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November 13, 1941  
9:30 a.m.

RE NON-DEFENSE SPENDING

Present: Mr. White  
Mr. Kuhn  
Mr. Barnard  
Mr. Heffelfinger

H.M.Jr: Make a note, Heffelfinger - what is your first name?

Heffelfinger: William.

H.M.Jr: What do they call you?

Heffelfinger: Some Bill and some Heffelfinger.

H.M.Jr: Well, I cannot go through Heffelfinger.

See whether we want to say anything about housing, whether there is any economy there. Straus has quite a piece in the paper about it. Take a look at it, will you? I mean, how many housing agencies are there and recommend the consolidating of them.

Heffelfinger: There is the Housing Authority and WPA and this Defense Housing.

H.M.Jr: You might look it up and see how many there are. You can get Straus' testimony.

Heffelfinger: Why should you get into his fight now?

H.M.Jr: I guess I had better keep out now.

Barnard: He is doing a lot of hard talking, too, isn't he?

Heffelfinger: He is calling names and saying how bad everybody is except himself.

H.M.Jr: There is no real money in it.

Barnard: I don't think you should get into it now. There are too many people. It wouldn't help any. I notice --

(Mr. Kuhn entered the conference.)

H.M.Jr: Hello, Ferdinand.

Kuhn: May I come in?

H.M.Jr: Sure. I didn't ask you. I didn't know whether you were ready with a speech.

Kuhn: Yes, it is all on the way.

H.M.Jr: Good. Then is Harry free too?

Kuhn: I haven't seen him this morning but I should think so. The speech has gone to Miss Elliott and I don't think there is much more to be done with it.

H.M.Jr: All right, sit down.

Heffelfinger: This is along the lines, Mr. Secretary, of your comments the other morning which could serve as a basis of your testimony.

H.M.Jr: All right. That is swell. Have you got a copy?

Kuhn: I have seen it. I think it is wonderful.

H.M.Jr: Have you seen it?

Kuhn: Yes, I think it is the best possible form to put that in. I would only change a few words.

(Mr. White entered the conference.)

H.M.Jr: Harry, this looks like an awfully good job that Heffelfinger has done. This is for me tomorrow and for me to give out tomorrow for the press, you see. You have done an awfully good job here, Heffelfinger. When we go out anybody may have word changes, but as to the spirit, I think you have caught it wonderfully. I didn't even know he was taking notes. You see, I talked at him, Harry. I think he has done a swell job.

White: This first page sounds good.

Kuhn: It sounds so clear.

H.M.Jr: You have arrived socially. Harry White says one page is good. It's like I told my wife. She has arrived in Washington because Rosenberg not only comes to see her, but calls her on the phone, Anna Rosenberg. I said, "That hasn't happened to me yet." When Anna Rosenberg comes to see you then you are somebody.

Kuhn: Do you know her?

Barnard: No.

H.M.Jr: Well, she is, amongst many other things, whenever there is labor trouble or anything, she is always with Fiorello. She always does his thinking for him. Besides that, she is retained by the Rockefellers. I have yet to have her call me.

White: Do you want to make any small changes now?

H.M.Jr: Just one second. Bill, I had no idea that you were listening so closely. Yes, Harry, please.

White: On the first page?

H.M.Jr: It is all right.

White: The paragraph, "Many of these inequities have been eliminated and in many cases it causes --"

Kuhn: "And," you mean, instead of "or"?

White: Well, "And in many cases." Not "or," certainly. It ought to be, "In most instances the causes," because there are some, I suppose.

H.M.Jr: That kind of thing, if you don't mind again, when it gets down to words --

White: Oh, I thought it was going to be final.

H.M.Jr: No, this is just as to thoughts. Have you seen this?

Barnard: Oh yes.

H.M.Jr: Did you help on this?

Barnard: Well, I went over it yesterday.

H.M.Jr: Harry, if you don't mind --

White: I thought you were going to release this right away.

H.M.Jr: The purpose is this morning, and then we have another meeting this afternoon, you see; this is for tomorrow morning. That is all right. There is nothing the matter with that.

Heffelfinger: In connection with that reclamation project, the President just sent up a supplemental estimate for thirty million dollars for the Bonneville Dam. You exempt power development

here so that wouldn't conflict with that recent estimate, I think.

- H.M.Jr: That is very good.
- White: That might be indicated. Is that clearly indicated?
- Kuhn: It is, which are not necessary in connection with the generation of power for the defense effort.
- H.M.Jr: He has got it here. Are you through, Harry?
- White: Yes, second page.
- H.M.Jr: Isn't that good stuff?
- White: That is the tone you want to strike.
- H.M.Jr: Well now, rivers and harbors and floods, and if you could add something about soil erosion, if you could just make a note. That comes in there too.
- Kuhn: You mean the livelihood as well as the safety?
- H.M.Jr: Well, the interest of lives and safety, but reclamation work, I think of torrents of a river washing off top soil.
- Heffelfinger: They do engage in some soil erosion activities, whether that is the kind of thing you want them to continue, or should that be postponed?
- H.M.Jr: For the time being I want it postponed. Doesn't flood control work also include erosion?
- Heffelfinger: I think it does, because floods naturally cause soil erosion.
- H.M.Jr: I think I would include it. Personally, I

would like to see them cancel it, but I suppose carrying out the idea that they are there for - you wouldn't want to go so far as to have them cancelled?

Heffelfinger: In some cases funds have been appropriated - -

H.M.Jr: Can't they cancel them under Resolutions?

Heffelfinger: They probably can. It depends on how strongly you want to go on each of these points.

H.M.Jr: I don't like the word, "impounded."

Barnard: Let somebody else say that.

H.M.Jr: I would say cancel it.

Do you work without making notes?

Heffelfinger: Yes, I did in this particular case.

H.M.Jr: You made no notes?

Heffelfinger: No.

H.M.Jr: That is amazing. You see, I never worked with you before. No notes at all?

Heffelfinger: No.

H.M.Jr: I think that is one of the most amazing things.

Kuhn: Can you cancel funds?

White: Your plea is that this work - in the first page you state the advantages and you speak of the fact that it builds up a backlog of projects for employment. Presumably if the Government appropriated it it was necessary and desirable, and your strong plea, it seems to me, can be based on the assumption that

now is not the time, but later.

- Heffelfinger: I had in mind impounding. If you appropriate for flood control for these other projects, and you want to cancel that in case of emergency, perhaps they will have to release that, but if you can impound it subject to release only in case of emergency, that is an idea.
- White: You can say, "Work of this character which can be delayed or postponed should be prohibited during the period of emergency."
- H.M.Jr: He doesn't say that. What he is saying is if there is a very bad flood in the Ohio River and these funds are impounded, then through an act of Congress --
- Heffelfinger: No, the Budget Director could release them, or something.
- Barnard: From the standpoint of the public, "cancelled" is the word you want to use, I think. It probably wouldn't mean anything to them.
- Heffelfinger: It is just a detail as to how you handle it.
- H.M.Jr: No, it is an important thing.
- White: It should be prohibited until the emergency is over.
- H.M.Jr: Well, then they can reappropriate. I will tell you, Harry, I hate to say this thing, but look, the Director of the Budget impounded some funds of NYA. At Cabinet the other day McNutt says, "I need forty million dollars more," and the President says, "O.K., tell Harold Smith to give it to you."
- I would use the word, "cancel."
- White: Good.

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Kuhn: Don't you like the form of that, Mr. Secretary? I think it is wonderful.

H.M.Jr: Oh, this is a breath of fresh air from Bill.

Heffelfinger: Simplification has some advantages.

H.M.Jr: No, this is a breath of fresh air, and the fact that he caught what I wanted without any notes - I don't get this regular hundred and seventy four, WPA.

Heffelfinger: That is under the Public Roads Bureau. Now the WPA, out of their general emergency relief funds, do road work, and since I had a total up there of five billion eight, I changed that to put it back.

H.M.Jr: And then what does that "regular" mean?

Heffelfinger: The "regular" is the Public Roads Administration under the regular Federal Public Aid program.

Kuhn: Where is the "regular"?

Heffelfinger: In this part.

Kuhn: Oh.

White: Why do you have this after your recommendation?

Heffelfinger: That is an explanation. You can't really control that until 1944, you see.

H.M.Jr: You wouldn't want to add, as defense projects upon a certificate from either the Army or Navy, or both?

Heffelfinger: Remember they have that national defense road bill they just passed, the one that the President vetoed, and I think the new bill has been enacted and approved and that appropriates a hundred or a hundred and fifty million dollars for defense roads.

H.M.Jr: Are you satisfied it really is defense roads?

Heffelfinger: Well, that is the object under which it was enacted.

This has an appropriation in there, one part of it, the Commissioner of Public Works is authorized to provide construction and so forth of roads and bridges when such roads are certified to the Federal Works Administration as important to national defense by the Secretary of War or the Secretary of the Navy.

Kuhn: How do things like grade crossing eliminations come into this? I think there are a lot of things like that.

H.M.Jr: Chester, talk up now.

Barnard: I will. You are getting into page two now. I think you ought to say, when things haven't been started, even though the appropriation and the allotment is set, the States ought to be asked to withdraw from those things. Why should the States play into this and get it going?

H.M.Jr: States and municipalities.

Barnard: Even though it is technically their funds now. The thing is in shape and they ought to stop the project.

H.M.Jr: Check.

Kuhn: You read about the Westchester County thing, fourteen and a half million that they have just had made available for eliminating grades on the Putnam Railroad? There are about two trains a day. They haven't had an accident on the thing in ten years. It will use hundreds of tons of steel and a lot of labor and they should be asked to stop.

Barnard: And Westchester is going ahead to extend the Sawmill River Parkway and all that sort of thing. They haven't got the idea yet.

H.M.Jr: No, no, that is right.

Barnard: I think it would be useful to get that in here.

Kuhn: You can't force them to stop.

Barnard: But you can ask them and put a little pressure on. It is time they wake up.

White: You can stop all that stuff through priorities.

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H.M.Jr: Make a note, Heffelfinger, that in the case where we see, like this Westchester, that they are talking about, the thought of my writing a letter to somebody saying to these people, in view of national defense - I mean, first let me write a letter maybe to Donald Nelson and say, "How come?"

White: That is the place to hit it.

H.M.Jr: I mean, write the thing to Donald Nelson. "How come? Why do you permit this?" Start there, see? Write it for me and show it to Mr. Barnard.

Barnard: Get the maximum voluntary cooperation you can. Let's not rely on OPM too much to say, "No, you can't have it." We have got to do that so much here in this country.

Heffelfinger: We could send a copy to OPM.

White: I don't think you will get anywhere with voluntary cooperation.

H.M.Jr: My thought was first to write to Nelson and see what the facts are. If he is lukewarm about it, we will write to the municipality. If I do that first, Nelson will come back and say, "Why didn't you ask me? I would have done it for you."

A funny thing happened yesterday. I meant to tell you. I didn't get to do it. A Mr. McKeachie in charge of buying calls me up at five minutes of one. He has got two men over from Procurement working with him. What he said very politely was, just where did you fit into the picture and should they report to you. So I said, "Well, it is very simple, Mr. McKeachie. Mr. Barnard is supervisor of Procurement for me, and if you want

me to get anything or know anything, please keep Mr. Barnard informed."

"Well," he said, "that is all I wanted to know." I don't know what is back of it, but I am passing it on to you.

Barnard: I know just what he means, but he ought to understand that. I have been over there--

H.M.Jr: Well, I just thought I would tell it to you. I said, "Mr. Barnard is supervising Procurement for me, and anything that you have as Procurement, I wish you would tell Mr. Barnard."

Barnard: I am glad you told me that.

H.M.Jr: Harry, please.

White: I wondered whether some such thing might not exist already? I am sure it does already. But couldn't there be presented to you a list that would be a very long list of all the projects, highways, toll bridges, all these grade crossings. It might fill a book, whatever it is. And then turn that over to some committee or some group who are familiar with it and let them evaluate it on the basis of what there has been already claimed by Army and Navy. No other criteria should be applied. As necessary to defense. And then you could have what might be a very, very impressive list of projects which in no way contribute to defense and which are using steel and cement and so on and so forth.

H.M.Jr: I will tell you where you can get this with George Haas or anybody you want to use. There are agencies, private agencies, who report on contracts, you see. They report on private and public construction. It is

the Dodge Construction Company. George gets those reports regularly.

White: And also the Department of Highways have a lot of information.

H.M.Jr: It is the Dodge. George could get it for you, you see. A list of proposed projects. Isn't it Dodge?

Heffelfinger: Yes.

H.M.Jr: They have heavy construction, public and private, and also you can try the Highway Department.

White: And not only projects that are anticipated, but those that are in progress, because they can stop a good many things.

Heffelfinger: Under this Bureau of Public Roads, they have to approach each project that the State undertakes in advance.

H.M.Jr: We could make a little grandstand play. The interesting thing - I am gossiping a little bit here and there. John Sullivan told me - I don't know whether you can check with this - but he thought the thing that griped Henderson and Eccles the most was not that we hadn't shown it to them, but that we had gotten there first.

Barnard: I don't think that griped Henderson. I think it griped Eccles. Henderson puts it on the other foot, that he tried to get some action on this six or eight months ago.

H.M.Jr: This is explanation on the second page?

Heffelfinger: Yes.

- Kuhn: This cannot be avoided and this can be postponed. I think that is just what they want.
- Heffelfinger: Next year's expenditures are already obligated.
- H.M.Jr: Do you think that should come ahead of your recommendation?
- White: It is a little complex in its present form.
- H.M.Jr: Don't you think it should come afterward?
- Heffelfinger: I wondered whether you want to include all of that or just have it for your own information.
- H.M.Jr: No, I think the public ought to have it.
- Heffelfinger: There is one point in your recommendation. If you give it to the press do you want to head it "Recommendations" or "Suggestions"?
- H.M.Jr: "Suggestions."
- Heffelfinger: That is why. I thought you might want to change it to "Suggestions" instead of "Recommendations."
- H.M.Jr: "Suggestions." Why not in each case call it "Economy Suggestions"?
- Barnard: That would do it.
- H.M.Jr: Just "Economy Suggestions" in each case.
- "Agencies Engaged in Training Activities."  
Has Aubrey Williams been after you, Harry?
- White: Not since he spoke to you.

