

Mead's draft which was revised by
Mike Reynolds. See final memo Strg.

234

DRAFT

as follows:

May 28, 1940

Memorandum to the Secretary of War

I am in receipt of your memorandum of the 25th covering additional aircraft. This apparently does not include the War Department's estimates for the fiscal year 1941 now awaiting action by Congress which includes the following:

Heavy bombardment	6
Medium bombardment	66
Amphibian - two-engine	14
Pursuit interceptor	37
Transport - two-engine	6
Advanced training	<u>31</u>
Total	<u>166</u>

Will you kindly advise me regarding this omission, as

I wish to include it with the program set forth in your memorandum.

It is also my desire, pursuant to my memorandum to you of the 26th, that full opportunity be given the Secretary of the Treasury to participate in all negotiations looking to the initiation of contracts for aircraft.

May 29, 1940.

MEMORANDUM FOR THE SECRETARY OF WAR:

I am in receipt of your memorandum of the 28th covering additional aircraft as follows:

<u>Number</u>	<u>Type</u>	<u>Options to provide a maximum of</u>
800	Primary Training Airplanes	800
800	Basic Training Airplanes	800
800	Advanced Training Airplanes (single engine)	1,000
100	Advanced Training Airplanes (two engine)	None
<u>800</u>	Heavy Bombers	None
1,900		

This apparently does not include the War Department's estimates for the fiscal year 1941 now awaiting action by Congress which includes the following:

Heavy bombardment	6
Medium bombardment	66
Amphibian - two engine	14
Pursuit interceptor	37
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Total	166

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- 2 -

of the 26th, that full opportunity be given the Secretary of the Treasury to participate in all negotiations looking to the initiation of contracts for aircraft.

THE WHITE HOUSE
WASHINGTON

May 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION.

F. D. R.

THE WHITE HOUSE
WASHINGTON

May 27, 1920

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION.

P. D. P.

THE WHITE HOUSE
WASHINGTON

May 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION.

F. D. R.

THE WHITE HOUSE
WASHINGTON

May 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

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W. H. P.

THE WHITE HOUSE
WASHINGTON

May 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

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F. D. R.

THE WHITE HOUSE
WASHINGTON

May 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION.

F. D. R.

WAR DEPARTMENT
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

Subject: Program of Requirements in Aircraft for
Procurement under New Legislation.

In compliance with your memorandum on the above subject, the program of requirements in aircraft by types to be procured as a result of the new legislation is listed below. It will be noted that the total number contemplated for specific and immediate procurement aggregates 1,900 aircraft, as compared to 2,400 proposed in the defense of this legislation. This action is believed advisable due to the variations in price factors. The options for additional procurement as indicated below will provide for the required flexibility, and it is believed that through the application of these options as prices permit 2,400 airplanes will be ultimately procured.

<u>Number</u>	<u>Type</u>	<u>Options to provide a maximum of</u>
500	Primary Training Airplanes	800
500	Basic Training Airplanes	800
600	Advanced Training Airplanes (Single Engine)	1,000
100	Advanced Training Airplanes (Two Engines)	None
200	Heavy Bombers	None
<u>1,900</u>		

Contracts have been prepared to cover the above requirements in order that procurement measures may be immediately initiated upon the availability of appropriations.

As directed in your letter, all contracts and developments will be cleared through the Secretary of the Treasury to you as Commander-in-Chief.


HARRY H. WOODRING,
Secretary of War.

WAR DEPARTMENT
WASHINGTON

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HARRY H. WOODRING,
Secretary of War.

WAR DEPARTMENT
WASHINGTON

July 11, 1940

MEMORANDUM FOR THE PRESIDENT:

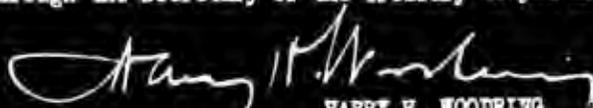
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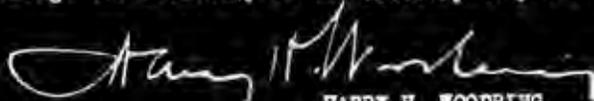
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 HARRY H. WOODRING,
 Secretary of War.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Railroad freight movement for export.

Receipts of freight for export at New York increased for the second week in succession during the week ended May 25 to a level not exceeded since the last week in December. Including a moderate increase at 9 other North Atlantic ports, the total increase was 872 cars. (See Chart 1 and table attached.)

The volume of freight exported from New York during the week ended May 25 increased by 868 cars as compared with the preceding week to a total not attained since March. (See Chart 2.) Because so large a proportion of the total receipts was exported, the lighterage freight in storage and on hand for unloading in New York harbor increased by only 270 cars. (See Chart 3.)

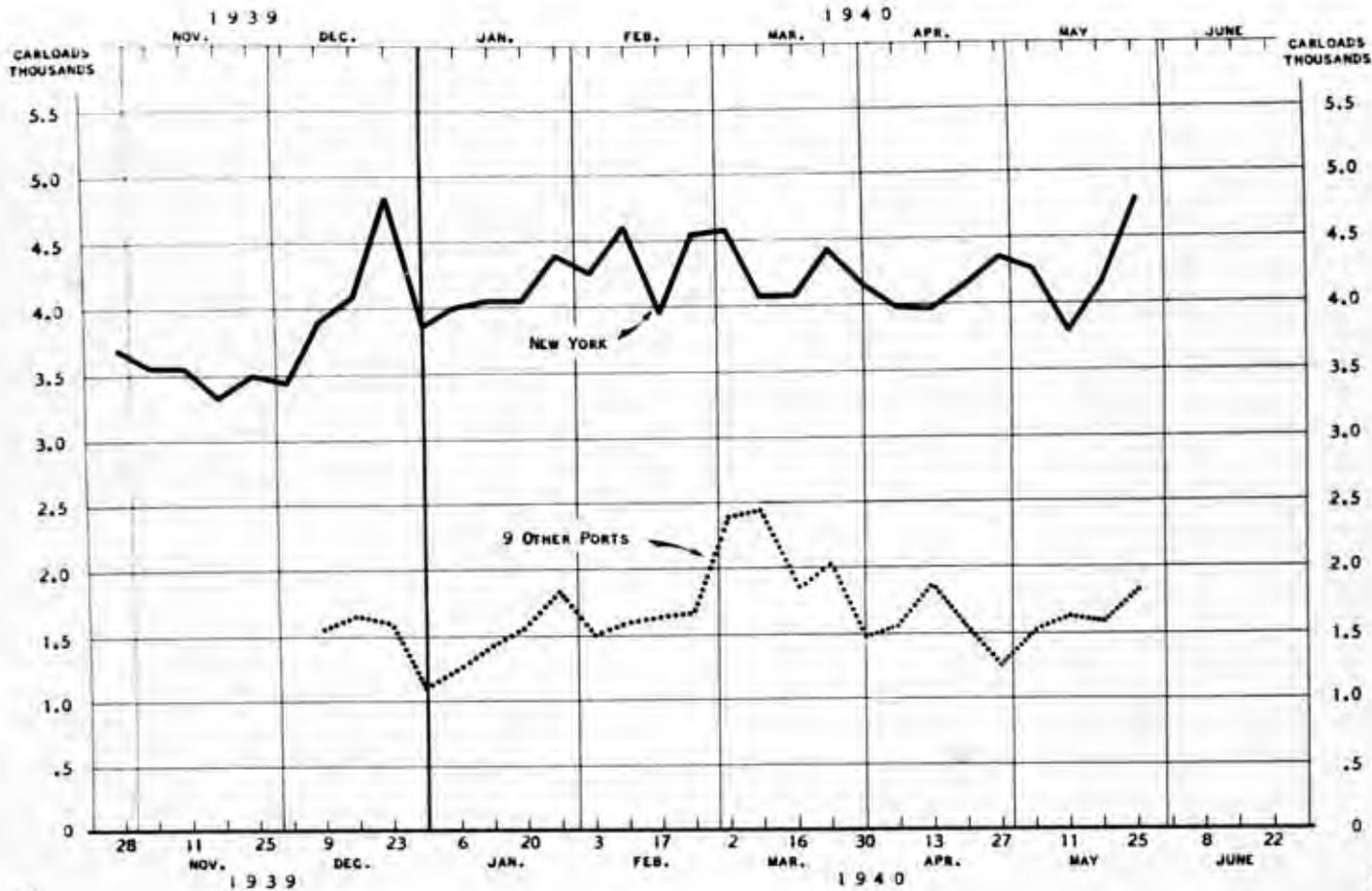
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1939-40	New York <u>1/</u>	9 other North Atlantic ports <u>2/</u> (----- In carloads -----)	Total
December 2	3,435		
December 9	3,922	1,548	5,470
December 16	4,088	1,658	5,746
December 23	4,848	1,602	6,450
December 30	3,856	1,104	4,960
January 6	4,000	1,251	5,251
January 13	4,056	1,433	5,489
January 20	4,060	1,557	5,617
January 27	4,389	1,825	6,214
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620

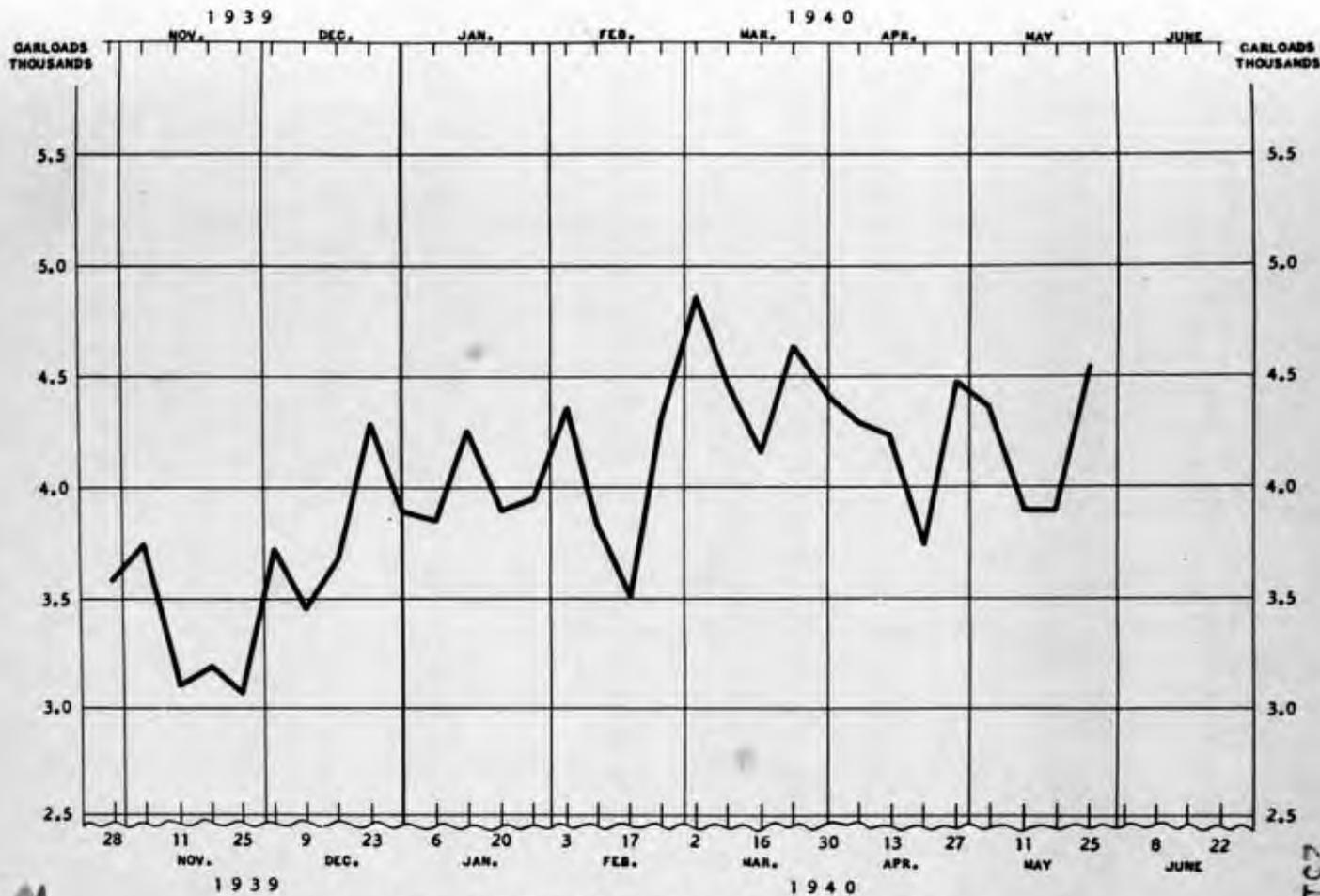
1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Searsport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS



CARLOADS OF FREIGHT EXPORTED FROM NEW YORK *



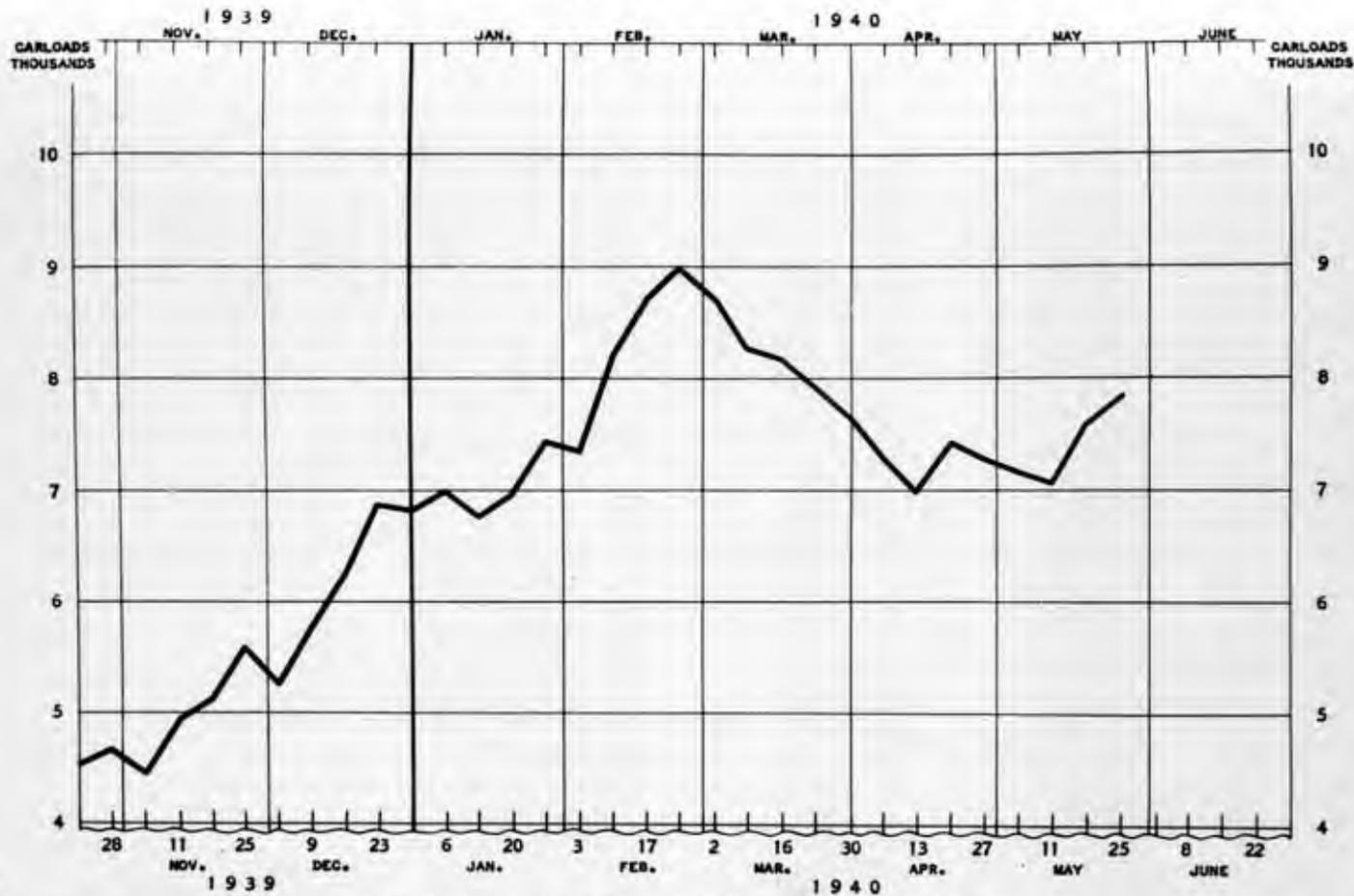
* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

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

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Chart 2

LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR *



* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

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

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Chart 3

HSM

PLAIN

London

Dated May 29, 1940

Rec'd 1:32 p. m.

Secretary of State,
Washington.

1432, May 29.

FOR TREASURY FROM BUTTERWORTH.

1. In the course of a speech in the House of Commons this afternoon in connection with the legislation implementing certain of Simon's budget proposals Sir Kingsley Wood the new Chancellor of the Exchequer made three statements worthy of note.

(a) That 100 percent excess profits tax would be applied as of April 1 to all trades and businesses;

(b) That he was considering what would be the best date for a new national loan and in this connection he emphasized that the new all-embracing powers of the British Government over all persons and property would not endanger the individuals "money in any bank"; and

(c) That war expenditure would greatly exceed Simon's estimates but could not be re-estimated now.

As regards statement (a) I do not believe it should be taken literally because I happen to know in connection

with

hsm -2- No. 1432, May 29, from London

with tin that in order to be in a position to achieve full production concessions are contemplated taking into consideration that mining ore is consuming an asset.

2. Although the British Treasury has now blocked Belgian assets it plans to regard the Belgian Ministers now in Paris as the legally constituted Government and to proceed on a basis similar to that being worked out with Holland. I gathered that most of the negotiations with the Belgians have been and are conducted in Paris by the French just as most of the Dutch negotiations are being conducted here by the British. The British Treasury states that agreement has been reached in principle on most of the main points in order to extend the Simon-Raynaud arrangement to the Dutch and this was confirmed by Beyen whom I happened to see at lunch in the City. Beyen has been "lent" by Unilevers to the Dutch Government and assumes the title of "financial adviser".

3. In the City and in the Treasury feelings are centered on the B.E.F. and minds are centered on what thereafter is to come.

KENNEDY

CSB

RDS

GRAY

Milan

Dated May 29, 1940

Rec'd 1:29 p.m.

Secretary of State,
Washington.

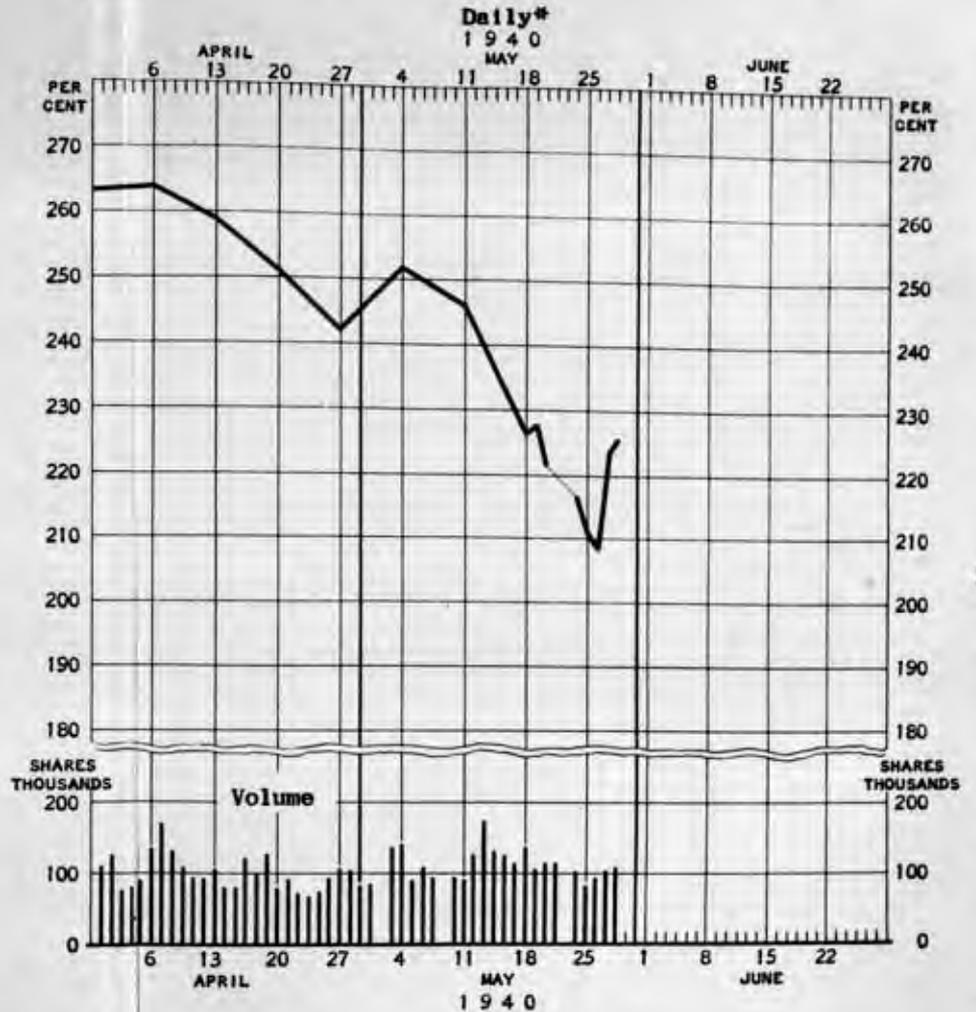
46, May 29, 5 p.m.

Today's market index 225.7. Volume 108,425
prices irregular but generally firmer in active market
which reportedly absorbed all offers without difficulty.

SHOLES

CSB

ITALIAN STOCK PRICES
(Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

MA

PLAIN

OTTAWA

Dated May 29, 1940

Rec'd 1:26 a.m. 30th

Secretary of State

Washington

114, May 29th. five thirty.

Following excerpt from official statement of May 28th by Minister of Finance relative to the foreign exchange acquisition order: "Residents of Canada who are not British subjects will not be obliged to sell their foreign currency to a Canadian Bank until June 30th."

SIMMONS

ALC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 29, 1940.

To Files
From L. W. KnocksSUBJECT: International Hydrographic
Bureau, Monte Carlo

Rear Admiral Lamar R. Leahy, the American director of the above Bureau, called today with reference to Admiral Marcos' letter of March 26 and our reply of May 15.

Admiral Leahy stated that he had been referred to me by the State Department which he claimed had advised him that in response to our inquiry some weeks ago as to the State Department's attitude towards the Bureau's request for information on earmarking of gold, it had approved the contemplated transaction. I explained to the Admiral that we had taken this matter up with the State Department in accordance with customary practice, through the Treasury Department; that the Treasury Department had notified us that if earmarking in a case like the present was contrary to our policy, a negative reply by us was in order as far as the State Department was concerned. I further mentioned to the Admiral that upon receipt of this information through the State Department, we had prepared our reply but had sent it off only after clearing it with Mr. Cochran at the Treasury who had informed us that he had seen the Secretary of the Treasury in connection therewith.

Admiral Leahy stated that the gold was held by Lloyds Bank, Ltd., London, as trustees. I suggested that rather than pursue this matter of earmarking the gold in our vaults, it would be advisable for him, in view of the urgency of the situation, to take

- 2 -

the necessary steps to have the gold shipped by Lloyds Bank, Ltd., to its New York correspondent for sale here upon arrival.

Admiral Leahy indicated that he himself was not opposed to a dollar account instead of a gold account in New York but that he would have to consult his two co-directors.

He indicated that he had, before seeing me, called on his old friend, Mr. Aldrich at the Chase National Bank, and that he was now going to talk to the New York representative of Lloyds Bank, Ltd.

LWK:KW

May 29, 1940.

My dear Mr. Secretary:

I wish to acknowledge receipt of your letter of May 24th, which sends me a copy of a communication you have written to the Federal Loan Administrator.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry A. Wallace,
Secretary of Agriculture,
Washington, D. C.

GHF:lmf

May 29, 1942.

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(Signed) H. Morgenthau, Jr.

Honorable Henry A. Wallace,
Secretary of Agriculture,
Washington, D. C.

GHF:lmf

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Honorable Henry A. Wallace,
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GMP:lmc

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(Signed) H. Morganthau, Jr.

Honorable Henry A. Wallace,
Secretary of Agriculture,
Washington, D. C.

GHF:luf



DEPARTMENT OF AGRICULTURE
WASHINGTON

Hansen
264

May 24, 1940

formal ack

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

For your information, I am enclosing a copy of a letter written today to the Federal Loan Administrator with respect to the need for taking an especially serious problem of agriculture into consideration in the development of a program for the acquisition of an emergency reserve supply of imported strategic materials.

It may be noted that the proposal made to Mr. Jones utilizes gold as the medium of exchange merely in an effort to help avoid the possible misinterpretation of the program as an ordinary extension of credit to foreign countries. The necessary gold would not be taken from the Exchange Stabilization Fund but would be obtained through regular R.F.C. borrowings. //

Sincerely,

H Wallace

Secretary

Enclosure

Hon. Jesse Jones

Administrator, Federal Loan Agency

Dear Mr. Jones:

Reference is made to our telephone conversation Wednesday in which I transmitted the President's desire that agriculture be taken into consideration in developing a program for acquiring an emergency supply of imported strategic materials.

I am advised that at a conference Wednesday afternoon of the Representatives of Treasury, Commerce, Agriculture, and the Reconstruction Finance Corporation, it seemed to be indicated that the important problem of taking the related need of agriculture into consideration probably resolves itself into a question of whether the emergency reserve supply of strategic materials would be acquired by a publicly-owned corporation or by a series of privately-owned corporations financed primarily through public loans. If, as I am advised, it is likely to prove impractical to undertake to meet reasonably the need of agriculture under the alternative of privately-owned corporations, I strongly urge that you adopt the alternative of a publicly-owned corporation which would be able to advance some form of purchasing power to foreign countries.

The recent drastic decline in the prices of farm products is an early indication of the agricultural demoralization that may be expected unless some large scale positive action is taken to maintain our export outlets. We estimate currently that in the absence of some such action, farmers may suffer a loss of as much as 50 percent of their export market in Europe even during recent years, which as you know, has been considerably below normal. The greatest losses would fall on cotton, tobacco, corn and pork products, wheat, and fruits. In the case of some crops, the loss in European outlets would be 75 percent or more of their exports to all continents. A study of the problem has shown that such great losses probably could not be offset by a maximum combination of effort through increased production adjustment, marketing agreement, export subsidy, commodity loan, and domestic consumption programs.

The vast decline in the European demand for our agricultural exports is not to be accounted for exclusively by the interruption of shipping to certain European countries or by any decrease in the actual need for farm products from the United States. In advising us of the exceedingly low purchases that we may expect from Great Britain and France this year, the representatives of these countries have emphasized what they consider to be an imperative need for conserving their currently substantial fund of purchasing power in the United States to meet military requirements in the event of a struggle lasting more than a year. It is manifest, therefore, that despite the boom that the European War may bring for American manufacturers, a serious loss is in store for American agriculture unless some arrangement can be made to provide European countries with an increase in their purchasing power in a form that could be used only for buying our farm exports.

Presumably, it is not feasible under the present circumstances to provide such an increase in purchasing power by an extension of credit to foreign countries. Fortunately, however, it has been found possible to work out a relatively simple arrangement, in connection with the contemplated purchase of strategic and critical materials, under which foreign countries could be provided with an increase in purchasing power to be used exclusively for increased exports of American farm products. Briefly, the proposal is that the President be authorized to make agreements with foreign countries for the exchange of strategic materials for gold (to be obtained not from the Exchange Stabilization Fund but through E.F.C. borrowings), and under which title to the gold could be transferred in advance of receipt of the strategic materials, provided it were used exclusively for purchase of our agricultural export products. You will recognize that there are some very significant differences between this method of providing purchasing power and the extension of credit to a foreign country, which means the acceptance of an obligation of a foreign country to deliver to us gold or its equivalent in foreign exchange; whereas the principle proposed here would be the acceptance of merely a short-term obligation of a foreign country to deliver to us the materials that it produces and that we consume.

I know also that you will fully appreciate that this problem has some relationship to the truly vital importance of strengthening the position of the United States in its efforts to prevent the spread of war, to develop our national defense, and to provide additional balances for our peace. There may be a great and sudden need for a substantial fund of additional purchasing power which could be placed at the disposal of foreign countries in advance of the earliest possible deliveries of strategic materials. It might be sufficient in the case of delicate balances to swing the scales against a further spreading of war. Moreover, it would contribute to national unity in support of the President's defense program if farmers, as well as manufacturers and laborers, were definitely included among its economic beneficiaries.

It may also be noted that the alternative of a publicly-owned corporation might avoid some of the difficulties and delays that might be encountered in working out through privately-owned corporations the negotiations that would necessarily involve foreign governments, and in developing the numerous agreements and regulations that would have to be adopted in order to prevent government losses, private speculative profits, and release of the materials at undesirable times or under undesirable terms and conditions. Moreover, the ability of a publicly-owned corporation to offer not merely cash for such strategic materials as can be delivered promptly, but also advance payments to foreign governments on materials which could not be delivered for several months, might provide an increased bargaining power for the United States, and an incentive for sellers, that would serve to bring about more reasonable prices or earlier schedules for the delivery of the strategic materials.

The enclosed draft of one possible method of taking the need of agriculture into consideration in connection with the acquisition of strategic materials, is merely illustrative of the possibilities that exist. We are in no way wedded to this particular means of effectuating the principle; and we submit it for your consideration with the thought that a better method may occur to you for accomplishing the same objectives.

Of course it may be that agriculture is in for an extremely critical time regardless of what we do. Nevertheless, I am sure you will agree that we must seize every opportunity to forestall any possible crisis. There is no thought that the proposal we have in mind would solve all of agriculture's problems; but there is a reasonable chance that it would help significantly. So far as I know it is the only proposed principle, of these current, which permits agriculture to participate with industry and labor in a strategic materials program.

Sincerely,

Secretary

Enclosure

cc: The Secretary of State
The Secretary of the Treasury
The Secretary of War
The Secretary of the Navy
The Secretary of the Interior
The Secretary of Commerce

A BILL

To provide for emergency reserve supplies of imported strategic and critical materials.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled, That this act may be cited as the Emergency Reserve Supply Act of 1940.

Sec. 2. The President is hereby authorized, on behalf of the United States, to enter into agreements with the governments of foreign countries under which foreign countries shall become obligated to transfer to the United States strategic and critical materials produced in such foreign countries or in their possessions and, in exchange therefor, the United States shall become obligated to transfer to such foreign countries title to an amount of gold aggregating not in excess of 3 1/2 per centum of the total amount of gold owned by the United States on the date of the enactment of this act. The Secretary of War, the Secretary of the Navy, and the Secretary of the Interior, acting jointly through the agency of the Army and Navy Munitions Board, shall advise the President regarding the kinds, grades, and quantities of strategic and critical materials to be acquired under such agreements to serve as reserve stocks for meeting national emergencies with respect to such materials. Such agreements with foreign countries shall be negotiated by the Secretary of State with the advice and approval of the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Agriculture, and the Federal Loan Administrator. Under such agreements, no transfers of title to the gold shall be made in advance of the transfer to the United States of the materials for which the gold is exchanged, unless such foreign governments use the gold exclusively for purchases of raw or manufactured agricultural commodities to be exported from the United States, and obligate themselves with respect to the minimum total purchases within a specified period of time of agricultural products to be exported from the United States to such foreign countries.

Sec. 3. The Reconstruction Finance Corporation is hereby authorized and directed to carry out the agreements authorized in section 2 and to hold title to the strategic and critical materials acquired thereunder. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered under existing law to issue and have outstanding at any one time is hereby increased by such amount, not to exceed \$650,000,000, as may be required to reimburse the Army and Navy Munitions Board for expenses incurred for the transportation, maintenance, rotation, storage, and other necessary services in connection with the materials acquired under the provisions of this act, and to provide for the transfer to foreign countries of title to such gold as may be required to carry out the agreements made pursuant to the provisions of section 2. The Reconstruction Finance Corporation shall render to the Congress each year a report of the net incomes or the net losses resulting from the release during the preceding fiscal year of any materials acquired pursuant to the provisions of this act. The Reconstruction Finance Corporation shall pay any such net incomes into the Treasury as miscellaneous receipts; the Secretary of the Treasury shall pay to the Reconstruction Finance Corporation any such losses from funds in the Treasury not otherwise appropriated; and there is hereby authorized to be appropriated each fiscal year for such purpose an amount equal to any such losses.

Sec. 4. The Secretary of War and the Secretary of the Navy, acting jointly through the agency of the Army and Navy Munitions Board, are hereby authorized to transport, handle, store, maintain, protect, rotate, and perform other necessary operations in connection with the strategic and critical materials acquired under the agreements authorized in section 2.

