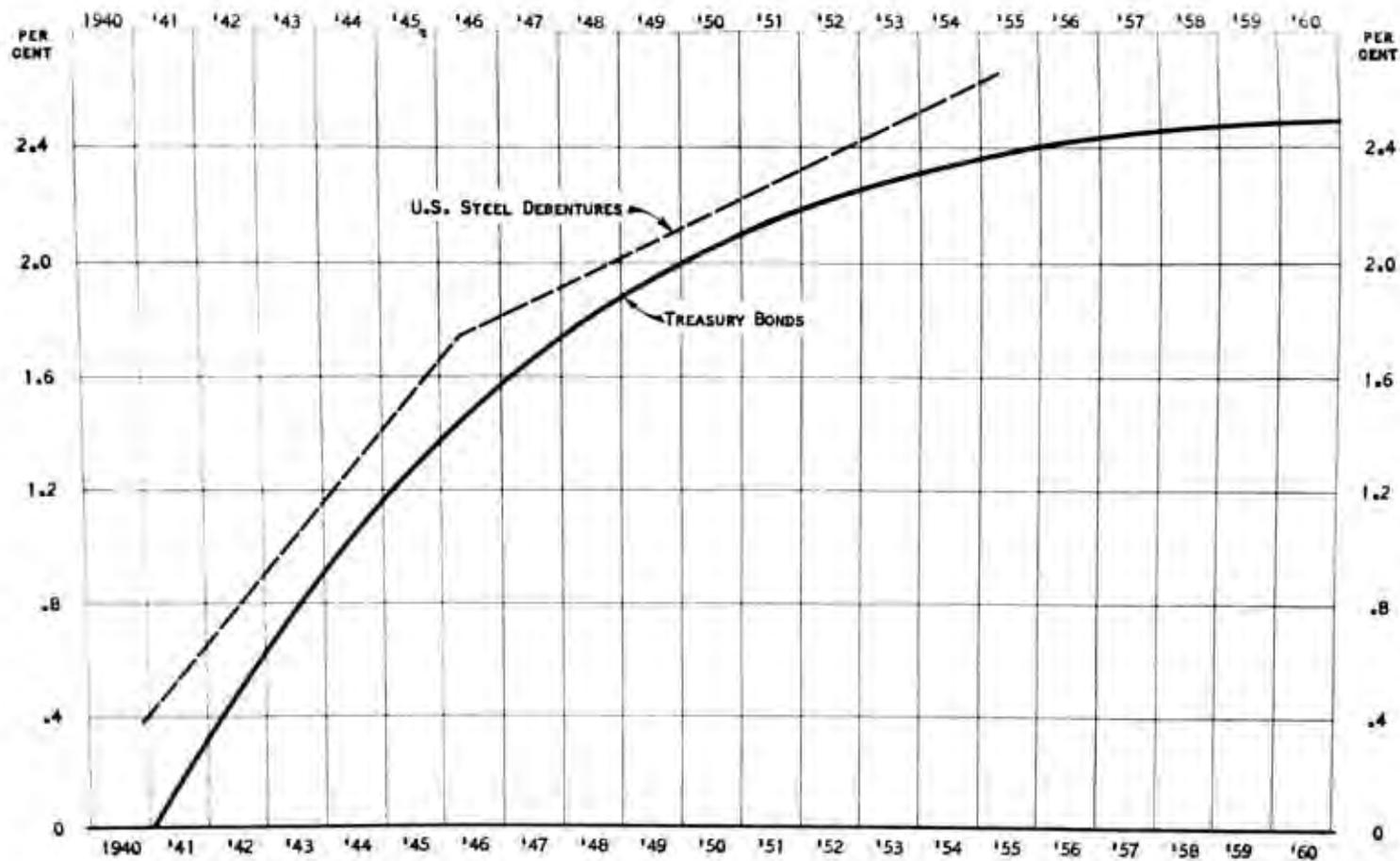
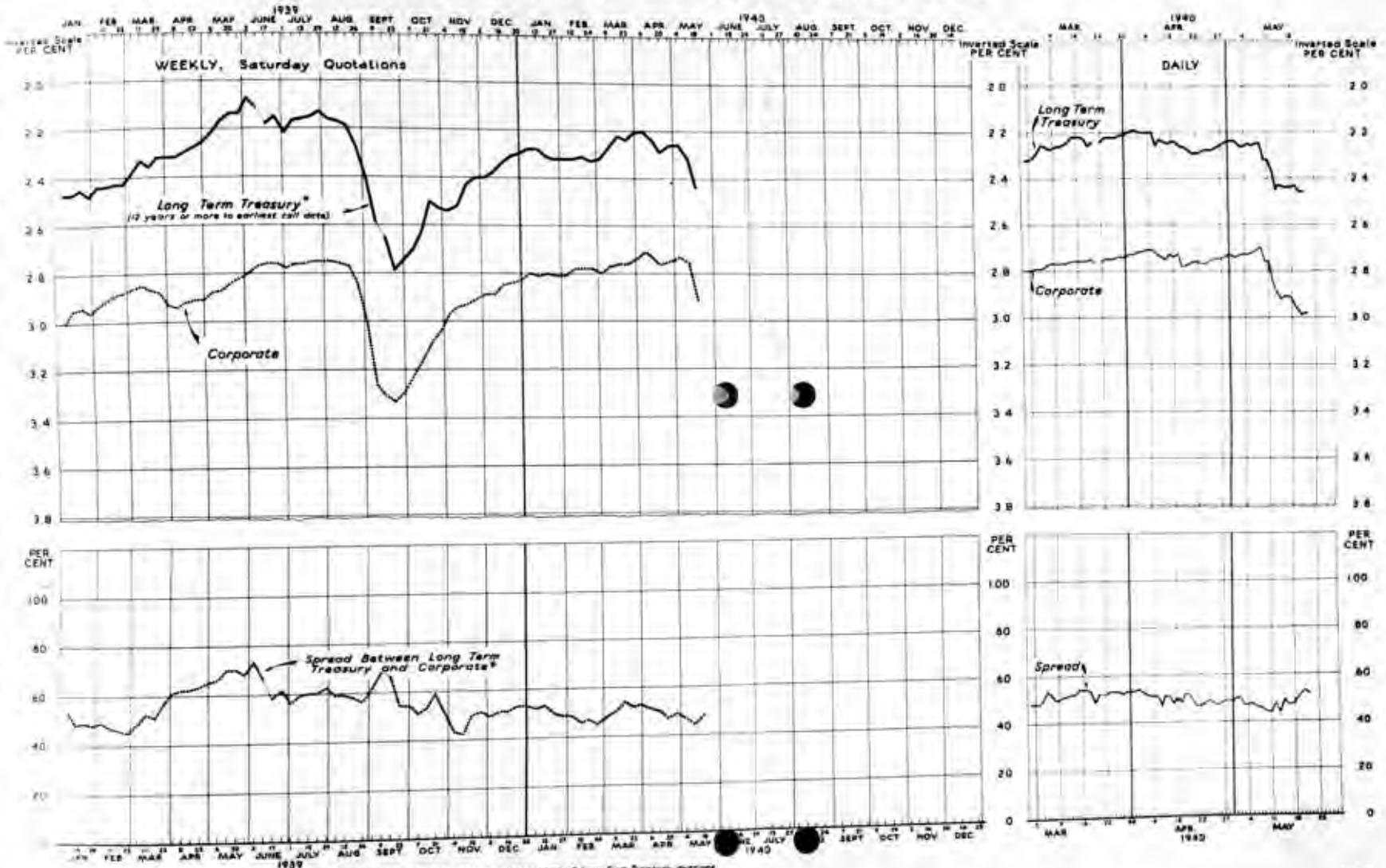