H.M.Jr: He hasn't called me yet.  
Civilian, other activities and so on.

Kuhn: You don't want to say in there anything about the Bureau of Defense Training? You don't want to name it, spell it out?

H.M.Jr: I think I will recommend that there be created a Bureau of Defense Training.

Kuhn: Or you could say, "All training activities should be consolidated in a single agency which might be established as a Bureau of Defense Training."

H.M.Jr: Or I suggest that a new Bureau of Defense Training be created to absorb these activities.

White: They wouldn't interpret that as meaning military training, would they?

Kuhn: No.

H.M.Jr: Technical training program, or civilian training.  
What do you call this when a man is being trained to run a machine? Is it a technical training?

Heffelfinger: Vocational. They have a regular program, you know, of aid to states.

H.M.Jr: Isn't it vocational training? It is for a vocation. What is the matter with vocational training. It is for a vocation.

Kuhn: Would you put it in the heading, "Agencies engaged in vocational training activities"?

H.M.Jr: Right, Any overlapping would be eliminated.

Well, now, of course you are - in the middle of the thing you say "should be eliminated or drastically reduced."

Heffelfinger: That is the regular program of the CCC and NYA. You see, they are the new thing.

Now, you have the old, long-term grants--

H.M.Jr: That is all right. It gives me a little out.

Heffelfinger: I tried to make it so you could--

H.M.Jr: Kind of wiggle a little bit.

Heffelfinger: ... wiggle if necessary.

H.M.Jr: Now, on this thing here, have you got that thing that I asked you for? How much of the two hundred and forty-seven million for CCC goes for the clothing and feeding and into their pockets?

Heffelfinger: We only have it on the basis of '41 estimates. '41 was two hundred eighty million dollars for the entire CCC program, of which a hundred and five went to the pay of the enrollees. Subsistence took another forty-one. Then medical and hospitalization and things of that sort came into the picture, and then the care and construction of the camps and care of enrollees would be a hundred and ninety-four million all told.

H.M.Jr: Is that nineteen million administrative?

Heffelfinger: The administrative expenses were twenty-one million.

H.M.Jr: You have got nineteen.

Heffelfinger: That is for '42. This was '41. You see, they are cut from two eighty to two forty-seven, and then they estimated a smaller expenditure this year.

H.M.Jr: There is one thing you don't do. I would like to say that I would like to have challenged the various grants which are made by the Office of Education to various institutions, or re-examined, rather than challenged. I would re-examine them.

Now, for instance, I saw the Texas A. and M., and, as I remember it, they are giving seven million dollars to the Texas A. and M. For what?

Heffelfinger: Probably to build a new stadium down there.

Kuhn: Football team.

H.M.Jr: I would put the lump sum. So many millions of dollars are granted by the Bureau of Education to institutions. I think it should be re-examined in the light of our national defense program, you see. It should be re-examined in that light. I think most likely one Mr. Jesse Jones got them seventy million dollars or something like that for God knows what.

White: Seven million.

H.M.Jr: Yes. Seven million, to one little university, Texas A. and M.

White: You might say for example.

H.M.Jr: Well, he gave it to them. It was in that list. You (Heffelfinger) had them there on that sheet you gave me.

Kuhn: I had states to states, no details.

H.M.Jr: Yes, for the A. and M.

Heffelfinger: Oh, that is general, agricultural and mechanic arts colleges, throughout all the states. You see, they have a permanent appropriation to pay for agricultural and mechanic art.

H.M.Jr: Anyway, I would like to say that so many millions of dollars are granted to the various state institutions, and in the light of our national defense program, I would like to see that re-examined.

White: In all these items, they have so many good aspects to them that I think there is another paragraph called for here at this moment justifying the careful re-examination of these things, pointing out that it is - only repeating in a sense what is implicit there. None the less, I think some more emphasis is required under this item to avoid the charge that you are striking at some very, very important institutions, educational activity, youth training and so on.

H.M.Jr: Try a hand, Harry, but let me be as frank as I always try to be with you. I am, I hope, only two or three months ahead of the President on this thing. I am saying to you that all Federal grants three months from now should be for the sole purpose of vocational training and the other things which I have a tremendous interest in, art work, music--

Heffelfinger: Should be laid on the shelf.

H.M.Jr: Cultural things should be laid on the shelf.

White: That is the sort of sentence that is needed,

that these purposes are eminently worth while and everything should be done that is possible, but.....

H.M.Jr: Well, think about it. I think those things have been worth while and they had my support but while we are getting ready to defend our country we cannot be spending money for that kind of stuff.

Barnard: You probably haven't read my draft yet.

H.M.Jr: It hasn't come in to me.

Barnard: I took a crack at a reply to that letter.

H.M.Jr: I told Chauncey, but I haven't got it yet.

Barnard: Well, one of the purposes of my trying to do it was to get some ideas in that might be useful other places, whether they were here or not. I have got this and I am wondering whether somewhere it is a thing to use here. They are taking the population at a hundred and thirty million. I don't know whether that is just right or not.

H.M.Jr: That is all right.

Barnard: Next year's expenditures amount to two hundred eighty dollars per man, woman, and child in this country and there is a hundred billion dollar income. That is seven hundred and forty or something. They have got four hundred eighty-five dollars per person left in this country for state and local governments, for subsistence, and for such other saving, outside the Government, as has got to be done. There is damn little left and people don't realize it. It is just impossible not to sacrifice a lot of things.

H.M.Jr: Well, I don't think I will bring it in here.

Barnard: All right.

H.M.Jr: Do you think so?

Barnard: No, I am just wondering whether you wanted to use it anywhere.

H.M.Jr: Do you think it ought to be brought in here?

Barnard: I don't think the people realize now narrow the margins have to be, and I think it could be repeated and repeated.

H.M.Jr: Well, maybe we will include it after studying the thing again. Do you mind just putting--

Heffelfinger: I am shaky on this farm program.

H.M.Jr: Under the farm program which was started in '33, you see. I mean, I want to get in the fact that it was done in '33. I think I would also - the only place I am suggesting it would be - we started in '33 after the catastrophic collapse of farm prices, which is not any too strong, which took place immediately before that, you see.

Heffelfinger: Sure.

Now, Mr. Haas suggested yesterday we stop right there. He didn't want to mention parity payments so much.

H.M.Jr: I don't want to say "increased production."

Kuhn: I think I agree with George on that, that that is something like a speech and why get into it.

- H.M.Jr: Simply say, "were designed to meet" and stop right there. There is just one thing which I asked George for.
- Heffelfinger: Mr. Barnard has that.
- Barnard: There are two points. One is a whole list from 1910 on, and the other starts with '21. That comes second.
- H.M.Jr: That is even worse than I thought. We will start with '32, and I want to run this list in. We will start with '32. You see, Harry, I have been doing a lot of thinking on this thing. I want to run that table in in '32, down through '42 and then I want to get in and say that cash income to the farmers has been approximately triple.
- Kuhn: Purchasing power double.
- White: The number of farmers increased greatly from 1910 to 1941.
- H.M.Jr: It has gone down.
- White: Well, if it has gone down, then it should be included because it would make this - it should be reduced to per capita per family income.
- H.M.Jr: Well, we have time.
- White: Yes, another column. If it has gone down, then it would make this situation --
- H.M.Jr: Let's have it in '32 and then another column on the family.
- White: Get the number of farm families and then use the same index and reduce it to purchasing power per farm family.

H.M.Jr: Where is your purchasing power?

Kuhn: Last column.

White: You see there is a lapse here of thirty years.

H.M.Jr: It doesn't say - that isn't the purchasing power.

White: It is the purchasing power of the farm income.

H.M.Jr: But we don't have it.

It just says "Total cash income".

Heffelfinger: You must have two different tables. Oh, no. These are companion tables.

H.M.Jr: Well, is that good, the purchasing power the way we have it here? Why is that good?

White: It isn't here.

H.M.Jr: I mean, why is that a good figure to use? It is eight million four as against eleven. I don't understand it.

Heffelfinger: He says the eleven million dollars they get only has a purchasing power of eight million now.

H.M.Jr: Why doesn't eleven million buy eleven million?

Heffelfinger: Because the prices have increased.

H.M.Jr: Well, I wouldn't use it.

Heffelfinger: In other words, they have an index.

H.M.Jr: I would use farm income, but I would use Harry's figures and try them out and see

whether that farm income goes to less families or more families.

Kuhn: I think it is important --

White: I think you - couldn't you avoid all that trouble? Your point was that here is a program that was initiated in '33. Then all you say - when you say the conditions - one indication of the drastically altered conditions since the program was initiated is the fact that farm income, cash income --

Heffelfinger: In '32 was four billion six.

White: .... has risen from four billion six in '32 to twelve billion three in '42, and I wouldn't raise any of these other figures.

H.M.Jr: I don't want to, but I want that column, Government Payments. I just want these two.

Heffelfinger: And the total, perhaps.

H.M.Jr: The two and the total.

Kuhn: The farmers will also come back to you and say, "Oh, but the farmers' share of the national income has gone down."

H.M.Jr: Well, has it?

Kuhn: It may have. There are fewer farmers.

White: No, it hasn't gone down because national income hasn't risen three times since '32.

H.M.Jr: Well, I will tell you what let's do. Just make a note. Let's have three things. From '32 to '42, we have the cash income plus the government payments, and then the third column,

a total, you see, and then a fourth column, a percentage.

White: Of the national income.

H.M.Jr: Ditto.

White: And I think you will find they have an increasing percentage.

H.M.Jr: Now, and then as I understand it - oh '42 is a forecast, that is all right. Just the way it is, but add a fourth column showing the percentage of the national income.

White: I am also inclined to think, and this I don't know, somebody can monkey with the figures, that there has been a declining agricultural population since '32, in which case the percentage of national income which they get would be even greater than that shown. Haas would work that out.

H.M.Jr: Let Haas. That is a very good - the percentage of the national income and the percentage of --

Heffelfinger: Farm population.

H.M.Jr: Yes, and then the relation between the two. If Harry is right - let's say that there were --

White: There might be as much as a five per cent decline.

H.M.Jr: Let's say there were ten million farm families. I don't know how many there are.

White: There are not as many as that. I think there are about thirty million.

H.M.Jr: Let me say there are ten million farm families and now there are only seven. Well then, not only --

Heffelfinger: The seven are getting three times as much as the ten got back in 1932.

H.M.Jr: Somebody in George's shop can give you that.

Heffelfinger: I think so.

H.M.Jr: That, Harry, is the whole point. Do you see what I mean?

Heffelfinger: We have this other data available, of course.

Barnard: It sounds to me a little bit too much like attacking the farm population.

H.M.Jr: Well, let's take a look at it. I would like to know. Nobody knows. If the farm population has increased then I am vulnerable. They will say, "Well, that wasn't fair because there are more people getting the same amount of money.

Barnard: I think that is all right. I wouldn't shoot it too hard, though.

H.M.Jr: Well, can we explore it?

Barnard: Yes, sir, surely.

H.M.Jr: Let me just see. If it is nine sixty-eight why are the benefits less than that? Bell said the expenditures of benefits to farmers is right around a billion dollars, he has been telling me. You haven't got it down here. You have got my sheet.

White: What is the assumption, that some of this doesn't go to the farmers or is not Government payments?

H.M.Jr: I don't get that.

Heffelfinger: No, you take something out for soil erosion

and marketing expenses and administrative expenses, and so on.

H.M.Jr: I would leave it in.

White: The farmer doesn't get it.

H.M.Jr: But any statistical organization that you look at, Standard Statistics, includes that.

Heffelfinger: Well, you see they reduced the 1942 expenditures. Nineteen forty was over a billion dollars, under this caption. You see, the last column shows a billion dollars here and nearly a billion there.

H.M.Jr: That column is only seven.

Heffelfinger: Government payments. I don't know what figures they used.

H.M.Jr: But I want to use these figures, Bill.

White: Maybe they are not payments but Government aid.

Heffelfinger: They probably take parity payments here.

H.M.Jr: We have got to use the same figures as the Department of Agriculture, haven't we? These figures which you are using here, these nine hundred million or a billion have always been added to the total farm income. It is the total farm income.

Heffelfinger: Well, I will see where the --

H.M.Jr: That is added to the farmers' income.

Barnard: Well, soil conservation is good.

H.M.Jr: Well, Bill, please recheck on that, will you?

(The Secretary held a telephone conversation with Senator Byrd's secretary, as follows:)

November 13, 1941  
10:18 a.m.

28

RMJr: Hello.

Operator: Senator Byrd is not there. I have his secretary.

RMJr: All right.

Operator: Go ahead.

Sen. Byrd's  
Secretary: Mr. Morgenthau?

RMJr: Talking.

S: Yes, sir.

RMJr: Who is this, please?

S: This is Mr. Menefee, Senator Byrd's secretary.

RMJr: You expect the Senator when?

S: Yes, I expect him at twelve o'clock.

RMJr: Well, now, would you give him this message for me, because I'm going to be in and out quite a lot.

S: Yes, sir.

RMJr: I'd like to come to some understanding with the Senator. Have you got a pencil?

S: Yes, sir.

RMJr: Because I cannot appear tomorrow on account of this tremendous publicity which has been given, without being given the right to tell the newspapers what I'm going to say to the press. In other words, if they want to keep it a closed meeting, that's all right; but I know there are going to be leaks. Hello.

S: Yes, sir.

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- 2 -

privilege of giving to the newspapermen what I present to the committee.

S: Yes, sir.

HMJr: See?

S: Yes, sir.

HMJr: Because, I mean, with those people - there are too many people up there to tell the Senator, who are unfriendly, and I go up there and tell him this for me - and I'm available, but I want him to be thinking about it - I didn't want to say too much before Congressman Doughton because I didn't want to hurt his feelings; but you know last week - you may have noticed the paper - I appeared before Congress and Ways and Means in executive session.....

S: Yes.