Sec. 5. Whenever the President determines that an emergency exists with respect to any strategic or critical material acquired pursuant to this act the Reconstruction Finance Corporation shall release such material in such amounts, in such manner, and upon such terms and conditions as the President shall determine.

THE SECRETARY OF THE TREASURY
WASHINGTON

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May 29, 1940.

Spinks

My dear Mr. Secretary:

receipt No
Let me acknowledge your letter of May 24th,
which sends me a copy of a communication you have
written to the Federal Loan Administrator. ~~This~~
~~material will be given careful consideration.~~

Sincerely,

Honorable Henry A. Wallace,
Secretary of Agriculture,
Washington, D. C.

Prepared by: Mr. Murphy
Mr. Tiekten
Mr. Turner
Mr. Haas

DEPARTMENT

CONFIDENTIAL

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INTER-OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau
FROM Mr. Haas *CA*
Subject: Setting for the June Financing

SUMMARY

- (1) Prices of all classes of Treasury securities declined moderately yesterday on the news of the Belgian surrender, just about cancelling the recovery which occurred last Saturday. The prices of United States Government securities are now about midway between the all-time highs of last June and last September's lows (Chart I).
- (2) The upset consequent upon recent events abroad has caused acute weakness in all organized markets. This is in distinct contrast to what happened last September (Chart II).

Despite this situation, the Treasury's immediate financing problem is not as serious as it might be. The technical position of the Government security market is strong due, on the one hand, to the pressure of excess reserves upon the banks and of mounting cash balances of insurance companies (Chart III); and on the other, to a net reduction in the volume of Government securities available in the market. Under the circumstances it would be possible to raise new cash at this time, should it appear desirable to do so.

The market appears to expect a note to be offered in exchange for the June bonds. The wide range of day-to-day fluctuations in Government security prices in recent weeks, and the desirability of giving the long-term market a rest, moreover, would counsel the offering of such an issue.

- (3) It is recommended that the June financing be confined to the offering of a note. A note in the 3 to 5 year range is suggested. Probable yield bases of the specific issues proposed are shown in Chart IV.

I. The Government Security Market

News of the Belgian surrender was followed yesterday by moderate declines in the prices of all classes of Treasury securities. Prices of Treasury bonds at yesterday's close were about the same as last Friday, however, due to the intervening recovery. The average yield of long-term Treasury bonds was 2.49 percent at yesterday's close. This yield, the same as on Friday, May 24, is the highest since last November 14.

The declines of recent weeks have brought the prices of United States Government securities, except the longer notes, to a point slightly below the halfway mark between the all-time highs of last June and last September's lows (Chart I).

With the exception of 1 - 3 year Treasury notes, which regained the level of June 5, 1939 early in January, and which have since declined almost without interruption, all classes of Treasury securities continued an upward trend from their September lows through April 3, just before the Scandinavian invasion by Germany. At this point 3 - 5 year notes were higher than they were last June, and Treasury bonds were less than a point below the June peaks.

Since April 3, Treasury bonds with over 15 years to call have suffered net price decreases of more than 4 points. Bonds with 5 - 15 years to call and 3 - 5 year notes have declined less than the longer bonds, but in proportions approximately in line with normal expectation. Most of the price declines occurred after the extension of warfare to the Low Countries and northern France.

II. The Immediate Financing Problem

The June financing will have to be carried out, it appears, in financial markets sharply upset by the shock of the recent turn of events abroad. This upset, it is noted, has by no means been a limited one, but has extended to all organized markets. It has affected gilt-edged as well as second-grade securities, fixed-interest as well as equity issues, and the commodities markets as well as the securities markets (Chart II). This is in sharp contrast to last September when stocks and commodities rose while bonds fell.

The Treasury's immediate financing problem is not as serious as it might be, however, in view of this general unsettlement, because the Government security market is now -- and has been for some months -- in an exceedingly strong technical position.

On the one hand (the demand side), financial institutions require an increased volume of investments -- the banks because of the pressure of an ever-mounting volume of excess reserves, and the insurance companies because of the rise in their cash balances (Chart III).^{*} On the other hand (the supply side), there has been a net reduction in the volume of direct and guaranteed Government securities available in the market in recent months -- the supply actually having declined by about \$300 millions since the beginning of the year.

As a result of these developments, financial institutions have not liquidated any significant volume of their Government securities during market swings in recent months. This action has reduced to small proportions the volume of Governments thrown into the market in periods of price weakness and has enabled the Federal Reserve banks to refrain from acquiring any substantial volume of Government securities during market crises this year. This is in sharp contrast to the experience of last September when the Reserve banks purchased a large volume of Government securities, and the Federal Reserve Bank of New York negotiated a gentlemen's agreement with the New York City banks to prevent attempts to liquidate portfolio positions.

In view of this technical strength it would probably be possible to raise new cash at this time despite the unsettled condition of the market. Whether such action is desirable will depend partly upon the development of the situation abroad between now and the actual financing date, and partly upon the prospective volume and timing of expenditures -- considerations which are not covered in this memorandum.

* The position of the insurance companies was discussed at some length in our memorandum of April 23, 1940, entitled "Current Developments in the High-grade Securities Markets", Section III of which dealt with the subject of "Life Insurance Companies as a Factor in the Government Bond Market".

The market appears at the present time to expect that a note will be offered in exchange for the June bonds and for the new cash, if any, to be raised at the same time. The wide range of day-to-day fluctuations in Government security prices experienced in recent weeks, moreover, would counsel the offering of such an issue, if only because its price movement during a day of bad news would be less likely to threaten the success of the financing. Aside from this consideration of safety, it may be urged also that the long-term market should be given an opportunity to recuperate from the severe shock to which it has been subjected during the past month. If it is given such an opportunity, the insurance company cash balances previously referred to ought to constitute an important element of strength in the long end of the market.

III. Who Holds the June Bonds

It would be easier to determine what type of new issue would be most attractive to the holders of the maturing bonds if we knew how their ownership was distributed. Our data with respect to such ownership -- which unfortunately are very fragmentary -- are summarized below.

1. The original holders. When the 3-3/8 percent bonds were originally issued in 1928, they were taken up in part (\$252 millions) by cash subscribers, and in part (\$107 millions) by that minor fraction of the holders of the Third Liberty Bonds -- then outstanding in the amount of \$1-1/4 billions -- who did not desire the alternatives of a short issue or cash. These bonds were undoubtedly regarded as relatively long-term obligations at that time, and a considerable proportion of them, therefore, probably found their way into the portfolios of long-term investors -- mainly individuals. (Our statistics on issues held by insurance companies, for example, indicate that only a small proportion of this issue has ever been held by such companies.)

2. Holders in 1939. The original investors, by classes at least, probably still had the 3-3/8 percent bonds last year. This follows from the data that we do have on the distribution of the issue. These data, which are shown in the table below, are striking in the small proportion of the issue reported to be held by banks.

Secretary Morgenthau - 5

Distribution of 3-3/8's of 1940-43
(Figures are for various dates in 1939)

Holder	:	Amount
	:	(Millions of dollars)
<u>Commercial Banks</u>		
New York City banks		6
22 Large national banks outside of New York City		<u>53</u>
Total		<u>59</u>
<u>Other</u>		
37 Large life insurance companies		24
Federal Reserve Open Market Account		11
200 Savings banks		5
Government agencies and trust funds		<u>1</u>
Total holdings accounted for		100
Total holdings not accounted for		<u>253</u>
Total amount outstanding		<u>353</u>

Note: Figures were supplied by the Comptroller of the Currency, the Federal Reserve Board, and Poor's Publishing Company

3. Holder at the present time. The only certain information that we have on the changes in the holdings of the maturing bonds since the beginning of the year, is that the Federal Reserve System has sold out the \$11 millions held on December 31. We are fairly certain, however, that insurance companies have not accumulated any of the bonds because they practically never buy issues selling on a negative yield basis. (These bonds have sold on a negative yield basis continuously since September 11, 1939.) It should be noted, too, that New York banks have been adding substantially to their holdings of Treasury bonds in recent weeks, and there is reason to believe that a considerable portion of the increase has consisted of maturing bonds.

Secretary Morgenthau - 6

IV. Selection and Pricing of a New Issue

It is recommended that the June financing be confined to the offering of a note. This recommendation would hold irrespective of whether the financing is confined to an exchange offer for the maturing 3-3/8 percent bonds or whether new cash is raised also.

It is suggested that the new note be in the 3 to 5 year range, the exact maturity depending upon the condition of the market when the financing decision is made. There are no outstanding note maturities of 3-1/4 years, 4-1/2 years and 5 years, respectively. On the basis of Tuesday's market, it would appear that a 1 percent note could be offered successfully for a 3-1/4 year maturity and a 1-1/8 percent note for a 4-1/2 year or 5 year maturity.

The probable yield bases and premiums of the proposed new notes are shown in the following table:

Probable Premiums on New Notes

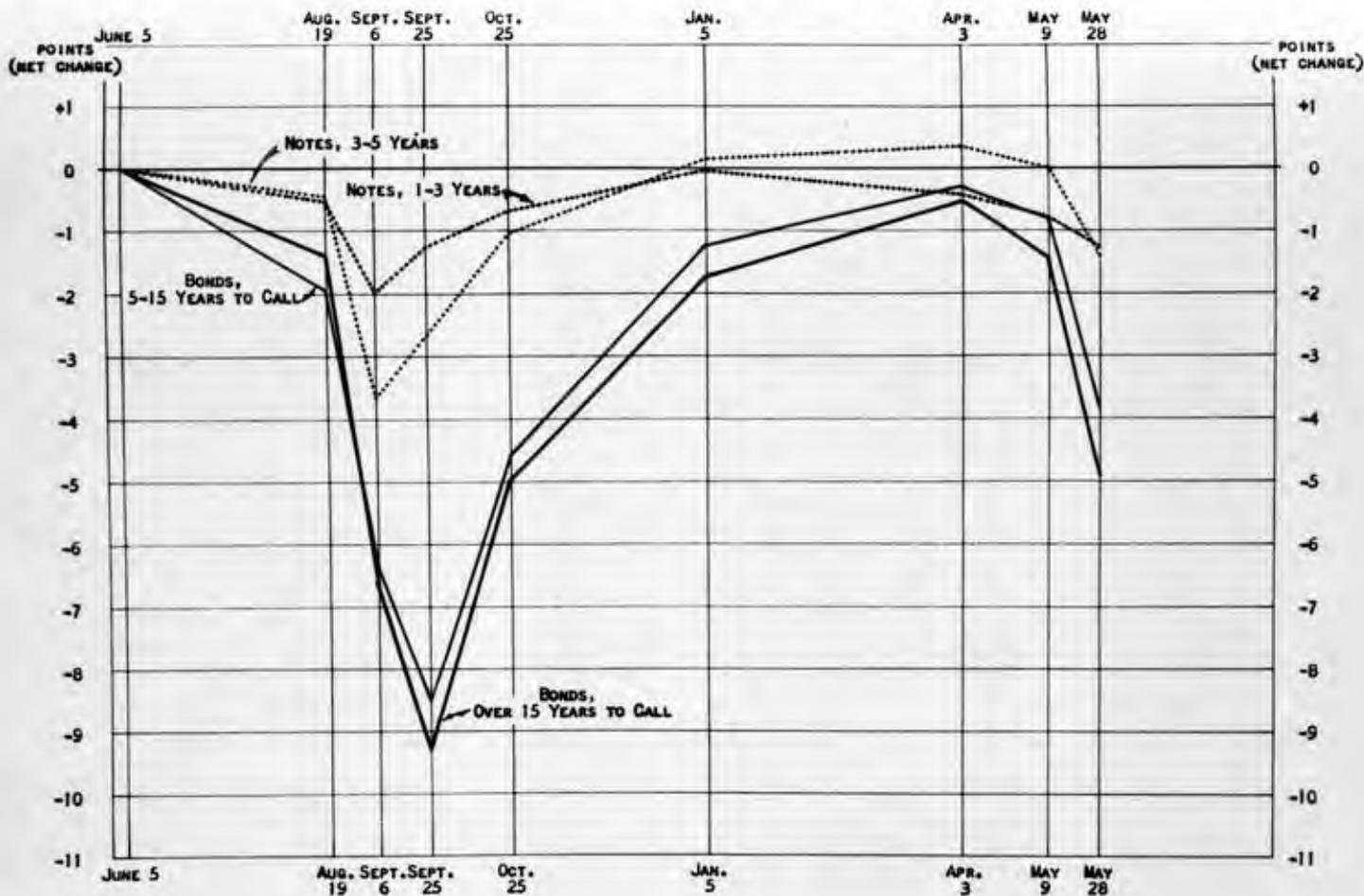
(Based on closing bids, May 28)

	: Probable : yield basis : (Percent)	: Probable : premium
3-1/4 year, 1 percent, due 9-15-43	.75	26/32
4-1/2 year, 1-1/8 percent due 12-15-44	.92	29/32
5 year, 1-1/8 percent due 6-15-45	.95	27/32

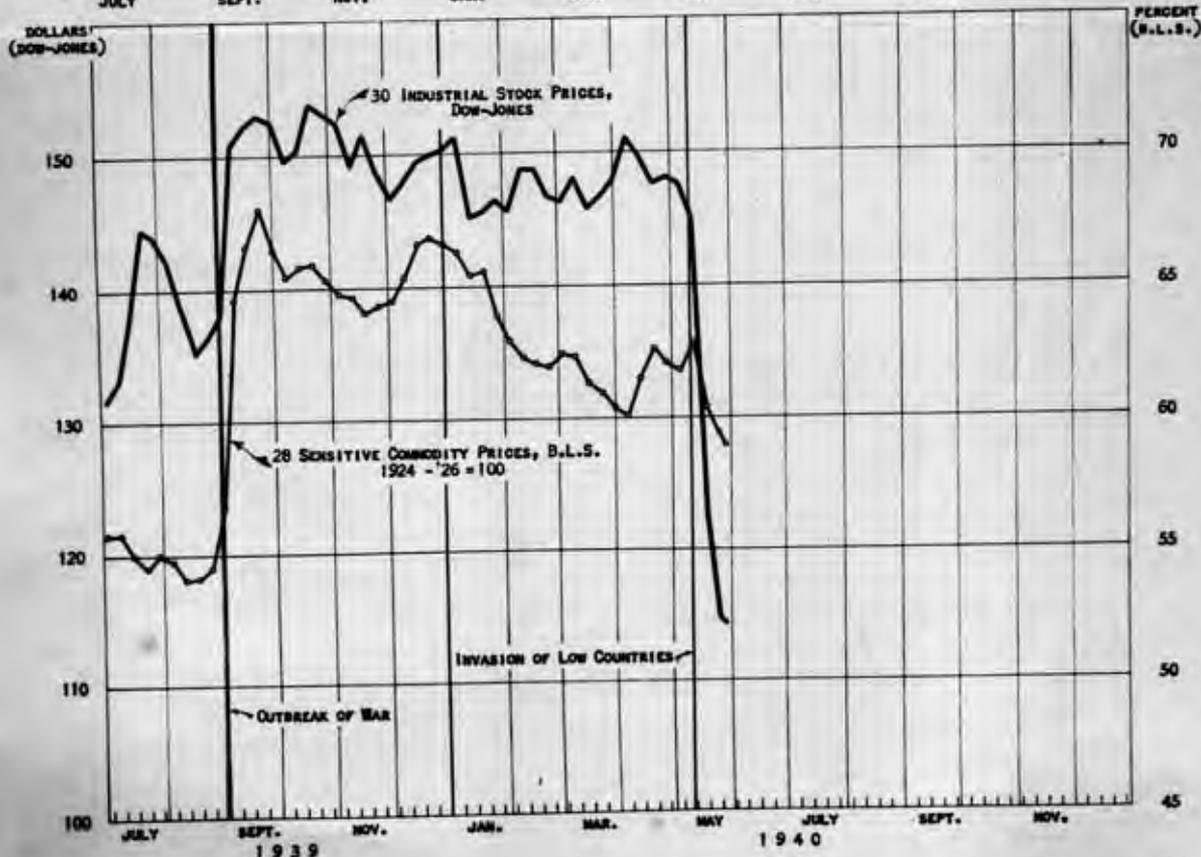
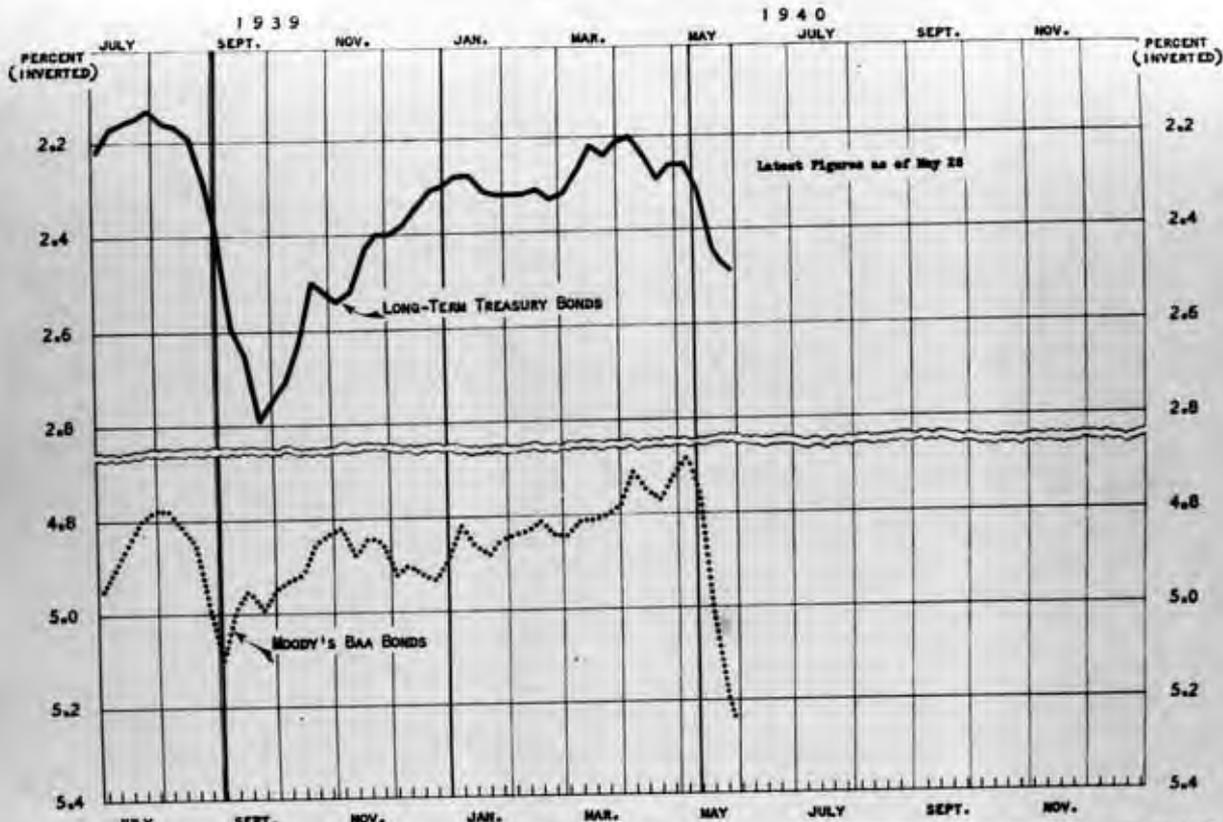
The proposed new issues are indicated in red on Chart IV, which also shows the yields of all outstanding Treasury notes based on closing bid prices, May 28.

CHANGES IN THE PRICES OF U.S. SECURITIES SINCE JUNE 5, 1939

Points Plotted Represent Differences from Average Price of Each Maturity Class on June 5.

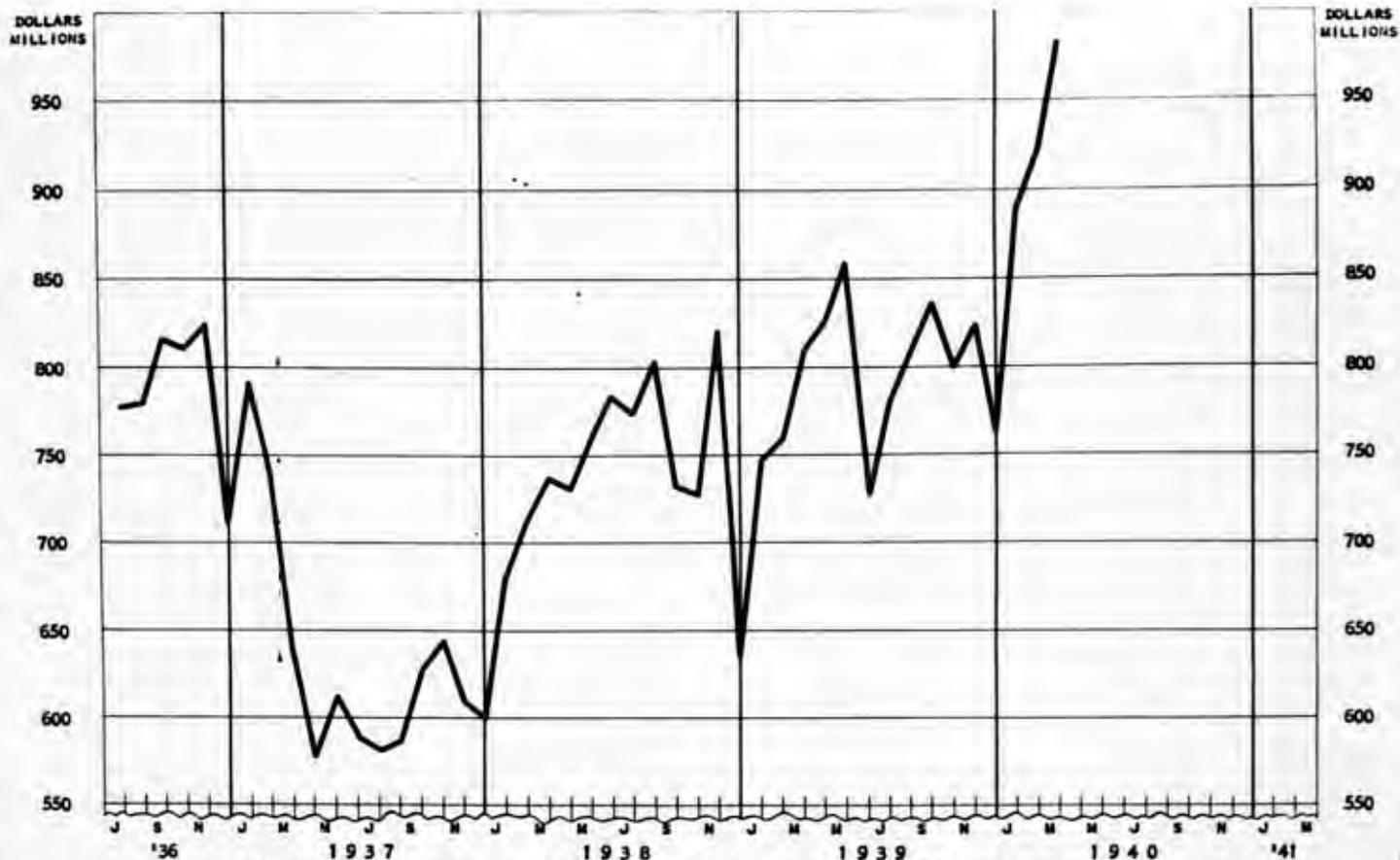


MOVEMENTS IN THE PRINCIPAL SECURITY AND COMMODITY MARKETS
SATURDAY FIGURES



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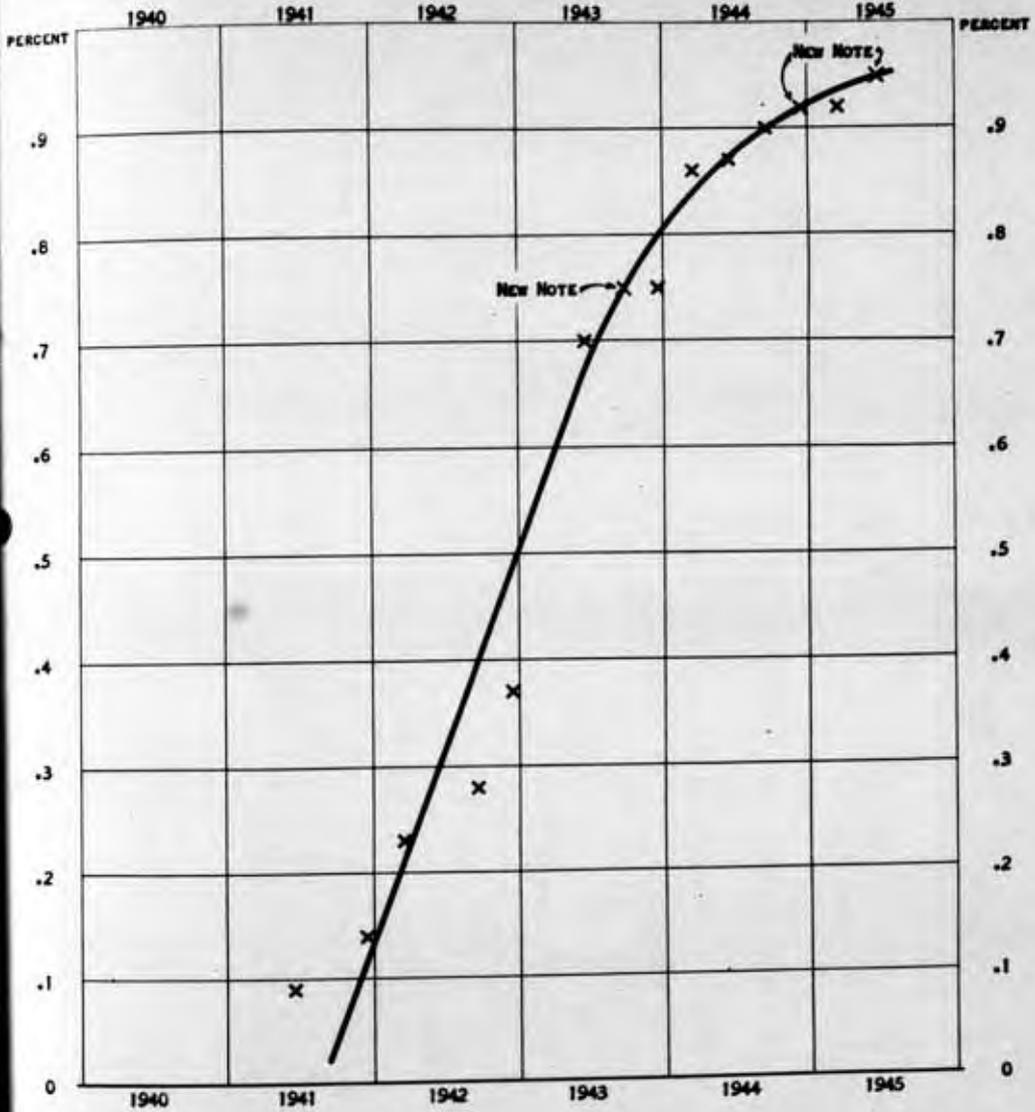
INSURANCE COMPANY* CASH BALANCES
July 1936 to Date



* DATA ARE FOR 37 LIFE INSURANCE COMPANIES WHICH HOLD APPROXIMATELY 75 PERCENT OF THE GOVERNMENT SECURITIES OWNED BY ALL INSURANCE COMPANIES OPERATING IN THE UNITED STATES.

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

Chart IV
YIELDS OF TREASURY NOTES
Based on Closing Bid Prices, May 28, 1940



May 29, 1940.

Dear Mr. Hoover:

I wish to acknowledge receipt of the following letters which I have received from you recently:

- May 21st, regarding the Carnegie-Illinois Steel Corporation;
- May 22nd, regarding Norwegian and Danish commercial shipping;
- May 25th, regarding the Newark office of the United States Treasury Accounts Office;
- May 27th, regarding the Dodge Automobile Company.

Thank you for your kindness in furnishing me with the information contained in these letters.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

BNC:laf

May 29, 1940.

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WMS:laf

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NMC:laf

JOHN EDGAR HOOVER
DIRECTOR

acked 5/29

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

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PERSONAL AND
CONFIDENTIAL

May 27, 1940



*rec'd July 28
9:14*

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

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest to you, a copy of a statement dated May 25, 1940, containing information with regard to a quantity of explosives found in the plant of the Dodge Automobile Company at Detroit, Michigan, on May 23, 1940.

Sincerely yours,

J. E. Hoover
John Edgar Hoover
Director

Inclosure

JOHN EDGAR HOOVER
DIRECTOR

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

PERSONAL AND
CONFIDENTIAL

May 27, 1940

The Honorable
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My dear Mr. Secretary:

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Sincerely yours,

John Edgar Hoover
Director

Inclosure

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

May 25, 1940

MEMORANDUM

Information has been received from officials of the Dodge Automobile Company, Detroit, Michigan, to the effect that on May 23, 1940, a small metal tin containing forty dynamite caps was discovered in an obscure place in the foundry of this plant. It has been determined that the tin when found was wrapped in an old sock and a piece of discarded wall paper. The discovery was accidental, one of the plant employees chancing upon the tin of explosives while looking for a milk bottle used by him for drinking water purposes.

A note was found inside the tin, among the explosives, as follows:

"This is all I can get. I'll have the other soon by the time you are ready for it. Watch Mike. Don't let him know too much. I must see you on the week end. Things is shaky."

Numerous castings and other materials used in the construction of auto trucks being purchased by the United States Army are manufactured in the foundry portion of the plant wherein the explosives were discovered.

For the above reason, an investigation is being undertaken by the Federal Bureau of Investigation for the purpose of determining whether this matter involves sabotage within the jurisdiction of the Federal Government.

Appropriate examinations are being conducted in the Technical Laboratory of the Federal Bureau of Investigation with regard to the materials found, in an effort to develop identifying data of possible evidentiary value.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE MAY 29 1940

TO Secretary Morgenthau
FROM Mr. Foley

Commissioner Frank delivered on April 8, 1940, an address entitled "In Time of War Prepare For Peace" before the Army Industrial College in Washington. A summary of the salient points in the address is attached.

At one point in his speech Commissioner Frank said: "Financing current armament expenditure is essentially a fiscal problem. I will not, therefore, attempt a detailed discussion of it. Even if I were qualified, it would be somewhat presumptuous for me to do so." Whereupon Commissioner Frank proceeded to a detailed discussion.

F. W. H.

Attachment

SUMMARY OF ADDRESS BY COMMISSIONER FRANK, APRIL 8, 1940

I. The methods of war finance adopted should be required (1) to perform the job with the least disturbance to ordinary financial life, and (2) to perform the job with a minimum of undesirable after-effects. The scope of war finance can not be restricted to the sphere of money or finance proper. The basic problem is to facilitate shifts in the uses of resources to produce war supplies instead of civilian goods. Any formula of war finance must be directed toward reducing the consumption of the civilian population below its peacetime level in order that what is saved in civilian consumption can be expended in war effort.

II. Until the stage of full employment of resources is reached preference should be given to those methods of war finance which induce a net increase in production and not merely a shift in production. During this period the cost of armament need not be met by new taxes or forced loans but mainly by borrowing from banks and from the idle reserves of individuals. Once the level of full productive capacity is reached, however, armament expenditure should be financed largely through taxes or through loans placed outside the banking system.

III. There is no basic difficulty in curtailing civilian expenditure on consumption and capital goods to finance estimated armament expenditures. Assuming we need to spend 15 billion dollars a year more on armaments than we are spending now (which is about the amount spent for a full year in the World War including loans to the Allies), and assuming a maximum national income in wartime of 80 billion dollars, the 15 billion could be derived by reducing expenditures (1) for the purchase of new automobiles and for the operation of old ones by 2-1/2 billion, (2) on household machinery and furnishings by 2 billion, (3) on home construction by 1/2 billion, (4) on replacements to make up for depreciation in business plants by 2 billion, (5) on current civilian consumption on non-durable goods by 3 billion, and (6) for civilian plant expansion by 5 billion.

IV. In raising the necessary funds the first principle to be observed is the reduction of purchasing power at those points where curtailment of civilian expenditure is desired. This can be accomplished by (1) heavy excise taxes on durable consumers' goods, particularly automobiles, gasoline, household equipment and luxury articles, (2) by supplementing these taxes through increasing rates for mortgage loans and stiffening terms for installment credit, (3) by controlling capital expenditures by business and by local governments, both for replacement and for expansion through supervising new issues of securities to banking institutions, life insurance companies, and other financial institutions as well as the public, and (4) curtailing capital expenditures financed out of current earnings or accumulated surplus through (a) a stiff excess profits tax, and (b) a heavy special tax on the purchase of machinery by enterprises not engaged in armament production.