Chart II

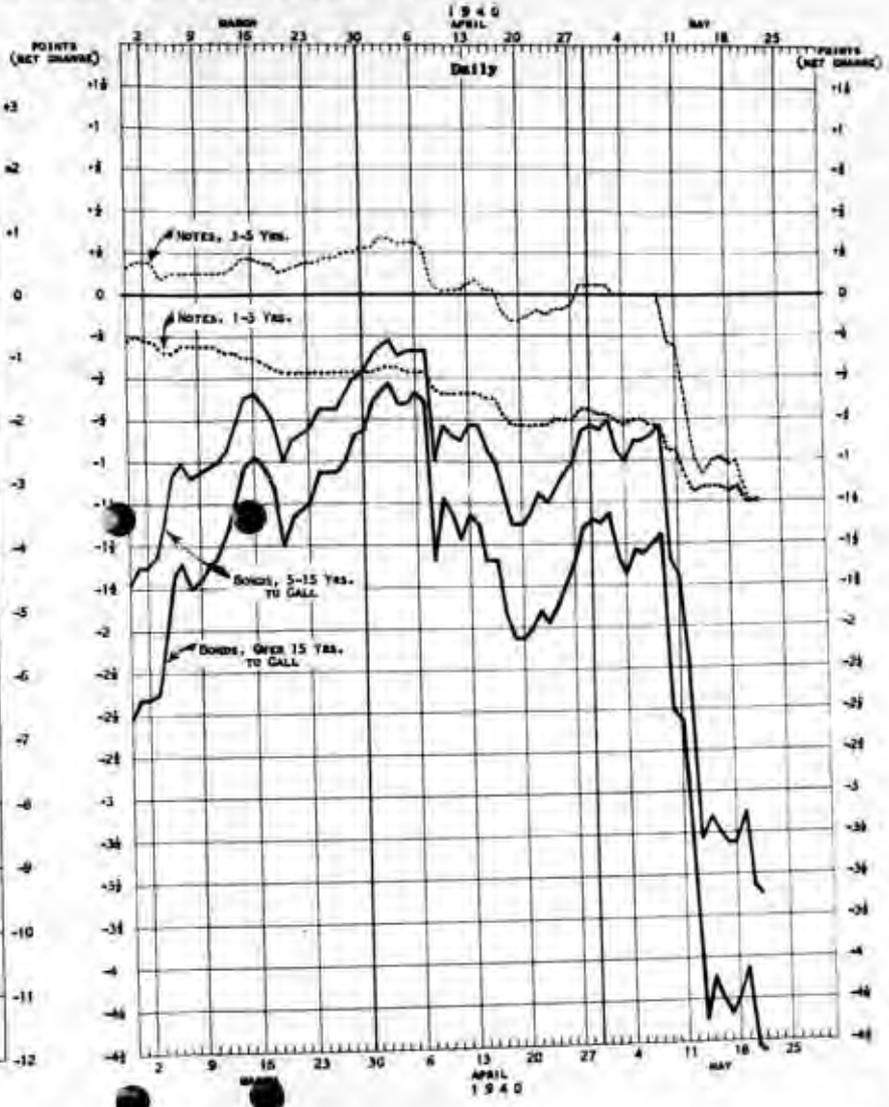
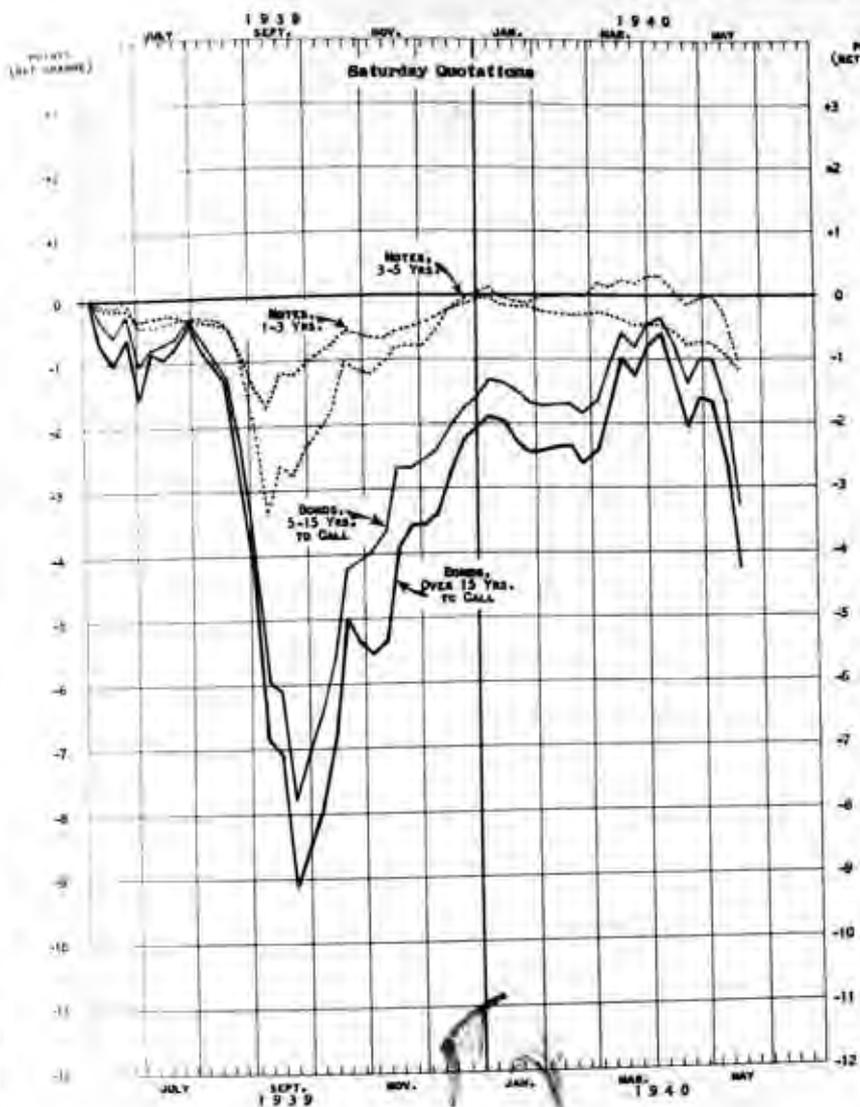
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



\*Break in line indicates change in composition of Long Term Treasury average

# CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class



## GROUP MEETING

May 23, 1940  
10:00 a.m.

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

H.M.Jr: Today is Ed's birthday. What is it, Ed, 35?

Foley: That is right.

Gaston: You are eligible to be President now, aren't you, Ed?

Foley: I can run.

H.M.Jr: Mr. McReynolds?

McR: I don't have anything.

H.M.Jr: Chick, did you get that fixed up?

Schwarz: Yes, sir.

McR: I have got the record completed on that conference with the President yesterday.

That fellow that called up, you know, I told him the answer was no. He said he had already had his ears knocked back by the Secretary and he wasn't going to stick them out again and that he would take your answer.

H.M.Jr: Is that what he said? Well, it is most ridiculous. I knew Tom Beck 20 years ago and he called up and I thought for old times' sake I would answer the telephone. I said hello to him, "How are you?" He is president of the Colliers and Crowell Publishing Company and

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so forth and so on and he says, "Now, Henry, I would like to know whether I can put a red neon sign on the Treasury to advertise this aviation chamber of commerce meeting that is coming Sunday," and I said, "Well, Tom, I have got a pretty good sense of humor, but it seems to me it is pretty silly for you to call me up in these times on a matter like that." Can you imagine? I felt like saying, "Why don't you call up the President? Maybe he could help you out. He hasn't got anything to do."

McR: Of course, what happened was, they called me and I told them no and apparently Tom, knowing you, thought he would get a different answer by calling you, but Tom said he was very grieved as far as I was concerned. He said, "I am not going any further, I will take your answer."

H.M.Jr: Well, I just wanted to make sure he didn't get it.

McR: He didn't get it.

H.M.Jr: O. K. Anything important?

McR: No.

H.M.Jr: Dan?

Harold?

Harry?

White: You may have noted that China has been selling securities very heavily for the last three or four days in the Far East and we were wondering what it was and we got in touch with the SEC and asked them to make investigations, since it was occurring over four days consecutively and we have got the concern's name and we are trying to find out how wide they are and if possible who is selling it and so on. We haven't any definite information yet, but we may have some by tomorrow, but it is a very unusual circumstance.

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- H.M.Jr: Mr. Bell, you didn't report on your trip to Mr. Hull yesterday.
- Bell: That is right. Well, it wasn't very successful. Mr. Hull, of course, didn't have a lot of time to give to it and we went down in Dr. Hornbeck's office and talked for an hour or so and it finally wound up that Dr. Hornbeck was to tell the Chinese Ambassador that his government did not want to receive their cable and that he had no suggestions to make as to a reply but that the State Department would go on and consider the memorandum which we left with them and we will hear from them later and he said undoubtedly it would take two or three days.
- H.M.Jr: Harry?
- White: There is a personal communication to you from Nicholson from the Bank of China. They want to make some arrangement to safeguard their property in Shanghai by creating an American corporation. We will take it up here.
- H.M.Jr: Please.
- White: This is a matter of a little interest. The trucks which apparently China has in Indo-China --
- H.M.Jr: They are stuck, 650 of them.
- White: They are holding them.
- H.M.Jr: 650, is that right?
- White: 648, isn't it? No, 650.
- H.M.Jr: Just checking up on myself.
- White: You may also have noticed the statement that there was a feeling that about a third of the Netherlands reserve of gold was left in Netherlands.
- H.M.Jr: Can't you give me any good news?

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White: Well, I have got a letter here that I have been trying to get you to sign for a couple of weeks. It is good news for somebody if you sign it.

H.M.Jr: What is it, a raise for somebody?

White: No, it is just that Chinese letter that you were going to consider.

H.M.Jr: Can I read it?

White: Oh, yes.

H.M.Jr: I mean, is it in Chinese? That puts me under great handicap, I have got to sign it. Well, I would love to do that.

White: That is fine.

H.M.Jr: That is easy.

Bell: Does it cost us anything?

H.M.Jr: No, the only thing I am opposed to is this anti-stabilization club, these second-story workers who stay up nights trying to find new ways to --

White: That is very funny, because there is another one coming in tomorrow from Mr. Welles.

H.M.Jr: Incidentally on that, do you know what the President calls the stabilization fund? My youngest child. He says that is the way I treat it.

White: It is more like catnip with a lot of tomcats around. Let's let that pass.

H.M.Jr: All right, go ahead.

White: Take that out of the notes.

