

DIARY

Book 266

May 24 - 27, 1940

- A -

	Book	Page
<b>Africa</b>		
See War Conditions: South Africa		
<b>Appointments and Resignations</b>		
Brooks, Edward (Sears-Roebuck):		
Wood and Rosenwald consulted concerning - 5/27/40.....	266	199,264
Nelson, Donald:		
HMJr consults General Robert E. Wood concerning availability - 5/27/40.....		199
Group discussion at 9:30 meeting - 5/28/40: See Book <u>267</u> , pages 122 and 153		

- B -

<b>Brazil</b>		
See Latin America		
Brooks, Edward (Sears-Roebuck)		
See Appointments and Resignations		
<b>Business Conditions</b>		
Haas memorandum on situation for week ending May 25, 1940.....		295

- C -

<b>Cable Tests</b>		
See War Conditions		
Calder, Curtis E.		
Recommended by Burgess, Rentschler, and Perkins - 5/24/40.....		12
<b>Canada</b>		
See War Conditions: Airplanes		
<b>China</b>		
See War Conditions		
<b>Consolidated Aircraft</b>		
See War Conditions: Airplanes		

- F -

<b>Financing, Government</b>		
Debt Limit: Discussed by FDR, HMJr, Hopkins, McReynolds, and Smith - 5/25/40.....		147
a) HMJr told to "feel out" the Hill.....		281
b) Senator Harrison reverses position and favors increasing debt limit and a tax bill.....		281
<u>6/15/40</u> program presented to FDR for approval - 5/27/40..		318
a) HMJr tells Bell of FDR's reaction.....		342
<b>Finland</b>		
See War Conditions		
<b>France</b>		
See War Conditions: Airplanes; France		

- G -

	Book	Page
Germany		
See War Conditions		
Gold		
See War Conditions: Belgium; Netherlands; South Africa		
Great Britain		
See War Conditions		

- H -

Hancock, John M.		
Recommended by Burgess, Rentschler, and Perkins - 5/24/40.....	266	12
Hanes, Robert M.		
Recommended by Burgess, Rentschler, and Perkins - 5/24/40.....		12

- I -

Inter-American Bank		
See Latin America		
International Law		
Direct sales to belligerents and the implications thereof discussed by HMJr, General Marshall, and Welles - 5/25/40.....		110
Italy		
See War Conditions		

- L -

Latin America		
Brazil: Domestic trading in dollar bonds and other foreign bonds of Brazilian Government, et cetera - possibility of permitting to be studied - 5/24/40.....		79
Inter-American Bank: Reply to Burgess on suggestions - 5/24/40.....		55

- N -

National Defense, Council of		
Advisory Commission: Creation of discussed by FDR, HMJr, and McReynolds - 5/24/40.....		27,32
a) Possible members		
b) Foley memoranda		
c) Rules and regulations as OK'd by FDR		
d) Administrative order as OK'd by FDR		
e) Conference at White House; present: FDR, HMJr, Hopkins, McReynolds, and Smith - 5/25/40.....		147
National Defense Commission		
FDR's and HMJr's suggestions on appointments - 5/25/40.....		52,53
Nelson, Donald		
See Appointments and Resignations		

- N - (Continued)

	Book	Page
Netherlands		
See War Conditions		
Neutrality Laws		
See War Conditions		
Norway		
See War Conditions: Airplanes		

- O -

Odlum, Floyd		
Frank (Jerome) letter concerning - 5/24/40.....	266	158

- R -

Rensult, Louis		
See War Conditions: France		
Revenue Revision		
National Defense Tax (10%): HMJr asks Blough to work on - 5/26/40.....		185
a) HMJr's own program.....		186
b) Tentative revenue estimates under proposed provisions - 5/26/40.....		195
c) Tarleau memorandum on conference - 5/27/40.....		270
Conference in HMJr's office; present: HMJr, Bell, Sullivan, Helvering, Blough, Tarleau, O'Donnell, and Magill - 5/27/40.....		274
HMJr confers with Harrison and Cooper; Bell, Helvering, Magill, and Sullivan; Harrison and Cooper favor increasing debt limit and tax bill - 5/27/40.....		281,285
a) Harrison and Cooper favor 10% increase on 1939 corporation income tax but oppose Sullivan's plan for increase in gasoline tax		
b) Sullivan memorandum and estimates.....		282

- S -

South Africa		
See War Conditions		
Stevens, Robert T.		
Recommended by Burgess, Rentschler, and Perkins - 5/24/40.....		12
Sweden		
See War Conditions: Airplanes		

- T -

Taxation		
See Revenue Revision		

- U -

U.S.S.R.		
See War Conditions		
United Kingdom		
See War Conditions		

War Conditions	Book	Page
<b>Airplanes:</b>		
Gorrell, of Air Transport Association, confers with Hinckley on "DC-3's airlines have on order" - 5/24/40.....	266	9
Manufacturers (list of) contacted for immediate survey of number on order for United States and foreign governments, et cetera - 5/24/40.....		17
FDR asks War Secretary, Chief of Staff, and Navy Secretary for program of requirements; <u>no future</u> <u>contracts without clearing through Secretary of</u> <u>Treasury to FDR</u> - 5/24/40.....		23,26
a) Brett (Air Corps, War Department) memorandum to HMJr stating he should have program but has not - 5/24/40.....		35
1) FDR dictates order placing all aircraft under HMJr as result of above memorandum..		34
a) HMJr tells Mead - 5/25/40.....		119
b) Edison's acknowledgment and hope that HMJr will check his facts carefully before reporting to FDR - 5/25/40.....		128
c) Louis Johnson's acknowledgment - 5/27/40.....		250
Progress report of Air Corps, Army, for period of January 1 - April 30, 1940.....		257
Canada: Training program - interruption in supply of planes from England and ways to supply planes immediately discussed in Purvis memorandum to HMJr - 5/27/40.....		251,252,261
Consolidated Aircraft: Subsidiary plant to be built in Texas taking over fixed assets, et cetera, of Hall Aluminum Aircraft Corporation - 5/24/40.....		42
<b>Engines:</b>		
Rolls Royce:		
Kennedy consulted concerning transfer of plans to United States - 5/25/40.....		92,124
a) HMJr discusses with Mead.....		115
Kennedy, by secret dispatch, reports plans to arrive by English destroyer approximately May 30th; United States licensed to proceed with manufacture without charge - 5/26/40.....		188,192
a) Mead refused any part of this cable.....		187
(See also HMJr's letter to Woodring announcing receipt of plans, et cetera, under date of June 13, 1940: Book 272, pages 12-A and 98-A)		
Chrysler correspondence: "Not interested" - 5/27/40.....		358
<b>Allison:</b>		
Trouble at plant reported by HMJr to FDR - 5/26/40..		154
Hoover (J. Edgar) consulted by HMJr - 5/27/40.....		207
Mead report - 5/27/40.....		262

	Book	Page
War Conditions (Continued)		
Airplanes (Continued):		
France:		
Bullitt cables for additional planes: Welles asks Marshall whether FDR is contacting War Department directly or whether State is to contact War Department and then report to FDR as to answer... 266		25
a) Marshall replies that he does not know answer - 5/24/40.....		24
Bullitt cables on same subject - 5/27/40.....		215,216,217
Machine Tools:		
Conference; acceptances from representatives of Pratt-Whitney, Warner and Swasey, Norton Company, Abrasive Machine Tool Company, Jones and Lamson Machine Company, and National Machine Tool Building Association - 5/24/40.....		47
Sloan and HMJr discuss maintenance of usual economy simultaneously with defense developments - 5/25/40.....		106
Conference on statement by Machine Tool Committee of Army and Navy Munitions Board - 5/27/40.....		222
a) Data on requirements of Army and Navy prepared by Henning (Navy) and Soderholm (Army).....		246
b) Rutherford (Ordnance, Army) report - 5/28/40: See Book 267, page 89		
Kennedy inquiry concerning British report that orders will not be filled if placed after May 26th - 5/27/40.....		260
Norway: Balchen and Norwegian Minister ask Welles as to possibility of getting 75 to 100 used pursuit planes - for example, P-36 - 5/27/40.....		210
a) HMJr tells Welles "no possibility"; Marshall has stated Army cannot spare a plane because of pilot training program		
Spitfire and Hurricane: Kennedy asks whether United States wishes plans - 5/26/40.....		188
a) HMJr's reply asking also for Frazier-Nash aircraft gun turret; magnetic mine detonator as carried on aircraft; Junkers engine from captured planes - 5/26/40.....		193
Sweden: Pursuit ships (70) of old type desired - 5/25/40.....		50
Belgium: British Embassy warns against collection of private gold hoards and exportation by Germany - 5/27/40.....		290
Blast Furnaces: Map showing distribution in United States - 5/24/40.....		46
Cable Tests: Federal Reserve Bank of New York, Treasury, and State Department plan - 5/27/40.....		340
Canada: See War Conditions: Airplanes (Canada)		

- W - (Continued)

	Book	Page
<b>War Conditions (Continued)</b>		
<b>China:</b>		
Freezing of Funds: Bell memorandum - 5/24/40.....	266	66
Treasury Attaché, Shanghai, reports on proposal to create Central Control Board to be called War Economic Commission and headed by Chiang Kai-shek and Soong - 5/27/40.....		287
Exchange market resumed - 5/24/40, et cetera.....		61,182,337
<b>Finland:</b>		
Debt: FDR suggests no action at this time - 5/24/40..		72
a) H&Jr's memorandum concerning.....		73
<b>France:</b>		
American and Canadian Securities, French-owned: Banks and banking houses designated as depositories - 5/24/40.....		57
Renault to visit United States to arrange for manufacture of heavy French tanks - 5/24/40.....		94
Germany: Federal Bureau of Investigation informs H&Jr German Consul in New York is expecting cablegram remittance from Italy in amount of \$9 million to go to Marine Midland Bank and to be checked out immediately - 5/25/40.....		113
<b>Italy:</b>		
Federal Bureau of Investigation informs H&Jr German Consul in New York is expecting cablegram remittance from Italy in amount of \$9 million to go to Marine Midland Bank and to be checked out immediately - 5/25/40.....		113
Stock prices charts.....		170,184
Machine Guns: Johnson memorandum on requirements at home and abroad - 5/24/40.....		38
<b>Netherlands:</b>		
Plea for "unblocking" of Dutch banks' balances in United States - 5/24/40.....		75
a) Bolton (Bank of England) and Knoke (Federal Reserve Bank of New York) discuss.....		76
b) Leroy-Besaulieu discusses Netherlands Bank gold account in United States with Cochran; Cochran thinks Purchasing Mission hopes to have Dutch gold in Allied pool - 5/25/40.....		176
British Embassy warns against collection of private gold hoards and exportation by Germany - 5/27/40.....		290
Neutrality Laws: Violations within jurisdiction of Treasury - procedure to handle established - 5/24/40.....		43
Norway: See War Conditions: Airplanes (Norway)		
Purchasing Mission: Vesting Order: Official sales of British-owned dollar securities - 5/27/40.....		316
Shipping: Situation reviewed in Harris memoranda - 5/27/40..		292,293
South Africa: Reserve Bank asks Federal Reserve Bank of New York to accept gold for safe-keeping - 5/27/40.....		314

	Book	Page
War Conditions (Continued)		
Strategic Materials:		
HMJr and Marshall confer - 5/25/40.....	266	85
Smokeless Powder:		
Johnson asked by HMJr concerning continued delay on delivery to Allies in spite of FDR's orders - 5/24/40.....		1,5
a) Johnson memorandum - 5/24/40.....		39
Leroy-Beaulieu discusses creation of one or two corporations in United States to own powder plants for the Allies; can he sit on Board as representative of French Government notwithstanding status as accredited French Attaché? - 5/25/40.....		180
Tin: Memorandum on smelting in United States - 5/24/40..		81
Sweden: See War Conditions: Airplanes (Sweden)		
U.S.S.R.: Bank balances reported by Chase National Bank to Federal Reserve Bank of New York - 5/27/40.....		311
United Kingdom:		
Sterling Exchange: (1) Exports from British area and possibly entire sterling area hereafter to be paid for in dollars; (2) sale of securities by non-residents prohibited; (3) transfer of interest and dividends out of England at official rate permitted - 5/24/40.....		64,160
a) Copy of Chancellor of Exchequer's message.....		162
1) Treasury reply - 5/28/40: See Book 267, pages 116 and 117		
Bank of England accounts with Federal Reserve Bank of New York: Treasury asked to initiate change to "His Britannic Majesty's Government Account" for protection against Germany - 5/27/40.....		268

1  
May 24, 1940  
9:03 a.m.

H.M.Jr: Louie?

Louis  
Johnson: Yes, good morning.

H.M.Jr: How are you?

J: Pretty fine.

H.M.Jr: Louie, there are two things that are kicking around which I think you are the only fellow that can finally seal them up. What is this powder deal for the Allies which has been kicking around -- the President ordered his Cabinet to be done in twenty-four hours last Friday and it isn't done yet; and the other is these machine guns for the -- Colt machine guns, which I think you told me a week ago

J: Yeah, we cleared it as far as the Army was concerned.

H.M.Jr: Well, would you be .....

J: I'm in a staff meeting, it'll last about an hour and a half and I'll get into that the minute I get out of it.

H.M.Jr: All right. Well, now, when could you see Philip Young, who's following this for me?

J: When can I see him?

H.M.Jr: Yeah.

J: About these things?

H.M.Jr: Yes, because he has the details from my end.

J: No point in seeing him until I find out what the fly is. We've cleared it.. The trouble isn't Army, so I've got to find out what it is and I'll call him then.

H.M.Jr: Well, you're wrong, because it is the Army, and we can't get by and they're just stalling, and the President has said three times now he wants

it done.

J: Well, I don't believe -- I think you're wrong. I don't think it's the Army because .....

H.M.Jr: Well, supposing you find out Louie before you're so sure. Now supposing you find out -- we can't -- where the fault is.

J: Well, I'll do that just as soon as I can get out of this staff meeting.

H.M.Jr: And if it isn't the Army, all right, but this Colonel McCreland, I mean, we haven't got an answer and the President keeps telling me he wants it done. He told Woodring and he told Edison last -- Compton -- last Friday he wanted it done. He told Marshall and he told Admiral Stark two days ago he wanted it done. I don't care if Army gets hell this afternoon in Cabinet. I'm trying to see that the Army and Navy don't catch hell this afternoon and -- but it's all right with me if they do, I'm going to report at two o'clock it's not done.

J: And I'm going to tell them that I cleared, and I'm going to find out now what's bucking it -- where it's held up.

H.M.Jr: I wish you would.

J: I'll do that.

H.M.Jr: I don't want any rows in Cabinet, if I can help it.

J: Yeah.

H.M.Jr: Thank you.

J: Right. Good-bye.

May 24, 1940  
9:14 a.m.

Guy  
Vaughn: Hello.

Operator: This is Treasury.

V: Hello.

H.M.Jr: Mr. Vaughn?

V: Good morning.

H.M.Jr: How are you? Morgenthau talking.

V: Yes, I understood so.

H.M.Jr: Mr. Vaughn, I wondered whether you could come down Tuesday afternoon to see me here at Washington.

V: Tuesday afternoon.

H.M.Jr: Yes.

V: I'd be very glad to.

H.M.Jr: Say three o'clock?

V: Tuesday afternoon at three o'clock in your office.

H.M.Jr: Do you want to bring with you the head of the Wright Engine?

V: I think that would be advisable.

H.M.Jr: Mike -- what's his name?

V: Gordon.

H.M.Jr: Mike Gordon.

V: That's right.

H.M.Jr: Right. Well, then if you and Mr. Gordon -- I could remember his name was Mike, but I couldn't remember his last name. (Laughs)

V: (Laughs) Well, everybody knows him as Mike.

H.M.Jr: Well, if you'll come down at three o'clock Tuesday, I think we'll know better where we are at.

- 2 -

V: All right, well, you can count on our being there.

H.M.Jr: Thank you so much.

V: All right, sir.

H.M.Jr: Good-bye.

May 24, 1940  
10:28 a.m.

H.M.Jr: Hello.

Operator. Mr. Johnson. Go ahead.

H.M.Jr: Hello.

Louis Johnson: I was calling you to get Young. I got him direct and he's down here.

H.M.Jr: Who's that? This is Henry Morgenthau.

J: Louis Johnson.

H.M.Jr: What?

J: This is Louis Johnson.

H.M.Jr: Yes, Louie.

J: I was calling you back to get Young because I find that on that powder thing, it was held up -- not anything here, but at the suggestion of the Allied Purchasing Commission itself, as communicated officially from them.

H.M.Jr: Now which is this, powder or machine guns?

J: That's powder.

H.M.Jr: They are holding it up?

J: It was held up at their request. Young's here, and I'm bringing the people in and letting him get the story direct.

H.M.Jr: Good.

J: So you'll find out there hasn't been any blocking down here or any balking either one.

H.M.Jr: And that goes for machine guns, too?

J: On the machine guns, those people will be in there to talk while Young's here too. We cleared on a program which postponed our delivery of machine guns for the one of our planes that was directly

assignable to fighting units now about four months.

H.M.Jr:

I see.

J:

It's the first thing we've really done, but that was on the basis of a plant expansion that would take care of both of us.

H.M.Jr:

Yes.

J:

Now where the nigger in the woodpile is -- they didn't know here, but they are bringing the people in -- we'll find out. But it isn't any of our group. We'll get the real story for Young while he is here.

H.M.Jr:

Well, if you can do that, you'll be doing me a service.

J:

We'll get that for you, and I think you're going to find that -- no trouble down here.

H.M.Jr:

Thank you so much.

J:

Right, good-bye.

7  
May 24, 1940  
10:30 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

General  
Brett: Good morning, sir.

H.M.Jr: Hello, General.

B: You can do me a tremendous favor. I have been fighting for a week trying to get some sort of an approved program so that I can give, for instance, Dr. Mead, estimates on engines.

H.M.Jr: Yeah.

B: Now the Air Corp, I understand, has submitted one. Of course, it has to go through General Staff, up to you, and so forth and so on. Can you do me a favor by asking that the Air Corp at the War Department submit a program which would be a guide so that I'd have something to shoot at?

H.M.Jr: If you'll make it a little bit plainer -- you've got to give me a little more detail.

B: Well today, sir, we're working under a 5500 plane expansion program. We added to that, in accordance with the President's message, a total of 2200 trainers and 200 additional heavy bombers.

H.M.Jr: Yeah.

B: Now they're talking about 7, 8, 10, any number of airplanes, I don't know. I have no approved program whereby I can sit up and say that I need 300 of a certain type additional; I need 500 of another type additional, combat planes; I need 1,000 of this type additional. Now I also have to have that information in order to be able to furnish Dr. Mead with any information as to possible requirements on engines over a period of two or three years.

H.M.Jr: Well, now, I tell you what I'm going to ask you to do -- would you meet me in General Watson's office at five minutes of eleven?

B: Yes, sir.

H.M.Jr: General Watson's office .....

B: Yes, sir.

H.M.Jr: ..... five minutes of eleven and could you have something on a piece of paper each of what you want me to get for you, even if it's in ink, I'll take it, or pencil.

B: Yes, sir, I'll have that ready for you at five minutes to eleven and I'll be there.

H.M.Jr: You be there and I'll get you what you want.

B: Yes, sir.

H.M.Jr: But, I'll have to do it through General Watson, you see.

B: Yes, sir.

H.M.Jr: So if you're there -- the reason I want you to meet me, it saves everybody's time if you'll explain it to me in his presence, you see?

B: Yes, sir.

H.M.Jr: Then he'll call up whoever is necessary and you'll be protected, I mean, and that he will .....

B: Yes, sir, well, I'll be there at five minutes to eleven.

H.M.Jr: . Watson will protect you so that you won't get into trouble with any superior.

B: O. K.

H.M.Jr: Be there five minutes of eleven.

B: Yes, sir.

May 24, 1940  
6:39 p.m.

9

Bob  
Hinckley: Bob Hinckley.

H.M.Jr: Good evening.

H: I have Colonel Gorrell here. He flew over from Chicago to see you today.

H.M.Jr: I don't know who he is.

H: He's president of Air Transport Association on these D. C. 3's the air lines have on order.

H.M.Jr: Oh, yes.

H: Would you rather see him tomorrow?

H.M.Jr: Bob, I'm absolutely dead drunk on my feet, I mean, punch drunk, not dead drunk.

H: Well, I can understand that.

H.M.Jr: I'm just -- I couldn't do it physically.

H: Yeah, all right. Now, I meet in the morning -- I don't know whether that will take all morning or not, but I start at 9:30, with Colonel Knox and his group to see if I can get them ironed out and .....

H.M.Jr: Well, now does this fellow control these things?

H: No, he speaks for all the air lines.

H.M.Jr: Well, hell, is it yes or no?

H: (Pause) Well, I can meet with him and find that out.

H.M.Jr: Well, that's all he's got to do is you meet with him and let him say yes or no and you give me a ring and that settles it, or send me over a little note.

H: Yeah.

H.M.Jr: I'm not going to plead with him.

H: Yeah.

H.M.Jr: Could you meet with him and just say -- I mean, I'm not going to give the fellow a sales talk.

H: Yeah, all right.

H.M.Jr: What?

H: All right. I'll meet with him tonight then.

H.M.Jr: What?

H: I'll meet with him tonight .....

H.M.Jr: I'm just shot -- I admit it frankly. I just came back from the White House -- I've been there since -- started over there at two and I was over there for an hour this morning.

H: Yeah.

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

H: All right, sir.

H.M.Jr: ..... and if you would meet with him in the morning and just ask him would he say yes or no and then send me over a little note.

H: Yeah, all right.

H.M.Jr: I -- you're doing me a great kindness.

H: Well, all right, sir.

H.M.Jr: Thank you.

H: You bet.

Cabinet May 24, 1940  
 from Harry Hopkins.

THE WHITE HOUSE  
 WASHINGTON

Mr. Morgenthau

When do you  
 think you will  
 graduate from this course  
 Don't you understand  
 the Professor - you  
 have been taking this  
 course for 8 years!  
 Better do some home  
 work with Prof. Perkins  
 P.S. No sleep  
 HSH

May 24, 1940.

Dear Randolph:

Thank you very much for your letter of May 24th, which enclosed a memorandum giving the names of four men whom you suggest as of possible use in our expansion program. I appreciate your letting me have this information.

Sincerely,

*Henry*

Dr. W. Randolph Burgess,  
Vice Chairman of the Board,  
The National City Bank of New York,  
New York, New York.

GHY/dbs

May 24, 1940.

Dear Randolph:

Thank you very much for your letter of May 24th, which enclosed a memorandum giving the names of four men whom you suggest as of possible use in our expansion program. I appreciate your letting me have this information.

Sincerely,

*Henry*

Dr. W. Randolph Burgess,  
Vice Chairman of the Board,  
The National City Bank of New York,  
New York, New York.

GEF/abs

May 24, 1940.

Dear Randolph:

Thank you very much for your letter of May 24th, which enclosed a memorandum giving the names of four men whom you suggest as of possible use in our expansion program. I appreciate your letting me have this information.

Sincerely,

Henry

Dr. W. Randolph Burgess,  
Vice Chairman of the Board,  
The National City Bank of New York,  
New York, New York.

GEF/dbs

C-46

The National City Bank  
of New York  
ESTABLISHED 1812

New York May 24, 1940.

OFFICE OF  
THE VICE CHAIRMAN  
OF THE BOARD

Dear Henry:

Following our conversation I attach herewith the names of a few people on whom Jim Perkins, Gordon Rentschler, and I are agreed <sup>as</sup> ~~are~~ people who might be very useful in the government organization at this time. I will send you additional names as they may occur to us. These, of course, represent a combing out of a considerably larger list.

Sincerely yours,

*Randolph*

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

WRB.H  
encl.

*C-4*

- John M. Hancock - 57 years old. Partner Lehman Brothers. Officer and director of a number of industrial companies. Governor of New York Stock Exchange. During World War did quite remarkable job as officer in charge of navy purchases. Awarded Navy Cross. A person of great intelligence and energy. Is listed as Republican but, as far as I know, not connected with politics.
- Robert T. Stevens - about 45 years old. Head of J. P. Stevens & Co., textiles. Director of the Federal Reserve Bank of New York. Served on one of Harry Hopkins' committees. A good executive, able, energetic, gets on well with people. No political commitments.
- Robert M. Hanes - 50 years old. Brother of John Hanes. President Wachovia Bank & Trust Co., Winston-Salem. President of American Bankers Association. Officer and director of industrial companies, including cotton mills, the Southern Railway, etc. Member of North Carolina legislature 1929-31-33. Major in World War. Democrat. Very able person who commands confidence and cooperation and could fill a large sized job. He completes his term as president of the American Bankers Association in September, but we doubt if that would stand in the way of essential service in Washington.
- Curtis E. Calder - 50 years old. Brought up in Texas. President American and Foreign Power Corporation. Director National City Bank of New York, and various other companies. A very able person with lots of incisiveness and driving power. No political connections, as far as I know.

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

COPY

FROM Treasury Department 17  
BUREAU \_\_\_\_\_  
CHG. APPROPRIATION Contingent Expenses,  
Treasury Department, 1940.

May 24, 1940.

(Send telegram to names listed  
on attached sheet)

PLEASE SEND BY AIRMAIL SPECIAL DELIVERY ON SATURDAY, MAY 25, TABLES SHOWING (1) NUMBER OF AIRPLANES FOR WHICH ORDERS WERE RECEIVED DURING THE PERIOD MAY 1 TO MAY 23, INCLUSIVE, AND (2) NUMBER OF AIRPLANES THAT WAS ACTUALLY DELIVERED DURING THAT PERIOD. EXCLUDE U. S. ARMY AND U. S. NAVY ORDERS AND DELIVERIES AS THESE WILL BE OBTAINED DIRECTLY FROM THOSE DEPARTMENTS. PLEASE CLASSIFY ORDERS AND DELIVERIES BY THE FOLLOWING FOUR GROUPS OF PURCHASERS: (1) U. S. COMMERCIAL, (2) FRENCH AND BRITISH GOVERNMENTS, INCLUDING THE BRITISH DOMINIONS, (3) SOUTH AMERICAN PURCHASERS, (4) OTHER FOREIGN PURCHASERS. ALSO CLASSIFY ORDERS AND DELIVERIES TO EACH OF THESE GROUPS OF PURCHASERS BY TYPE OF AIRPLANE INCLUDING IN EACH CASE THE IDENTIFICATION NUMBER. IN ADDITION, PLEASE MAKE FOR EACH NEW ORDER AN ESTIMATED DELIVERY SCHEDULE BY MONTHS, CLASSIFIED AS ABOVE BOTH BY PURCHASER AND BY TYPE OF AIRPLANE. ADDRESS REPLIES TO GEORGE C. HAAS, DIRECTOR OF RESEARCH AND STATISTICS, TREASURY DEPARTMENT, WASHINGTON.

HENRY MORGENTHAU, JR.,  
SECRETARY OF THE TREASURY.

*HA*

Aircraft Manufacturers

15

Mr. George G. Rowley, President,  
Burbury-Grow Aircraft Corp.,  
13210 French Road,  
Detroit, Michigan.

Mr. Walter H. Beach, President,  
Beach Aircraft Corp.,  
Wichita, Kansas.

Mr. Lawrence D. Bell, President,  
Bell Aircraft Corp.,  
2090 Elmwood Avenue,  
Buffalo, New York.

Mr. O. M. Bellanca, President,  
Bellanca Aircraft Corp.,  
New Castle, Delaware.

Mr. P. G. Johnson, President,  
Boeing Aircraft Co.,  
Georgetown Station,  
Seattle, Washington.

Mr. James Wark, President,  
Brewster Aeronautical Corp.,  
Brewster Building,  
Long Island City, New York.

Mr. V. J. Burnell, President,  
Burnell Aircraft Corp.,  
Keypoint, New Jersey.

Mr. R. H. Fleet, President,  
Consolidated Aircraft Corp.,  
Lindbergh Field,  
San Diego, California.

Mr. G. V. Tammam, President,  
Curtiss-Wright Corp.,  
30 Rockefeller Plaza,  
New York City.

Mr. Donald V. Douglas, President,  
Douglas Aircraft Co., Inc.,  
3000 Ocean Park Boulevard,  
Santa Monica, California.

Mr. Sherman Fairchild, President,  
Fairchild Engine & Airplane Corp.,  
204 Building,  
New York City.

Mr. French de Sessal, President,  
Pleschings, Inc.,  
Aristol, Pennsylvania.

Mr. I. B. Gruman, President,  
Gruman Aircraft Engineering Corp.,  
Bedpage, Long Island, New York.

Mr. J. C. Parker, President,  
Howard Aircraft Corp.,  
5301 West 65th Street,  
Chicago, Illinois.

Mr. Howard E. Rogers, President,  
Hughes Aircraft Co.,  
Union Air Terminal,  
 Burbank, California.

Mr. Robert E. Gross, President,  
Lockheed Aircraft Corp.,  
Burbank, California.

Mr. Glenn L. Martin, President,  
Glenn L. Martin Co.,  
Baltimore, Maryland.

Mr. J. E. Kindelberger, President,  
North American Aviation, Inc.,  
Inglewood, California.

Mr. W. Wallace Kelleff, President,  
Republic Aviation Corp.,  
Farmingdale, Long Island, New York.

Mr. T. Claude Ryan, President,  
Ryan Aeronautical Corp.,  
Lindbergh Field,  
San Diego, California.

Mr. J. E. Schaefer, Vice President,  
Stearman Aircraft,  
Division of Boeing Airplane Co.,  
Wichita, Kansas.

Mr. W. A. Kerr, Vice President,  
Stinson Aircraft Division,  
Aviation Manufacturing Corp.,  
Knoxville, Tennessee.

Mr. A. I. Ledwith,  
Aviation Manufacturing Corp.,  
420 Lexington Avenue,  
New York City.

Mr. E. V. Clark, Vice President,  
Vought-Sikorsky,  
Division United Aircraft Corp.,  
Bridgeport, Conn.

St. Louis Aircraft Corporation,  
St. Louis, Mo.

Mr. Mac Short, President,  
Vega Airplane Co.,  
Burbank, Calif.

Mr. Duane L. Wallace, President,  
Cessna Aircraft Co.,  
Wichita, Kansas.

Mr. E. E. Porterfield, Jr., President,  
Porterfield Aircraft Corp.,  
1720 Wabash Avenue,  
Kansas City, Mo.

Mr. Richard V. Hillar, President,  
Valtec Aircraft, Inc.,  
Downey, California.

Mr. C. J. Brukner, President,  
Vaco Aircraft Co.,  
Troy, Ohio.

Mr. R. A. Bearwin, President,  
Bearwin Aircraft and Engines, Inc.,  
Fairfax Airport,  
Kansas City, Kansas.

Mr. W. C. Skelly, President,  
Spartan Aircraft Co.,  
Box 2649,  
Tulsa, Okla.

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM Treasury Department

20

BUREAU \_\_\_\_\_

CHG. APPROPRIATION Contingent Expenses,

Treasury Department, 1940.

U. S. GOVERNMENT PRINTING OFFICE 10-1723

May 24, 1940.

(Send telegram to names listed  
on attached sheet)

PLEASE SEND BY AIRMAIL SPECIAL DELIVERY ON SATURDAY, MAY 25, TABLES SHOWING (1) NUMBER OF AIRPLANE ENGINES FOR WHICH ORDERS WERE RECEIVED DURING THE PERIOD MAY 1 TO MAY 23, INCLUSIVE, AND (2) NUMBER OF AIRPLANE ENGINES THAT WAS ACTUALLY DELIVERED DURING THAT PERIOD. EXCLUDE U. S. ARMY AND U. S. NAVY ORDERS AND DELIVERIES AS THESE WILL BE OBTAINED DIRECTLY FROM THOSE DEPARTMENTS. PLEASE CLASSIFY ORDERS AND DELIVERIES BY THE FOLLOWING FOUR GROUPS OF PURCHASERS: (1) U. S. COMMERCIAL, (2) FRENCH AND BRITISH GOVERNMENTS, INCLUDING THE BRITISH DOMINIONS, (3) SOUTH AMERICAN PURCHASERS, (4) OTHER FOREIGN PURCHASERS. ALSO CLASSIFY ORDERS AND DELIVERIES TO EACH OF THESE GROUPS OF PURCHASERS BY TYPE OF AIRPLANE ENGINE INCLUDING IN EACH CASE THE IDENTIFICATION NUMBER AND HORSEPOWER. IN ADDITION, PLEASE MAKE FOR EACH NEW ORDER AN ESTIMATED DELIVERY SCHEDULE BY MONTHS, CLASSIFIED AS ABOVE BOTH BY PURCHASER AND BY TYPE OF ENGINE. ADDRESS REPLIES TO GEORGE C. HAAS, DIRECTOR OF RESEARCH AND STATISTICS, TREASURY DEPARTMENT, WASHINGTON.

HENRY MORGENTHAU, JR.  
SECRETARY OF THE TREASURY.



Engine Manufacturers

Mr. O. F. Kreuzer, President,  
Allison Engineering Co.,  
Division of General Motors Corp.,  
Indianapolis, Indiana.

Mr. C. J. Reese, President,  
Continental Motors Corp.,  
Muskegon, Michigan.

Mr. S. A. Guiberson, Jr., President,  
Guiberson Diesel Engine Co.,  
1000 Forrest Avenue,  
Dallas, Texas.

Mr. J. Story Smith, President,  
Jacobs Aircraft Engine Co.,  
Pottstown, Pennsylvania.

Mr. W. K. Cooper, General Manager,  
Lycoming Division,  
Aviation Manufacturing Corp.,  
Williamsport, Pennsylvania.

Mr. A. E. Shelton, President,  
Menasco Manufacturing Co.,  
6917 McKinley Avenue,  
Los Angeles, California.

Mr. J. C. Ward, Jr., General Manager,  
Pratt & Whitney Aircraft,  
Division United Aircraft Corp.,  
East Hartford, Conn.

Mr. Duncan B. Cox, Vice President,  
Ranger Engineering Corp.,  
Farmingdale, Long Island, New York.

Mr. Guy W. Vaughan, President,  
Wright Aeronautical Corp.,  
Paterson, New Jersey.

Mr. William O. Warner, President,  
Warner Aircraft Corp.,  
20263 Hoover Avenue,  
Detroit, Michigan.

Mr. B. B. Robinson, President,  
Kinner Motors, Inc.,  
635 W. Colorado Blvd.,  
Glendale, Calif.

Mr. R. A. Bearwin, President,  
Bearwin Aircraft and Engines Inc.,  
Fairfax Airport,  
Kansas City, Kansas.

22

COPY TO

THE SECRETARY OF THE TREASURY

*see the Green  
Stamps  
8/25/40*

May 24, 1940.

MEMORANDUM FOR

THE SECRETARY OF WAR  
THE CHIEF OF STAFF

Please let me have on Monday the program of requirements in aircraft by types which will be ordered as soon as possible as a result of the new legislation. I understand that the Army has placed orders for all of the 5,500 planes under last year's expansion program. I understand that the new legislation authorizes the purchase of 2,400 additional planes.

I understand that such a program of requirements by types has been initiated.

It is of the utmost importance that no contracts be entered into from now on either for planes or engines or for the development of new types of planes or engines without coordinating this with the general program as a rule.

For the time being, until the final machinery is set up, this coordination will be cleared through the Secretary of the Treasury to me as Commander-in-Chief.

Please see that this is carried out in toto.

F. D. R.

Personal and  
Strictly Confidential

May 24, 1940.

My dear Mr. Welles:

With further reference to your personal and confidential note to me of May 22d, which you handed me yesterday: I am returning herewith the copy of the telegram signed BULLITT, dated "May 21, 1940, received at 6:48 P.M."

Referring to your question, I am not informed as to the President's wishes regarding the manner in which matters of this sort should be brought up for discussion. With regard to yesterday's question regarding the number and varieties of materiel which the Allied Purchasing Mission wish to obtain, he directed me to take that particular matter up with you. I understood that he wished to have the opinion of the State Department on the legal and international involvements in such a transaction.

I understood from your comments yesterday that the direct sale of these munitions by our government would be contrary to the Neutrality Act and to international law, and that at the moment you had in mind no method for circumventing those barriers.

I hope to talk over these matters with you in the next few days.

Faithfully yours,

Chief of Staff.

Honorable Sumner Welles,

The Undersecretary of State.

delivered in person by Major Adams May 25/40

encl.

THE UNDER SECRETARY OF STATE  
WASHINGTON

May 22, 1940

Personal and  
Strictly Confidential

Dear General:

As you know, Mr. Bullitt has been sending a great many telegrams in recent days asking questions of the President and of the Department and transmitting requests from members of the French Government for materiel including ships, munitions, and airplanes.

The telegram which I enclose, and which I wish you would be kind enough to return to me when you are done with it, is a case in point. In the first paragraph, in addition to the question of the 75 millimeter cannon which has been answered today, there is also raised the question of 97 millimeter cannon and 155 millimeter short rifle cannon and supplies of munitions from our army stocks.

In cases of this kind, in order to avoid a delay in replying, I should like to know whether the President desires to take these questions up himself directly with the War Department, or whether he desires me to take them up with the War Department and then submit the War Department's recommendations to him for his decision. Up to now it had been my thought that the President preferred to take these matters up himself directly. I should like, however, to be sure what his wishes may be and I shall appreciate it if you will let me know.

Believe me

Yours very sincerely,

Enclosure:

No. 800, May 21, 11 p.m.,  
from Paris.

General George C. Marshall,  
Chief of Staff,  
2027 Munitions Building,  
Washington, D. C.

THE WHITE HOUSE

WASHINGTON

May 24, 1940

C  
O  
P  
Y*see also  
Navy  
Pres 5/25 to*

MEMORANDUM FOR

THE SECRETARY OF THE NAVY

I understand that practically all orders under the 1939 airplane expansion program have been placed. The new Congressional authorization provides for the acquisition of many new planes.

Please let me have the program requirements in aircraft and engines by types by Monday next.

It is of the utmost importance that no contracts be entered into from now on either for planes or engines or for the development of new types of planes or engines without coordinating this with the general program as a rule.

For the time being, until the final machinery is set up, this coordination will be cleared through the Secretary of the Treasury to me as Commander-in-Chief.

Please see that this is carried out in toto.

F. D. R.

Memorandum of Conference of the President

held at The White House at 4:30 p.m., May 24, 1940.

Present: The President  
Secretary Morgenthau  
William H. McReynolds, Administrative Assistant to the President

The Secretary presented to the President the attached memorandum from Mr. Foley with respect to the appointment of a "Board on Mobilization of Industries Essential for Military Preparedness". The President discussed at some length his own feelings with respect to such a plan as compared to his own proposal to reconstitute the Council of National Defense and to create an Advisory Commission to operate in connection with it. He stated that he felt unwilling to take the alternative of a Mobilization Board because of the possible interpretation of the implications of imminence of war mentioned in the first part of the statute.

He then discussed with the Secretary at length the wording of Section 1 of the proposed rules and regulations of the Council for National Defense. The discussion resulted in some revision of the wording of the section and a tentative agreement with respect to the individuals he would ask to become Members of the Advisory Commission. These names were -

- Mr. Keller of Chrysler.....Advisor on Industrial Production
- Mr. Stettinius.....Advisor on Industrial Materials
- Mr. Lubin.....Advisor on Labor Supply
- Mr. Davis.....Advisor on Agricultural Problems
- Mr. Henderson.....Advisor on Price Stabilization
- Mr. Hoan.....Advisor on Consumer Protection
- Mr. Budd.....Advisor on Transportation

The President indicated that he would not ask for further legislation to add additional Members to the Council of National Defense. He stated that he would not expect the Council to be very active in any event and that the burden of the work would rest on the Advisory Commission.

He asked Secretary Morgenthau to consult with Secretary Hopkins on Saturday and directed that Secretary Morgenthau, Secretary Hopkins and Mr. McReynolds come to the White House for a further conference on this subject with him at two o'clock on Saturday.

MEMORANDUM

The parent body of the various administrative agencies created to control industry during the World War was the Council of National Defense. This Council is composed of six cabinet Secretaries as follows: War, Navy, Interior, Agriculture, Commerce and Labor. It is my opinion that an amendment to the Act creating the Council of National Defense would be required to add additional representation on the Council. I understand that this opinion is also shared by the Department of Justice, and the Director of the Budget has been informed of this interpretation. Therefore, if the President proposes to add the Secretary of the Treasury, the Director of the Budget and others to the Council of National Defense it will be necessary to obtain authorization from Congress.

The National Defense Act of 1916 (39 Stat. 166 at 214) authorizes the President, in his discretion, "to appoint a Board on Mobilization of Industries Essential for Military Preparedness, nonpartisan in character, and to take all necessary steps to provide for such clerical assistance as he may deem necessary to organize and coordinate the work hereinbefore described." While this authority is contained in a section which gives the President the right of eminent domain over industrial plants in time of war or when war is imminent, nevertheless I believe that the power to appoint the Board may now be exercised. This power is contained in a separate paragraph which I believe is entirely independent of those powers contained in the section which may be exercised only in war time or when war is imminent. In this connection it is interesting to note that the power of the Secretary of War to make a complete list of all private-owned plants in the United States equipped to manufacture

arms or ammunition is contained in the same section, and this also may be exercised at any time. This authority would seem to give the President the elasticity insofar as appointment of members is concerned which is not afforded to him in the Act creating the Council for National Defense. The advantage of using this power at this time is that the President could select his own committee without regard to number or office and without going to Congress for additional authority.

I understand that the Department of Justice agrees with this conclusion. However, for reasons of public relations it might be undesirable to employ a provision so closely related to war time mobilization of industry. On the other hand, as the General Staff Corps represented to Congress in 1916 when the legislation was under consideration, the appointment of such a Board is "a long step toward preparedness." (Senate Doc. No. 447, 64th Cong., 1st Sess. p. 17)

(Signed) E. H. Foley, Jr.

52 2

UK  
+ J.P.

**RULES AND REGULATIONS**  
**COUNCIL OF NATIONAL DEFENSE**

Under authority of Section 2 of the Act of August 29, 1916 (39 Stat. 649), the Council of National Defense adopts, subject to the approval of the President, the following rules and regulations for the conduct of its work:

Section 1. The Advisory Commission provided for in Section 2 of the Act of August 29, 1916 (39 Stat. 649), shall be composed of an Advisor on Industrial Production; an Advisor on Industrial Materials; an Advisor on <sup>Employment</sup> Labor Supply; an Advisor on ~~Agricultural Problems~~ <sup>Finance, etc.</sup>; an Advisor on Price Stabilization; an Advisor on Transportation; and an Advisor on Consumer Protection. Each of such advisors shall be in charge of and responsible to the Council for investigation, research, and coordination in his designated field.

Section 2. The Administrative Assistant to the President in charge of the office for Emergency Management in the Executive Office of the President is hereby designated as Secretary to the Council and to the Advisory Commission.

Section 3. The Secretary to the Council shall provide suitable and necessary personnel, supplies and facilities for the Advisory Commission and its several members and for such experts, special advisors, or other subordinate bodies as the Council may from time to time employ under the provisions of said Section 2 of the Act of August 29, 1916; and he shall perform such other duties as the Council may direct.

**ADMINISTRATIVE ORDER****ESTABLISHING THE OFFICE FOR EMERGENCY MANAGEMENT  
IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND  
PRESCRIBING REGULATIONS GOVERNING ITS ACTIVITIES**

Whereas, I find there is a threatened national emergency;  
Now Therefore, By virtue of the authority vested in me by the  
Constitution and the Statutes and in pursuance of Part I of Executive  
Order No. 8248 of September 8, 1939, it is hereby ordered as follows:

Section 1. There is established in the Executive Office of the  
President an office to be known as the Office for Emergency Manage-  
ment which shall be under the direction of one of the Administrative  
Assistants to the President, to be designated by the President.

Sec. 2. The Office for Emergency Management shall:

- (a) Assist the President in the clearance of information  
with respect to measures necessitated by the threatened  
emergency;
- (b) Maintain liaison between the President and the Council  
of National Defense and its Advisory Commission, and with  
such other agencies, public or private, as the President  
may direct, for the purpose of securing maximum utilization  
and coordination of agencies and facilities in meeting the  
threatened emergency;
- (c) Perform such additional duties as the President may  
direct.

816 - 760  
May 23, 1940

32  
D. B. L.

MEMORANDUM

The parent body of the various administrative agencies created to control industry during the World War was the Council of National Defense. This Council is composed of six cabinet Secretaries as follows: War, Navy, Interior, Agriculture, Commerce and Labor. It is my opinion that an amendment to the Act creating the Council of National Defense would be required to add additional representation on the Council. I understand that this opinion is also shared by the Department of Justice, and the Director of the Budget has been informed of this interpretation. Therefore, if the President proposes to add the Secretary of the Treasury, the Director of the Budget and others to the Council of National Defense it will be necessary to obtain authorization from Congress.

The National Defense Act of 1916 (39 Stat. 166 at 214) authorizes the President, in his discretion, "to appoint a Board on Mobilization of Industries Essential for Military Preparedness, nonpartisan in character, and to take all necessary steps to provide for such clerical assistance as he may deem necessary to organize and coordinate the work hereinbefore described." While this authority is contained in a section which gives the President the right of eminent domain over industrial plants in time of war or when war is imminent, nevertheless I believe that the power to appoint the Board may now be exercised. This power is contained in a separate paragraph which I believe is entirely independent of those powers contained in the section which may be exercised only in war time or when war is imminent. In this connection it is interesting to note that the power of the Secretary of War to make a complete list of all private-owned plants in the United States equipped to manufacture

arms or ammunition is contained in the same section, and this also may be exercised at any time. This authority would seem to give the President the elasticity insofar as appointment of members is concerned which is not afforded to him in the Act creating the Council for National Defense. The advantage of using this power at this time is that the President could select his own committee without regard to number or office and without going to Congress for additional authority.

I understand that the Department of Justice agrees with this conclusion. However, for reasons of public relations it might be undesirable to employ a provision so closely related to war time mobilization of industry. On the other hand, as the General Staff Corps represented to Congress in 1916 when the legislation was under consideration, the appointment of such a Board is "a long step toward preparedness." (Senate Doc. No. 447, 64th Cong., 1st Sess. p. 17)

*E. H. Foley Jr.*

*md*

May 24, 1940

Based on this memo of Brett's, the President dictated an order to Secy of War and Secy of Navy putting all aircraft under me. I said to the President, "What you need is a Minister for Air with all the powers that go with it, but without the public knowing it."

WAR DEPARTMENT  
AIR CORPS  
MATERIEL DIVISION

35

Washington, D. C.,  
May 24, 1940.MEMORANDUM FOR - The Honorable Mr. Henry Morgenthau,  
The Secretary of the Treasury.

1. In order to forecast requirements in aircraft and engines, propellers and accessories there must be a program. Today we have the 5500 Airplane Expansion Program on which all orders have been placed. Today we have coming, as a result of the President's message, an authorization for 2400 additional planes.
2. Other than the above I have nothing to work toward. I should have a program of requirements in aircraft by type on which I would base my estimates for money, for production, and for deliveries.
3. Such a program has been submitted to the War Department. It has not been approved to my knowledge. I suggest some action be taken which will give me as a procuring-officer a program in order to answer your questions.

  
GEO. H. BRETTE,  
Brig. General, Air Corps,  
Chief, Materiel Division.

Washington, D. C.,  
May 24, 1940.

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

1. In order to forecast requirements in aircraft and engines, propellers and accessories there must be a program. Today we have the 5500 Airplane Expansion Program on which all orders have been placed. Today we have coming, as a result of the President's message, an authorization for 2400 additional planes.

2. Other than the above I have nothing to work toward. I should have a program of requirements in aircraft by type on which I would base my estimates for money for production and for deliveries.

3. Such a program has been submitted to the War Department. It has not been approved to my knowledge. I suggest some action be taken which will give me as a procuring officer a program in order to answer your questions.

GEO. H. BRETT,  
Brig. General, Air Corps,  
Chief, Materiel Division.

Louis Johnson asked  
me to tell you: 37

if machine guns  
are given to allies  
on their basis we  
shall have no guns  
of larger calibre  
for our own planes  
now being currently  
produced and no  
guns will be  
available for doubling  
present firepower  
to match fire-  
power of German  
planes. P.H.

WAR DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, D. C.

May 24, 1940.

MEMORANDUM TO: Secretary Morgenthau,  
Treasury Department.  
  
SUBJECT: Machine Guns and Powder Requirements for  
the Allies.

MACHINE GUNS

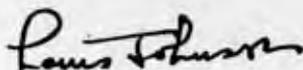
A contract was about to be signed by the Anglo-French Purchasing Board with the Colt's Patent Fire Arms Manufacturing Company when the company was asked by the War Department to delay signing because additional machine guns would be needed by the War Department. The contract contemplated by the Board would require all of the unobligated capacity of the Colt Company for caliber .50 machine guns from December, 1940 through the year 1941. It also called for a donation of approximately \$450,000 new capital by the Allies to create additional capacity.

On or about April 5, 1940, the Army informed the Colt Company of its probable future requirements. This was prior to the development of our own augmented preparedness program, now pending. Owing to the need for installation of larger and more numerous machine guns on our own combat airplanes on hand and on order, the requirements of the United States for caliber .50 guns in particular, will be vastly increased for the period from January to December, 1941. However, to accommodate the Board, the War Department under date of May 16, 1940 made a concession by advising the Colt Company that it is willing to defer deliveries on guns intended for our own program during the critical period early in 1941 provided that the Board pays for creation of a new plant costing approximately \$2,500,000. The question here posed is whether there is any moral obligation on the part of our Government to permit the Board to sign the contract as originally negotiated with the Colt's Patent Fire Arms Manufacturing Company, and a decision must be rendered whether the Army must sacrifice its claim on capacity during the early part of 1941 so as to allow all of the existing capacity to be used by the Allies during that period. If all of the existing capacity is conceded, the Army will then have to create additional capacity to meet the needs of its own program with an indeterminate delay until such time as the additional capacity can be created.