V. The second principle to be applied in financing current armament expenditures is the preservation of the profit incentive. For this reason tax proposals taking away a substantial part of all incomes over \$5,000 or on war profits are undesirable, but the Treasury should claim a considerable part of

additional profits of corporations above the pre-war level by an excess profits tax and should consider increasing the rates of direct taxation on personal incomes. Even after levying special excise taxes and the excess profits tax the Treasury would still have the task of raising the great bulk of the cost of armament by a levy on the income of people of moderate means.

VI. The third principle to be applied is to meet armament expenditures by direct contributions. As an equitable manner of distributing this burden on those of moderate means, the plan of J. M. Keynes deserves attention. This plan substitutes for voluntary savings the principle of compulsory savings and its object is to avoid the danger of inflation and the danger of totalitarian rationing. It would take the place of the personal income tax and would produce about 10 billion dollars with a national income at an 80 billion dollar level through an average rate of contribution of 2% from family incomes of \$1,000 to \$1,500, increasing to 25% for family incomes of \$5,000 to \$10,000, and reaching up to 75% for incomes over \$100,000.

If between 75% and 50% of the total contribution is treated as a deferred tax credit repayable after the war for incomes below \$5,000, gradually reducing the ratio repayable to about 10% for the highest incomes, a forced loan would be levied of about 5 billion dollars. Among other advantages mentioned, this plan would reduce the rise in interest rates on Treasury securities which would otherwise occur if the war were financed mainly through open market Treasury issues.

VII. The final problem is financing the new plant equipment necessary for the production of armaments. Short term facilities would be available in commercial banks with government orders as collateral. Long term funds could be secured by the usual method subject to the supervision of a Capital Issues Committee [or perhaps the S.E.C.] supplemented by the R.F.C. and regional industrial banks. The danger of over-expansion might be avoided by permitting owners to charge off depreciation during the war. This is not advisable since the duration of the war can not be calculated or the extent to which the facilities can be profitably used after the war can not be foreseen. Where new plant equipment is adapted primarily for specific armaments, the government should have the facilities built for its own account either to be operated by the government or to be rented to private business, whichever is technically more efficient.

MAY 29 1940

Secretary Hargenthan**Mr. Foley**

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(Initialed) E. H. F., Jr.

Attachment

GLK:6
5-10-40

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III. There is no basic difficulty in curtailing civilian expenditure on consumption and capital goods to finance estimated armament expenditures. Assuming we need to spend 15 billion dollars a year more on armaments than we are spending now (which is about the amount spent for a full year in the World War including loans to the Allies), and assuming a maximum national income in wartime of 80 billion dollars, the 15 billion could be derived by reducing expenditures (1) for the purchase of new automobiles and for the operation of old ones by 2-1/2 billion, (2) on household machinery and furnishings by 2 billion, (3) on home construction by 1/2 billion, (4) on replacements to make up for depreciation in business plants by 2 billion, (5) on current civilian consumption on non-durable goods by 3 billion, and (6) for civilian plant expansion by 5 billion.

IV. In raising the necessary funds the first principle to be observed is the reduction of purchasing power at those points where curtailment of civilian expenditure is desired. This can be accomplished by (1) heavy excise taxes on durable consumers' goods, particularly automobiles, gasoline, household equipment and luxury articles, (2) by supplementing these taxes through increasing rates for mortgage loans and stiffening terms for installment credit, (3) by controlling capital expenditures by business and by local governments, both for replacement and for expansion through supervising new issues of securities to banking institutions, life insurance companies, and other financial institutions as well as the public, and (4) curtailing capital expenditures financed out of current earnings or accumulated surplus through (a) a stiff excess profits tax, and (b) a heavy special tax on the purchase of machinery by enterprises not engaged in armament production.

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STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE May 29, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

Yesterday morning Mr. Lyon, in the Division of Communications of the Department of State, telephoned me to the effect that Admiral Leahy, the American representative on the International Hydrographic Bureau, had arrived in New York, and was inquiring as to whether the Treasury had approved the request of the Bureau that its gold be received for earmarking in this country. I told Mr. Lyon that the request had been acted upon, after it had been referred by the Federal Reserve Bank of New York to the Treasury Department, and had also been discussed by the Board of Governors of the Federal Reserve System, according to my understanding. Mr. Lyon asked if he could tell Admiral Leahy the decision which was taken.

I telephoned Mr. Knoke's office in New York and obtained a copy of the reply which the Federal Reserve Bank made on May 15, to the International Hydrographic Bureau. I then called back Mr. Lyon and summarized to him the final paragraph of the letter, a copy of which is attached. I told Mr. Lyon that he was free to tell Admiral Leahy the reply which had been made, but that if the Admiral desired any further information, he should get in direct communication with Knoke of the Federal Reserve Bank. I did not feel free to pass on to Mr. Lyon, for further communication, a copy of Mr. Knoke's letter, as telephoned.

After lunch I gave the above information to Mr. Knoke by telephone, who was in agreement with the steps which I had taken.



AIRMAIL

May 15, 1940

Vice Admiral John D. Nares,
President of the Directing Committee,
International Hydrographic Bureau,
Quai de Plaisance,
Monte Carlo, Monaco.

Dear Sir:

Reference is made to your letter of March 26, requesting information regarding the importation of gold into, and its earmarking and sale in, the United States of America.

In connection with your inquiries, we are enclosing for your information a pamphlet dated June 1, 1937, issued by the United States Treasury Department and entitled "Provisional Regulations Issued under the Gold Reserve Act of 1934"; also a table of charges at the Mints and Assay Office of the United States as fixed by the Director of the Mints and approved by the Secretary of the Treasury on March 19, 1936. In reply to your questions, we wish to say that gold bars — and we confine our comments entirely to gold bars (not gold coin) since according to your letter your reserve fund is kept in gold bars — can be shipped to this country and sold by the consignee to the United States Mints or Assay Office at their current purchase price of \$35 (less 1/4 of 1%) per troy ounce of fine gold less the usual Mint charges (see article 6, sections 35, 36, 37, 40 and 42 of the enclosed pamphlet). The Mint charges are set forth in the enclosed table. An advance payment of from 90 to 98% of the value of the gold is usually made immediately and the balance is paid after the gold has been assayed. There would be certain charges which would necessarily be incurred by the consignee in connection with such transactions for truckage, insurance, etc., and the consignee's handling charge. Most of our commercial banks are thoroughly familiar with operations of this nature and would undoubtedly be glad to handle the consignment for you.

As regards the earmarking of gold, we wish to say that such earmarking in the United States is prohibited except under license issued with the approval of the President by the Secretary of the Treasury (see page 16 Section 34 of the pamphlet). Only one such license has been issued and this license authorizes the Federal Reserve Bank of New York to earmark gold for foreign central banks or foreign governments. The earmarking for non-monetary authorities is therefore not covered by this license.

Trusting that this reply covers all the questions raised by you, we remain,

Faithfully yours,

/s/ L. W. Knobe,
Vice President.

Received by phone from Mr. Knobe's Secretary - May 26, 1940
ka

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

294

INTER-OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

I told Mr. Knoke at 9 o'clock this morning of the receipt by the Treasury Department late last evening of the letter of May 28 from Assistant Secretary of State Berle, enclosing a copy of communication No. 3394, from the Minister of The Netherlands in Washington in regard to the decree issued from London on May 24 with respect to the property of Netherlands individuals and companies abroad. My secretary read the communication to Mr. Knoke's secretary. I explained to Mr. Knoke that I was calling him purely for the purpose of giving him information as quickly as possible, but that a formal communication on the subject should be awaited from our Legal Department.

At the suggestion of Mr. Bernstein, to whom the original letter was passed on last night, I have asked Mr. Livesey of the State Department to let us have, as soon as it may be available, the full text of the decree to which The Netherlands Minister referred.



TREASURY DEPARTMENT

235

INTER OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I asked Mr. Knoks today as to what action the Federal Reserve was ready to take with respect to the request of the British Government that the accounts of the Bank of England with the Federal Reserve Bank of New York be converted into "His Britannic Majesty's Government account". I had forwarded copy of the British Embassy memorandum on this subject to Mr. Knoks.

Mr. Knoks replied that Mr. George Harrison was in Washington today and hoped to discuss this question with Secretary Morgenthau and the Board of Governors of the Federal Reserve System.

Unless the Secretary may instruct us that some decision to the contrary has been taken, I feel that we should indicate to the Federal Reserve Bank of New York by letter, as in the case of Vatican gold, our interest in seeing an account opened along the lines desired by the British, after the terms of such a communication have been agreed upon by Treasury and Federal Reserve Bank lawyers.

Knoks would like for us to indicate our desires with respect to new legislation to meet the problem which he feels confronts the New York Bank, but I am confident that Mr. Eccles will agree with the Treasury that no legislation is necessary. But it is for the Board, I assume, rather than for the Treasury, to give specific advice or instructions to the Bank at New York on this point of legislation.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

236

INTER-OFFICE COMMUNICATION

DATE May 29, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Irigoyen, formerly Financial Counselor to the Argentine Embassy in Washington and now serving in the Ministry of Finance of Argentina, telephoned me yesterday afternoon from Buenos Aires. He desired the latest political and market information.

I summarized to Mr. Irigoyen the developments on the American security and commodity markets, and also gave data with respect to foreign exchange, as well as the latest ticker news on the international political situation.

In answer to Mr. Irigoyen's inquiry I told him that there was no panic on the American market. In answer to his further inquiry, I told him that there was no reason to expect the closing of our markets, unless something absolutely unforeseen might happen. I admitted that there had been some advocacy a few days ago when the situation first became quite serious, in favor of closing our markets. I told him that the Treasury was opposed to such steps, that nothing had been done, and that the market had taken pretty good care of itself.

Irigoyen said there was no panic in Buenos Aires, but that they were much disturbed over the loss of their European markets as a result of war developments.



PARAPHRASE OF TELEGRAM RECEIVED FROM AMERICAN EMBASSY, LIMA, PERU, DATED MAY 29, 1940, 4 p.m.

No. 61.

Refer to your no. 49 of May 24, 4 p.m.

1. The position of principal reserve bank items, as of May 25, 1940, is as follows:

	<u>Soles</u>
a- Intangible gold	38,784,832
Gold in vault	1,733,089
Gold in transit	4,483,903
Gold abroad	none
Deposits payable in gold	501,335
b- Silver	1,064,893
c- Rediscounts to commercial banks:	
Under law 6745	774,374
Under law 7538	517,500
Under law 8512	17,712,347
d- Discounts to agricultural and industrial banks	2,120,000
e- Discounts to treasury, law 8612	33,656,340
f- Note circulation	124,157,454
Deposits by banks	32,377,895
Various deposits	5,551,114
Miscellaneous obligations	498,453

2. See Commercial Attaché's reports of February 9 ("Trends of Peruvian Foreign Commerce during 1939"), April 12 ("Trends of Peruvian Foreign Commerce in January, February 1940") and May 14 (Continued firm trend in trends of Peruvian foreign commerce), for the latest export and import statistics.

3. See Consul General's report dated February 27 under Balance of International Payments of Peru for 1938, for the most recent information regarding the earnings of American capital.

-2-

4. The Consensus of opinion (including that of the managers of Reserve Bank, Italian Bank and National City Bank) is that there is very little, if any, back-log of commercial exchange.

5. Despatch no. 109 of May 23, which is leaving by air mail pouch on May 31, will contain more detailed information.

NORWEB

EA:MSG

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

237

INTER-OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Yesterday evening Mr. Knoks telephoned me from New York requesting that I make available to the Federal Reserve Bank any information which I might obtain from the Department of State in regard to the Belgian Government, and our attitude with respect thereto.

At 9 o'clock this morning I telephoned Mr. Lewis Clarke, in charge of the Belgian desk in the Department of State. I told him that I had noted in the press a report of a message delivered yesterday by the Belgian Ambassador to Assistant Secretary of State Berle, indicating the intention of the Belgian Embassy in this country to stand by the Belgian Government with headquarters in France. I asked Mr. Clarke if the State Department had issued any press communiqué upon the Belgian situation, or had any documents on the subject which could be passed on to us in the Treasury, for our information and possible further transmission to the Federal Reserve Bank at New York. Clarke said he would look into the matter.

At 9:30 Assistant Secretary of State Berle telephoned me. Mr. Clarke evidently had mentioned my inquiry to Mr. Berle. The latter stated that he would send me this morning a copy of the communication which the Belgian Ambassador had delivered to him. He described the statements, which I presumed were in addition to the communication reproduced in the press, made by the Belgian Ambassador, to the effect that the King was a prisoner, that the Belgian Government was intact, and that the National Bank of Belgium was functioning in Paris.

Mr. Berle stated that the question of new official recognition for Belgium did not arise at the moment. The Department of State will continue to have official contact with the present duly accredited Belgian Ambassador to this country. Mr. Berle recalled that Belgian law had anticipated the possible functioning of the Government and of the National Bank of Belgium outside of Belgium, and he saw no reason to change our relations with the National Bank of Belgium as it is now operating from Paris. In answer to my question, Mr. Berle thought that the Treasury Department should continue its operations with respect to Belgian assets as heretofore, consulting with the Belgian Embassy in this city when appropriate.

Mr. Berle told me that there had not yet been a group meeting in the Department of State on the question of the status of Belgium, its King and its Government. Should such a conference result in any alterations in the above views, he would let me know.

I told Under Secretary Bell at 9:45 this morning of my conversation with Mr. Berle, and also informed Mr. Bernstein at 9:50.



TREASURY DEPARTMENT

298

INTER-OFFICE COMMUNICATION

DATE May 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Sterling experienced an improvement today. After opening at 3.16, the pound moved erratically during the morning trading. By noontime, it was quoted at 3.17-1/8. In the afternoon, the rate moved steadily upward to a high of 3.20-5/8 just before the close. The closing quotation of 3.20-1/4 was 2-1/4¢ higher than yesterday's closing rate.

Sales of spot sterling by the six reporting banks totaled £455,000, from the following sources:

By commercial concerns.....	£157,000
By foreign banks (Europe and South America).....	£298,000
Total.....	£455,000

Purchases of spot sterling amounted to £510,000, as indicated below:

By commercial concerns.....	£305,000
By foreign banks (Far East and Europe).....	£205,000
Total.....	£510,000

The following reporting banks sold cotton bills totaling £178,000 to the British Control on the basis of the official rate of 4.02-1/2:

£174,000 by the Guaranty Trust Company
4,000 by the Irving Trust Company
<u>£178,000 Total</u>

Of the cotton bills sold by the Guaranty Trust Company, £170,000 came from one leading cotton broker. In all probability, this concern made substantial shipments to England in the knowledge that cotton dispatched before tomorrow will not require a British import license. Such a license will have to be obtained from the British authorities for cotton shipped to England on or after May 30, according to a British Board of Trade order issued last Monday.

Developments in the other currencies were as follows:

The course of the French franc was similar to that of sterling. The franc closed at .0181-5/8. Yesterday's depreciation of the franc in terms of the pound was cancelled today, and the final cross-rate was 176.32 francs per pound.

The Swiss franc was steady and closed at .2243.

There was little movement in the Canadian dollar. The closing discount for that currency was 21-1/2%.

The lira and the reichsmark were unchanged at .0505 and .4000 respectively.

The yuan in Shanghai was unchanged at 5-1/2%.

The improvement in the Cuban peso came to a halt today, and the discount widened slightly to 8-15/16%. The Mexican peso was again quoted at .1672.

We purchased \$700,000 in gold from the earmarked account of the Central Bank of the Colombian Republic.

The Federal Reserve Bank of New York received a cable from the B.I.S. requesting it to obtain license to transfer \$1,936,000 in gold from B.I.S. Account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia. Gold in B.I.S. Account No. 2 is the property of that institution. The Federal also received a cable from the Yugoslavian bank instructing it to receive and earmark this gold. The Treasury authorized the Federal Reserve Bank to make this transfer.

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

\$5,114,000 from Canada, shipped from Vancouver by the Bank of Canada, Ottawa, for account of the Bank of England. This gold is consigned to the Federal Reserve Bank of San Francisco, and it will be sold to the U. S. mint there.
1,450,000 from Spain, shipped by the Spanish Institute of Foreign Exchange, Madrid, to the National City Bank, New York, for sale to the U. S. Assay Office.
\$6,564,000 Total

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

\$137,000 from Hong Kong, shipped by the Chase Bank, Hong Kong, to the Chase National Bank, New York.
33,000 from England, shipped by Sharps and Wilkins, London, to Barclays Bank, New York.
28,000 from England, shipped by Sharps and Wilkins, London, to the Chase National Bank, New York.
4,000 from England, shipped by the National Provincial Bank, Ltd., London, to the Guaranty Trust Company, New York.
\$202,000 Total

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

CONFIDENTIAL

On the report of May 22 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, the total position of all currencies was short the equivalent of \$19,129,000, an increase of \$2,712,000 in the short position. The net changes in the positions are as follows:

COUNTRY	SHORT POSITION	SHORT POSITION	INCREASE IN
	MAY 15	MAY 22	SHORT POSITION
England	\$ 4,929,000	\$ 6,388,000	\$1,459,000
Europe	8,181,000	8,505,000	324,000
Canada	641,000 (Long)	614,000 (Long)	27,000 (Decrease in Long Position)
Latin America	173,000	221,000	48,000
Japan	3,441,000	3,404,000	37,000 (Decrease)
Other Asia	342,000	1,099,000	757,000
All Others	8,000 (Long)	126,000	134,000
Total	\$16,417,000	\$19,129,000	\$2,712,000

The outstanding feature of the above figures is the advance of \$1,459,000 in the sterling short position. This change was almost wholly the result of an increase in sterling commitments of one leading New York bank.

The Bombay gold price again experienced a sharp decline. Today's dollar equivalent was \$36.81, a decrease of \$1.17.

The Bombay spot silver quotation fell the equivalent of 13/16¢ to 44.96¢. According to yesterday's Department of Commerce statement of daily silver exports and imports, two shipments of refined silver bullion totaling 196,000 ounces were exported from New York to Bombay. These are the first exports of silver to India that have been reported since January 22.

In London, the prices fixed for spot and forward silver were unchanged at 22d and 21-1/2d respectively. The U. S. equivalents, calculated at the open market rate for sterling, were 31.48¢ and 30.52¢. On the basis of the official sterling-dollar rate, the spot price was equivalent to 40.00¢.

Handy and Harman's settlement price for foreign silver was unchanged at 35-5/8¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

The only purchase of silver made by us today consisted of 65,000 ounces from the Bank of Canada under our regular monthly agreement. Today's purchase raises the total amount bought from that source during May to the agreed monthly limit of 1,200,000 ounces.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 30, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me this noon from his home. He had received a telephone call from Mr. Bolton of the Bank of England, in which the latter stated that he was sending Knoke a cablegram on the subject of official quotation of sterling on the New York market. Bolton explained that this matter had been the subject of an exchange of views between our Treasuries.

I gave Knoke for his confidential information a brief summary of our recent conversations with the British Embassy which resulted from the memorandum of May 24 in which Mr. Pinsent presented a communication from the Chancellor of the Exchequer. We had not spoken to the Federal before on this subject, preferring not to raise the question of the official quotation alone being published, until the British shall have actually taken the steps which they plan.

May 30, 1940
9:33 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Sen. Robert Wagner: Henry?

H.M.Jr: Yes, Bob.

W: Good morning.

H.M.Jr: Good morning.

W: Say, I was going to ask you this. We've got this thing before our Committee, you know, among other things -- a number of things and of \$300 million, you know? You know what I mean?

H.M.Jr: Ah, \$700 million.

W: Well, this particular bill involves \$300 million.

H.M.Jr: Yeah.

W: Now, there're some amendments coming. In view of the fact that you're going to increase your debt limit do you think that you want that anyway?

H.M.Jr: Gosh, I'd have to ask the President on that.

W: Yeah. Well, then I'll go along anyway until I get word from you that there should be a change. Is that it?

H.M.Jr: You'll continue to go along.

W: Yes, I'll continue to go along on the bill. You see, we got it up this morning in the Committee.

H.M.Jr: Yeah. I'd go along -- ah --

W: Unless I hear from you.

- 2 -

H.M.Jr:

That's right.

W:

I'll tell you why. Some of the members of the Committee said to me yesterday -- ah -- well, if you're going to increase this debt limit by \$3 billion, what do you want this for?

H.M.Jr:

I understand.

W:

We have a lot of argument about bookkeeping and all that, but I'm prepared to go along with it, Henry, -- ah -- if you want it.

H.M.Jr:

Well, Bob, I'd continue shoving the bill until I get a chance to talk to the President.

W:

All right.

H.M.Jr:

Thank you.

W:

All right.

H.M.Jr:

Thank you.

W:

Good-bye.

May 30, 1940
4:03 p.m.

John
Sullivan: Yes? Wait a minute.

Operator: Go ahead.

H.M.Jr: Hello.

S: Yes, Mr. Secretary.

H.M.Jr: Have you got some information for me?

S: No. I was going to ask you, sir, if that extra billion dollars was to go into our figures. You told

H.M.Jr: They don't know because the Navy's in there now trying to figure it out, so Danny Bell will try -- have to get it from the Director of the Budget and it won't go up until noon tomorrow anyway so I'll have to say -- well, they'll say what about this other, and what I think I'll have to say is, well, I understand -- I understand it's going to be for a billion dollars or whatever it's going to be.

S: Then your statement today would be that it'll be this much exclusive of any other appropriations now being considered.

H.M.Jr: That's right.

S: Right-o.

H.M.Jr: That's right.

S: Thank you, sir.

H.M.Jr: And get it to me tonight at the house so I can practice reading it.

S: Yes, sir.

H.M.Jr: Please.

S: Right.

H.M.Jr: And will you take the responsibility of telling Bell when he comes back from the Hill to try to find out either tonight or tomorrow morning?

S: Mr. Bell -- Mr. Bell is here now. And you want him to find out

H.M.Jr: Let me talk to him, please.

S: Yes. (Aside) Mr. Bell, the Secretary.

Daniel
Bell: Bell.

H.M.Jr: Dan.

B: Yes, sir.

H.M.Jr: Harold Smith told me the first he knew about this extra Army appropriation of \$700 million was when he heard it on the radio last night

B: That's right. I understood that.

H.M.Jr: and that they are now in with the President and Navy arguing about their appropriation.

B: Yeah.

H.M.Jr: Now Harold said he'd know either tonight or tomorrow morning how much it took. Now inasmuch as the President certainly doesn't go up until noon, I'll just have to leave mine as is and simply say if anyone should ask me, I understand that it's going to be in the neighborhood of so and so much.

B: Yeah..

H.M.Jr: Do you see?

B: This is on the basis of what's now pending in Congress.

H.M.Jr: That's right.

- 3 -

B: And -- but I understood today that it's gone up that's the reason

H.M.Jr: No, no, no. There's nothing there. Harold's sitting there tearing his hair out.

B: (Laughs) All right, I think that's the way to handle it.

H.M.Jr: Aren't you glad you're in the Treasury?

B: I am -- I'm very much relieved. I even don't mind working today.

H.M.Jr: O. K. (Laughs)

B: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

There is quoted herewith the following item which appeared in the press under a New York date line of May 29:

"The German consulate general announced yesterday that American holders of 5 1/2 per cent International Loan Bonds of 1930 (Young Plan) would be paid settlements on their coupons June 1.

'The purchase price,' said the consulate, 'will be \$20 per \$27.50 face amount of the coupon.'

The previous payment was last December 1.

Payments will be made, it was announced by J. P. Morgan & Co., Inc., or by any of the American offices of the Hamburg-American Line."

It may be that the transfer which we have spoken of recently involving \$9,000,000 coming from Italian account to the German Consul General in New York may have been in part to provide for this service on German bonds held by American citizens.

From various sources it is indicated that Germany is repurchasing to some limited extent some of its securities on the American market, such as the Dawes and Young bonds. The prices therefor have recently risen. If the American holders are anxious to sell, this gives them a small market. Furthermore, Germany continues to transfer dollars on account of the Lee Higginson credit and under the "Standstill" arrangement.

Sometime ago the report was current that the Germans, perhaps through Westric, were offering Latin American securities to United States holders of German securities, upon the condition that a certain amount of free dollars be provided by the United States holders in making the trade. Insofar as my contacts know, there has been no important business of this sort transacted.

A. M. J.

TREASURY DEPARTMENT 308
Office of the Under Secretary

To..... SECRETARY MORGENTHAU

This is a reply to Mr. Welles
upon which Messrs. Viner,
Cochran and I have agreed,
with the belief that such an
answer is preferable to a
conference.

D
HWB
.....
Under Secretary.

....., 193

MAY 30 1940

My dear Sumner:

I appreciate fully the weight of the considerations presented in your letter of May 23 in favor of giving financial assistance to the economies of the Latin American countries in the present emergency, and I am in principle warmly sympathetic to such action. In the light, however, of the stated purposes of the Stabilization Fund, of my pledges to Congress as to the manner in which I would administer this Fund, and of the possible emergency demands which the Fund may at any moment be called upon to meet, I still find myself wholly unable to give my sanction to the use of the Fund for the above purpose, especially since the availability of other and more regular procedures for accomplishing the objectives which you contemplate still remains unexplored. The Congress is in session and has shown itself ready to give prompt and sympathetic consideration to requests from the Administration for action to meet present emergency developments. It seems to me that the proper procedure would be to ask the Congress to authorize financial assistance to the Latin American countries out of funds to be specially appropriated for the purpose, and in conformity with such lines of policy and such limitations and safeguards as the Administration and the Congress can agree upon. The Treasury Department would be happy to cooperate with your Department in the drafting of the legislation which would be necessary.

May I also make it clear once more that if any concrete proposals should reach me for use of the Stabilization Fund in aiding particular Latin American countries to maintain stability of the exchange value of their currencies vis-a-vis the dollar, I would give the most sympathetic consideration to such proposals in so far as they could be carried out in conformity with the stated purposes for which the Fund was set up and consistently with the principles which have hitherto governed the administration of the Fund.

Yours very sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

By Messenger

The Honorable
Sumner Welles,
Under Secretary of State.

HMS:ear:5, 29, 40
J.M.F. JWB

MAY 30 1940

My dear Sumner:

I appreciate fully the weight of the considerations presented in your letter of May 23 in favor of giving financial assistance to the economies of the Latin American countries in the present emergency, and I am in principle warmly sympathetic to such action. In the light, however, of the stated purposes of the Stabilization Fund, of my pledges to Congress as to the manner in which I would administer this Fund, and of the possible emergency demands which the Fund may at any moment be called upon to meet, I still find myself wholly unable to give my sanction to the use of the Fund for the above purpose, especially since the availability of other and more regular procedures for accomplishing the objectives which you contemplate still remains unexplored. The Congress is in session and has shown itself ready to give prompt and sympathetic consideration to requests from the Administration for action to meet present emergency developments. It seems to me that the proper procedure would be to ask the Congress to authorize financial assistance to the Latin American countries out of funds to be specially appropriated for the purpose, and in conformity with such lines of policy and such limitations and safeguards as the Administration and the Congress may agree upon. The Treasury Department would be happy to cooperate with your Department in the drafting of the legislation which would be necessary.

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Yours very sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable
Sumner Welles,
Under Secretary of State.

By Messenger / *o' / jw*

WHD:amr:5.29.40



DEPARTMENT OF STATE
WASHINGTON

May 23, 1940

311
Take to our plane
DWB

Personal and
Confidential

My dear Henry:

In view of the rapid developments in Europe of the past few weeks, the Department has been giving renewed consideration to the repercussions which these developments may be expected to have on the economies of the other American republics, their influence on commercial and financial relationships between the United States and the other American republics, and the resulting effects on the domestic economic structure of the United States. Prior to the war Europe had provided a market for more than half of the exports of the other American republics, and the shutting off or change in character of such a large market may be expected to result in financial demoralization, with producers unable to sell their products, foreign currencies not available to pay for needed imports, exchange weakness, and severe fiscal difficulties.

It

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

It is the Department's belief that the United States Government should undertake to assist the other American republics in the face of such a situation, both in keeping with our broad program of inter-American economic cooperation and with a view to mitigating the effects on the domestic economy of the United States of economic dislocation in the other American republics. The maintenance of stability in the Western Hemisphere is rendered especially important by recent events in Europe, and in the other American republics political stability is greatly influenced by the state of economic well-being.

In order to cushion the shocks mentioned above and to bridge the immediate situation, there is required speedy and extensive action to cooperate with and assist the fiscal and monetary authorities of the other American republics. The agency best equipped to undertake rapid measures to make dollar funds available under appropriate conditions to such authorities would appear to be the Stabilization Fund.

It is the view of the Department that such assistance is primarily of short term and transitional benefit, and that lasting improvement in the economic situation of the other American republics will result only from the
successful

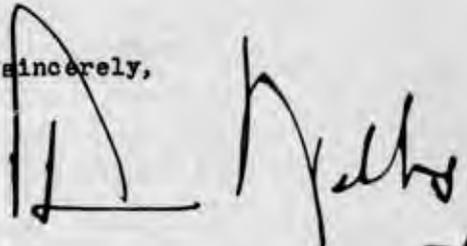
successful execution of long run projects which will develop their natural resources and national economies. To this end, efforts must be made to move rapidly with the several projects of this type now being considered by this Government.

I fully understand the position you have taken that in view of all the many circumstances involved the Stabilization Fund should not enter into operations of this kind. And I also realize that you feel that you have made a commitment in this regard to the Senate and House Banking and Currency Committees. Events, however, have moved so rapidly in the international situation and with possibilities of such serious consequences, that I wonder whether you would not be willing to consider a reexamination of these matters in the light of present circumstances.

In any event, after you have had time to think over this letter, and when you have a free moment, I would welcome the opportunity of talking with you personally about the question.

Believe me

Yours very sincerely,

A handwritten signature in dark ink, appearing to read "D. D. Eisenhower". The signature is written in a cursive, somewhat stylized hand. The first part of the signature is a large, looped "D", followed by "D.", and then "Eisenhower" in a more fluid cursive script.

EX
MAY 31 1940

10 JAN 2 1940
MAY 31 1940

GRAY

Milan

Dated May 30, 1940

Rec'd 7:55 p.m.

Secretary of State

Washington

48, May 30, 10 p.m.

Market index 221.07. Volume 72,425.

Today's prices generally lower but sustained
at close foreshadowing possible awaited improvement.

SHOLES

KLP

MA

GRAY

Copenhagen

Dated May 30, 1940

Rec'd 7:27 a.m.

Secretary of State

Washington

322, May 30, noon.

Supplementing bill to Danish foreign exchange control law passed by Parliament on May 20 represents mobilization of all Danish foreign exchange reserves by demanding that commercial enterprises and all citizens domiciled in Denmark offer any foreign exchange held by them here or abroad to the National Bank with compensation in Danish kroner.

Inform Commerce.

ATHERTON

RR

HA

GRAY

Paris

Dated May 30, 1940

Rec'd 5 p.m.

Secretary of State

Washington

960, May 30, 6 p.m. (SECTION ONE).

FOR THE TREASURY.

As member of my staff discussed evacuation plans with Pearce of the National City Bank and Saint Germain of the Guaranty Trust this afternoon. They said that a decentralized scheme had been evolved by the Bank of France and the Ministry of Finance which provides that in the event of the evacuation of Paris their various sections and departments are to be scattered throughout the area to the south and west of Vichy. The Guaranty, Morgan and the National City Bank have been assigned a chateau at Chatel - Guyon Department de Puy-de-Dome where the foreign exchange office is to be located. The Chase Bank would be in the same neighborhood. The American banks would also have representatives at Le Puy. The Paris Bourse would be transferred to Vichy. Pearce said that the National City had started to send typewriters, adding machines, et cetera to the South as he felt that it would be impossible to have any equipment moved if an evacuation of Paris were ordered.

BULLITT

KLP

ATP

GRAY

PARIS

Dated May 30, 1940

Rec'd 6:10 p.m.

Secretary of State
Washington

960, May 30, 6 pm (SECTION TWO)

A decree published in today's Journal Officiel outlines the procedure to be followed by French residents in the event that their securities are lost or stolen because of the war. In the case of French bearer securities the owner must send by registered mail to the entity which issued the securities a certified statement containing (A) a full description of the securities, (b) the circumstances under which they were lost or stolen, and (C) a protest against the dividends or coupons being paid to any other person. A copy of this statement must also be sent to the Bourse Stock-brokers Association which will then publish it in the Bulletin Officiel Des Oppositions for the period of the war and in the year following the termination of hostilities. If the stolen or lost securities were deposited in a bank the owner must furnish the issuing entity with the deposit receipt received from the bank.

a statement

-2- #960 May 30 6:10 pm from Paris

A statement similar to that described above must be sent to the fiscal agents in France charged with the servicing of foreign bearer securities.

KLP

BULLITT

ATP

GRAY

313

Paris

Dated May 30, 1940

Rec'd 4 pm

Secretary of State,
Washington

960, May 30, 6 pm (SECTION THREE)

A second decree provides that bills of exchange, notes and warrants may be protested for non-payment any time within a period of 15 days following the date on which they fall due. Heretofore protests had to be made not later than the day following the date of maturity.