H.M.Jr: Go ahead, Harry.

White: That is all I have.

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H.M.Jr: It is enough.

Harris: There are five ships in New York that either are loading or will presently load for Italy and they are taking full cargoes, in one case steel, in another case benzine, and the other one has the toluol and what-not. The first of those can't arrive - they are very slow boats and they can't arrive in Italy until June 15. None of these ships can reach Italy before the 15th of June, even if they are not held up by the British control. If that has any bearing on the situation, it would look like there has been no effort made to call back Italian ships in a hurry.

H.M.Jr: I tell you what I would like you to do. I would like you and Gaston to see A. A. Berle and between you and Berle, settle it. Between you and Gaston and Berle, settle this thing, see.

Harris: What do you mean, settle it?

H.M.Jr: Well, either that we are going to let them sail and no monkey business, or some monkey business.

Harris: That has all been settled. Until some legislation passes, there is nothing we can do.

Gaston: There is nothing we could do but a short delay.

H.M.Jr: I thought you had a way of holding up that one ship.

Harris: Well, I haven't given up on that yet. It just depends on whether my man makes good. Unfortunately, he has been drunk for five days. He is under indictment as well.

White: What is your other friend doing, Basil?

Harris: He is going to stagger to victory.

H.M.Jr: Federal indictment?

Harris: Yes.

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H.M.Jr: That ought to be helpful.

Harris: He is a labor leader. I won't give his name publicly.

H.M.Jr: Mr. Arnold was around here yesterday and telling me he would help, he would turn the steam on or off, any way I want it. I mean facetiously. He hasn't got much sense of humor on himself, has he?

Woley: It isn't very good.

H.M.Jr: His crowd liked what I said, but he didn't, did he? I was surprised, because he likes to give it so well to other people, but he couldn't take it, could he?

McR: Well --

H.M.Jr: He didn't think it was so funny.

McR: I know, but give him time. He will laugh about it later.

White: There is a draft of a bill that has been prepared which the State Department has that would give the President very broad powers to handle just this situation. If the State Department knew - probably they do know about this toluol --

H.M.Jr: It was told us by the State Department.

Harris: Oh, they know all about it.

H.M.Jr: O. K.

Harris: Procurement Department, everybody knows about it, but there just is nothing we can do at the moment.

H.M.Jr: George? You haven't given me that one on where the steel ingots are.

Maas: Oh, I was planning on giving you that tomorrow.

H.M.Jr: Is that when you will have it?

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- Haas: I had it for this morning but the map wasn't made.
- H.M.Jr: Are you also overslept?
- Haas: No, I am all right. I don't think so. What made you ask?
- H.M.Jr: This is getting a little too rough around here.
- Klotz: If you want to tell it, I will go out.
- Haas: Go ahead, I can take it.
- H.M.Jr: No, it was on Mac yesterday, so it is all right.  
I thought those telegrams were very encouraging. We have these 26 business concerns who report weekly their orders. One of them told me that business had gone to pot, so George sent out telegrams and he has heard from practically all of them with the exception of two, I think. Their business had not been disturbed last week and it was going along at the same rate of increase as it had right along. Is that about right?
- Haas: That is right, and three of them showed rather large increases.
- H.M.Jr: It just shows how one man comes in here and told me his whole business had collapsed last week, a big manufacturer. You can't go by one isolated instance.
- White: He must have been producing French flags or something.
- Harris: French dictionaries.
- H.M.Jr: I am just laughing because you are so silly, not because you are funny, Harry. I don't want you to think that that is really wit.
- White: On the contrary, I think it is a very witty remark.

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- H.M.Jr: I am for anything that will give a good laugh. O. K.?
- Sullivan: I talked with Johnson this morning and he can't figure out any way in which they can advance the release dates on that powder to the British, but he sent Colonel MacMorland over and I think he is in there now. I don't understand what he means, but if we can figure out any way, he will try to be a good soldier.
- H.M.Jr: Listen, I must - well, see if we can get it the first of June.
- Sullivan: Yes, sir.
- H.M.Jr: And I will take the first of July if I have to, but I would like the first of June.
- Sullivan: All right. There are two things. We want 400,000 pounds a month starting the first of June. Now, it is 200,000 starting the first of October.
- H.M.Jr: Oh, that is terrible.
- Sullivan: And I am trying to --
- H.M.Jr: Well, he has got to be a good soldier and I will tell you what we will do. Let's stick to the first of June. It is just as easy to stick to the first of June. Will you do that?
- Sullivan: Yes, sir. Suppose they offer 200,000 starting the first of June?
- H.M.Jr: I don't know the picture. I would have to go into it with you. Don't give in anything without coming to see me. What else?
- Sullivan: Mr. Young suggests that we had better talk with Purvis again before we give them the final word on that.
- Young: I think we also ought to talk to Colonel Burns.
- H.M.Jr: On what?

Young: Powder.

H.M.Jr: Well, if you two fellows could carry the ball up to the place you are stymied, it would help me a lot.

Sullivan: All right, sir.

H.M.Jr: And I tell you what the two of you might take on together, as long as you have contacted Louie Johnson, is those machine guns for the airplanes for the Allies, those 14,999 machine guns they need, Colt. That is stymied in the War Department, too. So I think if you - do you know about it?

Sullivan: No, haven't heard of it.

McR: Well, the munitions --

Haas: This is a new system.

H.M.Jr: They were all agreed and ready to sign last Wednesday when Louie Johnson stopped them for some reason or other.

Sullivan: You mean the War Department was ready to release?

H.M.Jr: It was just a new order, brand new guns. They need these guns for the planes and the President last Friday at Cabinet told Woodring he wanted it done by Saturday.

Young: Is that this Colt contract along with the two million five hundred thousand capital assistance?

H.M.Jr: That is right. Give the story to Sullivan.

Young: I don't think I have it all.

H.M.Jr: - Well, get it and fight it out.

Sullivan: Who knows it, Purvis?

H.M.Jr: Yes. Will you, because it is a question of working it out with Louie Johnson and I would like your help, John.

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Klotz: Ballantyne knows the story.

H.M.Jr: Ballantyne does?

Klotz: I think so.

Young: Isn't there a major question of policy there as to the Allies putting up all the assistance while the Army is getting some of the powder at the same time?

H.M.Jr: I don't know what it is.

Young: There is a major question there, I think.

H.M.Jr: I don't know, but I would like Sullivan to help, because it is a question of sitting down and sweating it out with Louie Johnson. I talked to Louie last week. Friday at Cabinet the President said to settle it. I spoke to the President last night on the machine guns and the powder and he said, "Settle it by tomorrow."

McR: He wanted them to go out in the Cabinet room and settle it before they went home.

H.M.Jr: So I think, John, if you could get in on this, it would help. I mean, you have got time, haven't you?

Sullivan: Yes, sir.

Young: No comments.

H.M.Jr: Chick?

Schwarz: I would like to check on this reference to Dr. Mead and Professor Taylor as special advisers in connection with Government procurement related to the national defense program.

H.M.Jr: Special advisers to me?

Schwarz: You have appointed them as special advisers.

H.M.Jr: Have you got a release on it?

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Schwarz: It will soon be ready.

H.M.Jr: How does it go?

Schwarz: Secretary Morgenthau today announced the appointment of Dr. Mead and Mr. Taylor with their titles as special advisers in connection with Government procurement related to the national defense program.

H.M.Jr: Does that sound all right?

Bell: Special advisers to whom?

McS: Secretary of the Treasury. Do you want to identify it further?

Schwarz: I say, too, that they have been designated by the President.

H.M.Jr: Oh, let me do it verbally, and just have their history. Cut off the rest. Have you got the history?

Schwarz: I have the history following. We can fix it up. We can give them the history afterwards.

H.M.Jr: Yes, I will just tell them who they are and say that you have a release for them. Better let me do it myself.

Schwarz: There is one other important item that is going to need a solution pretty quickly, is this accumulation of contributions coming in.

H.M.Jr: Well now, I tell you what I did on that. Forster, Chief Clerk, asked me about that and I said they are all going to Bell and if he and Bell didn't know what to do with a lot of loose change, they weren't as smart as I thought they were and he said O. K., he would take care of that.

Schwarz: Here is an editor of a small paper in Griffin, Georgia, who writes a full-page editorial in which he urges everybody in the country to write or wire you, agreeing to contribute a week's income to contribute to a national defense fund.

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- H.M.Jr: Perfectly seriously, I think you had better talk to Bell about it. I wouldn't know how to set up a fund like that.
- Bell: We have got a long standing policy around here that we can't accept donations that have conditions attached to them, and I sent a press release --
- H.M.Jr: It is in Dan Bell's department. What do we have these permanent fiscal assistants for, anyway?
- Bell: I don't know.
- White: It reminds me, I was talking to a banker yesterday - this may be of some interest if you want to follow it up.
- H.M.Jr: Are you serious?
- White: I am serious now. I will let you know when I am surly and when I am witty, so you can tell.
- McR: The boss says you don't need to bother.
- White: I can't pick up an answer to that. You have got me stuck.
- He said that in talking with numerous bankers in New York that he thought that with very little organization and ballyhoo that there is a splendid chance to get all the bankers, the people who hold tax-exempt securities, to turn them in in exchange for not tax-exempt, as part of their contribution. He said there is a great deal of talk about it. I said I would pass this on for what it is worth. He is quite a serious person.
- H.M.Jr: All right. Talk with Dan about it.
- What else?
- Schwarz: That is all.
- H.M.Jr: I am terribly fortunate in this George Mead. My, what a fellow he is. I suppose he is absolutely

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the outstanding engine engineer in the United States who is not connected with a company or the Army and Navy. He has come down here. He and Fred Rentschler together went into business as partners who started in Pratt & Whitney and they got out a year ago. He has no stocks in aviation engines, no connection whatsoever.