POWDER

The Navy Department recently made a concession to the Board of capacity in the DuPont powder plant at Carney's Point, which involves a release for one year equivalent to 200,000 pounds a month beginning in October, 1940. The Board now desires that this release be set forward to the beginning of June, and that 400,000 pounds a month be conceded for a period of five months. If this concession is made from capacity contracted for by the Army, the loading program of the Army under current and augmented programs would be delayed 20% of the total loading program for a period of five months. If the original concession made by the Navy is allowed, then the Army program would be delayed 10% for a period of ten months.

If the President directs that concessions be made, the War Department will gladly make the necessary arrangements.



LOUIS JOHNSON,  
The Assistant Secretary of War.

May 24, 1940.

MEMORANDUM TO: Secretary Morgenthau,  
Treasury Department.

SUBJECT: Machine Guns and Powder Requirements for  
the Allies

MACHINE GUNS

A contract was about to be signed by the Anglo-French Purchasing Board with the Colt's Patent Fire Arms Manufacturing Company when the company was asked by the War Department to delay signing because additional machine guns would be needed by the War Department. The contract contemplated by the Board would require all of the unobligated capacity of the Colt Company for caliber .50 machine guns from December, 1940 through the year 1941. It also called for a donation of approximately \$450,000 new capital by the Allies to create additional capacity.

On or about April 5, 1940, the Army informed the Colt Company of its probable future requirements. This was prior to the development of our own augmented preparedness program, now pending. Owing to the need for installation of larger and more numerous machine guns on our own combat airplanes on hand and on order, the requirements of the United States for caliber .50 guns in particular, will be vastly increased for the period from January to December, 1941. However, to accommodate the Board, the War Department under date of May 16, 1940 made a concession by advising the Colt Company that it is willing to defer deliveries on guns intended for our own program during the critical period early in 1941 provided that the Board pays for creation of a new plant costing approximately \$2,500,000. The question here posed is whether there is any moral obligation on the part of our Government to permit the Board to sign the contract as originally negotiated with the Colt's Patent Fire Arms Manufacturing Company, and a decision must be rendered whether the Army must sacrifice its claim on capacity during the early part of 1941 so as to allow all of the existing capacity to be used by the Allies during that period. If all of the existing capacity is conceded, the Army will then have to create additional capacity to meet the needs of its own program with an indeterminate delay until such time as the additional capacity can be created.

POWDER

The Navy Department recently made a concession to the Board of capacity in the DuPont powder plant at Carney's Point, which involves a release for one year equivalent to 200,000 pounds a month beginning in October, 1940. The Board now desires that this release be set forward to the beginning of June, and that 400,000 pounds a month be conceded for a period of five months. If this concession is made from capacity contracted for by the Army, the loading program of the Army under current and augmented programs would be delayed 20% of the total loading program for a period of five months. If the original concession made by the Navy is allowed, then the Army program would be delayed 10% for a period of ten months.

If the President directs that concessions be made, the War Department will gladly make the necessary arrangements.

LOUIS JOHNSON,  
The Assistant Secretary of War.



Copy sent to  
Phil Young

42

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 24, 1940.

OFFICE OF THE DIRECTOR

MEMORANDUM FOR THE SECRETARY

Mr. Van Dusen of Lockheed Aircraft phoned me this afternoon that Major Fleet, President of Consolidated Aircraft, proposes to organize a subsidiary air craft manufacturing corporation to be known as the Consolidated Eastern Aircraft Corporation to build a production plant in Texas and to take over fixed assets, organization and designs of Hall Aluminum Aircraft Corporation. He further stated that Consolidated Aircraft proposes to contribute proven designs and sub-contracts for the manufacture of parts, assemblies and complete airplanes as the new company develops.

The capital required is estimated at \$1,000,000 for plant, \$1,000,000 for machinery and \$1,000,000 working capital, which will provide a well equipped plant of approximately 500,000 square feet so designed as to permit of the rapid expansion to meet any emergencies. To avoid the time which they considered would be lost by public financing they propose to borrow \$3,000,000 from the R.F.C. for a period of five years to finance this project. He stated further that this entire matter has been explained to both the War and Navy Departments.

Mr. Van Dusen also pointed out the necessity of prompt action in order to avoid the dissipation of the Hall Aluminum Aircraft Corporation who will in the near future complete existing Coast Guard orders.

Mr. Van Dusen requested me to pass this information on to you and stated that any support that the Treasury Department could consistently give would be very much appreciated.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 24, 1940

43

*House*

TO The Secretary  
FROM Mr. Gaston



The following amended plan will be made effective at once for—

- (a) The circulation of information in regard to suspected violations of the Neutrality Laws coming within the jurisdiction of the Treasury Department, or in regard to events or circumstances pointing to the possibility of such violations; and
- (b) For the conduct of any investigations of such violations which may be considered desirable.

Information from Customs Sources

1. Reports of Customs officers in the field will be transmitted to the Bureau of Customs at Washington.
2. The Bureau of Customs will immediately transmit copies:
  - (a) To Coast Guard Headquarters; and
  - (b) To Mr. Frank Rose, Assistant to Assistant Secretary Gaston

Information from Coast Guard Sources

3. Reports of Coast Guard officers in the field will be transmitted to Coast Guard Headquarters at Washington.
4. Coast Guard Headquarters will immediately transmit copies to Mr. Rose.

Transmittal of Information to Agencies  
Outside the Treasury Department

5. Upon receipt of significant information from Coast Guard or Customs field officers, as above provided, and after Mr. Rose has been advised, Coast Guard Headquarters will immediately notify the proper Naval authorities and the State Department. When it is necessary to consult the State Department or any other Department as to a course of action to be followed in Neutrality matters, this will be done by Mr. Gaston or by his direction.

Urgent Matters by Telephone

6. When information of an urgent character, indicating the need for prompt action is received by any agency, it should be communicated immediately by telephone to Mr. Gaston or Mr. Rose and a memorandum thereon should follow through the usual channels.

Transmittal of Information to the Secretary and Other Interested Officers of the Treasury Department

7(a). Mr. Rose will immediately transmit to Mr. Gaston, Mr. Harris, Mr. Foley and Mr. Irey all information received from Coast Guard Headquarters and from the Bureau of Customs, as above provided, and Mr. Gaston will be responsible for laying it before the Secretary, or, in the absence of the Secretary, the Under Secretary. In the event of Mr. Gaston's absence, Mr. Rose will transmit such information to the Secretary or the Under Secretary in Mr. Gaston's stead.

(b). Important information received by Coast Guard Headquarters out of office hours will be communicated to Mr. Gaston, or, should Mr. Gaston be inaccessible, to the Secretary direct.

Office of the General Counsel

8. Mr. Rose will specially refer to the General Counsel, or his designated representative, any report or information which appears to raise a legal question, or with respect to which a legal opinion is desired.

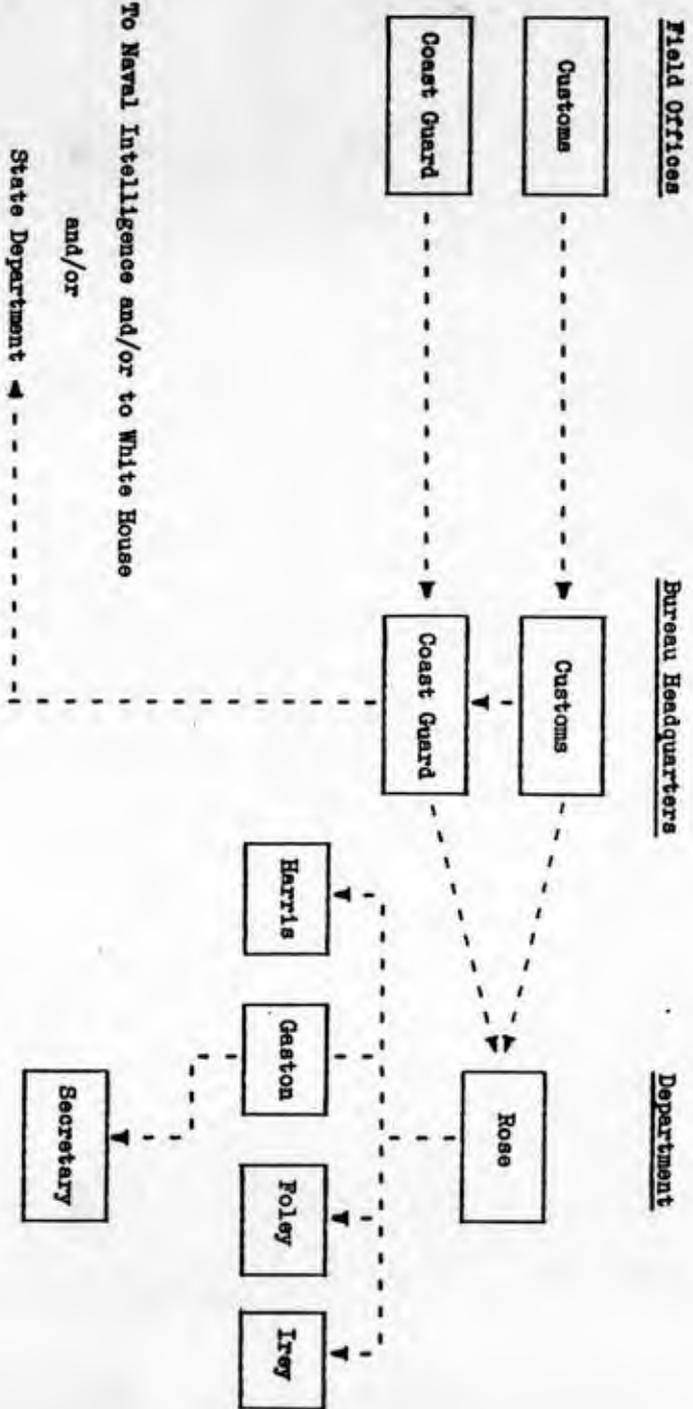
Investigations

9. If special investigations by Treasury agencies other than Coast Guard and Customs should be considered necessary as the result of information received from field officers, such investigations will be handled under the direction of the Coordinator, Treasury Agency Services, and no such investigations will be undertaken by field officers other than officers of Customs and Coast Guard except as he may direct. This is not intended to preclude follow-up and routine investigations by field officers of the Coast Guard and the Customs Service, nor the usual interchange of information among the field services of the Treasury Department.

SWB

Handwritten initials and scribbles, including what appears to be 'Myl' and other illegible marks.

Chart Showing Flow of Information  
under Coordination Scheme



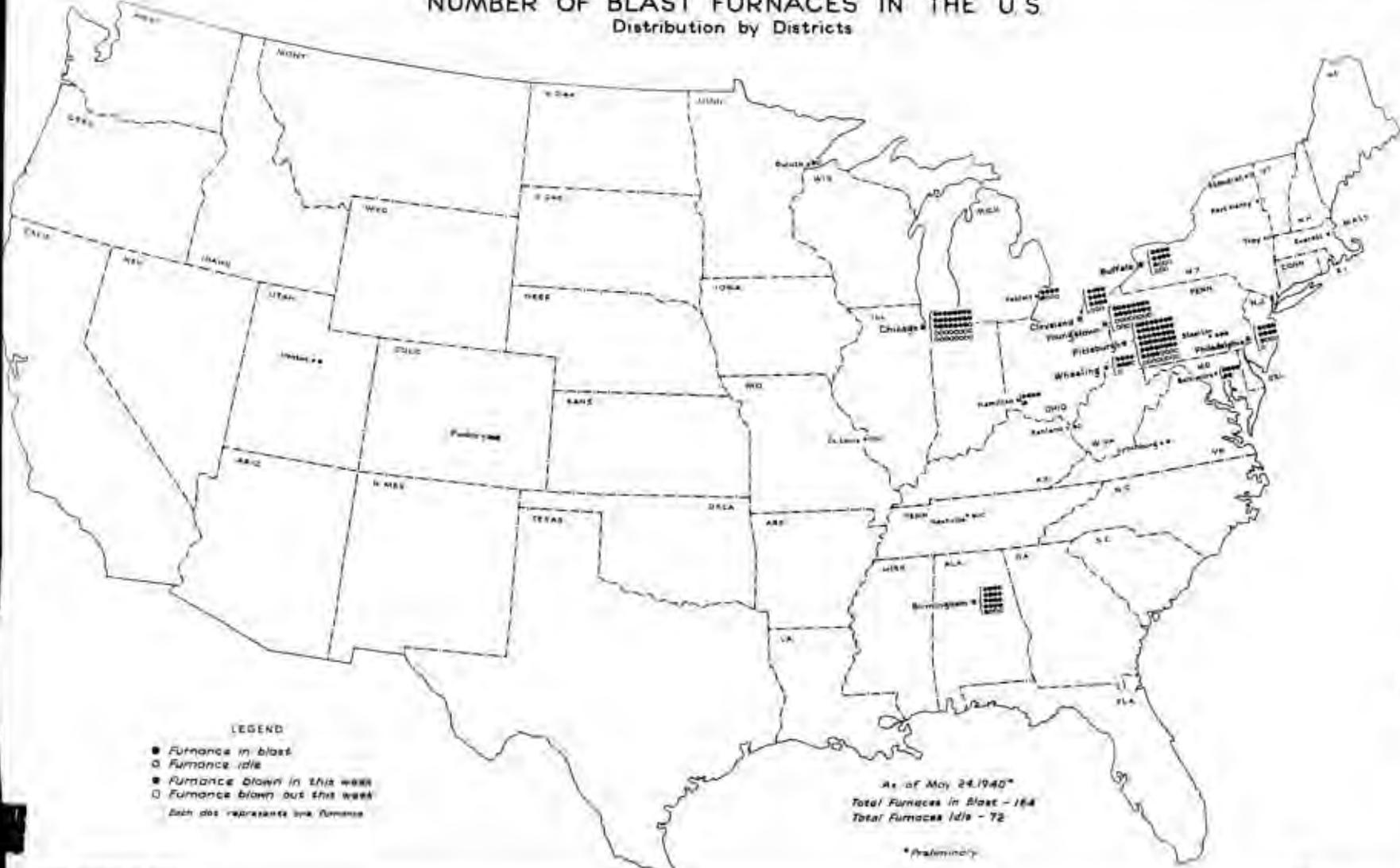
To Naval Intelligence and/or to White House  
and/or

State Department

May 24, 1940.

# NUMBER OF BLAST FURNACES IN THE U.S.

## Distribution by Districts



**LEGEND**

- Furnace in blast
- Furnace idle
- Furnace blown in this week
- ◻ Furnace blown out this week
- ▤ Both do - represents new furnace

As of May 24, 1940\*  
 Total Furnaces in Blast - 164  
 Total Furnaces Idle - 72

\*Preliminary

Treasury Department

47

TELEGRAPH OFFICE

4W

WAG29 M 63 DL

1940 MAY 24 AM 11 24

TE CLEVELAND OHIO MAY 24 1940 949A

HON HENRY MORGENTHAU JR  
SECRETARY OF TREASURY

FOLLOWING MEMBERS OUR COMMITTEE ON COOPERATION GOVERNMENT DEPARTMENT  
WILL BE AT YOUR OFFICE 1100AM MONDAY, MAY 27TH:

CLAYTON R BURT, PRESIDENT, PRATT AND WHITNEY, HARTFORD. *Chm.*

CHARLES J STILLWELL, PRESIDENT, WARNER AND SWASEY, CLEVELAND.

HOWARD W DUNBAR, VICE PRESIDENT, NORTON CO., WORCESTER.

NORMAN D MACLEOD, PRESIDENT, ABRASIVE MACHINE TOOL CO., PROVIDENCE.

JOHN E LOVELY, VICE PRESIDENT JONES AND LAMSON MACHINE CO., *Pres. Assn.*

SPRINGFIELD VT.....NATIONAL MACHINE TOOL BUILDING ASSN  
TELL BERNA.....1118A *See 7-30.*

Treasury Department

TELEGRAPH OFFICE

48

22W

END MAY 24 PM 1 07

WY136 FO 16 SER

WUX DETROIT MICH MAY 24 1940 1244P

PHILIP YOUNG

CARE SECRETARY HENRY MORGENTHAU JR WASHNDC

LETTER GIVING OUR REPORT MAILED LAST NIGHT 930 SHOULD BE YOUR  
HANDS THIS MORNING. BEST REGARDS

K T KELLER CHRYSLER CORP

106P

CONFIDENTIAL

49  
18  
May 24, 1940

To: The Secretary  
From: Mr. Young

COLT

Mr. Purvis has advised me through Ballantyne that the Colt contract on the basis of the \$2,500,000 will be signed tonight or tomorrow.

DU PONT

The Anglo-French Purchasing Board will be delighted to get powder on the basis of 200,000 pounds per month, beginning October 1, 1940. This contract will be signed as soon as possible.

PRATT & WHITNEY

The letter of intention to Pratt & Whitney was signed by both the British and the French last Wednesday and returned to the Purchasing Board last night signed by Pratt & Whitney. (The contract must be signed within 30 days.)

ALLISON

I understood from Mr. Ballantyne this afternoon that you had told Mr. Purvis he could have the five Allison engines. I learned tonight from Ballantyne that Colonel Jacquin had phoned Allison and asked that the five engines be shipped immediately. Allison replied that the French could have only one engine.

P.Y.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 25, 1940.

MEMORANDUM FOR THE SECRETARY

At 11:50 this morning the Minister of Norway called, having been referred to me by the State Department, stating that he was in receipt of a cable from his home Government asking that immediate steps be taken to ascertain whether or not it would be possible to purchase from the Army approximately 70 pursuit ships of an old type. Memorandum per attached copy was forwarded to General Gregory for action.

*A. J. Gallus*

*T. Phil. Gallus* 50

*Carbon copy to  
Miss Young  
5/27/40.*

May 25, 1940.

MEMORANDUM FOR GENERAL GREGORY

The Minister of Norway called at 11:50 this morning and stated that he was in receipt of a cable from his Government requesting that an immediate inquiry be made as to the possibility of purchasing from the Army approximately 70 older pursuit planes for use of the Norwegians in repelling attacks of German bombers.

He was informed that it was not believed there was any law under which the sale of such planes could be effected. He requested, nevertheless, that this matter be submitted to the War Department immediately in order that it might be learned whether or not any procedure could be effected through which these pursuits might be acquired by the Norwegian Government.

It would be appreciated if there might be furnished as soon as possible any information which will permit of a reply being made to the Norwegian Minister. The submission of this memorandum in advance of the receipt from him of a letter is done at his particular request. He promised to have formal application for these planes in my hands by Monday, immediately upon receipt of which it will be transmitted to you.

RHC:ga

May 25, 1940

On May 25th, when H.M.Jr. saw the President between 5:00 and 6:00, the President discussed various people whom he intended to appoint.

The President suggested Ralph Budd for railroads. For agriculture, the President's suggestion was M. L. Wilson and H.M.Jr.'s suggestion was Chester Davis. Consumer, the President suggested Hoan who was ex-Mayor of Milwaukee.

H.M.Jr. suggested for labor, Lubin. The President suggested as assistant secretary of labor Phil Murray and Dan Tobin.

On prices, H.M.Jr. suggested Leon Henderson. H.M.Jr. also suggested Keller and Stettinius. The President suggested Hillman, Jim Forrestal and Admiral Leahey for administrative assistants.

May 25<sup>th</sup> 5-6 P.M. A  
Pres. office

THE WHITE HOUSE

WASHINGTON

RR. Ralph Budd

Agv. 1<sup>st</sup> suggestion M. L. Wilson  
2<sup>nd</sup> Chester Davis.  
(my suggestion)

Consumer Hoar  
Milwaukee  
+ manager of Milwaukee

Labor = Lubin Wash

Phil Murray } ass sec. vice  
Dan Johnson }  
of  
Labor

Price = Leon Henderson

1<sup>st</sup> suggested Keller  
Stettinius

(over)

Hillman adm asst<sup>B</sup>  
Jim Forestal adm asst  
Admiral Leahy adm asst

# Knudsen and Stettinius Head Defense Commission

President Roosevelt today named a seven-man national defense commission. He appointed William S. Knudsen of General Motors and Edward R. Stettinius Jr. of U. S. Steel to supervise industrial production and material.

The board, created under the old 1916 National Defense Act, will meet Thursday to begin work with Mr. Roosevelt. Its technical name will be the Advisory Commission to the Council of National Defense.



Mr. Knudsen



Mr. Stettinius

Mr. Roosevelt, pledging not to disrupt normal processes of American life in the rearmament drive, assigned these five persons to key posts on the board:

**Employment**—Sidney Hillman, vice-president of the C.I.O. and president of the Amalgamated Clothing Workers.

**Farm Products**—Chester C. Davis, a governor of the federal reserve board.

**Transportation**—Ralph Bodd, chairman of the Chicago, Burlington and Quincy Railroad.

**Raw materials and price stabilization**—Leon Henderson, member of the securities and exchange commission.

**Advisor on consumer protection**—Harriet Elliott, dean of women at the University of North Carolina and expert on price trends in consumer markets.



Mr. Hillman



Mr. Henderson

William H. McReynolds, one of the president's three executive assistants, will serve as secretary of the commission, along with his other duties. Additionally, Mr. Roosevelt said in the next day or so he will name two additional executive assistants to assist the three 10,000-a-year men already in such posts.

The seven members of the defense commission, the President said, will serve without pay.

Mr. Stettinius, supervising industrial materials, and Mr. Knudsen, supervising industrial production, will have full time jobs facing them immediately upon their arrival here, the President said.

MAY 24 1940

Dear Randolph:

I have your letter of the 9th with your comments on the proposed Inter-American Bank. It was good of you to take the trouble of writing at such length. As you are probably aware, the response of the Latin American countries for the signing of the convention was quite encouraging, and it looks now as if a useful device for inter-American cooperation may evolve.

I agree with you that the Bank will require capable leadership from the very start and that it may have to feel its way slowly into the fields where it can be most useful. The questions of the choice between a central banks' bank and an inter-governmental bank, and the danger of creating competition for existing institutions, arose early in the drafting process and have been thoroughly debated both by the Latin American representatives and by our own people here. We are convinced that the inter-governmental approach is a far preferable means of promoting the desired objectives.

There appears to be general agreement that the Inter-American Bank is designed to complement rather than to replace existing banking institutions. It was deemed desirable to state the powers in broad terms in order to provide the Bank with adequate flexibility to adjust its activity to the different conditions and different degrees of financial development in the 21 countries involved. However, such provisions as the four-fifths majority requirement, the veto power that can be acquired under the voting system, and the check on operations in a country when that country makes timely objection, should make it possible to limit the activities of the Bank to the desired sphere. For example, Article 5, Section B(7), contains a suitable safeguard against undesired competition:

"In order to carry out the foregoing purposes, the Bank shall have specific power to \* \* \* accept demand, time, and custody deposits and accounts from others, including participating governments and fiscal agencies, central banks, political subdivisions and nationals thereof, unless the participating government makes a timely objection \* \* \*."

Mr. W. Randolph Burgess - 2

You are quite correct in stressing the desirability of cooperation of commercial banks and central banks. I feel that it will be to their interest, as well as to the public interest, if this cooperation is attained.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

File to Mr. Thompson

Mr. W. Randolph Burgess,  
Vice Chairman of the Board,  
The National City Bank of New York,  
New York, New York.

BNB:MC:BNB:md  
5/27/40

lw

GRAY

Paris

Dated May 24, 1940

Rec'd 2:31 p.m.

Secretary of State

Washington

869, May 24, 6 p.m.

FOR THE TREASURY.

In an article published in today's JOURNAL OFFICIEL the Minister of Finance designated the banks and banking houses with which French owned American and Canadian securities are to be deposited or to which the American or Canadian dollar exchange held abroad by French nationals and French "moral persons" is to be transferred (please see my telegram No. 796, May 21, 7 p.m.). The list covers all of principal banking establishments, houses in France and French possessions and includes the French branches of Morgan and Company, Guaranty Trust, National City Bank, Chase and the American Express Company.

(END SECTION ONE)

BULLITT

DDM

JT

GRAY

PARIS

Dated May 24, 1940

Rec'd 2:48 p.m.

Secretary of State,  
Washington.

869, May 24, 6 p.m. (SECTION TWO)

A second arrete introduces certain modifications in the decree of May 20 regarding vast surrender or deposit of American and Canadian bank notes (please see above reference). French or foreign residents of France need not turn such notes over to the Foreign Exchange Office or deposit them in a dollar account if the amount held by them is less than the equivalent of 2000 francs. As from June 16 any resident of France who is returning from abroad must surrender all the American or Canadian bank notes carried by him to the Foreign Exchange Office. The arrete also names the banks authorized to purchase dollars in behalf of the Foreign Exchange Office and to carry dollar accounts for their clients. The list is somewhat smaller than that mentioned above but includes all the branches in France of American banks and the American Express Company.

BULLITT

CSB

Paris

Dated May 24, 1940

Rec'd 2:49 p.m.

Secretary of State,  
Washington.

869, May 24, 6 p.m. (SECTION THREE)

In a notice published today the Foreign Exchange Office calls the attention of its intermediaries to the fact that refugees from Belgium, Luxembourg and The Netherlands are considered as residents of France insofar as the exchange control officials are concerned. Accordingly the French bank accounts held by such individuals may no longer be considered as "foreign accounts in francs" and thus the francs contained in them cannot be freely sold on foreign markets.

A decree adds various industrial chemicals in factories and butter and eggs in cold storage warehouses to the list of commodities which may be insured against risks of war.

Little activity took place on the Bourse today. Rentes with the exception of the exchange guaranter issues were generally firm. French stocks declined fractionally.

Internationals

-2- # 869, May 24, 6 p.m., from Paris

Internationals were lower Suez losing 750 francs.

(End of message)

BULLITT

CSB

TREASURY DEPARTMENT

81

INTER-OFFICE COMMUNICATION

DATE May 24, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

The foreign exchange market was quiet today. Sterling, after advancing from an opening rate of 3.19 to 3.22 at noon, eased during the afternoon session to close at 3.19.

Sales of spot sterling by the six reporting banks totaled £469,000, from the following sources:

By commercial concerns.....	£ 189,000
By foreign banks (Europe and Far East).....	£ 280,000
Total.....	£ 469,000

Purchases of spot sterling by these banks and by the Federal Reserve Bank of New York amounted to £425,000, as indicated below:

By commercial concerns.....	£ 135,000
By foreign banks (Far East, So. Amer., Europe & Near East)....	£ 280,000
By the Federal Reserve Bank of New York (for Belgium).....	£ 10,000
Total.....	£ 425,000

The following reporting banks said cotton bills totaling £43,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 33,000 by the Guaranty Trust Company
8,000 by the National City Bank
1,000 by the Bank of Manhattan
1,000 by the Bankers Trust Company
<u>£ 43,000 Total</u>

Development in the other important currencies were as follows:

The movement of the French franc rate was similar to that of sterling, although no exact relationship between the two currencies was maintained here. The franc moved up from .0180-3/4 at the opening to .0182-1/4 at noon, then returned to .0180-1/2 at the close. The final cross-rate was 176.73 francs per pound.

The Swiss franc was steady all day. It closed at .2242.

The Canadian dollar had a steady tone most of the day, but just before the close it weakened on some small selling. The final discount of 22-1/16% equalled the record low established for that currency a few days ago.

# CONFIDENTIAL

62

- 2 -

The Italian lira closed at an offered rate of .0505. It has remained unchanged at this figure since September 25, 1939.

The Reichsmark closed at .4000.

The yuan in Shanghai was unchanged in terms of sterling at 4-1/8d. Against the dollar, it moved off 1/16¢ to 5-1/2¢.

The Cuban peso, which has remained steady at a discount of 10-1/4% since May 10, today improved to 9-15/16% discount. The Mexican peso has remained unchanged at .1672 since January 3.

We purchased \$512,000 in gold from the earmarked account of the National Bank of Belgium.

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

\$ 1,600,000 from Spain, shipped by the Spanish Institute of Foreign Exchange, Madrid, for its own account to the National City Bank, New York.  
192,000 from England, shipped by Samuel Montagu & Co., London, to the Irving Trust Company, New York.  
\$ 1,792,000 Total

The two shipments listed above will be sold to the U. S. Assay Office at New York.

The State Department forwarded to us a cable stating that the National Bank of Yugoslavia, Belgrade, was making a shipment of gold coin valued at \$11,883,000 and a shipment of gold bars valued at \$2,119,000 to the Federal Reserve Bank of New York. The disposition of these shipments is unknown at the present time.

The quotation for gold received from Bombay was \$37.37. This is 50¢ above yesterday's price.

The Bombay spot silver quotation worked out to the equivalent of 46.36¢, up 1/8¢.

In London, the prices fixed for spot and forward silver both advanced 5/8d to 22-7/16d and 22-1/4d respectively. The report received from London stated that the volume of business transacted in silver was very small. Today's improvement in the prices was attributed to local speculative buying. The U. S. equivalents, calculated at the open market rate for sterling, were 32.18¢ and 31.66¢. On the basis of the official sterling-dollar rate, the spot price was equivalent to 40.79¢.

Handy and Harman raised its settlement price for foreign silver to 35-1/4c today. The Treasury's purchase price for foreign silver was unchanged at 35¢.

There were no purchases of silver made by us today.



TREASURY DEPARTMENT

63

INTER-OFFICE COMMUNICATION

DATE May 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Stone of Secretary Hull's office just phone me at 2:45 this afternoon to let me know that a cablegram had been received from Ambassador Phillips at Rome, reading as follows:

"I am informed that departure of several Italian vessels including Neptunia and Rex postponed for several days with intimation that further postponements may be expected."



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

84

INTER-OFFICE COMMUNICATION

DATE May 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent telephoned me at the Treasury last night at 7 o'clock that his Embassy had received a cablegram to stand by to receive a message for delivery to the Secretary of the Treasury forthwith. I told Pinsent to get in touch with me whenever it might come in.

At five minutes until 12 last night Mr. Pinsent telephoned me that the message had just arrived and was being decoded. He said that the three main points seemed to be:

- (1) that all exports from the British area, and possibly from the entire sterling area, will hereafter have to be paid for in dollars;
- (2) that that sale of securities by non-residents will be prohibited;
- (3) that permission to transfer interest and dividends out of England at the official rate will be permitted.

At 9:10 this morning, Mr. Pinsent telephoned from his home that this message was being typed up and is of considerable length. He would like to bring it to the Treasury this morning and present it personally to the Secretary. I told him that I would let him know at 10 o'clock whether the Secretary could receive him. I stressed the fact that the Secretary was extremely busy on Cabinet day.

I really see no need for the Secretary to receive Mr. Pinsent personally. The message is important, but it is nothing that we would desire to comment upon immediately. If the terms are as summarized above, it will mean that free sterling will be available for few purposes, and will probably decline further. On the other hand, if exports are not permitted in free sterling, this causes no danger to our market. It really eliminates any conceivable danger of dumping. Pinsent explained that the second measure was obviously temporary. There may be some complaints from Americans holding securities in England because they cannot sell them, but the third provision permits them to obtain interest and dividends at the official rate, so they do not suffer as far as their income is concerned. Obviously, the British are endeavoring to prevent a flight of capital from England and a dumping of securities as invasion threatens.



JR

GRAY

Milan

Dated May 24, 1940

Rec'd 1:43 p.m.

Secretary of State,  
Washington.

39, May 24, 5 p.m.

Referring to Department's telegram of May 22, 5 p.m.,  
index for May 4, 251.67; May 11 245.87; May 18 226.27;  
May 20 227.70; May 21 221.43. Today's index 216.70.  
Volume 100,800.

Renewed selling pressure weakened prices throughout  
active session probably due nervousness over political  
situation.

SHOLES

HTI



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

May 24, 1940

MEMORANDUM TO THE SECRETARY:

Dr. Feis of the State Department called today to say that they had an extended conference in the office of the Secretary of State on the question of freezing Chinese balances in this country. He had been requested to advise me that it was the Secretary's opinion that nothing should be done to freeze these balances at this time. He said he saw no reason why further discussions should not be carried on, but that no action should be taken at this time.

Secretary Hull wanted me to convey this information to you.

*WUB*

JR

PLAIN

London

Dated May 24, 1940

Rec'd 1:31 p.m.

Secretary of State,  
Washington.

1357, May 24.

FOR TREASURY FROM BUTTERNORTH.

1. Mr. Craven-Ellis, member of Parliament and chairman of the so-called Monetary Committee of Parliament, has supplied the Embassy with a copy of the following telegram he is sending to Senator Lundeen.

"It is gratifying to see America becoming conscious of her obligation to the cause now being strenuously contested by the Allies. America can give immediate help in the fight for liberty and freedom by settling the Allies purchases by loans. The present method of payment must undermine the economic structure of America's best customer to her ultimate disadvantage."

2. The crucial immediacy of the moment referred to in my 1304, May 21, 6 p.m., continues to overshadow all monetary and financial questions. However changes in these fields the past two weeks are worth mentioning.

Although the new allied monetary group has not yet been regularized by concluded agreements, their foreign  
exchange

-2- #1357, May 24, from London.

exchange problem is immediately somewhat eased. Of even greater importance than the Allied purchases of raw materials in the Dutch and Belgian empires and the previous high cost of Norwegian, Danish, Dutch and Belgian shipping now under Allied control, will be the dollars and other foreign exchange earned by these assets, while Dutch, Belgian Danish and Norwegian gold and other foreign assets not left behind in German occupied territory materially increase the already substantial Allied resources. With all the world's colonial possessions except those of Italy and Portugal, and with practically all the world's merchant shipping, except that of the United States, Japan and Italy, now within the Allied orbit, the potential Allied resources are such as to render their staying power and their bargaining power of immense significance. But this dominance of potential strength with all its implications to the United States seems for the time being of hardly more than academic interest in the face of the overwhelmingly more difficult and vital military and supply problems of the moment.

3. Replying to a question in Parliament suggesting that the official rate of exchange which has prevailed since

-3- #1357, May 24, from London.

since the outbreak of the war should no longer be maintained, the Chancellor of the Exchequer stated that he is "convinced that it would be most undesirable in the national interests to adopt this suggestion".

4. A new instruction to banks is designed to prevent a practice whereby both a United Kingdom buyer of imported goods, and a sterling area buyer to whom he may subsequently sell the goods, could obtain dollars from their respective controls. In future where goods imported into the sterling area for payment in foreign currency are re-sold within the sterling area, the contract may be expressed in foreign currency, but payment must be made in sterling converted at the appropriate London rate of exchange. Where exports subject to reg. 5b (see my 594 of March 9, noon) are sold within the sterling area, settlements must not be in currency and deals are subject to an undertaking to fulfill the requirements of the regulation. No applications for foreign exchange on behalf of sterling area residents in favor of other residents will be granted by the Bank of England save in exceptional circumstances.

KENNEDY

CSB

ATP

PLAIN

70

Shanghai via NR

Dated May 24, 1940

Rec'd 6:10 pm

Secretary of State

Washington

452, May 24, 5 PM.

FROM COMMERCIAL ATTACHE.

NOT TO BE DISSEMINATED WITHOUT  
THE CONSENT OF THE ISSUING OFFICE

Weekly Financial. Shanghai open market foreign exchange rates eased last few days from high reached May twentieth due reported continued purchases by Anglo Chinese Stabilization Committee and some uneasiness regarding status Shanghai in case of further extension of European war, but market healthier due absence of either large overbought or oversold positions at present and selling is mainly by hoarders for profit taking. Inter-bank selling spot this morning around five one half and four one eighth having high during week of five seven eights and four one quarter and a low of five five sixteenths and three fifteen sixteenths, May delivery same as spot having a high of five three quarters and four seven thirty seconds and a low of five three sixteenths and three twenty nine thirty seconds, June delivery around five one quarter and three fifteen sixteenths having a high of five one half and four one sixteenth and a low of four fifteen sixteenths and three seven eights. Chinese financial circles believe that control has so far recouped nearly two million pounds sterling since extension

-2- May 24, 8:10 pm from Shanghai

71

extension war in Europe. Other quotations this morning gold bars yuan five seven eight naught having a high during week of yuan six one hundred and a low of yuan five two three naught, Wei Wah cash discount rate around twelve percent, Bank Japan notes further weakened yen one for Chinese yuan one point naught eight, military scrip yen one for Chinese yuan one point two five, Hua Hsing yuan one for Chinese yuan one point fifty, customs gold unit for Chinese yuan two point seven naught seven or United States dollar naught point five two one eight seven five, Tientsin exchange rates four seven eighths and three twenty one thirty seconds, Tientsin Shanghai remittance charge one two point five percent, Tientsin Federal Reserve banknotes at par with Chinese yuan. Yesterday's closing quotations: Chinese domestic loans average five one point five one, Shanghai general stocks slumped during week due war developments unfavorable to allied powers average two four seven point nine eight representing decline more than twenty percent from one week ago, Shanghai rubber shares / <sup>also</sup> slumped during week average one seven two point six two representing decline over forty two percent from one week ago. Canton customs prohibit passengers leaving for Macao or Hong Kong to carry away more than yuan two hundred in Chinese national currency each person.

INFORM COMMERCE.

Repeated to Chungking and Peiping.

BUTRICK

NPL

THE WHITE HOUSE  
WASHINGTON

May 24, 1940

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

In regard to payment on Finland's debt, I suggest we take no further action at this time. The situation in Europe is so cloudy and so unpredictable even from week to week that I think this whole matter can be deferred for awhile.

F. D. R.

*Keep out photostat  
of Pres' memo only  
6/5/40*



## TREASURY DEPARTMENT

WASHINGTON

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

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,



The President,  
The White House,  
Washington, D. C.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai, China.

DATE: May 24, 1940, 11 a.m.

NO.: 448.

Please refer to my telegram no. 414 of May 13, 6 p.m., and to the Department's telegram no. 210 of May 16, noon, and Department's telegram no. 212, May 16, 5 p.m.

I am informed by the Consul General of the Netherlands that it is feared by the manager of the Nederlandse Handelsbank that a desperate situation will ensue shortly unless balances of the Dutch banks in the U.S. are unblocked, to some extent at least. The Minister of the Netherlands at Washington, D. C., has been so notified. I shall appreciate being informed of any new developments regarding this situation by the Department.

This telegram has been repeated to Chungking and Peiping.

BUTRICK

EA:MSG

OFFICE CORRESPONDENCE

DATE: May 24, 1940.

CONFIDENTIAL FILES \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke \_\_\_\_\_

BANK OF ENGLAND.

I called Mr. Bolton at 4:20 p.m. today in connection with his cable #472/40 quoting the Royal Netherlands Government Treasury Department's message to us through the Treasury Department in Washington. I asked whether in their reference to de Nederlandsche Bank Dollar account they had not intended to refer to de Nederlandsche Bank Dollar Account F. Was the omission of the letter "F" possibly due to an oversight? Mr. Bolton replied that it was his impression that the whole message dealt with "F" accounts and promised that he would confirm this tomorrow.

I then inquired as to the manner in which the specimen signatures of the two gentlemen mentioned in the message had been mailed to us and had they been authenticated. Mr. Bolton did not know but thought they were sent by airmail and assumed that they had been authenticated. I hinted that he might suggest to the Dutch that they might wish to arrange for authentication through our London Embassy with the request that the latter forward their specimens to us through the State Department. Maybe even Mr. Kennedy might wish to confirm to the State Department by cable that he had received the signatures and that he considered them authentic.

I asked whether we could, for the time being, cable to the Dutch Government in London in our code with the Bank of England.

With reference to the situation in England, Bolton said:

FEDERAL RESERVE BANK  
OF NEW YORK

77

OFFICE CORRESPONDENCE

DATE May 24, 1940.**CONFIDENTIAL FILES**SUBJECT: **TELEPHONE CONVERSATION WITH**FROM: **L. W. Knobe****BANK OF ENGLAND.**

2

"People here are very grim and determined. It is going to be a terrible business but I think we shall pull through. We are fully prepared to be bombed to smithereens in London but it won't make any difference."

LNK:KW

ATP

PLAIN

OSLO

Dated May 24, 1940

Rec'd 6:41 p.m.

Secretary of State

Washington

367, Twentyfourth.

Norsk Engelsk Tobakfabrikk Oslo desires settle indebtedness Universal Leaf Tobacco Company Richmond \$12,347.13 and Austin Company Incorporated, Greenville, Tennessee \$8,134.94 through National City Bank and Andresens Bank Oslo when license granted unblocking funds of latter. Can Department facilitate?

COX.

NPL

COPY

No. 3054.

Rio de Janeiro, May 24, 1940.

SUBJECT: The Brazilian Government Expects to Study the Possibility of Permitting Domestic Trading in its Foreign Bonds.

Original and Three Copies by Airmail --Confirmation Copy by Steamer.

The Honorable

The Secretary of State,  
Washington.

Sir:

I have the honor to report, for the Treasury Department also, that the Ministry of Finance expects shortly to study the possibility of facilitating domestic sales of the dollar bonds and other foreign currency bonds of the Brazilian Government and political sub-divisions. This has been prompted by numerous inquiries received from holders of Brazilian foreign currency bonds regarding the possibility of obtaining the interest on them, or the principal, in milreis to be used for travel expenses within Brazil. At present it is not possible to do this in any way. However, the Ministry of Finance will try to work out a plan that would permit the holders of such bonds to sell them here against payment in milreis to be used for travel expenses. The plan would envisage the establishment of a regular market for the bonds here and trading in them in the Brazilian stock exchanges. At the present time there is no trading in Brazilian foreign currency bonds in the local exchanges.

Respectfully yours,  
For the Ambassador:  
Ware Adams,  
Second Secretary of Embassy.

WA/MVJ  
File 851.

No. 3055.

Rio de Janeiro, May 24, 1940.

SUBJECT: Negotiations for Payments Agreements between Brazil and Great Britain and France.

Original and Three copies by Airmail---Confirmation Copy by Steamer

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report, for the Treasury Department also, that the negotiations for payments agreements between Brazil on the one hand and Great Britain and France on the other, covered by my despatch No. 3024 of May 20, 1940 and previous despatches, are still being carried on.

At present the British are endeavoring to exclude Canada, which has a favorable balance of trade with Brazil, while including other dominions and colonies that have unfavorable balances. The French are seeking recognition for the gold clauses in Brazilian gold franc bonds. The Brazilian authorities have no idea of acceding to either of these demands. They think that it may be possible to conclude an agreement with the British in the near future but that the French negotiations will be drawn out for some time yet.

WA/MVJ  
File 631

Respectfully yours,  
For the Ambassador:  
Ware Adams,  
Second Secretary of Embassy.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 24, 1940

TO Mr. White

FROM Mr. Ullmann

Subject: Tin smelting in the United States

1. The maximum domestic consumption of tin in recent years was 90,000 tons (1937). (Average annual consumption for the 1935-1938 period was approximately 70,000 tons.)
2. Two domestic companies operate tin smelters on a small scale.
  - (a) The American Metal Co., Ltd. has a small plant which can produce between 600 and 1200 long tons annually. It plans to build an additional plant which will increase its capacity to 2400-3600 tons per year, using Bolivian ore and concentrates.
  - (b) The Phelps Dodge Company also operates a small smelter of unknown capacity. It, too, is planning a new smelter.
  - (c) Tin was smelted domestically during the first World War. In 1920, almost 16,000 long tons were produced in domestic smelters, which apparently have been dismantled.
3. Available information indicates that approximately one-third of our peacetime requirements is currently supplied by the recovery of secondary tin.

In 1937, 27,000 tons of secondary tin were recovered in the United States:

	<u>As Metal</u>	<u>In Chemicals and Alloys</u>
By detinning companies	2,500	1,500
By other companies	<u>4,900</u>	<u>18,200</u>
Total	7,400	19,700

Source: U. S. Bureau of Mines

4. Some of the recovering capacity can be diverted to smelting ore.
  - (a) According to the Bureau of Mines commodity specialist, domestic detinning companies can smelt ore. As an example, the commodity specialist points out that the Vulcan Detinning Company wishes to be listed as a purchaser of available ore.
  - (b) It is believed, furthermore, that some of the other recovering firms can smelt ore.
  - (c) There is a likelihood, moreover, that smelters in other metallic industries may be used to smelt tin ore, since some of them already are able to separate tin from other metals in their smelting process.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

May 25, 1940.

MEMORANDUM FOR MR. MORGANTHAU:

Subject: Allied Purchasing Agents requests.

Allison Engines:

Of the five engines desired, one has been delivered and they are searching for four more, and will pull them out of planes if necessary.

Pratt-Whitney Engines:

One has already been delivered and no trouble is anticipated in locating the four remaining required. This is being proceeded with at the present time.

*Morganthau*  
Chief of Staff.

*Mrs Klotz*

*Copy to Phil Young*

*(sent 5/27/40)*

*Don J.*

Wagner Wells 5.00 P.M.  
May 25, was said to allow  
transfer to

private manuf  
and then  
to resell

Pres 500,000.  
(Surplus Munitions)

Spoke to General  
Manuel Sunday  
said he could sell  
the ammunition but  
not the guns asked  
to carry load on  
this and red at back  
said he would.

MISS CHAUNCEY:

84

SEVERAL LETTERS AND MEMORANDA  
ARE REFERRED TO IN THIS TRANSCRIPT.

P. MANNEN

## RE STRATEGIC MATERIALS

May 25, 1940  
10:15 a.m.

Present: General Marshall

H.M.Jr: He wants this Committee with a Cabinet of six and underneath he is going to put on a Council of seven. That is the way he is proposing to do it. Now, I still think that my advice to him to build up this Munitions Board is the first step and then put on a couple of civilians and let them work directly on the Army and Navy Munitions Board and press a button and - if I want something, it is General Brett; if I want a machine tool, it is somebody else. I am just doing those two. For anything else it is all coordinated and all set up and whoever comes down on the Council is going to be floundering all over the lot. It is going to take them a hell of a long time to learn their business and they are not going to do what I am doing for the President on aviation. I have just burned myself out physically getting this thing licked. They are just not going to do it, but he seems to have his mind set. We are having a meeting with him on it at 2:00 o'clock this afternoon. We met with him for an hour and a half yesterday.

Marshall: You see, what he overlooks very much, I think, is that when we start to do these things there is sort of a re-education here and there, but these people would be - that enlarged Munitions Board would be immersed in those things and they would know the generalities more than our individual specimens here and there, but as it is now you just start from scratch every time you turn around. I am perpetually trying to educate myself on this phase and that phase, but those men would sit there and be at it. I don't know just what is the right thing, but all of my instincts would be to accept something that has been studied over and studied over.

H.M.Jr: I think so, but I don't think he is going to do it that way.

Marshall: I barged in there, but I thought - I was trying to say what you were saying, but I was trying

- 2 -

to make it clear that they had to do something and do it quick.

- H.M.Jr: He is going to do something and I think he is going to make it part of his speech Sunday night.
- Marshall: I have only got about eight balls in the air right now and one of those is his speech Sunday night.
- H.M.Jr: You are in on that, too?
- Marshall: I guess everybody is. Here is this thing.
- H.M.Jr: That is good.
- Marshall: Now, there will be a telephone message over here to me in a few minutes about the Colt factory and its engines.
- H.M.Jr: Colt?
- Marshall: Well, there is a question of getting them to go ahead and sign a contract.
- H.M.Jr: I think that was settled.
- Marshall: I think it is, too, I think that is all straight, but I have urged them over the jumps. I wasn't quite conclusive enough, but I think it is all straightened out, but I wanted to make certain. I would like you to read this before we go any further.
- Now, the memorandum isn't there. I have returned it.
- H.M.Jr: Well, after all, we have got the whole thing set up. We have got this committee in Procurement.
- Marshall: Well, what this was - I went over there, you see, in compliance with the President's instructions, to take up the question of all these various items of ordinance and he had already prepared that letter and he had attached to that letter a highly confidential report which you may have seen from Mr. Bullitt about the destruction of all these plants that the Germans had control of, and this and that, and then it referred to the things they

- 3 -

had to have and the gravity of the situation, so what Mr. Welles seemed to be questioning is, how are these going to be handled.

I certainly wasn't the one to tell him, because as a matter of fact you and I had started on the thing over here. Then he got this memorandum from the President. Meanwhile, we had gone through the details of this plot. Now, I --

H.M.Jr: Well, foreign purchases up to last night were still with me, but --

Marshall: He was confused over this, so --

H.M.Jr: Yes, that is all right.

Marshall: Now, to go into the details of the thing. I went over each one of them with Mr. Welles and his reaction to the whole thing, as I have said, was that it was contrary to law, contrary to international law, and that he would have to discuss the thing with the President to see if there was anything we could do about it.

Meanwhile, I had drawn up what I might possibly be able to use as an argument that these items were, all of them, bona fide surpluses, which is pretty hard for me to fix up. I went into the ammunition thing, following the tip that Admiral Stark gave me and I find that in all probability - they have had preliminary negotiations with the two ammunitions manufacturers - we can actually profit by the procedure here which puts us on a firm foundation politically by - under the law turn back our ammunitions, and then get out of that some number of rounds, say between four and six hundred thousand, depending on the sale price of the ammunition we turn over to the manufacturer, which he is going to sell to the Allies.

Of course, they don't want the ammunition unless they get the weapons and at the present time they are up against the legal prohibition on the weapons.

- 4 -

Now, General Wesson has gone over the details of that with these people. He hesitated to have them work out the whole plot. It cost them a considerable sum of money to do it - unless we knew we were going to be able to send weapons --

(Mrs. Klotz entered the conference with a document)

H.M.Jr: This is statistics.

Klotz: It says in accordance with your verbal request. I thought you might have asked for that yesterday.

H.M.Jr: This is part of the thing that begins to go to George Haas.

Klotz: I see. Mr. Morgenthau, do you mind if I take these out?

H.M.Jr: Not a bit.

(Mrs. Klotz left the conference)

We have lost the memorandum from the President and this will go to George Haas. Did you ever do that? I had the queerest thing happen. It is a very important memorandum, two of them, from the President. One of them - I knew I was to get the two. When I came in, there it was on my bed, no envelope, nothing. One I forgot and the other one I had. No one in the office knows we received it and no one knows how it got on my bed. There it was when I went to bed.

Marshall: Well, working under the pressure you work under, one would do strange things. I get so absent-minded, I have to have somebody just watch what I am doing.

H.M.Jr: You and me both.

Marshall: They come in and search me all over like a tailor's dummy to see what I have got in my pocket.