In a note to intermediaries the foreign exchange office stipulates that the decree requiring the deposit of American and Canadian securities (see telegram No. 786, May 21, 7 pm) is also applicable to securities issued in other foreign countries which contain a clause providing for an optional payment in American or Canadian dollars.

Bank of France statement for the week ending May 16 shows that commercial discounts increased sharply by 8 billion francs. Thirty day advances rose by 1 1/2 billion. The Treasury drew up to advance account with the bank to the extent of 3 1/2 billion francs. Note circulation rose by 564 million francs to a total of 166,696 million.

Market

-2- May 30, 1940 4 pm from Paris

RECEIVED
BUREAU DEPARTEMENT
DES AFFAIRES
ECONOMIQUES

Market declined slightly today. Rentes lost an average of 50 centimes. Most French securities registered moderate declines. Internationals were irregular. Suez lost 470 as contrasted with an increase of 100 in yesterday's trading.

(END MESSAGE)

BULLITT

KLP

May 30, 1940
4:08 p.m.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Operator: He was on there, just a second.

William
McReynolds: McReynolds.

H.M.Jr: Yeah. Hello Mac.

McR: Lester Knudsen wanted to know if it would be possible for him to see you at half past five.

H.M.Jr: No. It would not.

McR: Will you have any time this evening?

H.M.Jr: Well, I'm just shot, Mac.

McR: Oh.

H.M.Jr: Ah -- and

McR: Well, maybe it's just as well. We can wait.

H.M.Jr: Oh, I tell you what I'd like to do. Is he with you now -- in the room with you.

McR: Yes, I've got the whole Commission in.

H.M.Jr: Well, I mean, I'm just completely shot, I mean, these fellows come down and

McR: Yeah.

H.M.Jr: ah, what I'd like to do is to see you at 9:00 o'clock Monday morning that's what I'd like to do.

McR: that far off.

H.M.Jr: No. I mean, I'm going on the Hill to testify. Mr. Edsel Ford comes in at 8:45 tomorrow morning.

- 2 -

McR: Oh, I see.

H.M.Jr: Tell them that Edsel Ford at 8:45 tomorrow morning, 10:00 o'clock on the Hill and then Cabinet, but I'll be ready at 9:00 o'clock Monday morning.

McR: Monday morning, O. K. We'll do it on that basis.

H.M.Jr: What?

McR: We'll do it on that basis.

H.M.Jr: Well, will he be in?

McR: Well, I don't know whether he'll be back here then or not, but I'll let you know, I'll get word to you as quick as he gets his plans made here. I'll get word to you

H.M.Jr: Do you think I'm making a mistake? I'm really -- I'm completely shot.

McR: No, no.

H.M.Jr: What?

McR: That's all right.

H.M.Jr: What?

McR: No, by all means. It's quite all right. Well, you -- I'll get word to you tomorrow if he can be available on Monday morning at whatever time

H.M.Jr: At 9:00 o'clock.

McR: O. K.

H.M.Jr: At 9:00 and you can -- who'll come over here to take this machine tool thing off my hands Monday?

McR: Well, he'll either be here or someone I think, I think he's planning -- I'll talk to him about it and I think he planning to be here for both of those appointments.

- 3 -

H.M.Jr: I see. Well, I think if we'd start at 9:00 and then we can talk then with him, unless you think I'm making a mistake. I'm going home and go to bed.

McR: Well, go ahead.

H.M.Jr: All right. Good-bye.

McR: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 30, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, called on me yesterday at 3 p.m. He gave me some information which his Government had intercepted which he thought might be of use to us in controlling foreign assets held in the United States. I passed this information on to our Committee on freezing, when we met yesterday evening.

Leroy-Beaulieu discussed with me the question of disposing of American securities on this market once the French Government has finished its present plan for taking over such securities held by French citizens. I gained the impression that the French would be desirous of following a plan similar to that employed by the British Government, perhaps utilizing the branch in New York of the Societe General of France as the depository for the securities.

My visitor asked if we had heard the report that Russian and German counterfeiting experts who had been employed several years ago by the Soviet in the counterfeiting operations which involved Dorenberg and others, have now been hired by the Gestapo to falsify American bank notes. I told him that we had received gossip some weeks ago to the effect that there might be counterfeiting of American currency in Berlin, but that we had obtained no substantiating evidence thereof. (I passed this information on to Chief Wilson some weeks ago when Mr. Pinsent mentioned to me the gossip herein referred to.) Leroy-Beaulieu asked further if I was of the opinion that the Germans were buying up their own obligations on the American market. He thought they might be doing this in their supreme confidence as to the outcome of the war, which naturally should tend to improve German securities.

Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me this noon. He asked if Secretary Morgenthau had indicated to me whether he would be receptive to an approach by Pinsent looking to the borrowing of dollars against American securities held by the British authorities as collateral. I told him that I had mentioned the subject to the Secretary in a memorandum. Pinsent is convinced that the French will now proceed toward taking over eventually the American securities held by French citizens. He expects Leroy-Beaulieu to talk directly with Mr. Gifford next week with respect to means for disposing of such securities on this market. Pinsent emphasized the necessity of the two governments following a common plan of action, and was of the opinion that the French plan, and perhaps part of the machinery, would be identical with that of the British as far as their New York operations are concerned.



Return to Gen. Conway
325

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, La Paz, Bolivia.

DATE: May 30, 1940, 6 p.m.

NO.: 43

M
Bell???

I have been requested by the Minister for Foreign Affairs to inform the Department by telegraph that the Federal Reserve Bank of New York, as requested by Banco Mercantile and possibly by Banco Nacional as part owners, is holding up a shipment of gold which arrived in New York recently from London, although the gold is for the account of Banco de Bolivia and orders have been issued by the Bolivian Government for the return of the whole shipment to Bolivia immediately as a national asset. In addition, the Minister stated that it was the intention of the Government to return the privately-owned gold to the commercial banks concerned upon its arrival in Bolivia. It is alleged by the Minister that a delay in shipment would result in loss to the Government of Bolivia; it is his belief that interference in New York would not be legal.

It is my understanding that the Bolivian Minister at Washington has received instructions to intervene and to make an effort to have the shipment released. I expressed to the Minister of Foreign Affairs my willingness to transmit
to

-2-

to the Department by telegraph the gist of his remarks. I added that, however, it would seem to be a judicial matter and I was afraid the Department would not be able to intervene.

Despatch no. 234 from the Legation, dated May 29, 1940, sent via air mail, contained a complete, detailed report on the situation and action by commercial banks. The understanding is that it is desired by commercial banks in Bolivia to convert into dollars in New York, and to invest there, their share of the gold, rather than hold it sterile in Bolivia where it might be seized by the Government.

It is alleged that the Government's reason for returning the gold is that, in view of the possibility that the United States may enter the war, it would be safer in Bolivia, although fears that some action might be taken by (?) towards embargoing Banco Central's gold under some interpretation of the loan contract of 1922 seem to have had some influence.

EA:MEG

76TH CONGRESS
3D SESSION

H. R. 9966

IN THE HOUSE OF REPRESENTATIVES

MAY 30, 1940

Mr. DOUGHERT introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To provide for the expenses of national preparedness by raising revenue and issuing bonds, to provide a method for paying for such bonds, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **TITLE I**

4 **SEC. 1. SHORT TITLE.**

5 This Act may be cited as the Revenue Act of 1940.

6 **SEC. 2. INCOME TAX.**

7 Chapter I of the Internal Revenue Code is amended by
8 inserting after section 14 the following new section:

9 **"SEC. 15. SUPER-TAX FOR FIVE YEARS.**

10 "In the case of any taxpayer, the amount of tax payable

1 under this chapter for any taxable year beginning after De-)
2 cember 31, 1939, and before January 1, 1945, shall be 10
3 per centum greater than the amount of tax which would be
4 payable if computed without regard to this section. In no
5 case shall the effect of this section be to increase the tax
6 computed without regard to this section by more than 10
7 per centum of the difference between the net income and such
8 tax. For the purposes of this section, the tax computed
9 without regard to this section shall be such tax after the ap-
10 plication of the credit for taxes provided in section 31, and
11 the credit provided in section 32 for taxes withheld under
12 section 143 (a) or 144 with respect to tax-free covenant
13 bonds."

14 **SEC. 3. RATES OF WITHHOLDING.**

15 Section 143 of the Internal Revenue Code is amended
16 by inserting at the end thereof the following new subsection:

17 "(h) RATES UNTIL JANUARY 1945.—For the period
18 after June 25, 1940, and before January 1, 1945, the rates
19 provided in this section and section 144 of 10 per centum and
20 15 per centum shall be 11 per centum and 16½ per centum,
21 respectively. This subsection and section 15 shall not apply
22 in any case where its application would be contrary to any
23 treaty obligation of the United States."

24 **SEC. 4. PERSONAL HOLDING COMPANIES.**

25 Section 500 of the Internal Revenue Code is amended

1 by inserting "(a) GENERAL RULE.—" before the first para-
2 graph and inserting at the end thereof the following new
3 subsection:

4 " (b) SUPER-TAX FOR FIVE YEARS.—In the case of any
5 taxpayer, the amount of tax payable under this subchapter
6 for any taxable year beginning after December 31, 1939,
7 and before January 1, 1945, shall be 10 per centum greater
8 than the amount of tax which would be payable if computed
9 without regard to this subsection."

10 **SEC. 5. EXCESS-PROFITS TAX.**

11 Section 600 of the Internal Revenue Code is amended
12 by inserting "(a) GENERAL RULE.—" before the first para-
13 graph and by inserting at the end of such section the follow-
14 ing new subsection:

15 " (b) SUPER-TAX FOR FIVE YEARS.—In the case of any
16 taxpayer, the amount of tax payable under this section for
17 any income-tax taxable year ending after June 30, 1940, and
18 before July 1, 1945, shall be 10 per centum greater than
19 the amount of tax which would be payable if computed with-
20 out regard to this subsection."

21 **SEC. 6. CAPITAL STOCK TAX.**

22 Section 1200 of the Internal Revenue Code is amended
23 by inserting at the end thereof the following new subchapter:

24 " (c) SUPER-TAX FOR FIVE YEARS.—For the year end-
25 ing June 30, 1940, and for the four succeeding years ending

1 June 30, the rates provided in subsections (a) and (b) shall
2 be \$1.10 in lieu of \$1."

3 **SEC. 7. ESTATE TAX.**

4 Chapter III of the Internal Revenue Code is amended
5 by inserting at the end thereof the following new subchapter:

6 **"SUBCHAPTER C—SUPER-TAX FOR FIVE YEARS**

7 **"SEC. 951. SUPER-TAX FOR FIVE YEARS.**

8 "In the case of a decedent dying after the date of the
9 enactment of the Revenue Act of 1940 and before the expira-
10 tion of five years after such date, the total amount of tax
11 payable under this chapter shall be 10 per centum greater
12 than the amount of tax which would be payable if computed
13 without regard to this section. For the purposes of this sec-
14 tion, the tax computed without regard to this section shall
15 be such tax after the application of the credits provided for
16 in section 813 and section 936."

17 **SEC. 8. GIFT TAX.**

18 Section 1001 of the Internal Revenue Code is amended
19 by adding at the end thereof the following new subsection:

20 "(d) **SUPER-TAX FOR 1940-1945.**—Despite the pro-
21 visions of subsection (a)—

22 "(1) The tax for each of the calendar years 1941
23 to 1945, both inclusive, shall be an amount equal to
24 the excess of—

25 "(A) 110 per centum of a tax, computed in

1 accordance with the Rate Schedule hereinbefore
2 set forth, on the aggregate sum of the net gifts
3 for such calendar year and for each of the pre-
4 ceding calendar years, over

5 “(B) 110 per centum of a tax, computed in
6 accordance with the said Rate Schedule, on the
7 aggregate sum of the net gifts for each of the pre-
8 ceding calendar years.

9 “(2) The tax for the calendar year 1940 shall be
10 the sum of (A) the tax computed under subsection
11 (a), plus (B) an amount which bears the same ratio
12 to 10 per centum of the tax so computed as the amount
13 of gifts made after the date of the enactment of this
14 Act bears to the total amount of gifts made during the
15 year. For the purposes of this paragraph, the term
16 ‘gifts’ does not include gifts which, under section 1003
17 (b) (2), are not to be included in computing the total
18 amount of gifts made during the year, or gifts which,
19 in the case of a citizen or resident, are allowed as a
20 deduction by section 1004 (a) (2), or gifts which, in
21 the case of a nonresident not a citizen of the United
22 States, are allowed as a deduction by section 1004 (b).”

23 **SEC. 9. TAX ON TRANSFERS TO AVOID INCOME TAX.**

24 Section 1250 of the Internal Revenue Code is amended

1 by inserting "(a) GENERAL RULE.—" before the first para-
2 graph and inserting at the end thereof the following new
3 subsection:

4 " (b) SUPER-TAX FOR FIVE YEARS.—In the case of any
5 transfer during the period beginning on the day following the
6 date of the enactment of the Revenue Act of 1940 and before
7 July 1, 1945, the rate provided in subsection (a) shall be
8 $27\frac{1}{2}$ per centum in lieu of 25 per centum."

9 **SEC. 10. CONTINUATION OF EXCISE TAXES.**

10 Sections 1801, 1802, 3403 (f) (1), 3452, 3460 (a),
11 3465, 3481 (b), and 3482 of the Internal Revenue Code,
12 as amended, are amended by striking out "1941" wherever
13 appearing therein and inserting in lieu thereof "1945".

14 **SEC. 11. MISCELLANEOUS EXCISES.**

15 The Internal Revenue Code is amended by inserting at
16 the end of chapter 9 the following new chapter:

17 **"CHAPTER 9A—SUPER-TAX FOR FIVE**
18 **YEARS**

19 **"SEC. 1650. SUPER-TAX FOR FIVE YEARS.**

20 "In lieu of the rates of the tax specified in such of the
21 following sections of this title as are set forth in the following
22 table, the rates applicable with respect to the period beginning
23 July 1, 1940, and ending June 30, 1945, shall be the rates
24 therein set forth under the heading 'Super-tax Rate':

"Section	Description of tax	Old rate	Super-tax rate
1700 (b)	Box seats	10 percent.	11 percent.
1700 (c)	Sales outside box office	10 percent.	11 percent.
1700 (e)	Cabaret	1½ cents	2 cents.
1710 (a) (1)	Dues	10 percent.	11 percent.
1710 (a) (2)	Initiation fees	10 percent.	11 percent.
1801	Corporate securities	10 cents	11 cents.
1802 (a)	Capital stock	10 cents	11 cents.
1802 (a)	Capital stock	2 cents	3 cents.
1802 (b)	Capital stock	4 cents	5 cents.
1802 (b)	Capital stock	5 cents	6 cents.
1804	Insurance policies	3 cents	4 cents.
1806	Passage tickets	\$1	\$1.10.
1806	Passage tickets	\$3	\$3.30.
1806	Passage tickets	\$5	\$5.50.
1850 (a)	Safe-deposit boxes	10 percent.	11 percent.
2700 (a)	Pistols and revolvers	10 percent.	11 percent.
3250 (a) (1)	Wholesalers in liquor	\$100	\$110.
3250 (b)	Retailers in liquor	\$25	\$27.50.
3250 (c)	Brewers	\$100	\$110.
3250 (c)	Brewers	\$50	\$55.
3250 (d)	Wholesalers in malt liquors	\$50	\$55.
3250 (e)	Retailers	\$20	\$22.
3250 (e) (3)	Special cases	\$2	\$2.20.
3250 (f) (1)	Rectifiers	\$200	\$220.
3250 (f) (1)	Rectifiers	\$100	\$110.
3250 (j)	Stills	\$50	\$55.
3250 (j)	Stills	\$20	\$22.
3400 (1)	Tires	2¼ cents	2¼ cents.
3400 (2)	Tubes	4 cents	4¼ cents.
3401	Toilet preparations	10 percent.	11 percent.
3403 (a)	Automobile truck chassis, etc.	2 percent.	2¼ percent.
3403 (b)	Automobiles	3 percent.	3¼ percent.
3403 (c)	Parts	2 percent.	2¼ percent.
3404	Radios	5 percent.	5¼ percent.
3405	Mechanical refrigerators	5 percent.	5¼ percent.
3407	Firearms	10 percent.	11 percent.
3409	Matches	5 cents	5¼ cents.
3411	Electrical energy	3 percent.	3¼ percent.
3412	Gasoline	1 cent.	1¼ cents.
3413	Lubricating oils	4 cents	4¼ cents.
3460 (a) (1), (2), and (3).	Transportation of oil	4 percent.	4¼ percent.
3481 (a)	Transfer of bonds	4 cents	5 cents.
3482	Conveyances	50 cents	55 cents."

1 **SEC. 12. ADMISSIONS TAX.**

2 Section 1700 (a) (1) of the Internal Revenue Code,
3 as amended, is amended by striking out "until July 1, 1941,
4 is less than 41 cents" and inserting in lieu thereof "until
5 July 1, 1940, is less than 41 cents, and after June 30, 1940,
6 and before July 1, 1945, is less than 31 cents" and by strik-
7 ing out "is less than 41 cents, until July 1, 1941" and insert-
8 ing in lieu thereof "is less than 41 cents until July 1, 1940,
9 and is less than 31 cents after June 30, 1940, and before
10 July 1, 1945".

11 **SEC. 13. TOBACCO, SNUFF, CIGARS, AND CIGARETTES.**

12 Subchapter A of chapter 15 of the Internal Revenue
13 Code is amended by inserting at the end thereof the follow-
14 ing new sections:

15 **"SEC. 2004. SUPER-TAX FOR FIVE YEARS.**

16 "In lieu of the rates of the tax specified in such of the
17 following sections of this title as are set forth in the following
18 table, the rates applicable with respect to the period begin-
19 ning July 1, 1940, and ending June 30, 1945, shall be the

1 rates therein set forth under the heading 'Super-tax Rate':

"Section	Description of tax	Old rate	Super-tax rate
2000 (a) (1).....	Snuff.....	18 cents....	21 cents.
2000 (a) (2).....	Tobacco.....	18 cents....	21 cents.
2000 (b).....	Snuff flour.....	18 cents....	21 cents.
2000 (c) (1).....	Cigars.....	75 cents....	\$7½ cents.
2000 (c) (1).....	Cigars.....	\$2.....	\$2.33½.
2000 (c) (1).....	Cigars.....	\$3.....	\$3.50.
2000 (c) (1).....	Cigars.....	\$5.....	\$5.83½.
2000 (c) (1).....	Cigars.....	\$10.50.....	\$12.25.
2000 (c) (1).....	Cigars.....	\$13.50.....	\$15.75.
2000 (c) (2).....	Cigarettes.....	\$3.....	\$3.50.
2000 (c) (2).....	Cigarettes.....	\$7.20.....	\$8.40.
2000 (d).....	Cigarette paper.....	½ cent.....	¾ cent.
2000 (d).....	Cigarette paper.....	1 cent.....	1½ cents.

2 "SEC. 2005. FLOOR STOCKS TAX.

3 " (a) FLOOR STOCKS TAX.—Upon all the articles sub-
 4 ject to tax under subsection (a), (b), or (c) of section
 5 2000 which on July 1, 1940, are held by any person for
 6 sale otherwise than in retail stocks, there shall be levied,
 7 collected, and paid a floor stocks tax at a rate equal to the
 8 increase in rate of tax made applicable to such articles by
 9 section 2004.

10 " (b) RETURNS.—Every person required by this section
 11 to pay any floor stocks tax, under such regulations as the
 12 Commissioner with the approval of the Secretary shall pre-

1 scribe, shall, on or before August 1, 1940, make a return
2 and pay such tax.

3 “(c) LAWS APPLICABLE.—All provisions of law, in-
4 cluding penalties, applicable in respect of the taxes imposed
5 by section 2000 shall, insofar as applicable and not incon-
6 sistent with this section, be applicable with respect to the
7 floor stocks tax imposed by subsection (a), except that in
8 the case of articles held by manufacturers and importers the
9 Commissioner may collect the tax with respect to all or part
10 of such articles by means of stamp rather than return, and in
11 such case may make an assessment against such manufac-
12 turer or importer having tobacco tax stamps on hand July 1,
13 1940, for the difference between the amount paid for such
14 stamps and the increased rates specified in section 2004.”

15 **SEC. 14. DISTILLED SPIRITS.**

16 (a) Section 2800 of the Internal Revenue Code is
17 amended by inserting at the end thereof the following new
18 subsections:

19 “(g) SUPER-TAX FOR FIVE YEARS.—In lieu of the
20 rates of the tax specified in such of the following sections
21 of this title as are set forth in the following table, the rates
22 applicable with respect to the period beginning July 1,
23 1940, and ending June 30, 1945, shall be the rates therein
24 set forth under the heading ‘Super-tax Rate’:

"Section	Description of tax	Old rate	Super-tax rate
2800 (a) (1).....	Distilled spirits generally.....	\$2.25.....	\$3.
2800 (a) (1).....	Brandy.....	\$2.....	\$2.75.
2800 (a) (3).....	Imported perfumes.....	\$2.25.....	\$3.
2800 (a) (5).....	Rectifying.....	30 cents.....	40 cents.

1 “(h) FLOOR STOCKS TAX.

2 “(1) Upon all distilled spirits produced in or im-
3 ported into the United States upon which the internal-
4 revenue tax imposed by law has been paid, and which
5 on July 1, 1940, are held by any person and intended
6 for sale or for use in the manufacture or production of
7 any article intended for sale, there shall be levied,
8 assessed, collected, and paid a floor stocks tax of 75 cents
9 on each proof-gallon, and a proportionate tax at a like
10 rate on all fractional parts of such proof-gallon.

11 “(2) Every person required by this subsection to
12 pay any floor stocks tax under such regulations as the
13 Commissioner, with the approval of the Secretary, shall
14 prescribe, shall, on or before August 1, 1940, make a
15 return and pay such tax. Payment of the tax shown to be
16 due may be extended to a date not later than February 1,
17 1941, upon the filing of a bond for payment thereof in
18 such form and amount and with such surety or sureties
19 as the Commissioner, with the approval of the Secretary,
20 may prescribe.

1 “(3) All provisions of law, including penalties, ap-
2 plicable in respect of internal-revenue taxes on distilled
3 spirits shall, insofar as applicable and not inconsistent
4 with this subsection, be applicable in respect of the floor
5 stocks taxes imposed hereunder.”

6 (b) The third paragraph of section 2887 of the Internal
7 Revenue Code (relating to drawback on distilled spirits) is
8 amended by striking out “but shall not exceed a rate of \$2.25
9 (or, in the case of brandy, \$2)” and inserting in lieu thereof
10 “but shall not exceed a rate of \$3 (or, in the case of brandy,
11 \$2.75)”.

12 **SEC. 15. WINES AND FERMENTED LIQUORS.**

13 Chapter 26 of the Internal Revenue Code is amended by
14 inserting at the end thereof the following new subchapter:

15 **“SUBCHAPTER F—SUPER-TAX FOR FIVE YEARS**

16 **“SEC. 3190. SUPER-TAX FOR FIVE YEARS.**

17 “In lieu of the rates of the tax specified in such of the
18 following sections of this title as are set forth in the follow-
19 ing table, the rates applicable with respect to the period
20 beginning with the day following the date of enactment of
21 the Revenue Act of 1940, and ending June 30, 1945, shall
22 be the rates therein set forth under the heading ‘Super-
23 tax Rate’:

Section	Description of tax	Old rate	Super-tax rate
3030 (a) (1) (A)	Still wines.....	5 cents.....	6 cents.
3030 (a) (1) (A)	Still wines.....	10 cents.....	12 cents.
3030 (a) (1) (A)	Still wines.....	20 cents.....	24 cents.
3030 (a) (2)	Sparkling wines.....	2½ cents.....	3 cents.
3030 (a) (2)	Sparkling wines.....	1½ cents.....	1½ cents.
3030 (a) (2)	Liquors, cordials, etc.....	1½ cents.....	1½ cents.
3031 (a)	Fortification of wines.....	10 cents.....	12 cents.
3150 (a)	Fermented liquors.....	\$5.....	\$6."

1 **SEC. 16. PLAYING CARDS.**

2 Section 1807 of the Internal Revenue Code is amended
3 by inserting "(a) GENERAL RULE.—" before the first para-
4 graph and inserting at the end thereof the following new
5 subsections:

6 " (b) SUPER-TAX FOR FIVE YEARS.—In lieu of the rate
7 of tax specified in subsection (a), the rate of tax for the
8 period beginning July 1, 1940, and ending June 30, 1945,
9 shall be 11 cents.

10 " (c) FLOOR STOCKS TAX.—Upon all the articles sub-
11 ject to tax under subsection (a), which on July 1, 1940, are
12 held by any person for sale otherwise than in retail stocks,
13 there shall be levied, collected, and paid a floor stocks tax
14 at a rate equal to the increase in rate of tax made applicable
15 to such articles by subsection (b).

16 " (d) RETURNS.—Every person required by subsection
17 (c) to pay any floor stocks tax, under such regulations as

1 so determined shall be set aside as a special fund which
2 shall be available for the retirement of any of the obli-
3 gations issued pursuant to the authority contained in section
4 21 (b) of the Second Liberty Bond Act, as amended.

5 SEC. 202. Section 21 of the Second Liberty Bond Act, as
6 amended, is hereby further amended by inserting "(a)" after
7 "21." and by adding at the end of such section a new para-
8 graph as follows:

9 "(b) In addition to the amount authorized by the pre-
10 ceding paragraph of this section, any obligations authorized
11 by sections 5 and 18 of this Act, as amended, not to exceed
12 in the aggregate \$3,000,000,000 outstanding at any one time,
13 less any retirements made from the special fund made avail-
14 able under section 201 of the Revenue Act of 1940, may be
15 issued under said sections to provide the Treasury with funds
16 to meet any expenditures made, after June 30, 1940, for the
17 national defense, or to reimburse the general fund of the
18 Treasury therefor. Any such obligations so issued shall be
19 designated 'National Defense Series'."

7072-1030211-225
70 SENATOR

H. R. 9966

A BILL

To provide for the expenses of national preparedness by raising revenue and issuing bonds, to provide a method for paying for such bonds, and for other purposes.

By **Mr. Doughton**

MAY 30, 1940

Referred to the Committee on Ways and Means

Extra appropriation

Draft of House
"ptential dollar
5/31 = 2nd draft
is 5/30/40

In his budget message of January 3, 1940, the President anticipated for the fiscal year 1941 an excess of expenditures over normal receipts of \$2,876,000,000. Recovery of excess capital funds from Government corporations was estimated at \$700,000,000. The President recommended that \$460,000,000 additional taxes be imposed to cover emergency national defense expenditures. This left an anticipated deficit of \$1,716,000,000 to be financed by borrowing.

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Since that time events have taken place that make necessary expenditures for national defense that far exceed the amounts provided for in the 1941 budget. On the basis of appropriation bills which have passed and are now pending, the Treasury and the Bureau of the Budget estimate that the deficit for the fiscal year 1941 will amount to \$3,703,000,000. The borrowing power now remaining under the existing debt limit is \$1,973,000,000. In the light of the extraordinary requirements for national defense it is anticipated that this borrowing power will be completely exhausted by the end of February and the working balance of the Treasury will be only \$600,000,000. Action to protect the position of the Treasury cannot safely be postponed until the next session of Congress, especially in a critical period such as this.

The Treasury working balance is now approximately \$1,200,000,000. It would be undesirable to reduce the balance much below this level. The maintenance of a working balance of present proportions has enabled the Treasury to omit major financial operations at a time when market conditions were not favorable and by waiting for more favorable market conditions to save a great deal of money in interest.

When viewed from the standpoint of the insurance and financial security which a large Treasury balance has afforded, the interest cost on Treasury bills issued to create and continue the balance has been a cheap premium. The maintenance of a balance approximating the present one is distinctly in the interests of economy and financial strength and is especially to be desired in the troubled world of today.

It has sometimes been urged that the gold assets of the stabilization fund be used to finance current operations and thus to reduce or eliminate borrowing for a time. It was clearly not contemplated at the time the powers in the Gold Reserve Act with respect to the Stabilization Fund were extended that its gold assets would be used to meet current expenditures. I have repeatedly advised the Congress that \$1,800,000,000 of this fund is still held in the form of gold and that there is no intention of using that gold for any purpose other than to meet Stabilization Fund requirements. In view of the present world situation the present is obviously not the time to divert the assets from the Stabilization Fund.

The orderly financing of Federal expenditures expanded as they are by emergency expenditures for national defense, requires provision of additional taxes or an increase in the limit on the national debt. In my judgment, both steps should be taken.

I am convinced that the public is willing and ready to accept the personal sacrifices of paying the additional taxes that are necessary

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to provide the country with adequate national defense. To raise the debt limit without increasing taxes would convey the completely erroneous impression that adequate defenses can be provided without additional burdens.

Due to the large volume of funds that must be made available quickly, however, sole reliance on taxation for financing emergency national defense would necessitate placing in immediate operation extremely heavy additional taxes. The resulting sudden impact on the economic system might have unfortunate effects at a time when we are striving to increase production. Furthermore, it would be necessary to resort to less desirable types of taxes the only advantage of which is that they produce large revenues quickly. Revenues from the more desirable types of taxes, such as the income tax and the estate tax, are not received for a considerable period after the tax is imposed. For these reasons it would be desirable both to raise the debt limit and to impose additional taxes at this time. It is for Congress to decide the types of taxes to be employed.

I shall not discuss the tax bill that is before you for consideration. Under Secretary Bell and Assistant Secretary Sullivan are here to go into various aspects of the bill if you desire it.

The bill meets the immediate problem of the Treasury by relieving the pressure of Congressional defense appropriations on the debt limit and making a substantial start toward financing emergency defense expenditures through taxation. I believe that passage of the bill would distinctly be a step in the right direction.

May 30, 1940.
8:30 a.m.

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RE AIR EXPANSION PROGRAM

Present: Mr. Young ✓
Mr. Mead ✓
Mr. Vaughan ✓
Mr. Foley ✓
Mr. Kades ✓
Captain Kraus ✓
Mrs. Klotz ✓
Mr. Gordon ✓

H.M.Jr: As soon as Mrs. Klotz comes -- General Marshall and Sumner Wells are going to be here at 10:00 to see what we can or cannot give the Allies, see. At that time, if you would have all the pieces of paper together, those various things they want, including that stuff they wanted from the Navy, see. They can't get the destroyers but there were those speed boats which I think they could get.

Young: What you would like would be a straight out and out list of everything they have asked for from the Army and Navy.

H. M. Jr: Have it all together, organized for me. You know what I am talking about, for Purvis.

Young: You mean like that A, B, C stuff?

H.M.Jr: Yes, but then -- but get everything together, including what they gave me yesterday.

Young: Is Purvis coming in at 10:00?

H.M.Jr: I tried to get him. They said he was in Washington. I thought he could go -- I thought he could be here at 10:00 and we could get a yes or no. As soon as Mrs. Klotz comes, you get that stuff.

Shoot.

Mead: All right. On this agreement thing, I called Wright and Pratt & Whitney Company and told them what I thought we were trying to do and they said sure, they would be willing to sign a blanket agreement just like the Wright Company would, so I sent it to the hotel and had them come in this morning so they could be going over it and see if it is all right, but I think I can

make them do that all right and then we will have an agreement for three years plus an extension for any model, but it is not written the way I thought you wanted it to be. I thought you said the Government was going to have a license, but this is their license between the originator of the engine and such manufacturers as we would approve and they choose.

H.M.Jr: That is what I asked for.

(Mr. Foley entered the conference.)

Mead: Well, you wanted this for the Government.

H.M.Jr: That was what I wanted. Here is Foley now. Foley, what I asked for and evidently I haven't got it, I wanted a license from the engine company to the United States Government and the United States Government to issue it to whoever it wanted to.

Foley: Well, it isn't that way.

H.M.Jr: But that is what I asked for. It should be that way.

Mead: Other than that I haven't had time to see Mr. Boyd. I have got the Wright Company -- the Pratt & Whitney Company to agree tentatively that they will go right along with us on a standard form, so if you can change it to make it to the Government, we are all set to talk to them and I have sent copies up to the hotels, so if you will make new ones, if you will give it to my man Brown, I will get it up there. That is point one.

H.M.Jr: You see, that is why I have my General Counsel. You are quite right. Did you get my message yesterday talking about Lauchlin Currie?

(Mr. Foley left the conference.)

Mead: Yes, Foley told me.