HMJr: .....and everybody on the committee gave his version to the press.

S: Yes.

HMJr: But I'd given my word and I kept it, and I was under terrific disadvantage. Now, I don't have to be hit over the head twice.....

S: Yes.

HMJr: .....to learn my lesson.

S: That's right.

HMJr: But I'm not going to go through the experience that I went through last week with Ways and Means; and therefore, I'm asking for the privilege when I leave the committee, to give the same information to the press that I gave to the committee.

S: Yes, sir.

HMJr: And I'm going to be fairly - I mean, insistent on it.

- 3 -

S: Yes, sir. All right, sir, I get you, Mr. Morgenthau.

HMJr: And I'd like to have an answer.....

S: Yes, sir.

HMJr: .....from the Senator or you, but explain to him the reason I feel.....

S: Yes, I understand it.

HMJr: .....so strongly, because I took the most ungodly beating from the press last week, because I said that I'd given my word and I couldn't talk; and I've never taken such a beating and I'm not going to go through it again because life is too short.

S: (Laughs) Yes. All right, sir, I'll.....

HMJr: You understand, don't you?

S: Yes, sir, I do that. And as soon as the Senator comes, I'll give this information to him and he'll call you.

HMJr: I need his help, but I can't go up there with this terrific publicity and then have the members of the committee give their version and then my lips are sealed. You see?

S: Yes, sir, I understand.

HMJr: So I'm not going to go through that experience again.

S: All right, sir.

HMJr: Thank you.

S: And I'll call you back, sir.

HMJr: Thank you so much.

S: Yes, indeed.

H.M.Jr: Now, if you don't mind, I would like to approach this from a different angle. What I would like to say is this: I believe that the Administration has done a wonderful job for the farmer when they took his income and raised it, tripled it in ten years. Now, where it was necessary through State aid to do this thing to bring him from four billion dollars up to twelve billion dollars, certainly having reached twelve billion dollars, and that the farmers' income now is so much percentage of the national income. There is no excuse to continue at the same rate, you see, and the money which we are using for this purpose, or the billion dollars which we will be using, is sorely needed for armaments.

Heffelfinger: And the farmer will get his share of that, of course.

H.M.Jr: And the farmer is getting his share of the total expenditures as indicated that his income is up to twelve billion dollars. He is benefitting at a higher rate. Therefore, I feel at this time that we could very well afford to cut the benefit payments in half.

Kuhn: May I make a suggestion there? You say the money is sorely needed for armaments. Couldn't that be, the money is sorely needed for defense and Lend-Lease requirements, which of course includes the agricultural stuff that goes in under Lend-Lease?

H.M.Jr: That is right. And the farmer is getting -- and you might point out, and under Lend-Lease he is getting a --

Heffelfinger: Substantial share.

H.M.Jr: Well, if you could find out. At least a billion dollars. Get that figure.

Kuhn: So far.

H.M.Jr: Yes, get that figure. Aside from everything else, he is benefiting to the full extent from Lend-Lease - of the first Lend-Lease. If you could get the first and second together. Ask Agriculture, how much of the first has been earmarked --

Heffelfinger: Commodity Credit has four hundred and some odd million dollars in their figure for commodity purchases this year.

H.M.Jr: If you could get that, you see. We can afford to take this because under Lend-Lease he is going to get at least as much - I want to be very careful, because everything is challenged --

Heffelfinger: Use the figures they report as allocations to Agriculture.

H.M.Jr: And if it has been allocated - and if not, call up Stettinius' office and say, "How much under the second Lend-Lease is being allocated," you see. But that would be my approach. Let me go through it once more.

We have tripled the farmers' income. We started in a depression. The farmers' income is at a growing rate of percentage of national income. Now, in these times when we have reached this goal - I mean if anybody had said to me four or five years ago, "You can get the farmers' national income up to ten billion dollars," we would have all thrown up our hats and cheered. Now, he is getting his proportion of Lend-Lease. Now, he - and therefore he is getting his proportion of expenditures under the national defense program. Now, he shouldn't get it both - and farm benefits.

White: I think that is very good with the exception

of the Lend-Lease. I think that is vulnerable. In the first place, he is getting a smaller proportion of the total Lend-Lease expenditures than he constitutes of the population. I would leave that part out.

H.M.Jr: Granted, Harry, but no other particular group is getting it. I think it is important to bring in the Lend-Lease. Let me put it in in and we will have another shot at it this afternoon. I think it is very important. This explanation, I would like to have it completely rewritten.

Barnard: We cut it all out yesterday, but I think it needs some substitute and that is a good one.

Hef'elfinger: Yes, that was Haas' suggestion.

H.M.Jr: Am I not through now? What?

Hef'elfinger: Then we have some farm programs which they have shifted out of the Budget into RFC.

H.M.Jr: Oh, yes. That is all right.

Hef'elfinger: I didn't know whether you wanted to bring Commodity Credit into the picture or not.

H.M.Jr: Yes, that is fine. Now, what I have got down, I would like, if you would, to go back to Mr. Barnard's office and continue. Harry, I would like you to give this a little time. Have you got any meetings?

White: No, I can go to work on this.

H.M.Jr: I would like to meet with you gentlemen finally at three o'clock.

Kuhn: Could Harry take five minutes to read that speech before I come into your office?

White: I would be glad to do it.

Kuhn: I will send it down to you.

H.M.Jr: Supposing you do this, Harry. Read the speech, because Ferdie and I are going up on the Hill at eleven fifteen to see Mr. Wallace. Read that and then go back and join Barnard and Heffelfinger in Barnard's office.

White: I have very little to add.

Heffelfinger: Those totals you referred to here come to two billion and a half.

H.M.Jr: I don't want them.

Heffelfinger: You don't want the totals?

H.M.Jr: I think it is tactically wrong.

Heffelfinger: Well, I just wondered.

Kuhn: You are not recommending a savings of two billion and a half. Therefore, what is your point of making it --

H.M.Jr: I don't want this. I want to keep it on functions. I feel fairly strongly. If anybody disagrees with me - I don't want a list.

White: Don't want a total?

H.M.Jr: No.

White: No, let each one interpret his own idea.

H.M.Jr: Are you fairly happy about this as it is, Harry?

White: Yes. You don't mention any amounts and you want them reexamined. I think this is perfectly all right.

H.M.Jr: Are you pleased? I mean, from my standpoint?

White: There are a couple of things here I would like to look over, but on the whole, I think it is a very good approach.

GENERAL

There are certain classes of public expenditures which consist in large part of construction projects, such as reclamation work, river and harbor work, road building, etc. Reductions in activities for these purposes will have multiple advantages, as follows:

- (1) Reduction in non-defense expenditures.
- (2) Release man power needed for defense plants, etc.
- (3) Increase the supplies of materials and equipment which can be devoted to defense efforts.
- (4) Build up a back-log of projects for continued employment in the postwar period.

There are other instances where there appear to be overlapping and duplication of effort and expenditure of funds.

In other cases, the Government undertook programs aimed at correcting or adjusting certain inequities which had grown up in our economic system. Many of these inequities have been eliminated or the causes which made the initial program necessary have disappeared. However, large sums continue to be appropriated and spent under such programs.

I will refer briefly to certain specific non-defense expenditures which I recommend to the Committee for its consideration.

RECLAMATION PROJECTS

(In Millions)

Fiscal years 1932 to 1941, inclusive

Total expenditures during the 10-year  
period (1932-1941) amounted to about - - - - - \$580.0

This includes expenditures for irrigation and  
water conservation under the Emergency Relief  
Appropriation Acts.

Fiscal year 1941 - expended (checks issued) - - 86.0

Fiscal year 1942 - estimated to be spent - - - 95.0

Recommendation: Suggestions:

It is suggested that all reclamation work be reexamined in the light of our present defense program and its anticipated acceleration. Wherever it is possible to delay existing or postpone proposed projects which are not necessary in connection with the generation of power for defense purposes, this should be done.

RIVER AND HARBOR WORK AND FLOOD CONTROL

(In millions)

Fiscal years 1932 to 1941, inclusive	
Total expenditures during the 10-year	
period (1932-1941) amounted to - - - - -	\$1,570.0
Fiscal year 1941 - expended (checks paid)- - -	219.0
Fiscal year 1942 - estimated to be spent - - -	200.0

Recommendations:

It is recognized that certain river and harbor and flood control work must continue in the interest of the lives and safety of our people. But all projects which are not vital from this standpoint or necessary for definite defense purposes should be reexamined. Work on all projects of this character which can be delayed or postponed should be prohibited and funds heretofore appropriated should be ~~impounded~~. *Cancelled.*

PUBLIC ROADS

(In millions)

Fiscal years 1932 to 1941, inclusive

Total expenditures during the 10-year period (1932-1941) amounted to about - - - - - \$5,800.0

This includes expenditures for highways, roads, streets, etc. under the Emergency Relief Appropriation Acts and the Public Works Administration Act of 1938.

Fiscal year 1941 - expended (checks paid) <sup>Regular</sup> <sub>W.P.A.</sub> 174.1  
485.0 659.1

Fiscal year 1942 - estimated to be spent - <sup>Regular</sup> <sub>W.P.A.</sub> 175.0  
Not available

Fiscal year 1943 - expenditures in this year were obligated on or before January 1, 1941.

Fiscal year 1944 - expenditures in this year will be obligated on or before January 1, 1942.

Recommendation *As suggested*

It is suggested that the Congress, by appropriate enactment, rescind the 1943 highway authorization.

This would result in a reduction of expenditures for public roads in the fiscal year 1944 (July 1, 1943 to June 30, 1944).

Any new roads or enlargement of existing road facilities required by national defense activities could be specifically authorized as defense projects.

Fiscal year 1940:

The amount appropriated and being spent in the current fiscal year covers the Federal-aid highway authorization of <sup>162</sup>\$125,000,000 for the fiscal year 1941 and balances of prior years' authorizations. These expenditures were obligated on or before January 1, 1940.

Fiscal year 1941:

The Act of September 5, 1940, contained an authorization of <sup>139</sup>\$100,000,000 for Federal-aid highways for 1942. This authorization was obligated on or before January 1, 1941, and there is an obligation on the Congress to appropriate sufficient amounts in the next fiscal year to pay these obligations. This cannot be avoided.

Fiscal year 1943:

The Act of September 5, 1940 contained an authorization of <sup>139</sup>\$100,000,000 for the fiscal year 1943. Under existing law this amount must be apportioned among the States not later than January 1, 1942. After such apportionment specific projects are approved. The approval of projects constitute a contractual obligation of the Federal Government for the payment of its pro rata share of the cost of the projects approved. This can be postponed.

AGENCIES ENGAGED IN TRAINING ACTIVITIES

	<u>Amounts appropriated for 1942</u>			<u>Esti- mated Expen- ditures 1942</u>
	<u>Admini- strative Expenses</u>	<u>Other Activities</u>	<u>Total</u>	
	(In millions).			
Civilian Conservation Corps - - - -	\$19.2	\$227.8	\$247.0	\$200.0
National Youth Administration:				
Regular - - - - -	5.8	86.0	91.8	90.0
National Defense - - - - -	3.0	57.0	60.0	60.0
Office of Education:				
Regular - - - - -	.9	28.4	29.3	30.1
National Defense - - - - -	1.2	106.9	108.1	116.8
<b>TOTAL - - - - -</b>	<b>\$30.1</b>	<b>\$306.1</b>	<b>\$336.2</b>	<b>\$496.9</b>

Recommendations - *Economic suggestions.*

Each of the above agencies is under the Federal Security Agency, and its primary function is the <sup>vocational</sup> training of youth, with emphasis during the present to the training of youth preparatory to employment in defense occupations.

It would seem that the regular activities of the Civilian Conservation Corps and National Youth Administration must conflict with the more important defense program, and should be eliminated or drastically reduced.

All training activities should be consolidated in a single agency. Any overlapping functions or duplication of work could be eliminated and one comprehensive training program, integrated with the defense program, could be formulated and administered more economically than appears possible under present <sup>the</sup> <sup>or</sup> <sup>organizations.</sup> conditions.

*All*

Reflected in Budget

Expenditures under the Farm program which are included in the Budget were designed to meet <sup>mainly</sup> conditions involving low prices for farm products, surplus production and loss of export markets.

Present conditions are radically different from those which the Farm program was designed to meet. Prices for farm products have increased substantially; increased production of farm products must be undertaken on a large scale; and there is no regular large scale export market, except in so far as goods are going forward under the lease-load program to assist the countries opposing the aggressor nations in the present world conflict.]

Major expenditures under the Farm program are included under the following captions:

	<u>Expenditures (In millions)</u>		
	<u>Estimated 1942</u>	<u>Actual 1941</u>	<u>Actual 1940</u>
Surplus Marketing Administration, and Agricultural Adjustment Ad- ministration (Act of August 24, 1935) - - - - -	240.0	240.9	242.6
Soil Conservation and Domestic Allotment Act - - - - -	475.0	463.1	605.1
Administration of Sugar Act of 1937	48.0	50.4	48.8
Price Adjustment Act of 1938 and Parity Payments - - - - -	205.0	198.3 <del>205.0</del>	215.0 <del>198.3</del>
TOTAL - - - - -	<u>968.0</u>	<u>952.4</u>	<u>1,011.5</u> <del>994.8</del>

Recommendation

It is suggested that the Farm program be reexamined from the standpoint of present conditions. Is it logical to pay farmers to cut the amount of acreage which they plant, when on the other hand there is such an urgent need to increase production of farm products for our defense needs? Can we justify continued parity payments when many farm products have reached or exceeded the established parity price, and under the impetus of increasing demand may go still higher?

FARM PROGRAMNot reflected in Budget

There are other phases of the Farm program involving loans for rural rehabilitation, farm tenancy and rural electrification. In 1941 and 1942 expenditures for these purposes have been shifted from the Budget and transferred to the R.F.C., which has been authorized to advance funds to the Secretary of Agriculture to enable him to make loans.