- 5 -

Wesson didn't wish to push the cartridge people on that unless we were pretty certain we were going to be able to get over the barrier on the actual sale of the weapon, because they don't want the ammunition unless they get the weapon. But the point is, the minute the weapon thing is decided, I can go ahead on the basis of - I am quite certain that I can go ahead on the basis of turning in the hundred million rounds to the two cartridge manufacturers, they having their own understanding about the sale to the Allies and they give us back in manufacture the other ammunition.

H.M.Jr: How about the guns?

Marshall: The gun question is purely a matter of getting by the legal barriers, which are just flat-footed at the present time, of the Neutrality Act and the international law.

(General Marshall received a telephone call)

Marshall: It is just what I said. That is all being taken care of in the conference today. I wanted to make certain of the final word on the thing. At the moment we are to pause until we find out how to get by the legal part on the sale of all these weapons, but I can manage the ammunition within the law and perfectly safe.

H.M.Jr: Well, you don't mind if while you are here I call up Sumner Welles and tell him for God's sake to give us an answer on this gun business? Why not call up Mr. Hull?

Marshall: I beg pardon?

H.M.Jr: What should I tell Mr. Hull? I can call him up. That we have this request for guns which you can spare? Who has it? Welles has it.

Marshall: Welles had the knowledge and the facts and he was to go ahead and see if he could find a basis for it, not a particular specific weapon --

- 6 -

- H.M.Jr: How long ago did you see him?
- Marshall: Our conversation was the morning after the Presidential - yesterday morning.
- H.M.Jr: Let me call him and I can tell him I am handling this thing at the same time.
- Marshall: We are just up against it flat. Maybe he can find some way out.
- H.M.Jr: Well, I will just take a minute or two. What is the next one?
- Marshall: The next one gets around to the question of planes and the method of meeting some of their requests. Their requests should be met in some form. Now, as to the sale of the actual plane that is in the process of manufacture, I can't - I cannot make any statement regarding that, other than one of the same nature I did on the others, because that would be just - it would put ourselves in an impossible situation. The question then is, to what degree can we help them and I mentioned the other day the proposition of the large orders and he brought up the question of the follow-up orders on the engines. It now becomes a technical question and here is Brett's outline as he can best make it.

(Telephone conversation with Sumner Welles follows:)

- 7 -

- Marshall: This is an example of what we were talking to the President about. The thing gets this scattered.
- H.M.Jr: He said he would be glad to do it, because most of Bullitt's cables are unanswered.
- Marshall: Well, what he said was roughly, I guess, what I have got.
- H.M.Jr: He said this, that Mr. Hull is going to take it up with the President himself and if he gets an answer, he will let us know.
- Marshall: I understood from your comments yesterday the direct sale would be contrary to the Neutrality Act of the international law. Do you want me to leave this and send it back to me sometime?
- H.M.Jr: Yes. I will make a note to send it back.
- Marshall: Now, I am going to turn over to you the unsigned document here from the head of my supply outfit where he proposes the reasons that might be given on each one of these headings under the law to declare a thing surplus.
- H.M.Jr: I see.
- Marshall: And I can't accept all these reasons, but for the moment it is a good outline of a plot and all the items and it is just for your convenience rather than this rough list we have here.
- I spoke to you about the exchange in the small arms and ammunition. The Colt matter has been settled. That is all I have, sir.

40  
67

May 25, 1940.

My dear Admiral Noyes:

I would greatly appreciate it if you would send, by Secret Code, the following message to Ambassador Kennedy.

Quote - Congratulations on getting Rolls Royce plans. Would it be feasible to send these plans on board the first battleship or destroyer that is going to Halifax, care of the Air Attache, British Embassy, Washington. If it is not feasible, my second choice would be to put them on the United States steamship PRESIDENT ROOSEVELT which is on its way to Ireland. On what basis can United States government get license to manufacture Rolls Royce. Would appreciate prompt answer to this question.

The British Government has been fooling around for the last couple of months in regard to placing orders for powder. Arthur Purvis unable to get authority to place order for 20,000 tons in the United States and 14,000 tons in Canada. The trouble seems to be that his orders have to clear through Ottawa. Perfectly ridiculous that he is unable to deal directly with some authority in England. If you could use the example of powder to clear up the handicap under which Arthur Purvis is working you would be doing a great service. Sincere regards. Henry Morgenthau, Jr. - Unquote

Sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Leigh Noyes,  
Director, Naval Communications,  
Room 2622, Navy Department,  
Washington, D. C.

OFFICE OF  
THE UNDERSECRETARY



DEPARTMENT OF STATE  
WASHINGTON

May 25, 1940

Personal and Confidential

For the Secretary of the Treasury only.

Dear Henry:

In accordance with our conversation on the telephone this morning, I am sending you a paraphrase of a telegram received this morning from Bullitt.

Believe me

Yours very sincerely,

A handwritten signature in black ink, appearing to read "H. Morgenthau, Jr.", written in a cursive style.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM  
FROM AMERICAN EMBASSY, PARIS  
May 24, 1940

I received this afternoon Dautry, Minister for Armament, who said that he had already been deprived of 80% of French steel production because of the German advance. Therefore, it has become urgent and vital that steel from the United States be obtained.

In addition, the factories which made the armament for the French tanks had been lost. It is therefore his desire to send to the United States on a Clipper Renault, head of the Renault Automobile Works, to enter into immediate negotiations for the manufacture of the heavy French tanks which weigh 30 tons with Bethlehem Steel, Baldwin, and other great corporations.

The magnitude of the orders he desires to give is such that at the end of seven months American factories would be turning out fifty of these tanks per day. In accordance with his request, I am attempting to obtain passage for Renault and his assistant on a Clipper. Dautry also requested that the President receive Renault upon his arrival in Washington. Renault, he went on to say, was a most remarkable man who understood the industrial problems of this war as well as any other human being and he believed the President would find it most valuable to have a conversation with him.

-2-

My reply was that I would ask that Renault be received by the President.

In reply to Dautry's inquiry whether I had received any reply with regard to the French 75s now in the stocks of the American army, I said that the President in a direct message to me had said that he could not consider sales of these guns to France. This information was a blow to him. The single weapon that proved to be effective against the German General was the French 75s of which they had only a few more weeks supply. I was implored to ask again that 1000, or even 500, 75s be shipped to France immediately. Continuing, he said that he was certain that careful inspection would show defects in many of these guns which had been manufactured in France at the close of the last war. For instance, one would have a defective brake, another a defective wheel. Perhaps it would not be impossible for the President to have these guns carefully inspected and have those which were defective sold, either as assembled units or in parts, to France at once.

This question, I said to him, I would submit at once and I hope most heartily that some of them may be found imperfect.

At the present moment Dautry enjoys Paul Reynaud's absolute confidence.

-3-

Therefore, importance should be attached to his views on the future. The French army, he thought, should fight on without hesitating to defend every inch of ground, even though the Belgian, British and French armies in Belgium should be compelled to surrender within the next week.

The line of the Seine and the Marne could and, he was sure, would be made a strong line of defense.

Of course, Paris, in that case, would be completely destroyed. Of what importance was that? On what basis could the French nation be asked to rebuild its existence as a nation and to reclaim its soul if France, in order to protect the monuments of Paris, should give up Paris to the enemy? The line of the Seine could be held for two months, he thought. A retreat to the line of the Loire, the Rhone and the Saone might then be necessary. After that, a retreat to the Massif Central (Central High Plateau) and finally, a retreat to the line of the Garonne, might be necessary. The French armies should go on fighting however far they might be pushed.

Although these orders for tanks which he desired to place now could not possibly be delivered before next January, he was convinced that the people of France would be still fighting for the liberties of their country and the liberties of the world next January.

Extremely efficient fighting weapons have been

-4-

found in the heavy French tanks which Renault proposes to manufacture in the United States. It is hardly necessary for me to add that I consider that the manufacture of these tanks at the earliest possible moment in the United States is of the utmost importance. Should the French armies be defeated before their completion, we at least should have something with which to fight and it will be needed.

CONFIDENTIAL

May 25, 1940

To: The Secretary  
From: Mr. Young



COLT

Mr. Ballantyne has informed me that the Colt contract was to be signed at 1:10 P.M. Standard Time today.

DUPONT

The letter of intention contracting for the 200,000 pounds of powder per month, beginning October 1, 1940, was signed by the British and French last night and mailed to du Pont.

Negotiations between the AFPB and du Pont on the new powder plant are progressing speedily and the contract should be signed next week.

Mr. Ballantyne will have for me Monday morning a comprehensive memorandum outlining the present status of the complete powder situation. As soon as I receive this, I shall investigate any causes that there may be which have created delay.

Mr. Purvis is evidently still attempting to secure more blanket authority from the British Government, plus a line of direct responsibility between the Purchasing Board and the British and French Governments. At the present time, instructions and reports are still worked through Ottawa. It is very possible that direct or indirect pressure abroad might expedite the securing of extraordinary powers for the Purchasing Board in this country. Lack of authority and official red tape are the major stumbling blocks for the Purchasing Board at this time.

P.Y.

May 25, 1940  
9:59 a.m.

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

Operator: Dr. Karl Compton.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Dr. Karl  
Compton: Hello.

H.M.Jr: Mr. Compton.

C: Yes.

H.M.Jr: Mr. Compton. Morgenthau.

C: Yes, good morning.

H.M.Jr: How are you? Well, we've gotten off to a good start with some of your people and I wondered if you could come down to Washington yourself for a day or so. I've got a lot of people, engineers and different people, who are volunteering their services. I don't know how competent they are, and if you could sit around with me for a day or two and sort of advise me on some of these people, it would be very helpful to me.

C: Well, when would that be?

H.M.Jr: Well, I'd love to have you here Monday.

C: Yeah. (Pause, laughs) This is a very crowded time right now.

H.M.Jr: I see.

C: Ah -- let's see. I could come down Monday.

H.M.Jr: Is it going to -- would you rather make it .....

C: I don't see how I could possibly stay until Tuesday. There is one thing that's coming up --

we're trying to arrange a meeting of our corporation Committee on the Aeronautical Engineering in order to see what we can do here to make our own facilities more accessible, partly in the way of a training program -- an intensive summer training program.

H.M.Jr: Well, let me .....

C: We are calling a meeting of that Committee which will possibly be on Tuesday.

H.M.Jr: Well, let me put it this way. I don't know what -- do you fly?

C: Yes.

H.M.Jr: Well, how -- I'm free Sunday evening.

C: Yes. Well .....

H.M.Jr: Which would be better for you?

C: Well, Sunday evening would be fine. I could fly down Sunday.

H.M.Jr: Could you fly down?

C: I could fly down Sunday and stay over Monday, but I ought to get back here Tuesday.

H.M.Jr: All right. Well, now I tell you -- could you say come to my house around about six o'clock and we could stay for supper?

C: Yes. I'd be glad to.

H.M.Jr: We're on standard time here.

C: Yes.

H.M.Jr: It's 2211 Thirtieth.....

C: 2211 Thirtieth Street.

H.M.Jr: ..... and we're off Massachusetts Avenue.

- 3 -

C: Yes. All right.

H.M.Jr: That would be fine for me.

C: All right, I'll be there.

H.M.Jr: 2211 Thirtieth, off Massachusetts.

C: Yes.

H.M.Jr: Thank you so much.

C: Now, Mr. Secretary, shall I come down prepared to dress for dinner or informal?

H.M.Jr: Oh, no.

C: All right.

H.M.Jr: No, just informal.

C: All right, I'll be there.

H.M.Jr: Thank you.

C: Good-bye.

May 25, 1940  
9:39 a.m.

Louis  
Johnson: Mr. Secretary.

H.M.Jr: Louis, I want to tell you how much I appreciate the cooperation you gave us yesterday.

J: Well, we did our best. I'm glad you .....

H.M.Jr: Yes you did and I told -- ah -- I'm taking your recommendation a hundred percent. I told the Allies to close on the powder as of October 1st and to put up the \$2½ million on the machine guns and like it.

J: That's grand, Mr. Secretary.

H.M.Jr: And they said they'd do both of them last night.

J: Well, I'm awfully glad that's the way it is.

H.M.Jr: Yes. We just took it and we're not going to fuss around.

J: Well, you didn't have to argue about it at Cabinet meeting then.

H.M.Jr: I, ah .....

J: Phil Young thought it .....

H.M.Jr: What's his name -- ah -- Edison gave a memorandum on powder. See?

J: Yeah.

H.M.Jr: And I said I talked to him afterwards so I killed it. I didn't want to discuss it then.

J: That's grand.

H.M.Jr: So he wanted to discuss powder and this and that and I said do you want to let it go and .....

J: Well, if you'll let us know on these things, we'll get you the right answer if it's humanly possible.

H.M.Jr: Well, I've been around Washington seven years  
and I still don't know who to go to.

J: (Laughs) Well .....

H.M.Jr: But I may learn. Give me time.

J: All right, Mr. Secretary.

H.M.Jr: Thank you.

J: Thank you.

May 25, 1940  
9:29 a.m.

104

Operator: Go ahead.

H.M.Jr: General Marshall?

General  
Marshall: Good morning, Mr. Secretary.

H.M.Jr: Good morning. How are you?

M: I was going to call you up and ask you if I could see you, but .....

H.M.Jr: Ah, ha. Do you know what I'm calling you for .....

M: Well, I rather imagine I do.

H.M.Jr: (Laughs) All right, when are you going .....

M: Well, what's convenient to you?

H.M.Jr: Well, I have an appointment at eleven, and I'm pretty well tied up after that. Could you come before?

M: Yes, indeed. When's the most convenient time?

H.M.Jr: Ah .....

M: Ten o'clock?

H.M.Jr: Let's say ten-fifteen.

M: Fine. I'll be there at ten-fifteen.

H.M.Jr: Now, let me ask you before you come. You gave me that letter about where the Allies are making it difficult for you .....

M: Oh, well, I really shouldn't have sent you that.

H.M.Jr. Well, that's all right. Now what I want to ask .....

M: I just thought it was rather amusing.

H.M.Jr: Now, what I'd like to do is to show it to the Military Attache at the British Embassy.

M: Yes. Well, I thought afterwards that I shouldn't have .....

H.M.Jr: No, no, no! .....

M: ..... worried you. I was rather amused by the darn thing. Well, I'll speak to you about it when I get over there.

H.M.Jr: Well -- you want me to wait on that then.

M: Well, I don't care. You can show it to him, yes.

H.M.Jr: Well, I won't do .....

M: But I didn't -- I shouldn't -- I wasn't putting it up as an irritant but more as an amusing example of the vicissitudes of this game.

H.M.Jr: Well, it's not so ..... I'd like to show it to the Ambassador because they ask so damn many things of me and they just haven't learned yet how to come through themselves.

M: I mean they're pretty good on the criticism, but they're not so hot on the cooperation.

H.M.Jr: Well, I'm going to use it at my discretion.

M: All right. But I apologize for irritating you.

H.M.Jr : No, no, no! You didn't irritate me. Now the other thing -- you will have the answer on things like those five Allison engines, etc., etc.

M: Yes, sir. They've already gone ahead on that. They are digging it out right now to do it.

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

M: Well, I'll be over there.

H.M.Jr: Oke, ten-fifteen.

M: Yes, sir. Thank you.

H.M.Jr: All right.

May 25, 1940  
10:10 a.m.

Operator: There you are.

H.M.Jr: Hello. Hello.

Operator: Hello, Mr. Sloan.

Alfred Sloan: All right.

Operator: There you are.

H.M.Jr: Hello.

S: Hello, Mr. Secretary.

H.M.Jr: Talking.

S: This is Alfred Sloan, General Motors.

H.M.Jr: Good morning.

S: Good morning. I want to have a word with you just for a minute over the phone, Mr. Secretary. I think it's quite important, and that is this. You understand fully my position regarding the importance of all these things we're trying to do, but I wanted to make this point.....

H.M.Jr: Please

S: ..... to get to the message I want to give you. I think it's also important to do everything we can to keep the economy going while we are trying to do those things.

H.M.Jr: Right.

S: I'm sure you subscribe to that, don't you?

H.M.Jr: Surely.

S: Well, all right. Now I heard the other -- that you were going to have a conference Monday with the machine tool people.

H.M.Jr: That's right.

- S: And the question arises as to the machine tool commitments that have now been made to the automobile manufacturers with regard to what we call our '41 program.
- H.M.Jr: Yes.
- S: Now the '41 program, Mr. Secretary, is largely finalized, that is, in our case we spent something like \$25 million already to get our '41 models out and everything will be finished in another thirty days.
- H.M.Jr: Yeah.
- S: Now, there can't be many machine tools involved in the completion of the '41 program, and if anything was done to disturb that, it would have a tremendous effect upon the ability of the industry to keep going and to support the economy while we're doing some of these other things, and I just wanted to call that to your attention. Now when it comes to the '42 program, that begins around in September and October and involves a lot of machinery and a lot of tooling.
- H.M.Jr: Yeah.
- S: I think we could well consider whether that ought not to be suspended, but I think we could probably discuss that further nearer the time when we see what the picture is at that particular moment.
- H.M.Jr: Well, do you go into the '42 one?
- S: Well, we don't -- we commence the '42, Mr. Secretary, about October or November.
- H.M.Jr: I see.
- S: And that involves -- that would involve maybe -- just taking all the manufacturers together -- that might involve \$60 or \$70 million worth of tooling, but simply tooling that it might involve \$50 million worth of machine tools. That would be a subject that would have to be very carefully considered with regard to the

- 3 -

rearmament program and any other situation that was before the economy and before the country at that time. But I again point out that that doesn't need to be considered until September or October.

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

S: But the '41 program, that's the one I've specifically talked about. We go into production on '41 cars in July or August and the time is so near and the job is so nearly completed that I can't conceive that anything that we might want to do in the way of rearmament, considering the time that it takes to get ready to do it, and make the plans, I'm quite certain that the decks would be completely cleared of the '41 program long before we could make any decision as to what we ought to have with regard to the rearmament plans.

H.M.Jr: Well, Mr. Sloan, you don't know me very well. Hello .....

S: Yeah.

H.M.Jr: I say, you don't know me very well, but I don't go off half cocked.

S: Yes, well, I was kind of worried about it because I know you don't, Mr. Secretary, but I just wanted to try to give you that idea, because not -- I hope you'll appreciate I'm not talking selfishly. I'm talking purely from the standpoint of the sincere belief that we must keep the economy going while we're trying to do these other things .....

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

S: ..... one into the other intelligently and consistently so that there will be the least interference as possible.

H.M.Jr: Well, you and I aren't thinking apart one iota.

S: I see. Well, that's fine. Now if any time you want to talk to me about this before --

I take it that I'm going to see you about that other matter some time next week.

H.M.Jr: That's right.

S: All right. We can talk -- I thought I'd take the liberty of calling you and I hope I may when anything comes up.

H.M.Jr: Please do, but I can't always come to the phone right away.

S: That's all right. I appreciate that and if I call and you are busy, then I can call again. I'd like to work with you.

H.M.Jr: And I'd like to work with you.

S: Thank you very much. That's all and I'll hear from you when you want me to come down to consider that British matter.

H.M.Jr: Right.

S: Thank you very much, Mr. Secretary. Thank you very much.

May 25, 1940  
10:31 a.m.

110

Operator: Mr. Welles.  
H.M.Jr: Hello.  
Operator: Mr. Welles.  
H.M.Jr: Right.  
Operator: Go ahead.  
H.M.Jr: Hello.  
Sumner Welles: Good morning, Henry.  
H.M.Jr: Good morning, Sumner. Sumner, General Marshall is here with me now .....

W: Yes.

H.M.Jr: ..... and we're discussing all these foreign orders. Requests have come in to me which I asked him to review. Now I understand he has seen you or written to you about whether under the International Law we can or cannot do this.

W: That's right.

H.M.Jr: When do you think you can give me an answer?

W: Why I gave the answer to General Marshall and I can give you the same answer.

H.M.Jr: What's that?

W: A direct sale by the United States to a belligerent is a violation of our neutrality under International Law and would also be counted in the terms of the existing Neutrality Act.

H.M.Jr: I see.

W: And as I said to General Marshall, it's a question of high policy which the President himself will have to determine. In other words, Congress would have to take action, as I see it.

H.M.Jr: Then it needs Congressional action.

W: Absolutely.

H.M.Jr : O. K.

W: I understand from what General Marshall tells me that there are certain instances among the things that he has in his list where we could avoid that by turning them over to private manufacturers and then the private manufacturers could sell and then, of course, there would be no violation of any law.

H.M.Jr: Well ..... Well, then we might just as well forget about it.

W: Well, I wouldn't forget about it because I feel very strongly that it ought to be done, and I think it ought to be done by the Congress knowingly and knowing what the implications are.

H.M.Jr: Well, who's going to take it up with the President?

W: I've asked Mr. Hull to take it up with the President and I'll take it up myself.

H.M.Jr: And as soon as you know anything, would you let me know?

W: Yes, indeed.

H.M.Jr : And if any of these cables of Bullitt's of requests for munitions or something, if they would be sent over to me because I get all the stuff of the Allies Purchasing Mission.

W: Yes. Well, I'll be very glad to do that because in many of these cases, Bullitt's requests have been left unanswered.

H.M.Jr: Well if you'd send any of them to me if they have to do with purchasing or buying by the Allies then I can try and keep it coordinated.

W: I'll be very glad to do that, Henry.

H.M.Jr: Thank you, Sumner.

W: All right, good-bye.

Copy of this sent to Mr. D. W. Bell 112  
instructions of Mrs. Klotz.

McH

May 25/40

May 25, 1940  
10:36 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

J. Edgar  
Hoover:

Hello, this is Hoover talking, Mr. Secretary. I just want to let you know that I just got a flash from New York that the German Consul contacted the Marine Midland Bank and informed them that he was expecting a cablegram remittance from Italy in the amount of \$9 million, which is to be received at the end of this next week, and is to be immediately checked out.

H.M.Jr: Yeah.

H: Now, of course, we will try to cover it up there also but I thought you might want to have that.

H.M.Jr: Now, wait a minute. This is \$9 million .....

H: \$9 million as a cablegram remittance from Italy.

H.M.Jr: From Italy.

H: It's to go to the Marine Midland Bank.

H.M.Jr: Well, maybe we can find some way to freeze it.

H: Well, it might be helpful if we could -- that's what I thought you might want to consider.

H.M.Jr: We're holding up 3500 lbs. of toluol in New York on a phony -- that's going to Italy -- on a phony excuse.

H: Is that so? Well, now this is a cablegram from Italy to the German Consul in New York City - that is, it's re the remittance for the Marine Midland Bank.

H.M.Jr: I'll -- thanks for the tip -- I'll .....

H: I just thought you'd like to have that.

H.M.Jr: Definitely. I thank you.

- 2 -

H:                   Very fine.  
H.M.Jr:             Thank you very much.  
H:                   Good-bye.

May 25, 1940  
4:50 p.m.

Operator: Go ahead, please.

H.M.Jr: Hello.

Dr. George Mead: Hello. Yes?

H.M.Jr: Mr. Mead, Morgenthau speaking.

M: Yes, sir.

H.M.Jr: I'm sorry I couldn't talk to you yesterday but life has been even more hectic than it was when you were here, if that's possible.

M: Well, I'm sorry for you.

H.M.Jr: Well, I'm all right. I'm cheerful and I'm alive and still want to work. Let me ask you -- tell you this, which is the only news I have. One, Keller wrote me a letter and as much as said he's not interested in Rolls Royce. I don't know whether you know that.

M: Well, I heard rumors. I'm glad of it in a way.

H.M.Jr: You are.

M: Yes, because of the start that this other group had.

H.M.Jr: You mean -- the other company.

M: Right.

H.M.Jr: O. K. Now I just had word from Mr. Kennedy that they put all the plans in the big truck and they're going to come over to United States -- all the plans and specifications.

M: Well, that's fine. I think they're playing ball, don't you?

H.M.Jr: Oh, definitely, I mean, Kennedy said he'd broken every English precedent under the sun in order to get this.

- 2 -

M: Well, I think Hines, the manager, would go a long way for it.

H.M.Jr: Well, he's done that and the other thing is this, that -- well, that the Keller and that's the Rolls Royce. Now, I've got nothing else. I wondered if you wanted to tell me how you felt about -- I take it you're not where you can talk.

M: Well, I can talk a little bit about this.

H.M.Jr: I mean .....

M: ..... and I went to Dayton, I'm in Indianapolis now, and .....

H.M.Jr: I take -- you're in the Allison plant.

M: The situation to me is much more serious than we thought it was, not from a delivery standpoint but from a design standpoint.

H.M.Jr: At Allison.

M: Yes, and I'm just now talking to Mr. Evans and we're trying to see what is the best program and he's a very cooperative person and I think we'll end up by coming to a mutually satisfactory agreement.

H.M.Jr: Yes.

M: Meanwhile, instead of kidding ourselves any more, I've got started on engines running at Wright Field that won't be on any standard Army test. They're on a test that we've used for years as a way of finding weaknesses quickly, and one engine is going over there by truck tonight.

H.M.Jr: From where?

M: Another engine there has to be brought back from the West Coast, but we'll shortly know what the solution must be in order that we can safely put these engines out.

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

- M: I haven't had a chance to look at the shop yet so I don't know anything about that.
- H.M.Jr: Well, are you .....
- M: When we were pushing the shop, we were pushing out something we could use.
- H.M.Jr: Are you standing this racket all right, physically?
- M: Well, I was up at four this morning. I was trying to get a little ahead of you.
- H.M.Jr: Yeah. What did you do that for?
- M: Well, it seems to me a pretty serious situation and the only thing we can do is put our best foot forward on it.....
- H.M.Jr: How are you coming back?
- M: ..... very cooperative and I have all the information from them and I didn't bring any of them over here.
- H.M.Jr: How are you coming back?
- M: Well, I couldn't get any Army transportation so I don't know how I'm coming back. I'm coming back when I get through and be there Monday morning some how.
- H.M.Jr: Well, I can tell you what I can do. I don't -- where is there Army transportation?
- M: Well, I sent to -- I, unfortunately, didn't do it while I was in Washington because I didn't expect any trouble -- but I sent through a request for Dayton to Arnold thinking that he could give me a Army blanket order that would cover transportation. But they said it had to go up to the President and that's where it has gone -- into the waste paper basket I guess.
- H.M.Jr: Well, I mean, how do you want to get back tomorrow -- when do you want to leave Indianapolis?

- M: Well, that's the unfortunate part, you see. Until we have gone over this ground, which may take hours yet, I can't tell. So don't you bother about me, I'll get there.
- H.M.Jr: Well, I'll tell you what I'll do. I'll start my -- will you be there overnight, in Indianapolis?
- M: Well, I thought if I got through here in any time to take a night train, I'd come as far East as I could to get some sleep and then get off and take a plane. We'll be in Pittsburgh that way in the morning, but .....
- H.M.Jr: Well, if you want why don't you get a good night's sleep where you are and I'll send my own plane out. I'll start it out either immediately or early tomorrow morning so it will come to Indianapolis?
- M: Well, the trouble with that is, the weather is very bad out here.
- H.M.Jr: Oh.
- M: So I thought the surest thing to do was to take a train tonight and I can get to Pittsburgh probably.
- H.M.Jr: I see.
- M: If there's any way that I can send a message to somebody in case we get stuck in order to get in there Monday morning, but .....
- H.M.Jr: Call Lieutenant McKay.
- M: Lieutenant McKay on our regular number.
- H.M.Jr: On District 2626. I'm still at the Treasury and I'll tell him if he hears from you -- I have my own plane, a Lockheed, and I can send it out for you.
- M: All right. Well, that might help us tremendously if we get off the train and find that there's no air service at that place.

H.M.Jr: You call Lieutenant McKay through District 2626 and any time you want, he'll send this Lockheed out for you.

M: All right.

H.M.Jr: It's Coast Guard, it's very good -- two pilots, a mechanic and radio operator.

M: Well, I'd feel safe in that.

H.M.Jr: And it's the best crew we have and their tops so .....

M: You didn't get a definition on our 50,000 planes, I take it.

H.M.Jr: (Laughs) My God! This is strictly between us. Brett came over to see me and he can't get a clearance on his program so he doesn't know where he is.

M: Well, I'm glad I raised the question.

H.M.Jr: But I've got it fixed now through an order from the President. He's ordered both the Army and Navy -- don't mention this to a living soul -- to put their plans on his desk Monday morning. What they want -- hello.....

M: Yes.

H.M.Jr: .....and then he sends it over to me.

M: Good! Fine!

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

M: ..... how can men start to work on that.

H.M.Jr: Well, the President had to send them a stiff order -- they're -- I know Navy's God damn sore about it but it doesn't make any difference.

M: Did you want me to do anything special about seeing the people from South Bend? I told .....

H.M.Jr: See who?

- 6 -

M: Mr. Moore and Vance and various people from Studebaker who had talked to the Allied Commission and you had told them, apparently, to see me.

H.M.Jr: Well, I just -- anybody who wants to build an engine for the Government, I send them to you just automatic.

M: What I was getting at was, if there wasn't anything too pressing I'd put them off a day or two than to have them come in Monday.

H.M.Jr: No. I'd like you, if you could get some rest, and then we'll get together the first thing Monday morning.

M: All right.

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

M: Yes.

H.M.Jr: I'll be available at, I'll say, from 9:15 on Monday morning.

M: Fine. I'll be there.

H.M.Jr: See? And don't hesitate -- I'll even say 9 o'clock, Mead.

M: All right.

H.M.Jr: And I'll save an hour then and then don't hesitate to ask for this plane.

M: I won't.

H.M.Jr : And it does take a little time to get out there but .....

M: When I know what time we're leaving here, I can telegraph McKay as to what .....

H.M.Jr: It's phone, don't telegraph, it's too slow.

M: I'll call him up.

H.M.Jr: Just telephone him and in the meantime I'm going to send a word to Lieutenant Burke, my own pilot, to stand by for orders.

M: Thank you very much.

H.M.Jr: So he'll be ready to take off in an hour from the time he hears from you.

M: All right. Thank you.

H.M.Jr: And are you discouraged on the Rolls?

M: Not a bit.

H.M.Jr: Oh, not a bit.

M: No.

H.M.Jr: Not a bit.

M: Not a bit.

H.M.Jr: Well, that's good. My cable is going now to Kennedy. But you're not discouraged on the Rolls?

M: No.

H.M.Jr: But you are on the Allison?

M: I'm not discouraged on the Allison because I think Mr. Evans, who's sitting right across the table from me, will do any reasonable thing with it.

H.M.Jr: How about the Continental?

M: Well, that's away behind.

H.M.Jr: Away behind.

M: That's not a possibility.

H.M.Jr: So we've only got two bets, the Rolls and Allison.

M: That's right.

H.M.Jr: That's of the liquid-cooled.

M: That's right.

H.M.Jr: Have you got this Taylor with you?

M: Oh, yes. Taylor and Kern -- I picked up another member of my family.

H.M.Jr: Kern?

M: Kern -- yes. He was an ex-Britisher -- did a lot of work for the Air Ministry during the last war and has been here with the Air Corps and then with Ethyl Gasoline Corporation. He is a fuel expert for one thing -- knows more about cylinders and combustion and certain parts of the engine than anybody I know of.

H.M.Jr: Dr. Compton is spending Sunday night with me.

M: Oh, good.

H.M.Jr: And I want to talk -- I had hoped that you would be here, but he's coming for supper. If by any chance, you're around -- he's coming to the house at six and have supper -- you're invited.

M: Oh, thank you.

H.M.Jr: If by any chance you're there, he's coming to the house at six and we're going to have a talk. If by chance you're there and you're alive and not too tired, we'd love to have you at six and then stay at the house for supper.

M: Well, thank you so much. I'll try and be there.

H.M.Jr: Well, now, my house is .....

M: ..... you'll know it's because I couldn't.

H.M.Jr: You'd better write down my address.

M: Just a moment.

H.M.Jr: 2211 Thirtieth Street, off Massachusetts Avenue.

M: 2211 Thirtieth Street, off Massachusetts. All right.

H.M.Jr: Now, one other question. I can borrow the services of Colonel E. S. Gorrell.

M: Yes.

H.M.Jr: Do you know him?

M: Yes.

H.M.Jr: Just think it over, whether we want him on to follow up any of the manufacturers.

M: All right, I'll do that.

H.M.Jr: You know him.

M: Yes. I don't know him well -- I know who he is.

H.M.Jr: Well, he's been recommended by General Marshall, but I won't do anything on it until I talk to you.

M: All right. Now we don't know anything further about our English license, do we, whether they are going to be willing to license it.

H.M.Jr: No. They're sending all the plans over to me, so I take it that that's -- means they're coming, I don't know.

M: Yeah. I didn't want to go too fast with this unless we knew that we were sure of getting a license and under some reasonable basis.

H.M.Jr: Well, I'll put that into the cable.

M: All right.

H.M.Jr: Thank you. Good-bye.

M: Thank you. Good-bye.

Note:

124

This was taken over personally by  
Lieut. McKay at 5:30 P.M., on May 25th.  
It was signed for by A. C. Roessler.  
(See our receipt book of May 25, 1940.)

McH

5/25/40

May 23, 1940.

My dear Admiral Noyes:

I would greatly appreciate it if you would send, by Secret Code, the following message to Ambassador Kennedy.

Quote - Congratulations on getting Rolls Royce plans. Would it be feasible to send these plans on board the first battleship or destroyer that is going to Halifax, care of the Air Attache, British Embassy, Washington. If it is not feasible, my second choice would be to put them on the United States steamship PRESIDENT ROOSEVELT which is on its way to Ireland. On what basis can United States government get license to manufacture Rolls Royce. Would appreciate prompt answer to this question.

The British Government has been fooling around for the last couple of months in regard to placing orders for powder. Arthur Purvis unable to get authority to place order for 20,000 tons in the United States and 14,000 tons in Canada. The trouble seems to be that his orders have to clear through Ottawa. Perfectly ridiculous that he is unable to deal directly with some authority in England. If you could use the example of powder to clear up the handicap under which Arthur Purvis is working you would be doing a great service. Sincere regards. Henry Morgenthau, Jr. - Unquote

Sincerely,

(Signed) H. Morgenthau, Jr

Rear Admiral Leigh Noyes,  
Director, Naval Communications,  
Room 2622, Navy Department,  
Washington, D. C.

MAY 25, 1960.

My dear Admiral Hoyes:

I would greatly appreciate it if you would send, by Secret Code, the following message to Ambassador Kennedy.

Quote - Congratulations on setting Hollis Hoyes plans. Would it be feasible to send these plans on board the first battleship or destroyer that is going to Halifax, care of the Air Attache, British Embassy, Washington. If it is not feasible, my second choice would be to put them on the United States steamship PRESIDENT ROOSEVELT which is on its way to Ireland. On what basis can United States Government get license to manufacture Hollis Hoyes. Would appreciate prompt answer to this question.

The British Government has been fooling around for the last couple of months in regard to placing orders for powder. Arthur Purvis unable to get authority to place order for 50,000 tons in the United States and 14,000 tons in Canada. The trouble seems to be that his orders have to clear through Ottawa. Perfectly ridiculous that he is unable to deal directly with some authority in England. If you could use the example of powder to clear up the handicap under which Arthur Purvis is working you would be doing a great service. Sincere regards. Henry Morgenthau, Jr. - Unquote

Sincerely,

(Signed) H. Morgenthau, Jr.

Hear Admiral Leigh Hoyes,  
Director, Naval Communications,  
Room 2682, Navy Department,  
Washington, D. C.

21  
May 25, 1940.

My dear Admiral Noyes:

I would greatly appreciate it if you would send, by Secret Code, the following message to Ambassador Kennedy.

Quote - Congratulations on getting Rolls Royce plans. Would it be feasible to send these plans on board the first battleship or destroyer that is going to Halifax, care of the Air Attache, British Embassy, Washington. If it is not feasible, my second choice would be to put them on the United States steamship PRESIDENT ROOSEVELT which is on its way to Ireland. On what basis can United States government get license to manufacture Rolls Royce. Would appreciate prompt answer to this question.

The British Government has been fooling around for the last couple of months in regard to placing orders for powder. Arthur Purvis unable to get authority to place order for 20,000 tons in the United States and 14,000 tons in Canada. The trouble seems to be that his orders have to clear through Ottawa. Perfectly ridiculous that he is unable to deal directly with some authority in England. If you could use the example of powder to clear up the handicap under which Arthur Purvis is working you would be doing a great service. Sincere regards. Henry Morgenthau, Jr. - Unquote

Sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Leigh Noyes,  
Director, Naval Communications,  
Room 2622, Navy Department,  
Washington, D. C.

THE SECRETARY OF THE NAVY,  
WASHINGTON.

25 May 1940

Dear Henry:

The attached copy is evidently intended for you, although it came in an envelope addressed to me.

Also attached is a copy of my answer to the President.

Sincerely,

Charles D. Wick

Hon. Henry Morgenthau, Jr.  
The Secretary of the Treasury.

Enc.

25 May 1940

CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT:

The instructions contained in your memo. of May 24, 1940, regarding the airplane expansion program, will be carried out.

In the interests of coordination, may I say that it might be well for you to suggest to Henry that he be a little more careful in checking his facts with informed sources before disturbing you with poorly assembled information.

The Navy is leaning over backward in attempting to keep things in the proper groove, and it is disappointing to be spanked unfairly, as in the case of the plane engines yesterday and the English powder situation the day before.

CHARLES EDISON

May 24, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE NAVY

*(also sent to  
Recy of War)*

I understand that practically all orders under the 1939 airplane expansion program have been placed. The new Congressional authorization provides for the acquisition of many new planes.

Please let me have the program requirements in aircraft and engines by types by Monday next.

It is of the utmost importance that no contracts be entered into from now on either for planes or engines or for the development of new types of planes or engines without coordinating this with the general program as a rule.

For the time being, until the final machinery is set up, this coordination will be cleared through the Secretary of the Treasury to me as Commander-in-Chief.

Please see that this is carried out in toto.

F. D. R.

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

PT:bj

Ry.

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

PT:bj

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 23, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

PT:bj

May 25, 1940

134

My dear Mr. President:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

FI:bj

*PI-*

May 25, 1940

My dear Mr. President:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Faithfully yours,

(Signed) H. Morgenthau

The President,

The White House.

FY:bj

May 25, 1940

My dear Mr. President:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

PT:bj

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 18 to May 23, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

FI:bj

*PJ*

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 15 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

FT:bj

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 15 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

FY:bj

May 25, 1940

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

FTibj

*R.I.*

May 25, 1940

My dear Mr. Compton:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 15 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morganthau, Jr.

The Honorable Lewis Compton,  
Assistant Secretary of the Navy,  
Washington, D. C.

PT:bj

PL

May 25, 1940

My dear Mr. Compton:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 15 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Lewis Compton,  
Assistant Secretary of the Navy,  
Washington, D. C.

FY:bj

May 25, 1940

My dear Mr. Compton:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 15 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Lewis Compton,  
Assistant Secretary of the Navy,  
Washington, D. C.

FT:bj

May 26, 1940

My dear Mr. Johnson:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 18 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morawenthan, Jr.

The Honorable Louis Johnson,  
Assistant Secretary of War,  
Washington, D. C.

PT:bj

704.

May 25, 1940

My dear Mr. Johnson:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Louis Johnson,  
Assistant Secretary of War,  
Washington, D. C.

FY:bj

May 25, 1940

My dear Mr. Johnson:

It gives me great pleasure to enclose herewith copies of statements showing airplane orders and deliveries to the British and French Governments from May 16 to May 22, 1940, and charts showing scheduled deliveries through December, 1941.

This material was compiled by the Treasury Department on the basis of figures submitted by the Anglo-French Purchasing Board.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable Louis Johnson,  
Assistant Secretary of War,  
Washington, D. C.

PT:bj

## Memorandum of Conference of the President

held at the White House at 2:00 p.m., May 25, 1940.

Present: Secretary of the Treasury Morgenthau  
Secretary of Commerce Hopkins  
Mr. McReynolds, Administrative Assistant to the President  
Mr. Smith, Director of the Budget

The President explained his ideas with respect to setting up an Advisory Commission in connection with the statutory Council of National Defense, and stated that it was his thought to limit the activity of the Council itself very definitely by fixing infrequent periods for meetings, the thought being that such meetings could be combined with the regular Cabinet meetings.

Secretary Morgenthau and Secretary Hopkins stated their hesitance to approve the setting up of so much machinery with the specific responsibility being fixed for the accomplishment of tangible results and suggested the alternative of substituting a "Board on Mobilization of Industries Essential for Military Preparedness", which is authorized by the National Defense Act of 1916 (39 Stat. 164, 214) and presented to the President a draft of an Executive Order which would accomplish this purpose. The President finally decided that he would prefer to adhere to the program which he had already outlined. His reason was his feeling that public reaction to the setting up of the Mobilization Board was that such Board was authorized in the statute providing for the declaration of a state of war or the imminence of war.

The names of the seven persons to be placed on the Advisory Commission were agreed upon. Their names and the designations of their several fields of activity are outlined in the attached explanatory memorandum dictated by the President.

Secretary Morgenthau then raised the question as to what would be required in connection with the debt limit. He suggested that the President clear with the "Big Four" the question of whether debt limit legislation should be enacted at this session. The President stated he preferred not to raise that question with the "Big Four" for reasons which he gave. He asked whether actual expenditures prior to next February 1, or possibly January 20, would exceed the present debt limit. Secretary Morgenthau stated that he would have the best possible information compiled on that by next Monday and if he found this question could not wait for action by the next Congress, he would be glad to undertake, subject to the President's approval, to discuss with Senator Harrison and other Congressional leaders the question of direct legislation increasing the debt limit to be immediately enacted. He expressed the belief that if the matter was presented as a necessary part of the Preparedness Program, the Congress would be willing to pass such a law. The President said he would like to have the Secretary undertake such clearance over the week-end. This the Secretary said he would do.

## EXECUTIVE ORDER

APPOINTING A BOARD ON MOBILIZATION OF INDUSTRIES  
ESSENTIAL FOR MILITARY PREPAREDNESS AND PROVIDING  
FOR ITS FUNCTIONS.

By virtue of and pursuant to the authority vested in me by the last paragraph of section 120 of an Act entitled, "An Act for making further and more effectual provision for the national defense, and for other purposes", approved June 3, 1916 (39 Stat. 166, 214), I hereby appoint a Board on Mobilization of Industries Essential for Military Preparedness consisting of \_\_\_\_\_

\_\_\_\_\_, Chairman: \_\_\_\_\_;  
 \_\_\_\_\_;  
 \_\_\_\_\_;  
 \_\_\_\_\_;

(herein called the "Board") and authorize the Board to perform functions under said Act as hereinafter provided:

1. The Board shall prepare, organize, direct, and otherwise effectuate a comprehensive program of national defense, with a view to increasing quickly the production and procurement of essential equipment and material needed for such program, and shall take all necessary steps to provide for such clerical assistance as may be necessary to organize and coordinate such work.

2. The Board may establish committees and subcommittees to advise and to aid it in carrying out its functions by furnishing

such information, material, and technical assistance, as the Board may request; and the Board may reimburse the members of any such committee or subcommittees for their actual expenses of travel and subsistence, including the expense of attendance at meetings of the Board.

3. In carrying out its functions the Board is authorized and directed to avail itself of the services of departments, bureaus and agencies of the Government, and to accept voluntary and uncompensated services of such departments, bureaus and agencies or to pay the administrative expenses incurred thereby. All accounting and administrative functions of the Board shall be performed by the Department of the Treasury.

4. The Board shall have power to make rules and regulations to carry out the purposes of said Act and this Order and to do all other things reasonably necessary to perform its functions.

THE WHITE HOUSE,

May , 1940.

Copied: NMS

MEMORANDUM

Under the law of 1916 and without the necessity for any further legislation, the President has set up an Advisory Commission for the Council of National Defense of seven members. These members and the subjects assigned to them are as follows:

Mr. William S. Knudsen, President, General Motors Corporation	Advisor on Industrial Production
Mr. Edward R. Stettinius, Jr., Chairman, Board of Directors, United States Steel Corp.	Advisor on Industrial Materials
Mr. Sidney Hillman, President, Amalgamated Clothing Workers of America	Advisor on Employment
Mr. Chester C. Davis, Member, Board of Governors of the Federal Reserve System	Advisor on Farm Products
Mr. Leon Henderson, Commissioner, Securities and Exchange Commission	Advisor on Price Stabilization
Mr. Ralph Budd, Director, American Railway Engineering Association	Advisor on Transportation
Miss Charlotte Carr, Head Resident of Hull House	Advisor on Consumer Protection

The President has set up in the White House, in accordance with the Executive Order of September 8, 1939, the Office of Emergency Management and has appointed William E. McReynolds in charge of that office. Mr. McReynolds will also act as Secretary of the Council of National Defense and of the Advisory Commission.

The Council of National Defense itself, which has been in continued existence since its creation by law in 1916, will continue to consult with the President whenever desirable. That Council being composed exclusively of Members of the Cabinet, it is probable that matters pertaining to all this work will be taken up at the regular Cabinet meetings. The Advisory Commission, therefore, will be, in effect, the principal body for the management and coordination of the program for expanding industrial production.

Copied: nms

OK  
7/1/16

RULES AND REGULATIONS  
COUNCIL OF NATIONAL DEFENSE

Under authority of Section 2 of the Act of August 29, 1916 (39 Stat. 649), the Council of National Defense adopts, subject to the approval of the President, the following rules and regulations for the conduct of its work:

Section 1. The Advisory Commission provided for in Section 2 of the Act of August 29, 1916 (39 Stat. 649), shall be composed of an Advisor on Industrial Production; an Advisor on Industrial Materials; an Advisor on ~~Labor~~ <sup>Employment</sup> Supply; an Advisor on ~~Agricultural Problems~~ <sup>Farm Products</sup>; an Advisor on Price Stabilization; an Advisor on Transportation; and an Advisor on Consumer Protection. Each of such advisors shall be in charge of and responsible to the Council for investigation, research, and coordination in his designated field.

Section 2. The Administrative Assistant to the President in charge of the office for Emergency Management in the Executive Office of the President is hereby designated as Secretary to the Council and to the Advisory Commission.

Section 3. The Secretary to the Council shall provide suitable and necessary personnel, supplies and facilities for the Advisory Commission and its several members and for such experts, special advisors, or other subordinate bodies as the Council may from time to time employ under the provisions of said Section 2 of the Act of August 29, 1916; and he shall perform such other duties as the Council may direct.

*Not accepted by  
the Pres.*

**RULES AND REGULATIONS  
COUNCIL OF NATIONAL DEFENSE**

Under authority of Section 2 of the Act of August 29, 1916 (39 Stat. 649), the Council of National Defense adopts, subject to the approval of the President, the following rules and regulations for the conduct of its work:

Section 1. The Advisory Commission provided for in Section 2 of the Act of August 29, 1916 (39 Stat. 649), shall be composed of an Advisor on Industrial Production; an Advisor on Industrial Materials; an Advisor on Labor Supply; an Advisor on Agricultural Problems; an Advisor on Price Stabilization; an Advisor on Transportation; and an Advisor on Consumer Protection. Each of such advisors shall be in charge of and responsible to the Council for investigation, research, and inquiry in his designated field.

Sec. 2. The Administrative Assistant to the President in charge of the office for Emergency Management in the Executive Office of the President is hereby designated as Secretary to the Council and to the Advisory Commission.

Sec. 3. The Secretary to the Council shall provide suitable and necessary personnel, supplies and facilities for the Advisory Commission and its several members and for such experts, special advisors, or other subordinate bodies as the Council may from time to time employ under the provisions of said Section 2 of the Act of August 29, 1916;

- 2 -

and he shall perform such other duties as the Council may direct.

Sec. 4. ~~The Secretary of the Treasury~~ and the Director of the Bureau of the Budget may attend all meetings of the Council, and shall be notified of such meetings by the Secretary to the Council.

My dear Mr. President,

Last night ~~the group~~  
~~heard, say~~ I got <sup>word</sup> from  
 my engineers that they  
 had found trouble ~~in~~ with  
 the design of the Allison  
 engine. They could not  
 give me any details as  
 they were telephoning  
 from the Allison plant.  
 Allison has an order  
 from the allies for  
 \$50 to 60 million dollars  
 and a large order  
 from the U.S. Army  
 and have completely fallen down  
 on their feet.

Please hold off  
 inviting Mr. Kudson  
 to Washington until  
 I see you Monday  
 13y that time I  
 will have full  
 details on the troubles  
 with Allison.

Sincerely  
 M. L.

(This was not  
 dated. It may  
 have been May 26/40)

WASHINGTON, D. C.  
 2211 THIRTIETH STREET

MAY 25 1940

Dear Jerome:

Thank you for your letter of  
May 24 about Floyd Odlum.

Sincerely yours,

*1-1/2 Henry*

Honorable Jerome W. Frank  
Chairman  
Securities and Exchange Commission  
Washington, D. C.

EHF:s 5/25/40

MAY 25 1940

Dear Jerome:

Thank you for your letter of  
May 24 about Floyd Gilman.

Sincerely yours,

*15/ Henry*

Honorable Jerome H. Frank  
Chairman  
Securities and Exchange Commission  
Washington, D. C.

JHF:8 5/25/40

MAY 25 1940

Dear Jerome:

Thank you for your letter of  
May 24 about Floyd Ollum.

Sincerely yours,

*15/ Henry*

Honorable Jerome W. Frank  
Chairman  
Securities and Exchange Commission  
Washington, D. C.

HEF: 5/25/40

8.14 74

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

158

OFFICE OF THE CHAIRMAN

May 24, 1940

CONFIDENTIAL

The Honorable  
Henry A. Morgenthau, Jr.,  
Secretary of the Treasury.

Dear Henry:

In view of something I heard yesterday I want to quote to you the following which I sent to the President on May 18:

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

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

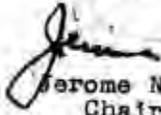
"Perhaps a good place for him would be on the National Power Policy Committee, assuming that it is to play an important part in expanding and coordinating power production. His ingenuity in helping to finance such a program would be invaluable."

That is the only recommendation made by me as to the use of Odlum by the government. After I sent that memorandum I was asked whether I thought Odlum could be helpful to the government in connection with the aviation industry. I replied that, from what I knew of him, I thought his ingenuity would be useful anywhere.