H.M.Jr: You know he is the fellow -- in the first place, he is Administrative Assistant to the President. Just to give you a minute -- this is important --

he tried every way possible to force Floyd Odlum on me, every way. Well, I refused to take him and the President said I shouldn't take him. Then he has been studying day and night, racking his brain, you see. Currie is smart. Then he waylays me in the White House and says he wants to offer his services in the engine thing and he has talked with Floyd Odlum and they could do so and so. I said, "Wait a minute. I thank you very much, but I am advised by Mr. Mead and Mr. Foley I don't need any more help. Now please get that." Most likely he is thinking that he, Currie, because he is Administrative Assistant to the President better be "Curried" too and I don't want him to have anything to do with it and I don't want Floyd Odlum sitting in it, do you? If you feel both Pratt & Whitney -- but I think it is just Guy Vaughan I am not going to have Currie mixing into my affairs.

File Currie report

Mead: Well, I know Guy well.

W.H.Dr: Just tell him he is wasting his time if he thinks by playing around with Lauchlin Currie he is going to get anywhere. It just annoys me.

Mead: Now, I want to get two or three essentials. I have been working on this most of the night. We can't talk intelligently unless we are sure to agree. I have put down these three fundamental things.

First, that we want to accelerate production to the maximum rate as fast as we can.

Item 2, we want necessary additional productive capacity to be secured west of the mountains, in other words, not any more east, using existing facilities where possible and avoiding concentration. Now, I got worried about that because we are putting everything in Detroit and I don't see why in the devil those fellows can't sell tanks and trucks and let us spread. Now, this Studebaker car didn't pester me but a few minutes, so I am not being sold by them, but I am thinking in geography terms. I looked around and put them down on a piece of paper, that Indianapolis would be a possible place. South Bend is another possible

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place. We are getting out of that labor situation in Detroit.

H.M.Jr: Let me interrupt you. This is for you, Phil. Find out how much Government money is in Studebaker. We have got a lot of money in there. Did you know that? Find out. It is a million or two or three million dollars. We have a lot of money in there already.

Mead: They were a very fine type, I thought, just looking at them.

H.M.Jr: We have a lot of money in there now, so there is that much of interest.

Mead: Now, the third point, we want the training engines first while maintaining necessary deliveries of tactical engines to meet plane schedules, but the push ought to be in the training plants right now as long as we keep up the production on whatever they have got there.

H.M.Jr: Well, from my standpoint --

Mead: This is our program, not the Allies', of course.

H.M.Jr: I think the two should go simultaneously.

Mead: Yes, but if it is a case of giving way --

H.M.Jr: The training has to come first, yes, sir.

Mead: That is all I want. Now, those are the essential things and here is what I think are desirable things and I wondered if we were seeing eye to eye that the company originating the product should be responsible for the quality. The minute we get out from under that thing, I am afraid we are going to end the program in about a year.

H.M.Jr: I agree with you on that.

Mead: We want them to agree with us, however, to produce a third to a half of the large engine requirements west of the mountains so as to get that set up and we will have a political as well as practical advantage.

- H.M.Jr: I want to hear your whole thing. I have gotten one or two ideas which may or may not fit in.
- Mead: We want to avoid Government-owned plants if we can, but if we have them they should be operated by these other fellows for us.
- H.M.Jr: Check on that.
- Mead: We want to pay outright and charge it up to the cost of the job for surplus facilities over and above what the industry normally would be able to handle. That is, we can force them to a certain extent and beyond that we will have to --
- H.M.Jr: On the same theory that when the Government builds -- Standard Oil builds an oil tanker and the Government wants a five knot extra speed, for that extra speed the United States Navy pays Socony. It is the same theory.
- Mead: Yes. Because I do think it is impossible for those fellows beyond a certain point to take on. Well now, I had better listen to you now before I go to the next point, but those were essentials to our dealing with the engine fellows.
- H.M.Jr: That is what I thought on the engine things. Again, I think we should not put all the eggs in one basket and you tell me whether I am thinking clearly. I have been thinking sub-consciously and constantly during the night. From one talk I had with Guy Vaughan, I got the feeling that he would like to duplicate his own plant somewhere else, that he was in the frame of mind that he had second men who wanted to be foremen and so on. I also got the impression that the Pratt & Whitney Company did not and they would rather license some automobile company. Am I right about that so far?
- Mead: As far as I know. I have not talked to either one.
- H.M.Jr: Therefore, not to put all the eggs in one basket, I was thinking of the possibility of talking with Pratt & Whitney -- I mean with

Guy Vaughan and said, "Now look, we would like to put up to you this proposition. We would like to have Curtiss-Wright submit a plan whereby they will build a plant which, on the three-shift basis, can build about a million or a million two hundred thousand horse power a month somewhere west of the Alleghenies, which either you build or we will build for you." We want that. Then on the other fellows -- I mean, that will be having one.

(Mrs. Klotz entered the conference.)

H.M.Jr: Then the thing was running through my mind, partly what you said, so that -- well, maybe some automobile company could assist by building its own tools. In the case of Pratt & Whitney, we let them tie up with some automobile company.

Then I had a third thing which was running through my mind, that we get somebody like Ford or Chrysler to take either the Rolls Royce or the French engine, whichever one -- I mean, which is more like an automobile engine, the liquid cooled, than the other and go ahead and produce that, so there are three things I was thinking of. I will go over it once more. The possibilities of Curtiss-Wright duplicating -- building on some basis which they submit to us first a plant to build one large engine which would have on a three-shift basis -- could produce a million two hundred thousand horse a month. Pratt & Whitney tie up with some automobile company outside of the Detroit area, if possible. Three, that we get another air cooled engine which we license some automobile manufacturer, Ford or Chrysler or somebody --

Young: Liquid cooled?

H.M.Jr: Liquid cooled, to do that. However, are we apart?

- Mead: Well, I just have this suggestion, that it might be helpful to us to put it on this ground, that we want "X" production, as much over what you fellows can do -- put it up to Pratt & Whitney this way. "How would you suggest we do it? Now, we want to have you consider these several ways of doing it and come back to us," the point being that we might learn something that we hadn't thought of and then we could make a decision very quickly, but talk frankly with them, tell them we think it ought to be done this way but what other way would they suggest.
- H.M.Jr: But these two companies have asked to duplicate their own plant and not --
- Mead: And not all in Detroit.
- H.M.Jr: And to get some automobile fellow to take either Rolls Royce or some other engine and put that on a production basis.
- Mead: That is it.
- H.M.Jr: Then we would have three new power plants going. That has nothing to do with the trainer. I haven't talked the trainer thing to you. I just haven't thought of that.
- Mead: I have thought of the trainers but to be honest, I haven't had a chance to think of the little ones, that is, the primary and basic. I haven't talked to the others, which amounts to something like seventeen thousand engines altogether but the balance of this thirty-seven -- no, it is thirty-nine thousand engines in the training program.
- H.M.Jr: For instance, if the Canadians asked for these 330's, is there any reason they shouldn't go to four hundred and standardize on that four hundred engine?
- Mead: We are going to settle that with Purvis. He is going to bring his gang in. The first job we are going to do is to talk training. I think you needn't worry on that until we get it in shape.

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- H.M.Jr: Now, to bring you up to date, is Kraus not going to be here today?
- Mead: Oh, yes. You asked for Mr. Mayo and I called him and he said, "Well, if you could let me off today, because I have made so many appointments," and I said I was pretty sure you would appreciate that and he said he would come any other time and I said I expected the first of the week would do all right.
- H.M.Jr: Now here is something I want you to know. At the right time yesterday when all the Army was there and they were all groping, I said, "Now, Mr. President, here is a program on fifty thousand planes along the lines that you suggested to me Monday at lunch." "Well," he said, "Everybody has been asking me about this. Let me look at this. Everybody has been asking me." He looked at this and he said, "Well, this looks pretty good." He said, "Has the Army and Navy approved this?" And I said, "Well, we have had Army and Navy assistance. I don't know if everybody in the Army and Navy has seen it," and he said, "Now, let me keep this. A lot of people have been asking about this and this looks pretty good." That was --
- Mead: His head was out of the noose.
- H.M.Jr: And I was embarrassed because both Marshall and Brett, two or three times, particularly Marshall, said how much we were doing over here on engines, how helpful it was.
- Mead: Well, there is the point that I think is next.
- H.M.Jr: So I take it that until further notice I am sure that on Friday the President is going to hand this to the Press. I am just putting you on notice.
- Mead: Well, do you suppose there is some way to keep him from handing out the prices, because if you just divide those quantities you will see what basic average price we use.

H.M.Jr: Well, I can't tell.

Mead: That will make our contractual relations very difficult.

H.M.Jr: I don't think he will give the prices.

Mead: If he wants to give the total figures down here in the quantities, okay.

H.M.Jr: He would be foolish to give the prices, because it would show -- the price came to three billion dollars.

Mead: The price, but not the unit price. I made these fellows agree on an average.

H.M.Jr: That thing you did yesterday by now is the Administration program.

Mead: Well, here is what I want to get your opinion on, one more point, before we talk to Wright and Curtiss and also to keep peace in the family and I am not worrying about the family except that I think it has reached a point now where we do have to give them some idea of what is going on. We had revolutions in various places yesterday. Kraus would march in and say, "Well, I've got another revolution." The result was that poor fellow went over and took his gang to Navy and worked until after midnight on some of this stuff because we couldn't quite see eye to eye on how it was going to be done. But I wanted to follow through this point with you just a minute.

We are not clear what your ideas are in the way we are going to handle this thing from the routine angle. Kraus and I have gone over some of this and we felt that the outlying military requirements must be coming from the Army and Navy, that is, they are the ones to do that.

The next question is, certainly, that it looks obvious that our Treasury Section is going to coordinate those requirements, try to simplify them as to types and specifications and so on. Now, that would then make

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it possible for the Army and Navy to draw up orders, whether under Treasury on account of Mr. Nelson, or draw up contracts and enter into them after they have passed through Mr. Nelson. I am reading the newspapers, that is the only way I can find out so far. That is why I was bringing it up to you. I didn't know how you wanted this Treasury Purchasing Section to work.

H.M.Jr: Let me just give you an idea as best I can.

Mead: All right.

H.M.Jr: Before I do that, would you mind (Mrs. Klotz) just take something from me to McReynolds?

(The Secretary dictated to Mrs. Klotz a letter to Mr. McReynolds.)

H.M.Jr: I want you to hear just this explanation. This is the way I envisage this thing -- and incidentally, Mrs. Klotz, this letter from Louis Johnson in which he says he will send me the contract ready for signature, I want it photostated and tomorrow I want to call him up and I am going to send it back to him.

Now, I had everybody there together in General Watson's room and I said, "Now, Gentlemen, I don't want to have to bother the President on this thing," but I said, "We can't be helpful to you -- and we can be very helpful -- unless you let us sit in when you are considering which companies to buy from for the engines, but the question of sending this over for signature, I mean the contract, all but the signature, we can't be of any help," and I said, "We can be a lot of help to you. Now, I would appreciate it very much if nothing is done until it has the approval of the people who are advising me." So Johnson says, "Well, then, would you relieve me of the thing that you said, that you wanted everything ready the day the bill passed for the President's signature," and I said, "Sure." He said, "Well, if you will relieve me of that request I will go along," and everybody agreed. Marshall was with me and Johnson and Brett. Now, this is the way I see the thing. As far as the Army and Navy planes

and engines are concerned, Nelson has nothing to do with them.

Mead: The paper is the only way I could get this.

H.M.Jr: I am the boss, as far as the Treasury goes. He has nothing to do with them. What I look to you entirely for is -- this whole question and I got that agreement yesterday and I take it -- the President sent me the Navy business here and we can have that photostated.

Mead: Could I interrupt you, sir, because I am afraid I will forget to tell you this. In order to get the fifty thousand program, we doubled the Army program and raised the Navy thirty-three and a third percent. It shows you how near the two services were.

H.M.Jr: Let me just get this over to you. This is the way I envisage this thing. The thing that you can do for this Government is, you can start on the trainer thing -- is to get the Army and Navy to agree on the kind of trainer plant they need and the kind of engine and get them to get it down to as few as possible, see, so that we simply say to them, "Now look, gentlemen, after making this whole study you should buy a type 'X' plane and type 'X' engine. We feel that is the thing," see. We have agreed on that. Now, we can tell, "We have made certain arrangements with the engine people for licensing and here is where you can get the production." and so forth and so on and, "We want you to take care of so much for the Allies."

When it comes to the engine business and so forth and the Allies want it, I want you to work directly with them, Colonel Jacquin and so forth and so on, letting Phil Young be the liaison between you and Nelson.

Mead: Now, Nelson is the new Nelson from Sears Roebuck.

H.M.Jr: That is right.

Mead: How will he enter into the function of this thing? As the Allies tell us they want certain things, we balance that in our program and tell them what they can have -- and then Nelson takes over the order?

E.M.Jr: No, the order goes in both places, when it gets down to placing the orders and paying the price. The Allies will negotiate directly with the manufacturer. I don't know anything else comparable, but I have never been in the automobile business, but after all, you are going to have a 1942 model. Until the fellows go out and do the purchasing, the whole Board of Directors sit there and decide it is going to be this kind of a car and such and such stuff and then when the model is decided and so forth, they turn the Purchasing Department loose, and I want to hold everything until we decide what model, what engine and the productive power. When it comes to the placing of the orders and negotiating, the Allies do their buying direct. We won't have anybody in Treasury sit on it. The Army and Navy will do their negotiation.

Mead: The only thing there was the worry that we had three different sets of prices here, depending on who is the best bargainer.

E.M.Jr: On that question, Nelson ought to be able to be helpful to them to keep them together.

Mead: Of course, we can have a gentleman's agreement with the manufacturer.

E.M.Jr: Does that sound sensible?

Mead: That relieves my mind no end, because I wondered if you were thinking of trying to bring that into the Treasury with no machinery to do it. We would have to bring the Army and Navy in and put them in a room and stir them up and say, "Here, you are a joint purchasing outfit."

E.M.Jr: I asked Mr. Purvis to do his negotiating in New York instead of Washington because Collins was trying to do the negotiating and I didn't want it.

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- Kraus: That is just exactly what was happening.
- Mead: Then we will be passing on the matter of consolidation of the program, types, and so forth, and when that is settled, we will also be trying to balance productive capacity in the plants so that one fellow doesn't take it all and so on and outside of that, Army and Navy and the Allies negotiate directly with the manufacturer in question.
- H.M.Jr: That is right.
- Mead: That will help us a lot.
- H.M.Jr: Okay?
- Mead: Fine. Now, could you tell me one more thing? Where does the Knudsen --
- H.M.Jr: I wish you had been here. McReynolds tried to explain to Nelson the committee of seven and when he got through I said to Mr. Nelson, "Is it as clear as mud?" He said, I understand perfectly."
- Kraus: Did you read David Lawrence last night?
- H.M.Jr: No. Here is the thing, as far as that group is concerned. McReynolds is in there. He has got to steer this thing, you see, and here is McReynolds trying his best to explain to poor Nelson what it is all about and he can't do it. I have listened to the President on this thing by the hour and I have dictated here -- it is no secret -- to McReynolds, I am asking Stettinius and Knudsen to come over here and take over the machines thing. As long as the President wants me to, I want to hang on to the airplane and the foreign thing.
- Mead: I thought the foreign thing got off the track, that certainly anybody, Knudsen or whoever came in, can't get into the aircraft production picture and kick it around because they will just ruin it if they do. They don't know what they are kicking.

H.M.Jr: There is no such intention.

Mead: Okay.

H.M.Jr: Are you all right?

Mead: Yes. I have to answer these questions. People come in and --

H.M.Jr: Does that sound sensible?

Mead: Sure.

H.M.Jr: Now, would you, in order to help me, sort of lead the conversation now?

Mead: Absolutely. May I finish off two or three things?

H.M.Jr: Sure.

Mead: But they are holding us up. I want to get your idea on the priority of the work. Now some of my thoughts were -- and you can shut me off -- that we had to have that program and it starts out like this: That is what we have been working so hard on. I think by sometime today we will have it all typed up to substantiate that first speech that you have. It breaks down to an awful lot of stuff. The second thing was, we want to get production of engine requirements as near as we can visualize them at the minute, but even from last night we have had a change from the Navy of big engines to smaller engines and it will probably go on quite a long time, so that we will have to keep that in a continual state of flux. The figures I have got are wrong by five thousand engines. The distribution between companies based on -- the Navy worked on them most of the night. That thing though, we have got it going and we are working on it as the second priority. The third thing was this training standardization.

H.M.Jr: Yes. Are you going to get a report for me on plywood planes?

Mead: It is here.

H.M.Jr: Is this any good?

Mead: I haven't had a chance to look at it.

H.M.Jr: All right.

Young: I talked with the man who makes all the plywood yesterday. He is getting very anxious because he has got two million dollars worth of British orders and he is afraid he is going to get caught, so he wants this country to assure him a hundred thousand dollars.

Mead: The fourth priority is the question of better equipment. That is something that will have higher performance. We have put that down the line --

H.M.Jr: Tip off Kraus that somebody has talked to the President and the President is dissatisfied with the performance of the Navy planes. He says they are too slow. Tip off Kraus. The President is dissatisfied with the slowness of the Navy planes.

Mead: But you agree on that? After we get a twelve hundred horse-power and some eighteen hundred horse-power and so on, we have got to have, see, the next bigger powers in those ships, but I don't want to mess the things up right now so I have given that the last priority. Do you think that is a sane way?

H.M.Jr: As of this morning.

Mead: Sure, we have got to change it all the time.

One other thing. Don't you think we ought to have in writing what you showed me Sunday night, this matter of the Rolls Royce agreement, because supposing it happens to any of us, either here or there --

H.M.Jr: I have a cable from Kennedy.

Mead: Do you think that is good enough?

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H.M.Jr: Why not get the plans?

Mead: But we have no paper from the Rolls Royce Company. Would it be out of order to ask them for a piece of paper?

H.M.Jr: Not if you can get Olley to do it.

Mead: I would like to have in your files something to show that.

E.M.Jr: You are right.

Mead: Now, I haven't got anybody on the airplane side yet and we want a fellow very badly and the best man we can find and that we have all agreed on has sort of the title of chief engineer of Curtiss-Wright, but he is available to go to work for us, to take this Curtiss training plane thing -- it is the case of the engine itself --

H.M.Jr: Who is it?

Mead: Ted Wright of Curtiss-Wright. For some reason they are not utilizing him the way they should and if he can come down here and work two or three months -- I can't get Hunsaker. He has got so darn many other things to do he would rather have an in and out job than stay right here.

Incidentally, the industry has loaned its men right and left and I have taken them off their pay roll and put them on our pay roll.

H.M.Jr: As long as you keep checking with Charlie Bell. Everything goes through him.

Mead: Now if you want to handle it, Kraus needs some help and we don't know whether you would be willing for us to do this, but Kindelberger on the west coast is president of North American and he is the best all round man that industry likes and if we could steal him for General Motors for a little while -- and he is the salesman of the outfit more than anything else -- he would supplement Kraus in a wonderful way, but we didn't want to start any wheels rolling unless you felt it was all right to try.

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- H.M.Jr: Well, you have taken Curtiss-Wright's man; I suppose you can take him.
- Mead: If we even had him for a few months to get this thing rolling.
- H.M.Jr: I will have to rely on you, George. I have just got to rely on you.
- Mead: All right. I have talked it over with all the folks I know in the industry to get a line on who they would work with. We have got to have him working with us.
- H.M.Jr: I rely on you. I just want to say one thing, that "Brass Hat Committee," no good. I don't want it.
- Mead: It suits me fine.
- H.M.Jr: I want you also to understand this; we are going along, but I never know when the President may change his mind, but it is on me and not on you if he does, see.
- Mead: Well, I just wanted you to be prepared for that "Brass Hat Outfit" --
- H.M.Jr: But you understand it.
- Mead: Sure.
- H.M.Jr: This is a democracy.
- Mead: I don't like to work with brass hats.
- H.M.Jr: The President has told me once or twice a week he wants me to continue to do this and we will see.
- Mead: You mean we might have a summer at home?
- Kraus: Not a bad idea.
- H.M.Jr: I have given this man (Young) something to do which he has got to get from you (Mrs. Klotz). I will excuse the two of you and when it is done, will you both please come back?
- (Mr. Young and Mrs. Klotz left the conference.)

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- H.M.Jr: Mr. Hull gets a letter once a week, how many planes in England and France left the factory and how many engines and this complete thing that George is doing stays in the Treasury, plus Captain Kraus, plus General Brett. Nobody else.
- Mead: I think one of the things that will help you a lot on this Curtiss-Wright thing is that you just started out and let them talk.
- (Mr. Foley, Mr. Kades, Mr. Vaughan, Mr. Gordon entered the conference.)
- H.M.Jr: I can give you a kind of a rough idea of the way the thing stands and then you question me. We have got this licensing thing which Mr. -- Have you met Mr. Foley?
- Vaughan: Oh, yes, surely, at your house that night.
- Foley: We had lunch day before yesterday.
- H.M.Jr: That is right. And if while you people are here today that thing could be cleaned up so at least we are ready to license somebody we know that legally we are together, you see.
- Vaughan: I think we are all prepared, Mr. Morgenthau, to submit a form and letter of transmittal and we have it with us.
- H.M.Jr: Well, I --
- Foley: Well, I think the suggestion you made to me can be taken care of in the letter, Mr. Secretary, in other words, without changing the agreement at all they can agree in the letter transmitting the agreement that they will enter into this contract with anybody designated by the Government on terms satisfactory to the Government and then all you have to do is to name the manufacturer and name the price, but they will agree with you in the letter --
- H.M.Jr: The point I made at 8:30 -- I thought I had explained it and evidently I hadn't. In all of these cases, I want the license from the company to the United States Government and we will reissue it to the manufacturer.

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Vaughan: To the manufacturer?

H.M.Jr: Yes.

Vaughan: That permits you to pick anybody you choose at anytime and under any conditions, is that right, without protection to the original licensor?

H.M.Jr: If we wanted to, yes.

Vaughan: Well, I think we ought to see our attorneys and see about that, because after all we really would like some protection on this thing. We don't like to spend a good many million dollars of our money and foreigners' money -- I tell you -- I don't mean to be arbitrary, but I do think we want a little protection on it.

H.M.Jr: All right, you are here until we get the thing straightened out?

Vaughan: Yes.

H.M.Jr: I told you out at the house I am going to listen, I am not going to be arbitrary --

Vaughan: We are not either, but we have stockholders and I don't want to go to jail or give them all I have tried to save up in the last twenty years because I have dissipated the assets of the company.

Mead: You can have it, but I don't want to get it in court.

H.M.Jr: What other changes?

Foley: Well, I would strike out "With the concurrence" of Wright in the letter and strike out that the -- that Wright will consult with the Government concerning the amount of the compensation so the letter reads, "To corporation or corporations to be designated by the Government of the United States a nonexclusive license or licenses to manufacture for and sell to the Government any aviation engine or model which Wright manufactures for Governmental purposes anytime that the Government finds it necessary and in the public interest of national defense to request Wright

to grant a license or licenses for such purpose. It is understood that any agreement to be entered into between Wright and any licensee so designated shall be substantially in the same form and contain substantially the same provisions as the attached draft of agreement with such other and further provisions as may be mutually agreed upon between Wright and any such licensee and which are satisfactory to the Government. It is further understood that the amount of compensation or other payments to be fixed in any such agreement shall be satisfactory to the Government."

That will give you all the control you want.

H.M.Jr: I am at this disadvantage. The first time I -- I don't know. Couldn't you people, after we get over some of the other things, meet and if the three of you agree, you won't have any trouble with me, see. I mean, all I am trying to do is to be able to be in the position after we get this thing and everybody is working on this thing day and night and every minute they change the base on us, that is, the Army and Navy. I mean, they keep shifting it every minute, do you see, and you saw in the paper this morning, another program going up on the Hill and so forth so every minute it shifts and every minute the Allies shift on us. You have had some experience with it?

Vaughan: Yes. I am wondering if we won't have to take over a good part of the -- that is, it won't be available for you to take over a good part of the existing Allied contracts in the not too distant future. It is something to think about.

H.M.Jr: Well, what the President has told them and have you tell them is that our program is to build on top of theirs, supplement.

Vaughan: Yes, in any event.

H.M.Jr: Well, you were talking about in case they should lose or stop fighting. That is something else again. So I think in this

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licensing thing, if you gentlemen -- when we get through talking here could kind of get together and talk about it, I want to be fair. I am sure Mr. Vaughan wants to be fair.

Vaughan: You can be definitely assured of that. I expect to be just as fair as you are fair and that, I hope, is very fair.

H.M.Jr: It will be. Let me just tell you -- let me tell you what I have in mind. It has to be a little bit rough still, but we have been talking and we see a great deal more than what we did before. We would like you to tell us what you think would be the best, both from the standpoint of the Government and from your company, how you could reproduce, practically duplicate, the present size of your plant somewhere west of the Alleghanies.

Mead: Or get equivalent production.

Vaughan: Or get equivalent production. Well, I don't think you can get equivalent production through the license method.

H.M.Jr: I wasn't thinking so much of that.

Vaughan: Except from a long-range point of view.
(Captain Kraus entered the conference.)

Vaughan: I have had the British experience.

H.M.Jr: I want you to give me a plan of how you could - and I would like to have it damned quick.

Vaughan: At this time, you mean? Capable of?

H.M.Jr: Yes.

Vaughan: Eight hundred thousand, possibly, or a million horse-power a month, I think, isn't it?

Gordon: A million, five twenty.

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Now, we are going to go ahead with this program and he is going to let me know in a couple of days what he wants over and above what they have got now and then we will work it out with you people and say, "Now look, Purvis, we are thinking in terms of so much Curtiss-Wright and so much Pratt & Whitney. How much of that do you want? We want to know now."

Vaughan: I see.

H.M.Jr: I don't mind telling you this is the way they are thinking. Last week they were thinking of building a fifty-million dollar plant to build a Bristol engine on the North American Continent and I said --

Vaughan: I have heard about it.

H.M.Jr: And I told them no, that we wouldn't -- I was asked and I said no until we had worked this program out everything was stopped and I said, "Now, what we are going to do, we are working this out and when we see daylight we will say, 'Now, if you want to come in, gentlemen, how much do you want? But you have got to come in with us now.'" That would make it a great deal easier all around, wouldn't it?

Vaughan: I am sure it would.

H.M.Jr: But they will want or are talking about wanting a great deal more than they have got on order here now.

Vaughan: They are also, as you probably know, talking about a very large plant in Canada to produce motors and take the organization from this country.

H.M.Jr: That has all been stopped. I stopped it. I stopped it because I said -- I told them General Motors asked me and I said, "Anything that any American company does now is in the United States."

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H.M.Jr: A million and a half. Everything that we have started now in operation?

Gordon: Yes, that is all under way.

H.M.Jr: The million and a half is when you reach capacity?

Gordon: Yes.

H.M.Jr: Well, I would like to have you say -- come in here in not too many days and say, "Mr. Morgenthau, you have asked us for a plan on how we can suggest --" produce your engine, and we are thinking in terms of only your biggest engine for the moment. Is that right, George?

Mead: Yes. I would like Vaughan to know that we intend to talk this out with him a whole lot more in detail, so that he won't feel he has got to make an answer right now.

H.M.Jr: No, no. In other words, how would you go about practically duplicating your plant somewhere west of the Alleghenies to make, one, the biggest engine -- and you people have decided on which one of those?

Mead: The twenty-six hundred.

H.M.Jr: Are you all in agreement on that?

Kraus: That is the way it looks from the present set up.

H.M.Jr: The twenty-six hundred.

Vaughan: You want the capacity and horse-power similar to that which we already have or will have when we are --

H.M.Jr: Approximately.

Vaughan: A million and a half horse-power a month in twenty-six hundreds.

H.M.Jr: Wouldn't you think so?

Mead: I think that is too big a figure, isn't it, Sidney?

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- Kraus: I think it is a little too large, yes. There will be a substantial quantity production unit.
- H.M.Jr: Wait a minute, I want a plant out there that can produce what you see your needs are on a one-fifth basis plus the needs of the Allies and we are putting up the same program to Pratt & Whitney, so you can get the picture.
- Mead: That would be a comparable plan, wouldn't you say, Sidney?
- Kraus: Yes, on that basis it would be.
- H.M.Jr: I am thinking in terms of asking you gentlemen to give us a plant to duplicate your plant capacity so that you can take care of what we see now on a one-shift basis and take care of the Army and Navy and the Allies and I am asking Pratt & Whitney to do the same and asking them to do it --
- Vaughan: Assuming that the Allies will not want any greater volume than they have now scheduled --
- H.M.Jr: Quite the contrary, I am assuming that they are going to want a great deal more.
- Vaughan: In volume per month, you mean.
- H.M.Jr: Than what they have now, of all the orders they have placed now.
- Vaughan: Of all that we are building for the Allies. In other words, our production will take care of the Allies as scheduled as soon as we get all the floor space in full operation that we now have under way.
- H.M.Jr: I am assuming that they are going to place very much bigger orders in the United States and as a matter of fact they have been talking about it, see, and I told Purvis yesterday that from now on whatever they do they are going to have to do it in conjunction with us.

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Vaughan: Well, we ~~ought~~ not to drain our personnel in this industry, because it isn't a hundred percent capable, what we have of it, and we haven't enough to go around now.

H.W.Jr: In the United States?

Gordon: That is the answer to all I got yesterday from my English friend, Austin, in England, about getting a license to make our engine there. I assume that is out, isn't it?

H.W.Jr: I am going to ask you all to sit tight and concentrate on this thing and then we will work it out. We will say to them, "Now, we are going to give you so many days to come in and say yes or no, do you want a piece of this, yes or no," but I am going to ask all American manufacturers to sit tight and do nothing until we have worked this out with the Army and Navy first and it is going to be our engines and we are going to say to them -- what is the number of this engine, twenty-eight hundred?

Head: Twenty-six hundred.

H.W.Jr: "Gentlemen, it is the twenty-six hundred. Do you want it? If you don't want it, you are out of luck. That is what the Army and Navy want." In other words, they have got to take what they have got, so you fellows can concentrate on one model. Does that make sense?

Vaughan: Yes. One model, of course, is more desirable than four models or any more than one model.

Head: And especially some European engines to be started here, which would be terrible.

Vaughan: Oh, I think that is out of the question.

Head: You and I have lived through that.

Vaughan: You draw on your existing personnel and they don't know anything about it and it would take us a long time to get started and we wouldn't do a real job. The war would be over before we got started. It would be a

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foolish thing to do because most of their purchases are now that particular engine, fortunately.

H.M.Jr: The twenty-six hundred?

Gordon: Yes.

H.M.Jr: Is that your most powerful engine?

Gordon: There is a larger one and the British have shown a very keen interest in the thirty-three fifty, as we call it.

Vaughan: Twenty-two hundred horse-power.

H.M.Jr: Why doesn't the Army and Navy want that?

Gordon: They will want that later.

Kraus: It is so much smaller, Mr. Secretary that it wouldn't form an adequate base for a good-sized unit by itself, that is, the volume that we foresee immediately.

Gordon: If we have another factory where the twenty-six hundred production can be of matter, then we can take care of the bigger engine in the present plant. That would be the ideal arrangement.

H.M.Jr: I see.

Kraus: The bigger engine, Mr. Secretary, is not as highly developed, not as finished an engine, and it would be much better not to transplant it into a new plant at so early a date.

H.M.Jr: Mr. Vaughan, you have had -- what was it, Sunday, a week ago when we met?

Vaughan: A week ago last Sunday, yes.

H.M.Jr: You have had time to think this over. Maybe you could take a little time now and tell me how your mind on this thing is running.

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Vaughan: It isn't working any different than it was the other night.

H.M.Jr: No, I don't mean the license. Let's just talk for a minute about a plant to make one engine somewhere west of the Alleghenies. What would be your idea on doing that?

Vaughan: I think we could lay the plant out very quickly. We could give you figures on the cost of it. We could find out what you would lease it for, if that would be your policy. I think that is the soundest policy.

H.M.Jr: That is what you would like?

Vaughan: We would prefer that, yes, because it would take a great deal of financing to put it up ourselves and then we wouldn't know definitely that we could keep it in production, keep it in continuity production. I think these extra plants we are building now to build this program up will be in excess of requirements when the program is built up unless we are in an emergency and have to produce at a rapid rate. I think the existing facilities that are under way at this particular time will maintain your program of fifty thousand airplanes a year.

H.M.Jr: No.

Vaughan: It won't?

H.M.Jr: No sir.

Vaughan: I am taking the Allies out now and we will assume the war is over.

Mead: Can't do it fast enough.

Vaughan: To maintain it?

Mead: We have got a schedule we can talk about later, but you will be surprised.

Vaughan: I was under the impression we had enough facilities today -- count the Allies out entirely.