Activities of this character are as follows:

	<u>General Budget</u>	<u>R. F. C. Funds</u>
<b>Expenditures:</b>		
<b>Farm Security Administrations:</b>		
Fiscal year 1940 - - - - -	\$158.5	-
Fiscal year 1941 - - - - -	62.2	\$111.3
<b>Farm Tenant Act:</b>		
Fiscal year 1940 - - - - -	41.8	-
Fiscal year 1941 - - - - -	27.3	29.4
<b>Rural Electrification Administrations:</b>		
Fiscal year 1940 - - - - -	38.0	-
Fiscal year 1941 - - - - -	24.2	36.0
<b>Estimates for 1942:</b>		
Farm Security Administration - - - - -	60.0	134.0 <sup>1</sup> / <sub>2</sub>
Farm Tenant Act - - - - -	7.0	71.0 <sup>1</sup> / <sub>2</sub>
Rural Electrification Administration - - -	8.0	139.0 <sup>1</sup> / <sub>2</sub>

<sup>1</sup>/<sub>2</sub> Unused balances of authorizations.

Commodity Credit Corporation

Inter-related with the Farm program are the activities of the Commodity Credit Corporation. Expenditures have been made by this Corporation with funds received from the following sources:

<b>From the Treasury</b>		
Included in the Budget		
Capital and surplus:		
Fiscal year 1934	-----	\$3,000,000
" " 1935	-----	97,000,000
" " 1936	-----	94,000,000
" " 1940 (net)	-----	76,000,000
" " 1942	-----	<u>1,600,000</u>
		\$271,600,000
Not included in the Budget		
Purchase of notes (net to		
Nov. 10)	-----	120,000,000
From Public Borrowing (net to Nov. 10)		<u>701,000,000</u>
TOTAL	-----	<u>\$1,092,600,000</u> <sup>1/</sup>

<sup>1/</sup> In addition receipts from repayments of loans and sale of commodities are available for expenditure.

Recent estimates furnished to the Treasury by the Commodity Credit Corporation show for the current fiscal year, the following:

Estimated disbursements	-----	\$1,100,000,000
Estimated receipts	-----	<u>913,000,000</u>
Excess of disbursements, to be covered by borrowing funds from the Treasury	-----	<u>\$ 187,000,000</u>

Recommendation:

It is suggested that particular consideration be given to the necessity for the continuance of that part of the farm program which is not reflected in the annual budget and which is financed from funds obtained through corporations or borrowed from the Treasury. The Congress is apt to overlook the substantial expenditures which are not reflected in the annual budget. Eventually any losses which may be incurred through these programs

will become budget charges. Each of these items should be re-examined in the same manner that has been suggested for the farm program expenditures which are reflected in the budget program.

November 13, 1941

In calling on the Vice President this morning, to go over my speech, he said, "I suppose you know that whatever difficulties you have had in your present job that when this war is over it will be more difficult than anything you have ever had."

So I said, "Well, Henry, my arteries are getting older and so is my heart and I think when that time comes around they had better get a younger man." Wallace said, "Well, you evidently feel kind of old this morning." So I said, "When you work for Roosevelt the way I have for 16 years, you have lived four lives". He laughed, and I said, "I think that by the time this Administration is over, some younger man had better follow me."

I was talking from my heart, but when it was over I was glad I said what I did because it serves notice on him that I have no intention of staying here when Roosevelt leaves and it should remove any possible ulterior motive from his mind as to any actions or recommendations which I may make to him.

November 13, 1941,

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Bill Myers called me from Ithaca this morning. He said L. J. Taber, Master of the National Grange, is ill and is expected to retire and that Albert Goss is the ablest of candidates for successor to him. He suggested that you might be willing to consider making some reference, in your speech at Worcester Saturday, to the fact that as Governor of the Farm Credit Administration you chose a prominent Granger, that is, Mr. Goss, to be Land Bank Commissioner and that he did a good job. He said Goss had been working very hard in recent months and effectively to prevent the Grange from carrying on a campaign to take the Farm Credit Administration out of Agriculture and put it back in the Treasury, which would, of course, be a slap at the Administration. I told Bill that I thought the consideration against your doing what he suggested was that you would not want to put yourself in a position where you could be accused of meddling with Grange affairs and he agreed that you naturally would not want to make any reference to Goss unless it could be done in an entirely natural way and not have the appearance of meddling. He only wished you to consider it and if you were not able to do it, he would understand perfectly.



November 13, 1941  
12:24 p.m.

HMJr: Hello.

Operator: Senator Byrd.

HMJr: Hello.

Senator Byrd: Hello, Henry.

HMJr: How are you?

B: Just got in.

HMJr: Fine.

B: How are you?

HMJr: Well, I'm selling a few apples.

B: Yeah, I'm selling a few. The market seems to be looking up.

HMJr: Yeah. The Mackintosh market hasn't been so good though.

B: Mackintosh, yeah.

HMJr: They've been dragging a little bit.

B: We're getting a dollar seventy-five out of Staymans now.

HMJr: That's wonderful.

B: That is, wrapped.

HMJr: Yeah, that's wonderful.

B: I think it's going to go up a little more. There's a short crop, evidently.

HMJr: Well, they tell me - I don't know whether you've heard it or not - out in the Northwest they had some strike trouble.

B: They did?

HMJr: And they think that when they get cleaned up there, that - they've been forcing them on the market and that next spring there really ought to be a shortage because there won't be the western apples to compete.

B: Well, that's fine. I hadn't gotten that. I'll write out there and try to find out about it.

HMJr: Yeah, they've had some strike troubles out there and they've been - they've had to hold their apples, some of them and the others they've had to force on the market.

B: Uh huh.

HMJr: You might inquire.

B: Yes, I will. Thank you very much for telling me about it.

HMJr: Harry, did you get my message?

B: Yes, I got it, Henry. I just don't see how you can avoid making some kind of a statement. I've never seen such terrific demand on the part of the newspaper people for information about this matter.

HMJr: That's right.

B: I mean, not only you, but the whole thing combined; and they're just razzing me to death. I haven't given them anything at all. I didn't - the only thing I did say, as I told you, was that we were going to confer with you. I didn't see any objection to that.

HMJr: Well, is that agreeable to you?

B: Yes, sir. What I would suggest was - suggest is - after the executive meeting is over, that you wait there and then you make your statement to them.

HMJr: After.....

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- B: I think it's better for you to do it than for somebody else.
- HMJr: Well, that's what I thought; because I didn't want to - I don't know whether you gathered - I didn't want to say too much to Doughton.....
- B: Yeah.
- HMJr: .....because I didn't want to hurt the old man's feelings if I'm supposed to.....
- B: (Laughs)
- HMJr: .....but the newspaper men tell me that there were at least five different versions they got from at least five members.
- B: Yeah. Well, that happens nearly always.
- HMJr: So I'd rather - if it was agreeable to you - stay afterward and then just tell the men.....
- B: That's right. You stay afterwards, and I would stress very strongly, I think, Henry, the need of this economy and non-essential spending - I mean the general way, general lines.
- HMJr: Well, I think that the newspaper men will feel much more friendly disposed to the work of the committee.
- B: Yeah.
- HMJr: Otherwise, I think they're really going to be sore.
- B: Yeah.
- HMJr: Is that all right?
- B: Yes, you bet. And what we'll do is, just as soon as the meeting is over, you'll stay with me, you see, and then you tell them anything you want. I think that's the best way to handle it rather than come through another person.

HMJr: I'd like to do it that way.

B: Fine, Henry.

HMJr: Thank you.

B: I'll look forward to seeing you tomorrow. We may not have a very full meeting. Some of these fellows are away, and if the House presents - I don't imagine it will be in session tomorrow at ten-thirty, though.

HMJr: Yeah.

B: But I'll see you there.

HMJr: Thank you.

B: Thank you very much for calling me.

November 13, 1941  
12:28 p.m.

Secretary  
Ickes: Henry.

HMJr: In person.

I: I understand that the large shipments of aviation lubricating oil.....

HMJr: Yeah.

I: .....are going to Spain.

HMJr: I don't - well, if they are.....

I: Can you let me have your figures?

HMJr: Aviation? Well, supposing we give you everything that goes to Spain?

I: I want to know everything that's going to Spain.

HMJr: I'll get it over to you right away.

I: Thanks a lot.

HMJr: Thank you.

I: Nothing going to Japan?

HMJr: Zero, zero.

I: Well, that's all right.

HMJr: Suits me.

I: Looks as if we had won that at last.

HMJr: Well.....

I: All right, Henry.

HMJr: Thank you.

I: Good-bye.

November 13, 1941  
12:30 p.m.

Operator: I have his secretary.

HMJr: All right.

Operator: Go ahead.

HMJr: Who is this?

Mr. White's  
Secretary: This is Mrs. Shanahan, Mr. Morgenthau.

HMJr: Mrs. Shanahan.....

S: Yes.

HMJr: .....Mr. Ickes called up and would like to have right away the latest information on shipments of oil to Spain, particularly the aviation lubricating oils.

S: All right.

HMJr: But send him anything that we have that's gone there for the last four weeks.

S: Anything for the last four weeks.

HMJr: And get it over there as soon as possible.

S: All right. And that's to Mr. Ickes.

HMJr: Harold Ickes.

S: Uh huh. All right.

HMJr: Ever heard of him?

S: Yes.

HMJr: He raises eggs.

S: (Laughs) Oh, yes. I've heard of him. I don't buy them though. All right, sir.

HMJr: Thank you.

S: You're welcome.

November 18, 1941  
2:35 p.m.

RE GRANGE SPEECH

Present: Mr. Kuhn  
Mr. White

Kuhn: Mr. Secretary, I haven't marked the changes on your master copy, except that the last six pages are new.

H.M. Jr: The others will have to wait. I will tell Barnard to wait in his office.

Kuhn: Should I indicate where I made changes?

H.M. Jr: I will read out loud and you just say "No".

"Today, as never before, it is an honor to be an American farmer. The future health and happiness of all the world depends, as never before, upon the American farmer's work and skill and enterprise. I am very happy, therefore, to have this opportunity of speaking to a great audience of American farmers, and to accept at your hands, Mr. Taber, this pin that certifies to twenty-five years' membership in the National Grange.

"To anyone who lives and works with the good earth it brings a new pride year after year to sow the new crop, to tend it carefully, and to harvest it at last. Speaking to you as a

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fellow farmer rather than as Secretary of the Treasury, I can assure you that one of the great satisfactions of my life is to see the trees that I planted on my own farm twenty-five years ago grow and blossom and bear good fruit. And during these twenty-five years it has meant a great deal to Mrs. Morgenthau and me to be members of the Wicopee Grange, near our farm in the Hudson Valley. The local Grange has given us a place to discuss common problems with our neighbors, and it always has given us the feeling that we are a part of this great national organization which for seventy-five years has been the friend of every farmer in the United States. I shall wear my membership pin as a badge of honor."

So far so good.

"I had intended to remind you at the very start of this talk of the danger of inflation as it might affect the farmers of the United States; but your national Master has already spoken of the danger, and has done it eloquently."

Would you say "I had intended to remind you"? Or would you simply say, "Your national Master has spoken to" --

Kuhn: It would be too abrupt. Now, on the quotation, Mr. Secretary, Harry thinks that the quotation or parts of it are wrong, particularly he says there was no inflation in '32 and '33, and the sentence, "This is one time when we dare not forget that wild inflation means economic disaster," nobody is talking about wild inflation in general terms.

White: If you just leave that sentence out, the rest sounds better.

Kuhn: Suppose we put three dots after 1933 and then go

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on, "Inflation endangers all forms of wealth"?

H.M.Jr: O.K. Harry has to have his way.

Kuhn: I am glad he does.

H.M.Jr: "One of the most effective ways to fight inflation is to produce more of the goods which do not compete with our defense industries for materials or for labor. That means, quite simply, to produce more food" --

Is that the only way to do it, to produce more food?

Kuhn: Well, it means above all, to produce more food. I can't think of anything else.

H.M.Jr: It looks as though this is the only way.

Kuhn: You can say, "That means above all to produce more food."

H.M.Jr: Well, that would help.

Kuhn: All right, that is easy enough.

H.M.Jr: You get what I have in mind?

Kuhn: I do.

H.M.Jr: I have been so damned mad, once yesterday and once today, I could have gone down to hear those records of those machines, you know.

Kuhn: Couldn't you do it?

H.M.Jr: The man was never there when I was there. He was always out showing a picture or something.

Kuhn: Well, I wish you would see them sometime.

H.M.Jr: I had fifteen minutes this morning, and I was low and I thought I would go down.

"I should like to pay my tribute to the work of Secretary Wickard and the Department of Agriculture in the past six months" --

All right.

".... in encouraging our farmers to grow more of the right kinds of food -- more dairy products, vegetables, fruits and meats, the so-called protective foods on which our national well-being depends.

"The opportunity ahead of American farmers at this time is so vast that very few of us, I think" --

Are you feeling all right, Harry?

White: Fine.

H.M.Jr: I have gone four pages and you haven't corrected anything.

White: Well, it is good.

H.M.Jr: If I didn't tease Harry he would get sick, wouldn't you, Harry?

White: That is right.

H.M.Jr: Because he would know I was sick.

"We have prided ourselves on being the best fed nations in the world. Europeans who have come to our shores have marvelled at the stacks of fruit and vegetables in our shops and at the abundance of the diet available to American families. Yet we are not as well nourished as outward appearances might seem to show. Only the

other day the President of the United States expressed his sense of shame at the high percentage of recruits for the army who had to be rejected. Nearly 50 percent of two million men examined for selective service were found to be unfit, and of those rejected a large number were suffering from dental defects or other ills that probably were due to faulty nutrition. The President was not overstating when he described these conditions as an indictment of America.

"A few years ago" --

"Indictment of America" or "indictment of the habits of America"?

Kuhn: He called it an indictment of America.

H.M.Jr: "A few years ago I took part in the conception and inception of the food stamp plan, which was an attempt to bring some of our surplus commodities into the hands of" --

Kuhn: The next sentence is changed to read as follows: "The plan was conceived at a meeting between Vice President Wallace, Mr. Harry Hopkins, Doctor Thomas Parran, and myself" semicolon. "Later it was perfected by Mr. Milo Perkins of the Department of Agriculture." He is Department of Agriculture, isn't he?