I did not, however, try to force him on you or anyone else -- with respect to aviation or anything else.

My views as to his usefulness to the government have not been altered by his proposed deal in connection with the Curtiss-Wright Company. As I understand that proposal, it was negotiated between Odlum on behalf of Atlas, on the one hand, and the officers of Curtiss-Wright, on the other hand. If anyone asserts that it was unfair to any of the security holders of Curtiss-Wright -- a subject on which I do not care to express an opinion -- it would be difficult for him to maintain that that unfairness (assuming, for the sake of discussion that it existed) disclosed any impropriety whatever on the part of Odlum. The most that could be said by anyone who felt that there was any unfairness to any Curtiss-Wright investors is that Odlum, in an arm's-length bargain, was trying to drive a good bargain for the investors in his own company. His proposition was accepted by the Curtiss-Wright officials, subject to a vote of their stockholders, and was subsequently abandoned by mutual agreement. I fail to see that that reflects on Odlum's abilities or integrity.

Sincerely yours,

  
Jerome N. Frank  
Chairman

# STRICTLY CONFIDENTIAL

## TREASURY DEPARTMENT

### INTER-OFFICE COMMUNICATION

160

DATE May 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Pinsent, Financial Counselor of the British Embassy, called on me yesterday noon, and handed me the attached communication, dated May 24, 1940, conveying a message from the Chancellor of the Exchequer to the Secretary of the Treasury. This is the message of which Mr. Pinsent had given me a summary at midnight, Thursday, May 23, and which I summarized to the Secretary in a memorandum written at 9 o'clock on May 24. I had had an opportunity to discuss this memorandum with the Secretary at 10 o'clock yesterday morning. I had explained to the Secretary that the original plan had been for the British Ambassador to ask to see the Secretary in order to present the official document, but that Pinsent was acting in the Ambassador's stead, since the document was purely technical. The Secretary instructed me to receive Mr. Pinsent. From the summary as we had received it, the Secretary saw nothing to which the Treasury could object.

Mr. Pinsent had some oral explanations to make when he delivered the official document to me. I explained the Secretary's inability to receive him, but arranged for Under Secretary Bell to receive the two of us. Mr. Pinsent repeated to Mr. Bell the remarks which he had made to me in explanation of the document, and to supplement it. The principal point not mentioned in the document was the concern of the British Government lest there might be a move in the United States to restrict the sale of United States dollar securities on this market by the British and French Governments if Great Britain should take the proposed action toward stopping the sale on the British market of securities owned by non-residents. The British requested Secretary Morgenthau's assurance that he would oppose any such action on the part of the United States if the question should be raised. The British had preferred not to put this matter in writing.

I told Mr. Pinsent that several points in the message would have to be brought to the attention of the State Department before any reply could be given by the Secretary of the Treasury. He understood this.

I also noted that paragraph 9 raised a question which I did not think could be resolved in advance. I suggested that the Secretary's answer cover only those paragraphs prior to number 9, and that we simply undertake to go into the question of the quotation of the free rate with the Federal Reserve officials after an answer may have been made to the communication. He seemed satisfied with this idea.

After Mr. Pinsent's departure, Messrs. Foley, White and Bernstein studied the document with Mr. Bell and myself, and we then were received by the Secretary. It was agreed that the State Department's views should be solicited, and that the Treasury had no objection to the document as received.

- 2 -

Yesterday afternoon I sent three copies of the message to Mr. Livesey in the Department of State and gave an explanation by telephone of the circumstances attending its receipt, and of the consideration which had been given it by the Treasury Department. I told him that we would not comment thereon to the British Embassy until we might have some message from the State Department. Mr. Livesey was sure the communication would be of great interest to the officers in his Department, including Secretary Hull.



Please give following message from  
Chancellor of the Exchequer to Mr. Morgenthau.

We have at no time since imposition of  
exchange control sought to obtain a competitive  
advantage for our exports by trading at a depre-  
ciated free rate. We have now decided to take  
steps with a view to conducting whole of our trade  
on the basis of official rate of exchange.

2. It was with this object that we concluded  
payments agreement with Argentine, Canada (?) and  
other countries. Apart from our trade with  
sterling area, our trade with French franc area and  
with countries with whom we have concluded payments  
agreements, is conducted on basis of official rate,  
and we have now decided to take step designed to  
place remainder of our trade on basis of official  
rate.

3. We assume that United States Government  
would not wish to conclude a bilateral payments  
agreement with the United Kingdom, and accordingly  
we intend to invoice all exports from the United  
Kingdom, and if possible from the whole of the  
sterling area, to United States and dependencies:

(a) in sterling bought against dollars at the  
official rate from our exchange control,

or

(b) in dollars.

4. With other countries, and particularly  
with exchange control countries, our policy will

be that sterling area exports to those countries should be paid for in sterling accruing from their exports to sterling area; rate of exchange between London and those countries would be based on official price of gold in London.

5. The decision that exports from the sterling area should be no longer paid in free sterling, if it stands alone, must tend to have a depressing effect on free rate. This in turn might well lead to evasion, so that part of sterling area exports would continue clandestinely to be paid for in free sterling. In order to minimise this danger we regard it as an essential part of measure which we propose to take that we should do what we can to reduce supply of free sterling at the same time as we reduce demand. We recognise that in present circumstances rate is bound to be governed by political factors quite as much as by financial and economic factors.

6. We have therefore decided that we must prohibit sale in this market of securities owned by non-residents. We take this temporary measure with the greatest regret but as we see it the only alternatives would be: 1. Danger of a very considerable further depreciation of free rate; 2. The unrestricted transfer into foreign exchange of sterling obtained by non-residents through sale of securities. Such transfer might constitute most serious drain on our stock of gold and foreign exchange, which would imperil our war effort to an

extent which, under present conditions, we cannot contemplate.

7. As a further measure to reduce supply of free sterling we shall give foreign exchange at official rates for current financial payments due to the United States, including dividends, interest, etc.

8. Chancellor of the Exchequer feels confident that Mr. Morgenthau will understand the necessity for these measures. Chancellor of the Exchequer hopes that Mr. Morgenthau will feel able to give him an assurance in this sense.

9. We hope that when these measures have been taken the United States Government will be able to assist us by arranging official rate to be quoted and for no quotation of free rate to be published in the United States. Once trade between the two countries - and indeed the whole or a large part of the trade of the sterling area - is conducted on the basis of official rate, and current financial transfers are effected at that rate, any so-called free market rate would apply to a very narrow range of transactions (legal or illegal).

24<sup>th</sup> May, 1948.



TREASURY DEPARTMENT  
WASHINGTON, D. C.

OFFICE OF THE CHIEF  
U. S. SECRET SERVICE

May 25, 1940

Memorandum for the Secretary

From Chief, Secret Service

The letter dated May 8, 1940, to you from Director Hoover, relating to alleged donations by A. P. Giannini to the Bund in order to "get Morgenthau" was based upon an interview of F.B.I. Agents with Max Rozan and Henry Unschuld. Director Hoover's letter stated that the interview took place on April 6, 1940, and you called my attention to the fact that 32 days had elapsed before the matter was called to your attention.

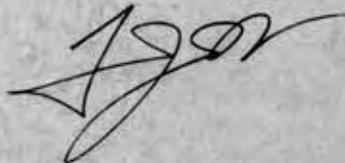
I now find that the date April 6th appearing in that letter was an error and it should have been May 6th. This error was discovered in studying the file of papers regarding this matter, which file was turned over to this office by the F.B.I. A detailed report is in the file dated May 6, 1940, signed by Agent J. F. Pryor, which indicates that Max Rozan called at the local F.B.I. office at 11:00 A.M. on May 6th. Another report in the file is dated May 7, 1940, and relates to the reference of the matter by Agent J. F. Pryor to Field Agents E. L. Nichols and C. F. Lanman, who called at the Mayflower Hotel on the afternoon of May 6th to interview Max Rozan and Henry Unschuld. An inquiry by an Agent of my office has confirmed the registration of Rozan at the Mayflower Hotel from May 2, 1940, to May 7, 1940, and that he was not registered there at any other time during the past year.

The file indicates that Henry Unschuld has a very bad reputation; that he probably entered this country prior to 1913, in which event he could not have been a German U-boat commander during the World War as alleged; that he was indicted at Chicago on November 16, 1934, for making a false oath before a naturalization examiner, which indictment was dismissed on April 29, 1935; that on July 31, 1926, he was convicted in Minnesota of

- 2 -

embezzling \$15,000 and sentenced to from one to ten years, serving almost five years; and that he has been involved in several other alleged frauds. In view of his extremely bad record, it is believed that his unsupported statements should receive no credence.

I am having the entire matter investigated at Los Angeles and at Chicago, and have requested that same be expedited. You will be promptly advised upon receipt of reports from the field.

A handwritten signature in dark ink, appearing to be 'J. J. [unclear]', is written in a cursive style to the right of the typed text.

May 25, 1940

Memorandum for the Secretary

From Chief, Secret Service

The letter dated May 8, 1940, to you from Director Hoover, relating to alleged denials by A. P. Glavin to the Bund in order to "get Morgenstern" was based upon an interview of F.B.I. Agents with Max Rosen and Henry Unschuld. Director Hoover's letter stated that the interview took place on April 8, 1940, and you called my attention to the fact that 32 days had elapsed before the matter was called to your attention.

I now find that the date April 8th appearing in that letter was an error and it should have been May 6th. This error was discovered in studying the file of papers regarding this matter, which file was turned over to this office by the F.B.I. A detailed report is in the file dated May 6, 1940, signed by Agent J. P. Fryer, which indicates that Max Rosen called at the local F.B.I. office at 11:00 A.M. on May 6th. Another report in the file is dated May 7, 1940, and relates to the reference of the matter by Agent J. P. Fryer to Field Agents E. L. Nichols and C. P. Lawson, who called at the Mayflower Hotel on the afternoon of May 6th to interview Max Rosen and Henry Unschuld. An inquiry by an Agent of my office has confirmed the registration of Rosen at the Mayflower Hotel from May 2, 1940, to May 7, 1940, and that he was not registered there at any other time during the past year.

The file indicates that Henry Unschuld has a very bad reputation; that he probably embeared this country prior to 1913, in which event he could not have been a German U-boat commander during the World War as alleged; that he was indicted at Chicago on November 16, 1934, for making a false oath before a naturalization examiner, which indictment was dismissed on April 29, 1936; that on July 31, 1936, he was convicted in Wisconsin of

- 2 -

embezzling \$15,000 and sentenced to from one to ten years, serving almost five years; and that he has been involved in several other alleged frauds. In view of his extremely bad record, it is believed that his unsupported statements should receive no credence.

I am having the entire matter investigated at Los Angeles and at Chicago, and have requested that same be expedited. You will be promptly advised upon receipt of reports from the field.

HSM

GRAY

Milan

Dated May 25, 1940

Rec'd 10:10 a. m.

Secretary of State,  
Washington.

41, May 25, 3 p. m.

Today's market index 210.47. Volume 83,350.

Market weak and prices declined materially on  
news latest political developments.

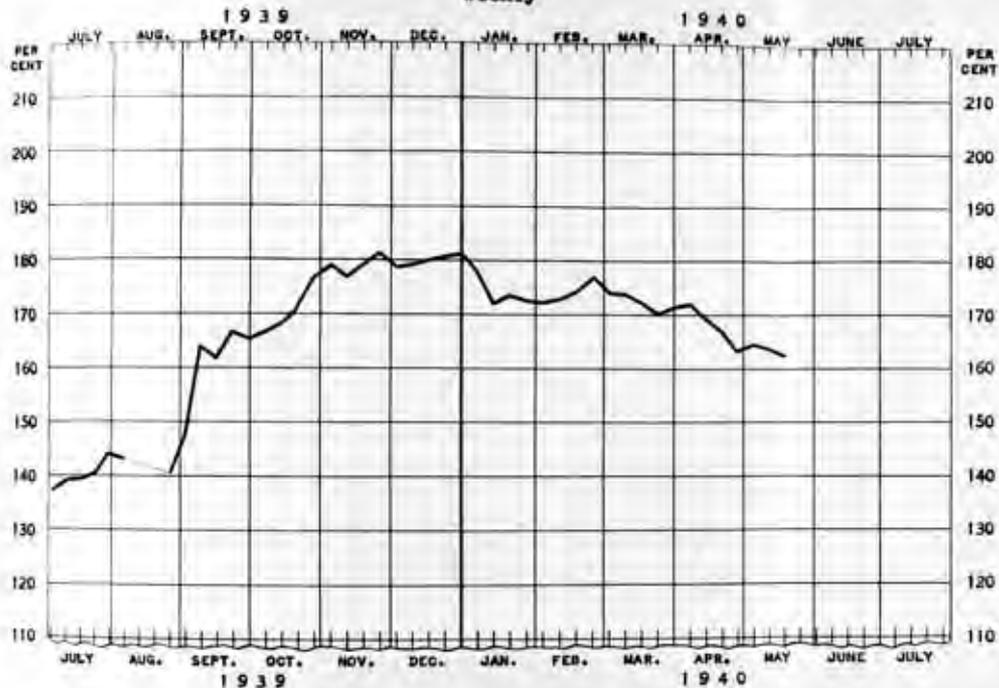
SHOLES

GV

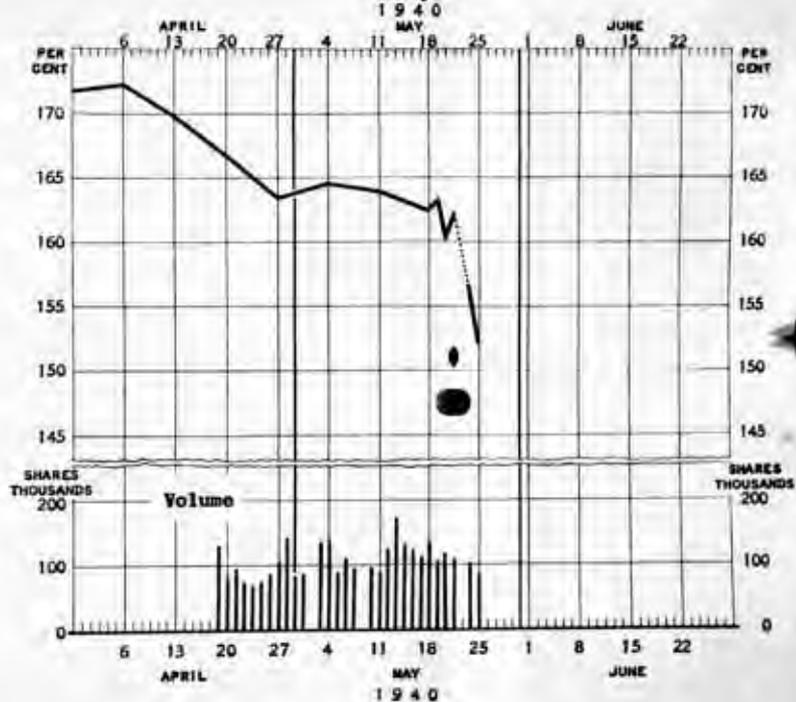
ITALIAN STOCK PRICES  
(Milan)

Dec. 31, 1927 = 100

Weekly



Daily\*



\*DAILY FOR LATEST WEEK ONLY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 25, 1940, 5 p.m.

NO.: 882

FOR THE TREASURY.

Today Rueff and the Counselor of the Embassy had lunch together. Rueff told the Counselor that although the note circulation had now reached 162,000,000,000 he was not worried about that phase of financial affairs. However, the unsatisfactory attitude of the British with regard to exchange control was a source of worry to him. He said that he might go to London tomorrow to try to persuade the British to adopt a more firm policy on the "free" rate of sterling. In his opinion it is unfortunate that the franc should continue to be tied to the pound. He said that there is positively no good reason for the franc being quoted at other than the official rate in New York. Should there be adopted a more realistic policy detached from the wavering hesitation pursued by London during the past few months, then within a week the rate abroad of 55 francs to the dollar could be corrected to 43.70.

END SECTION ONE.

BULLITT.

EA:LWW

MT

GRAY

Paris

Dated May 25, 1940

Rec'd 2:50 p.m.

Secretary of State,

Washington.

(SECTION TWO)

882, May 25, 5 p.m.

He said that obviously when there is as great a margin as at present between the official and free rates of the franc the temptation to commit fraud on the part of various and sundry speculators is strong.

Rueff also feels that the amount of franc exchange available abroad should be restricted.

He added with a chuckle that since the decline of the franc on "free" markets to 55 the demand for gold wedding rings in France had quadrupled thereby indicating either an improved social trend or simply that the present exchange policy is considered unsound.

Rueff mentioned one or two side lights in connection with the present tragic situation which he said quite frankly is the result of years of bad government in France. (END SECTION TWO)

BULLIT

PEG

JR

GRAY

Paris

Dated May 25, 1940

Rec'd 2:50 p.m.

Secretary of State,

Washington.

862, May 25, 5 p.m. (SECTION THREE)

He visited Le Havre and Rouen yesterday and described the pitiful condition of the thousands of refugees with their meager possessions marching painfully along the roads. He had learned that the manager of the Bank of France branch at Lille had been ordered by the prefect to leave on two hours notice in connection with the general evacuation. The manager had one truck at his disposal and succeeded in removing to Rennes all of the bank notes in the branch and most of the essential records but was obliged to leave some items because of reasons absolutely beyond his control. He felt himself disgraced and committed suicide after his arrival at Rennes.

Rueff said that thus far about two billion Belgian francs have been sold in France by the refugees.

(END SECTION THREE)

PEG

BULLITT

MT

GRAY

Paris

Dated May 25, 1940

Rec'd 5:50 p.m.

Secretary of State,  
Washington.

882, May 25, 5 p.m.

(SECTION FOUR).

The banks continue as before to accept them at the rate of 144 French francs for 100 Belgian francs, but undoubtedly many unfortunate individuals have accepted sacrifice rates at the hands of small tradesmen where they were unable to obtain bank facilities or because of the restrictions on the amount of Belgian francs the banks may exchange for individuals or families (please see Embassy's telegram No. 696, May 21, 7 p.m.).  
(796?)

The Bank of France has instructed the Paris banks to remain open this afternoon to accommodate clients desiring access to their safe deposit boxes and to enable Belgian refugees to change their money into francs. Skeleton staffs will be on duty tomorrow. Pearce of the National City Bank said that no orders were received advising the banks to be ready for any emergency. (END OF MESSAGE).

BULLITT

NK

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Naples, Italy.

DATE: May 25, 1940, 11 a.m.

NO.: 103.

Reference is made to the Department's telegram  
no. 95 of April 27, noon.

FOR THE TREASURY.

The following changes have been made in the  
schedule of sailings of Italian steamers from Naples  
for New York:

June 11 - Rex.  
June 13 - Augustus.  
June 24 - Conte di Savoia.  
June 27 - Roma.

BOWMAN

EA:MSG

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

176

INTER-OFFICE COMMUNICATION

DATE May 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Leroy-Beaulieu called on me yesterday at 1 o'clock. He was particularly interested in the question of stopping the imports into and supervising the sale in the United States of any securities which might be seized in invaded countries. I told him that we had been studying this question actively and that a meeting of our officials with the S.E.C. group was to be held yesterday afternoon to go into the matter further.

Leroy-Beaulieu also mentioned to me the interest of the Allied Purchasing Mission in New York in seeing that some one outside of the Netherlands will have authority to draw on the gold account of the Netherlands Bank in this country. Obviously, the Purchasing Commission hopes to have the Dutch gold put into the Allied pool. I told Leroy-Beaulieu that the question of authority to draw on the accounts of the Netherlands Bank was one which concerned the Federal Reserve Bank of New York directly, and that I understood the Minister of the Netherlands was in direct contact with the New York bank on the general subject of funds of the Netherlands in that bank.



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

177

INTER-OFFICE COMMUNICATION

DATE May 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Dr. Leo Pasvolaky has telephoned me from the State Department that a small committee is to meet in his office, Room 296 in the State Department, at 3 o'clock on Monday, May 27, and that I am expected to be present. I told Dr. Pasvolaky that I was not aware that I had been named to any joint committee. He said this matter had been discussed by Secretaries Morgenthau and Hull and that he understood Dr. Harry White and I were the two representatives to come from the Treasury Department. Is this correct?



**STRICTLY CONFIDENTIAL**  
**TREASURY DEPARTMENT**

178

**INTER-OFFICE COMMUNICATION**

**DATE** May 25, 1940

**TO** Secretary Morgenthau

**FROM** Mr. Cochran

Dr. Feis telephoned me yesterday to learn whether we had spoken to the French and British in regard to their gold. He said this was almost as important as the British navy. I told Feis that this question had come up in my conversation with Pinsent and that his Embassy had broached the subject to the Government in London, but had had no reply to the message. Pinsent was under the impression that a considerable amount of gold had been conveyed to Canada and that the British would be entirely alert toward removing both gold and securities if a crisis should threaten. As for the French, we are aware from the cablegrams that steps have been taken to remove gold from Paris and the banks have been duly warned with respect to securities, etc.

Feis asked me to bring this matter to the attention of Secretary Morgenthau, and he said he would, in turn, speak again to Secretary Hull in the premises.



# STRICTLY CONFIDENTIAL

179

## TREASURY DEPARTMENT

### INTER-OFFICE COMMUNICATION

DATE May 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke told me by telephone yesterday that the Federal Reserve Bank of New York had paid \$260,000 to the Chase Bank for the account of the Italian Exchange Institute, representing proceeds of gold sales made by the Bank of Italy.

Mr. Knoke added that the Guaranty Trust had received instructions from the Italian Exchange Institute during the last few days to sell French francs and sterling. The Chase Bank was also carrying out orders from Italy to sell francs on this market. Hungary was selling both sterling and francs here. Mr. Knoke stated that the Federal Reserve Bank had received a cable from the National Bank of Rumania to credit \$1,113,000 to the Bank of Italy, for the account of the Italian Exchange Institute. The Bank of Italy has, in turn, asked that the sum be paid to the Chase Bank.

Mr. Knoke referred to a conversation which he had had with the Bank of England, quoting Bolton as saying that they were prepared to be bombed, but that they thought this would not transpire.



TREASURY DEPARTMENT

380

INTER-OFFICE COMMUNICATION

DATE May 25, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. Leroy-Beaulieu, Financial Attache of the French Embassy, telephoned me this morning from New York. He referred to the plan for creating one or two corporations in this country to own powder plants for the Allies. He asked the specific question as to whether the State Department would have any objection to him, Leroy-Beaulieu, sitting on this Board as a representative of the French Government, notwithstanding the fact that he is an accredited French Financial Attache and enjoys diplomatic status. I told Leroy-Beaulieu that I would take this matter up at once with the State Department and give him a quick reply, since he considered the question urgent. He told me that he thought Mr. Purvis had already let the State Department know, most likely through the Treasury Department of the general plan for establishing one or two corporations for the above mentioned purposes.

After clearing with Phil Young, I telephoned Mr. Moffat in the Department of State and posed the question.

At 12:15 Mr. Stanley Woodward, Assistant Chief of the Protocol Division of the Department of State, telephoned me in regard to this matter, which had been referred to him by Mr. Moffat. Mr. Woodward stated that he had consulted several officers, and the general opinion was that there would be no objection to Mr. Leroy-Beaulieu serving as a director. It was requested, however, that this question be submitted in writing through the French Embassy to the Department of State, for a formal decision.

At 12:25 I endeavored to reach Mr. Leroy-Beaulieu by telephone in New York, but he had left his office. I left word for him to telephone me on Monday morning.



STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

181

INTER-OFFICE COMMUNICATION

DATE May 25, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. Pinsent, the Financial Counselor of the British Embassy, told me this morning by telephone that he had been talking with his Ambassador in regard to the situation arising from the fact that their official sales of dollar securities are at a standstill, as a result of the stock market situation in this country. He said this may naturally result in the necessity for increased sales of gold.

Pinsent said the question naturally came to him as to whether there might be the possibility of borrowing against this dollar securities as collateral if it might become physically impossible to get gold out of England sufficiently rapidly to meet the need for dollars in this country. He reminded me that contracts for British purchases on this market require cash payment. He was concerned lest this question might possibly become acute after Congress adjourns, and when it might be difficult for any action to be taken in the absence of congressional authorization or approval. I told Pinsent that I thought his question might be just a little far fetched, since I thought the British, under present circumstances, would take all precautions to ship enough gold out of their country to a safe place to meet all possible emergencies, and to preserve this store of wealth against any happenings. Pinsent is not aware as to how much gold the British have shipped to Canada or how much is now being convoyed out. He wants to know whether his Embassy should raise the question of borrowing against securities with the Secretary, or whether this would be inopportune.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In light trading, sterling advanced from an opening rate of 3.19 to a high of 3.20-3/8 late in the morning. The closing quotation was 3.19-5/8.

Sales of spot sterling by the six reporting banks totaled £162,000, from the following sources:

By commercial concerns.....	£ 16,000
By foreign banks (Europe).....	<u>146,000</u>
Total.....	£162,000

Purchases of spot sterling amounted to £166,000, as indicated below:

By commercial concerns.....	£ 3,000
By foreign banks (Far East).....	<u>163,000</u>
Total.....	£166,000

The Guaranty Trust Company reported that it had sold cotton bills totaling \$8,000 to the British Control on the basis of the official rate of 4.02-1/2.

Developments in the other important currencies were as follows:

The French franc improved from .0180-1/2 at the opening to .0181-3/4. The final quotation was .0181-1/4.

The Swiss franc moved off to a low of .2239 in a very thin market. It subsequently improved to close at .2242.

The Canadian dollar continued to weaken today, touching a new record low of 22-1/4% discount in the midmorning. The closing discount was 21-7/8%.

The lira and the reichsmark were unchanged all day, closing at .0505 and .4000 respectively.

The yuan rates received from Shanghai were 4-1/8d and 5-1/2¢. These were unchanged from yesterday's quotations.

The discount for the Cuban peso narrowed further to 9-3/4%. The Mexican peso was unchanged at .1672.

There were no gold transactions consummated by us today.

# CONFIDENTIAL

183

- 2 -

According to communications forwarded to us today by the State Department, the following gold shipments are being made:

\$ 56,000 from England, shipped by Johnson Matthey, London, to Barclays Bank  
D. C. & O., New York.  
46,000 from Thailand, shipped by the Litcho Gold Mine Society, South Thailand,  
to the Chase National Bank, New York.  
\$102,000 Total

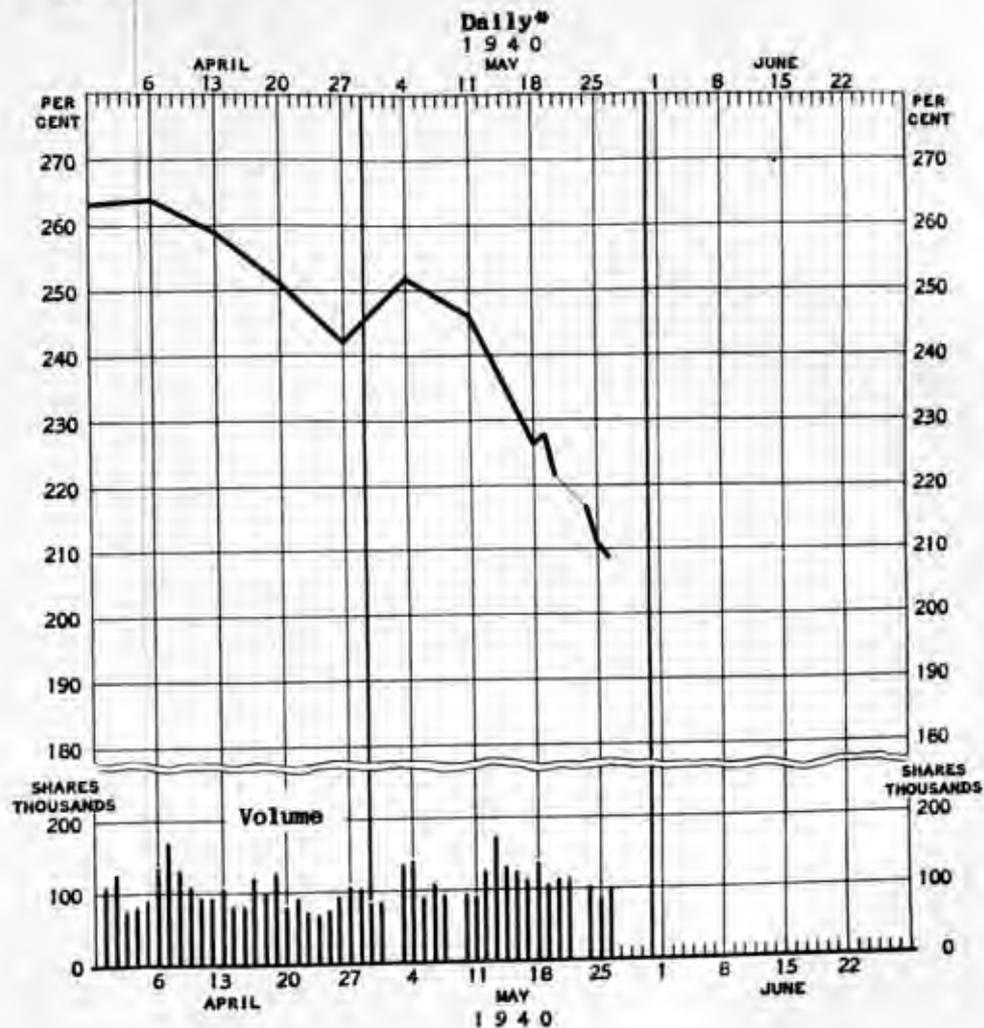
The above shipments will be sold to the U. S. Assay Office at New York.

The dollar equivalent of the Bombay gold price today was \$38.48, representing an advance of \$1.11 over yesterday's price.

The Bombay spot silver quotation rose the equivalent of 11/16¢ to 45.07¢.

*J. M. P.*

### ITALIAN STOCK PRICES (Milan)



\*SATURDAY FIGURES PRIOR TO MAY 20.

Sunday May 26, 1940

2211 THIRTIETH STREET  
WASHINGTON, D. C.

Called Roy Blough told  
him to get busy figuring  
10% Mat. House Tax and  
to bring gang to House at 12.00

May 26, 1940

This is HM, Jr's program on the taxes, when he had Blough and Tarleau at his house, Sunday night, May 26th.

collect within year 1940

100% increase on 1939 income	individual	Tax Liabilities	\$100.00
100% " " "		corp Tax	\$90.
Increase Beer from \$5.00 to 7.00			50.
" " distilled liquors from 2.25 to 3.00			30
Increase gasoline from 1¢ to 3¢			170
			<u>\$460</u>

Mr. Reed wants to  
get that part of cable  
granting license  
for Rolls Royce  
engine

187

No!!!!

NAVAL MESSAGE  
(NAVY DEPARTMENT)

7-100  
100 5/20/46

From: <b>ALUSNA LONDON 261345CR210</b>	ACTION	OPNAV
Released by: _____		
Date: <b>26 MAY 1946</b>	INFORMATION	To: _____
NITE to: _____		
ROUTINE to: <b>TELETYPE</b>		
PRIORITY to: _____		

Write A/T/C address including full name (optional)

**NOTE: A RECEIPT HAS BEEN SIGNED FOR THIS SECRET DISPATCH BY \_\_\_\_\_ WHEN NO LONGER NEEDED IT SHOULD BE RETURNED TO THE NAVY DEPARTMENT COMMUNICATION OFFICER (ROOM 2623) FOR DESTRUCTION AND RETURN OF RECEIPT. THIS IS THE ONLY COPY OF THIS MESSAGE BEING DISTRIBUTED.**

TEXT

FOR SECRETARY OF THE TREASURY MORGANTHAU:

EXPECT FORWARD PLANS ON ENGLISH DESTROYER APPROXIMATELY 30 MAY, AND HAVE BEGUN WORK ON POWDER SITUATION. PLEASE FURNISH SPECIFIC

DETAILS ON ANY ADDITIONAL HOLDUPS. NOW WORKING ON OUTSTANDING BOMBERS: STERLING AND HALIFAX WILL ADVISE TOMORROW OR LATER.

DESIRE TO KNOW IF YOU WISH PLANS OF HURRICANE AND SPITFIRE, WHICH ARE MUCH DESIRED, AND I WOULD TRY TO GET PLANS WITH THE ROLLS ON 30TH.

LORD BEAVERBROOK, WHO IS NOW IN CHARGE OF THE MANUFACTURING OF AIRCRAFT, INFORMED ME THAT HE CONSIDERS THAT THE UNITED STATES

IS LICENSED TO PROCEED WITH MANUFACTURE OF ROLLS WITHOUT CHARGE, WHEN THE PLANS AND SPECIFICATIONS ARE SUPPLIED, ON THE

BASIS THAT LICENSE IS TURNED OVER WHEN THE PLANS ARE SUPPLIED. IT WILL BE ENTIRELY OPTIONAL WITH US, SHOULD ENGLAND BE VICT-

ORIOUS AT CONCLUSION OF WAR, TO REMUNERATE THEM IF THEY SO REQUEST, AND THEN TO ONLY THE EXTENT TO WHICH WE DESIRE.

KENNEDY

DISTRIBUTION:

SEC. OF TREAS.....ACTION

**NOTE: DELIVERED BY OFFICER MESSENGER**

Original to be delivered to Communications Watch Officer in person. (See Art. 75(4), Navy Regulations.)

FOR PAGES 189, 190, AND 191, SEE BOOK 272, PAGES 12-A AND 98-A

## PARAPHRASE OF TELEGRAM RECEIVED

London

Dated May 25, 1940

rec'd. 10:38 a. m.

Secretary of State,  
Washington.

RUSH

1374, May 25,

PERSONAL AND SECRET FOR SECRETARY MORGENTHAU AND  
SECRETARY HULL.

I have just again seen some of the Rolls Royce personnel and Lord Beaverbrook. The Rolls Royce Company, with the approval of Prime Minister Churchill, which I believe will be granted today, is ready to deliver to me personally on May twenty-seventh all the specifications and plans of the company. Heavy motor truck will be filled by them and I wonder if you have any ideas for forwarding them home. Their importance is tremendous, as I am sure you can well imagine. Do you want anything else?

They have made, I believe, an enormous concession and I think we should quickly avail ourselves of it. Your instructions are awaited.

KENNEDY

Sunday, May 26, 1940  
7:00 p.m.  
(At Secy's House)

Admiral Towers of the U. S. Navy, General Arnold and Major Lyon of the U. S. Army, and Dr. George Mead collaborated with me in drafting the following message:

To Ambassador Kennedy

Amembassy, London

I am delighted with the progress made by you.

I am very anxious to obtain the plans for the Spitfire and Hurricane. These plans should include complete details and specifications on the armor guns fire control equipment and the method of leak proofing for the two planes mentioned above.

I also would like the plans and specifications for the Frazier-Nash aircraft gun turret including control mechanism for this turret.

I also would like the plans and specifications for the magnetic mine detonator as carried on aircraft.

In addition to this I would like captured material including the Junkers engine used on the German Junkers plane JU88 and the DB model 601 German aircraft engine with hydraulic supercharger and fuel injection.

- 2 -

It is highly important that the plans and specifications for the Rolls Royce engine and all other plans and specifications are of the most recent and proven design.

Please send for Major F. O. Carroll and Lieut. Col. Grandison Gardiner and after showing them this message determine from them whether or not there are any additional items or information which could be used by our Navy and Army Air Corps.

Thank you for your invaluable assistance in this matter.

Kind regards,

H.M.Jr.

Prepared Sunday 5/26/40

135

Tentative revenue estimates under the proposed Special National Defense Tax provisions

Source	: Estimated additional revenue : which will be received;	
	: in the period : during the full	: July 1, 1940 : fiscal year
	: through	: 1941 (July 1,
	: December 31,	: 1940 through
	: 1940	: June 30, 1941)
	(millions of dollars)	
10 percent super tax on 1939 income tax liabilities of corporations 1/ .....	117	117
10 percent super tax on 1939 income tax liabilities of individuals 1/ 2/ .....	91	91
Distilled liquors (rate increase from \$2.25 to \$2.75 per gallon, with floor tax) 3/ .....	35	59
Beer (rate increase from \$5.00 to \$6.50 per barrel) 3/ .....	35	67
Tobacco (rate increase from \$3.00 to \$3.25 per 1,000 cigarettes with proportionate increases on other tobacco products) 3/ .....	20	41
Gasoline (rate increase from 1¢ to 3¢ per gallon) 3/ .....	197	398
<b>Total</b> .....	<b>495</b>	<b>773</b>

Treasury Department,  
Division of Research and Statistics.

May 26, 1940.

- 1/ The super tax is to be imposed on income tax liabilities for the first taxable year beginning after December 31, 1938, and is to be payable during the calendar year 1940, the exact date yet to be determined.
- 2/ The super tax on individuals shall not exceed 10 percent of net income remaining after deducting the existing Federal income tax.
- 3/ The proposed increased rates are to be effective for one year beginning at July 1, 1940. It is anticipated that by December 31, 1940 six months collections of the liquor, beer and tobacco taxes, and five months collections of the gasoline taxes, will have been received at the increased tax rates.

ESTIMATE OF PUBLIC DEBT POSITION ON VARIOUS DATES

(In millions of dollars)

	Estimated balance of borrowing authorization <sup>1/</sup>					
	June 30, 1940	December 1, 1940	January 1, 1941	February 1, 1941	March 1, 1941	June 30, 1941
1. Budget estimate (revised by Treasury based upon deficit of \$2,550M) excluding \$700M recapture from credit agencies and excluding additional taxes of \$460M ..	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,195	1,075	880	840	735
2. Budget estimates as under No. 1 above and adding \$750M additional expenditures for national defense and \$300M for relief .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	960	770	490	365	- 315
3. Budget estimates as under No. 1 above, including \$700M recapture from credit agencies but excluding additional taxes .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,895	1,775	1,580	1,540	1,435
4. Budget estimates as under No. 1 above, and including \$700M recapture from credit agencies and adding additional expenditures of \$750M for national defense and \$300M for relief .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,660	1,470	1,190	1,065	385

<sup>1/</sup> Assumes \$500M new money borrowed in September, 1940.

Note: Assumes credit agencies will finance their own requirements in 1941 and not draw on Treasury working balance

RDS

GRAY

Calcutta

Dated May 26, 1940

Rec'd 10:24 a.m.

Secretary of State

Washington.

May 26, 11 a.m.

Referring to Department's telegram of May 24, 4 a.m.;  
and May 25, 12 noon.

List of restricted goods includes those covered  
under the following item numbers of the Indian customs  
tariff: 5 (2) 8 17 17 (2) 17 (3) 20 22 (2) 24 24 (1)  
24 (2) 25 (7) 28 (14) 29 (1) 30 (7) 32 32 (1) 32 (2)  
36 (2) 38 39 (1) 40 (2) 42 46 (3) 48 48 (4) 50 (7) 55  
56 56 (1) 58 59 (2) 59 (3) 59 (4) 59 (5) 60 (3) 61 (1)  
61 (4) 61 (8) 61 (9) 61 (10) 63 (29) 71 (3) 73 (4)  
75 (1) 75 (3) 75 (5) 78 80 (1) 80 (2) 81 82 (1) 84 85 (1).

List also includes the following: canned or bottled  
fruit, proprietary and patent medicines, stationery as  
defined in tariff, lace embroidery apparel, haberdashery,  
millinery and drapery not otherwise specified in tariff,  
tiles other than glass, earthenware, porcelain tiles,  
sheet and plate glass, tableware, unset pearls, gold  
plate and gold manufactures all sorts not otherwise  
specified

-2- May 26, 11 a.m., from Calcutta.

specified in tariff, domestic hardware and stoves, motor  
vans and motor lorries imported complete, talking machines  
and parts thereof and records for talking machines and  
buttons other than metal.

GROTH

WSB

RECEIVED  
MAY 26 11 23 AM '46

May 27, 1940  
11:42 a.m.

H.M.Jr: Hello.

Operator: Ready with General Wood.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

Gen. Robert  
E. Wood: Hello, Mr. Morgenthau.

H.M.Jr: How are you?

W: Fine, thank you.

H.M.Jr: General Wood, I'm calling up about Edward  
Brooks and I want to know whether I can  
borrow him.

W: Say, Mr. Morgenthau, he couldn't -- you know  
I'd do anything I could in this emergency  
but he's a new officer, he's just on his job  
and he's just a fellow I can't replace at the  
present time.

H.M.Jr: Oh.

W: Now, Don could come down for awhile.

H.M.Jr: Don who?

W: Don Nelson.

H.M.Jr: Could he? Could he come down?

W: I think he could come down for awhile.

H.M.Jr: What do you call awhile?

W: Well, how long do you want?

H.M.Jr: (Laughs) I don't know. I'd like to leave it  
open ended.

W: Well, if you want me to, I'll talk to him tonight, as far as the firm is concerned.

H.M.Jr: Would you do that?

W: I think we could arrange it.

H.M.Jr: I'll have to plead a little ignorant. I know about Mr. Nelson, but I don't know just what end of the business he's been doing for you.

W: Well, he's been on the Advisory Council. He was the man, you know, the President wanted to get as National Wage and Hour Administrator.

H.M.Jr: Oh, yes.

W: He's the one man that capital and labor could agree on.

H.M.Jr: I see.

W: He's -- he was also down there with Williams on the N.I.R.A. and acted as receiver for the N.I.R.A.

H.M.Jr: Oh, yes.

W: He's also a chemist. He's our Executive Vice President and, well, any one of your associates in the Government could tell you all about him.

H.M.Jr: Good.

W: Hopkins, the President, or any of them.

H.M.Jr: I see.

W: He is a very top notch man.

H.M.Jr: I wanted somebody -- the reason that I happened to strike on Brooks was I wanted somebody a little bit with the engineering background.

W: Well, Nelson has got a scientific education.

H.M.Jr: He has.

- 3 -

W: He started in our laboratory.

H.M.Jr: I see.

W: Originally.

H.M.Jr: I see.

W: So he has got a scientific background.

H.M.Jr: Well, I know he enjoys a very fine reputation but, if -- let's put it this way -- if he's willing and your firm being willing, do you suppose he could be here Wednesday morning to see me?

W: Well, I'll ask him and phone you back.

H.M.Jr: Pardon?

W: I say I'll ask if he's in the building and I'll get hold of him and phone you back this afternoon or wire you back.

H.M.Jr: Will you wire me?

W: Yeah, I'll wire you.

H.M.Jr: And -- but the other man is out of the question.

W: The other man is out of the question at the present time.

H.M.Jr : All right, well then if Nelson is interested and you see the thought is this -- a good part of his time will be contacting the Allied Purchasing Board and assisting them in their contact with the Army and Navy and other with other manufacturers. Well, now do you think .....

W: ..... no better man that you could get than Nelson.

H.M.Jr: No better man.

W: And if he wouldn't serve, personally, I would lead those things up. I would put it, the firm can spare you if you're willing to go.

- 4 -

H.M.Jr: Right.

W: But if he isn't willing to serve himself -- there is no man that has a wider knowledge of American industry than Don Nelson.

H.M.Jr: Well, that's what I need, a knowledge of American industry.

W: ..... and who could recommend to you a man if he couldn't do it himself.

H.M.Jr: You see how he feels -----

W: ..... I'll see him this after -- this noon and wire you this afternoon.

H.M.Jr: He sounds good.

W: All right.

H.M.Jr: Thank you.

W: You're welcome.

May 27, 1940  
3:40 p.m.

H.M.Jr: Hello.

Operator: Mr. Hinckley.

H.M.Jr: Hello.

Robert  
Hinckley: Hello.

H.M.Jr: Hello, Bob?

H: Yes, sir.

H.M.Jr: I got your message about Colonel Gorrell.

H: Yes, sir.

H.M.Jr: I haven't seen him since he was in here with you and I will not see him again.

H: Yes. Well, now, the thing that concerned me, some of the boys notified me that he was planning to take the Administration apart in a speech that he would make here Wednesday at this Aviation Forum on our Administration's policy on aviation. See.

H.M.Jr: I see.

H: And I don't think that we have to do business with that kind of people.

H.M.Jr: I know we don't. There are a lot of people around crazy to help.

H: Yeah. that's correct.

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

H: Well, I just wanted you to know everything that I knew .....

H.M.Jr: Well, I asked you your advice.

H: That's right.

H.M.Jr: He was recommended to me by General Marshall.

- 2 -

H: Yeah. Yeah.

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

H: Well, I got that story and I thought you should have it.

H.M.Jr: I thank you and we will not use him.

H: Fine. How are you feeling?

H.M.Jr: Oh, I'm all right.

H: Are you getting better or worse?

H.M.Jr: Am I getting better?

H: Yeah. (Laughs)

H.M.Jr: I'm getting better.

H: That's fine.

H.M.Jr: I get better as the times get worse.

H: All right.

H.M.Jr: Thank you.

H: More power.

H.M.Jr: Thank you.

H: Good-bye.

May 27, 1940  
4:04 p.m.

John  
Sullivan: Hello, Mr. Secretary.

H.M.Jr: Who do I look to on a question of contracts with Pratt, Whitney and Curtiss? You or Foley?

S: I can take of it now that I'm here, sir. I'm working with Chuck Kades, who is Foley's fellow, of course.

H.M.Jr: Well, let's be -- think it over. Let's be honest with each other, with this other thing coming along.

S: I think it would be well to let Chuck handle it. He has it very well in hand.

H.M.Jr: Well, then, I mean, if it's Chuck, then I'd better talk with Foley, hadn't I, John.

S: I think so.

H.M.Jr: Because, evidently -- is that a hundred percent agreeable?

S: It is entirely, sir.

H.M.Jr: A hundred.

S: Entirely.

H.M.Jr: Now if it isn't, say so.

S: No, sir. I'm perfectly agreeable.

H.M.Jr: I think this other thing coming now --it's going to be a full-time job and I want you on that, and I'm going to hold you on that.

S: Yes, sir.

H.M.Jr: Well, then, I think that if something should come up that Mead wants to talk to somebody, I'll tell him to talk to Foley.

S: Yes, I -- that's strictly a legal job.

H.M.Jr: All right. Well, then if that's agreeable to you I'll .....

S: It is entirely. Now am I going to have a chance to see you for a minute this afternoon?

H.M.Jr: Ah, yeah. Tell McKay and I'll remember it myself, but tell Mac will you.

S: Thank you, sir.

H.M.Jr: Right.

May 27, 1940.  
4:10 p.m.

H.M.Jr: Hello.

Operator: Mr. Hoover.

H.M.Jr: Hello.

J. Edgar Hoover: Hello, Mr. Secretary.

H.M.Jr: How are you?

H: Fine -- hope you are the same.

H.M.Jr: I'm all right. Mr. Hoover, here may be another wild one, but I want you to look into it.

H: Be glad to.

H.M.Jr: The whole program of the United States Army for pursuit ships is built around the Allison Engine.

H: Yes.

H.M.Jr: I mean, everything is dependent on the Allison Engine.

H: Yes.

H.M.Jr: We're having all kinds of trouble out there.

H: That's at Indianapolis.

H.M.Jr: Yeah.

H: Yes.

H.M.Jr: And I'd like you to look into the thing. The top fellow's name is Evans.

H: Evans.

H.M.Jr: And the next highest name is Kreuser.

H: Kreuser?

- 2 -

H.M.Jr: K-r-e-u-s-e-r.

H: K-r-u-s-e-r.

H.M.Jr: And then the chief engineer, Hazen.

H: Hazen.

H.M.Jr: H-a-z-e-n.

H: Yes.

H.M.Jr: Now there is something wrong out there.

H: Yes.

H.M.Jr: Ah -- as of the moment, we've had to stop everything.

H: I see.

H.M.Jr: And the engine looks as though it is a flop and our whole pursuit program is around that one engine.

H: I see. Well now that fits in, Mr. Secretary, with information that we'd had. We didn't have these names that you had, but we've had information that conditions out there were very bad. So much so that we were planning to put in there this week an undercover agent from our Bureau to work in the factory.

H.M.Jr: Well, haven't you got anybody there?

H: We've -- we've made the plant survey, but we haven't had one inside that particular factory.

H.M.Jr: Well, this thing -- there's nothing -- I can't stress the importance too great that after all if this engine is a flop, we have no pursuit ships.

H: I understand. Yes.

H.M.Jr: And these are the three top men in the order in which I've given them to you. Now this isn't a question of workmen.

H: Yes.

- 3 -

H.M.Jr: Now Evans for twelve years was the general manager of the Works in Germany.

H: Yes. Yes, that's very significant.

H.M.Jr: Eleven years. Now he lived there for eleven years in charge of Works and he may have become inculcated with some of this Nazism.

H: That's entirely possible. Yes.

H.M.Jr: And .....

H: We'll check all three of those men very thoroughly right away.

H.M.Jr: Will you? It may be nothing, but the condition with this engine and the whole Air Corps' pursuit ship program tied up, I'm terribly worried.

H: Well, I'll have that started right away and we'll also get somebody into that factory right away also.

H.M.Jr : Thanks a lot.

H: We'll work from both ends.

H.M.Jr: Well, I'd get several men in there.

H: Yes, we will.

H.M.Jr: Fine. Thank you.

H: Thank you very much. Good-bye.

May 27, 1940  
4:57 p.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner  
Welles: Hello, Henry.

H.M.Jr: Yes, Sumner.

W: Henry, the Norwegian Minister came in this afternoon with Berht Balohen.

H.M.Jr: Who?

W: Berht Balohen, the flier, you know, who's gone down to the Anarctic with .....

H.M.Jr: Oh, yes, I remember.

W: ..... Dick Byrd, and this is what he wanted to take up. He had been referred to me by Captain Collins -- messages that the Norwegian Government has asked to purchase, if possible, from 75 to 100 used pursuit planes from the American Army or Navy. The planes may be of somewhat older type, for instance, the Curtiss P-36. They must be fully equipped with arms and accessories. Such types of planes as mentioned will well serve Norwegian purposes even if in the United States they are considered old models. Payment will be made in cash on delivery. It is of the utmost importance for the defense of Norway to get these planes with the least possible delay. I called the Minister's attention to the Neutrality Act and to our neutral position under International Law. He said that he had been given to understand that in certain cases these planes could be turned back to the factories and exchanged for newer planes and that then the factories could sell directly. I told him that he was asking me questions that I couldn't possibly answer .....