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- H.M.Jr: Counting them out we still can't do it. Even if we could, the President specifically wants at least two more engine plants built at once west of the Alleghenies.
- Vaughan: That is all right.
- H.M.Jr: Irrespective of that, the President has instructed me --
- Vaughan: I think to further answer your question and not get off the track, the plant should be put up by the Government to our specifications for producing a particular unit, leased by us at a nominal lease and for the duration of the contracts, whatever they are, with the right to back out of the plant at anytime there isn't enough -- as soon as the economics of it go haywire. There may be things wrong with that that I don't know, but I think that is the soundest way to go about it. We estimate in round figures that it will cost approximately forty million to duplicate the plant. That is not a quotation, but it is an estimated round figure to reproduce that anywhere in this country.
- H.M.Jr: It would cost you forty million?
- Vaughan: It didn't cost forty million, but the price of machine tool equipment is fifty percent higher than when we put the original equipment in and the cost of everything has gone up.
- H.M.Jr: Duplicate the Wright plant, Wright engine?
- Vaughan: Roughly, yes.
- H.M.Jr: I can understand.
- Gordon: Forty-four or forty-five million. That is based on the present gross book value of the whole plant, approximately fourteen odd million dollars and the actual known additions since that time which have been financed by the Allies. That amounts to approximately forty-three or forty-four million.

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- Vaughan: I took the engineering facilities completely out of that forty-five million.
- Gordon: I think forty million would be about right.
- Vaughan: We don't need an engineering department, a duplication of ours at Patterson, you see.
- Gordon: We have quite a few detail figures we worked up yesterday and I am prepared to discuss it.
- Vaughan: You know about that, George. You wouldn't duplicate the Pratt & Whitney engineering. You would have a small engineering unit to take care of the production facilities.
- Mead: We can't get the men even if we could duplicate it.
- H.M.Jr: But you wouldn't do it even if you could get the men? And it would cost what?
- Mead: Around forty million, that sounds about right. That is on the basis that you leave out engineering. We don't know how you build up the forty million.
- Vaughan: That is so much machine tool equipment per square foot, that is all.
- H.M.Jr: Now just so I can have this, I am going to put down -- I am putting down forty to forty-five and producing -- what is the number of this engine we are talking about?
- Mead: Twenty-six hundred.
- Vaughan: Twenty-six hundred, a million and a half.
- H.M.Jr: Which equals, horse-power?
- Gordon: That is sixteen hundred horse-power in the present models.

H.W.Jr: Now, how many of that can be produced?

Mead: About a thousand a month.

H.W.Jr: Not more than that?

Vaughan: Ten hundred and --

Gordon: It would be a little more than that. Their present schedules go to a thousand and thirty a month but it is mixed models and it is important to us to know whether this would be the B engine or the A engine. They are quite different. The B engine is seventeen hundred horsepower.

Vaughan: It is roughly a thousand engines a month.

H.W.Jr: Let me just get this a minute. This is good. I have here, production of twenty-six hundred of sixteen hundred horse. Now mind you, this is all subject -- but roughly, how many could you produce per month of these on a three-shift basis?

Vaughan: On the twenty-six hundred?

Gordon: A thousand a month. Incidentally, these figures which are given are not based on a single shift.

H.W.Jr: I am talking about three shifts.

Gordon: With three shifts, which is what we are operating now and plan to operate, it is a thousand a month.

H.W.Jr: All right. Produce per month on a three-shift basis --

Gordon: That is an unbalanced production.

Vaughan: Yes, with one engine to build -- we can do a lot better than we are doing today.

H.W.Jr: How much better could you do?

Gordon: About ten percent.

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- H.M.Jr: Is that all? Can't you make it twelve hundred?
- Gordon: I think so, because -- I think we can, because our present three shifts are extremely unbalanced.
- Vaughan: Now, ten percent --
- H.M.Jr: So, you are going to put in some new things, aren't you, some line stuff and all that?
- Gordon: Well, we have already put in ultra modern equipment of that type.
- H.M.Jr: I would rather underestimate than over. Here in the Treasury we are conservative.
- Gordon: Then make it eleven hundred.
- Vaughan: Ten percent more engines for the same equipment would be a closer estimate.
- H.M.Jr: Okay, that gives me something now, because it gives -- the President has only got so much money to go around, so one plant --
- Vaughan: I don't like to tell you twenty percent, even if you would like to hear it.
- H.M.Jr: Eleven hundred engines, that gives us something. Now, what we have got to do against that is the idea, supposing Mr. Ford or Mr. General Motors or Mr. Chrysler would say, "Well, we can do it with the existing plant, we don't have to spend forty million dollars."
- Vaughan: In the existing plant?
- H.M.Jr: Yes.
- Vaughan: Well, I would rather have them have proved it in their own efforts, as far as General Motors goes, before I would be willing to take their word for it. We told them over a year ago -- we don't know much about it ourselves yet -- but we told them just what they were headed for and they laughed at us.

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The Cadillac manager came down to the instruction division at Wright and spent two hours in the shop and said all he needed was a set up of drawings and he could turn them out faster than we were doing.

Mead: But it is true that they might have the buildings, so you would only have to put the machinery in.

Vaughan: They would have to get the machinery. They have got no equipment to do our job efficiently. Nor do we have the equipment to do their job.

H.M.Jr: Let me just leave this to one side a minute and put it another way. Supposing the Army and Navy get together, plus the Allies, on one of your smaller engines for training purposes, see, somewhere between a four-hundred and six-hundred horse-power and we wanted to get a license from you people and you said you would agree to the license subject to these details which we have worked out. What is your idea as to where -- as to whom would you -- what is your best recommendation as to whom you would give this license to from your standpoint and ours?

Vaughan: Continental, possibly Packard. They have had a lot of experience. Whether they have the organization left yet that they did, I don't know. On a training engine, Lycoming has their own training engine which has been in competition with ours for many years so you could use that and they would do it better than they would do our job, I am sure. Those would be the first choices, people who have had actual experience in building these things.

H.M.Jr: Either Continental or Packard?

Vaughan: I don't know what the Jacobs picture is. They build a very good small engine but whether they have got the facilities or not, I wouldn't know. But they do a good job. It is a good little engine.

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- H.M.Jr: Well, do you want to ask me something before you go and meet with these fellows? You will have another chance later on.
- Vaughan: I wanted to ask you if it is in your mind at this time that you would prefer to have us do as much as we say we can do before you ask for licenses to others in the interest of the Government?
- H.M.Jr: Well, in fairness to you I can answer that very easily. We will give you all the business you can take.
- Vaughan: Then we can't be very disagreeable about licensing somebody --
- H.M.Jr: Is that right, George?
- Mead: Absolutely.
- Vaughan: And helping you look into the facilities these fellows have and making our recommendations accordingly. I think we ought to do that. I don't know what you think about it, but I believe our men, for instance, would go through the same motions we go through in establishing a source of supply on piston pins or rocker arms. We don't just say here it is at that time, and make something of it. We look into his equipment and see the kind of work he is doing and our factory men come back and approve for the purchasing department that outfit as a source of supply.
- H.M.Jr: With this one proviso: I say we will give you all the business -- this has nothing to do with licensing, keeping it in mind that my sailing orders are that the President wants at least two and maybe three sources of supply for engines in the middle of the United States. Now, I think those two things are compatible.
- Vaughan: They are tied in perfectly as far as I am concerned and we do that not because we

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want to take down these -- but we have seen some terrible mistakes made in Europe and we -- as far as I am concerned, I expect to be Nuisance No. 1 until you kick me out of your office -- trying not to duplicate those if possible.

- H.M.Jr: Without mentioning any names, I am looking to Mead and his crowd to advise me on engines, Captain Kraus and General Brett, and no other self-appointed economist around town.
- Vaughan: I am not talking about your particular office.
- H.M.Jr: Did you get what I said?
- Vaughan: Yes, I did.
- H.M.Jr: You know what I mean?
- Vaughan: And I am very glad to hear it.
- H.M.Jr: Self-appointed or self-annointed. I don't have to mention any names.
- Vaughan: No, I would rather you wouldn't mention names.
- H.M.Jr: But you get what I am saying?
- Vaughan: I certainly do. I don't want to have to agree with you mentioning names.
- H.M.Jr: But George Mead is heading up the stuff. I am doing this just as long as the President wants me to do it. If tomorrow he wants to give it to somebody else, it will be a clean break, it won't be any Siamese affair. I either do it all or nothing. I can't do it any other way. The day he doesn't want me to do it, it will go out of here but for the time being we are coordinating -- we are not going to sit down when it gets down to negotiating a contract between the Army and Navy. When it gets down to negotiating the contract after we have decided what the engine is or what the plane is, for that matter, these fellows that have this force

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will sit down with you and do the negotiating, but up until the President tells me otherwise, the question of where the production -- who should be licensed and what models we will concentrate on, he has asked me to do that end, but the negotiating of the contracts with you fellows, we will not sit in on that. But General Brett, Captain Kraus, George Mead are the fellows that I am looking to.

Vaughan: All right, sir.

H.M.Jr: Now, this is my plan. I would like to resume this at nine o'clock Tuesday. Have you got a Board of Directors' meeting or anything else?

Vaughan: No, I am all right Tuesday.

H.M.Jr: Tuesday at nine o'clock, see, and by that time this thing ought to be -- we ought to be much further along. Now, I am going to the White House at eleven. I ought to be back here by half past eleven and I would be delighted to see these gentlemen again if you want me to or if they want to see me.

Vaughan: I don't think there is anything more. We can take up anything we have with Mr. Mead and Captain Kraus.

H.M.Jr: And my attorney.

Vaughan: Yes, and Foley.

H.M.Jr: We can get along without any economists but we need the lawyers.

Vaughan: You need them first, too. It is better to have them first than last.

H.M.Jr: Okay.

Vaughan: I was glad to see you.

H.M.Jr: Okay.

May 30, 1940

Present: Secretary Welles
Admiral Stark
General Marshall
Phil Young
H. S. Klotz

Welles: The President asked me to ask you to hold this meeting since he felt that some of these requests that are coming from England and France are requests that should be granted. I told him that I had talked to General Marshall about a week ago and that the General had said at that time that certain things could be done without breaking the laws of Neutrality.

(Welles read a memorandum prepared by their Legal Advisor to the Attorney General. I think the opinion was given by Hackworth.)

The Attorney General is in entire agreement.

General Marshall: (Discussed an amendment that the War Department proposes. This is an amendment to S 4025.--attached)

H.M.Jr: (Read memorandum from Purvis which came in at 6 P.M., last night and which listed additional Allied requirements for rifles, guns, etc.)

Welles: (Welles said that the amendment was broader than the memorandum.)

H.M.Jr: Is it Woodring's responsibility or Johnson's? Why don't I find out where Woodring is and see if he could come over right away.

(At this point H.M.Jr. called Woodring and Woodring said that he would be over in fifteen minutes.)

General Marshall: (Read the memorandum which was given us by the Allied Purchasing "Rifle and Machine Gun N/C Powder Supplies" and said,

"I should think we could find a basis for doing this."

(He also read the memorandum which the Anglo-French Purchasing Board gave us dated May 29th on Nitro-cellulose for Smokeless Powder," and said,

"I will get right after my people on this".

(H. M. Jr. asked Admiral Stark if he had read the memorandum submitted by the Allied Purchasing Board covering the requested release of destroyers and motor boats by the Navy through a priority.

Admiral Stark said that as far as he was concerned he would release all 24 speed boats now on order with the Electric Boat Company, but that he would rather keep 8 of each if he could. The Admiral stated that 12 of these boats were equipped with torpedoes and the other 12 were equipped with depth bombs.

He went on to explain that these speed boats were a new thing for the Navy and were being built purely to experiment with. However, as the British and French needed them a lot more than the United States did, he would be glad to cut his requirements to 4 of each kind or even turn all 24 over to the Allies if that was the thing to do.

H.M. Jr. suggested that he keep 2 of each type, and, although the Admiral hesitated as he really wanted to keep 4 of each, he finally agreed on the basis suggested by H. M. Jr., and promised to have an official answer on it by tomorrow.) //

Welles:

We had a rush telegram from Ambassador Kennedy yesterday. He said that you (Admiral Stark) or the Navy had agreed to let the Naval Attache here have a depth charge bomb and it was not given to him.

May I telegraph Kennedy that you will turn it over to him?

Admiral
Stark:

Yes.

H.M.Jr:

The way to get it over to him would be to send it up to Halifax and then by destroyer.

Welles: The other thing the President wanted me to take up at this meeting is the question of the French gold. Can we send the entire gold holdings to this country?

H.M.Jr: We sent our cruisers over three different times and they brought over gold and the public didn't know it.

Welles: It is dangerous for our cruisers to take this gold. The times are different now. Could the SS WASHINGTON take this gold?

H. M. Jr: I think it would be worse for the WASHINGTON to take it than a battleship.

(Welles was talking about French gold and the Secretary about our gold.)

H.M.Jr: Oh, I am prepared to buy this gold and then it will be all right to ship it on our battleships. I think it would be terrible to put this gold on the WASHINGTON and then have it torpedoed.

(H. M. Jr. sent for Cochran) How much gold has the government of France got - just give me a guess.

Cochran: In the bank proper one billion dollars. I could check it in about three minutes.

H.M.Jr: Check this and also let me know how much a billion dollars of gold weighs. (Cochran left)

I will take title to this gold the minute it goes aboard an American destroyer or cruiser.

Welles: Then you are prepared to take title of all the French and British gold?

H. M. Jr: Now wait a minute - well as soon as it is put on an American ship.

How sure are you of Portugal?

Welles: For the time being, I think it is all right.

H. M. Jr: We could always keep.....(Secretary Woodring walked in.)

I think a billion dollars of gold is a thousand tons. Admiral Stark, could you put it on one ship?

Admiral
Stark:

Not unless we sent a tanker over.

H. M. Jr:

Could you put it on three cruisers?

Admiral
Stark:

I think we could put it on two.

H. M. Jr:

I don't know whether you agree with me but I would rather see the gold put on a battleship than on the WASHINGTON.

Stark:

I think it would be a mistake to put the gold on a passenger ship which is liable to attack.

H.M.Jr:

I will buy the gold kit-and-boodle the minute it goes on the ship. I will buy as much as the President wants me to, cheerfully.

Welles:

Well, now we have to decide where it is to be picked up. I think it would be easiest if the cruisers go to Bordeaux - that that is the problem for Admiral Stark to decide. It is now between you and the Navy.

H.M.Jr:

I would be delighted to handle it with the Navy provided that they handle all the messages.

I have a confession to make in that on one or two occasions, the President has permitted me to communicate with Bullitt through the Navy. Nobody knows that. What I would do is that the Navy Attache would get that message and give it to Bullitt.

Welles:

I would like to see it handled that way.

H.M.Jr:

(Addressed to Stark) All messages about this gold should be handled in Navy code.

Stark:

We never send all of one message in the same code. We use more than one.

Welles:

I think all our telegrams are being read by the Germans.

It is now out of my hands - it is between you and the Navy.

(At this point, H. M. Jr., called the White House and asked if he could postpone his meeting with the President to 11:30. General Watson suggested 11:15 and said that he would notify Hopkins.)

(Cochran returns)

- Cochran: The French have 2 billion dollars of gold including stabilization fund. The United Kingdom has 1 billion 162 million plus or about 1 billion and a half altogether. One ton of gold is worth 1 million 20 thousand dollars. (Cochran told H.M.Jr., after the meeting that this did not include Polish and Belgian gold in France.)
- H.M.Jr: Could you take 250 tons?
- Stark: Can you tell me how much the cruiser brought out before?
- H.M.Jr: Yes, I remember it. Each cruiser brought out 25 million dollars. Can you take 250 million dollars at one time?
- Stark: Yes, I think so. I might even take 500 tons but it would mean removing some of the ammunition.
- H.M.Jr: After Secretary Woodring and General Marshall go would you and Mr. Welles stay behind and I will call the President and ask him what he wants. I will then prepare the cable.
- Woodring: I am in complete accord in working this out. Marshall says it will take five days to get this stuff together. He thinks that the authorization bill will be through in five days. We ought to get this into the bill. Pressure ought to go from us and the President to the leaders to get this thing in. If five days failed, we ought to get an opinion from the Attorney General that it is legal to do what is proposed under the alternative plan.
- H.M.Jr: Phil, get Purvis to designate someone who is most able to come down here and work with General Marshall to handle the transportation, etc.

General
Marshall: In order to put this over at once you must get the sales agent in here. We must first get the manufacturer in here to make the turn-over to them and put the sales agent in touch with the manufacturer.

Woodring: Where is this stuff - in Aberdeen?

General
Marshall: I don't know offhand - I think most of it is.

H.M.Jr: Harry, you push this thing like hell. Get the formal statement from the Attorney General at once.

Woodring: We will ask the President to get this thing up there right away.

Stark: General Marshall, you are handling all the TNT powder.

General
Marshall: Yes, we are.

Stark: We are practically clear on the powder line.

H.M.Jr: (Then telephoned the President at ten minutes to eleven. Crim came to the phone and told the Secretary that the President was not available; that he was taking his bath. H. M. Jr: "If I came over, do you think the President would throw me out? I will take a chance and go in with General Watson.")

Stark: I can take 500 tons on one ship (returning back to the question of the French gold)..

H. M. Jr: Is the Trenton there?

Stark: Yes, the Trenton is in Lisbon, and the Vincennes is on the way over. In addition, the Omaha goes on the 15th.

H. M. Jr: Is there any reason why the Trenton shouldn't go into Bordeaux immediately?

Stark: In talking with the President we agreed to keep the ships out of the Mediterranean.

H. M. Jr: (It was pointed out to Admiral Stark that Bordeaux was not in the Mediterranean. Whereupon, Admiral Stark inspected the map to find out where Bordeaux was.)

Stark: I don't think it is a good idea for our ships to go into belligerent ports. Bordeaux is in the zone where there may be mines and things and the President agreed with that policy.

Welles: The only unfinished business is to get the message to Ambassador Bullitt.

H. M. Jr: Admiral, where will you be? Why don't you and I walk over to the White House together.

* * * * *

We went over to the White House and the President agreed that the United States battleships should bring back the gold.

100-375

Calendar No. 1726

76th CONGRESS
3d Session

S. 4025

[Report No. 1649]

IN THE SENATE OF THE UNITED STATES

MAY 22 (legislative day, APRIL 24), 1940

Mr. SHEPPARD introduced the following bill; which was read twice and referred to the Committee on Military Affairs

MAY 22 (legislative day, APRIL 24), 1940

Reported by Mr. SHEPPARD, without amendment

A BILL

To expedite the strengthening of the national defense.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That in order to expedite the building up of the national
- 4 defense, the Secretary of War is authorized, out of the
- 5 moneys appropriated for the War Department for national
- 6 defense purposes for the fiscal year ending June 30, 1941,
- 7 with or without advertising, (1) to provide for the neces-
- 8 sary construction, rehabilitation, and installation at military
- 9 posts, depots, stations, or other localities, of plants, buildings,
- 10 facilities, utilities, and appurtenances thereto, including the
- 11 acquisition of such land as may be necessary, for the develop-

1 ment, manufacture, maintenance, and storage of military
 2 equipment, munitions, and supplies, and for shelter; (2) to
 3 provide for the development, purchase, manufacture, ship-
 4 ment, maintenance, and storage of military equipment,
 5 munitions, and supplies, and for shelter, at such places and
 6 under such conditions as he may deem necessary; and (3) to
 7 enter into such contracts, and to amend or supplement such
 8 existing contracts, as he may deem necessary to carry out
 9 the purposes specified in this section: *Provided*, That any
 10 statutory limitation with respect to the cost of any individual
 11 project of construction authorized by this section shall be
 12 suspended until and including June 30, 1942.

13 SEC. 2. (a) During the fiscal year 1941, all existing
 14 limitations with respect to the number of flying cadets in
 15 the Army Air Corps, and with respect to the number and
 16 rank of Reserve Air Corps officers who may be ordered to
 17 extended active duty with the Air Corps, shall be suspended.

18 (b) The President may, during the fiscal year 1941,
 19 assign officers and enlisted men to the various branches of
 20 the Army in such numbers as he considers necessary,
 21 irrespective of the limitations on the strength of any par-
 22 ticular branch of the Army set forth in the National Defense
 23 Act of June 3, 1916, as amended.

24 SEC. 3. All existing limitations with respect to the num-
 25 ber of serviceable airplanes, airships, and free and captive

1 balloons that may be equipped and maintained, shall be
 2 suspended during the fiscal year 1941.

3 SEC. 4. The Secretary of War is further authorized to
 4 employ such additional personnel at the seat of government
 5 and elsewhere, and to provide for such printing and binding,
 6 communication service, supplies, and travel expenses, as he
 7 may deem necessary to carry out the purposes of this Act;
 8 *Provided*, That with respect to any personnel employed in
 9 connection with the national-defense program of the United
 10 States the provisions of section 6 of the Act of August 24,
 11 1912 (37 Stat. 555), may be waived in any case when
 12 approved by the Secretary of War.

13 SEC. 5. The President is authorized, through the appro-
 14 priate agencies of the Government (1) to provide for
 15 emergencies affecting the national security and defense and
 16 for each and every purpose connected therewith, including
 17 all of the objects and purposes specified under any appropria-
 18 tion available or to be made available to the War Depart-
 19 ment for the fiscal years 1940 and 1941, (2) to provide for
 20 the furnishing of Government-owned facilities at privately
 21 owned plants, (3) to provide for the procurement and train-
 22 ing of civilian personnel necessary in connection with the
 23 protection of critical and essential items of equipment and
 24 material and the use or operation thereof, and (4) to provide
 25 for the procurement of strategic and critical materials in

1 accordance with the Act of June 7, 1939, without regard
2 to section 3709 of the Revised Statutes; but the aggregate
3 amount to be used by the President for all such purposes
4 shall not exceed \$66,000,000. The President is further
5 authorized, through such agencies, to enter into contracts
6 for such purposes in an aggregate amount not exceeding
7 \$66,000,000. An account shall be kept of all expenditures
8 made or authorized under this section, and a report thereon
9 shall be submitted to the Congress on or before June 30,
10 1942.

11 SEC. 6. Whenever the President determines that it is
12 necessary in the interest of national defense to prohibit or
13 curtail the exportation of any military equipment or muni-
14 tions, or component parts thereof, or machinery, tools, or
15 material necessary for the manufacture or servicing thereof,
16 he may by proclamation prohibit or curtail such exportation,
17 except under such rules and regulations as he shall prescribe.
18 Any such proclamation shall describe the articles or materials
19 included in the prohibition or curtailment contained therein.
20 In case of the violation of any provision of any proclamation,
21 or of any rule or regulation, issued hereunder, such violator
22 or violators, upon conviction, shall be punished by a fine of
23 not more than \$10,000, or by imprisonment for not more
24 than two years, or by both such fine and imprisonment.
25 The authority granted in this section shall terminate June
26 30, 1942, unless the Congress shall otherwise provide.

RE AIR EXPANSION PROGRAM

May 30, 1940
2:30 p.m.

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Present: Mr. Young ✓
Mr. Mead ✓
Captain Kraus ✓
Mr. Wilson ✓
Mr. Foley ✓
Mrs. Klotz

H.M.Jr: // You (Young) can tell Purvis tomorrow morning he can have twenty of those speed boats from the Electric Boat Company, twenty.

Young: Why tomorrow morning?

H.M.Jr: Because I don't want him to know it before Mr. Edison does. //

Klotz: That was the right question.

H.M.Jr: Is that all right?

Wilson: Perfectly.

H.M.Jr: I should have sworn you into the Treasury.

Kraus: He was in the Navy long enough to know what to tell and what not to tell.

Young: Do you have the deliveries?

H.M.Jr: Admiral Stark didn't know and was trying to get them, but there is ten that dropped mines, I think, and ten that dropped torpedoes, something like that. Does that sound right?

Kraus: That sounds right.

H.M.Jr: And the Navy keeps two of each. Does that sound right?

Kraus: I know they are built both ways, some with torpedo tubes and some with mine gear.

H.M.Jr: Yes. Everything lovely?

Wilson: Yes, sir. Except the weather. I have been keeping an eye on that.

H.M.Jr: I see. In this conversation that you have been having, have you made a rough estimate of how much it would cost to reproduce your plant, which I see by the papers is going to reach a million two hundred thousand horse? Is that correct?

Wilson: Yes, sir. The present plant of this Anglo-French purchase is just starting. It will bring us up to a capacity of one million two hundred thousand horse power a month, and the total investment will be on the order of twenty million.

H.M.Jr: They cost less than the other fellows.

Mead: But this is only an addition to the plant they have got. It is not reproducing anything.

Wilson: Let's put it this way, that before we started this expansion program our plant account was of the order of seven million. The French additions were seven million seven hundred thousand, that is fourteen, and the British was eight million on top of that.

Mead: I think I know what the Secretary should know, that Pratt & Whitney build fewer parts, perhaps, than Wright do.

Wilson: That is right, that makes the difference. Half of our dollar, as I said the other evening, goes to outside suppliers and Wright builds much more of their own plant.

H.M.Jr: Then I take it they have asked you the question that you are going to give me the answer to by Tuesday, that -- which way you would suggest duplicating a million two hundred thousand horse in manufacturing one of your largest engines.

Wilson: Yes, sir, I will try to have an estimate by Tuesday.

H.M.Jr: Along what lines are you thinking now, Mr. Wilson?

- Wilson: Our war plan as we had originally contemplated it for the Air Corps provided only for one more addition in our plant and that was the extension in the back, and beyond that we haven't planned any further. If we started in now and developed a plant to duplicate the present capacity in one area instead of the arrangement we now have --
- H.M.Jr: Well, the President is insisting on more plants west of the Alleghanies, definitely wanting them, and I want to give him a program as early as possible and then show him what it will cost, etc., etc., so I would like to have you give us a program, you see.
- Wilson: Yes, sir.
- H.M.Jr: I mean, he has got this very much in his mind and he wants another one, so it is a question of whether you want to -- how would you do it, that is the thing I want from you? Would you rather tie up with an automobile company?
- Wilson: I think we would want to think that through pretty carefully before we answered. It is a question, a good deal, of how much dilution there is of our own staff and it is kind of a moot question as to whether you should look to someone that had an organization that needed to be trained or whether you had to train out of your own people.
- H.M.Jr: But you will have that pretty clear.
- Wilson: Yes, sir, I will do that.
- H.M.Jr: And I understand from Mr. Mead that the licensing thing is in pretty good shape.
- Wilson: Yes, sir, it is.
- H.M.Jr: All right. Let me ask you this, as an aviation engine man. You will get a laugh out of this one. What liquid cooled engine in the world, outside of Germany, do you consider as practical and proven today?
- Wilson: Well, of course, the English engines, the

Rolls Royce, is about the only proven liquid cooled that I know of. The Italians must have something, haven't they, George?

Mead: Not very much.

Wilson: Then the English --

H.M.Jr: Do you know much about the Rolls?

Wilson: Only that they have been ingenious. We know approximately how many of them have been built and that they have been reasonably successful. They always have been pretty well advanced as a model.

H.M.Jr: But outside of that --

Wilson: That is the only one I know of.

H.M.Jr: Well, is there something you would like to ask me?

Wilson: No, sir. I think we are all squared as far as I am concerned.

H.M.Jr: Lovely. Well, then, I will tell you, I would like to talk with George Mead and Kraus a little bit. Is there something you want to raise?

Foley: No.

H.M.Jr: I would like to talk with them a little bit. Philip, do you want to see me again today? I hope not.

Young: I don't think so. I would like to see Mrs. Klotz again.

H.M.Jr: Well, I need her at three thirty when I go to the White House.

Young: Three thirty?

H.M.Jr: Can you wait that long?

Young: Sure.

H.M.Jr: All right. Thank you very much for coming down.

(Mr. Young, Mr. Wilson, and Mr. Foley left the conference).

H.M.Jr: Bring me up to date, now, will you please, where we stand on the Allison and where do we stand on the Rolls, I mean what is the situation?

Mead: All right. On the Allison situation, I got in touch with Allison and I told him -- made perfectly clear to him through a third party, you know, how serious this situation was, and that I wasn't satisfied that I had impressed them sufficiently in Indianapolis about it. Consequently, I felt that I must go to them because we couldn't brook any further delay. Subsequently I had word that he would send his chief engineer to Indianapolis and investigate the situation before he came down here. I wanted to have him come down here first, but I couldn't very well insist on that. Furthermore, he was going to get Henry Crane, who is Sloan's assistant on engineering matters, up from Florida and they were to meet here just as soon as they had reviewed the situation from an engineering standpoint. Now, I think no word is good word -- good news, because I think they have found that what we were talking about is a mess, but I expect them on the first of the week anyway. We haven't heard from them, and in the meanwhile, I have talked to Brett and prior to that talked to Echols, on the program of running an engine at reduced horse power as the maximum power we will use that engine in service to indicate whether it was safe or not to ship engines at that power. It has 950 horse power instead of 1,090 horse power. That is my educated guess on what might get by, but I am honestly afraid that it won't; and rather than argue about it, it was thought best to have the engine run at Dayton and see.

H.M.Jr: May I interrupt you a minute? I thought you

were going to run this engine at full power at Dayton.

Mead: Well, that is full reduced power, because we are sure from the test record that they cannot run it at 1,090 horse power.

H.M.Jr: Then, is that 80 or 90% of power?

Mead: Ninety percent.

H.M.Jr: You are not running it at full power as in take-off?

Mead: No, because they have not changed it any and the only way to get it by is to reduce the power.

H.M.Jr: Did you (Klotz) see the thing come down giving George Mead the right to fly? It is in my mail somewhere. It came down. Anyway, you (Mead) have authorization to fly.

Kraus: You might explain to the Secretary --

H.M.Jr: I didn't know that that was what you were doing.

Mead: Well, we are confronted with the situation of the engines that haven't passed test, and we are shipping them out or trying to get them out of the plant. When you look at the engine and see that it is weak here and here and here, from test record, not from my judgment of the matter -- that is backed up by actual running today. They broke these parts. I said to myself, "Well, here we don't want to ship those out and crash planes and possibly hurt pilots," that we have got to reduce the power as much as the Army will stand for and enough to give the engine a break, so actually the English fighters for quite a long time operated with power like this, 950 take-off horse power, so that Echols agrees it makes a perfectly good airplane. It slows it down obviously, because we have knocked off a hundred and forty horse power, but it is a perfectly sensible thing to do and it is all within our control, and it is -- the Army doesn't have to change the contract or anything, they just order their

pilots to operate the engine not over 950 horse power. But there wasn't any sense in saying that was going to solve the problem unless we made a good check, so that is the reason for running the two engines at that power.

H.M.Jr: There are two engines --

Mead: One is supposed to be at Indianapolis and one at Dayton.

H.M.Jr: And that isn't complete yet?

Mead: No, I don't understand why it takes them so damn long to get it started.

H.M.Jr: Is Dayton slow?

Mead: Yes, but don't you worry about that.

H.M.Jr: No, I am not, I am trying to get the story. I am not going to do anything about it, but I am just thinking of arguments for the President.

Mead: That is the next thing on that phase of it. The next thing was, I told Evans, whom I think is a fine man and a good chap -- but his trouble is that he is brand new to aviation. He is scared to death to tell the engineering department what to do because he might upset the boat. I can see that perfectly. So my solution is to tell Sloan that you want to get Carl Ward in there to help Evans with the judgment of an aviation executive.

H.M.Jr: Carl Ward will be gone for three months.

Mead: Well, apparently we can get him.

H.M.Jr: Well, that would be sort of breaking faith with the French.

Mead: He is the only fellow that is foot-loose.

H.M.Jr: That would be breaking faith. I wanted to hire him for the Government for three months

before I met you and they said no, that --

Mead: Well, some things are weak --

H.M.Jr: And I never offered to hire him, mind you, because of that, and I said I wouldn't hire him and I have sort of got my word, so I let the matter drop. Then this thing got so deep that I came to you. I never had him in the office.

Mead: A man has got to go in there that knows aviation to supplement them, that is, they were an experimental shop before. They are doing production work now that involves production decisions, and they are not able to make them. The next thing is the Army has got a nice old man out there as an inspector, and nobody can stand back and tell those fellows where to get off, so I talked to Brett and I picked out the man for him. His name is Irvine. I know he is a two-fisted fellow that knows what to do about it, and he said he would send him out there after this air show, which is over at the end of the week, to represent the Air Corps and the factory. That will make some considerable change, because they promised us a lot of things and I am willing to bet that if we went out today they haven't done much about any of it. They are not serious about this yet.

Now, the next thing I told Evans was, this stuff has broken time after time, and he has not fixed it.

H.M.Jr: Where did it break, in the plane?

Mead: Well, they broke a rod in a plane at ten hours the other day. That is apt to start a fire.

Kraus: It cuts the engine in two, very frequently.

Mead: Now, I told Evans we have got to have solutions for every one of these problems, not one but three or four.

H.M.Jr: I want to be here when I put you up against Knudsen and --

Mead: I think we are talking in some language we know about.

H.M.Jr: I want to be here. I want to see that.