Gaston: Is he one of the men who was with Wright before they formed that company?

H.H.Jr: He was chief engineer for Wright.

Gaston: He is the man who designed the engine.

H.H.Jr: He was chief engineer for Wright. He built the Hispano Suisse engine during the War, 14,000 of them, but I am very, very lucky to get him.

WCH: Of course, the most important part of the story, so far as he is concerned, if you want to give anything out, is the fact that --

H.H.Jr: Just to give you a little idea, my figure is a little rough, but he is giving it to me, between the Army and Navy, they buy about six or seven different kinds of training planes with six or seven different kinds of engines for training purposes and he hopes by Monday to have that down to two trainers and two engines for the Army and Navy. If we did nothing else, it would be worth it to get it down to two.

And then there is this plastic wood trainer which they don't seem to know anything about and which they think that Howard Hughes has. They are looking that over. He has no imagination, nothing. I mean, it is a great help to the Government.

Cochran: Matthews will be over here at 11:30. I have a visitor coming at 10:30, Mr. Gary, who was Assistant Manager of the National City Bank in Paris and since then he has been in charge of a branch in London and he has just come back now on leave. I will give you a memorandum on it if he has anything to say.

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H.M.Jr: Right.

Foley?

Foley: This morning in the Washington Post, Eugene Meyer editorially offered some advice on national defense. He pointed out that there ought to be a five-man board, non-partisan board of industrialists to assist in the program. I want to point out that during the War Eugene Meyer was chairman of the subcommittee of the War Industries Board having to do with non ferrous metals. During the Nye inquiry it developed that all during the War years while he was serving in such capacity he owned stocks in Kennecott Copper and Anaconda Copper, Inspiration Copper, Utah Copper and American Smelters and a very considerable portion of his income came from dividends on that stock during those years when he was controlling prices, allocating orders for the metal industries.

White: That is just occasion for my remark that the committee is nefarious. That is witty, you will have to admit that.

H.M.Jr: That is good.

White: That makes up for the last one.

Harris: He may be nefarious, but as I recall, he did a swell job.

White: For whom?

Foley: For himself.

Harris: No, not for himself.

H.M.Jr: You can't pick on my Eddie today, he is a birthday child.

Harris: Oh, I forgot.

H.M.Jr: I am not going to let anybody pick on my Eddie today.

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- Foley: Congressman Crawford made a speech in the House a couple of days ago accusing the SEC of lax methods because of the break in the market. The SEC very charitably came back and said that if anybody was to blame, it was the Treasury, because the Treasury was charged with the responsibility of administering the freezing order of the President, which I didn't think was quite cricket.
- H.M.Jr: Well --
- Bell: I didn't get that out of there.
- Foley: He said while they regard Mr. Crawford's remarks more a reflection on the Treasury, which is charged with enforcing President Roosevelt's embargo on movements of assets of the invaded nations, than on the SEC, the officials surveyed the situation and said they found no evidence that foreign selling orders were a factor in the market slump.
- Bell: We are now just getting in weekly reports under our general licenses and in a day or two we will be able to see what the volume of trading is under those licenses, and if they are like that, maybe we will have to do something to curtail them. I don't think they are.
- H.M.Jr: Well, you can tell the press afterwards in view of this not being cricket, three times Mr. Frank has called me up saying he wanted to close the Stock Exchange in the last week and three times I told him no. As of last night, I was still right. Let's see how the market is now.
- Cochran: The SEC phoned yesterday, as I told you, Dan, and wanted information on sales.
- H.M.Jr: That is all right. Should I write a letter to Jerome Frank?
- Foley: No, I don't think so.
- Schwarz: There are more important things.

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- H.M.Jr: Tell him I feel hurt. No, I wouldn't tell him, would you?
- Foley: No, I don't think so, officially.
- H.M.Jr: If you happen to see him, you can tell him.  
(Examining market report) See, up two points. My advice is still all right.
- Cochran: There is an editorial in the Wall Street Journal commending the policy of not yielding to fright and closing the market.
- H.M.Jr: You know Frank did want to close it.
- Foley: I know it.
- H.M.Jr: Did you know he talked to me each time?
- Foley: Yes, you told me that Friday night from the White House he called you.
- H.M.Jr: And Monday, twice. All right.
- Gaston: I have nothing.
- H.M.Jr: I just want to say I appreciate the fact that all of you are helping me by the fact that I see so little of you I can do this other stuff and keep the Treasury running. I appreciate it very much.

OFFICE OF FOREIGN AGRICULTURAL RELATIONS

May 23, 1940

2774

FOR CABINET MEETING

SIGNIFICANT FOREIGN DEVELOPMENTS  
(Received May 17 to May 22, 1940)

**ARGENTINA:** At the suggestion of the Ministry of Agriculture the agricultural grain exchanges of Buenos Aires and Rosario have established the following maximum daily price changes from closing prices of the previous day: flaxseed 70, wheat 50, and corn, oats, and barley 10 centavos per 100 kilograms. In cents per bushel, United States currency, the maximum daily price changes are as follows: flaxseed 5.29 cents, wheat 4.05 cents, corn 0.76 cents, oats 0.43 cents, and barley 0.65 cents.

**CANADA:** There is no foundation to the rumor that Canadian pulp mills cannot commit themselves for deliveries during the second half of 1940 beyond existing contracts. Indications are that the rumor was initiated by interests desiring to sell pulp on hand. The price structure may be firmer in the second half of 1940 and occasional shippers of pulp may export less because of increased manufacture of news print.

A reduction of more than 30 percent from the record area of 69,000 acres harvested last year is expected in the Canadian flue-cured tobacco acreage in 1940. The reduction is being encouraged by the Ontario and Quebec Provincial Governments, by the banks, and by the tobacco marketing and cooperative associations because of the general expectation that another large crop (82,525,000 pounds in 1939) would only result in very low prices in view of large unsold stocks now on hand and the likelihood that British imports of Canadian leaf will not be resumed on a substantial scale before July 1941.

Farmers' intentions to plant indicate a Canadian flaxseed area for 1940 of 350,000 acres compared with 307,000 acres in 1939. Normally the yield of flaxseed in Canada is less than half that of wheat. Flaxseed prices, therefore, must be twice as high as those for wheat in order for the crop to be attractive to farmers. Such a relationship now exists and that accounts for the farmers' intentions to increase plantings. High freight rates on flaxseed from Argentina and the impossibility of obtaining supplementary supplies of linseed oil from the Netherlands are contributing factors.

**DUTCH EAST INDIES:** The Commercial attaché of the Netherlands Legation in London advised the American Embassy that he had spoken to Netherlands shipowners who are now in London and that they had assured him that the urgent necessity of providing as much tonnage as possible for the trade between the Netherlands Indies and the United States of America was recognized and that they expected to be fully able to meet the demand.

**GERMANY:** Beyond an increase in the butter ration, almost exactly balanced by a reduction in the margarine ration, and an extra distribution of 125 grams of artificial honey to all consumers, the German food rations for the period June 3 to June 30 will show little change from the May rations.

The combined ration for butter and margarine for the 4-week period in June is 890 grams, as compared with 887.5 grams during the present period. However, a normal consumer must take at least 500 grams of that amount in butter and the balance optionally in butter or margarine, whereas at the present time he is required to take only 357 grams of his fat ration in the form of butter. The distribution of honey was previously restricted to children, but during June all adult consumers will receive 125 grams and all children under 14 years of age 250 grams.

As in the current rationing period holders of food cards for miscellaneous provisions will be able to purchase one large or two small cans of condensed milk, or one large can of fruits or vegetables, or 250 grams of dried fruit. In its decree the Food Ministry emphasizes, however, that it is only proposed to clear the stocks of these products now possessed by the trade and that, therefore, consumers must not expect indefinitely to be able to exercise any choice with respect to the above-mentioned products.

**INDIA:** The Government of India introduced a system of control by licenses for the importation of a 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, etc., stationary, leather, rubber tires and other rubber manufactures, wearing apparel, haberdashery, requisites for games and sports, hardwares and clocks. All goods imported from places in the British Empire except Hong Kong are exempt from the restrictions except proprietary and patent medicines, rubber goods, stationary, and motor vehicles. All goods listed above when 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 May 27, or to those ordered before May 15 and shipped to India by May 27, provided the transactions are registered with the Import Trade Controller at Calcutta, Bombay, Madras, and Karachi before June 20. It is understood that licenses for general imports of scheduled goods will be granted only to meet vital requirements. Goods imported by the central government for defense purposes are exempt from requisitions.