H.M.Jr: Well, I can.

W: ..... and I tried to get in touch with you but you were tied up.

H.M.Jr: Well, I can -- we went through exactly the same thing for the Allies. I put the thing up to General Marshall and he gave me a formal memorandum on these very same P-36's saying why he couldn't do it.....

W: I see.

H.M.Jr: ..... that the Army cannot spare a single plane they now have and the President is satisfied that they also cannot spare anything. Now this is practically the same proposition that we had from the French. General Marshall gave me a formal memorandum turning them down.

W: Yes.

H.M.Jr: The Army cannot spare a single plane at this time because we need it for our own pilot-training program.

W: Exactly. Well, I don't see any reason for you to take your time to see the Minister. I'll just give him your message.

H.M.Jr: Well, you can tell him that .....

W: Yes.

H.M.Jr : ..... there's no use my seeing him because that's the situation. Marshall and I went over it and spent a long time on it. He gave it very careful consideration and then turned it down.

W: Yes.

H.M.Jr: It's desperate, but we haven't got

We have nothing on hand now that we can give them in the way of planes and we can't give up any of the orders that we have on hand.

W: Uh-huh.

H.M.Jr: Ah -- because we've got so few orders on the books and for your own very, very confidential information, all of our pursuit planes are built around the Allison engine. I had my own engineers out there Saturday and we have grave doubts as to the success of the Allison engine.

W: Really.

H.M.Jr: As a matter of fact, for the moment, they've sent the engines back to Dayton Field for new tests, and until we hear what those tests are -- ah -- they've just had to stop.

W: Yes, exactly.

H.M.Jr: And the situation, Sumner, as to our own plane situation -- it's just desperate, and I'm working day and night trying to find a solution for it.

W: Yes.

H.M.Jr: But if there's anything that I can do, I mean, for the Norwegians or the Allies, I'd give my undershirt.

W: Naturally.

H.M.Jr: Our own plane situation to you I'm saying it's just desperate. Of course, I've got some very, very capable people who are advising and are recognized in the industry as the outstanding people, and we're just working day and night with the Army and Navy and with the whole industry trying to get the solution.

W: Yes.

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

W: Well, that's very clear. I'll take care of this for you.

H.M.Jr: Now the other thing, that message you gave me, I saw General Marshall Sunday and gave him the message about these -- ammunition and the 75's. He said he could sell them the ammunition but

he had not yet got a solution on selling them the guns.

W: I see.

H.M.Jr: I just got a message from him an hour ago saying that he had not yet had a solution but he hoped to have something in the morning.

W: Good. Well, maybe that will do some good.

H.M.Jr: But you know where my sympathies are, but .....

W: Why, of course.

H.M.Jr: ..... but everybody will all have the same idea that we're all about five years late.

W: You bet. All right, Henry. Thanks a lot.

H.M.Jr: Thank you.

W: Good-bye.

Received 4 P.M. May 27

Am 2

214

THE UNDER SECRETARY OF STATE  
WASHINGTON

May 27, 1940

*Handwritten notes:*  
This is a  
copy of  
Record

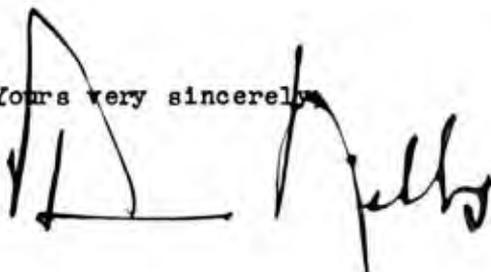
Personal and  
Strictly Confidential

Dear Henry:

In accordance with our telephone conversation of the other day, I am sending you herewith a telegram just received from Bullitt. I shall appreciate it if you will let me know what reply to make.

Believe me

Yours very sincerely,



The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

RDS

This telegram must be closely paraphrased before being communicated to anyone. (D)

Paris

Dated May 27, 1940

Rec'd 1:40 p.m.

Secretary of State,

Washington.

RUSH

894, May 27, noon (SECTION ONE)

PERSONAL AND SECRET FOR THE PRESIDENT AND THE SECRETARY OF THE TREASURY.

Laurent-Eynac Minister of Air asked to call on me urgently this morning and when I received him made a formal request which he wrote with his own hand at my desk in the following terms.

One. An order for 200 Curtiss pursuit planes P-40-S is now being delivered to the American army. Is it possible to obtain all or a part of this order for France?

Two. 144 Vultee planes are being manufactured in the United States on order of the Swedish Government. Could the American Government either by diplomatic action or by exercising its right of priority obtain the transfer of these planes to France?

Three. Many Pratt and Whitney, and Curtiss Wright motors as well as 150 Glenn Martin and 200 Douglas planes are being manufactured for the American army. Can all or a part of these be obtained for France?

DDM:RR

BULLITT

RDS

This telegram must be closely paraphrased before being communicated to anyone. (D)

Paris

Dated May 27, 1940

Rec'd 1:20 p.m.

Secretary of State,  
Washington.

RUSH

894, May 27, noon (SECTION TWO)

The Minister pleaded with me in moving terms to obtain favorable answers to these requests. He described the fighting at the front where the superiority in numbers of the German air force is proving the decisive factor.

In conclusion he praised in the highest terms the work of Colonel Jacquin and the French air mission in the United States and added that the Baron de la Grange had requested him for some sort of authority over this mission but that he had flatly refused. He added that de la Grange had not only no authority over the mission but no authority to conduct negotiations on behalf of the French Minister for Air or the French Government.

The Minister for Air asked me to obtain the most rapid possible answer to his requests and I promised to attempt to do so. (END OF MESSAGE)

BULLITT

DDM:RR

## PARAPHRASE OF TELEGRAM RECEIVED

Paris

Dated May 27, 1940

Rec'd 1:40 p.m.

Secretary of State,  
Washington.

RUSH

894, May 27.

SECRET AND PERSONAL FOR THE SECRETARY OF THE  
TREASURY AND THE PRESIDENT.

When I received the Minister of Air, Mr. Laurent-Eynac, this morning at his urgent request, he wrote me the following formal questions sitting at my desk:

First. Is it at all possible for France to obtain all or any part of the order for 200 P-40-S pursuit planes (Curtiss) now on delivery to the Army of the United States?

Second. On order by the Swedish Government the United States is manufacturing 144 Vultee planes. Could these planes be transferred to the French by the United States Government either through the exercising of its right of priority or by diplomacy.

Third. Can all or a portion of the following planes under manufacture for the American Army be obtained for  
the

-2-

the French: 200 Douglas and 150 Glenn Martin planes, as well as the many Curtiss Wright and Pratt and Whitney engines.

With very moving words Laurent-Eynac implored me to obtain favorable replies. He outlined the war situation, in which the greater numbers of German planes are proving to be decisive.

He was most complimentary, in concluding, about Colonel Jacquin's work, together with that of the French Air Mission. Baron de la Grange had asked for authority over the Mission but the request was turned down flatly and he added that this gentleman had no authority whatsoever over the Mission or to negotiate in any way for the Minister for Air or Government of France.

In accordance with his request I assured him I would endeavor to obtain the most urgent possible reply to the above.

BULLITT

| May 27, 1940

THE WHITE HOUSE  
WASHINGTON

Purvis called me  
at 7.00 P.M.

May 27, 1940

to say Canada  
wanted 2000 -  
1330 H.P. Jacobs  
engines.



TREASURY DEPARTMENT  
WASHINGTON

220

*Hurst*

May 27, 1940.

MEMORANDUM FOR THE SECRETARY:

There will be shipped on the Norwegian Steamship GRAN, due to sail from New York May 29th, 15,557 pigs of aluminum to Marseilles, France.

On the Greek Steamship NIKOLINA MATKOVIC, which sailed from New York on May 23rd, there were 178 drums and 880 barrels of molybdenum concentrates for Marseilles, France.

*Daniel Harris.*

May 27, 1940

Dear General Watson:

On May 22, 1940, Dr. George J. Mead was appointed Assistant to the Secretary to take charge of the procurement of aircraft and aircraft engines.

As Dr. Mead's work will require traveling on short notice and on matters where time may be an important factor, will you secure an order from the War Department stating that Dr. Mead, and any assistants accompanying him, may use United States Army planes where necessary to carry out his duties.

Sincerely,

(Signed) H. Morgenthau, Jr.

General Edwin M. Watson,  
Secretary to the President,  
The White House.

FT:bj

By Messenger 10 <sup>45</sup> am

File to Mr. Thompson

## RE MACHINE TOOLS

May 27, 1940  
10:30 a.m.

Present: Mr. Young  
Captain Almy  
Mr. Lind  
Major Soderholm  
Mr. Warhus  
Commander Henning  
Colonel Rutherford  
Mr. Burt  
Mr. Stillwell  
Mr. Dunbar  
Mr. MacLeod  
Mr. Lovely  
Mr. Berner  
Mr. Schwarz

Rutherford: I have this statement for you, Mr. Secretary, from the Army-Navy Munitions Board on the machine tool requirements.

H.M.Jr: This is by the Machine Tool Committee of the Army and Navy Munitions Board. You have the estimated output per man on the machinery tool manufacturing industry and the War Department purchases of machine tools, 13½ million dollars. This is new, I take it, under B.

Rutherford: No, sir, it has been running for the past year but this - we expect to get an additional appropriation and part of it will go for additional machine tools.

H.M.Jr: The two together come to 72½ million, is that right?

Rutherford: Yes, sir. That is based on an appropriation we expect to get this year, Army and Navy, and we endeavored on the second page to break it down into classes. We were unable to break it down by companies. We broke it down by classes on the second page.

H.M.Jr: Did you give Mr. Lind a copy of this? Do you have an extra copy for Mr. Lind?

Rutherford: Yes. That is the data. Of course, that second page is simply the breakdown of the first page.

On the third page we endeavored to make an estimate from rather uncertain data as to what

- 2 -

would be needed in expanding the aircraft industry.

H.M.Jr: And that is for 130 million?

Rutherford: Yes, sir. Most of the data came from the plans the Army and Navy Munitions Board had been making with the aircraft industry for many years and we just expanded it, based on this 50,000 units, and arrived at that --

H.M.Jr: Well, that is just what I asked for, with one exception. It doesn't give it to me by companies.

Rutherford: No, sir. We have been unable to get that by companies. We don't know the companies ourselves, sir. The business would probably be placed on a competitive basis, certainly to some extent, and we don't know what companies would get the business. Then much would depend upon the capacity of the various companies to produce. The whole problem is one of adjustment that we had hoped that the coordinating committee we were speaking about under the President would be able to assist us on in solving priority problems and the detail that will have to be solved as this program is put into effect.

H.M.Jr: Mr. Lind, do you see what I am trying to do? I want to give the machine tool people some idea of what we want of them. We have seen the airplane people and we didn't see them. Could we give them some idea of what the Government's program and demands would be on the industry? I have asked these gentlemen to prepare this and they have prepared this excellent memorandum. Over in Commerce - what contribution do you think Commerce could make, your department, in assisting us on this?

Lind: Right now?

H.M.Jr: Right now. Do you mind? I mean, telling me just what you do over in Commerce. There is

- 3 -

a division of machinery, is that what you call it?

Lind: Yes, sir.

H.M.Jr: Just what do you do over at Commerce? Is it all export or is it domestic?

Lind: The main part of it is export. We keep very close track on the monthly exports of machine tools under about 22 divisions and can tell after about three and a half weeks, up to the end of the month, how many tools of each of those 22 classes went to any given country and of course the total.

For example, we now know that in April machine tool exports were 21½ million dollars to all countries. We can get those by countries now and by classes. On total production of the industry, the only really accurate information is every other year in the biennial census. We have made very informal estimates of the monthly production, but in a turbulent time like this we can't tell whether they have gone awry or not in the last year.

H.M.Jr: Well, when it comes - the thing that I am trying to do for the President is this: When it comes to, for instance, getting these people to increase their production and so forth and so on, does Commerce work on that?

Lind: We probably would be able to help in various details of it, Mr. Secretary.

H.M.Jr: Or is your thing largely a matter of keeping track of exports?

Lind: So far it has been.

H.M.Jr: Now again, for instance when the Navy wants to get hold of certain special machine tools that are going to certain special countries, or the Army, if we knew a certain kind of tools we wanted, do you know while they are in the process or only when they leave the country?

- 4 -

- Lind: Only when they leave.
- H.M.Jr: So you couldn't, for instance, pull out of your desk a list of machine tools which are in the process of being manufactured for Japan or Russia?
- Lind: Not by types, no. We could only, for example, assume on the basis of past shipments to Japan or Russia the approximate aggregate value of machine tool exports in the future. That would merely be a guess that they would continue more or less in the future as they have in the past.
- H.M.Jr: Then you really get your figures through Customs, don't you?
- Lind: Yes, sir.
- Rutherford: We have had very good contacts with the machine tool industry in the past, Mr. Secretary, and have had a great deal of confidential information of the nature you speak of. We could get it if we asked them for it. I am certain any one else in the Government --
- H.M.Jr: I think the Navy is getting it, aren't you?
- Alay: That is true for both the Army and Navy Munitions Board.
- H.M.Jr: Well, I - my immediate thing I am worrying about is - I think it is in good hands now - but I am thinking purely of the question of increased capacity and I was trying to find out whether Commerce worked along those lines and I gather that you don't.
- Lind: Just our estimates.
- H.M.Jr: In other words, it is largely statistical with you.
- Lind: Yes.
- H.M.Jr: If it isn't - if you feel you could help, I wish you would tell me. I am doing my homework now

- 5 -

before these men come in.

Lind: Yes. We have worked pretty closely with the Army and Navy officers in the past and they might even admit we have helped them on these details.

H.M.Jr: If they are kind and generous enough.

Rutherford: No question about it.

H.M.Jr: Well, I was just trying to get everybody together. Now, can somebody tell me what is the total production in dollars last year for machine tools so I can get an idea of what proportion is 200 million dollars? How much did the industry turn out?

Rutherford: The latest was something like 350 million.

Henning: That is the present rate.

Rutherford: Present rate.

Henning: Present estimated rate, 385 million.

Soderholm: Census reports for 1937 give roughly 260 million for the dollar value of the industry entirely. That is from the data we have collected and it seems to check so it falls almost on a straight line in the graph - there are differences of opinion, but we are taking this at the moment - and many of the industries that I have talked to are willing to take it with me. We are running today at 385 million, sir, annual dollar volume.

H.M.Jr: How much?

Soderholm: 385 million.

H.M.Jr: As against what last year?

Soderholm: I don't have that, because we didn't have any Census report. I just took the last one, 1938, and now this is projected on our graph to try

- 6 -

and evaluate at any one time. I used a Department of Labor index and from that derived this volume of the industry.

H.M.Jr: Of 385?

Soderholm: Yes.

H.M.Jr: What would you make a guess it was last year?

Rutherford: Go back on your curve there. What was it in '37?

Soderholm: I would have to have a Department of Labor employment index in order to do that. That data I don't have.

Henning: Don't you think 300 million would be an approximation?

Soderholm: It would be around 300 million, yes, sir.

H.M.Jr: Then 220 on top of that is a hell of an increase, isn't it?

Rutherford: It means priorities, curtailment of some demands, possibly embargo on certain exports, which is being provided for by legislation if the President wishes to exercise it.

Henning: We still feel they have a potential capacity beyond the rate at which they are working now which would absorb a considerable portion of these new requirements.

Rutherford: Well, their potential capacity --

Soderholm: They could go to about 450 or 480 million. My estimate was 450 and our actual survey totaled up 488 million.

H.M.Jr: By doing what?

Soderholm: By increasing their labor, more fully staffing their plants. That is existing capacity. But

- 7 -

we mustn't be misled, Mr. Secretary. In some of the items that are of most moment for munitions manufacturers, they are already at capacity.

- H.M.Jr: Well, wouldn't this be the thing, would it be agreeable to you - could I give this to Tell Berner?
- Rutherford: That is quite all right. We have been working very closely with him and we are glad to let him have it.
- H.M.Jr: Then would there be any reason why I couldn't say, "Well, here is confidentially this memorandum and what we would like the industry to do is to come back -" in a week? - "and tell us what steps they are prepared to take to meet this program."
- Rutherford: Yes, sir. I don't think we ought to give them a week if we can do it in less time.
- H.M.Jr: All right. The trouble is, I think they are having a conference Tuesday. Tell them to come back Friday morning?
- Rutherford: Yes, sir, they are having a conference in the city here. They might set up a committee to do the job and then get it done in a few hours.
- H.M.Jr: I will ask them. Hell, it sounds good to me to have a fellow push me and say I am taking too long. Atta boy!
- Rutherford: This is a very critical picture, Mr. Secretary.
- Soderholm: They are having their meeting that you referred to, Mr. Secretary, on Tuesday, but I think many of these things they planned to discuss at their meeting.
- H.M.Jr: I think this would be very useful to them, but I will put it this way: How long, by working overtime, would it take them to give an answer to the Government on what they would propose

- 8 -

to do to meet this program and what do they need from the Government in the way of help and which particular companies and which particular branches of this are up to capacity, and so forth and so on. That is the thought that I had in mind. What do you think of that?

Rutherford: Yes, sir. We have given them the problem there. They will have to give us the answer. And set up a committee, maybe, to work out the details, but they ought to be able to give us something in the way of an answer pretty promptly, I should say.

H.W.Jr: What do you think, Captain? Would that be the way to approach it?

Almy: I think all they will need from us is to know what our demands are and what our priorities are. We feel that they have now the immediate potential capacity to just about meet this problem. Don't you feel that way?

Soderholm: Yes, they have. Our study, Mr. Secretary, shows - just applying the industry to our own needs, 385 million with the possibility of 450 to 480 to meet our own needs, our own war plans. Their capacity except in a few lines is ample. They can supply our own needs faster than our industry has shown itself able to tool it, train men for it and absorb it, but if we must keep on shipping on the average of 180 million abroad, that is at an angle rate of today, then we must impose restrictions upon this unusual foreign demand and it makes a problem, so they come right back - those I have talked with in the preparation of this study over here - and say, "But must we send all this abroad or will not priority devote some of it to our own needs first?" So that priority is of prime importance before we can decide which ones of these types of machines the capacity isn't ample or ought to be expanded for.

H.W.Jr: By the way, you didn't shoot that officer Friday, did you?

- 9 -

Soderholm: I wasn't here Friday.

H.M.Jr: What happened to him?

Rutherford: Major Hauseman was a pinch-hitter.

H.M.Jr: But you didn't shoot him?

Rutherford: No, sir, he passed that information on and Major Soderholm was heading it up.

H.M.Jr: I was just curious. I looked around and suddenly realized he wasn't here.

Rutherford: Major Soderholm's statement, I think, Mr. Secretary, emphasizes the need of this coordinating committee under the President on this particular subject.

H.M.Jr: Well, for the time being I am it.

Rutherford: Well, there will be many problems on priority between Allied demands and our own that I am afraid will come to your desk.

H.M.Jr: That is all right. For the moment we can take it, but just - I have no ambition to be on the machine tools and I am not very anxious for that but for the moment he has asked me to do machine tools, so if you gentlemen will cooperate with me - and I have had this experience with the machine tool people on this airplane thing before and on the foreign thing, and I think that - could Commerce, even if we had the history, give us which countries the stuff has been going to for the last 12 months and what they have been buying? Have you got the breakdown?

Lind: I have got the total figures, all machine tools, by the main countries. I could show it to you right now, Mr. Secretary.

H.M.Jr: Can I take a look at it? But how many of these things that the Army and Navy today are needing are going out of the country?

Lind: Right here, sir.

- 10 -

- H.M.Jr: This is what, by months?
- Lind: The months for 1940. England and France are buying very heavily, but those two, Russia and Japan, are quite heavy, too.
- H.M.Jr: That doesn't sound like a lot of money. Five and a half million to England, seven million to France, three million four to Russia and two million eight to Japan. Could you look and see the things that Russia and Japan have been buying, how many of those things are on the list which these gentlemen gave me today?
- Lind: A great many of them, Mr. Secretary.
- H.M.Jr: You could take that list and then go back, see, and over the last 12 months how much of the stuff they have been getting is on this.
- Lind: I can get it. I couldn't get it from my brief case right now.
- H.M.Jr: Oh, no, but you can get it fairly soon. And then furnish it to Philip Young and then he will see that everybody in this room gets a copy of it, Mr. Lind.
- Almy: Is that actually exported or figures on orders?
- Lind: Exported.
- H.M.Jr: If you give it to Philip Young, he will see that everybody in this room gets a copy of it. Wouldn't that be helpful, if he takes this list which I got this morning and then looks at the Japanese and the Russian and the Italians, they have been buying quite a lot, and sees how much over the past 12 months of the things they have been buying are the same as the things these gentlemen say they need?
- Soderholm: I can say offhand that most of it, sir, the overwhelming portion of it, has been purchased for munitions and is identical for the type of machinery which we in turn would call for with the initiation of this program.

- 11 -

- H.M.Jr: Well, we will just have to do something about it soon.
- Soderholm: That is why I stressed the priority. Take Kearney and Trecker who have this French contract, have expanded their plant with French capital. Now, there is evidence that even for the English and the French there is a proportion - it is hard to put your finger on it - of machinery bought for stock.
- Right off the bat, the question comes up, will we allow that or will we squeeze that a little and get them not to be quite so anxious?
- H.M.Jr: We went all through that with them once and they told us they had stopped.
- Soderholm: I had a specific instance of an American concern whose engineers recommended that a certain product could be completed with 34 machines in the line and were ready to give them a floor-to-floor guarantee. The British Commission purchased seventy-some, the plea being that they didn't think they were as efficient as we and they wanted to be safe.
- H.M.Jr: How long ago was that?
- Soderholm: I got that last week, sir, from one of the machine tool builders.
- H.M.Jr: That is terrible.
- Soderholm: I would be violating confidence if I told you, but he showed me the specific order on his books and he gave me that in answer to my question to them of why are they buying so much machinery when our detailed studies show that we are not going to need anywhere near as much, even recognizing the greater magnitude of American installed industry.
- H.M.Jr: I wish you would stay behind and talk a little bit to Philip Young, because he is my contact

- 12 -

with the Allied Purchasing Commission. Would you do that?

Soderholm: I will be glad to.

H.W.Jr: Let me just ask you one thing which I think - if we could make a statement along the following lines it would be very reassuring. The automobile industry, in fact, Mr. Sloan, called me up very much disturbed for fear we might interfere with his tools for his '41 model. He says he will be through and out of the woods in a month, finished. Are we going to have to interfere with the automobile industry?

Soderholm: No, sir. Our orders cannot be developed in time and that is not all, sir. Most of the tools are single-purpose or at least so highly specialized that they are being made by concerns who will not carry the load for the standard equipment that is needed for the munitions game.

H.W.Jr: Are you in agreement with that, Captain?

Almy: Pardon me?

H.W.Jr: Could we give reassurance to the automobile industry that they could complete their tooling up for the '41 model, that we would not interfere with that?

Almy: I don't believe I could say for the Navy Department on that.

H.W.Jr: Well, think it over. I can say at this moment we don't envisage that we would have to do so.

Soderholm: Yes.

Hennings: Captain, don't you think if it is only a month's time that we could state that we don't anticipate any interference in that sort of thing?

Almy: I don't know how much the airplane engine is going to come in and interfere with them, if at all.

- 13 -

- H.M.Jr: Well, when I was doing machine tools for Curtiss-Wright and Pratt & Whitney, we found that the automobile tools, the tools that went into these airplane engines, were in very few instances the same.
- Soderholm: Very few conflicts, wasn't that so?
- H.M.Jr: Very few.
- Soderholm: That is what my study bears out.
- H.M.Jr: Well, I won't say anything - think it over, gentlemen, but if we could tell that to the automobile industry, we could assure them - they have got the jitters, you see.
- Rutherford: I think on our side we would be perfectly willing to tell them that anything they would require within a month would not interfere with our program. There may be just an odd and end here and there, but I feel that our program will not get underway quickly enough to be helped by depriving them within one month of their machine tools.
- Almy: I am not sure.
- Henning: Captain, don't you think it would be an advantage to tell them we would let them alone for that month but quid pro quo they ought not to contemplate too many models for next year or too many model changes next year to take up machine tool capacity?
- H.M.Jr: Sloan said himself, "If you would tell us on the first of July you don't want us to change any models next year, we won't do it." He will go further than you. He said, "If you will leave us alone now, because we are practically finished and we have got a 25 million dollar refueling program, we won't be getting ready to do that until October or November next fall for the next year, that is when we start, and if you will tell us along in September that you don't want us to have another model in '42, we will just lay off and we won't do a thing about it."

- 14 -

Henning: Captain, I would urge that. I would even go so far as to urge the Navy Department to make their compromise.

Almy: Well, we are going to need such a quantity of certain kinds of tools if we go into this airplane engine thing, of air hammers, steam hammers, milling machines --

H.M.Jr: Well, think about it.

Soderholm: Very few of them conflict with that.

Henning: I think we ought to do it, Captain.

Almy: I am just saying that I am not prepared to state on it. I haven't seen their set-up yet.

H.M.Jr: Well, think about it. I wouldn't say anything.

Henning: Captain, they couldn't get their projects ready in that time.

Soderholm: That is not what is meant. They just want to be left alone for a month.

Almy: What they get deliveries on, you mean.

H.M.Jr: What they have got on order now for a month.

Almy: That is not very much. We won't interfere with them.

Henning: I would like to see them told that, sir.

Almy: I would be inclined to say yes, but there might be certain reservations that would be necessary to be made.

Henning: Could we say as far as we can see?

Almy: That is all right.

H.M.Jr: I will put it even less firm. "We will try to leave you alone."

- 15 -

Rutherford: I would rather go a little further than that, Mr. Secretary, and say that we see every opportunity of their being able to complete their programs without interference from us.

Soderholm: You take milling machines, Captain. Ingersoll will handle most of them. They won't be loading down Kearney and Trecker or Cincinnati or Brown and Sharp, because they are not buying that kind of stuff in order to do fast production. I don't think you need be concerned at all about a conflict in a month or month and a half with the orders they now have on hand. I think you can be quite firm about the assurance to them.

Rutherford: This group could set up a small committee with which we could talk down here instead of getting the whole industry together.

H.M.Jr: I have limited it to six people this morning. I told - I said, "Well, in a pinch you could bring seven," but I said to limit it to six or seven people. I wouldn't go through what I did again last Monday for a million dollars, so there shouldn't be more than six or seven.

Chick, see how many there are outside. Then I will do just that suggestion. They have a committee that can work with you and then you gentlemen can come back and report back to me.

Rutherford: A couple that can speak for their industry.

H.M.Jr: I have gotten along very well with them, you know.

Soderholm: We have, too.

H.M.Jr: I will tell them.

Rutherford: Do you wish us to stay here?

H.M.Jr: Definitely. I need you badly.

(Mr. Dunbar, Mr. Lovely, Mr. Berner, Mr. Burt, Mr. Stillwell, Mr. McLeod enter the conference)

- 16 -

H.M.Jr: Well, you all look very prosperous. Gentlemen, when we met once before in connection with aviation, at that time I told you that if there would be any program or anything else, we would have the machine tool industry sit in at the first table. I think you remember it. That is, first because we need you and second because we like you.

I asked, in preparation for this meeting, the Army and Navy Munitions Board to prepare a list of machine tools that the Army and Navy would require, as far as they could tell, and this is rough, for the present program and it totals \$225,000. Now, what we want to ask you gentlemen is this: We are going to give this to you. Who is here - who is the boss?

Stillwell: I believe Mr. Burt is the boss.

H.M.Jr: Are you the boss?

Burt: Thank you, Mr. Secretary.

H.M.Jr: Now, the thing we want to ask you gentlemen is this, then you can discuss it or ask us questions, whether you could have this group today, maybe, meet with the gentlemen that are here representing the Army and Navy and Mr. Lind of the Department of Commerce and tell us how you are going to go ahead and meet this program. That boils it right down, see. I have got a couple of extra copies here. You understand we are giving you this in confidence?

Burt: Quite right.

H.M.Jr: We trust you gentlemen, so please treat it confidentially.

Did I give you something to put your teeth into?

Burt: You are quite right. Mr. Secretary, can you give us any idea as to when this equipment is going to be required and when it will be ordered?

- 17 -

- H.M.Jr: Well now, after all, we have got to do a little guessing and let's say that the bill will pass in a week or ten days. How soon after that will it start for the Navy?
- Almy: As far as the Navy is concerned, we will place about - first we are prepared to commandeer the stuff that is on order, ready for delivery or contracted for delivery to certain foreign countries and we can place those orders most any time. Our regular tool program we expect to place before July 1, probably before June 15, orders for about six million dollars worth of equipment. We expect to place our remaining 14 million in this particular program by about July 15. That will apply both to that same - that same proportion will apply to the total Navy program. I am just speaking definitely for one Navy Yard's needs. That same plan will apply both to Ordnance and aviation requirements.
- Burt: That includes the Ordnance Department as well as the Navy, does it?
- Almy: Yes. Our last orders will be placed probably --
- Burt: A total of what? You said six million by July 1.
- Almy: That is over and above the stuff we commandeer out of foreign orders.
- Burt: 26 million is the total? May I ask a question about this commandeering on these foreign orders? Just how do you intend to handle that?
- H.M.Jr: Would you just postpone it one minute, because I would like the Army to answer the same question. Then we will come back to that question.
- Rutherford: Mr. Secretary, on page one of the memorandum up at the top left there, we have a total of 16½ million. The substantial portion of that, 13½ plus the one million, would be placed within a month or probably at the outside a month and

- 18 -

a half after the appropriations become available. Now, the remaining part of that program, the two million, would go a little bit slower and the part of purchases by industry at large under educational orders and armament orders would probably lag, well, three or four months, because we have to place the orders with industry for the armament first and then industry places the orders for machine tools to make that armament.

W.W.Jr: There is one thing which I don't think - maybe you have included it. There would be a tremendous demand, after all, for these small airplane engines for this training program. Now, you haven't included that at all, the Civil Aeronautics one.

Rutherford: No, sir, these are fighting planes.

W.W.Jr: Gentlemen, on top of this there is going to be this big demand for small planes for these men and that is not included in that and those engines are going to have to be built and machine tools will have to be supplied for that, so that is over and above everything that is in here. I don't know, they may want ten or twenty thousand planes to train these boys under this CAA program. Now, did you (Almy) answer his question?

Burt: About the commandeering of these machines that are on foreign order, we would like you to explain how that is to be handled.

Almy: There is a law now that has passed the Senate and is before the House. It has been accepted by the Committee but it has not yet passed. It reads that the President through the Secretary of the Navy may purchase without competition all materials of war. It doesn't say exactly that word, but that is what it means. It means machine tools and equipment and materials and building ships and whatever we have to do, guns or anything like that. And there is a further proviso stating that such orders shall take

- 19 -

priority over any of this material or equipment for export, which in effect blocks export and obtains first priority for these orders.

Rutherford: Our legislation is a little bit broader. It gives the Army priority over any civilian or domestic order or foreign order. It is a little broader and of course it would depend on how it is applied, regarding what countries would be involved in it.

Burt: Would this eliminate any orders that are now scheduled for England and France? Does it apply to just Russia, Japan and Sweden, and so forth? I am asking this because we are in an awkward position here, already having contracts.

H.M.Jr: The reason I am smiling is that Captain Almy has a wonderful answer. He is absolutely neutral.

Almy: I have certain definite orders from the Secretary of the Navy through the President to commandeer certain machine tools for two countries and I proceeded with that. I have actually purchased the machines that are now ready for shipment or are on their way, intercepted them. The President has directed that no interference be made with orders to the Allies. Orders to some other countries like Sweden and Norway, we haven't done anything about them yet, but Customs are cooperating with us and knowing nothing is leaving the country and when this law passes we will just take these over.

H.M.Jr: They even take the food out of the fellow's mouth. They have a car right alongside the boat and they just back it right up. These Navy fellows are tough.

Burt: Yes, they get them coming and going.

Almy: One of these tools, just as a matter of interest, had left Philadelphia, a large, valuable tool, and had been shipped some two weeks before and

- 20 -

we got word that it was on the dock in South Brooklyn at the Erie Basin, so we tried to locate it. We finally found it in the hold of a foreign ship and I was asked whether we should get it or not and I said no, that was a token shipment, but Customs was perfectly willing to find some reason to haul that out. I thought it was probably - it is our agreement with the State Department that all of this work will be without discrimination, you understand, so we will make token shipments to certain countries of stuff we don't want and we will also grab something from other countries that we don't want to interfere with and stuff they don't want, probably. Not very badly, at least.

H.M.Jr: I told you he had a good answer.

Burt: Very good.

Stillwell: May I ask a question, Mr. Secretary? Does the law provide, Captain, that you can take material of that kind after it has passed into the ownership of a foreign country?

Almy: Yes. All of these - very fortunately, these purchasing firms are incorporated under American laws and although they are acting for foreign governments, they are actually a U. S. concern, so we are not disturbed about them.

Berner: Captain Almy, let me ask you a question. Do our legal minds concur that you have done that, that you have no liability, whether it is a contract with a foreign buyer, or is he under the legal obligation of completing that contract by again building that machine?

Almy: I haven't discussed this in detail with them, but in thinking it over myself and just on general policy, it seemed better not to consider this failure to deliver as terminating contract. In other words, keep up the idea of good will and say, "We are sorry, gentlemen, we can't deliver this particular tool, because it is commandeered by the Government, but if you want to lay down

- 21 -

another tool, we will be glad to carry out this contract." One reason for that is that most of these orders have been accompanied with a substantial advance and the machine tool builders, as I understand it, are concerned with the good will feature. That seems to be the best way to take care of that.

However, there is something that looks to me like it is up to them to determine, whether they want - it is probable that Amtorg and such people want to cancel these contracts because they will feel it is unfriendly.

Surt:

There is one point you haven't mentioned. I think it is quite important to this industry in that we have some contracts and many companies in our industry have substantial orders with penalty clauses for non-delivery. I think it is going to be rather difficult to cancel those unless by some mutual agreement.

H.M.Jr:

Well, may I suggest this, please? These gentlemen are available for further conference today and I think if you would sit down and talk with them about some of these things - I am delighted to find this Army and Navy crowd is pushing me, so I said something about having an answer and maybe next week and they said, "What is the matter with this afternoon?" So if you people are here in town and are available to talk further with representatives of the Army and Navy, the Army and Navy is available, and these sort of things - I think you could go into greater detail and I am available and I would like to meet with you again when you are ready to tell me, is the industry ready to meet this program and this is really - there will be still more, because the requests which are beginning to come in from the Allied Purchasing Commission are going to be something stupendous, so you fellows have just got to sit down and come back and say, "Mr. Morgenthau, this, that or the other thing," and we can be as frank as we were on the other business. We got along all right that time, so what I would like to

suggest is - where would the Army and Navy like to continue this meeting? We can give you a room right down stairs or would you like to adjourn to your own offices? We have got a conference room immediately under this room here.

Burt: I think that would be a good suggestion, that we go right down there. I am not too sure that we can definitely give you the answer today on this. We are holding a meeting of our members tomorrow, a regularly scheduled meeting. I assume that we probably would like to discuss some things with other members.

H.K.Jr: Would somebody from the industry give me a telephone call when you are ready to report back?

Almy: It doesn't appear to me, Mr. Secretary, that this is anything they can give an immediate answer on. I think it is something they will have to study and have a further conference with us or with you to determine just what their program for meeting this --

Burt: Would it be satisfactory to you, Mr. Secretary, if we meet again here next Monday, because this is quite a big program and we would like to come back with some sort of a definite thing.

H.K.Jr: Could you do it Friday?

Burt: Yes, I think we could arrange it Friday.

Rutherford: We can come over to my office. We have an assembly room over there. I expect there may be some detailed information we will want to refer to in our files.

H.N.Jr: When do you want to meet again? That is the only thing as far as I am concerned.

Burt: I am quite sure that Friday is too short. We would like to make it Monday. That will give us over the week-end to get all this --

- 23 -

- Rutherford: Can we meet in a preliminary way before that while the group is still here so that we are clear what we are driving at?
- Burt: We will meet with you for the rest of the afternoon. Then we would like to get our members together and line up the whole schedule and be back here on Monday to meet with the Secretary, if that is satisfactory.
- H.M.Jr: Is 11:00 o'clock a good time?
- Burt: 11:00 o'clock Monday morning.
- H.M.Jr: And then if Colonel Rutherford and Captain Almy could report to me what progress they have made during the day - you two gentlemen (Almy and Rutherford) could report to - send me a little written memorandum tomorrow morning.
- Almy: Yes.
- Burt: This is quite confidential, you mentioned. How much of this can you give out to our various members?
- H.M.Jr: These gentlemen of the Army and Navy will have to answer that.
- Almy: I will speak for the Navy. We have no objection at all to its release to the offices of any machine tool firms that may be in it. We would not like to have it given any publicity.
- Burt: As far as we are concerned, we are not particularly anxious to have any publicity as far as this meeting is concerned, because we just don't know what we are going to do and we don't want to discuss anything. Some fellows were trying to get some statements from me this morning.
- H.M.Jr: Well, at least you have got something to get your teeth into. Then I will put it down for 10:30 Monday with the Army and Navy and I will meet with the machine tool industry at 11:00 and then if you gentlemen could give me a

- 24 -

memorandum of what happens during the day, so I could have that in the morning and if for some reason something should happen during the day that you did want to see me, I would make myself available.

Burt: Thank you very much, that is fine.

H.M.Jr: Thank you all for coming down.

ARMY AND NAVY MUNITIONS BOARD  
MUNITIONS BUILDING  
WASHINGTON, D. C.

245

May 27, 1940.

MEMORANDUM For the Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury.

SUBJECT: Data for Machine Tool Requirements of the Army  
and the Navy.

1. Attached hereto are data requested by you in connection with the estimated output demand upon the machine tool manufacturing industry occasioned by the 1941 appropriations, plus supplemental appropriations, for the War and Navy Departments.

2. An estimate covering the machine tool requirements and possible distribution arising from expansion of the aviation industry from its present base is shown on page three.

3. This estimate was prepared by the Machine Tool Committee of the Army and Navy Munitions Board. Any further information will be gladly furnished by this same Committee.

For the Army and Navy Munitions Board:



CHARLES HINES,  
Colonel, U. S. Army,  
Secretary.

1 Incl.

25 May 1940

ESTIMATE OF OUTPUT DEMAND UPON THE MACHINE TOOL MANUFACTURING INDUSTRY  
OCCASIONED BY 1941 - APPROPRIATIONS - PLUS SUPPLEMENTAL APPROPRIATIONS

<u>ARMY</u>	<u>NAVY</u>
(a) War Department Purchases:	Navy Yard & Stations \$ 14,000,000
Machine Tools \$ 13,500,000	Ships 1,000,000
Powder (Hyd) Presses 1,000,000	Naval Ordnance Plants 9,000,000
Air Corps Bases 2,000,000	Naval Aviation Bases 2,000,000
<hr/>	
Sub Total..... \$ 16,500,00	
(b) Purchases by Industry at large:	
Educational Orders 10,000,000	
Armament Orders 20,000,000	
<hr/>	
Sub Total.....\$ 30,000,000	
TOTAL..... \$46,500,000	TOTAL.....\$ 26,000,000

GRAND TOTAL - \$72,500,000

25 May 1940

POSSIBLE DISTRIBUTION BY CLASSES OF MACHINE TOOL DEMANDS ARISING FROM  
ARMY and NAVY 1941 APPROPRIATIONS - PLUS SUPPLEMENTAL APPROPRIATIONS

<u>CLASS</u>	<u>ARMY</u>	<u>NAVY</u>	<u>TOTAL</u>
Bending	\$ -	\$ 670,000	\$ 670,000
Boring	1,674,000	2,400,000	4,074,000
Broaching	186,000	8,000	194,000
Cut-off	-	286,000	286,000
Drilling	2,790,000	1,511,000	4,301,000
Filing	-	9,000	9,000
Forging	3,534,000	912,000	4,446,000
Gear Cutting	232,000	480,000	712,000
Grinding	5,208,000	1,705,000	6,913,000
Honing	232,000	8,000	240,000
Lapping	-	44,000	44,000
Lathes	15,438,000	9,630,000	25,068,000
Millers	9,114,000	3,535,000	12,649,000
Planers	884,000	2,301,000	3,185,000
Polish & Buff	-	21,000	21,000
Presses Mech.	2,092,000	82,000	2,174,000
Presses Hyd.	2,558,000	144,000	2,702,000
Punching	-	85,000	85,000
Riveting	-	13,000	13,000
Shapers	884,000	954,000	1,838,000
Shears	-	330,000	330,000
Slotters	-	507,000	507,000
Threading	1,674,000	365,000	2,039,000
	<hr/>	<hr/>	<hr/>
	\$ 46,500,000	\$ 26,000,000	\$ 72,500,000

25 May 1940

ESTIMATED MACHINE TOOL REQUIREMENTS AND POSSIBLE DISTRIBUTION ARISING FROM  
EXPANSION OF AVIATION INDUSTRY FROM PRESENT BASE (12,000 units per year)  
TO 50,000 UNITS PER YEAR.

<u>CLASS</u>	<u>TOTAL</u>	<u>CLASS</u>	<u>TOTAL</u>
Bending	\$ 1,053,000	Milling	\$ 20,033,000
Boring	6,331,000	Planers	299,000
Broaching	390,000	Polish & Buff	208,000
Cut-off	611,000	Presses, Mech.	1,196,000
Drilling	13,455,000	Presses, Hyd.	3,159,000
Filing	26,000	Punching	104,000
Forging	3,042,000	Riveting	169,000
Gear Cutting	4,875,000	Shapers	1,118,000
Grinding	24,115,000	Shears	1,040,000
Honing	637,000	Slotters	455,000
Lapping	988,000	Threading	4,901,000
Lathes	40,729,000	Electric Welding	1,066,000

TOTAL - \$ 130,000,000

S U M M A R Y

Aircraft Expansion Program	\$ 130,000,000
Army Program	46,500,000
Navy Program	26,000,000

GRAND TOTAL .....\$ 202,500,000

E. R. Henning  
E. R. Henning, Commander U. S. Navy

Walter Soderholm  
W. H. Soderholm, Major U. S. Army

Machine Tool Committee  
ARMY-NAVY MUNITIONS BOARD

WAR DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, D. C.

File 250

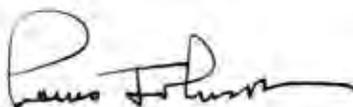
May 27, 1940.

MEMORANDUM FOR THE HONORABLE HENRY MORGENTHAU, JR.,  
SECRETARY OF THE TREASURY.

The information called for in Memorandum from the President, dated May 24, 1940, regarding the program for procurement of aircraft is being submitted to you by separate memorandum of May 25, 1940.

Supplementing the foregoing, I am glad to inform you that the necessary contracts are being prepared and will be ready for my signature within an hour after funds have become available and the program has received the coordinating action contemplated by the President's memorandum.

*filed 5/27  
date Pres  
sent it to  
Henry.*



Louis Johnson,  
The Assistant Secretary of War.

*Copy to George Mead*

ANGLO-FRENCH PURCHASING BOARD

*Handwritten:* H.M. has not seen only copy

*Handwritten:* P.H.

NEW YORK:  
15 BROAD STREET

WASHINGTON:  
725 15th ST., N. W.

251

This letter from

May 27th, 1940

*Handwritten:* Photo - J. M. Young  
1940/4-1

Dear Henry,

C.D. Howe had just arrived in my office as you telephoned this afternoon. He had with him two or three of his men from the Ministry of Munitions and Supply (he is also Minister of Transport) having brought them down to talk over various Canadian problems with our organisation.

I asked him about the situation in regard to aircraft <sup>and</sup> must compliment you on your Intelligence Service! The information was not quite accurate but it was much more accurate than I would have thought possible. However, it seems that their new programme of purchase here to which your approval is desired (see attached memorandum) and which had been developed between 12 noon and 5 p.m. to-day, fits in with the idea you expressed on the telephone in that it is for Jacobs 330 h.p. engines and should build up that manufacturer's potential considerably.

Mr. Howe is anxious to place the order tomorrow, Tuesday.

As regards the nitrocellulose powder plant: the minute the authority came from across the water we proceeded along the lines of authorising contractors (pending completion of contract documents) to make such substantial expenditures as may be necessary to develop the maximum building speed possible. Our people are in Wilmington this week, endeavouring to button up the contract terms and details.

Yours sincerely,

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

# BRITISH PURCHASING COMMISSION

252

MEMORANDUM FROM Mr. J.B. Carswell

TO Mr. Arthur B. Purvis

27th May

194 0

## Re British Commonwealth Air Training Plan.

As you know, on Saturday a very disturbing cable arrived from England advising the Canadian Government that the delivery of Anson planes to Canada - being the British contribution towards this general scheme - would have to cease for a period of two months. The Hon. C.D. Howe is very much afraid that the delay may be even more serious and consequently action had to be taken at once.

2. This morning a meeting was arranged with Canadian governmental representatives and the British Purchasing Commission in this office, to explore the possible avenues through which this deficiency could be obviated.

3. On the telephone we spoke to a great many sources of aircraft supply and finally it was decided, late this afternoon, subject to your approval, to purchase some 3,000 engines, type L.6MB from the Jacobs Aircraft Engine Company. These engines are rated at 330h.p., delivery to be completed December, 1941.

4. If this arrangement can be carried out it will meet one side of our difficulty only. The second difficulty will be the shortage of complete aeroplanes similar to the Harvard Trainer type N.A.66. We have already placed orders, as you know, for delivery late next summer (1941) but the absence of deliveries from England puts us in urgent need of 500 Harvard Trainers of this type. We understand from North American Aviation that they are turning out at the rate of 7 per day these machines for the United States Government. Would it be possible to ask Washington's assistance in giving us priority on these machines to the above extent?

5. Canada will now also be in urgent need of six twin-engine flying boats PBV type. These also were to have come from England. We believe these machines could be made available to Canada with Washington's permission. Your assistance in this matter will be highly appreciated.



Liaison Officer  
Department of Munitions and Supply.

May 27, 1940

My dear General Yount:

Thank you for your letter of May 21st reporting on deliveries of aircraft and aircraft engines during the period January 1 to April 30, 1940.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General B. K. Yount,  
Brig. General, A. C.,  
Asst. Chief of the Air Corps,  
War Department.

May 27, 1940

My dear General Yount:

Thank you for your letter of May 21st reporting on deliveries of aircraft and aircraft engines during the period January 1 to April 30, 1940.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General B. K. Yount,  
Brig. General, A. C.,  
Asst. Chief of the Air Corps,  
War Department.

May 27, 1940

My dear General Yount:

Thank you for your letter of May 21st reporting on deliveries of aircraft and aircraft engines during the period January 1 to April 30, 1940.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General B. K. Yount,  
Brig. General, A. C.,  
Asst. Chief of the Air Corps,  
War Department.

CONFIDENTIAL

256

*Original to Sr Haas 5/27/40*

May 21, 1940.

The Honorable,

The Secretary of the Treasury.

Sir:

In accordance with your verbal request, there is transmitted herewith a report of the deliveries of aircraft and aircraft engines during the period January 1 to April 30, 1940.

Respectfully,

For and in the absence of  
The Chief of the Air Corps,

B. K. Yount, Brig. General, A. C.,  
Assistant Chief of the Air Corps.

1 Incl.  
Tabulation

CONFIDENTIAL

CONFIDENTIAL

DELIVERIES OF COMPLETE AIRPLANES

January 1, 1940 to April 30, 1940

	<u>Jan. *</u>	<u>Feb. *</u>	<u>Mar. *</u>	<u>April</u>
<u>Military</u>				
Army	66	89	79	110
Navy	7	7	23	43
Foreign (exports)	227	162	167	232 1/
<u>Commercial</u>	<u>17</u>	<u>37</u>	<u>54</u>	<u>27</u>
<u>Total</u>	<u>317</u>	<u>295</u>	<u>323</u>	<u>412</u>

DELIVERIES OF COMPLETE AIRCRAFT ENGINES

January 1, 1940 to April 30, 1940.

	<u>Jan. *</u>	<u>Feb. *</u>	<u>Mar. *</u>	<u>April</u>
Army	196	154	298	190
Navy	43	54	99	46
Foreign (exports)	343	312	260	338
Commercial	81	249	443 2/	79
<u>Total</u>	<u>663</u>	<u>769</u>	<u>1100</u>	<u>653</u>

\* Revised to include factory deliveries of airplanes to the Air Corps and export clearances of foreign aircraft.

1/ Includes 5 commercial airplanes powered with engines in excess of 200 h.p.

2/ Estimated

CONFIDENTIAL

May 27, 1940  
3:35 p.m.

FOR THE SECRETARY:

General Marshall called and said he was to give you information on sales of weapons abroad. He has not found the solution yet but believes he is on the trail of a method which will solve the matter and will have the information for you tomorrow morning.

D.E.M.



DEPARTMENT OF STATE  
WASHINGTON

May 27, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 1388 of May 27 from the American Embassy, London, reporting on certain difficulties of importers of American machine tools.

Enclosure:

No. 1388 of May 27  
from London

22

RDS

GRAY

London

Dated May 27, 1940

Rec'd 8:50 a.m.

Secretary of State,  
Washington.

1388, May 27, 2 p.m.

American Consul, Birmingham reports that machine tool importers distributors Birmingham area state they were warned by British Air Ministry that orders for American machine tools placed after midnight of Sunday May 26 would not (repeat not) be filled. Similar reports current London. Very large orders accordingly placed by cable but trade fears that serious results for British industry will follow if in fact no further orders can be accepted by American manufacturers. Request cable as to whether any embargo or other impediment to fulfilling further British orders placed after May 26.

KENNEDY

KLP

May 27, 1940

Major Lyon called at 8:55 a.m. and gave me the following information which he received from Chapline:

"Mr. Donald Martin, the Wright Aeronautical licensee in Canada, initiated the request through Chapline for the additional training engines for Canada.