H.M.Jr: He was.

"In line with this effort Doctor Parran, who is now Surgeon General of the United States, and was then the head of the Public Health Service" --

Kuhn: He is still the head of the Public Health Service, isn't he?

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H.M.Jr: Well, then he was with the Treasury. That is what you are trying to say, or in the Treasury.

White: With the Treasury.

H.M.Jr: Either one. I always say they are in the Treasury. That is what you are trying to say.

Kuhn: Yes, in the Treasury.

H.M.Jr: All right.

".... undertook an investigation into food-buying habits and nutrition in the District of Columbia. Here was a compact area where per capita wealth was higher than that of any State, yet Doctor Parran found widespread under-nourishment," --

Was that interesting, that report?

Kuhn: Not as good as it sounded. In the first place, he took only six hundred families.

H.M.Jr: No, but I meant the meeting you took at Wallace's where George Haas wrote up --

Kuhn: Yes, it was very.

H.M.Jr: Did he show how they were afraid of it?

Kuhn: Showed how Wallace was fighting you.

White: Fighting the stamp plan?

Kuhn: Well, fighting the idea of abundance. Isn't that right?

H.M.Jr: Yes, that is it.

That is the thing, and Hopkins, with Hopkins fearing that this was a move to take the place of relief.

Kuhn: But it was more recent than I thought. It was 1938.

H.M.Jr: "I suspect that similar investigations in other parts of the country might yield a similar result even today, when our public is more vitamin-conscious than when Doctor Parran's study was made."

This gives Parran a nice boost.

"This is a challenge that we as a government, and we as farmers and consumers must meet together."

Kuhn: Harry questions the word "consumers", in there.

H.M.Jr: I agree. Out it goes.

"The Government can help by encouraging and promoting the production and use of the right kinds of food, and by heavier taxation of those goods which are not essential to health and strength."

Kuhn: First of all Roy wanted the taxes out, and you and I agree that it should be in. Miss Elliott want to show somehow that the Government is doing a lot through nutrition education to create a demand for better food, and I thought if you wanted to satisfy her you could say, "The Government can help by ensuring and promoting the production and use of the right kinds of food, as it is beginning to do right now, and by heavier taxation."

H.M.Jr: That is all right.

Kuhn: I think that will take care of her. At least that was her whole plea.

H.M.Jr: Now, if you don't mind, I think if you are going to say "by heavier taxation of those goods" -

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I don't know what you meant. Now, if you are going to say it, I think you ought to specify those goods, such as cigarettes --

White: Not cigarettes. Is that what you had in mind here?

Kuhn: I have in mind candy, liquor, soft drinks. Of course, if you mention each one of these and say they are not necessities to good health and then the industry concerned will squawk --

H.M.Jr: It is all right, leave it there. Put in Miss Elliott's piece too.

Kuhn: "As it is beginning to do"?

H.M.Jr: Yes. All right, Harry?

White: Yes, I think it is better not to specify.

Kuhn: But you wouldn't leave out the taxation?

White: No. I am not sure that I see Roy's point.

H.M.Jr: You don't want to say, "as they are doing under the Consumer Section under Miss Elliott"? Do you want to bring her in?

Kuhn: I don't think that is what she --

H.M.Jr: No, but I mean do you think it would be a nice thing to do? She needs a boost.

White: Mr. Secretary, do you want to reconsider the elimination of taxes? As you read the paragraph it is kind of dragged in.

H.M.Jr: I don't care about it either way.

White: "This is a challenge that we as a government,

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and we as farmers must meet together. The Government can help by encouraging and promoting the production and use of the right kinds of food, and the farmers can do by far the biggest job by producing more." I think the taxes are kind of - there isn't enough said about them.

H.M.Jr: We will bring in the part about --

Kuhn: "As it is beginning to do right now."

H.M.Jr: I would kind of like to say - she has been so nice - "Under the leadership of Miss Elliott".

Kuhn: "As it is beginning to do under the leadership of Miss Harriet Elliott of the Consumers' Division".

H.M.Jr: Yes. She has been awfully nice, you know.

Kuhn: She is very good. She calls me right up on the phone.

H.M.Jr: Well, I would do it. You mentioned Parran and you mentioned all these people. Why not let's mention her?

Kuhn: All right.

H.M.Jr: "But farmers can do by far the biggest part of the job by producing more -- by diverting land and effort to the production of milk, butter, eggs, pork products, fruits and vegetables. It must no longer be said of this rich country of ours that millions of our people still go without the food that is necessary to good health and good morale.

"Side by side with this challenge that confronts us at home, there has come a still more urgent

and insistent call from across the sea. The British people, as you know, have had their chief sources of food supply cut off either by invasion, as in the cases of Holland and Denmark, or by shipping shortages, as in the cases of Australia and New Zealand."

Kuhn: Meat.

H.M.Jr: How about Africa?

Kuhn: Oranges from South Africa.

White: Oranges from there?

Kuhn: That is one of their biggest sources of oranges.

H.M.Jr: I thought they got them from Palestine.

Kuhn: From Palestine at Christmas, and then from Spain, and then from Brazil.

H.M.Jr: Well, it makes the point.

"The British today are living under conditions of siege. Their island home is one vast fortress, and every man, woman and child is in the garrison, fighting our fight as well as their own. It is our responsibility," --

White: Do you want to say that?

H.M.Jr: They are, aren't they, Harry?

Kuhn: Wickard has been saying it in those words.

H.M.Jr: Aren't they?

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White: Yes, they are. I don't know, has anybody said that?

Kuhn: Wickard has said that in those words.

H.M.Jr: Well, if they are not, what are they doing?

White: They aren't doing that. Yes, I think that --

H.M.Jr: I think it is good. They are fighting our fight as well as their own.

I think the whole trouble with the English today, they are entirely too subservient to us.

Kuhn: Well, that is certainly an accurate expression.

H.M.Jr: I like it.

Why do you worry about it?

White: I thought in the past there was some objection to saying that they are fighting our fight, but I think that is no longer true.

H.M. Jr: O.K., Harry.

White: Yes.

H.M. Jr: "It is our responsibility, and our high honor, to see that they are fed, not with a trickle of occasional shipments, but with enough sustaining food to enable them to carry on with health and morale --"

White: Would you want to just say, "enable them to carry on"? Why would it leave their morale unimpaired? "Warm and sustaining food to enable them to carry on."

Kuhn: Stop.

H.M. Jr: That is all right.

Kuhn: "Warming food" is out.

H.M. Jr: I don't like "warming."

Kuhn: I am thinking of the English winter.

H.M. Jr: "With enough sustaining food."

"American farmers are already doing a mighty work in sending food to England in her time of greatest need. Secretary Wickard has already told you of the huge amounts that we are pledged to send during 1942. It will help us, I think, to produce those vast quantities if we always remember that our food shipments are bringing renewed strength and renewed courage to those who are in the front line of freedom."

"The front line of freedom" is good. I like it.

"That is an achievement which must be continued

throughout 1942 and as long as the war may last. It is probably the greatest single call ever made upon American farms. If you add it to our own requirements, it is a call that will use all of our ingenuity, all our effort, and all of the experience that we have gained in recent years, if we are to meet it successfully.

"In this effort the American farmer is as vitally important as the aircraft worker who builds a new bomber or the shipyard worker who helps to send a new battleship on its way. Knowing what I do of the greatheartedness of our farmers and of their capacity for hard work in a great cause, I am confident that call will be answered and that England will be able to win the victory that is our own hearts' desire.

"But after the victory -- what then? After the Allies win this war -- "

This is new, isn't it?

Kuhn:

That sentence.

H.M.Jr:

Sherwood will like that.

"After the Allies win this war -- and they are going to win it -- the opportunity for American agriculture and the need for colossal production of the right kinds of food will be much greater than it is even today. Where tens of millions in England are depending on us now, hundreds of millions throughout the continents of Europe and Asia will be stretching out their hands to us when the war is over."

White:

Does that phrase, "stretching out their hands"

bother you a bit?

H.M.Jr: What would you say, "their mouths"? (Laughter)

Kuhn: You know the African savages who have things put in their lips to make them stretch? National Geographic pictures them.

H.M.Jr: He is thinking of a poster. It is all right. Ferdie and I are a little romantic, between us.

White: It is a good figure.

H.M.Jr: "I am in favor of seeing that the credit of the United States is used to do the humanitarian thing, the economic thing, the sound thing, in putting the great food production of the United States into the hands of the hungry millions. I am one of those who believe that in the long run, as Vice President Wallace has said, service to humanity is economically sound."

White: Want to quote that?

Kuhn: We don't know where he said it and he doesn't know.

H.M.Jr: He was very cute about it. He said, "I don't want you to give it that way." I said, "Well, will you suggest?" He said, "Yes, I will suggest it, Henry, because I know you have it in your heart."

"I am thinking not only of the actual hunger that will be sure --"

Do you mind putting "actual hunger and misery"?

"...the actual hunger and misery that will be sure to exist when the next Armistice comes, but

also of the ruined agriculture of many countries that depended upon farming for their very existence. I am thinking of the herds that have been slaughtered -- "

And put in the words, "fine herds."

"...I am thinking of the fine herds that have been slaughtered in Denmark and Holland which lived on their exports of dairy products. I am thinking of the scorched earth in the great farming areas of Russia, where farm houses and farm implements have been destroyed in the past five months on a scale unparalleled in all history. There will be a lack of seed, a lack of feed for livestock, and in many countries a lack of manpower -- "

Whiter: Why do you put that in, "lack of manpower"? I just noticed it.

Kuhn: It has been in all the way through. The French are certainly suffering from it, and will be after the war. It took two years for the German prisoners to get back home.

H.M.Jr: There were ten million people killed who died from starvation after the last war.

Kuhn: How many German prisoners were in France for two years?

H.M.Jr: In the last World War there were ten million people either died or killed.

Kuhn: It takes time to demobilize the soldiers.

H.M.Jr: "It is true, as the President said recently, that our first job now is to win the war rather than to concentrate on blueprints of what is to follow. I agree with him, yet I

think there is one great fact about the coming democratic order in Europe which we should do well to remember now. That is that great masses of decent hardworking men and women will no longer tolerate the economic insecurity which furnished so much of the fuel for the political turmoil of the past 25 years."

Kuhn: This is where the new stuff begins, partly because of what Wallace said and then Miss Elliott was very worried about it for fear that you wouldn't say anything about the duties that people are going to have to their communities and that we have a right to call on them for.

White: Miss Elliott or Wallace?

Kuhn: Both of them.

H.M.Jr: Wallace was swell this morning. I have never seen him more friendly to me. He hasn't always been that way.

"They will be willing and glad to pledge themselves to their country, but they are also going to demand certain elementary guarantees for a decent life, and I think they will be right and amply justified in their demand.

"In order to build a better world -- and that goes for our own country as well as for those abroad -- we must not only call upon the citizen to give greater service as a duty to his community, but we must recognize his right to have a minimum standard of food with which he can live the life of a free man. In return for the greater duties of citizenship, I believe that after the war we should guarantee to every man, woman and child the right to have

enough milk and butter, enough fruit and vegetables, enough of the protective foods of all kinds, so that everyone can be fit to do his part in the world of tomorrow."

- White: I fail to see the sense of talking about calling upon the citizen after the war to give greater service to his community. I don't see that it makes any sense. Now is the time he is called upon for greater service.
- Kuhn: This is all the old stuff. I have just tried to slip in the idea that these things balance.
- H.M.Jr: You say it twice.
- White: You can leave it out there, can't you?
- H.M.Jr: Where?
- White: "In return for the greater duties of citizenship."
- H.M.Jr: Where is that?
- White: In the next sentence.
- H.M.Jr: What page?
- White: Fourteen. "In order to build a better world," and so forth.
- H.M.Jr: The thought that somebody expressed up there was, oh, he was just handing out the --
- Kuhn: They will say that, yes. In all the discussions of this food guarantee, they have always balanced it against the greater calls on people to give up a year of their lives for

military training or for community service or something like that.

H.M.Jr: Look here, I am going to be emotional or spiritual, if you don't mind my using that word. I am interested in this thing as a spiritual, moral thing, and I am not asking for quid pro quo.

Kuhn: Well, suppose you were to say "along with the greater services."

H.M.Jr: No sir. Look, it ruins the whole thing.

Kuhn: Right.

H.M.Jr: It ruins the whole spirit of the thing. You didn't put it in as sort of a crass thing.

Kuhn: No, I believe that you are going to have to --

H.M.Jr: Well --

Kuhn: ...get more in a democratic state --

H.M.Jr: Look here, now wait a minute. What we are saying, this thing today, with the people in starving Poland or the people in starving Bessarabia, you are saying, "Boys, we are going to give you some feed if you are going to be a better citizen." Well, how the hell does that sound on the shortwave? What do you expect to give them? Arms? He doesn't say, "Arms for the love of Allah if I am a better citizen" in that play.

Listen, Ferdie, I don't have to argue along these lines. I am giving a sermon here and let me strike it on a very high moral plane and eliminate the part about Wallace and everything else that you put in here.