**JAPAN:** Japanese trading, shipping and industrial circles are expressing concern over the increased difficulty since the invasion of Belgium and the Netherlands in securing vital foreign raw materials required for heavy industries. The latest European war developments are expected to result in a strengthening of import control measures in the British, French, and Netherland territories in the Far East which would be harmful to Japanese export trade. Particular concern is felt regarding the possible withdrawal

of Netherlands shipping from the Japanese-South Seas services which would make imports of Netherlands India rubber, petroleum, scrap iron and bauxite extremely difficult because of the shortage of Japanese bottoms.

The Japanese Government announced that a nationwide rationing system for matches and sugar would be introduced on July 1. The monthly allotment of matches will be two small boxes per person, or about five matches a day. The monthly allotment of sugar will amount to 0.78 pounds per person. It was reported that a coupon system is to be adopted June 1 for the distribution of cotton goods.

The Japanese Central Silk Association has petitioned the Government to take steps to stabilize raw silk quotations at 1650 yen per bale for the year beginning July 1 and has proposed further that the Government purchase silk if quotations fall 20 percent below that level. The money for the Government purchases would be obtained from a fund to be obtained by earmarking all margins received in excess of certain established levels for that fund. Raw silk prices during the week ending May 11 advanced to 1610 yen per bale, partly under the stimulus of the anticipation that the proposal would be accepted and partly as a result of damage to mulberry trees by recent frost.

The Australian Wheat Board is reported to have sold 100,000 tons of flour to the Mitsui Bussan Kaisha, a large merchant firm of Japan. The flour, which is equivalent to nearly 5,000,000 bushels of wheat, is being milled in the several Australian States. The sale, which was concluded at current market prices, is understood to be worth about \$1,000,000 in Australian currency. Australian flour mills recently have been working only part time. The sale to Japan will enable them to work full time for a few months. The contract, moreover, will relieve the existing shortage of bran and pollard in Australia.

**RUSSIA:** The Central Committee of the All Union Communist Party of Bolsheviks has resolved, in view of the late spring and delayed sowing and in order not to take party workers away from the sowing, to postpone the 18th All Union Party Conference from June of this year to the end of the year.

**UNITED KINGDOM:** The American Embassy in London called the attention of the Ministry of Economic Warfare to the fact that all goods from Holland and Belgium can now be imported into the United Kingdom without import license and without certificates of origin and interest, and that it seemed only fair that this same privilege should be extended to the United States, especially for those goods for which applications have been made. Attention was also directed to the fact that under present regulations these American-owned goods now lying in Holland and Belgium can be legally shipped from those countries to the United Kingdom. The Ministry of Economic Warfare replied that at the moment it is physically impossible to move goods out of Belgium or Holland because all ships are requisitioned for military needs, or to move refugees, but has promised prompt consideration and reply.

Control of domestic prices will be widely extended under a recently issued Board of Trade order effective June 10. Goods brought within the price-control scheme by the order include all kinds of clothing, boots and shoes, domestic hardware, furniture, radio sets, gramophones, bicycles, perambulators, clocks and watches, drugs, soap, candles, matches, cutlery, household textiles and a number of other classes of goods. The prices of most of the more important materials used in the actual manufacture of the goods listed will also be controlled. Fixed prices are not established, but any undue increases in price may be made the subject of complaints to the appropriate price-regulation committee. Another order, effective as from May 11, establishes permitted maximum wholesale and retail prices for certain specified branded goods, mainly apparel, textile piecegoods, and knitting yarns.

Maximum prices of imported feed grains and other feedstuffs were increased by order of the Ministry of Food. The reason given for the increases was to prevent losses to the Government resulting from increased cost of imported feedstuffs. The schedule of feedstuffs prices for the more important items, effective May 16, compared with previously existing prices given in parentheses, is as follows: corn, Cinquantina, 113.48 (93.31) cents per bushel; other corn for feeding, 100.88 (80.70) cents per bushel; barley, 86.46 (69.17) cents per bushel; No. 1 Canadian oats remain at the same figure, namely 65.41 cents per bushel. The Cereals Control Board also announces revisions of c.i.f. selling prices of some grains when not destined for feeding purposes. The new prices, effective May 16, compared with those previously existing given in parentheses, were as follows: corn, Cinquantina, 117.69 (94.15) cents per bushel; all other corn, 101.21 (84.74) cents per bushel; barley, Australian Chevalier, 108.08 (77.82) cents per bushel; oats, Canadian, 72.63 (same price) cents per bushel; and all other oats, 68.60 (62.54) cents per bushel.

The Flax Control of the Ministry of Supply advised the American Embassy that export licenses for flax line have been suspended temporarily pending some clarification of the general supply position. The Embassy was also advised that export licenses have not yet been withdrawn but that there is some possibility that this may be necessary and that no fresh licenses will be granted.

The Board of Trade advised the American Embassy that it is proposed to make rosin subject to import license, the main object being to control imports. It is not possible at present to say exactly what the policy will be in licensing future imports, but there is no intention of excluding imports from the United States. It is apparent, however, that imports of rosin will be restricted in view of the fact that substantial stocks have accumulated.

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MAY 23 1940

Your Excellency:

Now that Mr. Chen is returning to China, I should like to take this opportunity to thank you and your government for selecting so able a man to lead the mission to negotiate for the credits extended by this government. We have found Mr. Chen to be a man of great ability, vision and integrity. Throughout his stay in the United States, Mr. Chen's relations with me and with other officials in the government have been most cordial and amicable. We have nothing but admiration for the way in which he conducted his arduous mission to a successful conclusion through a maze of new legislation and difficulties.

My own respect and admiration for your country's achievements under the most trying circumstances have been increased and deepened by my acquaintance with Mr. Chen, and I feel sure that what has been true for me has also been true for all those people who have come in contact with him. Mr. Chen has served his country well not only by successfully concluding the mission you entrusted him with, but also by strengthening the traditional ties of friendship between the United States and China.

With my most cordial and best wishes for your continued success,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Your Excellency, Dr. H. H. Huang,  
Minister of Finance,  
Nanking, China.

File to Mr. Thompson

*Via clipper*

HDW:del  
5-8-40

Memorandum for the Secretary's Diary

On Monday, May 13, 1940 at 4:30 p.m., Secretary Morgenthau and Ed Foley called on Senator Glass at his apartment in the Mayflower Hotel in regard to the legislation pending before the Senate Banking and Currency Committee which would confer power upon the Federal Loan Administrator to request the R.F.C. to purchase preferred stock in banks and insurance companies.

Secretary Morgenthau told Senator Glass that this provision represented an effort on the part of Mr. Jones to retaliate against Secretary Morgenthau for Secretary Morgenthau's efforts to rehabilitate on a sound basis the Bank of America. Secretary Morgenthau pointed out that he held up the letter which Mr. Jones addressed to the Treasury requesting the Secretary of the Treasury to authorize the R.F.C. to loan money to Transamerica to finance the distribution and sale of preferred stock of Bank of America. Secretary Morgenthau told Senator Glass that Transamerica, the top holding company for Bank of America, was under investigation at the time by S.E.C. in connection with a proceeding for delisting of its stock. The Secretary said that he blocked Mr. Jones' effort to give this company Government funds while it was under investigation. Senator Glass said that he was against bank holding companies and he would not have introduced the bill if he had had an opportunity to read it. He added that Mike Flynn of the Wall Street Journal had taken the bill off his desk and he did not have an opportunity to read it until after it was introduced. Secretary Morgenthau said that Mr. Jones was too big a man to stoop to these methods and he asked Senator Glass not to make it necessary for him to come before the full Committee and tell the Bank of America story.

Secretary Morgenthau also pointed out that the legislation would extend from 10 to 15 years the amortization of real estate loans. The Secretary pointed out that F.D.I.C. and the Comptroller of the Currency both thought this liberalization was not in the interest of liquidity and might impair the standing of national banks. Senator Glass replied that up until a few years ago no national bank could make a real estate loan and he was wholly opposed to further liberalization of a power he thought was already too liberal.

Senator Glass said he was opposed to the two provisions of the bill mentioned by the Secretary and probably would vote against the whole bill.

Memorandum for the Secretary's Staff

On Monday, May 15, 1940 at 4:30 p.m., Secretary Morgenthau and Ed Foley called on Senator Glass at his apartment in the Mayflower Hotel in regard to the legislation pending before the Senate Banking and Currency Committee which would confer power upon the Federal Loan Administrator to request the R.F.C. to purchase preferred stock in banks and insurance companies.

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EX-118 5/23/40

## FEDERAL LOAN AGENCY WASHINGTON

JESSE H. JONES  
FEDERAL LOAN ADMINISTRATOR

May 24, 1940

Dear Henry:

Enclosed copy of my statement to Chairman Steagall. I shall present a similar one to Senator Wagner, Tuesday morning when that Committee meets.

Sincerely yours,

  
Administrator

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

FEDERAL LOAN AGENCY  
WASHINGTON

Jesse H. Jones  
Federal Loan Administrator

May 24, 1940

Dear Chairman Steagall:

I suggest that you eliminate from H. R. 9687 the Section which deals with the request for the purchase of preferred stock in banks and insurance companies by the RFC. I have had a conference with the Secretary of the Treasury this morning and am convinced that the preferred stock matters will be handled expeditiously and to the entire satisfaction of the RFC, without change in the law.