"The Minister of Transportation (Mr. Howe) with Mr. Duncan, Mr. Sanderson Keil and two officers of the Canadian Airforce arrived in New York last evening or early this morning for the purpose of going into American production of training engines."

D.E.M.

TREASURY DEPARTMENT

262

INTER OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau  
FROM Dr. George J. Mead

The situation at Allison is far from satisfactory. To begin with, the precise type of engine now on order has not passed an official Army test. Furthermore, several important features of the design are still questionable. Finally, production has not yet really gotten under way.

The reasons for this situation are briefly as follows:

The production order was placed on the showing of a prototype engine which passed an Army test some three years ago. This engine, however, had a lower rating and was a sea-level engine. To facilitate deliveries the Army authorized Allison to proceed with shipments upon the understanding that the engine still must pass an official test and that Allison be responsible for correcting defects in all engines shipped prior to the satisfactory completion of such a test.

The weakness in design comes about through the fact that Allison has persistently ignored failures on test and at the same time has not been diligent in carrying through the development of the engine.

The production situation is due to management without adequate aviation experience and to the lack of skilled labor accustomed to this sort of work. The latter is a perfectly normal condition in starting up a new plant.

Secretary Morgenthau

-2-

The situation is serious and I have personally discussed with Allison definite steps that should be taken looking toward correcting the engineering difficulties. I propose forthwith to discuss these steps with Brigadier General G. H. Brett of the Air Corps of the Army. Meanwhile, I am working on other angles of the problem which I will wish to discuss with you shortly. I think it is essential that all these matters be cleared through the Air Corps and that that organization be the agency for administering this whole project. I strongly recommend that no publicity be given the matter at the present time, nor that you become unduly concerned regarding it.

Benq. J. Mead

May 27, 1940.  
8:37 a.m.

H.M.Jr: Hello.

Operator: Mr. Secretary, I'm afraid I can't locate Mr. Lessing Rosenwald. Can you tell me with what department he is up there?

H.M.Jr: Hello. Well call up Sears Roebuck there. He isn't in the Treasury.

Operator: No, I know.

H.M.Jr: Call up Sears Roebuck up there and ask them where he can be located.

Operator: All right, sir.

H.M.Jr: Sears Roebuck, see?

Operator: Yes. Thank you.

8:40 a.m.

H.M.Jr: Hello.

Lessing Rosenwald: Good morning, Lessing Rosenwald.

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

R: Fine, thank you.

H.M.Jr: Good for you. Lessing, I've been looking for a man to come down here and help in the Procurement Section. It sounds like 33. Dr. Compton, of M.I.T., recommended Edward Brooks, Vice President of your company.

R: Yes.

H.M.Jr: And he said he thought he came as near answering the description of what I gave him as he knew. I wanted your very frank opinion as to Mr. Brooks, and second, whether there was any possibility of borrowing him as a Dollar-a-year.

- R: Yeah. Well, let me -- I'll answer those in two section.
- H.M.Jr: Please.
- R: The first one -- he's a wonderful fellow. He has a fine knowledge, he has a wonderful training and he's got a perfectly grand personality.
- H.M.Jr: Yeah.
- R: He's the highest type man you could possibly want -- he's a younger man, I imagine, in his early forties, but a man who is absolutely top notch as to character, a very pleasing individual and a man whom I have known for several years and admire tremendously.
- H.M.Jr: Yeah.
- R: So from that angle I don't think you'd be making any mistake whatsoever. He's just one grand fellow and I'm sure you'd fall for him.
- H.M.Jr: Yes.
- R: The second thing is this, I'm in no position, Henry, to give you any information about Brooks because I'm not actively connected with the company, you know.
- H.M.Jr: I know. But I thought that you could tell me yes or no on Brooks, you see, on a personal basis.
- R: Yes.
- H.M.Jr: You're telling me just what I want to know as to .....
- R: Yes, well that's why I answered the second part last. I don't mean to say by that that I wouldn't do anything about it, I'm just not in a position to do it and I think you'd have to take the second part up with General Wood or Tom Carney or one of the officials of the company.

- 3 -

H.M.Jr: Well, who is the president of the company, now?

R: T. J. Carney.

H.M.Jr: T. J. Carney. Well, would he be the man to call?

R: Either call him or General Wood.

H.M.Jr: Well, I'd a little bit prefer to call Carney if you think that's just as effective.

R: Why certainly.

H.M.Jr: What?

R: Just as.

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

R: But as far as the man himself is concerned, you wouldn't be making any mistake at all.

H.M.Jr: I understand he has an engineering background -- that's what I asked for.

R: Yes, he has. He's an M.I.T. man. He's had more or less, well really had charge of all the factories in which we have a financial interest.

H.M.Jr: So I understand.

R: And also had a position of supervising many of the factories where we don't have an interest but where we have a very large percentage of their output.

H.M.Jr: But you personally know him and think I couldn't go wrong.

R: Absolutely. I know him intimately and I think as a man he's a fine man and I think he has a great deal of ability.

H.M.Jr: Well, thanks ever so much, Lessing, and I'll call up Mr. Carney and ask him.

- 4 -

R: All right. I hope to see you some of these days.

H.M.Jr: Well, if you're ever coming this way, give me 24 hours or 48 hours notice and come in and have lunch or supper with me.

R: Thanks ever so much.

H.M.Jr: I really mean that invitation.

R: All right. Thank you ever so much.

H.M.Jr: Thanks, Lessing.

R: Good-bye.

MEMORANDUM

His Majesty's Government has had under consideration the safeguarding of funds belonging to that Government, which may be deposited from time to time in banks in the United States of America, from the risk that actions might be started by German interests for the attachment of these funds in respect of debts due to Germany.

The most important case in question is that of the accounts in the Federal Reserve Bank, New York, standing in the name of the Bank of England. While these accounts do, in fact, represent funds belonging to His Majesty's Government, it would appear that there is no absolute protection in the present state of affairs against some attempt to attach these funds in respect of debts owed by the Bank of England to, e.g., the Reichsbank, which were frozen on the outbreak of war as a result of the Trading with the Enemy provisions.

His Majesty's Government have taken legal advice on this matter and understand that the only certain protection would be to convert these Bank of England accounts at the Federal Reserve Bank, New York, definitely into British Government accounts, with the title in each case of "His Britannic Majesty's Government Account".

The Bank of England has been in communication on the subject with the Federal Reserve Bank,

- 2 -

and it is understood that the initiative for a change of this kind should come from the United States Treasury. His Majesty's Government would be grateful if the United States Treasury would give early consideration to their request that this change should be made.

If the matter is agreed in principle the necessary technical instructions will be sent by the Bank of England direct to the Federal Reserve Bank.

British Embassy,  
Washington, D.C.  
27th May 1940.

May 27, 1940

270

MEMORANDUM TO: Mrs. Elots

Conference held at the Secretary's home Sunday, May 26th at 12 noon.

Present: Secretary Morgenthau, Mr. Tarlesu, Mr. Blough, Mr. O'Donnell.

Mr. Blough showed the Secretary several alternative schedules to obtain additional tax revenues by February 1, 1941. The Secretary said that he wanted Mr. Sullivan to be called and notified to be back in Washington on Monday morning. The Secretary then examined the schedules and said that he doesn't like any new form of taxation to be used at this time, but would rather use schedules calling for more familiar types of taxes. Therefore, he did not care for the schedule imposing an excise tax on dividends, rents and salaries.

The Secretary then asked for figures on tax collections if a 10% tax on 1939 income tax liabilities of corporations and individuals was to be imposed. Mr. O'Donnell said that that would result in approximately 90 millions from corporations and 100 millions from individuals. The Secretary said that he wanted this to be collected sometime before the first of January.

The Secretary then asked what the Treasury would secure if we increased the tax on distilled spirits from \$2.25 to \$2.75 per gallon with an accompanying floor stock tax. Mr. O'Donnell said we would raise by January 1 about 50 millions. Then an increase of the tax on beer was discussed, the tax to be increased from \$5.00 to \$7.00 per barrel. The Secretary was informed that we would raise 50 millions by January 1.

An increase of gasoline taxes from 1¢ to 3¢, Mr. O'Donnell estimated, would raise an additional 170 millions by January 1.

The Secretary then totaled these tax increases and they amounted to \$460 million. The Secretary said that this seemed to fill the bill because it corresponded with the amount of additional revenue the President had asked for earlier this year in order to meet national defense needs.

- 2 -

The Secretary then asked for a schedule to be prepared which would show the increase in taxes discussed and would show their yield between July 1, 1940 and December 31, 1940, and also the yield between July 1, 1940 and June 30, 1941.

The Secretary then said that no mention had been made of an increase in tobacco taxes. He said that in his opinion tobacco should share increased taxes with gasoline and liquor. Mr. Elough and Mr. O'Donnell agreed with him that it would be safer not to load the increased taxes solely on gasoline and liquor but to spread it over tobacco products as well.

The Secretary then asked for the \$100 million which was to be secured from distilled liquors and from beer to be spread, one-third distilled liquors, one-third to beer and one-third to tobacco.

The Secretary said he wanted the schedule in his hands by 9:00 Monday morning because at that time he was going to consult with Mr. Doughton, Mr. Cooper and Senator Harrison. He also said that he was going to have Mr. Magill available for consultation on Monday.



Thomas Tarleau  
Legislative Counsel

May 27, 1940

MEMORANDUM TO: Mrs. Klets

Conference held at the Secretary's home Sunday, May 26th at 12 noon.

Present: Secretary Morgenthau, Mr. Tarlton, Mr. Blough, Mr. O'Donnell.

Mr. Blough showed the Secretary several alternative schedules to obtain additional tax revenues by February 1, 1941. The Secretary said that he wanted Mr. Sullivan to be called and notified to be back in Washington on Monday morning. The Secretary then examined the schedules and said that he doesn't like any new form of taxation to be used at this time, but would rather use schedules calling for more familiar types of taxes. Therefore, he did not care for the schedule imposing an excise tax on dividends, rents and salaries.

The Secretary then asked for figures on tax collections if a 10% tax on 1939 income tax liabilities of corporations and individuals was to be imposed. Mr. O'Donnell said that that would result in approximately 90 millions from corporations and 100 millions from individuals. The Secretary said that he wanted this to be collected sometime before the first of January.

The Secretary then asked what the Treasury would secure if we increased the tax on distilled spirits from \$2.25 to \$2.75 per gallon with an accompanying floor stock tax. Mr. O'Donnell said we would raise by January 1 about 50 millions. Then an increase of the tax on beer was discussed, the tax to be increased from \$5.00 to \$7.00 per barrel. The Secretary was informed that we would raise 50 millions by January 1.

An increase of gasoline taxes from 1¢ to 3¢, Mr. O'Donnell estimated, would raise an additional 170 millions by January 1.

The Secretary then totaled these tax increases and they amounted to \$460 million. The Secretary said that this seemed to fill the bill because it corresponded with the amount of additional revenue the President had asked for earlier this year in order to meet national defense needs.

- 2 -

The Secretary then asked for a schedule to be prepared which would show the increase in taxes discussed and would show their yield between July 1, 1940 and December 31, 1940, and also the yield between July 1, 1940 and June 30, 1941.

The Secretary then said that no mention had been made of an increase in tobacco taxes. He said that in his opinion tobacco should share increased taxes with gasoline and liquor. Mr. Blough and Mr. O'Donnell agreed with him that it would be safer not to load the increased taxes solely on gasoline and liquor but to spread it over tobacco products as well.

The Secretary then asked for the \$100 million which was to be secured from distilled liquors and from beer to be spread, one-third distilled liquors, one-third to beer and one-third to tobacco.

The Secretary said he wanted the schedule in his hands by 9:00 Monday morning because at that time he was going to consult with Mr. Doughton, Mr. Cooper and Senator Harrison. He also said that he was going to have Mr. Magill available for consultation on Monday.

Thomas Farlem  
Legislative Council

May 27, 1940

274

MEMORANDUM TO: Mrs. Klotz.

Meeting in the Secretary's office Monday, May 27th at 8:30 a. m.

Present: Mr. Daniel Bell, Mr. John L. Sullivan, Mr. Guy Helvering, Mr. Roy Blough, Mr. Tarleau, Mr. O'Donnell. Mr. Roswell Magill arrived at about 8:55.

The Secretary said that he and the President had agreed that it would be advisable to determine what action the Congress would be willing to take at this time with regard to raising the debt limit and with regard to additional taxes. The Secretary said he had asked Senator Harrison, Mr. Doughton and Mr. Cooper to meet with him at 9 o'clock so that he could ask them to find out the temper of the Congress and to report back to him tomorrow morning.

The Secretary said that he personally felt strongly that a national defense tax should be imposed. He said that he had felt so for some time and that the Gallup Poll indicated that the public believed in the necessity for additional taxes.

Mr. Bell asked how much a tax on soft drinks would bring. Mr. Sullivan said about \$75,000,000. It was pointed out that that figure was not based on a tax of 1¢ a bottle but on the basis of the old soft drink tax which was a tax of a percentage of the value.

The Secretary then asked Mr. Sullivan how he felt about the schedule which Mr. O'Donnell handed to those present. Mr. Sullivan said he did not like the 10% additional tax on 1939 tax liabilities because it did not fit in with the future program of taxation and because it was retroactive. The Secretary pointed out that this tax was along the line of the President's suggestion. He then asked Commissioner Helvering how he felt about it. Commissioner Helvering said that he didn't like the retroactive feature either.

The Secretary then asked Mr. Sullivan how additional money was to be received prior to January 1 if this method was not adopted. Mr. Sullivan showed the Secretary another schedule. The Secretary said this schedule is unsatisfactory because it was composed entirely of consumers taxes and that the tax on gasoline in that schedule was too high. The Secretary then said, really the question was whether

a tax bill was wanted at this time and that he would merely discuss that question with the leaders and would not go into any details. He assured Mr. Sullivan that he would withhold showing the schedule prepared by Mr. O'Donnell until an agreement was reached within the Treasury. The Secretary said that he felt that the 1939 tax liability was a fair index of the taxpayers ability to pay some additional tax and that he did not care to have the entire amount raised by means of consumers' taxes.

At this point Mr. Magill came in and Mr. Sullivan gave him the substance of what had already transpired.

May 27, 1940

MEMORANDUM TO: Mrs. Kiets.

Meeting in the Secretary's office Monday, May 27th at 8:30 a. m.

Present: Mr. Daniel Bell, Mr. John L. Sullivan, Mr. Guy Helvering, Mr. Roy Blough, Mr. Tarlton, Mr. O'Donnell. Mr. Beewell Magill arrived at about 8:55.

The Secretary said that he and the President had agreed that it would be advisable to determine what action the Congress would be willing to take at this time with regard to raising the debt limit and with regard to additional taxes. The Secretary said he had asked Senator Harrison, Mr. Doughton and Mr. Cooper to meet with him at 9 o'clock so that he could ask them to find out the temper of the Congress and to report back to him tomorrow morning.

The Secretary said that he personally felt strongly that a national defense tax should be imposed. He said that he had felt so for some time and that the Gallup Poll indicated that the public believed in the necessity for additional taxes.

Mr. Bell asked how much a tax on soft drinks would bring. Mr. Sullivan said about \$75,000,000. It was pointed out that that figure was not based on a tax of 1¢ a bottle but on the basis of the old soft drink tax which was a tax of a percentage of the value.

The Secretary then asked Mr. Sullivan how he felt about the schedule which Mr. O'Donnell handed to those present. Mr. Sullivan said he did not like the 10% additional tax on 1939 tax liabilities because it did not fit in with the future program of taxation and because it was retroactive. The Secretary pointed out that this tax was along the line of the President's suggestion. He then asked Commissioner Helvering how he felt about it. Commissioner Helvering said that he didn't like the retroactive feature either.

The Secretary then asked Mr. Sullivan how additional money was to be received prior to January 1 if this method was not adopted. Mr. Sullivan showed the Secretary another schedule. The Secretary said this schedule is unsatisfactory because it was composed entirely of consumers taxes and that the tax on gasoline in that schedule was too high. The Secretary then said, really the question was whether

- 2 -

a tax bill was wanted at this time and that he would merely discuss that question with the leaders and would not go into any details. He assured Mr. Sullivan that he would withhold showing the schedule prepared by Mr. O'Donnell until an agreement was reached within the Treasury. The Secretary said that he felt that the 1939 tax liability was a fair index of the taxpayers ability to pay some additional tax and that he did not care to have the entire amount raised by means of consumers' taxes.

At this point Mr. Magill came in and Mr. Sullivan gave him the substance of what had already transpired.

In the White House  
 5/27/40, 275  
 Also discussed with  
 Harrison & Cooper  
 at 9:05 am 5/27/40

Tentative revenue estimates under the proposed Special National Defense Tax provisions

Source	Estimated additional revenue which will be received	
	In the period July 1, 1940 through December 31, 1940	During the full fiscal year 1941 (July 1, 1940 through June 30, 1941)
	(millions of dollars)	
10 percent super tax on 1939 income tax liabilities of corporations 1/2 .....	117	117
10 percent super tax on 1939 income tax liabilities of individuals 1/2 1/2 .....	91	91
Distilled liquors (rate increase from \$2.25 to \$2.75 per gallon, with floor tax) 1/2 .....	28	28
Beer (rate increase from \$8.00 to \$8.50 per barrel) 1/2 .....	35	67
Tobacco (rate increase from \$2.00 to \$2.50 per 1,000 cigarettes with proportionate increases on other tobacco products) 1/2 .....	20	41
Gasoline (rate increase from 1¢ to 2¢ per gallon) 1/2 .....	197	298
<b>Total</b>	<b>488</b>	<b>773</b>

Treasury Department,  
 Division of Research and Statistics

May 28, 1940.

- 1/ The super tax is to be imposed on income tax liabilities for the first taxable year beginning after December 31, 1939, and is to be payable during the calendar year 1940, the exact date yet to be determined.
- 2/ The super tax on individuals shall not exceed 10 percent of net income remaining after deducting the existing Federal income tax.
- 3/ The proposed increased rates are to be effective for one year beginning at July 1, 1940. It is anticipated that by December 31, 1940 six months collections of the liquor, beer and tobacco taxes, and five months collections of the gasoline taxes, will have been received at the increased tax rates.

Estimated revenue estimates under the proposed Special National Defense Tax provisions

Source	Estimated additional revenue	
	which will be received in the period July 1, 1940 through December 31, 1940	during the full fiscal year 1941 (July 1, 1940 through June 30, 1941)
	(millions of dollars)	
10 percent surer tax on 1939 income tax liabilities of corporations <i>✓</i> .....	117	117
10 percent surer tax on 1939 income tax liabilities of individuals <i>✓</i> <i>✓</i> .....	91	91
Distilled liquors (rate increase from \$3.25 to \$3.75 per gallon, with floor tax) <i>✓</i> .....	88	88
Beer (rate increase from \$5.00 to \$6.00 per barrel) <i>✓</i> .....	83	87
Tobacco (rate increase from \$3.00 to \$5.00 per 1,000 cigarettes with proportionate increases on other tobacco products) <i>✓</i> .....	20	41
Gasoline (rate increase from 1¢ to 1½¢ per gallon) <i>✓</i> .....	197	206
<b>Total</b>	<b>695</b>	<b>778</b>

Treasury Department,  
Division of Research and Statistics

May 24, 1940.

- ✓* The surer tax is to be imposed on income tax liabilities for the first taxable year beginning after December 31, 1939, and is to be payable during the calendar year 1940, the exact date yet to be determined.
- ✓* The surer tax on individuals shall not exceed 10 percent of net income remaining after deducting the existing Federal income tax.
- ✓* The proposed increased rates are to be effective for one year beginning at July 1, 1940. It is anticipated that by December 31, 1940 six months' collections of the liquor, beer and tobacco taxes, and five months' collections of the gasoline taxes, will have been received at the increased tax rates.

Estimated balance of borrowing authorization <sup>1/</sup>

	June 30, 1940	December 1, 1940	January 1, 1941	February 1, 1941	March 1, 1941	June 30, 1941
1. Budget estimate (revised by Treasury based upon deficit of \$2,550M) excluding \$700M recapture from credit agencies and excluding additional taxes of \$460M ..	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,195	1,075	880	840	735
2. Budget estimates as under No. 1 above and adding \$750M additional expenditures for national defense and \$300M for relief .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	960	770	490	365	- 315
3. Budget estimates as under No. 1 above, including \$700M recapture from credit agencies but excluding additional taxes .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,895	1,775	1,580	1,540	1,435
4. Budget estimates as under No. 1 above, and including \$700M recapture from credit agencies and adding additional expenditures of \$750M for national defense and \$300M for relief .....	1,700	290	235	15	- 295	- 810
Estimated working balance .....	950	1,660	1,470	1,190	1,065	385

<sup>1/</sup> Assumes \$500M new money borrowed in September, 1940.

Note: Assumes credit agencies will finance their own requirements in 1941 and not draw on Treasury. Required by law to be classified

May 27, 1940

In my conference with Harrison and Cooper I was amazed to find that Senator Harrison completely reversed himself. He now not only favors increasing the debt limit, but also a tax bill. So does Jerry Cooper.

The interesting thing is that when I asked the President, late Saturday, would he talk to the so-called "Big Four" about the debt limit, he said, "No, he did not want to." I said, "Well, let me make a survey" and he said, "Go ahead and do it." I only talked about the debt limit.

Over the week-end, entirely on my own, I decided we also ought to have a tax bill and I called in Roy Slough and Tarleau and we worked out a memorandum, a copy of which Harrison and Cooper took with them in confidence.

I don't know how the President feels about a tax bill, but he said that he would be in favor of increasing everybody's taxes by 10 percent.

The amusing thing that happened was that Sullivan was opposed to this 10 percent increase on the 1939 income corporation tax and Harrison and Cooper both like that, but they completely hit the ceiling when they saw the increase in the gas tax and that is where Sullivan wanted to get most of the money from and I whispered to Sullivan, "After all, I have not been here for seven years for nothing".

MEMORANDUM

May 27, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

CONFERENCE: Undersecretary Bell, Commissioner Helvering, Mr. Magill  
and Mr. Sullivan present.

It is the unanimous opinion of this group, the first 2 items on the tentative revenue estimate prepared yesterday which provide for a 10% super tax on 1939 income tax liabilities of corporations and individuals should not be enacted. It is our feeling that it would seriously deter the desired expansion of industrial facilities, it would have a further unfortunate effect upon the market as a result of the selling of securities that would be required in many instances that would be necessary to meet this additional increase and would create in the minds of the public an uneasiness and uncertainty which would be most undesirable.

For the year 1938 the average tentative declaration by American corporations was 73% of the net incomes. We have encouraged and we will continue to encourage corporations to pay out as large a percentage of net income as possible. The danger of future imposition of just such taxes as are included in this schedule will tend to influence corporations to retain additional reserve for unseen tax continuance.

In lieu of the tentative revenue estimates shown to Senator Harrison and Congressman Cooper this morning, we are presenting an additional memorandum which provides for the present enactment of tax legislation to become effective July 1st, which will raise the necessary revenue and would also provide for substantially increased collection of taxes starting March 15th. It is the unanimous opinion of this group that the passage of the proposed new tax bill should be accompanied by an Act raising the debt limit \$5 billion dollars.

J K S

Tentative revenue estimates anticipating the enactment of the entire following legislation prior to July 1, 1940

Source	: Full year : : collec- : : tions :	Fiscal : year : 1941	: July 1, 1940 : to : Feb. 15, 1941
(millions of dollars)			
Distilled liquors (rate increased from \$2.25 to \$3.00 per gallon, with floor tax)..	75 1/2	91	64
Beer (rate increased from \$5.00 to \$6.50 per barrel)...	67	67	42
Tobacco (rate increased from \$3.00 to \$3.50 per thousand cigarettes with proportionate increase on other tobacco products) .....	77	77	48
Admissions (reduction of exemption limit from 40¢ to 20¢)	60	55	34
Soft drinks (1¢ per bottle and equivalent rate for sirups and extracts) .....	95	87	51
Manufacturers' excise taxes, excluding gasoline (increase 10%) .....	20	18	11
Gasoline (rate increased from 1¢ to 2¢ a gallon) .....	222	206	130
Increased revenue due to increased Bureau personnel ....	68	68	42
Reduced personal exemptions to \$1,500 and \$750 and increase normal rate from 4% to 8% and increase surtax rates in accordance with attached Schedule A (effective on calendar year 1940 incomes) <sup>2/</sup>	1,000	600	390
Increases of 1, 1½ and 2% in present corporation income tax rates .....	137	67	0
Repeal exemption of interest on State and municipal securities (effective on calendar year 1940 incomes) <sup>2/</sup> .....	126	73	40
Total .....	1,947	1,409	852

Treasury Department, Division of Research and Statistics.

May 27, 1940.

<sup>1/</sup> Excluding floor tax, amounting to \$16,000,000 in fiscal year 1941.

<sup>2/</sup> Individual returns to be filed by February 15, 1941.

## SCHEDULE A

Comparison of present individual surtax rate  
schedule with proposed schedule

Amount of surtax net income (In thousands)	Rate of Tax		Amount of surtax on higher amount of surtax net income	
	Present	Proposed	Present	Proposed
\$ 0 - \$ 4	-	-	-	-
4 - 5	4%	4%	\$ 40	\$ 40
5 - 6	4	5	80	90
6 - 8	5	8	180	250
8 - 10	6	12	300	490
10 - 12	7	16	440	810
12 - 14	8	20	600	1,210
14 - 16	9	24	780	1,690
16 - 18	11	28	1,000	2,250
18 - 20	13	33	1,260	2,910
20 - 22	15	38	1,560	3,670
22 - 24	17	42	1,900	4,510
24 - 26	17	46	2,240	5,430
26 - 28	19	46	2,620	6,350
28 - 32	19	50	3,380	8,350
32 - 34	21	50	3,800	9,350
34 - 38	21	52	4,640	11,430
38 - 40	24	52	5,120	12,470
40 - 44	24	53	6,080	14,590
44 - 48	27	53	7,160	16,710
48 - 50	27	54	7,700	17,790
50 - 56	31	54	9,560	21,030
56 - 62	35	55	11,660	24,330
62 - 64	39	55	12,440	25,430
64 - 68	39	56	14,000	27,670
68 - 72	43	56	15,720	29,910
72 - 74	43	57	16,580	31,050
74 - 80	47	57	19,400	34,470
80 - 90	51	58	24,500	40,270
90 - 100	55	59	30,000	46,170
100 - 150	58	60	59,000	76,170
150 - 200	60	61	89,000	106,670
200 - 250	62	62	120,000	137,670
250 - 300	64	64	152,000	169,670
300 - 400	66	66	218,000	235,670
400 - 500	68	68	286,000	303,670
500 - 750	70	70	461,000	478,670
750 - 1,000	72	72	641,000	658,670
1,000 - 2,000	73	73	1,371,000	1,388,670
2,000 - 5,000	74	74	3,591,000	3,608,670
5,000 and over	75	75	-	-

MEMORANDUM

May 27, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

CONFERENCE: Present: Secretary Morgenthau, Senator Harrison, Congressman Cooper, Undersecretary Bell, Commissioner Helvering, Mr. Magill, Mr. Sullivan.

The Secretary asked Senator Harrison and Congressman Cooper to make a survey of Congress to determine its attitude on the tax bill at the present session. Senator Harrison immediately started to interrogate Mr. Bell on his figures relating to the debt limit. Congressman Cooper had the figures which he had taken down on May 17th. Mr. Bell's revised figures indicated that in the event that we recapture \$700 million from various agencies on February 1st, we will have a working balance of \$1,190,000,000 and a balance of borrowing power of \$15 million.

The Secretary stated that he believed the country was ready for a tax bill and spoke of the Gallop Poll, in which apparently Senator Harrison and Congressman Cooper had no confidence. They both spoke of the statement that had been made during the past week as to adjournment before June 15th. Senator Harrison stated that he thought it would be preferable to increase the national debt. He seemed to be afraid to some extent of the LaFollette proposal to reduce exemptions and much more disturbed by the Lee plans. However both he and Congressman Cooper agreed that the present psychology demanded that something be passed at this session. The Secretary suggested that if the debt limit is raised we should abandon the attempt to recapture the \$700 million.

Congressman Cooper stated that the Ways and Means Committee has an understanding that they will not attempt to do anything until the President, the Secretary of the Treasury, Senator Harrison and Congressman Doughton have agreed on a program. The Secretary said he would be glad to ask the Senate and the House what they want, and then he will cause to be drafted whatever Harrison and Cooper suggested.

Senator Harrison stated that in his opinion the country was more serious and more confused than it was in the early months of 1917, yet despite this fact there seemed to be political angles to the situation as evidenced by the letter of Senator Vandenberg, criticizing the Democratic members of the Senate for introducing no tax bill. Senator

- 2 -

Harrison stated that he had complete confidence in Senator McNary and intended to consult him about this matter. Senator Harrison stated that McNary might have trouble in his ranks with that group who want to make the war pay for itself by an exceptionally high tax on those concerns manufacturing munitions. The Senator disapproved the idea of putting a tax of 10% or 15% on the regular tax after it has been determined. He thought in many instances it would be too high. Neither does Senator Harrison like the excess profits tax. Apparently his preference is a manufacturers sales tax or an increase in the tax rate on corporations and perhaps on individuals.

Congressman Cooper stated that he was for the super tax, but he did not think it would produce much revenue. However on Congressman Doughton's return, he will call a meeting of the Democratic members of the Ways and Means Committee.

In regard to the Schedule which was submitted to them and of which he took away a copy, Senator Harrison was opposed to the retro-active features, whereas Congressman Cooper favored them. Both object to the increase of tax on gasoline. They both hope that this can be thought of as a National Defense tax rather than as a Deficit Tax. Senator Harrison suggested that in our Schedule we raise the tax on liquor to \$3 and reduce it on beer to \$6 per barrel. Senator Harrison then stated that he was in favor of increase of taxes 10% and in this way avoid specialized lobbies. He then stated that he thought he would call a meeting of his entire Committee.

Senator Harrison asked if the Secretary would want to increase the debt limit if Congress gave him these taxes at the present session. The Secretary said that he thought this should be done in the present session and that they could get an increase of \$5 billion in the debt limit.

As they were leaving, Senator Harrison stated that he thought we should have both a tax measure and an increase in the debt limit. He believed that \$5 billion was too much of an increase, although they eventually think it would be inadequate. His suggestion was to increase the taxes now by about \$700 million and raise the debt limit  $2\frac{1}{2}$  to 3 billion dollars.

Both Senator Harrison and Congressman Cooper appeared to favor an increase of 10% on all taxes.

The meeting adjourned with an understanding that they were to meet again tomorrow morning at 9 o'clock.

JLS

237

UNITED STATES TREASURY DEPARTMENT



OFFICE OF  
THE ATTACHE  
SHANGHAI

May 27, 1940.

CONFIDENTIAL MEMORANDUM

To the Secretary:

With a view to a more efficient prosecution of economic warfare and in order to remedy the existing deficiencies in administration Chiang Kai-shek proposes to create a central control board to be called the War Economic Commission or some other appropriate name with himself as president and T.V. Soong as vice president. At present the various organizations in charge of the execution of the policy of export control and economic blockade of the occupied areas are subject to the authority of different ministries. The consequences of such lack of unified control have been inefficiency, confusion, delay and ever arising new problems over which the existing organizations have no jurisdiction or control.

One of the outstanding problems which is draining the resources of the central government and slowly but surely undermining the prestige of Chiang Kai-shek and the loyalty of the people is the extensive smuggling that has been going on from the free area into the occupied area and abroad. In many instances the smuggling activities have been undertaken under protection of local military authorities aided and abetted by the gang of sharpshooters following in the train of persons in high political places in Chungking. The extent of this smuggling and consequent drainage of resources is evident by the fact that according to statistics the four government banks last year acquired foreign exchange to the equivalent of only twenty one million Chinese dollars.

The cause of such wide spread smuggling has been the discrepancy between the price of goods concerned in the world market and that

paid to the domestic producers or to the merchants whose export bills are required to be sold to the government banks at the arbitrary rate of seven pence to the dollar while exporters in the enemy occupied area can sell their bills to the banks around three to four pence to the dollar. The producers and merchants are thus penalized and placed in a disadvantageous position as compared with those in the occupied area. A feeling of resentment and restiveness has been created which tends to discourage production and exports and force producers to abandon their own field of production and go into other more remunerative pursuits.

Under existing arrangements the purchase and disposal of wood oil, tea, bustles and metals (tin and wolfram), which are officially tied up with barter and export credit agreements can only be made by specially designated governmental organs such as the Foreign Trade Commission (thru the Foe Hua Company, the China Vegetable Oil Company and the China Tea Company), The Central Trust Company and the National Resources Commission. Each of these organizations has acquired considerable experience in their respective field of operation but here again there is no central authority or coordination body to formulate and enforce a uniform policy. Even these officially controlled products are not free from smuggling as witness the large consignment of wood oil shipped from Hongkong to a private concern in New York several months ago.

Further as a result of the official restrictions on the free outward movement of banknotes from the free China area enforced with a view to minimizing the unnecessary pressure on the exchange market the national currency is at a heavy discount in the free China area amounting to between forty and fifty percent. This large disparity in the value of the currency within and without the free area is naturally an inducement to smuggling of notes, by provincial banks and to some

extent by travellers from interior centers, to Hongkong and Shanghai. Sometimes with but more often without the necessary permission of the Ministry of Finance. Sometimes the movement of notes is undertaken by commercial banks as cover for exchange transactions in occupied area centers. This condition exists not because of lack of control machinery but rather to the imperfect working of said machinery.

At the present time Chiang Kai-shek maintains full control over military and political affairs, but economic and financial matters seem to be completely out of hand. In order to gain the necessary control of the economic situation he now proposes to establish a control board under his personal supervision with T.V. Soong doing the heavy work. Whether the latter will accept the commission unless full power to formulate and administer laws and regulations, necessary to efficient handling of such a ticklish job, is centralized in him is doubtful. That he would be ruthless in the application of any power conferred upon him is the foregone conclusion of those who know him - but that a ruthless hand is needed at the helm at this stage of China's affairs is fast becoming a conviction.

However, the proposed plan will not be easy of execution. It will involve great effort on the part of Chiang Kai-shek to bring certain government divisions under one head. Such a move will be vigorously opposed by the hungry horde of Chinese patriots infesting Chungking, who are waxing financially fat at the expense of their country and their government.

*[Handwritten signature]*

1. We understand that in addition to part of their gold reserves substantial quantities of gold are privately hoarded in Holland and Belgium mostly in coin or very small bullion units. Amount has been privately estimated at anything from fifty to one hundred million pounds.

2. There is clearly serious danger that this gold will be collected and exported by Germany.

3. Please approach Mr. Morgenthau on the matter and enquire of him whether he would be prepared to scrutinise the gold imports with a view to rejecting those suspected of German origin.

4. It has been suggested that remelted gold can be distinguished by experts but this can probably not be relied upon. The possibility of requiring certificates of origin counter-signed by a Central Bank has also been suggested to us but ways round this might also be found. If Mr. Morgenthau is willing to accept in principle the United States experts would no doubt consider most effective method of putting it in practice.

*[Handwritten initials]*  
27/5

PARAPHRASE OF TELEGRAM RECEIVED

London

Secretary of State,

Washington.

1401, May 27, noon.

SECRET AND PERSONAL FOR THE SECRETARY OF STATE

Kingsley Wood talked with me about the gold today and they are starting to send some over. While the Treasury feels that gold and American securities should be sent to Canada, they cannot obtain Churchill's consent because of his fear that any such step might cause England to believe that there is panic in the Government and that a terrific mess would result. I shall follow the situation closely, however, and inform you as soon as anything turns up.

KENNEDY

May 27, 1940

MEMORANDUM FOR THE SECRETARY:

Pacific Coast Situation

Confusion and doubt still continued to dominate the Pacific Coast freight and charter market last week. There was, of course, the reactions to the new turn of events in the European war, but these were not manifested in panic or hysteria, such as gripped the stock market, but rather were productive of extreme bewilderment on the part of both shippers and operators.

Business in all directions, excepting the United Kingdom which under strict control, was softer. Buying interest lagged, with the consequent easing of the demand for space and ships. Rates on time charters were softer at between \$4.50 and \$5. The demand of charterers was mainly for American bottoms. Two American-Hawaiian vessels were fixed at undisclosed rates for the Far East, delivery and redelivery Atlantic ports.

In the trans-Pacific trade to the Orient business was uneventful, and the berth lines were getting a fair volume of cargo. Chartering rates softened somewhat on light offerings. A vessel was fixed for a cargo of crude salt to Japan at \$15, which was \$1.75 off from the previous fixture on this type of business. No time fixtures were reported for the trade, but it was thought that \$5 still could be done for a handy vessel. It was reported that there was some inquiry for petroleum products in drums for Bangkok, and business was said to have already been offered at \$16. Some charters for petroleum products were noted a week ago at \$16 and \$18. Scrap prices were down and demand for space was easy. Scrap rates, however, were quoted by berth carriers at \$16 for rails and \$17 for melting. No scrap fixtures were reported.

Business to Australia was reported as quite soft, and the lines were understood to be having difficulty filling. Even lumber, the mainstay cargo, was said to have been scarce. The last rate was \$55, but ideas declined to nearer \$30 during the week. General cargo interest was dead due to the severe restrictions on imports imposed by the Commonwealth Government.

Intercoastal business continued to weaken, bearing out predictions of about a month ago. General cargo offerings in both directions were moderate, and the lines were able to meet most demands except those for lumber space.

*Basil Harris*

H. H. Wood

27  
MAY 27, 1940.

233

MEMORANDUM FOR THE SECRETARY:

Shipping Situation.

The records of the Association of American Railroads disclose that there is a slight upward trend discernible in the movement of export freight through the Port of New York.

On May 16th the number of cars loaded on lighters for delivery to export steamers was 676 and on May 23d 767.

The cars on hand awaiting unloading and delivery by lighter were 3196 on May 16th and 3486 on May 23d.

On May 13th there were 4236 carloads of export freight in storage in railroad terminals and on May 20th 4325. The space occupied is only one third of that available.

On May 23d there were 74 lighters with export freight on demurrage.

The grain in railroad cars, elevators and boats remains at about one and a quarter million bushels.

Carloadings registered a small decrease in the week ending May 18th, due principally to a falling off in the movement of grain, coal and ore.

The movement of steel for export continues heavy. One third of the total production of some steel companies represents export business. The British Government's priority list calls for the lifting of 170,000 tons of steel in June from North Atlantic and Gulf ports.

-2-

French Government orders for steel will be moving to the ports for export in the near future and, like the British, the ships under the control of the French Maritime Commission will probably be sailing down to their marks but with space not utilized.

Chartering on either time or net form basis is extremely limited. Rates in practically all trades are softening.

Due to the large number of Norwegian, Dutch and Belgian ships available to the British and French Ministries of Shipping, there is every likelihood that instead of there being a glut of cargo to be moved, the lines not under the control of the respective Ministries may have difficulty in obtaining full cargoes - particularly of the better paying freight.

Basil Harris.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 27, 1940.

TO Secretary Morgenthau  
FROM Mr. Haas *CA*  
Subject: The Business Situation,  
Week ending May 25, 1940.

Conclusions

(1) Statistical data so far available show but little adverse reaction, as yet, to the severe price declines of the past two weeks, partly because of the favorable psychological influence of our own rearmament program and of increased Allied buying.

(a) Our index of new orders for the week ended May 18 has increased to the highest level, with one exception, since last November. Orders for steel, textiles, and "other products" all showed increases over the previous week.

(b) Department store sales for the country as a whole were slightly lower than in the previous week but better than the average of the previous four weeks.

(2) No important contraction in consumer buying seems in prospect so long as industrial production and payrolls continue to rise. Led by a strong expansion in steel production on enlarged domestic and foreign buying, industrial production, as estimated from the New York Times index for the week ending May 18, has increased to an FRB index level of 106 or higher, which compares with 102 in April.

(3) Activity in the steel industry, according to press reports, has been given greater impetus during the past week by increased orders and inquiries from the Allies, as well as from Italy. Steel operations this week will be 76.9 per cent of capacity as compared with 73.0 per cent last week. Plant expansion in various industries and increased buying of railroad equipment are providing additional support to steel activity.

- - - - -

New buying well maintained

The sharp break in commodity and security prices which accompanied the recent drastic shift in the war outlook has not yet disturbed the improving trend of new orders, judging from figures so far available, although in a few industries new buying is reported to have slackened. Our index of new orders for the week ended May 18 rose to the highest figure, with one exception, since the third week of November. (See Chart 1) Orders in all three main groups improved over the previous week.

It is probably inevitable that the price break should cause some postponement or curtailment of buying, particularly for durable consumers' goods. Yet automobile buying, which should be among the first to reflect any severe shock to consumer confidence, has apparently shown no more than the usual seasonal decline during the period May 11 to 20 in the country as a whole, on the basis of preliminary data for 15 leading makes as reported by the Wall Street Journal. Total retail sales of cars and trucks in that period were substantially lower than in the first period of the month, but this was largely due to one less working day in the period. Daily average retail sales were reduced to approximately 12,500 units, as compared with 12,700 in the first period of the month, representing about a normal seasonal reduction. According to the same source, however, the important Eastern markets are reported to have shown large sales declines.

No significant reduction is shown in department store sales on the average. Sales in the week ended May 18 were 5.0 per cent above those of the comparable period last year. While this makes a less favorable comparison than the 7.4 per cent increase of the previous (Mother's Day) week, it is somewhat better than the average 4.5 per cent increase of the previous four weeks. In the Kansas City district, however, sales for the week ending May 18 declined 15 per cent as compared with an increase of 16 per cent in the preceding week. Some observers associate this with the psychological influence of the decline in wheat prices.

Private heavy construction awards, on the other hand, show a decline. This may reflect in some degree the postponement of new commitments, but one week's change in this erratic series should not be considered conclusive. Private awards for heavy projects in the week ended May 23 declined 27 per cent from the previous

week, and for the first time in 8 weeks were below the previous year's level. Residential awards for the period May 1 to 15, given by F. W. Dodge figures, continue well maintained.

#### Industrial activity advances further

It is difficult to foresee more than minor readjustments in consumer buying so long as industrial activity, payrolls, and consumer incomes continue well maintained. (See Chart 2) In the week ended May 18, the New York Times index rose to an FRB equivalent of 106, and further gains are indicated by the figures on steel and automobile production for the following week.

The improving trend of business activity is supported by a substantial increase in new orders during April and May. Our monthly index of new orders in April, according to compilations just completed, rose to the equivalent of 112 in terms of the FRB index. (See Chart 3) Since the actual unadjusted FRB index in April was 104, unfilled orders have been substantially increased. Our estimate of unfilled orders at the end of April (lower section of chart), based on the cumulated difference between new orders and production, rose as compared with unfilled orders at the end of March. Unfilled orders at the end of April were the equivalent of 31 points on the FRB index, as compared with 23 points a month earlier.

During May, our weekly index of new orders indicates that new buying has shown a further substantial improvement. (Refer to Chart 1)

Although less improvement in the basic situation is indicated by our index of basic demand and our index of sales for April, both remain sufficiently above the April FRB index of 102 to indicate a favorable outlook. (See Chart 4) Our basic demand index in April declined 1 point to 107, and our sales index (due to the seasonal adjustment) declined 8 points to 111.

#### Steel activity speeded up

The increase in steel production in recent weeks has restored approximately one-half of the entire decline since last December. The rate for the week beginning May 27, as

Secretary Morgenthau - 4

reported by the American Iron and Steel Institute is 76.9 per cent of capacity as compared with 73.0 per cent in the preceding week. (See Chart 8) The currently rising volume of orders from both domestic and foreign sources has led trade observers to view the steel outlook with optimism for the next several months. Increasing confidence is reflected in the number of new blast furnaces being blown in to supply pig iron.

New orders of the United States Steel Corporation for the week ending May 16, totaling 236,000 tons, were at the rate of 70 per cent of capacity. (Shown on Chart 5) This represents an increase of 10,000 tons over the previous week, and the highest volume since November 30. Operations of this corporation have risen in recent weeks to about the same rate as that of the independent companies, as they usually do when heavy steel products are being produced in large volume.

#### War buying increasing

The initial effect of the invasion of the Low Countries, according to press reports, has been to step up Allied purchasing of steel in this country during the past two weeks, this buying now being concentrated in types of steel in the more advanced stages of manufacture. A large share of the buying, however, is reported by the Journal of Commerce to have been placed with options permitting cancellations if the war should end within a stated period of months. Despite this uncertainty, American producers appear willing to book orders for semi-finished steel or for ingots, but less willing to book orders for unusual specifications which would be difficult to re-sell if orders should be cancelled. Italy has also been a purchaser of both steel and scrap.

The increased export demand and the impending volume of orders for national defense, which threaten delivery difficulties later in the year, have led to an advancing of railroad equipment buying programs. New orders for freight cars amounted to 1,210 units during the week ended May 18. Nine new locomotives were ordered last week, and inquiries have been put out for 34.

The railroads, however, are in a much better position to handle freight traffic than they were last fall, when a shortage of cars was threatened. During the first four months of 1940, Class I railroads put 27,809 new freight cars into use, the largest number in any comparable period since 1930.

Secretary Morgenthau - 5

New orders for machine tools continue to increase, particularly from aircraft makers, and delivery dates are being set further ahead each week, according to reports from the Cleveland and Cincinnati districts. The two large airplane engine builders on the Eastern coast are already making heavy machine tool commitments in connection with recent contracts placed by the Anglo-French Purchasing Commission.

Because of the delivery situation on new machine tools, the American Car and Foundry Company (in connection with its recent shell contract) is concentrating at Buffalo all equipment suitable for shell work that is not in use at other plants. It is also inquiring for used machine tools, the press reports.

Automobile production has started its summer decline. Production last week totaled 96,810 units as compared with 99,030 in the previous week, slightly less than the usual seasonal reduction. A sharp decline is in prospect for next week, since the week includes a holiday falling on Thursday, which will doubtless mean a complete shutdown in most plants for the remaining days of the week.

#### Commodity prices reflect adverse war news

Commodity prices averaged substantially lower last week, but showed strength at the end of the week. The movements were irregular as traders oscillated between favorable and unfavorable interpretation of war news. Food prices declined for the fourth week in succession, while raw material prices cancelled the previous week's gain. (See Chart 6)

#### Current business news

Continuation of the recent upward turn in business activity is evidenced by a further gain of .8 in the New York Times index of business activity for the week ending May 18. As a result of this third successive advance the index stood at 95.5 in the week mentioned.

A substantial contra-seasonal gain in steel ingot production again was the principal factor in the rise, although a greater than seasonal increase in electric power production and a contra-seasonal rise in miscellaneous freight carloadings helped materially. On the other hand the favorable implications of the rise in the combined index above mentioned were somewhat

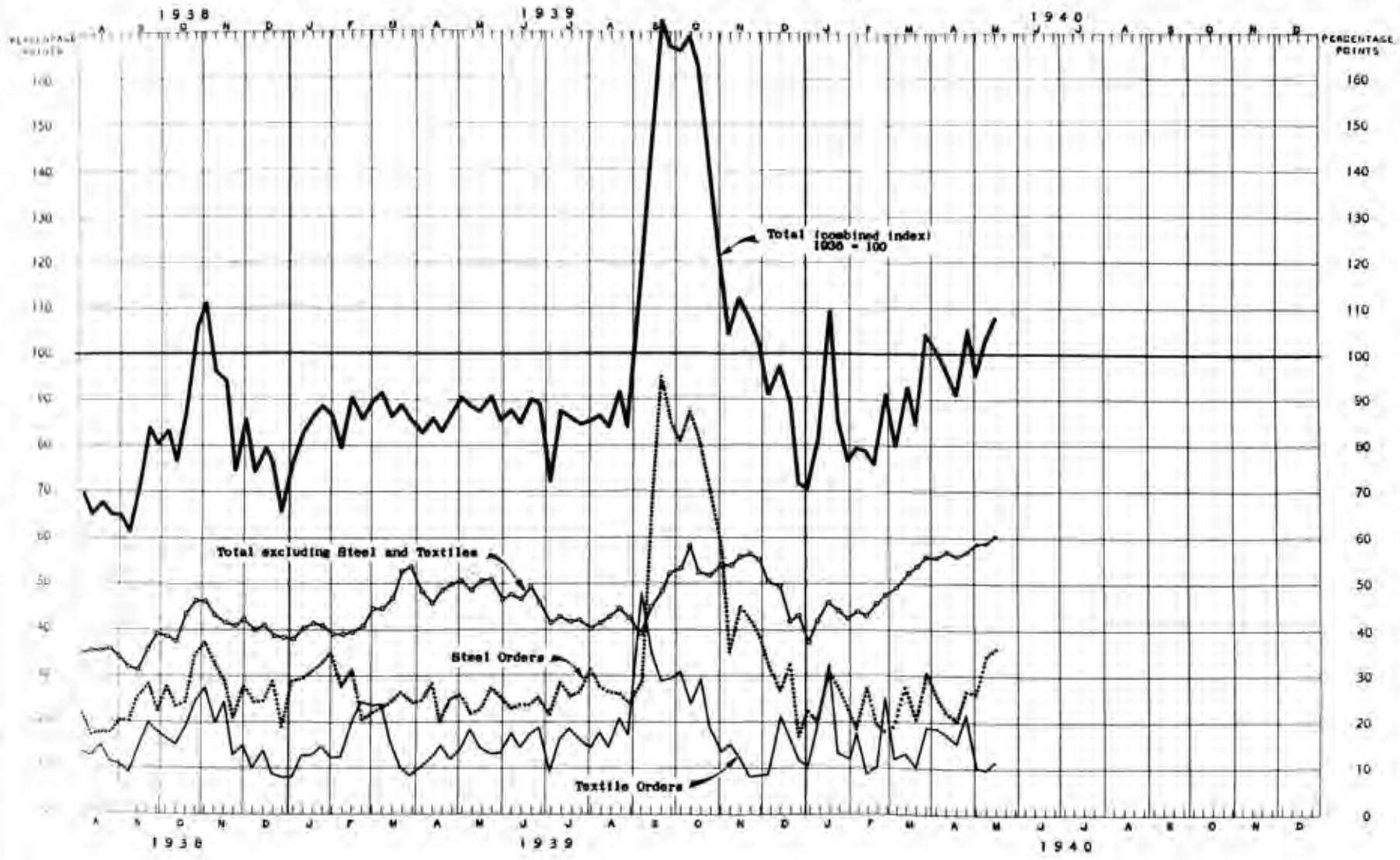
Secretary Morgenthau - 6

offset by the fact that three components, "all other" car-loadings, cotton mill activity and lumber production, showed fairly noticeable declines. The decline in "all other" car-loadings was due largely to a drop in loadings of coal.