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- Kuhn: Well, there is one sentence that I think can stay. At the bottom of page 13, about the great masses of hardworking men and women will no longer tolerate it, and so forth. They will be willing and glad to pledge themselves to greater service for their country, but they are also going to demand certain greater elementary guarantees.
- White: Not "they will" but "they are willing."
- H.M. Jr: Do you want to put that in?
- White: I don't know why it belongs in at all.
- H.M. Jr: I don't agree with you, Ferdie.
- Kuhn: I believe strongly in that sentence, but then you can go on and talk about the guarantees.
- H.M. Jr: Ferdie, how the hell can they do greater service for their country when they are in this condition? You are talking about people with a hobnailed boot on their necks. This is to appeal to the people now, not after the war. We are appealing to these fellows. "Now boys, if we win this war -- and we are going to win this war -- we are going to give you some food to put in those empty stomachs." This is no time to talk to people about greater service to the country, where they can't vote, can't go to school, can't go to church.
- Kuhn: But you are talking to the American public as well.
- White: Not when you are guaranteeing nutritious food. It is to people with very low incomes who will get the benefits of that.
- Kuhn: That is right. You mean they are not to be expected --

- White: In any case, why appeal to them for greater service in this speech? It belongs in another speech.
- H.M. Jr: Look, Ferdie, let me launch this on a very high moral plane without any quid pro quo, and I am not worried what they are going to say. I would love to have them call me a social worker. I would love it. That is what I am.
- Kuhn: Then it will read this way: "They are going to demand certain elementary --"
- H.M. Jr: It is social work, Harry.
- White: But it is not the kind of social work that is usually meant by social workers, but it is all right. It is social work. It is social work as it should be.
- H.M. Jr: I am thinking of social work as out of a settlement house.
- White: It is social work as it should be. It attacks the roots of the problem.
- H.M. Jr: Listen, in the Henry Street Day Nursery, the nursing service here, when a person calls up and wants a nurse for an hour, whether it is here in the District or out of Henry Street, you don't say, "Will you give greater service to your country?" You send a nurse to make their bed and give them a bath and put new bandages on. That is social service in the terms I think of it. You don't say to the man, "Will you be a better citizen, before I wrap up your arm or give you a bath or make your bed for you or give you a bottle of milk?"
- White: I think you are unquestionably right on this.

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H.M.Jr: Look, you don't know this side of me, but let me be myself for once and let Mr. Wallace, the idealist, talk about a quid pro quo.

Kuhn: And Miss Elliott.

H.M.Jr: And Miss Elliott.

White:- They can ask for more service and the Secretary will promise them more food.

H.M.Jr: That is wonderful, but cut out all the greater service stuff.

Kuhn: That is easy. "In order to build a better world we must recognize the right of the citizen to have a minimum standard of food with which he can live the life of a free man. I believe that after the war we should guarantee to every man, woman and child the right to have enough milk and butter," and so on and so forth, "so that everyone can be fit to do his part in the world of tomorrow."

H.M.Jr: Well, you fix it up with that in mind.

Kuhn: But the rest of it will suit you if all that is taken out?

H.M.Jr: Sure, but cut out this --

White: Go back to the way you have it before.

H.M.Jr: Now, shall I go to 15? "We in America decided --"

Now, what are we guaranteeing? What have we got down? "We should guarantee that

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after the war --"

Now, instead of saying "we" would you say, "The world should guarantee to every man, woman and child," or "we"?

White:

Well, that loses a good deal of force because you have so little control over what the rest of the countries do.

H.M.Jr:

All right.

"We should guarantee to every man, woman and child the right to have enough milk and butter, enough fruit and vegetables, enough of the protective foods of all kinds, so that everyone can be fit to do his part in the world of tomorrow."

It is all right. It is a nice idea, and I am glad to say it, what the hell.

Kuhn:

I would like to start Page 15 with the words, "After all, we in America decided," the idea being that there is nothing so new about all this.

- H.M.Jr: What this gets back to is, do you remember the speech you helped me on, Harry, when we went up to Philadelphia and talked about this land of plenty and so forth?
- White: That is right.
- H.M.Jr: This gets back to the thing. Here is a way, for instance, to produce at a maximum and put the stuff into people's stomachs and have a happy world.
- White: I think you will find there is a consistent note through all your speeches of that kind.
- H.M.Jr: "We in America decided about seventy-five years ago, about the time the National Grange was founded, that everyone was entitled to a decent education as a matter of right, and we established the greatest free school system in the world to provide that right. We found that it was not fair, and that it did not pay us as a nation, to permit illiteracy on a vast scale and to enable only those with wealth or other advantages to have a proper schooling. We have provided that schooling with State funds, and nobody would dream of abandoning it now.
- "We decided eight years ago that every citizen should have protection against unemployment or old age or disability, and we enacted a whole series of historic measures to help him obtain that protection as a matter of right. We found that it was not fair and that it did not pay us as a nation to leave millions of our people at the mercy of economic cycles over which they had no control. These changes have been accepted, and I doubt whether any except the most uncompromising Tory among us would abandon them now.

"What I am suggesting would merely carry the process further. I speak of it today not as a dream but as something which I am convinced must follow, not only in this country but all over the world, if we are not to revert into an endless barbarism of wars and revolutions. It is our best hope of ensuring the survival of the way of life which we treasure in common with other free peoples throughout the world.

"I have suggested it to this particular audience because I want you to consider for a moment what a tremendous opportunity it brings to American farmers."

Why say "just for a moment"? Why not say, "I want you to consider"? Leave out "for a moment."

Kuhn: "Because I want you to consider," right.

H.M.Jr: Not just for a moment, I want them to consider.

Kuhn: Right.

H.M.Jr: "I want you to consider what a tremendous opportunity it brings to American farmers. If our people and other peoples are to be guaranteed a minimum standard of nutrition, which I believe is their right--"

Kuhn: Take out the next.

H.M.Jr: Right.

"... and we in this country will have to produce the food that will make that minimum standard possible."

Out goes the Wallace-Elliott commercialism.

White: That is right.

H.M.Jr: "If everyone in the United States were to be guaranteed the very minimum of the protective foods needed for good health and decent living, it would mean a vast increase in our consumption and our farm production. That minimum for every adult was recently set by the National Nutrition Conference at  $4\frac{1}{2}$  quarts of milk per week, one egg a day, one serving of meat a day, and two daily servings of vegetables and two of fruits.

Who is the National Nutrition Conference?

Kuhn: That is the group that met at the White House with Parran and all these people a few weeks ago. They are the fellows who set this minimum standard on which we base our whole minimum thesis.

H.M.Jr: This came through them?

Kuhn: This came through a woman doctor at the Department of Agriculture whose name was given to me by Parran and she told me what this minimum amounted to.

H.M.Jr: "If we were to attain such a minimum goal, if we were to recognize it as a right that belonged to everyone, it would mean an increase of at least forty percent in our present consumption of milk and milk products alone. It would mean doubling of our present consumption of leafy vegetables and of the fruits that are rich in vitamins. It would mean that the farmers would have a greatly increased market here at home - the best kind of market, for it would not be subject to foreign tariffs, and it would also increase steadily as population increased."

You don't know how many more eggs?

Kuhn: They couldn't tell me.

White: That should be easy. You know how many million eggs we produce a year. Just multiply it by a hundred and thirty--

Kuhn: This doesn't include children, you see. There is a difference for children. I have only mentioned the figures they set for adults.

White: I think eggs ought to be figured out.

Kuhn: And milk?

White: It is a simple calculation.

Kuhn: I tried to get these things.

White: What is an adult, over twelve, fifteen, eighteen?

H.M.Jr: Well, there must be somebody over in the Department of Agriculture who knows that.

Kuhn: I will try to get it.

H.M.Jr: This is page seventeen.

Kuhn: I will try to get it.

White: So many billion eggs a year.

Kuhn: They also warned me against using the word "production." She said so much of the trouble is due to faulty distribution that you have got to put it into terms of consumption.

White: That is all right.

H.M.Jr: But you ought to be able to get that.

Kuhn: I will get it.

H.M.Jr: And on the meat, I wonder if they couldn't put that in to so many more cattle?

Kuhn: Well, it depends on what kind of meat.

H.M.Jr: Well, they can give it and who is going to guess about it? Have you tried Dr. Stanley over there?

Kuhn: I tried Doctor--

H.M.Jr: Could you call up Ezekiel and ask him? He will get out his slide rule and give us an answer.

White: Sure he will.

Kuhn: Quickly?

White: He will get it out and Bea will correct it and they will strike an average.

H.M.Jr: Will you?

White: Yes, right away. Meat and eggs.

H.M.Jr: When we have finished this, you can read that over to him.

White: That is a very effective paragraph because each farmer will immediately--

H.M.Jr: I would read him the whole thing and tell Ezekiel we have got to have it in an hour and by the time you get this first stuff--

White: I will go right out and find it.

H.M.Jr: Wait a minute. While I am getting Barnard in you can do that, Harry.

White: Yes.

- Kuhn: We are on page eighteen, middle of page eighteen.
- H.M.Jr: I think you ought to do that. I really do. I think that is the whole thing.
- Kuhn: I think it improves it already--
- White: If they translate that into actual terms, that means something to the farmer.
- H.M.Jr: Do you want my page?
- White: No, I know what is necessary.
- H.M.Jr: "There need be and there must be," that is kind of clumsy. "There need be and there must be no repetition," is that right?
- Kuhn: You can leave the "and" out. "There need be, there must be no repetition."
- H.M.Jr: Isn't it stronger to say, "There must be no repetition"? I would leave out the "need." I have got to work myself up to a fever here. "There must be no need - no repetition of 1920 and '21 which, as you know - which, as you and I know."
- Kuhn: Good. You are a farmer talking to them.
- H.M.Jr: "... which, as you and I know from bitter experience - which as you and I know were black years for the American farmers."  
Now, instead of "black years," would you say "almost hopeless years"?
- White: "Black" is more - if it is true of 1920.
- H.M.Jr: Well, Wallace is very insistent on this.

Kuhn: You talked in the preceding sentence about misery and darkness, and then you talk about black years.

H.M.Jr: "The opportunities ahead of free people are unlimited. The future of a free people is bright if we only have the wisdom to use those opportunities well."

Damn it, Ferdie, give me a last sentence. I don't like that.

White: I don't like that last sentence either. It is kind of a let-down.

Kuhn: Let me make a suggestion. Take this whole paragraph on page eighteen where you say, "If we could provide a minimum food standard for everyone," you see, that middle paragraph there. "And our farm lands have the capacity to provide it - there would be a greater length of life for all our people." Stop. That would be the last thing in your speech.

H.M.Jr: That is much better.

Kuhn: Would that do it? It will read: "Certainly there need be no agricultural misery. There must be no repetition, which as you know was a black year, if we can provide a minimum food standard - " or "if we provide a minimum food standard for everyone, there will be less illness.

H.M.Jr: Someone here, Bullitt today, was criticizing the fact, for instance, that Stalin and Churchill all say the worst is over with and so forth and so on. I say, "We are not heading into a period of misery and darkness." I think we are, but I think we are going to come out of it when the war is over.

Kuhn: Well, by period you mean - most people mean--

H.M.Jr: I would stop right there.

"If we could provide a minimum food standard for everyone, our farm land has the capacity to provide it. There would be less illness due to faulty nutrition, there would be a greater output from our workers, and there would be a greater length of live for all our people."

Kuhn: Then you don't want to say anything about 1920 and '21? I would just take the little paragraph you like about "all our people" and make that your last paragraph and cut out the last two sentences, you see.

H.M.Jr: What are the last two sentences?

Kuhn: "The opportunities ahead of free peoples and the future of free peoples," and all that.

H.M.Jr: Where are you going to put those others?

Kuhn: The other goes in right after it.

H.M.Jr: You mean ahead?

Kuhn: This little paragraph here, "It would also increase steadily as population increased. I have never been one of those who believe," and so forth. "Certainly there need be no misery," see. "There must be no repetition of '20 and '21. If we provide a minimum food standard, there will be less illness, greater output and a greater length of life for all our people."

White: You could say, "A greater demand for foodstuffs means a prosperous farmer and a prosperous farmer means--"

H.M.Jr: Wait a minute. "There must be a greater length of life for our people and a real future for the farmers of America," something like that. See?

White: "An assured future."

H.M.Jr: And an assured future."

Kuhn: Yes, you can do it this way. "If we provide a minimum food standard for everyone, and our farm lands have the capacity to provide it, there will be less illness due to faulty nutrition, a greater output from our workers, a greater length of life for all our people, and an assured future for the farmers of America.

H.M.Jr: Well, "for the American farmer."

Kuhn: Is that what you meant?

H.M.Jr: Yes, "For the American farmer."

Kuhn: Is that what you meant?

H.M.Jr: Yes. Now, what I will do is give you a breathing spell. I want to listen to Mrs. Morgenthau. I will see Barnard, and you fellows at a quarter of four. That gives Harry a chance to phone and gives you a chance to do a little work and it gives you twenty-five minutes and you come back and we will do Barnard at a quarter of four.

*1. Found by  
The Drafts Discussed  
at Meeting 11/13/41 - 2:35*

DRAFT OF SECRETARY MORGENTHAU'S ADDRESS  
TO THE NATIONAL GRANGE  
WORCESTER, MASS., NOVEMBER 15, 1941

86 P.M.

Today, as never before, it is an honor to be an American farmer. The future health and happiness of all the world depends, as never before, upon the American farmer's work and skill and enterprise. I am very happy, therefore, to have this opportunity of speaking to a great audience of American farmers, and to accept at your hands, Mr. Taber, this pin that certifies to twenty-five years' membership in the National Grange.

To anyone who lives and works with the good earth it brings a new pride year after year to sow the new crop, to tend it carefully, and to harvest it at last. Speaking to you as a fellow farmer rather than as

D-C

Secretary of the Treasury, I can assure you that one of the great satisfactions of my life is to see the trees that I planted on my own farm twenty-five years ago grow and blossom and bear good fruit. And during these twenty-five years it has meant a great deal to Mrs. Morgenthau and to me to be members of the Wicopee Grange, near our farm in the Hudson Valley. The local Grange has given us a place to discuss common problems with our neighbors, and it always has given us the feeling that we are a part of this great national organization which for seventy-five years has been the friend of every farmer in the United States. I shall wear my membership pin as a badge of honor.

D-C

I had intended to remind you at the very start of this talk of the danger of inflation as it might affect the farmers of the United States; but your National Master has already spoken of the danger, and has done it eloquently. May I quote a few sentences of what he said?

"Next to the suffering on the battlefield and the anguish of those at home, inflation is one of the calamities of war . . . How could any farmer forget 1921 and '22, or 1932 and '33? This is one time when we dare not forget that wild inflation means economic disaster. Inflation endangers all forms of wealth, every bank deposit, and, in fact, all of the established accumulations of generations."