Mead: Well, Evans agreed that it was sort of silly for them to have sat back and not provided for any solutions to these things. So I said, "I can't order you to do anything, but I would suggest that you do so and so and so as solutions." So he wrote those all down and said he would start to do them. But he hasn't got an experimental shop to do any work and he hasn't had one for a year. He has got the darn thing full of production so you can hardly find the engineering department when they had nothing to work on.

H.M.Jr: Well, the story, then, is that we don't know, we haven't had the answer to these tests, have we?

Mead: Have you got a minute?

H.M.Jr: Yes.

Mead: These failures are supposedly going to be backed up by parts that will fix them in several different ways, so the reason for running two engines, of course, is the more engines we can run the more sure we will get the answer. We might accidentally break something in one engine. Now, they are all agreed to that and Brett has agreed, and Allison has agreed to this running procedure so that that part is all going along all right, but to get at General Motors, we just haven't got there yet, but I am hopeful in a day or two. I suppose we will have to wait on them a little bit.

Now, Allison gives us all kinds of silly excuses as to why these things break. They said the test man was responsible and the propeller, and somebody made them use a cock-eyed starter, and that was one of the

things and we have gotten by with our jobs for years.

H.M.Jr: I want to have two hours with you and this fellow Knudsen. I am going to tell him -- what is my first appointment Monday? I am going to tell him I'll see him at nine o'clock Monday morning. Will you be back? You ought to be nice and fresh.

Mead: If the train isn't late I will be here. My train gets in, I guess, a little before nine o'clock.

H.M.Jr: All those sleeping trains do.

Mead: That is a polite name for it. Now, another thing I have done so as to leave no stone unturned, I have got draftsmen downstairs right this minute drawing up solutions to the troubles with an idea that we have done everything for them. We have got experts from other engine companies under our direction, at least they have been taken off their payrolls and turned over to us. We can show him, that is, Allison, in a drawing just how he could fix it if he would; and naturally, we are not going to tell him he has got to do it that way, but --

H.M.Jr: You mean you have actually got draftsmen downstairs?

Mead: Yes, sir.

Kraus: On the floor below.

Mead: Because I thought we are sitting in the seat of being responsible and the only way I can do it is, I will take off my coat and go to Allison and make it run if we have to, and here is the way I would do it. Well, then, I am hopeful, of course, to get Allison in here and have them agree with us that the thing is rotten and I have had a lot of data prepared to show how rotten this engine is, even if you allowed it to have 1,090 horse power. It is nothing compared to the Rolls Royce engine. The Rolls Royce engine

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was done -- three years ago it was in production and this engine was built eleven years ago, that is, the fundamental engine and they still haven't caught up with Rolls, and we have done in our own -- and Kraus was just remarking -- in twenty-two months from the time we put pencil to paper, we have had quantities of engines going out of the factory.

H.M.Jr: How long?

Mead: Twenty-two months.

Kraus: Of an entirely new type.

H.M.Jr: I understand. Let me ask you this question. Let's go to Rolls Royce a minute. What is your idea on Rolls Royce?

Mead: Well, on Rolls Royce we have got coming, as you know, the drawings and incidentally in that information will be other things we want them to see before we make a decision, but there is one thing I should correct for you. You and I spoke of it. There are no parts in the metric system, but the threads are a British standard thread and they are sometimes measured by the metric system and they are built in the United States so that --

H.M.Jr: You mean we can build them?

Mead: Oh Lord, yes, so I wanted to correct that one thing because I have been so positive about it and I went back and checked up on it and our boys have been going through the Rolls drawings, and those fellows have sent us everything they had in Detroit, and they sent a man down with it. Now, the Rolls engines, I told you, perhaps, that I didn't want them to run those engines for fear they would break them and we have got no other parts and we need them for samples and almost everywhere we have been we have got Wilson's thought -- and I thought that was a very clever way to give it -- there will be no question as to that being the proper engine to build.

- 12 -

- H.M.Jr: Who do you think ought to build it?
- Mead: Ford, simply because of the stock. I don't think Edsel quite knows the story, and I will have Olley, the Rolls Royce man, confront him with the fact that he has done so in Detroit. They called up from Detroit and wanted to know if we would loan them some of the bearings, because the British suggested they needed more roller bearings and ball bearings.
- H.M.Jr: Who should loan them?
- Mead: We should let the bearing company that has been ordered by Rolls Royce to manufacture the bearings, to see them and measure them, so I said all right, I would let them do that because Rolls has done everything for us.
- H.M.Jr: You mean let them see the actual bearings?
- Mead: Yes, let them measure them and put them back with the understanding they would be responsible for it, but I think that would help Rolls Royce.
- H.M.Jr: Now, was Admiral Stark right when he said he understood the trouble with the Allison engine was the super charger?
- Mead: Oh no.
- Kraus: It added somewhat to the troubles, perhaps.
- H.M.Jr: He said he understood that.
- Mead: They had exhaust driven super chargers on some installations and the turbine itself has never been any too good, but they didn't build that, General Electric built it. Now, on the later engines, they have got what we call an engine driven super charger, which I think is fairly reliable.
- Kraus: The only effect there was that it added to the loading on the engine and the engine was already in difficulty in developing its

load and -- that is, the power absorbed in driving the super charger was an appreciable drain on the engine.

H.M.Jr: But in talking with Ford tomorrow, the thing I thought I would start in with was something like this. "Now, Mr. Ford, we have got to get more engines, a great deal more. If you had your choice of building a successful aviation engine, what kind would you build?"

Mead: All right.

H.M.Jr: Now, what I would love to do is, I would love to go down and see these men in their drawing room. Are they downstairs today?

Mead: I am pretty sure they are. I have got a Scotchman that told me when I left the company that if I ever wanted him, just to say so, so I asked the chief engineer.

H.M.Jr: What room is it?

Mead: They are down on the floor just below this one. If I could talk to Taylor or --

H.M.Jr: Just pull up the phone. Well, do you think it costs forty or forty-five million dollars or does it cost twenty million to expand a plant?

Kraus: It depends upon how much they depend upon outside sources for many parts.

Mead: They are right here in the building, but the draftsman is actually on the board and he is the one who answered the telephone.

Kraus: The Wright Company runs its own foundry.

H.M.Jr: There is such a difference between twenty million dollars and forty-five million dollars.

Kraus: It is just about what I would expect. One would say five dollar output for the dollar of capital invested, and the other about ten dollar output. Of course, that other investment is in those vendors' plants, and if you

can obtain the support of sufficient reliable vendors, then the Pratt & Whitney method is much simpler and much easier.

Mead: I would like to explain how that came about. When we went to Hartford, we didn't have any money so we got our friend to make things for us and then we kept it up because it kept the plant investment down and they were all within trucking distance of us. Now, I think in an emergency there is a question as to whether that is an entirely good system or not, but it was a fine system for us.

H.M.Jr: On the other hand, if we can build an engine factory for twenty million dollars, why should we -- and then all on the supplies, why should we put forty five million into it?

Mead: I think it is a lot to be considered.

H.M.Jr: I am Scotch, too.

Kraus: You have to worry about -- remember about these various engines which were developed. Now, Wright thinks they have certain castings that almost nobody else can make. That may be true. It is the question of how long it would take to teach somebody how to make those particular castings that they make. You people never made castings.

Mead: Davis made the foundry. He built us the foundry in Fairfield, Connecticut. It didn't cost us a cent.

H.M.Jr: Incidentally, did Wright say which town it was?

Mead: No, I told them one, two, three, please.

H.M.Jr: I should think offhand if a fellow could get an airplane for twenty million dollars and depend upon the rest of the industry and another thing -- in case of dynamiting or something, it spreads the risk.

Mead: That is true.

- 15 -

H.M.Jr: There is quite a difference.

Mead: But it is difficult, and that is something we have to think about, to find vendors that are somewhere near the plant, the point being that you have got to back and forth all the time to say, "Here, darn it, you made a mistake on that," and so and so, and if you have got to go twenty-four hours before you get it, you are delayed that much.

H.M.Jr: Let me give you a friendly tip. Somebody has been telling the President that the Navy planes aren't fast enough. Somebody said that they would only do about two hundred twenty-five miles an hour. They asked why they don't do what the Army planes do. I don't know what the answer is.

Kraus: Yes, sir. I will tell my home folks over there.

H.M.Jr: Somebody has been telling him your stuff isn't as good as the Army's.

Mead: Do you think of anything we have left undone?

H.M.Jr: No, I think you have done a beautiful job; and if it is the last thing I do, I am going to sit here and take two hours when you go after Knudsen.

Kraus: George, have you given up the idea of comparing parts or are you still going to do that in the end?

Mead: I am having flown in here from Dayton when Echols comes--

H.M.Jr: Who is he?

Mead: He is the head of the Wright Field. You might call him chief engineer of the Army Air Corps, that is really what he is. I have got crankshafts out of the Rolls engine and the Allison engine and connecting rods and reduction gears, and I have got a table for them here, and I am going to just put them there and I bet you could tell the difference.

- 16 -

even though that is out of your line.

- H.M.Jr: And we will take Mr. Knudsen down there, too.
- Mead: Sure. I know I am sticking my neck out, but I don't care. I think it is the thing we have got to do.
- H.M.Jr: What can they do to you?
- Mead: Nothing except to say I am an awfully conservative fellow, and that won't hurt me a bit, because I think the engine will talk for us.
- Kraus: The Secretary asked what broke about it, what was wrong with reference to this super charger. I believe you did tell him that the crankshafts were broken, connecting rods were broken, and the crankcase itself was broken, and I think there is a history of some five or six such occurrences, all paralleled by tests.--
- Mead: They have been ignored. They think somehow if they keep running enough engines by some mysterious means they will get by the test.
- Kraus: Those things, of course, are the basic -- that is what you might call the carcass of the engine.
- Mead: We don't care. We overlook a lot of little things like cracks that leak oil that don't hurt anybody, and bolts that break off but don't necessarily amount to a serious accident, and so on, but these things cannot happen, Mr. Secretary, without getting into real trouble.
- H.M.Jr: Okay. I think you are doing fine.

		<u>New American Program</u>	<u>Total on Order</u>	<u>Combined</u>
<u>1500 to 2000 hp.</u>				
C. W.	3350	323	40	363
P & W	2800	9,119	1,240	10,359
C. W.	2600	<u>27,877</u>	<u>6,700</u>	<u>34,577</u>
		37,319	7,980	45,299
<u>1000 to 1200 hp.</u>				
C. W.	1820	12,962	3,300	16,262
P & W	1830	3,484	4,030	7,514
Allison	V-1710	<u>9,396</u>	<u>4,184</u>	<u>13,580</u>
		25,842	11,514	37,356
<u>600 hp.</u>				
P & W	1535	-	900	900
P & W	1340	<u>1,985</u>	<u>1,480</u>	<u>3,465</u>
		1,985	2,380	4,365
<u>400 hp.</u>				
P & W	985	8,560	590	9,150
C. W.	975	5,061	260	5,321
Ranger	770	<u>2,150</u>	-	<u>2,150</u>
		15,771	850	16,621
<u>200 hp.</u>				
C. W.	760	3,524	-	3,524
Lycoming	680	1,845	-	1,845
Jacobs	675	675	-	675
Continental	670	3,420	-	3,420
Ranger	L-440	1,350	-	1,350
Menasco	L-365	<u>1,136</u>	-	<u>1,136</u>
		11,950	-	11,950
Total Engines		92,867	22,724	115,591

30, 1940

May 30, 1940

Memorandum for the Secretary:

From investigations made by Dr. Th. von Karman, Dr. Clark B. Millikan, Dr. A. E. Lombard and Professor Otto D. Koppen of the possibilities of using plywood, molded plastic or other non-conventional materials in the construction of primary training aircraft the following conclusions and recommendations can be drawn:

1. That the Army and Navy should use the same type of aircraft for primary training.
2. That a single suitable airplane and engine type be selected for primary training.
3. That a construction method be adopted that does not require skilled men and materials necessary for the manufacture of combat types.
4. That there are two possibilities for securing high production on military training types:
 - a. Through the use of molded, resin-bonded plywoods, and
 - b. Through the use of welded steel automobile body sheet.

True molded plastic materials are not yet developed at the present time to the point where their application to aircraft construction is practical. There now exist at least three specific types of plywood construction which have been sufficiently developed to make it reasonably certain that any of them could be satisfactorily adapted to the large-scale production of training planes. Although no detailed design and production studies of the steel training planes have so far been made, it is believed that the engineering problems involved are well enough understood to make it highly probable that such airplanes could be produced sufficiently in quantity in the near future.

Studies will be continued on this problem to work out some definite program that will be mutually satisfactory to the services and to the manufacturers. It must be understood, however, that for the requirements of the immediate future it will be necessary to utilize the facilities that now exist for the manufacture of training airplanes of the conventional type, while the development of plastic-plywood or sheet steel machines is being completed and preparations are being made for production.

Gary Maad

MAY 30 1940

392

My dear Mr. Secretary:

I want you to know how much I appreciate your courtesy in permitting Colonel H. K. Rutherford and Major W. H. Soderholm to participate in the machine tool conference held in my office on May 27, 1940.

The pertinent and useful information presented by these officers at the conference will be of great value as we develop this program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

NMS

File to Mr. Thompson

MAY 30 1940

My dear Mr. Secretary:

I want you to know how much I appreciate your courtesy in permitting Captain E. D. Almy, Commander E. R. Henning and O. S. Warhus, Engineer, to participate in the machine tool conference held in my office on May 27, 1940.

The pertinent and useful information presented by these gentlemen at the conference will be of great value as we develop this program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

File to Mr. Thompson

NMS

May 30, 1940

My dear Mac:

I would appreciate it if you would pass the following idea along to the President.

Monday, at 10:30, the machine tool people plus the Army and Navy representatives will meet for the second time in my office and I think it would be advisable if either Mr. Stettinius or Mr. Knudsen, or both, would come to my office, sit in at this meeting, and then take over the machine tool problem in toto. This will leave me freer to look after the coordination of airplanes and airplane engines for the Army and Navy and also continue to look after foreign purchases.

Sincerely yours,

Mr. William H. McReynolds,
Administrative Assistant to the President,
The White House.

735
May 30, 1940

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Sincerely yours,

Mr. William H. McReynolds,
Administrative Assistant to the President,
The White House.

May 31, 1940
4:10 p.m.

Present: Mr. Bell
Mr. White
Mr. Foley
Mr. Young
Mrs. Klotz

H.M.Jr: Harry, on this statement I read on the Hill, who were the people who worked on it most? Sullivan said it was you and Gaston.

White: Only in the afternoon. To my knowledge, it was Roy Blough and John Sullivan and Tarleau.

H.M.Jr: Well, here is the point. Sullivan calls up and says we can have from seven until twelve tonight to correct my statement and the Congressman says it must be gone over. Where is he waiting now?

Klotz: In the Speaker's room.

Bell: You mean your testimony?

Klotz: In the Speaker's room.

H.M.Jr: Is it asking too much of you people or have you any personal plans -- I have asked Bell, White and Gaston to go over this between seven and twelve tonight.

White: It is all right with me.

Bell: It is all right with me.

H.M.Jr: Then Bell, I will get Sullivan now.

Klotz: The Speaker's office of the Capital.

H.M.Jr: If you (Bell) would tell Sullivan and White -- there is no use having Foley, there is nothing legal about this. We will wear you (Foley) out some other night.

Foley: I don't know what it is.

H.M.Jr: My testimony.

White: I think there are some things that we can refer to him.

H.M.Jr: Well, you have got from seven until twelve tonight.

Foley: If you want me, I have nothing to do and I will be very glad to be here. I don't know whether I have anything to contribute.

H.M.Jr: I think it is up to them. If I wanted you, I would ask you but I think if there is Bell, Sullivan, White and Gaston, I think we have done enough. I think there is such a thing as too many people huddling over it so that you can't do it. Right?

Foley: I think that is right, sure. I think John Sullivan --

H.M.Jr: If I wanted you, I would ask you. I am asking these other people if it would interfere too much.

Bell: I don't think it is a big job. I think your statement is in very good shape all the way through.

H.M.Jr: I have got to get out of here in five minutes. While we are waiting, I am going to tell Sullivan that you and White and Gaston are available. Anything you want to ask, Dan?

Bell: Not a thing.

H.M.Jr: You know I showed you that secret thing.

Bell: Yes.

White: We have your permission to make whatever changes seem reasonable to us?

H.M.Jr: I am entirely in the hands of you gentlemen. Are you all right?

Bell: Yes.

H.M.Jr: You?

White: Yes.

H.M.Jr: Are you?

Foley: Yes.

H.M.Jr: I saw over the ticker some finagling on the Annenberg business and Bob Jackson said he knew all about it.

Foley: Phil came down to me --

H.M.Jr: Don't tell me. Okay?

Foley: Yes, sir.

H.M.Jr: All right, thanks. I will be here - Phil, have you got everything to Mrs. Klotz?

Klotz: Yes, I gave you those memos and the President's letter is out and that is going to go, Mr. Morgenthau, there was a list of things you said --

Bell: Is Sullivan going to send him down?

White: Who is going to get it?

H.M.Jr: I am going to put Sullivan on Bell's telephone.

Foley: The only suggestion I would like to make, Dan, is this: as you know, it is quite unusual for them to ask for the unexpurgated copy and I think that any changes you make, they will take political advantage of to say, "This is what he said, and this is the way he changed it," and I think you ought not to make changes unless it is absolutely necessary.

Bell: We are going to change the word "agreement" that you kept referring to to "understanding."

H.M.Jr: All right.

Klotz: You said the other day to get a certain statement. Nothing has been done about it yet.

Young: Kraus has a copy of it.

H.M.Jr: Give one to Brett.

Klotz: It is different than we have ever done it before.

H.M.Jr: I know. I want to stop it.

Young: I have given you a list of what George Haas has been making up.

H.M.Jr: Let it all go until Monday. The only thing that I want you to do, as I told you once, is what Kraus got on this thing that George came through with on Tuesday. I want Brett to have it today. I want it delivered to him by hand and Monday give me a summary of just the foreign planes and write a letter to Mr. Hull. Nobody else gets any. Got it?

Klotz: Well, it is my fault. I prepared it and he gave it to me yesterday.

H.M.Jr: Oh, but I want Brett to get that today, please.

Young: Right.

H.M.Jr: What was what's his name doing here all day?

Young: Purvis?

H.M.Jr: Yes.

Young: Theoretically, he was working with Marshall. I tried to get them a couple of times to find out what happened. My curiosity was aroused.

H.M.Jr: You might find out about - yes, also the twenty boats. Are we together, the three of us, now?

Klotz: It is on me. I didn't attempt to clear it with you, but he has been right on my heels. Twice he has asked me.

Young: I told Purvis he could have the twenty boats.

H.M.Jr: Good, now, we will talk about the same thing, about this thing that George does. It is complete?

Young: No, not quite.

Klotz: There are two different things.

Young: Does that apply to these to these other analyses on a monthly basis?

H.M.Jr: Just so as to get through tonight, will you, please let General Brett have what we gave to Captain Kraus.

Young: Oh yes.

H.M.Jr: Which is the report of the manufacture of planes and engines last week.

Young: Yes.

H.M.Jr: Now, please let him have that. I don't want to hear any complaints from the Army. For the rest of the stuff, everything can wait until Monday.

Young: Right.

Klotz: Right.

H.M.Jr: Everything. Please personally see that he gets it.

Young: The State Department has released the DuPont contract for the new plant.

H.M.Jr: And I want to tell you, I don't want you to work tomorrow. Take tomorrow off.

Young: I wouldn't want to work tomorrow.

H.M.Jr: Well, I will leave that to you, but stay away from the office tomorrow, will you?

Young: All right.

H.M.Jr: You have earned it. Please.

Young: All right. Good night.

From Reel 107314
Based on 1949 Joint
Statement before Ways
and Means 10/1/49

30

THE ORDERLY FINANCING OF FEDERAL EXPENDITURES, EXPANDED AS THEY ARE BY EMERGENCY EXPENDITURES FOR NATIONAL DEFENSE, REQUIRES PROVISION OF ADDITIONAL TAXES OR AN INCREASE IN THE LIMIT ON THE NATIONAL DEBT. IN MY JUDGMENT, BOTH STEPS ARE ESSENTIAL.

THEREFORE, THE TREASURY DEPARTMENT STRONGLY APPROVES CONGRESSIONAL [REDACTED] CALLING [REDACTED] PROPOSALS [REDACTED] FOR 10 PER CENT INCREASES IN INCOME TAX ^{ES} ~~PAYMENTS~~ AND ADDITIONS TO OTHER INTERNAL TAXES REVENUE AND AUTHORIZATION FOR THREE BILLION DOLLARS OF NATIONAL DEFENSE SECURITIES.

I AM CONVINCED THAT THE PUBLIC IS WILLING AND READY TO ACCEPT THE PERSONAL SACRIFICES OF PAYING THE ADDITIONAL TAXES THAT ARE NECESSARY TO PROVIDE THE COUNTRY WITH ADEQUATE NATIONAL DEFENSE.

Testimony before
House Ways and Means
Comm, 5/31/40 - notes
to provide for defense
measures.

604

In his budget message of January 3, 1940, the President anticipated for the fiscal year 1941 an excess of expenditures over normal receipts of \$2,876,000,000. Recovery of excess capital funds from Government corporations was estimated at \$700,000,000. The President recommended that \$460,000,000 additional taxes be imposed to cover emergency national defense expenditures. This left an anticipated deficit of \$1,716,000,000 to be financed by borrowing.

Since that time events have taken place that make necessary expenditures for national defense that far exceed the amounts provided for in the 1941 budget.

- 2 -

On the basis of appropriation bills which have passed and those which are now pending in Congress, the Treasury and the Bureau of the Budget estimate that the deficit for the fiscal year 1941 will amount to \$3,703,000,000. The borrowing power now remaining under the existing debt limit is \$1,973,000,000. In the light of the extraordinary requirements for national defense it is anticipated that, unless the Congress acts to relieve the situation, this borrowing power will be completely exhausted by the end of February and the working balance of the Treasury will be dangerously depleted. Action to protect the position of the Treasury cannot safely be postponed until the next session of Congress, especially in a critical period such as this.

- 3 -

The Treasury working balance is now approximately \$1,300,000,000. It would be undesirable to reduce the balance much below this level. The maintenance of a working balance of present proportions has enabled the Treasury to omit major financial operations at a time when market conditions were not favorable and by waiting for more favorable market conditions to save a great deal of money in interest. When viewed from the standpoint of the insurance and financial security which a large Treasury balance has afforded, the interest cost on Treasury bills issued to maintain the balance has been very small -- at present approximately \$130,000 per year.

- 4 -

The maintenance of a balance approximating the present one is distinctly in the interests of economy and financial strength and is especially to be desired in the troubled world of today.

The orderly financing of Federal expenditures, expanded as they are by emergency expenditures for national defense, requires provision of additional taxes or an increase in the limit on the national debt. In my judgment, both steps are essential.

- 5 -

I am convinced that the public is willing and ready to accept the personal sacrifices of paying the additional taxes that are necessary to provide the country with adequate national defense.

Members of the Treasury Staff are here prepared to discuss technical details of the bill before you. I strongly favor its passage.

TREASURY DEPARTMENT

409

INTER OFFICE COMMUNICATION

DATE May 31, 1940

TO The Secretary
FROM Dr. George J. Mead

The following items are probably of interest to you:

Allison Situation

An engine at Wright Field and another at the Allison plant have both run 50 hours at take-off power, which releases the floor production with the understanding that failures occurring prior to satisfactory type test at the contract power of 1090 hp. will have to be made good by the manufacturer.

Available Hispano Engine Types

Colonel Jaquin has indicated that the present Hispano engine used by the French is rated at 980 hp., which is insufficient for their immediate needs, with the result that the engines have to be rebuilt after almost every flight. A more powerful engine rated at 1200 hp. seems to be in the experimental stage, but Jaquin assures me that he can produce a sample.

Ford Situation

Mr. Ford has indicated that he would be willing to study the question of aircraft engine production. Towards this end Mr. Olley is to work with his staff, so that they may have all the information we have upon which to make a decision. Incidentally, Mr. Ford was mistaken as to the amount of work that his company had already done. Consequently, Mr. Olley's statement that Ford was three or four months ahead on tooling is still correct. As soon as information is secured on the Hispano, this also will be turned over to him. I will follow up this matter again next week.

Mr. Ford is willing that you tell the newspapers he was here to consider problems concerned with National Defense. Obviously, he can go no further at the present time

Plastic Planes

The report is here from Millikan, but I would prefer to have it more thoroughly digested and give you a conclusion early next week if this is satisfactory.

Thursday

Arrangements have been made for the Wright Aeronautical Corporation representatives to come in at 9:00 Thursday morning and the Pratt & Whitney group at 2:30 in the afternoon. I think it would expedite matters for Kraus and myself to talk with these people and then get in touch with you for a conference if you can spare the time. In case this day or the times are not satisfactory, would you kindly let me know.

Gen. J. Mead

Jaw

CONFIDENTIAL

May 31, 1940

To: The Secretary

From: Mr. Young

LOCKHEED and HAMILTON

On May 29, 1940, the British contracted for 360 airframes (Reconnaissance bombers) from Lockheed and for propellers from Hamilton Standard. Total value of the contract amounts to \$26,460,000; no capital commitment involved. Delivery is to start September, 1940, and continue through June, 1941. (This contract cancelled 240 Lockheed General Reconnaissance bombers model 32 previously ordered with a value of \$20,540,000.)

WRIGHT AERONAUTICAL

On May 22, 1940, the French exercised an option for 1800 R-2600A engines. Total value of this contract amounts to \$31,760,000 with delivery starting in January, 1941, and running through September, 1941. (Two options exist under this contract, one for 800 engines with delivery from October to December, 1941, exercisable until December 1, 1940, and the other for 2400 engines with delivery from January to December, 1942, exercisable until March 1, 1941).

NORTH AMERICAN

Canada contracted on May 25, 1940, for 100 Harvard trainers, equipped with Pratt and Whitney Wasp R-1340 engines, propellers, and governors. This contract also covered 180 spare Wasps and 30 spare propellers and governors. Total value of the contract amounts to

- 2 -

\$4,396,000; no capital commitment involved. Delivery begins in August, 1941, and continues through August, 1942. (Airframes will be delivered by January, 1942).

On May 23, 1940, the British and French exercised an option for 384 Model NA-73 pursuit planes. The value of this contract amounts to \$14,747,000, with delivery beginning in January, 1941, and running through November, 1941. No capital commitment is involved.

AVIATION MANUFACTURING

The French closed a contract on May 29, 1940, for 38 second hand Stinson and Vultee planes with a value of \$56,000, scheduled for immediate delivery.

P. 1.

CONFIDENTIAL

May 31, 1940

To: The Secretary

From: Mr. Young

As you know, the Anglo-French Purchasing Board is constantly making requests for the release of powder capacity, the release of army surplus stocks, etc.

It would relieve both you and General Marshall of considerable routine and nuisance if a person were designated in the War Department to work with me in clarifying and consolidating these items before action becomes necessary.

TY.

THE ASSISTANT SECRETARY OF THE NAVY
WASHINGTON

414

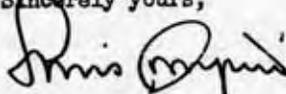
31 May 1940

My dear Mr. Morgenthau:

I hasten to acknowledge receipt of your letter of May 25th, 1940, in which you enclosed copies of statements showing airplane orders and deliveries to the British and French Governments.

Please know that your courtesy in this matter is greatly appreciated.

Sincerely yours,



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

JT

PLAIN

LONDON

415

Dated May 31, 1940

Rec'd 5:23 p.m.

Secretary of State,
Washington.

1460 May 31.

Board of Trade announces amendments to list of goods subject to export licensing the effect of which is as follows:

(1) Group 5. Dies (whether mounted or not) of diamonds and tools and tool parts of which the cutting edge is tipped with diamond are excluded from the licence requirements for export to British Empire countries.

(2) Group 5 and group 12. Exemption for single-vision spectacle lenses is extended to cover all spectacle lenses.

(3) Group 12. Voltmeters and ammeters of a diameter including the bezel of 2 inches or more but not exceeding 2-1/2 inches are added to goods requiring licenses for export to all destinations.

(4) Group 13. Acetic acid ammonium perchlorate and potassium perchlorate are added to goods requiring licenses for export to all destinations and gall nuts to goods requiring licenses for export to European countries other than France (classifications).

KENNEDY

NPL

May 31, 1940 416

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

The almost incredible events of the past two weeks in the European conflict, particularly as a result of the use of aviation and mechanized equipment, together with the possible consequences of further developments, necessitate another enlargement of our military program.

No individual, no group can clearly foretell the future. As long, however, as a possibility exists that not one continent or two continents but all continents may become involved in a world wide war, reasonable precaution demands that American defense be made more certain.

An investigation into manufacturing resources since my message of May 16th, to determine the practicability of placing additional orders with industry for special material, both to provide an early expansion of existing production facilities, and to obtain increased quantities of the special weapons concerned, has caused the War and Navy Departments to submit to me an urgent and new recommendation that increased appropriations and authorizations for the National Defense be made before the adjournment of the present Congress.

Over and beyond the acquisition of this actual material is the evident requirement for the immediate creation of additional production facilities to meet possible future emergencies as well as present deficiencies in the making of munitions, such as guns, ammunition and fire control equipment. These facilities require a long time to create and to reach quantity production. The increased gravity of the situation indicates that action should be taken without delay.

The problem of defending our national institutions and territorial integrity is no longer a problem for men equipped simply with an indomitable determination. Modern defense requires that this determination be supported by the highly developed machinery of our industrial productive capacity.

The expansion of our defense program makes it necessary that we undertake immediately the training and retraining of our people, and especially our young people, for employment in industry and in service in the Army and Navy.

The requirements of industry and the expanded armed forces for persons with experience in mechanical and manual fields are obviously going to be great. We do not have such trained persons in the number that will be required for the tasks that lie ahead of us if our defense is to be assured. We have, therefore, the task of training a large number in the skills and semi-skills required by modern production in industry and by a highly mechanized defense force in the Army and Navy. A primary consideration in the training of skills must be, not the existing distribution of workers among skilled fields, but the distribution that would be required if our industrial machine and our defensive forces were fully mobilized.

In the national effort for defense upon which we are now engaged, it is imperative that we make full and effective use of the mighty capacities that lie in our population. Here as yet undeveloped lie the ability and the strength needed in the building up of our armaments to provide a sure industrial foundation for the meeting of any and all defense requirements. Without the full development of these skills, our national defense will be less than it must be in the critical days which lie ahead. Without the full contribution of our people, our defense cannot attain the invulnerability which the nation demands and which we are determined it shall have.

The one most obvious lesson of the present war in Europe is the value of the factor of speed. There is definite danger in waiting to order the complete equipping and training of armies after a war begins.

Therefore, I suggest the speedy enlargement of the program for equipping and training in the light of our defense needs.

I have instructed the representatives of the War and Navy Departments and also the representatives of the several agencies dealing with the training of young men for non-combatant services to make available to the appropriate committees of the Congress the plans and proposals which they have laid before me.

These plans call for immediate appropriations to carry forward Congressional decisions in bills already pending, for immediate appropriations to add to the program and for authorizations to enter into contracts which it will take some time to complete.

There is a specific recommendation I would make in concluding this message, that before adjournment this Congress grant me the authority to call into active service such portion of the National Guard as may be deemed necessary to maintain our position of neutrality and to safeguard the National Defense, this to include authority to call into active service the necessary Reserve personnel.

The amounts involved are large -- over a billion dollars -- but I believe that for national safety the needs are urgent.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE
May 31, 1940.

RECEIVED
MAY 31 1940
U.S. DEPARTMENT OF STATE
COMMUNICATIONS SECTION

JR

GRAY

Milan

Dated May 31, 1940

Rec'd 1:24 p.m.

Secretary of State,
Washington.

49, May 31, 5 p.m.