The trend shown by the New York Times index was again confirmed by Barron's index of business activity which rose to 103.5 in the week ending May 18 from 102.3 in the previous week.

Preliminary data thus far available for the week ending May 25 reveal a slightly less than seasonal decline in automobile production and a continuation of the recent marked contra-seasonal rise in steel ingot production which it is now estimated will cause the adjusted index of steel production to rise about 5.5 points.

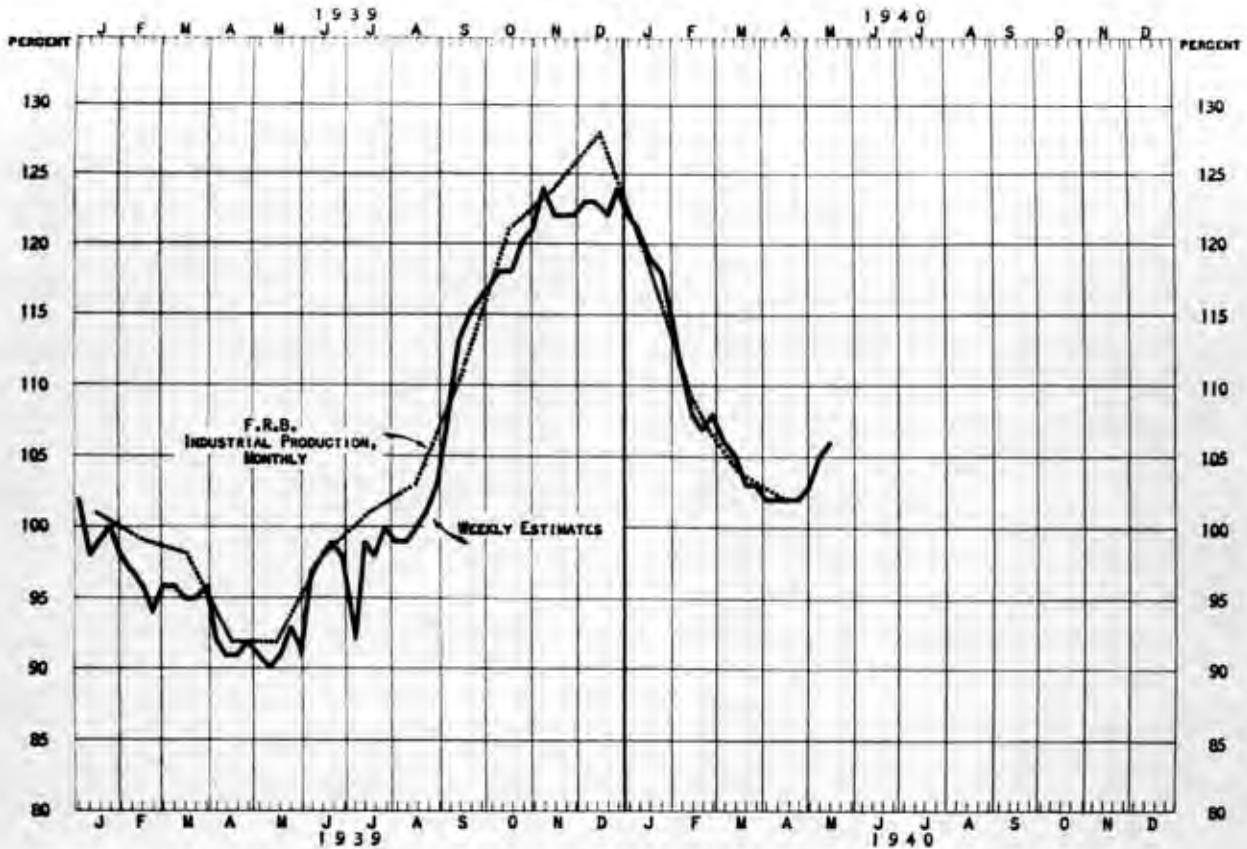
**INDICES OF NEW ORDERS**  
**Combined Index of New Orders and Selected Components**



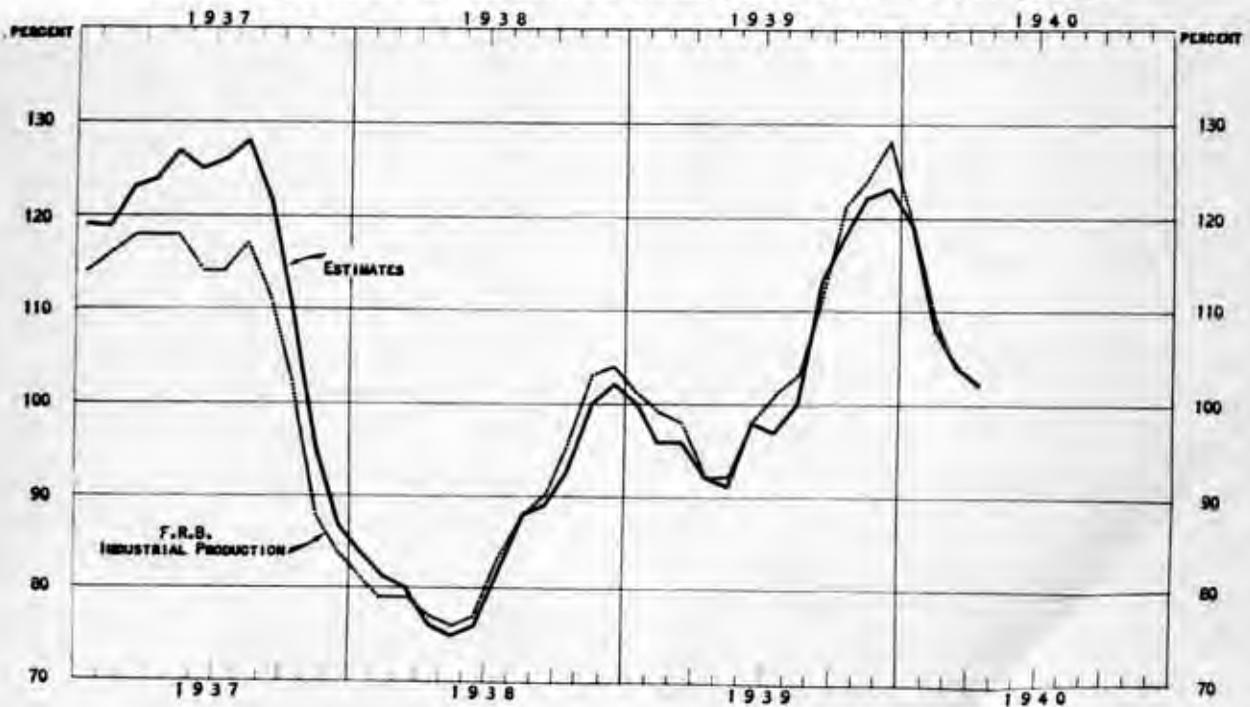
U.S. DEPARTMENT OF THE TREASURY  
 FEDERAL RESERVE BOARD

WEEKLY ESTIMATES OF F.R.B. INDEX OF INDUSTRIAL PRODUCTION BASED  
ON N.Y. TIMES INDEX

1923 - 25 = 100, ADJ.



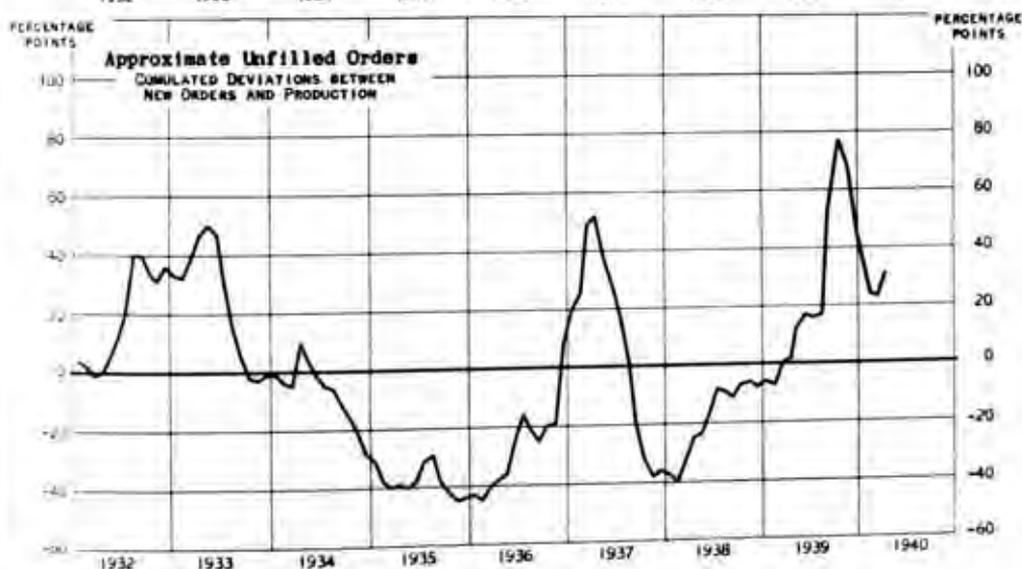
MONTHLY ESTIMATES OF INDUSTRIAL PRODUCTION, BASED ON N.Y. TIMES



INDICES OF NEW ORDERS AND INDUSTRIAL PRODUCTION  
SHOWING APPROXIMATE UNFILLED ORDERS

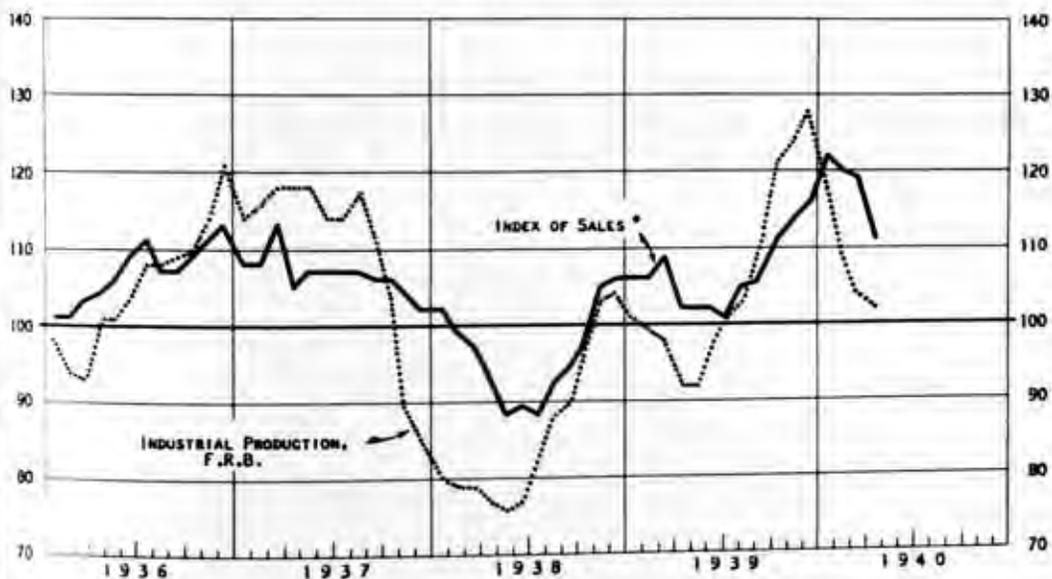
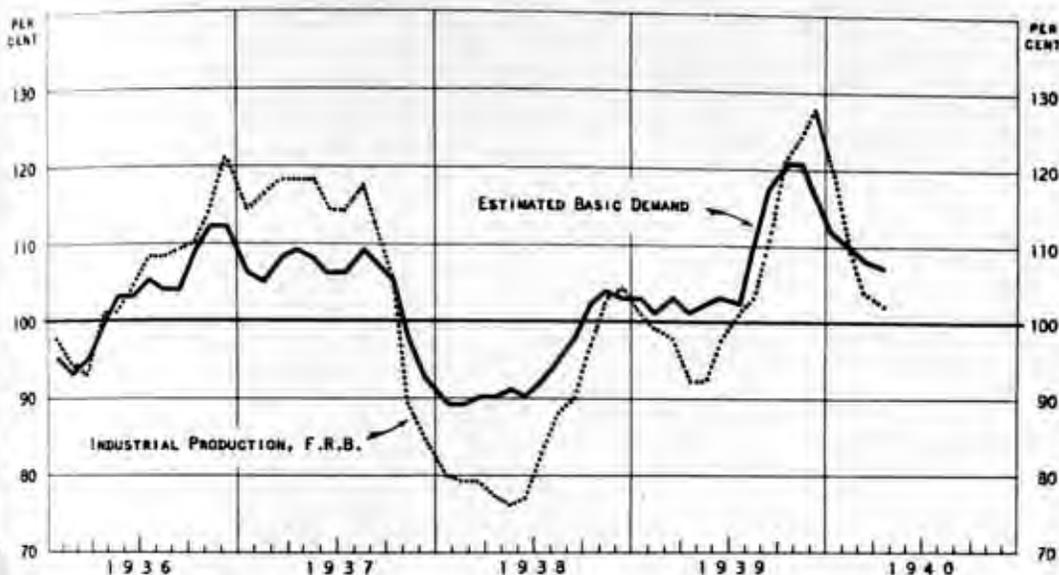
303

1923 = 100



INDICES OF BASIC BUSINESS TRENDS COMPARED  
WITH INDUSTRIAL PRODUCTION

1923 - '25 = 100, SEASONALLY ADJUSTED

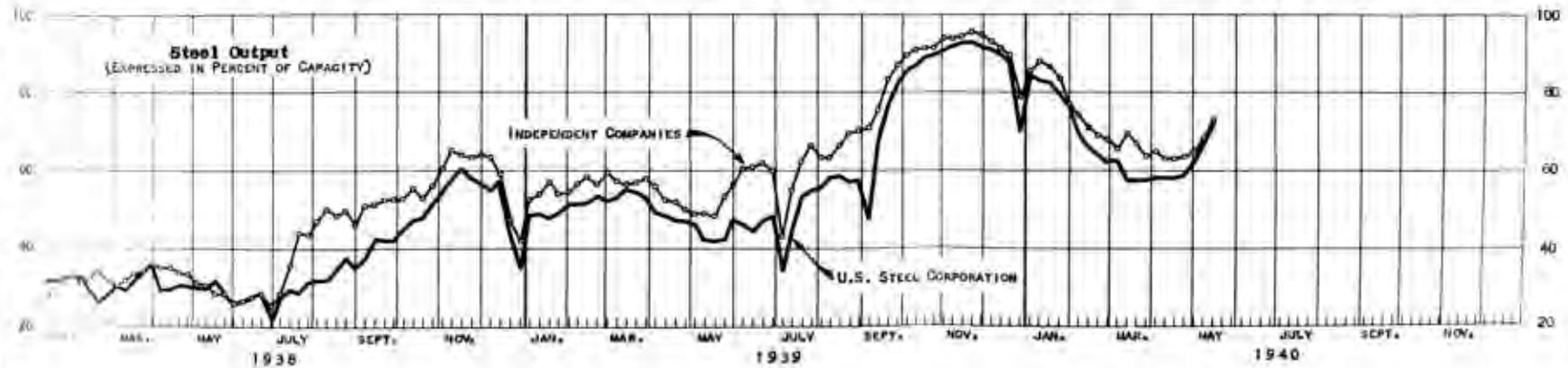
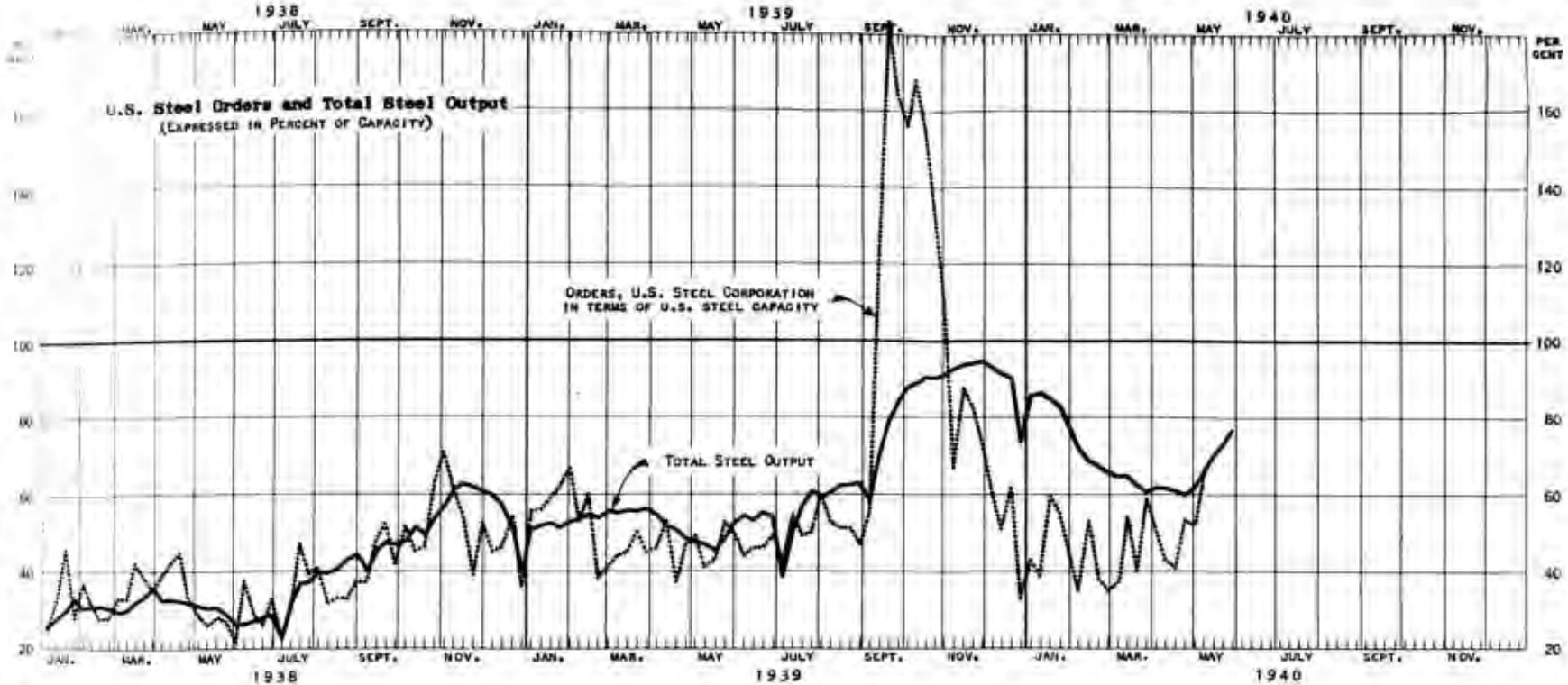


\* REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS

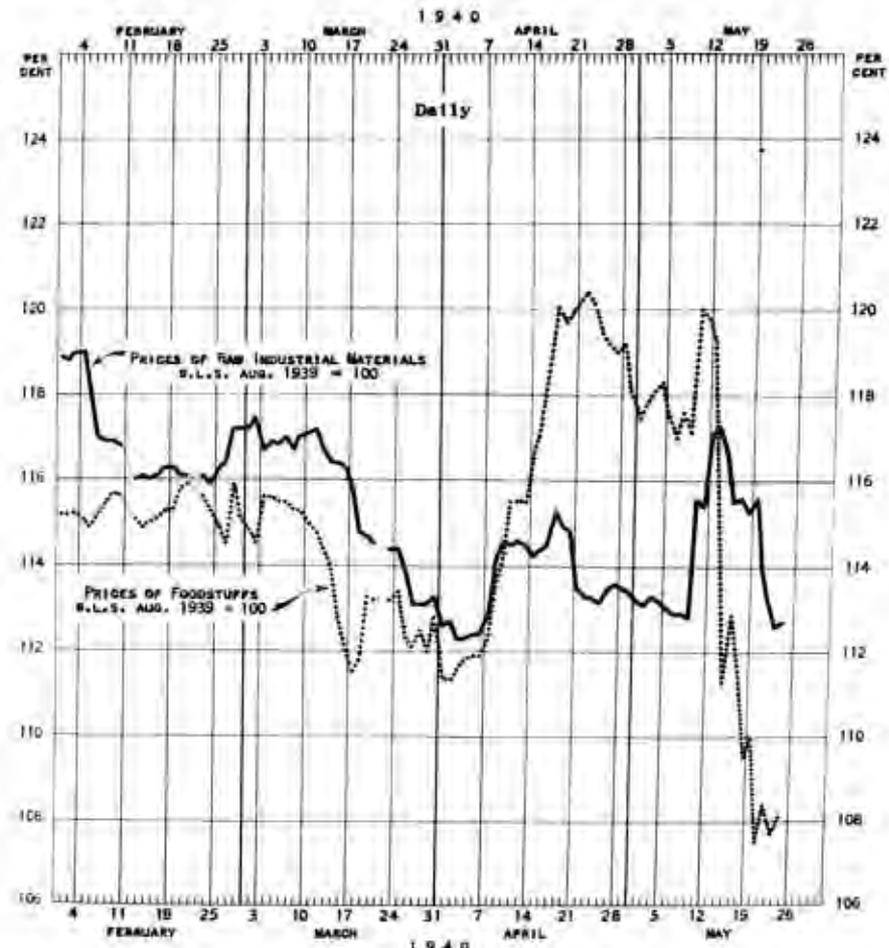
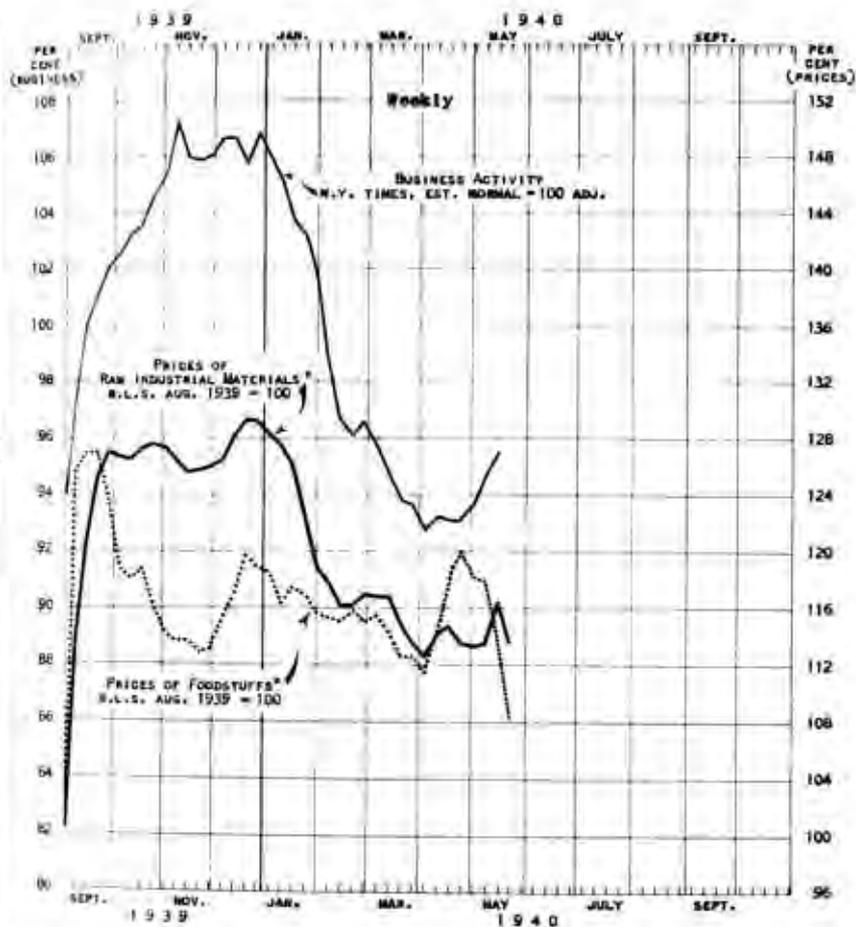
305

Chart 5  
CONFIDENTIAL



U.S. GOVERNMENT PRINTING OFFICE: 1940

BUSINESS ACTIVITY AND PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



\* FIVE DAY AVERAGE FOR PRICES

Office of the Secretary of the Treasury  
U.S. Government Printing Office

TREASURY DEPARTMENT

307

INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau  
FROM Mr. Haas *HA*

Persons employed by the Work Projects Administration totalled 1,970,000 during the week ended May 15, 1940, representing a decrease of 38,000 from the 2,008,000 persons employed during the week ended May 8, 1940.

Attachments

**WORK PROJECTS ADMINISTRATION**  
**Number of Workers Employed - Weekly**  
**United States**

Week Ending 1939-40	Number of Workers (In thousands)
October 4	1,834
October 11	1,875
October 18	1,899
October 25	1,902
November 1	1,901
November 8	1,929
November 15	1,961
November 22	1,987
November 29	2,024
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,093
May 1	2,059
May 8	2,008
May 15	1,970

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Monthly  
United States

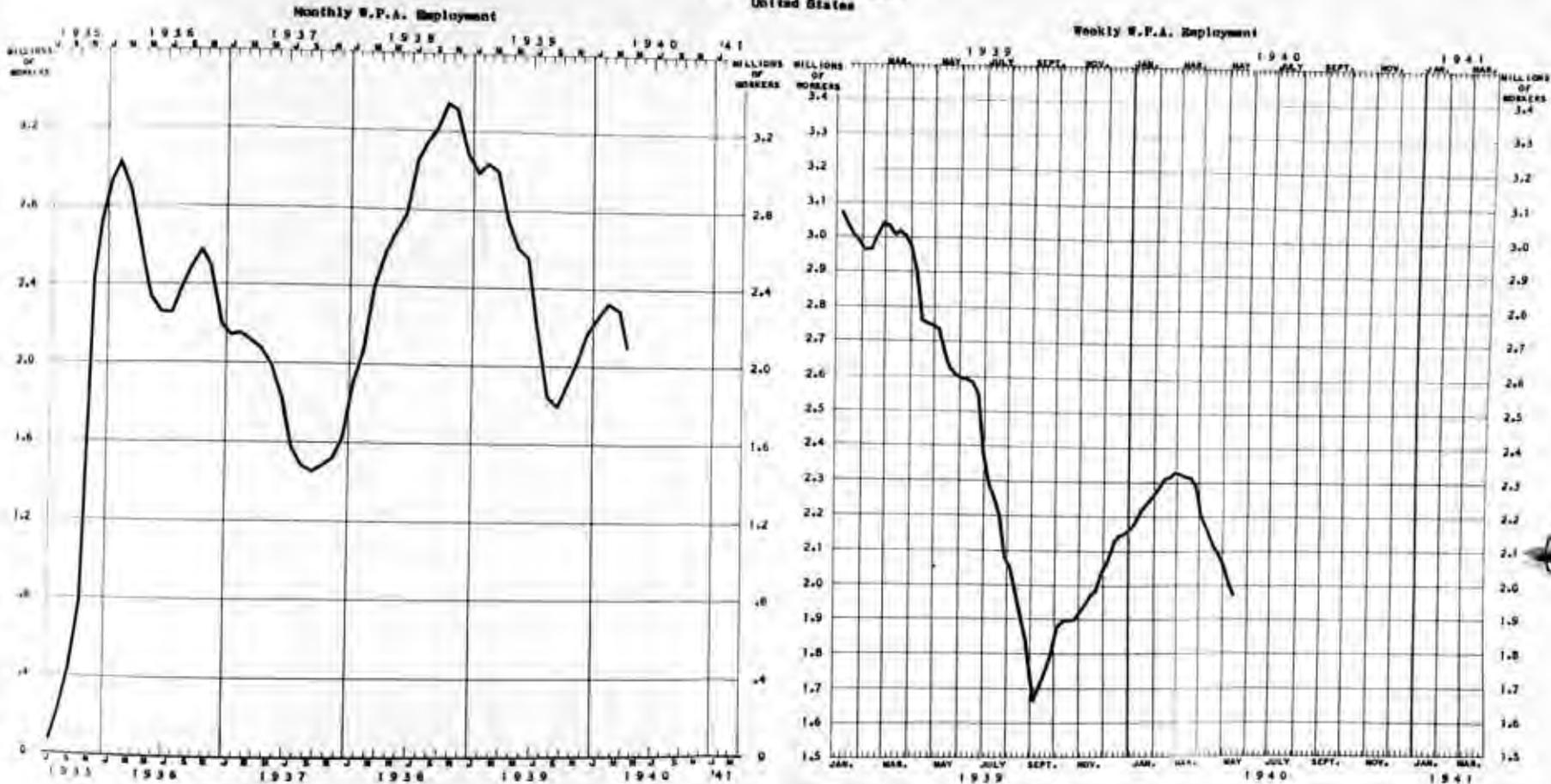
	Number of Workers (In thousands)
1937	
July	1,569
August	1,480
September	1,448
October	1,476
November	1,520
December	1,671
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January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

Source: Work Projects Administration.

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORK PROJECTS ADMINISTRATION

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

STRICTLY CONFIDENTIAL  
TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke telephoned me at 12 noon. He stated that as of May 27 the Chase reported the following balances:

State Bank of Russia, cash account, \$7,300,000  
State Bank of Russia, letter of credit account, \$5,500,000  
Amorg, cash account, \$1,000,000  
Amorg, letter of credit account, \$1,600,000

Since speaking with me last, Mr. Knoke stated that there had been four items of interest insofar as the Russian account was concerned. On May 17, the National City Bank had paid \$700,000 to the Chase for the account of the Russian State Bank, by order of the Czechoslovak National Bank of Bratislava. Another payment of \$500,000 had been made into the Russian State Bank account with the Chase, by order of the Union Bank of Switzerland. Payments of this sort have frequently been made in the past, and are believed to have been connected with Russian gold transactions, that is, the Swiss have bought gold from Russia and credited the proceeds to the Russian account in this country. The Federal Reserve Bank of New York transferred \$2,300,000 to the Russian State Bank account with the Chase, by order of the E.I.S. The principal out-payment was one of \$1,000,000, representing a cable transfer to the Skandinaviska Bank, Stockholm.

With respect to Italian accounts, the principal item of interest today is the fact that the Credito Italiano in New York drew a check on its account with the Guaranty Trust and asked for payment in \$100 notes. This is the first instance of this kind reported with respect to Italian banking transactions. It may be significant that funds in form for quick export are thus being obtained in the form of United States currency. The check was for \$250,000.

I mentioned to Mr. Knoke that Mr. McKeon's report for the week ended May 15 showed an increase of \$1,386,000 in German banking deposits in this country. This resulted from a gain of \$1,507,000 in the German deposits with the Yokohama Specie Bank, against small decreases with other institutions. Knoke stated that he had looked into the matter of German accounts this morning, and found that the level was around \$10,000,000, to which it had gradually declined recently.



**STRICTLY CONFIDENTIAL**  
**TREASURY DEPARTMENT**

312

**INTER-OFFICE COMMUNICATION**

**DATE** May 27, 1940

**TO** Secretary Morgenthau

**FROM** Mr. Cochran

On Saturday, May 25, the Swedish Minister, accompanied by his Commercial Counselor, Mr. Erickson, came in to see me. They mentioned the report that appeared two days earlier in the New York Times in regard to German deposits in the United States being transferred to Sweden. The Minister told me that he had reported this matter to his Government, and had received a denial thereof.

The Minister has today provided me with the attached copy of a memorandum on this subject.



LEGATION OF SWEDEN  
WASHINGTON, D.C.

By wireless correspondence from Stockholm, Mr. Otto D. Tolischus has reported to the New York Times that Germany has liquidated most of her bank balances in the United States, amounting to between 15 and 20 million dollars, and has transferred them to the credit of Swedish banks. The correspondence appeared in the New York Times for May 23, 1940, under the headline "Nazi Bank Deposits in U.S. Go to Sweden". According to official information received from Stockholm, the Swedish Minister is authorized to say that this statement is incorrect. The capital movements from and to Sweden have, since the beginning of this year, been subjected to a strict control, and no transfer, or tendency thereto, of German capital from America to Sweden except of a normal nature has been noticed during the last month.

Washington, D. C., May 25, 1940.

SECRET

**STRICTLY CONFIDENTIAL**  
**TREASURY DEPARTMENT**

314

INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke telephoned me at 12 o'clock in regard to the attached cablegram dated May 25 from the Governor of the South African Reserve Bank, which message had just been telephoned down from Mr. Knoke's office.

I told Mr. Knoke that my first reaction was that we should refuse to purchase gold from the South African Reserve Bank delivered and held in South Africa, pending shipment to the United States. Mr. Knoke presumed that we would consequently continue to follow this policy, as established some months ago at the outbreak of the war, but he submitted the question since circumstances were constantly changing. As we were speaking, the Secretary came in my office and I posed the question to him. He confirmed that we should not accept the gold in South Africa. Consequently, I advised Mr. Knoke to give a reply, insofar as the purchase of gold was concerned, that the policy of the Treasury was only to purchase gold delivered in the United States. I referred him to earlier cablegrams of this type for the wording.

*B. M. F.*

C A B L E

From: Pretoria

To: Governor, Federal Reserve Bank  
of New York

Date: May 25, 1940

#19.

- (1) We have often thought of sending you some of our gold for safekeeping to be used in case of emergency but out of consideration for other central banks we have allowed them preference over limited shipping space available.
- (2) Should we require to lay down U. S. dollar exchange would you be prepared to buy gold from us to be held earmarked for your account pending shipment earliest suitable opportunity if so what would be your terms?

(Signed) Postmus South African Reserve  
Bank

(Rec'd. by phone from Mr. Knoke's Office  
May 27, 1940 - ek)

# STRICTLY CONFIDENTIAL

## TREASURY DEPARTMENT

316

### INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
May				
20	N11	N11	N11	N11
21	N11	N11	N11	N11
22	N11	N11	N11	N11
23	N11	N11	N11	N11
24	N11	N11	N11	N11
25	N11	N11	N11	N11
TOTAL FOR WEEK	<u>N11</u>	<u>N11</u>	<u>N11</u>	<u>N11</u>
Sales from February 22 to May 18, incl.	<u>1,312,630</u>	<u>45,946,097</u>	<u>1,407,500</u>	<u>1,173,286</u>
TOTAL FEBRUARY 22 TO MAY 25, INCL.	1,312,630	45,946,097	1,407,500	1,173,286

Mr. Pinsent has heard from Mr. Gifford that sales of non-vested securities for the week ended May 12 amounted to \$2,500,000 and for the week ended May 19 to \$1,500,000.



**STRICTLY CONFIDENTIAL**  
**TREASURY DEPARTMENT**

317

INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Dr. Pasvolaky, Special Assistant to the Secretary of State, telephoned me at 10 o'clock this morning in regard to the memorandum of May 24, from the British Embassy, conveying a message from the Chancellor of the Exchequer to Secretary Morgenthau. Dr. Pasvolaky discussed this communication with me, since he was to speak with Secretary Hull shortly about it.

At 10:30 this morning, Mr. Pinsent telephoned me that another cable had been received from London, saying that in view of the extreme urgency of the matter, the Chancellor of the Exchequer would be grateful to know when he can expect a reply to his message. I at once telephoned Pasvolaky again and asked him to expedite the matter as soon as possible in the State Department. Pinsent hopes to hear from us today, and would still like to see the Secretary of the Treasury, if at all possible. The principal purpose in seeing the Secretary would be to receive from him personally the assurance that the Secretary would oppose any move in this country to stop the sale by the British and French Governments of dollar securities, if such a step be threatened in retaliation for the British action in prohibiting the sale of securities by foreigners.





THE SECRETARY OF THE TREASURY  
WASHINGTON

May 27, 1940

MEMORANDUM TO THE PRESIDENT:

On June 15, 1940, the Treasury has a maturity of \$353,000,000 of 3-3/8 per cent bonds. It is getting close to the time when we should begin to consider the refunding of this maturity as it is not possible to pay it off in cash. Our working balance in the general fund amounts at this time to \$1,227,000,000, and on June 30 will be down to approximately \$950,000,000. In view of the present state of the market it would not be advisable to attempt a refunding of this security into bonds. I suggest, therefore, that it be refunded into a note maturing between three and five years. We have outstanding a one per cent note maturing March 15, 1944, and a one per cent note maturing September 15, 1944. It may be possible to reopen one of these issues and offer the holders of the 3-3/8 per cent bonds the privilege of exchanging them for such notes. If it does not seem advisable to reopen one of these issues, it will be necessary to offer a new issue maturing within the five-year period.

I should like to get your approval to proceed with a refunding program along these lines, a formal recommendation on account of which will be made to you early next week.

Estimated working balance of the Treasury, amounts of Treasury securities maturing, and balance of borrowing authorization for period ending December 31.

(In millions of dollars)

For Month Ending	Estimated Working Balance	Treasury Securities Maturing (within the month)	Balance of Borrowing Authorization
May 24th	\$1,227	—	\$2,050
June 30th	950	\$ 353	1,703
July 31st	896	—	1,492
August 31st	906	—	1,191
Sept. 30th <sup>1/</sup>	1,349	—	664
October 31st	1,139	—	576
November 30th	961	—	290
December 31st	769	737	235

<sup>1/</sup> Includes \$500M new money for September fifteenth.

Note: These figures do not include any estimate on recapture of capital funds from corporations and credit agencies, nor anything for new taxes.

May 27, 1940

MEMORANDUM TO THE PRESIDENT:

On June 15, 1940, the Treasury has a maturity of \$353,000,000 of 3-3/8 per cent bonds. It is getting close to the time when we should begin to consider the refunding of this maturity as it is not possible to pay it off in cash. Our working balance in the general fund amounts at this time to \$1,227,000,000, and on June 30 will be down to approximately \$950,000,000. In view of the present state of the market it would not be advisable to attempt a refunding of this security into bonds. I suggest, therefore, that it be refunded into a note maturing between three and five years. We have outstanding a one per cent note maturing March 15, 1944, and a one per cent note maturing September 15, 1944. It may be possible to reopen one of these issues and offer the holders of the 3-3/8 per cent bonds the privilege of exchanging them for such notes. If it does not seem advisable to reopen one of these issues, it will be necessary to offer a new issue maturing within the five-year period.

I should like to get your approval to proceed with a refunding program along these lines, a formal recommendation on account of which will be made to you early next week.

sub

Estimated working balance of the Treasury, amounts of Treasury securities maturing, and balance of borrowing authorization for period ending December 31.

(In millions of dollars)

For Month Ending	Estimated Working Balance	Treasury Securities Maturing (within the month)	Balance of Borrowing Authorization
May 24th	\$1,227	---	\$2,050
June 30th	950	\$ 353	1,703
July 31st	896	---	1,492
August 31st	906	---	1,191
Sept. 30th <sup>1/</sup>	1,349	---	664
October 31st	1,139	---	576
November 30th	961	---	290
December 31st	769	737	235

<sup>1/</sup> Includes \$500M new money for September fifteenth.

Note: These figures do not include any estimate on recapture of capital funds from corporations and credit agencies, nor anything for new taxes.

May 27, 1940

*swB*

HSM

GRAY

Batavia

Dated May 27, 1940

Rec'd 10:34 a. m.

Secretary of State,  
Washington.

May 27, 2 p. m.

One. Director of Economic Affairs last night announced exchange arrangements made as a result of the Dutch East Indies adherence in principle to the Anglo-French monetary agreement. Telegraphic transfer rates effective today fixed as follows: pound sterling buying 7.55 selling 7.65 guilders; American dollar buying 1.875 selling 1.895 guilders; Japanese yen buying 437 8th selling 451 5th guilder cents. These rates are based on the official pound value of dollars 4.02 and not on the "black pound" value of about \$3.25. In order to avoid depreciation of the guilder by transactions in "black pounds" it is forbidden to possess, deal in or quote exchange rates for such pound. The monetary agreement is to apply only to exports and imports for their own use between countries belonging to the agreement.

Two. The director stated that the measures were taken to prevent the flight of capital, to enable the

country

hsm -2- May 27, 2 p. m., from Batavia

country to utilize its capital strength and to put its financial resources at the disposal of the Allies. Moreover, the Netherlands Indies export position is so strong that maintenance of the exchange value of the Netherlands Indian guilder in relation to all currencies presents no difficulty. Income from shipping now accruing to the Dutch East Indies is another important factor. Local experts have conferred with British authorities at Singapore regarding through routing of cargoes in order to prevent the agreement disturbing direct commercial relations with third parties in non-sterling countries.

Three. Ordinances will be issued as soon as possible to put arrangement into full effect. Translations will be forwarded by air mail.

DICKOVER

RR

lw

GRAY

Berlin

Dated May 27, 5 p.m.

Rec'd 4:27 p.m.

Secretary of State  
Washington

1531, May 27, 5 p.m.

My No. 1443, May 21, 2 p.m.

FOR TREASURY FROM HEATH AND ALSO FOR THE INFORMATION OF THE DEPARTMENT.

Official German quotations of rates for Dutch and Luxemburg currency have recently been resumed. The rate on May 25 for the Dutch guilder was 1.327 marks and for the Luxemburg franc 10.45 pfennigs (both the same as on May 9 the day before the invasion). Quotations for Belgian currency have not been resumed. Exchange quotations for Danish and Norwegian currencies had been discontinued for only one day, April 9. The Norwegian Central Bank according to an announcement in the German press is continuing operation in the Norwegian area occupied by the Germans. Its banknotes which are legal tender in that area are officially quoted in Berlin at 56.82 pfennigs for one crown as compared with

lw -2- No. 1531, May 27, 5 p.m. from Berlin

with 56.65 on April 8. The above exchange rates of Norwegian, Dutch, and Luxemburg currencies which apply to ordinary business transactions with Germany differ considerably from the rates for Reichskreditkassen script (see my telegram under reference). The latter are rounded off for convenience sake and apply only to Reichskreditkassen script which may be used by German troops, military, and administrative authorities only for expenditures within the occupied areas.

HEATH

NPL

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 27, 1940, 6 p.m.

NO.: 907

FOR THE TREASURY.

Reference - telegram of May 25, No. 882 from the Embassy, containing Rueff's remarks.

As the Embassy has reported in previous telegrams, there is a considerable amount of bitterness in certain financial circles in France because of the way the control of exchange is being handled by the British. The French are of the opinion, and there is much justification for it, that the bond between the franc and sterling is <sup>primarily</sup> responsible for the appreciable margin between the free and official rates of the franc.

END SECTION ONE.

BULLITT.

EA:LWW

OK

GRAY

Paris

Dated May 27, 1940

Rec'd 4:35 p.m.

Secretary of State

Washington

907, May 27, 6 p.m. (SECTION TWO)

It is therefore significant that Frederic Jenny devoted his article yesterday in the semi-official LE TEMPS to a discussion of the possibility of severing the link between the free market quotations of the franc and the pound and to the measures which might be taken to prevent the depreciation of the franc on free markets.

He commences by pointing out that the franc and the pound which had fluctuated together on free markets by from thirteen to fourteen percent below the official rate dropped together by about twenty percent at the time of the German invasion (this decline he attributes to speculation rather than to any real weakness in the currencies). "On May 22, however, a curious phenomenon occurred: the rate of the franc on New York dropped from 1.80 cents to 1.77 while the pound rose from 3.19 dollars to 3.21½ dollars. (END SECTION TWO)

BULLITT

NPL

RDS

GRAY

Paris

Dated May 27, 1940

Rec'd 5 p.m.

Secretary of State,  
Washington.

907, May 27, 6 p.m. (SECTION THREE).

As a result of this divergent evolution the pound franc parity on the free market rose to 131.63 francs even though the official parity is fixed as we know at 176.625 francs." This disparity was erased the following day and hence "was not of great importance." "Nevertheless, it showed that the rate of the pound expressed in terms of francs could differ abroad, at least temporarily, from the fixed official rate adopted by the authorities in Paris and London; that in other words the existence of this fixed rate was not sufficient to enforce a strict parallelism between the free rates for the two currencies."

Jenny then points out that the British authorities undoubtedly realize that the "monetary solidarity" established by the French and British Governments on official grounds "must not prevent one or the other from following with respect to the free market an exchange policy which it considers to be best suited to the national interests involved." (END SECTION THREE)

NPL

BULLITT

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 4:37 p.m.

Secretary of State  
Washington

907, May 27, 6 p.m. (SECTION FOUR).

"Supposing that this theory is rational -- and at first glance nothing would indicate that it is not -- it would not be very difficult for each of the two governments to do away with the strict agreement between the respective fluctuations of their currencies in relation to the dollar".

"This is merely a question of prevention arbitrage -- in other words exchanges -- of francs against pounds or the reverse from automatically adjusting the parity of the free exchanges at New York, the most important of the foreign markets, to the official parity. For these arbitrage are only possible if the authorities of one of the countries place no restrictions on the delivery of their national currencies against those of the other."

Such a practice Jenny feels would not be contrary to the Franco -- British monetary agreement. The French require pounds and the British francs for the settlement of commercial operations.

BULLITT

EMB

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 4:27 p.m.

Secretary of State

Washington

907, May 27, 6 p.m. (SECTION FIVE)

There is little danger that the francs and pounds thus far obtained will be offered on the free market and sold against dollars or other "strong" currencies. "This danger only exists when neutrals holding English or French currencies try to exchange one for the other in Paris or London at the official rate". The Bank of England he considers "is not inclined to lend itself to operations of this type for example to furnish a Swiss or an American Bank with pounds against francs at the rate to 176.625 francs". He asks, however, whether the French policy is not excessively liberal." If so the pros and cons of such a policy must be weighted with care."

BULLITT

EGB

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 4:30 p.m.

Secretary of State

Washington

907, May 27, 6 p.m. (SECTION SIX)

Having established the feasibility of divorcing the free market quotation of the franc from that of the sterling and having shown that this would not involve a contravention of the monetary agreement Jenny turns to the problem of preventing a depreciation of the "free" franc.

"The question of knowing up to what point the respective monetary tactics carried on in Paris and in London in regard to foreign markets should agree and in what measure it is to their interest that they remain independent of each other forms, however, only one aspect of the more general problem of the defense of the free exchange". After summarizing the dangers involved in the depreciation of the franc on the free market he says that there is only one way to combat this decline. "It is necessary to impede the supply of national currency flowing to New York or at least to reduce the volume in every way possible."

BULLITT

EMB

MP

GRAY

Paris

Dated May 27, 1940

Rec'd 4:41 p. m.

Secretary of State,  
Washington

907, May 27, 6 p. m., (SECTION SEVEN).

He asserts that "necessary payments must be made with foreign exchange furnished by the Foreign Exchange Office and not with francs since the latter might subsequently be sold on the New York market or elsewhere by those receiving them".

Jenny states that with respect to settlements in non-compensation agreement countries, "an apparently rational regime was conceived and made effective by the arrete of November 30 which established foreign accounts in francs" (i.e., franc balances of non-resident foreigners). "The francs deposited in such accounts were properly speaking external francs which could be converted into foreign currencies at the official rates through the Foreign Exchange Office." Jenny points out that such conversions could be effected without difficulty so long as the free rate remained stable and only slightly below the official rate.

BULLITT

EMB

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 6:45 p.m.

Secretary of State  
Washington

907, May 27, 6 p.m. (SECTION EIGHT)

"But after the franc dropped on New York with the pound apparently another policy was adopted". Persons holding the external francs which had been transferred to these foreign accounts encountered more and more difficulty in attempting to convert them into foreign exchange at Paris and accordingly adopted the custom of selling their francs in New York. These francs finished by being convertible in theory alone. They are now merely transferable and hence more and more of them are being offered on the free markets. "He says that although these external francs cannot be converted without permission of the Foreign Exchange Office" this provision was merely introduced to prevent any abuse in the system. However, refusals to grant permits "which ought to be the exception have become almost the rule".

BULLITT

EMB

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 6:30 p.m.

Secretary of State

Washington

907, May 27, 6 p.m. (SECTION NINE)

He feels that foreign accounts in francs are only advantageous when the francs contained in them may actually be converted into foreign exchange at the official rates for them they will not be sold on the free market. When "convertibility" no longer exists foreign accounts in francs are actually disadvantageous since they are a source for the sale of francs on the free markets and hence lead to the depreciation of the franc on successor markets.

In conclusion Jenny states that two solutions of the problem are possible. The authorities may either revert to the original policy regarding foreign accounts in francs or they may suppress such accounts after having reabsorbed the several billion francs now in them. The adoption of either policy he feels would lead to a rapid disappearance of franc sales on foreign markets. (Rueff told the Counselor of Embassy yesterday that the amount of francs on the free market approximates three billion).

BULLITT

EMR

CK

GRAY

Paris

Dated May 27, 1940

Rec'd 5:05 p.m.

Secretary of State

Washington

907, May 27, 6 p.m. (SECTION TEN)

A decree published in yesterday's Journal Official provides that the "property rights and interests" in France or French possessions belonging to Belgian nationals residing in enemy or occupied territory must be declared and authorizes the government to sequester such holdings. Similar measures have already been introduced with respect to Dutch, Luxemburg and Norwegian holdings (please see Embassy telegram No. 796, May 21, 7 p.m.) and to those of Polish, Danish and Czechoslovak nationals (please see Embassy's telegram No. 542, April 29, 6 p.m.).

Deposits in ordinary (private) savings banks during the period April 16 -- 30 totaled 140,000,000 francs and withdrawals 27,000,000. Since January 1 deposits in these banks exceeded withdrawals by 1,227,000,000.

The only outstanding feature of the market today was the weakness of internationals, Suez losing 850 points. French securities showed fractional gains and losses.

(END OF MESSAGE)

BULLITT

EMB

RDS

GRAY

Milan

Dated May 27, 1940

Rec'd 1:30 p.m.

Secretary of State,  
Washington.

42, May 27, 5 p.m.

Market index 208.60. Volume 98,200.

Quotations fluctuated during session but closed  
below Saturday levels under continued selling pressure.