D-C

One of the most effective ways to fight inflation is to produce more of the goods which do not compete with our defense industries for materials or for labor. That means, quite simply, to produce more food in the interests of the consumer and the farmer as well. I should like to pay my tribute to the work of Secretary Wickard and the Department of Agriculture in the past six months in encouraging our farmers to grow more of the right kinds of food -- more dairy products, vegetables, fruits and meats, the so-called protective foods on which our national well-being depends.

The opportunity ahead of American farmers at this time is so vast that very few of us, I think, can

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conceive it. We have prided ourselves on being the best fed nation in the world. Europeans who have come to our shores have marvelled at the stacks of fruit and vegetables in our shops and at the abundance of the diet available to American families. Yet we are not as well nourished as outward appearances might seem to show. Only the other day the President of the United States expressed his sense of shame at the high percentage of recruits for the army who had to be rejected. Nearly 50 percent of two million men examined for selective service were found to be unfit, and of those rejected a large number were suffering from dental defects or other ills that probably were due to faulty nutrition. The President was not over-

D-C

stating when he described these conditions as an indictment of America.

A few years ago I took part in the conception and inception of the food stamp plan, which was an attempt to bring some of our surplus commodities into the hands of the underprivileged. The plan was begun at a meeting between Vice President Wallace, Mr. Harry Hopkins, Doctor Thomas Parran, and myself. In line with this effort Doctor Parran, who is now Surgeon General of the United States and was then the head of the Public Health Service, undertook an investigation into food-buying habits and nutrition in the District of Columbia. Here was a compact area where per capita wealth was higher than that of any State, yet Doctor

D-C

Parran found widespread under-nourishment, especially in milk, green vegetables and citrus fruits. I suspect that similar investigations in other parts of the country might yield a similar result even today, when our public is more vitamin-conscious than when Doctor Parran's study was made.

This is a challenge that we as a government, and we as farmers ~~and consumers~~, must meet together. The Government can help by encouraging and promoting the production and use of the right kinds of food, and by heavier taxation of those goods which are not essential to health and strength. But farmers can do by far the biggest part of the job by producing more -- by diverting land and effort to the production of milk,

D-C

butter, eggs, pork products, fruits and vegetables.

It must no longer be said of this rich country of ours that millions of our people still go without the food that is necessary to good health and good morale.

Side by side with this challenge that confronts us at home, there has come a still more urgent and insistent call from across the sea. The British people, as you know, have had their chief sources of food supply cut off either by invasion, as in the cases of Holland and Denmark, or by shipping shortages, as in the cases of Australia and New Zealand. The British today are living under conditions of siege. Their island home is one vast fortress, and every man, woman and child is in the garrison, fighting our fight as

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well as their own. It is our responsibility, and our high honor, to see that they are fed, not with a trickle of occasional shipments, but with enough ~~warming and~~ sustaining food to enable them to carry on, ~~with health and morale unimpaired.~~

American farmers are already doing a mighty work in sending food to England in her time of greatest need. Secretary Wickard has already told you of the huge amounts that we are pledged to send during 1942. It will help us, I think, to produce those vast quantities if we always remember that our food shipments are bringing renewed strength and renewed courage to those who are in the front line of freedom.

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That is an achievement which must be continued throughout 1942 and as long as the war may last. It is probably the greatest single call ever made upon American farms. If you add it to our own requirements, it is a call that will use all of our ingenuity, all our effort, and all of the experience that we have gained in recent years, if we are to meet it successfully.

In this effort the American farmer is as vitally important as the aircraft worker who builds a new bomber or the shipyard worker who helps to send a new battleship on its way. Knowing what I do of the greatheartedness of our farmers and of their capacity for hard work in a great cause, I am confident that

D-C

that call will be answered and that England will be able to win the victory that is our own hearts' desire.

But after the victory -- what then? After the Allies win this war -- and they are going to win it -- the opportunity for American agriculture and the need for colossal production of the right kinds of food will be much greater than it is even today. Where tens of millions in England are depending on us now, hundreds of millions throughout the continents of Europe and Asia will be stretching out their hands to us when the war is over.

I am in favor of seeing that the credit of the United States is used to do the humanitarian thing, the economic thing, the sound thing, in putting the great food production of the United States into the

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hands of the hungry millions. I am one of those who believe that in the long run, as Vice President Wallace has said, service to humanity is economically sound.

I am thinking not only of the actual hunger that will be sure to exist when the next Armistice comes, but also of the ruined agriculture of many countries that depended upon farming for their very existence. I am thinking of the herds that have been slaughtered in Denmark and Holland which lived on their exports of dairy products. I am thinking of the scorched earth in the great farming areas of Russia, where farm houses and farm implements have been destroyed in the past five months on a scale unparalleled in all history. There will be a lack of seed, a lack of feed for livestock, and in many countries a lack

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of manpower to tend the farms. Again, as in the past, American agriculture can save Europe from hunger and from the anarchy that comes with hunger on such a scale.

It is true, as the President said recently, that our first job now is to win the war rather than to concentrate on blueprints of what is to follow. I agree with him, yet I think there is one great fact about the coming democratic order in Europe which we should do well to remember now. That is that great masses of decent hardworking men and women will no longer tolerate the economic insecurity which furnished so much of the fuel for the political turmoil of the past 25 years. They will be willing and glad

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to pledge themselves to greater service for their country, but they are also going to demand certain elementary guarantees for a decent life, and I think they will be right and amply justified in their demand. If we are to build a better world -- and that goes for our own country as well as for those abroad -- we shall have to recognize that the citizen should be guaranteed a minimum standard of food with which he can live the life of a free man. My own feeling is that we should guarantee to every man, woman and child the right to have enough milk and butter, enough fruit and vegetables, enough of the protective foods of all kinds, so that he can be fit to do his part in the world of tomorrow.

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After all, the governments of free countries decided about 100 years ago that every citizen was entitled to police and fire protection as a matter of right. Our police departments and fire departments were established with State funds to give to the citizen an essential service which he could not afford to provide for himself.

We in America decided about 75 years ago, about the time the National Grange was founded, that everyone was entitled to a decent education as a matter of right, and we established the greatest free school system in the world to provide that right. We found that it was not fair, and that it did not pay us as a nation, to permit illiteracy on a vast

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scale and to enable only those with wealth or other advantages to have a proper schooling. We have provided that schooling with State funds, and nobody would dream of abandoning it now.

We decided eight years ago that every citizen should have protection against unemployment or old age or disability, and we enacted a whole series of historic measures to help him obtain that protection as a matter of right. We found that it was not fair and that it did not pay us as a nation to leave millions of our people at the mercy of economic cycles over which they had no control. These changes, like the others, have been accepted, and I doubt whether any except the most uncompromising Tory among us would abandon them now.

What I am suggesting would merely carry the process further. I speak of it today not as a dream but as something which I am convinced must follow, not only in this country but all over the world, if we are not to revert into an endless barbarism of wars and revolutions. It is our best hope of ensuring the survival of the way of life which we treasure in common with other free peoples throughout the world.

I have suggested it to this particular audience because I want you to consider for a moment what a tremendous opportunity it brings to American farmers. If our people and other peoples are to be guaranteed a minimum standard of nutrition, which I believe is

D-C

their right, then we in this country will have to produce the food that will make that minimum standard possible. If we were to guarantee a minimum in the protective foods for everyone in the United States it would mean a vast increase in our consumption. If everyone in the United States were to have the very minimum needed for good health and decent living, it would require an increase of almost 50 per cent in our production of milk and milk products alone. It would mean that the farmers would have a greatly increased market here at home -- the best kind of market, for it would not be subject to foreign tariffs, and it would also increase steadily as population increased.

If we could provide a minimum food standard for everyone -- and our farm lands have the capacity to

provide it -- there would be less illness due to faulty nutrition, there would be a greater output from our workers, and there would be a greater length of life for all our people.

I have never been one of those who believe that we are heading into a period of misery and darkness. Certainly there need be no agricultural misery in our country after this war. There need be and there must be no repetition of 1920<sup>21</sup> which, as you will know from bitter experience, was a black year for American farmers. The opportunities ahead of free peoples are unlimited. The future of free peoples is bright if we only have the wisdom to use those opportunities well.

D-C

*Three were only  
new pages of Fourth  
Draft.*

to pledge themselves to ~~greater service~~ for their country, 105

but they are also going to demand certain elementary guarantees for a decent life, and I think they will be right and amply justified in their demand.

In order to build a better world -- and that goes for our own country as well as for those abroad -- we must not only call upon the citizen to give greater service as a duty to his community, but we must recognize his right to have a minimum standard of food with which he can live the life of a free man. In return for the greater duties of citizenship, I believe that after the war we should guarantee to every man, woman and child the right to have enough milk and butter, enough fruit and vegetables, enough of the protective foods of all kinds, so that everyone can be fit to do his part in the world of tomorrow.

We in America decided about 75 years ago, about the time the National Grange was founded, that everyone was entitled to a decent education as a matter of right, and we established the greatest free school system in the world to provide that right. We found that it was not fair, and that it did not pay us as a nation, to permit illiteracy on a vast scale and to enable only those with wealth or other advantages to have a proper schooling. We have provided that schooling with State funds, and nobody would dream of abandoning it now.

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that it was not fair and that it did not pay us as a nation to leave millions of our people at the mercy of economic cycles over which they had no control. These changes have been accepted, and I doubt whether any except the most uncompromising Tory among us would abandon them now.

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I have suggested it to this particular audience because I want you to consider for a moment what a tremendous

opportunity it brings to American farmers. If our people and other peoples are to be guaranteed a minimum standard of nutrition, which I believe is their right, in return for the greater service which I believe is their duty, then we in this country will have to produce the food that will make that minimum standard possible.

If everyone in the United States were to be guaranteed the very minimum of the protective foods needed for good health and decent living, it would mean a vast increase in our consumption and our farm production. That minimum for every adult was recently set by the National Nutrition Conference at  $4\frac{1}{2}$  quarts of milk per week, one egg a day, one serving of meat a day, and two daily servings of vegetables and two of fruits.

If we were to attain such a minimum goal, if we were to recognize it as a right that belonged to everyone, it

would mean an increase of at least forty percent in our present consumption of milk and milk products alone. It would mean a doubling of our present consumption of leafy vegetables and of the fruits that are rich in vitamins. It would mean that the farmers would have a greatly increased market here at home -- the best kind of market, for it would not be subject to foreign tariffs, and it would also increase steadily as population increased.

If we could provide a minimum food standard for everyone -- and our farm lands have the capacity to provide it -- there would be less illness due to faulty nutrition, there would be a greater output from our workers, and there would be a greater length of life for all our people.

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I have never been one of those who believe that we are heading into a period of misery and darkness. Certainly there need be no agricultural misery in our

country after this war. There need be and there must be no repetition of 1920 and 1921, which, as you know from bitter experience, were black years for American farmers.

~~The opportunities ahead of free peoples are unlimited. The future of free peoples is bright if we only have the wisdom to use those opportunities well.~~

November 13, 1941  
3:50 p.m.

RE NON DEFENSE SPENDING

Present: Mr. Kuhn  
Mr. Barnard  
Mr. Heffelfinger  
Mr. Schwarz  
Mr. White

H.M.Jr: Now, does this have any changes? Shall I read them all?

Heffelfinger: There are a few.

H.M.Jr: "There are certain classes of non-defense expenditures which consist in large part of construction projects, such as reclamation work, river and harbor work, road building, etc. Reductions in activities for these purposes will have multiple advantages, as follows:

- (1) Reducing non-defense expenditures.
- (2) Releasing man power needed for defense plants.
- (3) Increasing the supplies of materials and equipment which can be devoted to defense efforts.
- (4) Building up a back-log of projects for continued employment in the postwar period.

"There are other instances where there appear to be overlapping and duplication of effort and expenditure of funds.

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"In other cases, the Government undertook programs aimed at correcting or adjusting certain inequities which had grown up in our economic system. Some of these inequities have been eliminated and circumstances which made the initial program urgent have altered. Nevertheless, large sums continue to be appropriated and spent under such programs despite the sharply reduced justification for such expenditures during the period of defense expansion."

- Heffelfinger: Mr. White suggested that in there. We didn't have that in there this morning.
- H.M.Jr: Did he put that in, "despite the sharply reduced" --
- Barnard: He and I tried to wangle out the same idea, but it is an awkward phrase.
- (Mr. Schwarz entered the conference).
- H.M.Jr: Sit down and listen, Chick, so you will get the hang of it. I have got Byrd's permission.
- Schwarz: For an open meeting?
- H.M.Jr: No, that I will stay behind afterward. Just listen to this. I don't like the word "sharply".
- Barnard: Why not cut it out? It is strong enough without it, isn't it? "Despite the reduced justification."
- Kuhn: Or "despite the lessened need."
- Barnard: All right.
- H.M.Jr: That isn't as strong. Did Harry put in the words "sharply reduced"?
- Barnard: Yes.
- Heffelfinger: We tried writing everything on sharply.

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(Mr. White entered the conference).

- H.M.Jr: Harry, I am amazed at this sentence of yours, "despite the sharply reduced justification for such expenditures."
- White: Page what?
- Heffelfinger: Near the bottom of page one.
- H.M.Jr: "Despite the sharply reduced"?
- White: Yes. That is, these large sums are continuing to be spent, even though the justification is much less.
- H.M.Jr: You say "sharply reduced".
- White: Well, it isn't a very happy phrase, "sharply reduced justification". "Sharply reduced need", if you like.
- H.M.Jr: You want to leave "sharply" in, do you?
- White: Yes, because I think it is sharply reduced justification. There is a four million increase in employment in one year.
- H.M.Jr: All right, I am just amazed at you. You even go further than I would, you old conservative you.
- White: Well, there are some other sentences toward the end on the other side.
- H.M.Jr: "Greatly reduced". All right, Barnard?
- Barnard: Yes.
- Heffelfinger: Do you want to use that word "economy suggestion" on each one of these pages?

H.M.Jr: I like that.

Kuhn: Would you like to head the whole thing, "Economy Suggestions Submitted by Secretary Morgenthau to the Joint Congressional Committee"?

H.M.Jr: Yes.

Kuhn: On such and such a date.