I also suggest that the Section which would amend the Federal Reserve Bank Act so as to permit 15-year amortized loans on improved real estate by banks, instead of 10-year as is now the case, be eliminated from the bill.

I expect to come back to Congress at the next Session with more complete recommendations on this subject, because in my opinion the present banking laws are unduly restrictive. Improved income-bearing real estate, both farms and business properties, is entitled to credit and credit facilities as favorable as business and industry enjoy.

Sincerely yours,

(Signed) Jesse H. Jones  
Administrator

Honorable Henry B. Steagall  
Chairman  
Banking and Currency Committee  
House of Representatives  
Washington, D. C.

May 24, 1940

Present:

- Mr. Bell
- Mr. Delano
- Mr. Foley

HM, Jr: I thought you would like to know that after an hour and a quarter Mr. Jones is going up on the Hill and announce before the Committee that at the request of the President of the United States and the Secretary of the Treasury he is going to withdraw those two amendments. I am a wreck. But that's the answer.

Mr. Delano: I think that's fine.

HM, Jr: For after he makes his statement then I'm going to make my statement that he and I are pals, but I just told him, "You talk first."

Mr. Foley: The flag still flies over the Treasury.

HM, Jr: He said, "I never have refused you anything." I said, "I've never asked you. Now, Jesse, you said I am your superior. All right now, I am going to ask you to do this." He said, "All right." He said, "I recognize the Secretary of the Treasury as my superior." "All right, I'll ask you to do this."

Now on top of this, this is the letter he is going to send. This is his timetable on us. I told him from now on 24 hours' service or somebody goes out the window. Seriously, there is no reason, unless you are going to turn him down, that you don't tell him in 24 hours.

Mr. Foley: That's right. Only got one every six weeks.

- 2 -

HM, Jr: And, then, I said if there was any question that you would call Sam Husbands yourself.

Mr. Bell: O. K.

HM, Jr: I am just sunk.

Here is something about the Stabilization Fund from Sumner Welles. You have to read it and just help me out. We won't go in for congratulations until he makes a statement. I asked him to repeat it. He said, "At the request of the President of the United States and the Secretary of the Treasury" -- evidently the President went down the line for me.

Mr. Foley: Was he friendly when he left?

HM, Jr: We are pals. I told Jesse, "No matter what you have done in the last two different times something came up in connection with should you or shouldn't you, and both times I said to you you should. But Jesse what you have done is just too small to go and try to stick a pin in my back -- it's too small for a big man like you. It's beneath you. What you are going to say is all right but I talk last."

Mr. Bell: He knew it. He knew what he had done.

HM, Jr: We had him here for 50 minutes. I covered the whole field. Thank you two gentlemen, Ed and you, Delano, for putting up the fight on the Hill. I appreciate it very much.

Mr. Delano: Of course I would like to say I hope you are convinced that I did go down the line.

HM, Jr: My God yes! I am thanking you.

And as I said once before, and the boys thought I shouldn't, your grandchildren will be proud of you.

oo O oo O oo O oo

After the group left, the Secretary dictated the following:

I caught him red-handed lying because he said he called Harold Smith before he put the bill in. He called him up an hour before. So I let it pass and I said, "I spoke to Harold Smith the next day and he said you did not call him until ten o'clock that night." He never said a word. He said, "The President said you think I am doing this thing on account of the Bank of America." He said, "I never mentioned Bank of America on the Hill. I mentioned everything else." Then he spoke of four or five cases which we turned him down on. He complained about them and said our boys don't know.

I said, "Jesse, I know that Giannini called up Congressman Ford and told him this was part and parcel of Bank of America." He said, "Well, I did not ask Giannini to do that." I said, "I did not say you did, but he did it." And I said, "One of the greatest things I have done since I have been Secretary of the Treasury has been the Bank of America." He said, "You never could have done it if it had not been for me." I said, "Oh, no, Jesse. Oh, no. You didn't help it, Jesse. I did not get any help from you and I am not going to take this now. I am not going to take it."

I said, "For you to stick a pin -- and that's all it is -- a pin prick into me in these times, I am just not going to take it."

I am exhausted! But I just made up my mind I wasn't going to get excited. I had him almost crying. Seriously!

BUREAU OF FOREIGN AND DOMESTIC COMMERCE 351  
OFFICE OF THE DIRECTOR

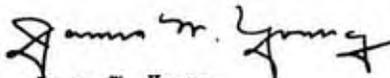
May 24, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.  
Secretary of the Treasury

For

Sent at the request of Mr.  
Noble, Under Secretary of Com-  
merce.



James W. Young,  
Director.

May 23, 1940

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**ECONOMIC DEVELOPMENTS**

**INDUSTRIAL PRODUCTION** has definitely moved up thus far in May due primarily to a sharp expansion in the rate of steel output. The steel ingot rate has risen about 20 percent since the end of April. Cotton-mill activity and lumber and electric power output have increased fractionally, but these gains are offset by a decline in automobile assemblies. One indication that the revival might extend beyond the steel industry is given by carloadings data which have shown an increase in recent weeks. All the major categories of traffic have reached their highest points for the year.

**EXAMPLES:**

	<u>Industrial Activity</u> (1923-25=100)	<u>Steel Ingot Production</u> (% capacity)	<u>Automobile Production</u> (thousands)	<u>Carloadings</u> (thousands)
April 27	111	60.0	101.4	645
May 4	112	61.8	99.3	666
" 11	113	65.8	98.5	681
" 18	115	70.0	99.0	679
" 25	—	73.0	—	—

**SIGNIFICANCE:** Reserve Board's production index will be up for May, probably 3 to 4 points from the April figure of 102. The rise is almost wholly accounted for by steel. All that is indicated with certainty at this time is that inventories of semi-finished steel products are no longer being liquidated—we calculate that steel production (73 percent of capacity) is now approximately equal to consumption (between 70 and 75 percent of capacity). As we pointed out a month ago (April 18) a moderate lift in the production index was possible if inventory liquidation ceased.

**NEW ORDERS RECEIVED BY MANUFACTURERS IN APRIL**, according to preliminary data from the Department's monthly industry survey, recorded a moderate rise over the March totals, and probably equaled the shipment rate for the first time since November. Shipments were about the same as in March. Incoming business in the primary steel industry improved, but only moderately considering that some advance purchasing occurred in the latter part of April following the announcement of a price increase on May 1. Orders placed before that date were accepted for delivery up to July 1 at the reduced prices. However, trade reports indicate a substantial rise in new steel business so far in May—including a large volume of export sales—and these reports would appear to be borne out by the advance in the rate of ingot production.

**INVENTORIES OF MANUFACTURERS** declined in April by a more substantial amount than that reported for March.

**Summary of recent changes:**

**Manufacturers:**

	Shipments		New Orders		Inventories	
	1939	(December 1938=100)	1939	(December 1938=100)	1939	(December 1938=100)
October	125	167	134	114	101.6	104.5
November	124	134	114		107.3	
December	123					
<b>1940</b>						
January	118	110			109.7	
February	112	103			110.5	
March	116	110			110.3	
April (preliminary)	119	115			109.5	

**SIGNIFICANCE** The data show some liquidation of inventories in April—in part seasonal. The volume of incoming business was not large enough to give a general stimulus to activity, and hence the pattern of production so far in May outlined above is what would be expected. The special influences detailed above have produced a very marked rise in the steel industry which is the primary factor in the rise in the production index; other industries on the average are holding even.

**HEAVY DOWNWARD PRESSURE** upon security and commodity prices continues with the selling motivated by German military successes. The bearish interpretation of the war's developments have sent stock averages down to mid-1938 levels. Virtually all sensitive commodity prices have weakened since the German push started on May 10. Hardest hit were domestic agricultural commodities, particularly foodstuffs which have declined at a rapid rate.

**EXAMPLES:**

**Security Prices - Dow-Jones**

	Stocks		Bonds	
	Industryale	Fullboard	Utilities	
<b>1938</b>				
April 2	101	19	15	83.9
July 23	142	30	23	89.8
<b>1939</b>				
August 26	132	26	24	88.6
September 30	153	36	25	89.7
<b>1940</b>				
May 9	148	31	25	89.6
May 22	115	22	19	83.3

## Sensitive Commodity Price Indexes

(August 1939=100)

	<u>Sept. 22</u>	<u>May 1</u>	<u>May 13</u>	<u>May 22</u>
Total Index	127.2	115.1	118.1	111.2
Import	134.1	116.4	122.0	114.0
Domestic	122.9	114.3	115.6	109.4
Domestic Agricultural	122.4	122.2	123.0	114.2
Foodstuffs	127.8	117.5	119.3	108.4
Raw Industrials	126.7	113.2	117.1	113.2

**SIGNIFICANCE:** Despite the upturn in production, the events of the past two weeks have introduced additional uncertainties which must be considered in business calculations. The security markets take an adverse view of the probabilities concerning our export trade, and apparently for the moment do not consider that the armament expenditures in prospect loom sufficiently large to maintain activity and profits. While market declines tend to feed upon themselves and sentiment can change, liquidity psychology has been dominant recently, and this influences the near-term outlook. If present agricultural prices continue, farm income will be down sharply and a depressed stock market will have an adverse effect upon expenditures for durable consumers' goods and industrial plant and equipment, both of which are vulnerable in any event. The potentialities of contraction from these sources would far outweigh possible expansion from armament programs which have been publicly announced. The latter may be supplemented, and the military situation of the Allies may not prove to be so serious as it appears.