SHOLES

RR

TREASURY DEPARTMENT

337

INTER OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling, after opening at 3.19, moved within a narrow range all day and closed at 3.19-1/4.

Sales of spot sterling by the six reporting banks totaled £403,000, from the following sources:

By commercial concerns.....	£ 94,000
By foreign banks (Europe, South America and Far East).....	£ 309,000
Total.....	£ 403,000

Purchases of spot sterling amounted to £328,000, as indicated below:

By commercial concerns.....	£ 80,000
By foreign banks (Far East).....	£ 248,000
Total.....	£ 328,000

The following reporting banks sold cotton bills totaling £22,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 19,000 by the Guaranty Trust Company
2,000 by the Bankers Trust Company
1,000 by the National City Bank
<u>£ 22,000 Total</u>

The Bank of Manhattan reported that it had purchased £17,000 for spot delivery from the British Control at 4.03-1/2. The funds will be used to pay for shipments of rubber.

Developments in the other currencies were as follows:

The French franc moved within a narrow range and closed at .0181.

The Swiss franc was steady and closed at .2242.

The Canadian dollar experienced an improvement today. It closed at a discount of 20-1/2%, as compared with Saturday's closing quotation of 21-7/8%.

## - 2 - CONFIDENTIAL

The lira and the reichsmark closed at .0505 and .4000 respectively, showing no change from Saturday's final rates.

The yuan quotations received from Shanghai were unchanged at 5-1/2¢ against the dollar and 4-1/8d in terms of the British pound.

The Cuban peso improved further to 9-5/16% discount. The Mexican peso was unchanged at .1672.

For the first time since May 9, the Bank of England published official buying and selling rates for the Java guilder. Today's quotations were based on a middle rate of 7.60 Java guilders to the British pound. It will be recalled that this was the rate made public last Thursday by Dr. Loudon, Netherlands Minister, in his announcement that the Netherlands Government had joined the British-French monetary agreement. According to a United Press despatch received today from Java, the Office of Economic Affairs announced that the Dutch East Indian "Java guilder" was pegged at 1.87-1/2 to the U. S. dollar, equivalent to 53-1/3¢. This rate was also contained in Dr. Loudon's statement of last week.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Guaranty Trust Company, London, shipped \$507,000 in gold from England to its head office at New York, for sale to the U. S. Assay Office.

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

\$ 6,374,000 from Australia, shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.  
 203,000 from Australia, shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.  
 28,000 from England, shipped by the Westminster Bank, London, to the Irving Trust Company, New York.

\$ 6,605,000 Total

The two shipments coming from Australia will be sold to the U. S. mint at San Francisco, and the one being sent from England will be sold to the U. S. Assay Office at New York.

The gold price in Bombay today worked out to the equivalent of \$38.99. up 51¢.

The Bombay spot silver quotations advanced the equivalent of 3/4¢ to 45.86¢.

In London, the price fixed for spot silver was 22-5/16d, off 1/8d. The forward quotation was 21-13/16d, off 7/16d. The U. S. equivalents, calculated at the open market rate for sterling, were 32.08¢ and 31.12¢, respectively. On the basis of the official sterling-dollar rate, the spot price was equivalent to 40.56¢.

- 3 - CONFIDENTIAL

Handy and Harman's settlement price for foreign silver was  $35\frac{3}{8}\phi$ , up  $1/8\phi$  from Friday's quotation. The Treasury's purchase price for foreign silver was unchanged at  $35\phi$ . It was reported that Handy and Harman purchased 200,000 ounces of silver from a Canadian concern at  $35\frac{1}{2}\phi$ .

The only purchase of silver made by us today consisted of 175,000 ounces from the Bank of Canada under our regular monthly agreement. So far this month, we have bought 1,135,000 ounces of silver from that source, as compared with the agreed monthly limit of 1,200,000 ounces.

In a report from the Federal Reserve Bank of New York showing deposits for the account of Asia as reported by the New York agencies of Japanese banks on May 22, such deposits totaled \$51,322,000, a decrease of \$227,000 since the last report as of May 15. Included in this total were \$28,460,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and deposits of \$13,474,000 made by the head office and Japanese branches. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$96,361,000, an increase of \$4,536,000 since May 15.



**STRICTLY CONFIDENTIAL**  
**TREASURY DEPARTMENT**

340

INTER-OFFICE COMMUNICATION

DATE May 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Knoke asked me by telephone today if I could assist him in sending confidential messages in regard to "cable tests" to the National Bank of Belgium in Paris; the Bank of France in Paris; The Netherlands Government in London; the Bank of England in London; and the National Bank of Switzerland at Bern.

I talked with Mr. Harry Havens of the State Department, who has agreed to permit these messages to go in sealed envelopes addressed to the respective banks, provided Mr. Knoke addresses a letter either to the State or Treasury Department, explaining the contents of the envelopes. The envelopes would then be forwarded through diplomatic pouch to Paris and London, with appropriate instructions to their Ambassadors in those cities.



May 27, 1940  
2:30 p.m.

Present: Mr. Gaston  
Mr. Schwarz  
Mr. Young  
Mr. Foley  
Mr. Graves  
Mr. Haas  
Mr. Harris  
Mr. Sullivan  
Mr. White  
Mr. Viner  
Mr. Cochran  
Mr. Daniel Bell  
Mr. Charlie Bell  
Mrs. Klotz

H.M.Jr: I have a very important cable here, secret, so I wish you would be very cautious about it.

"Madam T. V. Soong, accompanied by her children, named Maryjane and Kathryn, left for the United States via the Clipper from Hong Kong, on May 24. They will transfer at Honolulu to the Matson Line Steamer "Lurline". T. V. Soong would appreciate your aid in keeping the arrival of his wife and children secret upon their arrival at Honolulu and San Francisco. He is very anxious to escape publicity. Mrs. Soong's name on the passenger list is "Laura Chang", but the passport of herself and children is in the name of Soong."

What I want to know is, do two Soong's make a White?

Sullivan: What I want to know is if the name of the second is Kathleen.

H.M.Jr: Kathryn. Seriously, who wants to be nurse to the two Soong children?

D. Bell: How old are they?

H.M.Jr: Seriously, who wants to play nurse?

Gaston: In preventing publicity?

H.M.Jr: Is it shipping?

Gaston: Yes, I think it is shipping. I think it is Basil Harris.

Harris: I will be glad to.

Haas: You can look up the age afterward.

H.M.Jr: Well, Merle, it is a Foreign Department thing. See what you can do about it.

D. Bell: It is a stabilization problem.

H.M.Jr: This thing here about Dr. Mead -- not yet. Did that thing go all right on the machine tools?

Schwarz: Fine. They are making it on a 100% cooperation basis. Mr. Burt, as he went out, used that phrase.

H.M.Jr: What phrase?

Schwarz: 100% cooperation was offered by the industry to the Government.

H.M.Jr: I see he also said he was going to put his teeth into it.

Schwarz: Right, which he learned from you.

H.M.Jr: I hope his teeth are as good as mine. I mean, I hope his teeth are his teeth.

Klotz: Yes, not store teeth.

H.M.Jr: That is what I was trying to get over.

Oh, Dan, what a razzing I took from the President on this memorandum of yours. Oh baby! He said he was going to call me a liar, but then he saw I didn't sign it so he said he couldn't call me that. He said I was smart not to sign it. He claims we can't drop as much as you claim we can, \$1,227,000.00 down to \$950,000.00. He thinks that you forgot the June 15 tax returns.

D. Bell: No, I didn't. The U. S. Savings Bonds are in there, too. That is a net picture.

H.M.Jr: We can go ahead and prepare for a refunding note for note providing conditions are OK. I will keep this, but he did give me an awful razzing. I am serious in trying to get somebody to go into Procurement and take the place of Collins, who is resigning on the first of June. I can get the services of Don Nelson of Sears Roebuck. Now,

Don Nelson -- I don't know him but they say he was the only man that C.I.O. and A.F. of L. would agree on when the President offered him the job of --

Foley: Conciliator?

H.M.Jr: Head of the Labor Board or something.

D. Bell: Chairman.

H.M.Jr: Something. A few people could inquire around town about Don Nelson, would you all inquire? He was here -- he liquidated NIRA. McReynolds is already asking Leon Henderson, so that source is covered. He is Executive Vice President of Sears Roebuck.

D. Bell: Larry Martin ought to know him real well.

H.M.Jr: Would you people sort of -- do you know anybody out in Chicago?

Viner: Yes. He is a well-known person in town. I don't know him, but I know of a great many persons who will know him, and I can get a line on him.

H.M.Jr: I am to hear this afternoon whether he is willing to come.

No. 1 Bell on the roll, I mean this Bell (Charles Bell), what have you got?

C. Bell: Everything is in order, Mr. Secretary.

H.M.Jr: How about friend Norman?

C. Bell: We are keeping one jump ahead of Dr. Mead and his staff.

H.M.Jr: Somebody has taken very good care of him, and I guess it is you. Mr. McReynolds went out of his way to say that he is working purely on this other stuff and you have been running this shop and he said some very nice things about you, which I have no reason to contradict. Norman will be back next Monday?

C. Bell: June 3rd.

H.M.Jr: Have you heard from him?

C. Bell: No, sir, not directly.

- H.M.Jr: This thing in Hot Springs must be some place. The other Bell has been down there. Now Norman Thompson went down there. Did you send Norman Thompson down there?
- D. Bell: I suggested it to him. I didn't send him, but I heard from the people who run the place that he was there.
- H.M.Jr: I'm going to get everything off my chest. It would be unfair to give you fellows -- a little birdie tells me you have run into a snag with Pratt & Whitney. I am trying to look cross-eyed.
- Foley: We are not getting much cooperation from them. We have written up the agreements insofar as Curtiss-Wright is concerned and their lawyers have OK'd it, and when Mr. Vaughan comes down tomorrow --
- H.M.Jr: He isn't coming tomorrow because I am not ready for him.
- Foley: Whenever he comes, I think he will tell you that the agreement is all right. Of course, it is necessary to determine certain things, but we can't do that as lawyers. They will have to be negotiated, and they can be inserted, a few blanks in the contract. Now, the other people haven't cooperated at all. They have sent us a letter which is very inconclusive and the lawyers have refused to come back. They say there is a Board meeting today and they have to be present at the Board meeting and all that stuff.
- H.M.Jr: That is true.
- Foley: But they don't need their lawyers at the Board meeting. We are going ahead and writing the agreement the best way we can without their help.
- H.M.Jr: Well, I didn't know that. If I had known that, I would have let them come down tomorrow as is. I think we had better close up that licensing thing and let them come on down, do the licensing thing as of tomorrow.

H.M.Jr: Now, I told the President -- this was my idea, not his -- that inasmuch as other Government agencies will follow this form, I would like Bob Jackson to see this form.

Foley: Well, I have down here to ask you if it would be all right for us to invite representatives from the Judge Advocate General's Office to come in because of the Army and Navy.

H.M.Jr: Swell, and somebody from --

Foley: Somebody from Justice.

H.M.Jr: Done. But have a little meeting before we meet with the Curtiss-Wright people so we don't have an argument beforehand.

Foley: I will call them as soon as I leave here.

H.M.Jr: Here is the point. You know what has happened in the case of the British, the licensing. "It is yours, and when the war is over, we will talk to you about it, but in the meantime, when you receive the plans, the license is yours."

Sullivan: On the Rolls-Royce?

H.M.Jr: Yes. The fact -- when the plans are put in your hands, you have the license for the Rolls-Royce.

Sullivan: I think when Pratt & Whitney get down here they will be talking Packard.

H.M.Jr: I am not in any frame of mind to bargain with any of these fellows. I want the licenses, and I am not going to bargain.

Sullivan: Just the bare licenses can be gotten all right.

H.M.Jr: Well, I want the licenses; and naturally if they say they want Packard and Packard works out all right -- but I am not going to have them tell me to whom to reissue the license.

Sullivan: I don't think they want to do that.

Foley: Well, they need instructions from above. The lawyers do, because --

H.M.Jr: Well, we will have these fellows down tomorrow. Wilson is at eleven and Vaughan at three.

Now, Harold?

Harry, anything?

White: None of it has to be answered, and I am afraid that you will have to make the decision as between two, because only you know all the facts on this.

H.M.Jr: You flatterer, you.

White: They are not such important facts as to be flattery.

D. Bell: He took it back.

White: This is the answer to Grady. I think this will simplify it. This is the one that I approved and the one that I think Jake Viner approved, and I don't know how Danny stands on both of these. You can read them both.

H.M.Jr: Has Danny seen both of them?

White: Yes.

D. Bell: This is the basis that we discussed in Cabinet the other day, as I understand it, and the President said that he wanted to purchase a lot of strategic war materials, and he wants Jesse Jones to handle them and he didn't want any gold or any agricultural products tied up with it. Now, I understand that Wallace has seen the President, and he has probably changed his mind.

H.M.Jr: Harry Hopkins was on the boat last night.

D. Bell: You think so?

H.M.Jr: He tucked the President in bed.

D. Bell: You think he won, then?

H.M.Jr: I think so.

D. Bell: I don't know which side Harry is on.

H.M.Jr: Well, I have agreed with Hopkins to go the Hopkins way.

D. Bell: Which is that?

- H.M.Jr: Well, I don't know. The Hopkins way is the opposite from the Wallace way. Now, which is the Wallace way?
- Klotz: You are a help.
- D. Bell: It is the short letter, I think, that you want to sign in that case. My objection to the long letter is that it is a typical agricultural letter where they try to get the President to commit himself on a program which I am not sure he wants to be committed on.
- H.M.Jr: Why do I have to write to Grady at all?
- White: Grady's letter to the President was sent to you, and what complicates the matter is that he sent instructions to Secretary Hopkins and Secretary Wallace to contact the Treasury to get what apparently is a joint agreement on an answer and Agriculture and Commerce were down here, and I think that Commerce is reconsidering their position, because Commerce feels that maybe Agriculture is correct in the statement that Agriculture's position doesn't in any way hinder Hopkins' program. It is something additional.
- H.M.Jr: Look, I have got ten minutes to go around the room, and I can't assimilate it.
- White: Then there is another suggestion in that, and then with your permission let's not answer this letter at all. That is another alternative.
- W.M.Jr: That has happened before.
- White: Let's just postpone it.
- H.M.Jr: I am for that.
- D. Bell: You weren't signing this, it was the President's letter.
- White: But we were to draft a letter for the President. If we just postpone the thing, it may iron itself out.
- H.M.Jr: I am sure it will. I think your third letter is the best one.
- D. Bell: I agree with that.

- 8 -

White: With your permission, I would also like to tell both Agriculture and Commerce that the thing is on the table for awhile.

H.M.Jr: No, don't tip your hand. Don't tell them anything

White: Well, it isn't very fair with them. They have been right with us on this, and they are supposed to have collaborated in the preparation of this letter.

H.M.Jr: Why not tell them I am a neutral? Say I am studying the matter. How is that? Is that being fair?

White: Yes, I take it you are.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: Okay. All right, Harry, I'm glad you are feeling so well. Did you have a little tennis yesterday?

White: No, the fields weren't open.

Foley: Fields?

White: I mean the tennis courts. I play the way I -- did you ever see a good chess player playing on five or six boards at the same time? That is the way I play tennis.

Harris: We will have an American ship in Galway on the fourth of June. We think we will have another ship in Bordeaux about the eighth or ninth of June. Those are probably the last two American ships that will come out; and if for any reason you have got records or gold or possessions or anything you want to get out, they might do it at bargain prices.

H.M.Jr: What ships are these?

Harris: Well, one is the "Roosevelt" and the other isn't settled yet. It may be a larger ship.

H.M.Jr: Have you got a memorandum for me on that?

Harris: No. I have three other memos that just pertain to --

H.M.Jr: What are those two ships? I want to carry it in my mind.

Harris: One is the "President Roosevelt".

H.M.Jr: She has gone to Ireland, hasn't she?

Harris: She left Friday. The other one is going to Bordeaux. They haven't determined just what ship it will be, but it may be one of the largest ships.

H.M.Jr: That is what Feis is fussing about. Can they get any gold over to Ireland?

Cochran: They could.

Harris: Whose gold would it be?

H.M.Jr: England's.

Harris: I don't think they would touch it.

H.M.Jr: Why?

Harris: I don't know. I think the State Department would object to taking anything on there that isn't American property.

Viner: American Government property.

H.M.Jr: Well, I will buy it.

Harris: That is all right.

H.M.Jr: Well, Mr. Hull called me. I haven't had a chance to work with Mrs. Klotz because she has been so busy. I have got a lot of memoranda here. One of the things Mr. Hull called about, he is fussing about this gold. I don't know what we can do.

D. Bell: That is the English gold?

H.M.Jr: Yes.

Cochran: I believe it will have to be convoyed.

H.M.Jr: Okay.

George?

Klots: You have just got five minutes.

Harris: I will give you a memorandum on that second boat as soon as it is fixed, Mr. Secretary.

H.M.Jr: Right.

Hess: You got excellent response to your wires.

H.M.Jr: You mean on the --

Hess: Engines and the planes. There is only one place I am held up, and you probably couldn't guess.

H.M.Jr: What is that?

Hess: The Army Air Corps. I just got word from them that I couldn't get the deliveries for last week. They wouldn't be available until June 1st, so I got hold of this Colonel Powell over there, and it is incredible. They said they had sent a teletype out to Wright Field, and they sent a message back that it wouldn't be available. I asked him who ran Wright Field. He has had to bear down on them a bit. I don't know whether he is giving me the run around or whether I am going to get it when I get back in the office or not.

H.M.Jr: Didn't Glenn Martin come through?

Hess: All the big plants, but the full reports -- and the sad part is I could have gotten it direct from the company, but they told me they would get it for me so I said in the wires to the companies to omit the Army and Navy Contracts.

H.M.Jr: If there is any trouble, Louie Johnson is coming over to see me at four. If you haven't got it by four, give something to McKay by five minutes to four.

Hess: Just as I left the office he promised to get it.

H.M.Jr: Philip?

Young: No problems.

H.M.Jr: How are machine tools, Chick?

Schwarz: Doing fine.

- 11 -

H.M.Jr: All right. Do you know one machine tool from another? That Department of Commerce fellow was a great fellow, wasn't he?

Schwarz: They got their statistics from Customs, all right.

H.M.Jr: I thought Commerce had a machinery division so we had the head of it over here, and he can tell you, by golly, the third week in every month every machine tool that left this country, but could he tell what is in the process and what is being done? No, they just get their statistics from Customs, that is all. But those Army and Navy fellows, they were good.

Schwarz: They were fine. Especially the number two men, Major Soderholm, etc.

H.M.Jr: That is the way it usually is. It is that way in Treasury, too, you know.

How is Canada, Viner?

Viner: They think they have been a little too slow in getting ready for the war.

H.M.Jr: Did anybody talk to you about their methods of buying up there?

Viner: Yes. Everybody up there was talking to me.

H.M.Jr: Bad?

Viner: Well, I don't know what you have in mind.

H.M.Jr: I mean slow.

Viner: Slow, yes.

H.M.Jr: I don't mean crooked, I mean slow.

Viner: And one of the things is they announce weekly what they have ordered, and people are beginning to ask why, for instance, they should order \$55,000.00 worth of uniforms at a time, whether they are not giving out the orders in driplets, instead of getting mass production. But in terms of American figures, they are spending at the rate of what would be equivalent here to 8½ billion dollars a year. They are complaining about the slowness, but it might be useful for us to know what the slowness is in a war if you

figure that they are complaining about that, although they are spending at that rate.

H.M.Jr: Jake, just one thing while you are here. Mr. Hull is very much worried about the French and English gold. Would you put your old bean on it and see if you have any ideas? Just think about it, ask me about it, will you? Stir these fellows up a little.

Winors: Well, what they might have in mind -- because I notice that in Canada it is very much in their psychology -- I think they are very much worried about the future, but they won't talk about their worries on the ground that it's defeatist talk, the same way with shipping the gold down.

H.M.Jr: Well, would you just, you know, do a little -- well.

Merle?

Cochran: I have nothing.

Sullivan: Mr. Bell and Mr. Helvering and Mr. Magill and I drafted a memorandum for you this morning, and the figuring is just being done on it and I will have it in later in the afternoon.

H.M.Jr: Send it up to the house, will you?

Sullivan: I think you might want to look at it before you go, and in case you don't like it we will do another one tonight.

H.M.Jr: The President was very much pleased with my report of the meeting this morning. He was very much surprised and very much pleased. Senator Harrison was right in the room here and Mr. McDonald, and they completely reversed themselves, and they are now talking about giving me my debt limit increase and the National Defense Tax Bill. Wasn't it amazing, Dan?

D. Bell: Quite different from what it was a week ago.

H.M.Jr: Amazing.

Ed?

- 13 -

- Foley: Do you want us to give to Berle the draft of that Import-Export Bank legislation that we have? He called up and asked for it.
- H.M.Jr: Sure.
- White: Do you mean the Inter-American Bank?
- Foley: Yes, I mean the Inter-American Bank. They would also like to have our help.
- H.M.Jr: No, the President has said twice now that it's Jesse Jones.
- Foley: That is what I understood.
- H.M.Jr: I believe that Welles or somebody over there or Mr. Hull asked that Jesse Jones be permitted to do it. Now let Jesse do it. Give him what we have got and then just forget about it. Somebody over there definitely asked that Jones do it rather than -- that Jesse do it rather than Treasury, and let Mr. Jones do it.
- D. Bell: I think they are interpreting that in the State Department as more or less floor manager, that Jesse would get the thing through Congress but it is drafting the bill, Berle thinks, that ought to be done through a coordinating --
- H.M.Jr: Well, let Mr. Berle do it.
- Foley: Bob Hinckley called and said that he understood you were considering putting on a Colonel Gorrell.
- H.M.Jr: That is right.
- Foley: He thinks that it would be a mistake.
- H.M.Jr: I see.
- Foley: Because Gorrell was very active in connection with McCarran resolution on the fourth plan. He said very reprehensible things about the administration and made claims that we had bought up the Senators and that they would get things that --
- H.M.Jr: That is Hinckley's advice?

- Foley: He wanted me to pass this on to you. He said he brought it to you only in connection with the release of those thirty transport planes that the companies have on order, and he wasn't vouching for him, and when he heard that you were considering bringing him in --
- H.M.Jr: He heard it from me.
- Foley: He wanted to get this word to you, that he thought it would be a mistake.
- H.M.Jr: Tell him I have not seen Mr. Gorrell since he was in the office here with me, and he can rest on that one.
- Foley: Okay.
- H.M.Jr: And incidentally, that -- I will call him. He has been terribly cooperative. I will tell him I got your message.
- Foley: All right. Here is that letter to McKeller. Captain Kraus has also initialed it.
- That action that Rudolph Hecht is bringing against the Universal Trading Corporation in the Supreme Court, you remember we refused to answer voluntarily the interrogatories. Now Ziegler, Counsel for Hecht, has made an application to Supreme Court up there in New York for an order to compel you to answer. Now, I have talked with Eddie a little bit on the telephone about it, and if it is agreeable with you, I will write to the Attorney General and say that we want to resist the granting of the order. I think that we will be successful. There may be a little publicity, but I don't think we have to worry about it at all.
- H.M.Jr: I like publicity.
- Foley: All right. Then we will cooperate with Justice, probably send somebody up there to appear and object on the ground that they have no jurisdiction over you as Secretary of the Treasury, and anyway the matters are confidential and involve this Government and its foreign relations with another sovereign power.
- H.M.Jr: I am five minutes overdue now, and I have got to give Gaston some time.

Gaston: I will talk fast. We have been working with the Civil Service Commission on giving them some help in building up a staff to investigate personnel in connection with enlarged defense program. We had a meeting this morning, and we are proposing to let them have Harry Dengler, and also to transfer twenty-five of the personnel agents of the Intelligence Unit to them in return for money by which we can hire some new junior agents and Dengler is to help them organize their investigative staff.

H.M.Jr: That is Internal Revenue.

Gaston: No.

H.M.Jr: Dengler?

Gaston: Dengler works for the coordination. This proposition --

H.M.Jr: But the twenty-five fellows you are lending them is Internal Revenue.

Gaston: That is right.

H.M.Jr: Well, I don't know. With the Income Tax and the thing that you are talking of about extra agents, you have got to get -- Sullivan comes in and wants thirty-five or forty million dollars more so he can raise some more money. He was crying about it this morning.

Gaston: This is the thing we planned, of course, to put up to Mr. Sullivan and the Commissioner; and we would under the plan get more money out of this than the new men would cost us.

H.M.Jr: You have got to get by Sullivan and Helvering. Okay. If it is all right, don't bring it back, but -- if it is all right with Helvering and Sullivan, it is okay with me. Is that what McReynolds was doing all morning?

Gaston: No, Mac wasn't in on this this morning at all. I talked to him about it several days ago. Irey and I and Flemming were there, and we haven't made any final decision or arrangements with them. I was just telling you the outline.

Francis Biddle has called a meeting this afternoon

to talk about coordination of investigative work over the Border in connection with their taking over the Immigration Patrol.

- H.M.Jr: I told Bob Jackson to see you.
- Gaston: Well, Elmer and I are going over there, and I spoke to Mr. Harris about letting someone go along.
- Harris: Mr. Secretary, do you think we ought to give consideration to pulling our Treasury agents out of France and England?
- H.M.Jr: Do whatever the State Department does with them.
- Harris: I don't see that they can accomplish anything there now, and some of them are in pretty dangerous sectors.
- H.M.Jr: I don't see why they should come out any more than a consular agent. I think they have to do whatever the -- what does Agriculture do?
- Cochran: Leave it to the discretion of the Ambassador.
- H.M.Jr: I think it is up to the discretion of the Ambassador or the State Department.
- Harris: I just didn't want them to be forgotten.
- Gaston: I just wanted to mention to you that the Camel is being held up.

Form 3806 (Rev. Jan. 21, 1955)

Receipt for Registered Article No. **121681**

Registered at the Post Office located in the Postmark

(POSTMARK OF)

Fee paid 15 cents Class postage 1

Rec. 1227 surcharge paid, \$.....

Return receipt fee 1 Spl. Del'y fee .....

Delivery restricted to addressee: .....

In person..... or order..... No paid.....

Accepting employee will place his initials in space

indicating restricted delivery: .....

POSTMASTER, Shelley

(MAILING OFFICE)

The sender should write the name of the addressee on each parcel as an identification. Preserve and submit this receipt in case of inquiry or application for indemnity.  
Registry Fee and Indemnity.—Domestic registry fee ranges from 15 cents for indemnity not exceeding \$50, to \$1 for indemnity not exceeding \$1,000. The fee on domestic registered matter without intrinsic value and for which indemnity is not paid is 15 cents. Consult postmaster as to the special domestic registry fee and regulations and as to the registry fee chargeable on registered insured-parcels for foreign countries. Fees on domestic registered C. O. D. mail range from 25 cents to \$1.20. Indemnity claims must be filed within one year (C), O, D, six months from date of mailing.

U. S. GOVERNMENT PRINTING OFFICE

5-6852



MAY 27 1940

Dear Mr. Kellar:

I have your letter of May 23.

Since you make it clear that you are no longer interested in "the Kells-Royce job," which I have discussed only with you, I want you to know that I intend to explore the possibilities with other manufacturers. Your letter makes plain that you will entertain no objection to this course.

Insofar as the Continental engine is concerned, I note that you see possibilities in producing this engine. I shall be happy to continue our talks about this matter when you are ready.

Of course, our discussions concerning the production of this motor are preliminary and tentative as other Departments of the Government, as well as Continental Motors, are vitally concerned. I am sure you understand that I am not authorized to take any definitive action or to make any commitments on behalf of the Government.

Your expression of cooperation is greatly appreciated.

Very truly yours,  
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

E. T. Kellar, Esq.  
President  
Chrysler Corporation  
Detroit, Michigan

*Registered Mail  
Return receipt requested*

EHP: 5/27/40

*E. T. K.*

MAY 27 1940

Dear Mr. Keller:

I have your letter of May 23.

Since you make it clear that you are no longer interested in "the Kells-Bayce job," which I have discussed only with you, I want you to know that I intend to explore the possibilities with other manufacturers. Your letter makes plain that you will entertain no objection to this course.

Insofar as the Continental engine is concerned, I note that you see possibilities in producing this engine. I shall be happy to continue our talks about this matter when you are ready.

Of course, our discussions concerning the production of this motor are preliminary and tentative as other Departments of the Government, as well as Continental Motors, are vitally concerned. I am sure you understand that I am not authorized to take any definitive action or to make any commitments on behalf of the Government.

Your expression of cooperation is greatly appreciated.

Very truly yours,

(Signed) H. McLaughlin, Jr.

Secretary of the Treasury

K. T. Keller, Esq.  
President  
Chrysler Corporation  
Detroit, Michigan

ESF:is 5/27/40

MAY 27 1940

Dear Mr. Kellar:

I have your letter of May 23.

Since you make it clear that you are no longer interested in "the Hollis-Boyer job," which I have discussed only with you, I want you to know that I intend to explore the possibilities with other manufacturers. Your letter makes plain that you will entertain no objection to this course.

Insofar as the Continental engine is concerned, I note that you see possibilities in producing this engine. I shall be happy to continue our talks about this matter when you are ready.

Of course, our discussions concerning the production of this motor are preliminary and tentative as other Departments of the Government, as well as Continental Motors, are vitally concerned. I am sure you understand that I am not authorized to take any definitive action or to make any commitments on behalf of the Government.

Your expression of cooperation is greatly appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

E. Y. Kellar, Esq.  
President  
Chrysler Corporation  
Detroit, Michigan

EHF:is 5/27/40



THE SECRETARY OF THE TREASURY  
WASHINGTON

361

Dear Mr. Keller:

((copy))

I have your letter of May 23.

Since you make it clear that you are no longer interested in "the Rolls-Royce job," which I have discussed only with you, I want you to know that I intend to explore the possibilities with other manufacturers. Your letter makes plain that you will entertain no objection to this course.

Insofar as the Continental engine is concerned, I note that you see possibilities in producing this engine. I shall be happy to continue our talks about this matter when you are ready.

Of course, our discussions concerning the production of this motor are preliminary and tentative as other Departments of the Government, as well as Continental Motors, are vitally concerned. I am sure you understand that I am not authorized to take any definitive action or to make any commitments on behalf of the Government.

Your expression of cooperation is greatly appreciated.

Very truly yours,

Secretary of the Treasury

K. T. Keller, Esq.  
President  
Chrysler Corporation  
Detroit, Michigan

Fulkerson E.H.H.

Copy given Jerry [unclear]

38

CHRYSLER CORPORATION

Detroit, Michigan

May 23, 1940

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

My dear Mr. Secretary:

Since our conference with you in Washington last Monday we have been earnestly studying the problems incidental to undertaking the production of airplane motors. This is an entirely new field to us, and prior to your request that we do so we had never given any serious consideration to engaging in this line of business. Our preliminary studies confirm the opinion already expressed to you that, as we are presently set up, both our facilities and our personnel will need extensive reorganization and amplification if we are to become a substantial and satisfactory source of supply to the government for airplane engines.

However, we do possess unusual facilities for engineering research, and our organization has a background of experience with production problems. Yesterday and today we had a group of our ablest engineers and production men at Wright Field in Dayton, as well as Mr. Hutchinson and myself, and I can not speak too highly of the consideration and cooperation which we received at the hands of the gentlemen there. We were given every facility to make a preliminary survey of the Rolls-Royce engine, and we reviewed briefly the developments which have taken place with the Continental engine. We also had an opportunity to look over casually the Allison job.

The greater part of our time was spent on the study and analysis of the Rolls-Royce job. One of the two samples had been disassembled and spread out for inspection, permitting us to take weights and measurements of various component parts, and greatly facilitating our study of the probable processes of manufacture if we were to undertake the production of this engine in this country.

The longer we studied the Rolls-Royce job the less we liked it as a manufacturing proposition for American production. It is our opinion that it would take a longer time to get into production on the Rolls-Royce engine than on an American designed engine. We foresee difficulties in getting and understanding details of construction, tooling, drawings, specifications, etc., correlating them with U. S. standards and practices, developing necessary sources of required materials and accessories, all of which would be greatly mitigated and facilitated if an engine of American design were to be substituted.

Honorable Henry Morgenthau, Jr.

May 23, 1940

We were greatly intrigued by the account given us of the developments to date on the Continental engine. From the inspection of the test records, the examination of the sample single cylinder and piston, and particularly from the reports given us by the Wright Field engineers of their studies on the preliminary development of this engine, we believe it to be a good basis on which to proceed to design and build a twelve cylinder engine to meet what we understand the requirements of the military authorities may be.

We were advised that such a twelve cylinder inverted V type engine is now being laid out by the Continental engineers, and is expected to be submitted for test within a minimum of seven months' time.

We feel that if the experience and background of the Wright Field engineers were actively and sympathetically coordinated with the facilities and resources of our organization, the time required to design and build, say, four test sample engines based upon the Continental single cylinder data could be shortened.

Machinery specifications, production studies and tool design could proceed simultaneously with the engine design and parallel to it. This aspect of the preparation for quantity production is just as big a job as the design of the engine itself. Important and long-time machine tool requirements should be specified and ordered as soon as preliminary design decisions have been made and the information is available. Studies of material requirements and sources should be begun immediately with a decision to go ahead.

If this undertaking should be assigned to Chrysler Corporation, it is our opinion that the factory for producing these engines should be located in the Detroit area. Our recommendation would be that the initial tooling should be on the basis of 200 engines per month on a one shift 40 hour week operation. After training the first shift, further capacity could be obtained by additional shifts. We consider the top production on this program of this productive unit would be 500 engines per month.

While the production of some parts for this program could be handled in existing Chrysler plants, we believe a new building of approximately 500,000 square feet would be required for production purposes, with necessary testing facilities in addition.

As we have previously stated, the development and production of airplane engines is not our chosen field, and would not be considered by us except for your request under present circumstances. However, we fully recognize the gravity of the situation, and we are prepared to go forward with a program which fits the need of the military authorities, and which we in our judgment feel we can undertake with a reasonable expectancy of carrying through to a successful conclusion. I have no hesitation in pledging to our country through you the loyal, enthusiastic and diligent effort of our entire organization.

Honorable Henry Morgenthau, Jr.

May 23, 1940

Since we are approaching this problem from a patriotic rather than a commercial angle, and have some grave doubts as to what, if any, position we might wish to occupy in the commercial aviation engine field once this emergency is passed, we would like to avail ourselves to the fullest of your suggestion that the government would undertake the load of financing the undertaking, and that the compensation to our stockholders could be arranged on the basis of some sort of management fee for the supervision we would give it.

If there seems to you to be some basis in the foregoing for further development, we will be most happy to meet with you or anyone you may designate for further discussions.

Very truly yours,

CHRYSLER CORPORATION

*K. T. Keller*  
K. T. KELLER  
President

KTK:JT

DVIN \_\_\_\_\_

RECEIVED V. \_\_\_\_\_

SECRETARIA'S CORRESPONDENCE DIVISION

CHRYSLER CORPORATION

Detroit, Michigan

May 23, 1940

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

My dear Mr. Secretary:

Since our conference with you in Washington last Monday we have been earnestly studying the problems incidental to undertaking the production of airplane motors. This is an entirely new field to us, and prior to your request that we do so we had never given any serious consideration to engaging in this line of business. Our preliminary studies confirm the opinion already expressed to you that, as we are presently set up, both our facilities and our personnel will need extensive reorganization and amplification if we are to become a substantial and satisfactory source of supply to the government for airplane engines.

However, we do possess unusual facilities for engineering research, and our organization has a background of experience with production problems. Yesterday and today we had a group of our ablest engineers and production men at Wright Field in Dayton, as well as Mr. Hutchinson and myself, and I can not speak too highly of the consideration and cooperation which we received at the hands of the gentlemen there. We were given every facility to make a preliminary survey of the Rolls-Royce engine, and we reviewed briefly the developments which have taken place with the Continental engine. We also had an opportunity to look over casually the Allison job.

The greater part of our time was spent on the study and analysis of the Rolls-Royce job. One of the two samples had been disassembled and spread out for inspection, permitting us to take weights and measurements of various component parts, and greatly facilitating our study of the probable processes of manufacture if we were to undertake the production of this engine in this country.

The longer we studied the Rolls-Royce job the less we liked it as a manufacturing proposition for American production. It is our opinion that it would take a longer time to get into production on the Rolls-Royce engine than on an American designed engine. We foresee difficulties in getting and understanding details of construction, tooling, drawings, specifications, etc., etc., correlating them with U. S. standards and practices, developing necessary sources of required materials and accessories, all of which would be greatly mitigated and facilitated if an engine of American design were to be substituted.

Honorable Henry Morgenthau, Jr.

May 23, 1940

We were greatly intrigued by the account given us of the developments to date on the Continental engine. From the inspection of the test records, the examination of the sample single cylinder and piston, and particularly from the reports given us by the Wright Field engineers of their studies on the preliminary development of this engine, we believe it to be a good basis on which to proceed to design and build a twelve cylinder engine to meet what we understand the requirements of the military authorities may be.

We were advised that such a twelve cylinder inverted V type engine is now being laid out by the Continental engineers, and is expected to be submitted for test within a minimum of seven months' time.

We feel that if the experience and background of the Wright Field engineers were actively and sympathetically coordinated with the facilities and resources of our organization, the time required to design and build, say, four test sample engines based upon the Continental single cylinder data could be shortened.

Machinery specifications, production studies and tool design could proceed simultaneously with the engine design and parallel to it. This aspect of the preparation for quantity production is just as big a job as the design of the engine itself. Important and long-time machine tool requirements should be specified and ordered as soon as preliminary design decisions have been made and the information is available. Studies of material requirements and sources should be begun immediately with a decision to go ahead.

If this undertaking should be assigned to Chrysler Corporation, it is our opinion that the factory for producing these engines should be located in the Detroit area. Our recommendation would be that the initial tooling should be on the basis of 200 engines per month on a one shift 40 hour week operation. After training the first shift, further capacity could be obtained by additional shifts. We consider the top production on this program of this productive unit would be 500 engines per month.

While the production of some parts for this program could be handled in existing Chrysler plants, we believe a new building of approximately 800,000 square feet would be required for production purposes, with necessary testing facilities in addition.

As we have previously stated, the development and production of airplane engines is not our chosen field, and would not be considered by us except for your request under present circumstances. However, we fully recognize the gravity of the situation, and we are prepared to go forward with a program which fits the need of the military authorities, and which we in our judgment feel we can undertake with a reasonable expectancy of carrying through to a successful conclusion. I have no hesitation in pledging to our country through you the loyal, enthusiastic and diligent effort of our entire organization.

Honorable Henry Mergenthaler, Jr.

May 23, 1940

Since we are approaching this problem from a patriotic rather than a commercial angle, and have some grave doubts as to what, if any, position we might wish to occupy in the commercial aviation engine field since this emergency is passed, we would like to avail ourselves to the fullest of your suggestion that the government would undertake the load of financing the undertaking, and that the compensation to our stockholders could be arranged on the basis of some sort of management fee for the supervision we would give it.

If there seems to you to be some basis in the foregoing for further development, we will be most happy to meet with you or anyone you may designate for further discussions.

Very truly yours,

CHRYSLER CORPORATION

K. T. Keller (Signed)

K. T. KELLER  
President

KTK:JT

CONTINENTAL CORPORATION

Detroit, Michigan

May 28, 1940

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

My dear Mr. Secretary:

Since our conference with you in Washington last Monday we have been earnestly studying the problems incidental to undertaking the production of airplane motors. This is an entirely new field to us, and prior to your request that we do so we had never given any serious consideration to engaging in this line of business. Our preliminary studies confirm the opinion already expressed to you that, as we are presently set up, both our facilities and our personnel will need extensive reorganization and amplification if we are to become a substantial and satisfactory source of supply to the government for airplane engines.

However, we do possess unusual facilities for engineering research, and our organization has a background of experience with production problems. Yesterday and today we had a group of our ablest engineers and production men at Wright Field in Dayton, as well as Mr. Hutchinson and myself, and I can not speak too highly of the consideration and cooperation which we received at the hands of the gentlemen there. We were given every facility to make a preliminary survey of the Rolls-Royce engine, and we reviewed briefly the developments which have taken place with the Continental engine. We also had an opportunity to look over casually the Allison job.

The greater part of our time was spent on the study and analysis of the Rolls-Royce job. One of the two samples had been disassembled and spread out for inspection, permitting us to take weights and measurements of various component parts, and greatly facilitating our study of the probable processes of manufacture if we were to undertake the production of this engine in this country.

The longer we studied the Rolls-Royce job the less we liked it as a manufacturing proposition for American production. It is our opinion that it would take a longer time to get into production on the Rolls-Royce engine than on an American designed engine. We foresee difficulties in getting and understanding details of construction, tooling, drawings, specifications, etc., correlating them with U. S. standards and practices, developing necessary sources of required materials and accessories, all of which would be greatly mitigated and facilitated if an engine of American design were to be substituted.

May 23, 1940

We were greatly intrigued by the account given us of the developments to date on the Continental engine. From the inspection of the test records, the examination of the sample single cylinder and piston, and particularly from the reports given us by the Wright Field engineers of their studies on the preliminary development of this engine, we believe it to be a good basis on which to proceed to design and build a twelve cylinder engine to meet what we understand the requirements of the military authorities may be.

We were advised that such a twelve cylinder inverted V type engine is now being laid out by the Continental engineers, and is expected to be submitted for test within a minimum of seven months' time.

We feel that if the experience and background of the Wright Field engineers were actively and sympathetically coordinated with the facilities and resources of our organization, the time required to design and build, say, four test sample engines based upon the Continental single cylinder data could be shortened.

Machinery specifications, production studies and tool design could proceed simultaneously with the engine design and parallel to it. This aspect of the preparation for quantity production is just as big a job as the design of the engine itself. Important and long-time machine tool requirements should be specified and ordered as soon as preliminary design decisions have been made and the information is available. Studies of material requirements and sources should be begun immediately with a decision to go ahead.

If this undertaking should be assigned to Chrysler Corporation, it is our opinion that the factory for producing these engines should be located in the Detroit area. Our recommendation would be that the initial tooling should be on the basis of 300 engines per month on a one shift 40 hour week operation. After training the first shift, further capacity could be obtained by additional shifts. We consider the top production on this program of this productive unit would be 500 engines per month.

While the production of some parts for this program could be handled in existing Chrysler plants, we believe a new building of approximately 500,000 square feet would be required for production purposes, with necessary testing facilities in addition.

As we have previously stated, the development and production of airplane engines is not our chosen field, and would not be considered by us except for your request under present circumstances. However, we fully recognize the gravity of the situation, and we are prepared to go forward with a program which fits the need of the military authorities, and which we in our judgment feel we can undertake with a reasonable expectancy of carrying through to a successful conclusion. I have no hesitation in pledging to our country through you the loyal, enthusiastic and diligent effort of our entire organization.

Honorable Henry Morgenthau, Jr.

May 23, 1940

Since we are approaching this problem from a patriotic rather than a commercial angle, and have some grave doubts as to what, if any, position we might wish to occupy in the commercial aviation engine field once this emergency is passed, we would like to avail ourselves to the fullest of your suggestion that the government would undertake the load of financing the undertaking, and that the compensation to our stockholders could be arranged on the basis of some sort of management fee for the supervision we would give it.

If there seems to you to be some basis in the foregoing for further development, we will be most happy to meet with you or anyone you may designate for further discussions.

Very truly yours,

CHRYSLER CORPORATION

K. T. Keller (Signed)

K. T. KELLER  
President

KTK:JT

May 27, 1940  
5:00 p.m.

Arthur  
Purvis: Good afternoon, sir. How are you?

H.M.Jr: Oh, I'm all right, Arthur. How are you?

P: Very well, thank you. Very well.

H.M.Jr: Look .....

P: I was rather looking forward to having a talk when we can both get a few minutes to do it. I think you must have been up to -- up to your eyes.

H.M.Jr: I have been. Now, I sent word abroad that they should make up their minds about powder, see?

P: Yes.

H.M.Jr: And you may hear anything any day.

P: Well, now, we have authority to act there, you know.

H.M.Jr: You have?

P: And what we're doing, to be perfectly frank with you, we had this situation and we are proceeding, I mean, we've had men sitting in Canada and in DuPont and in Wilmington with the DuPont people with lawyers by their side trying to complete contracts. But what we have said is, if it takes two or three days to get the final form of contract out on what is rather a complicated matter, proceed by letters of intention authorizing the contractor to go full speed ahead, and that has been done. They -- for instance, take DuPont. The minute our broad authority came in, I arranged with DuPont, went down there myself, as you know, about ten days ago, and I found that the Memphis site had to have its water tested, and therefore we authorized the expenditure of the necessary money at our expense to do that because that was the thing that was holding them. Now we are proceeding along the line that nothing will hold us at any point while the contract is being completed.

H.M.Jr: Ah, well, that other thing, did you know that the Minister of Transportation of Canada is in New York?

P: He is in my office at this time.

H.M.Jr: Well, now, well, then this idea of his trying to go and buy 3,000 trainer engines and all that, if he's going to do anything along those lines I wish he'd -- you'd talk to me about it because we're in the midst of our own program now and we want the whole thing dovetailed.

P: Oh, yes. Frankly, that is just an absurdity. The situation that has arisen is a very different one from that. They need some engines, if they can get them because the supply of trainers for the air program scheme has been -- from England -- has been cut off unexpectedly for a couple of months. But that has been something that I was using -- that we were using this morning -- that list you were good enough to give us of private owners with the idea that out of that might come something that could be used.

H.M.Jr: Well, now look, Arthur, so you and I will understand each other.

P: Yes.

H.M.Jr: Anything now on a 1,000 horse or under .....

P: Yes.

H.M.Jr: ..... that anybody's going to place, I want you to talk with me first.

P: Oh, absolutely.

H.M.Jr: Because we want to keep Curtiss Wright and Pratt Whitney going on the big engines.

P: I fully understand.

H.M.Jr: And we don't want Curtiss Wright or Pratt Whitney to take any more small-engine business.

- 3 -

P: I know that and, frankly, we weren't -- they weren't thinking so much in terms of engines, what they were thinking in was in terms of planes which they could get immediately which could be utilized .....

H.M.Jr: Oh. Well, I had the story they were in the market for 3,000 Curtiss Wright engines.

P: It's just poppycock.

H.M.Jr: O. K.

P: (Laughs) But I will predict this, before Mr. Howe leaves, I will cover this ground with him fully, but you can take it from me it's poppycock.

H.M. Jr: Yeah. Now you may like to know that the British Government has licensed me on Rolls Royce.

P: Good.

H.M.Jr: I've got the license.

P: Good.

H.M.Jr: And we're going along nicely on that.

P: Good.

H.M.Jr: And I wish also when you get ready to talk about the Bristol engine and the French are talking about the Gnome Rhone engine, that you talk with us on that.

P: Yes. I haven't yet been in touch with what happened at the talk which you had with him? I hadn't .....

H.M.Jr: I told him to wait .....

P: Yes.

H.M.Jr: ..... that we didn't want them to do anything for the moment, until we knew more ourselves.

P: Yes, I see.

H.M.Jr: And we've asked him to wait.

P: Yes, all right. That fits in pretty well because our people are rather changing their view on things. They're going at this in a much broader way now.

H.M.Jr: Yeah.

P: I've got a cable from the other side which I'd like very much to show you and to -- because it's a re-orientation over there which I think is very satisfactory insofar as approach is concerned.

H.M.Jr: Well, in this cable which I'll show you, I asked Ambassador Kennedy -- I said, for God sake, get somebody that Arthur Purvis can talk to and get answers direct. And I sent that Friday.

P: Well, fine. It's very essential in the British end.

H.M.Jr: Yes.

P: You see, Monnet can't do it all. Monnet is grand for the coordination end but he's -- ah -- I have put over a scheme of reorganization on that other end.

H.M.Jr: Good.

P: And Monnet says he thinks he can push it through now.

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

P: Well, this cable will probably help it.

H.M.Jr: Well, just -- on the engines particularly if you people do anything from now on, please talk to me first.

P: I'll tell Mr. Howe how much importance you attach to it.

- 5 -

H.M.Jr: Yes, until -- until we get -- until we see daylight, I mean, otherwise we're going to get all messed up.

P: Henry, there's one thing there -- in the case of the, of the -- their trainer difficulty, it's a case probably of a few hundred planes which may not be the ideal thing, but which might come out of that Civil Aviation list of private owners, if that fits in with your idea .....

H.M.Jr: Oh, that's -- any existing plane -- it's the new orders.....

P: It is.

H.M.Jr: ..... new orders.

P: Yes. Well, new orders I think they would want to do in Canada probably. Yes.

H.M.Jr: Well that's, I mean, if they had any large order in mind if they'd work through you it would be -- because we're just in the midst of our own thing.

P: And you want to synchronize it with yours.

H.M.Jr: We want to synchronize yours in with ours.

P: Naturally, yes.

H.M.Jr: See?

P: Well, now you can be sure that that 3,000 engines from Curtiss Wright is not an -- it's just poppycock.

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

P: Fine. Well, when could I see you?

H.M.Jr: Any time you want to, if you give me a little notice. Thursday's a bad day. If you're going to do it you'd better do it Wednesday.

P: All right. May I plan to be there Wednesday, then.

- 6 -

H.M.Jr: What's that?

P: Any time that suits you?

H.M.Jr: Yeah, I'll tell you now -- let's see -- supposing we say 11:00 o'clock.

P: 11:00 a.m. Wednesday. Splendid!

H.M.Jr: Yes.

P: I'll have something interesting for you, I think.

H.M.Jr: We'll make that Purvis day.

P: (Laughs) All right, thank you.

H.M.Jr: All right.

P: Is there any -- ah -- chance of that equipment -- that thing that Marshall was going to see.

H.M.Jr: I got word -- I talked to Marshall yesterday, I got word from him again today, he hopes to have an answer for me tomorrow morning.

P: Oh, good. Well, then if you would -- I shall hear from you if you want me there before Wednesday.

H.M.Jr: I talked on Saturday, Sunday and today and Marshall has promised me an answer tomorrow morning.

P: Good for you. Thank you ever so much.

H.M.Jr: O. K.

P: Right. Good-bye.

H.M.Jr: Good-bye.