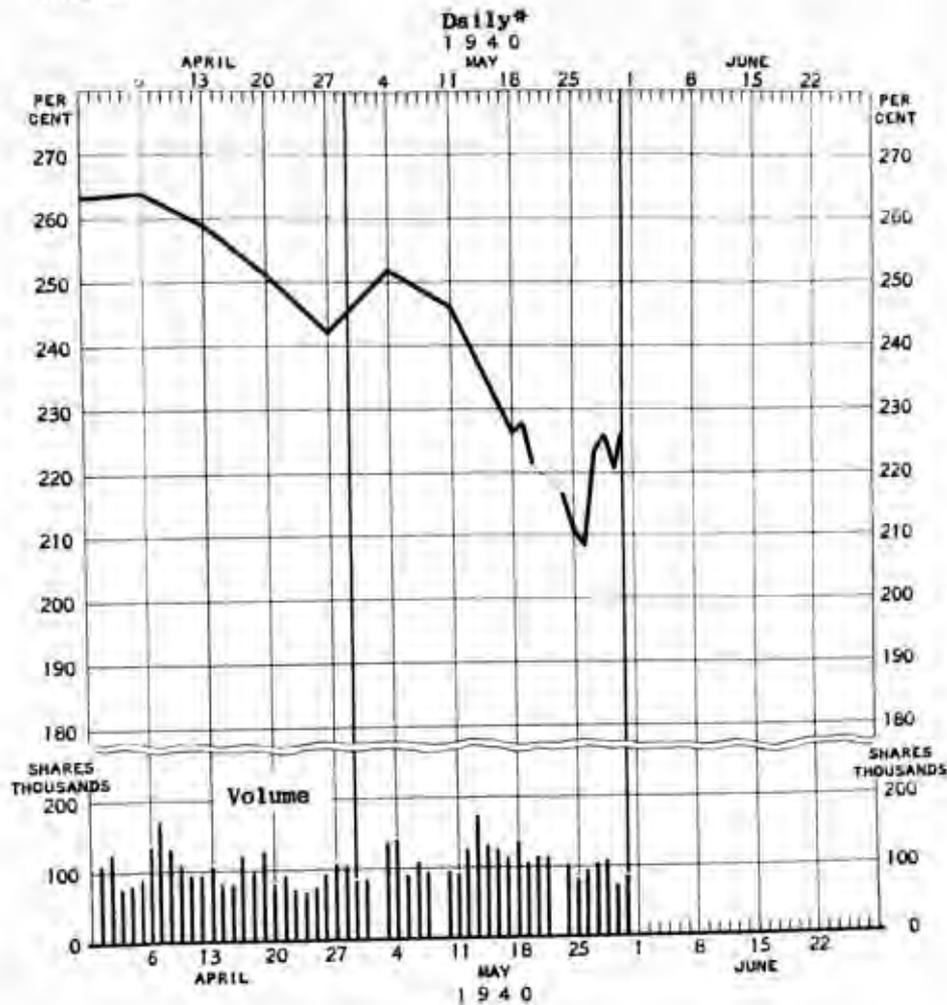
Today's market index 225.77. Volume 84,635.

Prices recovered yesterday's losses in moderate trading. Official announcement that exchange will remain open in case of war favorably received.

SHOLES

RR

ITALIAN STOCK PRICES (Milan)



*SATURDAY FIGURES PRIOR TO MAY 20.

May 31, 1940

6420

At Cabinet I wrote Harold Ickes a note in which I said that he was still my favorite candidate for Secretary of War and this is the answer he sent me.

THE WHITE HOUSE
WASHINGTON

W by not Perkins & S he
could talk them to death.

H. T. G.

FROM: AMBASSADOR BULLITT
TO: SECRETARY MORGANTHAU.

SECRET

ON JUNE 4TH ITALY PLANS TO ATTACK FRANCE. ON THAT DATE PLEASE
HAVE READY TO PUT INTO EFFECT EVERY FINANCIAL AND ECONOMIC MEASURE
TO WEAKEN ITALY THAT YOU COULD DEVISE

SECRET

SECRET

SECRET

as
Received
May 31, 1940.

via Navy

No. 660.

Oslo, May 21, 1940.

Subject: International Nitrogen Corporation,
Oslo, Norway.

The Honorable

The Secretary of State,
Washington, D.C.

Sir:

I have the honor to report that on April 26, 1940 the Internasjonalt Kvelstoffaksjeselskap, Fr. Hansens Plass 8, Oslo, Norway, in a letter dated April 26, 1940, addressed to the Commercial Attaché of this Legation stated that it was acting as trustee for the International Nitrogen cartel and that in this capacity it had substantial funds on deposit at the National City Bank of New York, N.Y. In this same letter two telegrams sent by this concern, one to the

to the National City Bank and the other to the United States Treasury Department were quoted. The telegram to the National City Bank read as follows:

"Beg to inform you that our balance is not our own property but belongs to European nitrogen producers stop have informed U.S.A Legation Oslo and Treasury Department Washington accordingly more information follows when payments have to be made please repeat this cable".

That to the Treasury Department is quoted below;

"We are trustee of International Nitrogen Cartel and have substantial creditbalance with Citibank Newyork stop beg to inform you that this balance is not our own property but belongs to European Nitrogen producers more information follows when payments have to be made have informed your Legation Oslo".

The Department's telegram No. 287 to this Legation dated May 9, was received by courier from the American Legation at Stockholm on May 13 and its contents made known to the company in Oslo. This telegram stated that the Treasury requests the Legation to notify Internasjonal Eveltstoffakejeselskap that their NLT of April 27 and also their NLT of May 6 had been received.

In another letter from this concern dated May 27 the Legation has been furnished with what is called an "exposé" regarding its organization and functions, a copy of which is attached hereto. It is believed that this statement might be of interest to the Treasury Department in connection with the funds on deposit at the National City Bank as well as to the Bureau of Foreign and Domestic Commerce.

Respectfully yours

Raymond E. Cox,
Chargé d'Affaires ad interim.

Enclosure: Copy of
"Exposé" of Internasjonal
Eveltstoffakejeselskap.

In quintuplicate.

TOX:MT

Enclosure No. 1 to Despatch No. 660 of May 31, 1940 from the American Legation, Oslo, Norway.

Copy-

EXPOSE

RE

**INTERNASJONALT KVELSTOFFAKSJESKAP
(I.K.A.) O S L O.**

In 1936 the European nitrogen (fertilizer) producers who had been in close collaboration since 1932, decided to extend their agreements for a further period of 3 years. At that time it was resolved to set up a Trustee in London under the style of:-

INTERNATIONAL NITROGEN ASSOCIATION LIMITED

who was appointed to see that the agreements were properly carried out and to handle all accounts and financial matters.

The agreement was signed by the nitrogen producers in the following countries:-

GERMANY, ENGLAND, NORWAY, BELGIUM, HOLLAND,
ITALY, SWITZERLAND, CZECHOSLOVAKIA and POLAND

on the one side, and

CORPORACION DE VENTAS DE SALITRE Y TODO DE CHILE

on the other side.

The export sale of the European nitrogen producers was, with a few exceptions, entrusted to Internationale Gesellschaft der Stickstoff-Industrie A.G., Basle, who, on their part, employed the selling organizations of Stickstoff-Syndikat G.m.b.h., Berlin (the German group) and Imperial Chemical Industries Limited, London (the English group) for this purpose.

International Nitrogen Association Limited, London, had to collect the proceeds of these export sales, to establish out of these proceeds an average price based on fine gold and to pay this average price to the groups for the deliveries they had made at such periods and in such instalments as were laid down by the agreement.

Imperial Chemical Industries Limited (ENGLAND), however, were an exception as they themselves collected the proceeds of their sales and as far as they sold material for other groups, they refunded to International Nitrogen Association Limited the equivalent of these quantities.

The following procedure resulted from this:-

The deliveries made by all the groups with the exception of Germany, were paid out of the proceeds of the sales made by the German group and the above mentioned payments made by the English group according to the stipulations of the agreement. Therefore, the monies then left over belonged to the German group.

All transactions made by the partners to the agreement and by the Trustee are audited by Société Fiduciaire Suisse, Basle (Chartered Accountants).

In 1938

In 1938 this agreement was extended for another period of 3 years, i.e. until 1941.

Owing to the political tension the partners to the agreement decided in the beginning of 1939 to form a sister company to International Nitrogen Association Limited, London, i.e.

INTERNASJONALT KVELSTOFFAKSJESELSKAP, OSLO,

with the same members of the Board as International Nitrogen Association Limited. On May 1st 1939 all rights and obligations of International Nitrogen Association were transferred to Internasjonalt Kvelstoffaksjeselskap, Oslo, and the bank balances were transferred to this company accordingly. At the same time Internasjonalt Kvelstoffaksjeselskap agreed to employ International Nitrogen Association Limited, London, as their agent and gave them authority to carry on the business as hitherto.

This authority was cancelled on September 1st 1939 and from that day onwards Internasjonalt Kvelstoffaksjeselskap, Oslo, took charge of the management. On September 8th 1939 the agreement of the cartel became void.

Since then Internasjonalt Kvelstoffaksjeselskap has been engaged in winding up the cartel and all the groups have given the company their full support.

RECORDED
INDEXED

1940 JUN 13 6 41 12

TO THE
TECHNICAL
DIVISION

May 31, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during May 1940.

RB

Attachment

Monthly Report on Projects in the
Division of Tax Research
May 1940

421

I New projects

1. Nonresident income under State income tax laws

In connection with an informal request from the Department of Justice, a memorandum has been prepared on the treatment of nonresident income under State individual income tax laws with particular reference to the provisions in State income tax laws for credits on account of taxes paid to the State of residence. (Miss Wells)*

2. Dutch ownership of American securities

A memorandum was prepared for the Office of the General Counsel on the volume of American bearer bonds owned by Dutch citizens and the possibility of determining the ownership of specific bonds at the time hostilities began in the Netherlands. (Mr. Atlas)

3. Tax-exempt securities

Data on (1) the gross amount of interest-bearing securities of Federal corporations and agencies outstanding at the end of each calendar year from 1929 to 1939 and (2) the amount of such securities held by the United States Government, Federal trust funds, and Federal

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

agencies are being compiled. (Mr. Ecker-Racz and Mr. Mannen)

4. Mutual insurance companies

A brief report on the tax treatment of mutual insurance companies, the nature of their income, and their relative importance as compared to stock companies is in preparation. (Mr. Shere and Mr. Mills)

5. Undistributed profits tax

A memorandum is in process analyzing, in the light of issues raised by the undistributed profits tax, the statistics made available from income tax returns and other sources. (Mr. Shere, Mr. Atlas and Mr. Copeland)

6. Proposed legislation authorizing appropriation of certain tax receipts to the Virgin Islands

A memorandum was prepared covering the fiscal relations of the Federal Government with the Virgin Islands with particular reference to the taxes involved in H. R. 9214, 76th Congress, First Session. (Mr. Ecker-Racz)

7. Building and loan associations

The suggestion to exempt dividends on building and loan association stock from the Federal normal income tax is being analyzed. (Miss Till and Miss Wells)

II Continuing projects

1. War and excess-profits taxes

The study of war and excess-profits taxation is continuing. A digest of war finance proposals during the period 1920-1940 is in preparation. Other phases of war finance are also under examination.

(Mr. Ecker-Racz, Mr. Gordon, and Mr. Mannen)

2. Incentive taxation

A report analyzing the provisions of S. 3560, 75th Congress, is being prepared. This bill provides for the imposition of a tax which is reduced as the expenditure for labor used in business is increased. (Mr. Shere and Mr. Farioletti)

3. Income and estate taxes

a. Reports on the following subjects are in process:

- (1) Assets and income of corporations exempt from the Federal income tax under Section 101 together with a Congressional history surrounding the exemption of certain types of corporations, economic basis for each type of exemption, and the effects of allowing tax exemption on the operations of such companies. (Mr. Shere and Miss Till)

- (2) The problems of special defense taxes with particular reference to the technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes be imposed. (Mr. Shere and Miss Coyle)
- (3) Proposal to allow corporations with 5 or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)
- (4) The problems of estate tax payment. (Mr. Mills)

b. Reports on the following subjects are in various stages of preparation but have not been actively prosecuted during the month.

- (1) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets. (Miss Coyle)
- (2) Powers of appointment and remainders under the estate tax. (Mr. Mills)

4. Inventory of tax proposals

A preliminary draft of inventory proposals, designed to produce additional revenue which has been considered by the Treasury from time to time has been completed and is now in the process of editing. A similar compilation

of Treasury tax proposals other than those designed to produce revenue is in preparation. (Mr. Shere, Mr. Gordon, and Mr. Zorach)

5. Tax chronology 1919-1927

A chronology of Federal tax rates, covering the period 1919-1927, has been completed and is now being edited. (Charts covering the years 1913-1918 and 1928-1939 were previously prepared.) (Mr. Atlas and Miss Hughes)

6. Income Tax Study WPA

The study of income tax returns carried on at Philadelphia with WPA funds since October 1938 is continuing. The table of contents and portion of the text for Section 1 of the Income Tax Study and table forms for special tabulations were reviewed. (Mr. Shere and Miss Coyle)

III Routine assignments

1. Reviews of publications, etc.

The page proof of Statistics of Income for 1937, Part 2, compiled from corporation income and excess-profits tax returns and personal holding company returns, was reviewed. (Mr. Shere and Miss Hughes)

2. Statistics

a. In connection with the supervision of the technical work of the Bureau of Internal Revenue, several proposals of statistical tabulations have been

formulated and examined. (Mr. Blough, Mr. Shere, and Mr. Campbell)

- b. Transcripts and punch cards received from the Income Tax Study are being reviewed in order to enumerate useful tabulations not made by the Study, which might make desirable the storing of the above records. (Miss Coyle)
- c. Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented on for the information of Mr. Sullivan. (Mr. Campbell)

MA

PLAIN

London

Dated May 31, 1940

Rec'd 2:28 pm.

Secretary of State

Washington

1454, May 31.

FOR TREASURY FROM BUTTERWORTH.

Although in the city the process of embarking the D.E.F. and the question of possible invasion overshadow market considerations nevertheless the phenomena of the steadiness of the security and money markets is noteworthy. In the face of the increasingly grave news over the past three weeks gilt-edged prices, though at times touching the minima fixed in March, are now above the levels of May 10 and of the day before the Belgian's King capitulated. This condition has been mainly due to the "closed economy" afforded by exchange control and capital issue control. There has for instance been some evidence of investment demand helped by the weight of funds released by the vesting of American securities, war loan dividend payable on June 1 and the cash payments on unconverted 2 $\frac{1}{2}$ percent conversion loan. Gilt-edged prices have also been sustained by the announcement of 100 percent excise profits duty on
businesses

HA -2 tel 21454, May 31, from London

businesses and trades. Add to these influences patriotism engendered by the dangers now blatantly apparent and there is stimulus abundant for the flow of savings and investment funds into Government loans which renders interest rates of such little significance that cheap money-indeed cheaper money - is taken for granted. Equities have depreciated 15 percent since May 9.

The money market even more reflects the influence of control and of the closing of other channels (e.g. trade bills financing Scandinavian's world trade). Though weekly tenders for Treasury bills have taken increasing sums from the money market during the period of suddenly realized dangers, not 1/32 has been added to the rate at which Treasury bills have been issued. Yesterday's Bank of England return shows an increase in the note issue of pounds^{ten}/million to an all-time record but even this is regarded as moderate when Sunday wages, evacuation movements and month-end influences are taken into consideration.

There are as yet no reliable indications as to what extent the British Treasury will employ the new powers over persons and property to supplement its already effective formal and informal controls.

KENNEDY

CSB

MAY 31, 1940.

435

Shipping Situation

The Association of American Railroads say their records indicate a pickup of approximately 20% in the movement of export freight through the Port of New York.

On May 29th they lightered 937 cars of export freight against 769 on May 22d.

Cars of export freight awaiting lighterage were 3591 on May 29th versus 3633 on May 22d.

Export freight in storage in railroad-owned covered piers, 3039 cars May 29th against 2836 on May 22d. Rough freight unloaded from cars and stored on the ground, 1412 carloads May 29th against 1390 May 22d. The number of cars stored on covered piers as well as those on ground storage are far below the available capacities.

The export lighterage situation is viewed as healthy, with 91 lighters on demurrage over 48 hours as of noon May 29th.

There is little change in the export grain situation, there being in railroad cars, elevators and boats about one and a quarter million bushels. The stocks in elevators at Baltimore, Philadelphia, etc. are also quite low.

The annual report of the New York Produce Exchange discloses that out of a total of 36,000,000 bushels of United States grown wheat exported, only 2,410,000 bushels passed through the Port of New York.

New York's share of the Canadian wheat exported through United States ports fell from 61% to 37%.

United States grown corn exported via New York was only 809,000 bushels, out of a total for the whole country of 28,500,000 bushels. There were 8,180,000 bushels of United States corn exported through Canadian ports.

May 31, 1940.

-2-

436

On account of the holiday, the weekly report of car-loadings will not be available until tomorrow morning.

The railroads are pointing with pride to their all-time record of an average of 36.8 tons per car for the year 1939, topping their previous best record of 36.7 tons in 1937. The railroads figure that if the 1932 average of 34.9 tons had prevailed in 1939, they would have had to use 1,313,000 additional cars to move the freight.

Further indication of the ease in the full cargo market is a drop of 25¢ to \$4.50 in the West Indies time charter rate.

The Russians have come into the market again and have taken a Swedish and a Greek vessel; one to load from the Atlantic coast to Vladivostok and the other from the Pacific coast to Vladivostok.

The rate on the Pacific coast charter was not disclosed but the Atlantic is said to have been \$24.00 per ton, free in and out.

Basil Harris.

*See Knicker
shows coverage
over with
on 6/4*

INFORMATION COPY FOR _____

Mr Cochran

INCOMING CABLEGRAM—SERIAL NO. 3719

Very confidential
437

RECEIVED ON May 31, 1940

London, May 31 1940.

*From
AWK*

Federal Reserve Bank of New York

New York

No. 499/40 FOR KNOKE

ONE

As you have doubtless heard from United States Treasury new regulations and instructions are being introduced early next week to place current payments between the sterling area and the U.S.A. and dependencies on the basis of official rate of 4.02 1/2 to 4.03 1/2. We are anxious to have sterling officially quoted in New York at 4.02 1/2 to 4.03 1/2 and to arrange for as many transactions as may be practicable within the limits of our control of regulations to be completed between New York banks.

It would be a great advantage to institute this system as from next week and I would welcome any comments or suggestions on the following proposal

TWO

At the present time the following New York agencies of United Kingdom banks

- Standard Bank of South Africa Ltd.
- Chartered Bank of India, Australia and China
- Hongkong & Shanghai Banking Corporation
- Barclays Bank (D.C. & O.)

are given exchange by us at 4.02 1/2 to enable them to

INCOMING CABLEGRAM—SERIAL NO. 3719

30

RECEIVED ON May 31, 1940.

-2-

negotiate sterling bills covering U.S.A. exports to Empire destinations.

In addition New York banks negotiating for documentary sterling bills covering exports principally cotton to the United Kingdom and we normally give dollars in cover through their London office or correspondents on a forward basis to cover mailing period (one month)

THREE To safeguard our position and to prevent free sterling being converted into dollars at official rate we have made all transactions subject to the following conditions

- A) The bills and documents must be drawn in sterling and cover shipments of goods from U.S.A. to the sterling areas
- B) A declaration must be given that the exchange has not been covered elsewhere and that where necessary the relative import license has been obtained
- C) The bills and documents have to be exhibited subsequently to the Bank of England in London so far as documents are sent direct to countries other than the United Kingdom a certificate to that effect accompanying the bill
- D) It is clearly understood that if on subsequent inspection of the bills and documents it were found that a transaction was not eligible under the arrangement the exchange contract is cancelled

FOUR Would this situation be sufficient to enable sterling to be quoted in New York at our official rate or would you require to be authorized to buy sterling arising out of negotiations outlined in paragraph THREE above from all New York banks.

INCOMING CABLEGRAM—SERIAL NO. 3719

139

RECEIVED ON May 31, 1940

-3-

If the latter is necessary I would give you a standing order to deal at 4.02 1/2 to 4.03 1/2 without limit as to amount of all transactions to pass through our G Account, it being understood that the conditions THREE (A) to (D) governed all purchases of sterling

FIVE

If we can establish a method of dealing in spot sterling at the same time preventing a breach of our regulations I would be glad later to introduce a scheme for covering forward contracts.

Bolton
Bank of England.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

MY TEST CORRECT

MAY 31 1940

RECEIVED
DEPARTMENT

LE DIVISION

(Handed by Mr. Pimsent of the British Embassy to Mr. Cochran
in the Treasury at 4 p.m. May 31, 1940.)

1 140
M

Please convey to Mr. Morgenthau the Chancellor of the Exchequer's warmest thanks for his helpful attitude.

Please inform the State Department that the following is the basis on which we desire to conclude payments agreements: (a) official rates to be quoted in London and in the foreign countries concerned should be based on the official price for gold in London. (b) Sterling accruing from current transactions of the country concerned with the sterling area, also sterling balances held by the currency authorities of the country concerned at the time an agreement comes into force, to be covered by a guarantee based on the official price for gold. Such sterling to be available for all payments within the sterling area by persons resident in the country concerned.

Our object is to conclude immediate provisional arrangements on this basis, and to negotiate more detailed payments agreements which would, if necessary, provide arrangements to deal with any eventual sterling surplus. Thus, though each agreement would be negotiated bilaterally they would all be directed to the establishment of a general system for conducting commercial and current financial transactions on the basis of the official rate of exchange and eliminating transactions based on the free rate.

These arrangements would result in the

price/



- 2 -

price of our exports being based on the official rate and not on a depreciated rate. Indeed our object is to secure that these and other measures will render the free rate of no practical importance.

British Embassy.

31st May, 1940

IT:P:CA
CAA

May 31, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Rockbestos Products Corporation:

A letter was received from the representative of the contractor stating that the terms of the proposed closing agreement would not be acceptable.

J. Mooney
Acting Commissioner.

TELEGRAM SENT

CK

PLAIN

May 31, 1940

AMEMBASSY,

LONDON.

1045, Thirty-first.

Has Government issued any order since No. 1708 of May 12, affecting British securities seized by Germans? If so, telegraph text.

HULL
(FL)

EA:FL:MEG

MA

GRAY

Paris

Dated May 31, 1940

Rec'd 9:30 a.m.

Secretary of State

Washington

968, May 31, 11 a.m.

CONFIDENTIAL.

Colonel Meny, Undersecretary of the Ministry of Aviation, who is extraordinarily busy man and is not given to compliments, took the trouble to call my office yesterday afternoon to thank me not only for the arrival of the Carl Ward missionaries but also for the exceptional quality of the men composing it. He stated that every one who had met the members of this mission yesterday had been deeply impressed by their desire to go to work at once and by their character.

Davidson and Ward called on me this morning and stated that they had already begun their work under the most favorable conditions and that they had been received everywhere with open arms.

Will you please communicate this information to Mr. Alfred P. Sloan, Jr., of General Motors and to the Secretary of the Treasury.

Handwritten note:
 To Mr. Sloan
 To Mr. Clegg
 To Mr. Egan
 To Mr. Gurnea
 To Mr. Harbo
 To Mr. Hendon
 To Mr. Jones
 To Mr. Quinn
 To Mr. Nease
 To Mr. Rosen
 To Mr. Tracy
 To Mr. Egan
 To Mr. Gurnea
 To Mr. Harbo
 To Mr. Hendon
 To Mr. Jones
 To Mr. Quinn
 To Mr. Nease
 To Mr. Rosen
 To Mr. Tracy

KLP

BULLITT

TREASURY DEPARTMENT

445

INTER-OFFICE COMMUNICATION

DATE May 31, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At one o'clock today Mr. Bernstein handed to me the attached file of cables exchanged between the Federal Reserve Bank of New York and banks in Bolivia, concerning gold held under earmark with the Federal by the Central Bank of Bolivia. We had had no word about this transaction until Vice-President Logan mentioned it to Mr. Bernstein by telephone this morning, and had the attached messages transmitted to us by telephone.

Since the transaction is one involving a release of gold from earmark, and not a purchase or sale of gold, it does not directly concern the Treasury. At the same time, we thought the State Department should be informed of the circumstances, since the Bolivian authorities might see fit to protest against the hesitancy of the Federal Reserve Bank of New York to follow instructions. This might conceivably be interpreted as disregarding the immunities to which central banks are accustomed.

I telephoned Mr. Collado of the State Department this afternoon and read the messages to him. I also told Mr. Livesey of the correspondence, and I am forwarding copies thereof through Mr. Livesey to Mr. Collado. Mr. Collado, in turn, told me of a cablegram which had just been received from the American Minister at La Paz in regard to this transaction. It was arranged that Mr. Collado should telephone at once to New York over the Treasury line and discuss the matter with the Federal Reserve Bank. Mr. Collado is to provide me with a copy of the message from La Paz, and we are to keep in touch on the question.



FEDERAL RESERVE BANK OF NEW YORK INCOMING CABLEGRAM SERIAL NO. 3662
RECEIVED ON MAY 29, 1940.

LA PAZ

FEDERAL RESERVE BANK OF NEW YORK
NEW YORK

May 28, 1940

Included in gold recently transferred to you by Chase National Bank of London in name Banco Central de Bolivia are 150,000 gold sovereigns belonging to us. Our directors and principal shareholders do not wish our gold returned to Bolivia but desire to sell same to you crediting Dollar proceeds to our account with the Bank of London and South America, New York. In view of above we request you not to embark our gold to Bolivia and we shall furnish you with necessary proof of ownership by first mail.

If you desire confirmation of our ownership we suggest you cable American Legation La Paz through State Department.

BANCO MERCANTIL LA PAZ

my WU 114 Eng.

COPY

746

FEDERAL RESERVE BANK OF NEW YORK OUTGOING CABLEGRAM SERIAL NO. 5062
SENT ON MAY 29, 1940.

BANCO CENTRAL DE BOLIVIA

LA PAZ

No. 12

We have received a cable dated May 28 from Banco Mercantil,
La Paz, reading:

"Included in gold recently transferred to you by Chase National Bank of London in name Banco Central de Bolivia are 150,000 gold sovereigns belonging to us. Our directors and principal shareholders do not wish our gold returned to Bolivia but desire to sell same to you crediting dollar proceeds to our account with Bank of London & South America, New York. In view of above we request you not to embark our gold to Bolivia and we shall furnish to you necessary proof of ownership by first mail. If you desire confirmation of our ownership we suggest you cable American Legation La Paz through State Department."

Tomorrow, May 30, is a holiday here and unless this request of Banco Mercantil withdrawn by cable to us today from Banco Mercantil confirmed by tested cable through Bank of London & South America, New York, we must, for our protection, withhold 150,000 gold sovereigns from shipment made on May 31 pursuant to your cable No. 5 of May 17.

FEDERAL RESERVE BANK OF NEW YORK

EA
KA 149 Code

COPT

FEDERAL RESERVE BANK OF NEW YORK INCOMING CABLEGRAM SERIAL
NO. 3690 RECEIVED ON MAY 31, 1940

LA PAZ

May 30, 1940.

URGENT

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK

NO. 9

Banco Central Bolivia has been greatly surprised at tenor of your cable No. 12 in which you show possibilities of disposing in favor of Banco Mercantil gold delivered by us to you in safekeeping and custody. Federal Reserve Bank must deliver said gold to no entity other than Banco Central as the legitimate depositor which gold in accordance with our instructions and after payment of freight and insurance should be shipped without fail Friday May 31 in New York down to Bolivia. Federal Reserve however would take serious responsibility owing to failure of fulfilling their banking engagement and the damage caused to the Banco Central due to nondispatching of the gold sent from London to our order. Further it is not within their powers to act upon claims from entities residing at Bolivia which are governed by banking and monetary laws ruling in Bolivia. Moreover we remember that within your regulations nobody can interfere with gold belonging to central banks. We therefore request you to make shipment without fail May 31 in accordance with agreements already signed.

BANCO CENTRAL DE BOLIVIA

NY AA 120 Test correct.

COPY

CABLE RECEIVED BANK OF LONDON & SOUTH AMERICA, LTD., NEW YORK
SIMON I. PATINO BIARRITZ, FRANCE

Referring cable Banco Mercantil La Pas to Federal Reserve Bank
of New York 28 May am remitting you next Clipper original documents
proving title to gold STOP Please notify Federal Reserve.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 31, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

After fluctuating within a narrow range during the morning, sterling strengthened in afternoon trading and closed 3¢ higher than Wednesday's final quotation. The opening rate this morning was 3.20. From a noontime quotation of 3.19-5/8, the pound advanced to a high of 3.23-3/4 late in the day. It closed at 3.23-1/4.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £536,000, from the following sources:

By commercial concerns.....	£153,000
By foreign banks (Near East, Europe, So. America and Far East).....	£373,000
By the Federal Reserve Bank (For Yugoslavia).....	£10,000
Total.....	£536,000

Purchases of spot sterling amounted to £513,000, as indicated below:

By commercial concerns.....	£299,000
By foreign banks (Europe and Far East).....	£214,000
Total.....	£513,000

As shown in the sterling turnover figures, the Federal Reserve Bank sold £10,000 by order of the Royal Bank of the Kingdom of Yugoslavia. At the same time, the Federal purchased 1,800,000 French francs (equivalent to slightly more than £10,000) for the Yugoslavian bank. These transactions suggest that the Yugoslavian bank transferred a portion of its sterling balances into French francs.

The following reporting banks sold cotton bills totaling £33,000 to the British Control on the basis of the official rate of 4.02-1/2:

£16,000 by the National City Bank
11,000 by the Guaranty Trust Company
6,000 by the Irving Trust Company
<u>£33,000 Total</u>

The Bank of Manhattan reported that it had purchased 19,000 for spot delivery from the British Control at the official rate of 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's movement was similar to that of sterling. At the close, the franc was quoted at .0183-1/2, and the final cross-rate was 176.15 francs per pound.

The Swiss franc was unchanged all day at .2243.

The Canadian dollar was quoted at a discount of 21-5/8% until the late afternoon, when it eased slightly to close at 21-7/8%.

The lira and the reichsmark were unchanged at .0505 and .4000 respectively.

The yuan in Shanghai was quoted at 5-1/2¢, unchanged from Wednesday's rate.

The discount for the Cuban peso widened today to 9-7/8%, as against 8-15/16% on Wednesday. The Mexican peso was unchanged at .1672.

The Federal Reserve Bank purchased 700,000 Swiss francs for the Bank of Norway. We understand that the Bank of Norway intends to use these Swiss francs for redemption of a Norwegian external loan.

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

\$15,000,000	from the Bank of France
5,000,000	from the Central Bank of the Argentine Republic
3,000,000	from the Bank of Java
<u>\$23,000,000</u>	Total

The Federal Reserve Bank of New York reported that the Bankers Trust Company, London, shipped \$155,000 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:

\$428,000 from India, shipped by the National Bank of India, Bombay, to the Chase National Bank, San Francisco.

136,000 from Switzerland, shipped by the Union Bank of Switzerland, Zurich, to the Guaranty Trust Company, New York. This gold is being shipped on a steamer sailing from Lisbon, Portugal, early in June.

78,000 from England, shipped by the National City Bank, London, to its head office at New York.

\$642,000 Total

The shipment being sent to San Francisco will be sold to the U. S. Mint, and the ones coming to New York are for sale to the U. S. Assay Office.

CONFIDENTIAL

On May 24, we reported that the National Bank of Yugoslavia, Belgrade, was shipping gold coin and gold bars valued at \$14,002,000 to the Federal Reserve Bank of New York. According to the cable forwarded to us by the State Department at that time, this gold was to be shipped on two steamers leaving the port of Athens, Greece. Today, the State Department transmitted to us a cable from Athens stating that only \$6,937,000 of this gold was being shipped to the United States, the balance being stored temporarily in Athens by the Yugoslavian bank.

The recent speculative boom in Bombay's precious metal markets appears to be over. Yesterday and today, the Bombay gold price continued to move downward. The quotation received from Bombay this morning was equivalent to \$35.45, as compared with the current high of \$38.99 established on May 27.

The Bombay spot silver quotation worked out to the equivalent of 43.57¢. Last Monday, silver in Bombay reached a current high of 45.86¢.

In London, the prices fixed for spot and forward silver were 21-11/16d and 21-3/16d, both off 5/16d from Wednesday's quotations. The decline was attributed to selling by Indian interests. The U. S. equivalents, calculated at the open market rate for sterling, were 31.25¢ and 30.30¢ respectively. On the basis of the official sterling-dollar rate, the spot price was equivalent to 39.43¢.

Handy and Harman's settlement price for foreign silver was 35-1/8¢, off 1/2¢. Today's decline reverses an upward movement in this price which began on May 20 and culminated in a high of 35-5/8¢ reached on May 28. The Treasury's purchase price for foreign silver was unchanged at 35¢.

There were no purchases of silver made by us today.

During the month of May, we purchased a total of 18,806,400 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	10,358,400
2. From Canada under Agreement	1,200,000
From China	4,300,000
Inventory Silver	<u>2,948,000</u>
Total	18,806,400

J. M. R.

CONFIDENTIAL

May 31

Edsel Ford

called me

home.

PARAPHRASE OF TELEGRAM RECEIVED

154

London

Dated May 31, 1940

Secretary of State,
Washington.

1452, May 31, 6 p.m.

PERSONAL AND CONFIDENTIAL FOR THE SECRETARY AND
SECRETARY MORGENTHAU.

Work has started on the Halifax bomber and Rolls Royce plans. I think I shall be able to obtain the plans of all the articles required and all the other material asked for in Secretary Morgenthau's cablegrams via the Navy Department on May 25 and May 27 is being prepared. Do you know of any additional articles which may be of value? The main argument used by Beaverbrook before the Air Council has been along the lines that it is a benefit to the Allies as well as the United States to get these things into production.

KENNEDY.