**MOST IMPORTANT TO NOTE** is the fact that serious concern about the possible defeat of the Allies is general. If the Germans win a quick victory, some of our existing business would disappear and defense considerations would receive even more widespread recognition than they do at present. Irrespective of this potential, a government program designed to deal more aggressively and more promptly with the realities of our situation becomes daily a compelling need.

**THE ONE NEW EXPANSIONARY FACTOR** in the situation is the emergency defense appropriation of \$896 million requested of Congress by the President last week. During the next few months the appropriation of this sum is not likely to raise the rate of government expenditures appreciably. Expenditures have been running as follows:

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## Major Types of Budget Expenditures

(Million of dollars)

	1939	1940			
	No. Average	Jan.	Feb.	Mar.	Apr.
National Defense	108	134	131	145	149
Public Works	94	74	58	66	67
Work Programs & Relief	176	152	144	168	166
Retirements, Pensions, etc.	79	97	86	76	97
Agricultural Programs	100	138	147	140	112
Departmental	63	73	68	69	73
Other	11	11	5	11	15
Interest	81	38	19	146	69
<b>Total Expenditures, excluding Debt Retirement and Trans- fers to Trust Accounts</b>	<b>712</b>	<b>717</b>	<b>658</b>	<b>821</b>	<b>762</b>

**SIGNIFICANCE:** The budget for fiscal year 1941 as proposed by the President in January would have reduced expenditures by approximately \$600 million on an annual basis but probable Congressional increases plus expenditure of WPA funds in 8 months would offset the proposed decrease. The new armament program, therefore, will probably be a net increase above the fiscal 1940 total in the government contribution to total expenditures. It is recognized, however, that momentum can be attained only gradually on a program of the character contemplated. If, therefore, the above total is the full additional appropriation, it is doubtful that the actual net increase in expenditures for the fiscal year will even equal this amount. Thus, while the program publicly announced to date would have some stimulating effect, it is not sufficiently large to be a major determinant in business prospects. For national defense purposes, it does not appear adequate under existing conditions. Should a quick decision in the war be reached, it would not be sufficient to arrest the deflation which would ensue at a time when our defense position would be even more important than at this moment.

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FOREIGN TRADE NOTES

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Germany: The effect of the German occupation and the war on the trade of the Protectorate of Bohemia and Moravia is shown in the exports during the first quarter of 1940. Of the 35 items figuring in the declared exports for the first quarter of 1939, only 7 remained during the first quarter of 1940, and of the 7 approximately one-half of the exports represented machinery and other supplies exported from the Bata shoe factory in Moravia to its factory in the United States. There was a decline of over 75 percent as compared with the first quarter in 1939.

Potatoes are now subject to rationing in Berlin at the rate of 8 kilos per person per week, and only 1 kilo may be drawn at a time. In the opinion of local experts, the present potato ration is considerably below the average consumption of a working family, which is estimated at about half a kilo per person daily.

It is believed that at the time of the German occupation of the principal Norwegian ports, most of the whale oil that had recently been brought by the whaling fleet remained in Norwegian bottoms and had probably fallen into the hands of the Germans. This probably included the whale oil purchased by Great Britain.

The trade between Germany and Turkey during February 1940 showed a decline of about 88 percent.

Italy: According to a recent report by the Military attaché describing conditions in Italy, one of the remarkable developments is the growing freedom of discussion by Italians critical of the regime. Discussions which would have been dangerous even in the intimacy of the family are now carried on more or less publicly.

Rumania: Of the exports of petroleum of the American Petroleum Company in Rumania during March 1940, 86 percent went to England, and only 29 percent to Germany.

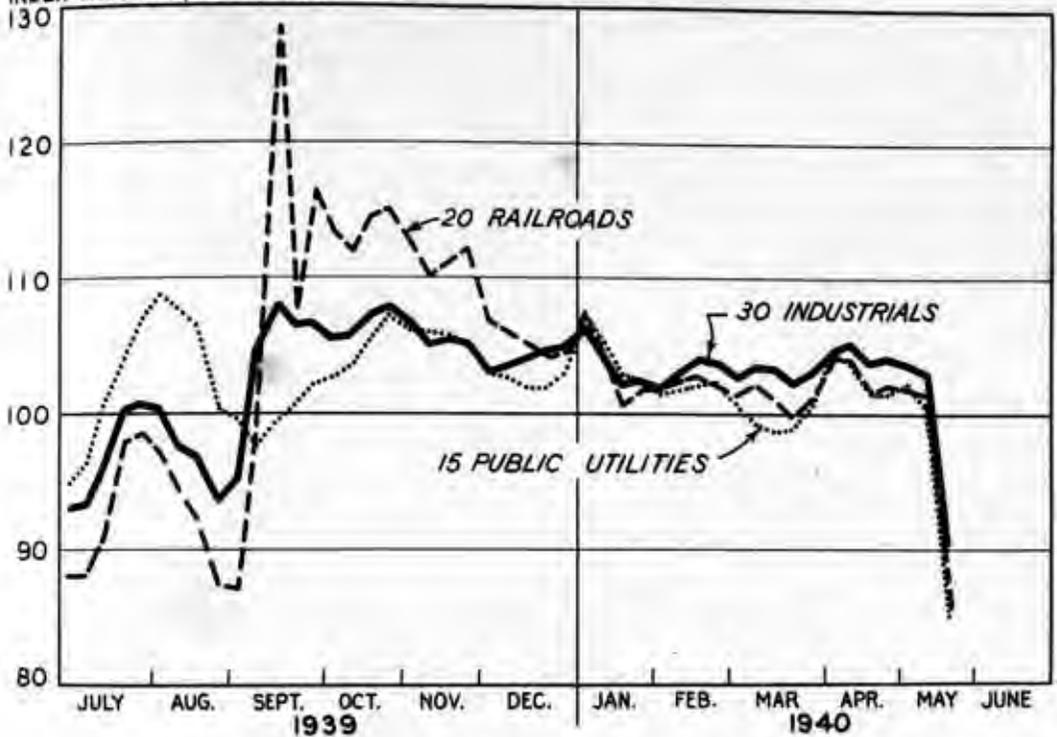
United Kingdom: The scarcity of paper is evidenced by the new order of the Ministry of Supply, reducing the quantity of paper which may be delivered by producers to any customer to 30 percent of the quantity delivered during the corresponding period in 1939.

U.S.S.R.: Exports from Russian Black Sea ports passing Istanbul during the first three months of 1940 amounted to only 14 percent of the volume of shipments during the corresponding period of 1939, representing almost entirely manganese for the United States.

Bureau of Foreign and Domestic Commerce,  
May 24, 1940.

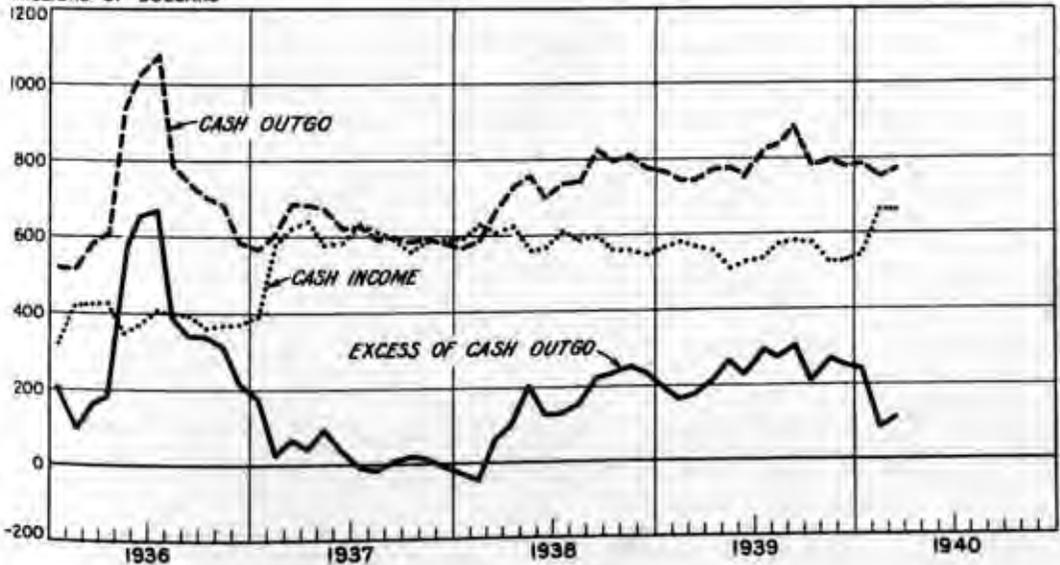
# STOCK PRICES, DOW-JONES WEEKLY AVERAGES

INDEX NUMBERS, 1939 = 100



## CASH INCOME AND OUTGO AND EXCESS OF CASH OUTGO

MILLIONS OF DOLLARS



WEEKLY WHOLESALE PRICE INDEXES

Group	1939			1940		Percentage increase, May 18, 1940 from—	
	May 20	Aug. 26	Sept. 16	May 11	May 18	May 20, 1939	Aug. 26, 1939
All commodities . . . . .	75.9	74.8	79.3	78.4	78.5	3.4	4.9
Farm products . . . . .	64.1	61.1	69.7	69.2	68.2	6.4	11.6
Foods . . . . .	67.4	66.7	75.5	71.6	71.7	6.4	7.5
All commodities other than							
farm products and foods . . .	80.7	80.4	82.4	82.5	82.9	2.7	3.1
Hides and leather products . .	92.2	92.6	98.3	102.2	102.4	11.1	18.6
Textile products . . . . .	67.0	67.4	71.4	72.3	72.6	8.4	7.7
Fuel and lighting materials . .	74.4	73.2	74.1	72.4	72.3	- 2.8	- 1.2
Metals and metal products . . .	93.5	93.5	94.9	94.5	94.7	1.3	1.3
Building materials . . . . .	89.3	89.7	90.7	92.0	92.7	3.8	3.3
Chemicals & allied products . .	(1)	(1)	(1)	76.8	76.8	—	—
House-furnishing goods . . . .	86.9	87.0	87.1	89.9	89.9	3.5	3.3
Miscellaneous . . . . .	73.7	73.1	76.1	76.8	78.2	6.1	7.0
Raw materials . . . . .	69.0	66.2	73.0	72.5	72.2	4.6	9.1
Semimanufactured articles . . .	74.0	74.4	82.0	78.2	78.6	6.2	5.6
Finished products . . . . .	79.9	79.3	82.3	81.5	81.8	2.4	3.2

(1) Comparable data not available.

Source: U. S. Department of Labor, Bureau of Labor Statistics.

## SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		May 24	August 30	Sept. 13	May 15	May 22
Copper, electrolytic, New York . . . . .	\$ per lb.	10	10 1/2	12	11 1/2	11 1/2
Lead, prompt shipment, New York . . . . .	do	4.75	5.05	5.90	5.00	5.00
Zinc, New York . . . . .	do	4.84	5.14	6.64	6.14	6.14
Tin, straits, New York	do	48 17/20	49 3/4	1/ 75	51 1/2	53 7/8
Rubber, plantation, N.Y.	do	16 1/2	16 13/16	22 1/2	23 1/2	20 3/4
Hides, light native cows, Chicago. . . . .	do	10 3/4	11	15	13 1/2	11
Silk, 13-15 denier, 78% seriplane, N.Y. . . . .	\$ per lb.	2.78	2.72	3.21	2.83	2.78
Cotton, middling, average, 10 markets. . . . .	\$ per lb.	9.42	8.53	9.01	9.43	9.99
Print cloth, 60 x 64, 38 1/2 inches, N. Y. . . . .	\$ per yd.	4 1/4	4 5/8	5 3/8	4 3/4	4 5/8
Wool tops, July 1940 futures, New York. . . . .	\$ per lb.	2/82.2	3/81.5	3/111.9	94.0	85.0
Sugar, raw, 96°, duty free, New York . . . . .	do	2.90	2.92	3.70	2.90	2.70
Cocoa, Accra, New York	do	4.60	4.38	6.45	5.72	4.79
Coffee, Santos, No. 4, New York . . . . .	do	7 1/2	7 5/8	7 3/4	7 1/4	7 1/4
Lard, cash, Chicago. . . . .	do	6.40	5.65	7.75	5.37	5.15
Cottonseed oil, July 1940 futures, N. Y. . . . .	do	2/ 6.66	3/ 5.61	3/ 7.30	6.47	6.15
Wheat, July 1940 fu- tures, Chicago . . . . .	\$ per bu.	2/ .77 7/8	3/ .67 1/4	3/ .85 3/8	.85 5/8	.83
Hogs, good and choice, 220-240 lbs., Chicago	\$ per cwt.	4/ 6.78	6.88	8.13	5.68	5.60
Steers, beef, medium, 750-1,100 lbs., Chi.	do	8.75	8.38	8.88	9.00	9.13

1/ Nominal. 2/ July 1939 futures. 3/ December 1939 futures. 4/ Hogs weighing 220-250 lbs.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

## COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron <sup>1/</sup>	Steel Scrap <sup>2/</sup>	Finished Steel <sup>3/</sup>
	(Dollars per gross ton)		(Cents per pound)
1939:			
May 23	20.61	14.08	2.236
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
1940:			
May 14	22.61	17.58	2.261
May 21	22.61	17.92	2.261

<sup>1/</sup> Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

<sup>2/</sup> Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

<sup>3/</sup> Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

RECORDED BY W. J. VA

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SEPTEMBER 1940

Lucide: Lieut. McKay gave this<sup>361</sup>  
file to me & said that the Secy.  
had taken it over to Cabinet &  
secured the President's approval  
& that Cochran's Office had  
mailed the letter out the 24<sup>th</sup>.  
(as far as he knew) F. B. M.

THE SECRETARY OF THE TREASURY  
WASHINGTON

May 24, 1940.

MEMORANDUM FOR THE PRESIDENT:

Annexed is a letter which I propose to send to the Federal Reserve Bank of New York authorizing the Bank to deal with the Vatican gold on the same basis as other gold held by the Federal Reserve Bank for foreign account. The State Department has approved such action. If you approve the sending of such letter kindly so indicate below.



Secretary of the Treasury.

Approved:



THE SECRETARY OF THE TREASURY  
WASHINGTON

May 24, 1940.

Dear Sirs:

There are enclosed a memorandum referring to an inquiry received through the State Department relative to earmarking gold in New York for the Vatican and a copy of the reply thereto made by the Government.

Needless to say, the Treasury Department would be pleased if the Federal Reserve Bank of New York would take whatever steps are necessary to open the gold account for the Vatican.

You are hereby licensed to deal with gold for the account of the Vatican to the same extent and on the same terms and conditions as you are authorized to deal with other gold for foreign account pursuant to your license No. NY-18-1. You are also authorized, as fiscal agent of the United States, to purchase for the account of the United States, gold held by you under earmark for the Vatican in the same manner, and at the same rates and subject to the same terms and conditions, as in the case of other gold held by you for foreign account as stated in my letters to you of January 31, 1934 and February 7, 1934.

The within license is issued and authority to purchase gold conferred with the approval of the President.

We are prepared to be of any necessary assistance in obtaining through the State Department any information, authorizations, instructions, signatures or other documents, including verification or authentication thereof, which you may need in connection with this matter.

Very truly yours,



Secretary of the Treasury.

Federal Reserve Bank of New York,  
New York, New York.

Enclosures.

MEMORANDUMC  
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YSTRICTLY 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.

PARAPHRASE OF TELEGRAM SENT TO THE AMERICAN  
EMBASSY, ROME, ON MAY 22, 1940

For Myron Taylor.

Referring to your no. 6, from Florence, and to  
the Embassy's supplementary telegram:

The following is the reply from Treasury:

Treasury has made arrangements with the Federal Reserve Bank of New York to hold the Vatican gold on the same basis as the Federal Reserve Bank holds gold for other foreign account. It will be necessary, of course, that the Bank be furnished with appropriate instructions, signatures and similar documents by the Vatican in order that the Bank will be able to handle the gold account. The gold shipment which is desired by the Vatican does not need to be held up in any way by this, however.

HULL

EA:MSG

VOLUNTARY

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(Of interest to the Treasury Department)

"Hot Money" is Beginning to Flow to Brazil, Partly From the United States.

From

Ware Adams, Second Secretary of Embassy

American Embassy, Rio de Janeiro, Brazil	Date of Completion; Date of Mailing:	May 24, 1940 May 24, 1940
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APPROVED:

A. W. Childs, Assistant Commercial Attache

Surprisingly enough, funds resembling "hot money" are beginning to flow to Brazil as a result of the extension of the war that began with the invasion of Norway last month.

Two main types of funds are coming to Brazil:

- (1) those of residents of France (who remain there), fleeing the danger of war and escaping the French exchange restrictions, and
- (2) those of emigrants from other areas of Europe who have not yet found a new place of permanent residence.

In some cases balances that were being held in New York were transferred to Brazil due to uneasiness caused by the freeing there of Norwegian, Danish, Belgian and Dutch assets.

That this "hot money" should come to Brazil is all the more surprising since it is immediately "cooled" here by the exchange control system already in force under which it could leave Brazil at a future date only under permits which may be refused or granted entirely at the discretion of the control authorities.

COPY

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Local bankers handling these transfers estimate that at the present rate they amount to about a million dollars a month. They thus constitute an appreciable item in Brazil's balance of payments (four or five percent of current exports) and offer a partial explanation of the curious fact that the Bank of Brazil's foreign exchange position continues to be satisfactory in spite of the loss of important Scandinavian and Dutch export markets during the past month or so.

File No. 850  
WA:AM