White: I think it is - I would like it without the word "economy", particularly if you have it in the title.

H.M.Jr: Are you willing to have it in the title?

White: Yes, it is all right in the title, because that is what the burden of the whole piece is, but to keep repeating it this way --

H.M.Jr: When let's have it - is it a little like rubbing it in?

White: It is like high pressure salesmanship of advertisers. I don't know.

Barnard: I would put it in. It needs high pressure salesmanship on this job.

White: O.K. It is just a matter of feeling.

Barnard: We won't have anything done without it.

H.M.Jr: In the first place, let's have it in the title instead of the word "general".

Kuhn: "Economy suggestions submitted by Secretary Morgenthau to the Joint Congressional Committee."

H.M.Jr: That is right.

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- White: Why not merely "Reductions for non-defense expenditures submitted by" --
- Kuhn: They were. They were only suggestions.
- H.M.Jr: "Suggestions for the reduction in non-defense expenditures submitted by" - either one.  
Well, wait a minute. It is an important thing.
- Barnard: No. "Economy". That is the word the country is thinking of, "economy".
- Heffelfinger: Of course you get non-defense in the name of the committee.
- Kuhn: "Joint Committee for reduction of non-defense expenditures." I would put it in the title, Mr. Secretary.
- H.M.Jr: All right. And I like it down through. I like it through.
- Heffelfinger: Of course each of these pages can almost stand by itself.
- H.M.Jr: That is right.
- Barnard: Well, if somebody is going to take out some of these pages and not the others. The newspapers will.
- H.M.Jr: That is right. I like it. You don't want to say after this page two, inasmuch as this is a matching proposition most likely it would mean that a corresponding amount by the states would be dropped? Because it is a matching proposition.
- Barnard: That is right, it is a good point.

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- H.M.Jr: I mean ahead of that, you see, right in there, inasmuch as it is a matching proposition, the result would most likely be that most states would save an equal amount. You get that. My language isn't good, but it is a matching proposition.
- Heffelfinger: That is right.
- H.M.Jr: Unless you tell these newspaper men, spell it out to them, they don't know it.
- White: On these expenditures, highway expenditures of WPA, are those WPA producers?
- Heffelfinger: Yes.
- White: For the money that they get? Does that mean that if you were to reduce all WPA receipts by that much?
- Heffelfinger: Of the money WPA spent last year, four hundred eighty-five million was on streets, roads, highways and so forth.
- H.M.Jr: WPA spent or received?
- Heffelfinger: No, they spent from the appropriated monies.
- White: Well, they spent them in wages, didn't they?
- Heffelfinger: Wages and material.
- H.M.Jr: Then this is a reduction in WPA, not in roads?
- Heffelfinger: Well, you see WPA's money is spent for roads and different things.
- White: I don't know if I understand that.
- Heffelfinger: Well, WPA spent a billion and some million dollars last year.

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- White: Well, they spent a lot for tennis courts and a lot of other stuff.
- Heffelfinger: But of that billion plus, four hundred eighty-five million went to roads.
- Kuhn: Don't they spend some on rivers and harbors?
- Heffelfinger: Yes, things of that sort.
- White: Then, the point is that you didn't want the rolls and that is why you had WPA. You wanted to have WPA and they had to do something, so they built roads.
- H.M.Jr: I don't get what you are driving at.
- White: If I understand this correctly, what this would seem to imply, you can break down all WPA expenditures into highways, and I suppose into --
- Heffelfinger: This is the breakdown, highways, roads, and streets, public buildings, housing projects, public recreation facilities, conservation work, electric utilities and water and sewerage systems, education for special projects, miscellaneous. Their whole program falls in one of those categories.
- White: They are all unnecessary.
- Heffelfinger: Well, we are not touching on the WPA here, but when we say we spent five billion eight hundred million in roads that includes what WPA spent for roads and to make it comparable --
- H.M.Jr: That is right.
- Heffelfinger: Otherwise you would have to reduce the totals.
- Kuhn: Anyway, you are talking about a saving for the year 1944, Harry.

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- White: I don't know, I should think the mere fact that WPA people worked on roads, that it wasn't because there was an appropriation for roads, it was an appropriation for WPA and part of WPA expenditures, part of the labor --
- Heffelfinger: For example, last year the Public Roads Administration spent a hundred and seventy-four million for roads, and WPA four hundred and sixty. If you cut out public roads, a hundred and seventy-four, the regular road program, you have got the WPA into the picture. In other words, in ten years the WPA spent three and a half billion dollars for roads and Public Roads Administration only spent two and a quarter.
- White: Is there this difference? Maybe I miss the point completely. But in the one case you have got an appropriation for highways, for roads.
- Heffelfinger: That is right.
- White: You want to reexamine those and take what is necessary. You have got an entirely different category of expenditures, namely, to WPA and they make the best possible use they can of them, but those aren't the things that you are considering, I take it, in this arrangement.
- Heffelfinger: No, but we show how much we have spent for roads and how much is estimated next year for roads. Unless you want to reduce that five billion eight --
- White: You see, what the implication here is, what it seems to me to be, is that you examine all the expenditures of the WPA and if these rolls are not necessary you cut out the WPA expenditures. Now, I thought the WPA was going to be left out of this. It could be so done by saying these expenditures do not of course include highways which were built with WPA labor.

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- H.M.Jr: Well, Harry, the intention wasn't to do what you are afraid we are doing, but now that you have pointed it out, I am very glad to do it in this left-handed way. Could I be any more honest than that?
- White: No, no, that is all right.
- H.M.Jr: That wasn't my intention, I didn't tell them to put it in, but now it is in here. I am willing in a left-handed way to do it, because that points the way. If we cut out the one thing, well, we spend six hundred and fifty-nine million dollars' worth --
- Kuhn: But the saving isn't until 1944 fiscal year, anyway.
- Heffelfinger: We speak of the savings on Federal highways, but we make no reference to WPA. Now, with their cut in their WPA program this year --
- H.M.Jr: Bill, I take it you didn't intend to do this, at least I didn't tell you to, but in a left-handed way I would point this much to WPA.
- White: Yes, that is what you do here all right.
- H.M.Jr: I mean, that is what you are afraid of?
- White: Yes, because the implication here is that you are recommending that that be cut and I thought WPA expenditures were going to be out, but if you are willing to put them in --
- H.M.Jr: Well, I am willing to put them in that much.
- Heffelfinger: You started in with your argument, we have spent nearly six billion dollars for public roads. To follow that out, you have to put that in, but if you want to start out and say we have spent two and a quarter billion --

- H.M.Jr: I want the overwhelming figure of five eight, and I can't get it without WPA. Harry White is pointing out something which wasn't intentional, but I am very glad it is there.
- Heffelfinger: I didn't have that WPA in the first draft. I put it in this morning.
- Kuhn: WPA doesn't suffer any reduction.
- White: The Secretary sees the point. It is settled.
- H.M.Jr: We are - we try to be honest around here.
- Next? Now, economy suggestions and so forth. You admit that, is that it, "with the emphasis during the present to employment in defense occupations."
- I am reading on this page.
- "Its primary function is the vocational training of youth with the emphasis - " the emphasis should be in.
- Heffelfinger: No, they are emphasizing at present their defense, but the Office of Education has four times more money for defense than the regular.
- Kuhn: Do you like the phrase "with emphasis during the present to employment"? or "with present emphasis on employment in defense occupations"?
- H.M.Jr: That would be smoother.
- "A new Bureau of Defense Training." I would like that "Bureau of Defense Training" underlined by mimeograph.

- Heffelfinger: Now, Mr. White suggested a further paragraph.
- White: Instead of the last sentence here on this page.
- H.M.Jr: I would go along with that but I would question the last sentence. It kind of weakens the whole thing, that last sentence.
- Kuhn: It is apologetic.
- H.M.Jr: I think it is good, all except the last sentence.
- Harry, an hour ago I was doing the one thing and the other thing - you know, you are dealing with two different people.
- White: Yes. (Laughter)
- H.M.Jr: I will take that as it is leaving off the last sentence. If you say it on this, you have got to say it on everything. I am going to take care of youth by giving them more eggs and grassy fruits.
- White: You can't give them more eggs. (Laughter)
- H.M.Jr: I listened to Mrs. Morgenthau, and the thing that stood right out - it was terribly funny - you say, "and the people from Europe should stretch their arms across for more eggs, meat," and so forth and so on. She said that right in the speech.
- Kuhn: She said that in her speech?
- H.M.Jr: Sure.
- Kuhn: I wonder where she got it.
- H.M.Jr: But right out in the middle of it. Had you

forgotten that she said that?

Kuhn: It isn't copyrighted. It is all right.

H.M.Jr: It is between husband and wife. She said it first.

Now, this table is important. "Government payments." Damn it, you still only give me six hundred fifty million.

Heffelfinger: That is accounted for, Mr. Secretary, by the fact that in the entire farm program are expenditures for this disposal of surplus commodities and things.

H.M.Jr: Who does that go to?

Heffelfinger: That is paid jobbers and middle men. It doesn't go directly to the farmer.

H.M.Jr: All right.

Barnard: But it is already in the farmers' income.

H.M.Jr: All right. "Thirteen billion."

"Net income from Agriculture." What is the eight billion six?

Heffelfinger: The boys state that you have to relate the farm income to a net basis to make it comparable to the national income.

Kuhn: I think the last two columns are wonderful. They take the argument right out of the farmers' mouth.

H.M.Jr: Which two?

Kuhn: Where you show that though the net income from

agriculture has declined somewhat since 1937, the percentage of total population represented by farmers has gone down more substantially.

H.M.Jr: Which one - which column are you looking at?

White: It doesn't look very impressive.

H.M.Jr: Are you going to use eight billion six?

White: I think we had better use a percentage figure.

Barnard: I don't think you want to use a table in any publicity. This is to back up your general statements which are quoted in here.

H.M.Jr: This is all right. The net income from agriculture, I don't think I want to use that.

Heffelfinger: If you want to relate it to national income, the boys in Research state that you have got to use the net.

H.M.Jr: I don't want to use that middle column, you see.

Now, "Farm population as a percentage of total population."

White: I have another suggestion. Since you are going to use so little, isn't it better to confine yourself maybe to just two figures, what the farm - cash farm income was in '32 and what it is in '41, what it might be in '42, and then the Government payments, just for those two years, and total them, and that will avoid making it appear that you are giving a complete picture because if you are giving a complete picture, somebody will raise the question why didn't you use net

income and so on.

H.M.Jr: No, Harry, I am sorry. I would use this table here, see, (indicating) and I would like to use that, that the farm population is two percent off.

White: What is the difference between the gross - what is that main figure?

Heffelfinger: The gross includes the cost of production, which is expenses. They take that out of gross to get another figure, and then they add to that what is consumed on the farm.

H.M.Jr: Well, look, let's leave those middle points out. Wouldn't you, Harry?

White: I would put - I would put as few figures as possible.

H.M.Jr: I like these here from '32 to '42. They show a steady increase.

White: But supposing somebody comes back at you and says that gross income includes what the farmer has to pay out for seed. What does that mean? It is gross business, you see. It isn't income.

H.M.Jr: Well, there is no reason why not to use the farm population that has gone down.

Barnard: But the improvement in conditions as presented is just the same whether you take the net or the gross. It is about three times as good either way.

H.M.Jr: You are right. Well, I think this is enough, Chester, don't you think so, to use this and that?

Barnard: Yes. I agree with Harry, though, you will get your stuff over if you get two figures that are strongly contrasted instead of columns.

- H.M.Jr: All right, use thirty-two and forty-two.
- White: That is right. Then you can use the net income or any figure and it will still show an increase.
- Barnard: You will find in the text here some increases of the other figures.
- H.M.Jr: Use thirty-two and forty-two.
- Barnard: I think it is better.
- Kuhn: Then use all five or six tables?
- White: I wouldn't make a table of it.
- H.M.Jr: Use thirty-two and forty-two and how about the farm population from --
- Heffelfinger: Why not look at the attachment that follows that?
- H.M.Jr: All right. Tripled it to ten years?
- Kuhn: We could make that sentence, "I believe the Administration has done a wonderful job for the farmer in taking his income and tripling it in ten years."
- H.M.Jr: Check. Total population of the country, that is all right.
- Barnard: That comes out of those last columns you eliminated and I don't think you want them, but they are the basis of these statements.
- Heffelfinger: If we just use thirty-two and forty-two that will appear up there.
- H.M.Jr: There does not appear to be any reason to

continue spending at the same rate.

White: Though it is necessary.

H.M. Jr: What are you saying, Harry?

White: It should be "though" instead of "whereas."

Kuhn: "Although."

H.M. Jr: This is especially important, and so forth. Instead of saying "sorely" let's say "is so badly needed." Of the amount of one billion dollars already allocated under the Lend-Lease program for agriculture and industry and other commodities, about five hundred million dollars have been allocated for agricultural commodities.

Agricultural and industrial commodities?

Heffelfinger: You see, they had a limitation under Lend-Lease for those three groups of commodities.

H.M. Jr: Why not simply cut that all out and say about five hundred million dollars have been allocated for agricultural commodities.

Heffelfinger: You see, there are three billion dollars total provided and they have allocated a billion dollars of that three billion total. Of the amount they have allocated, half has gone to Agriculture.

H.M. Jr: I would simply say about five hundred million dollars has been allocated for agricultural commodities. It makes it simpler.

Heffelfinger: Check.

H.M. Jr: It sticks out. That is what I want to do.

Will you fix that up, Bill?

H.W.Jr:

Yes.

H.W.Jr:

Check, everybody?

White:

I am afraid you will have to change that twelve billion dollar figure on farm income. Somebody will challenge you and you will just have to back track. It is a gross income. It is just like the total business a man does, a corporation does.

Heffelfinger:

Yes. We should have put that down to about eight and a half.

White:

Either put eight or say the gross income, if you like.

H.W.Jr:

Well, it is just as good to talk from three, two to eight, six.

Barnard:

Yes. It is really the more intelligent way to put it, isn't it?

H.W.Jr:

I am just as willing.

Heffelfinger:

Good.

H.W.Jr:

If when I get through you are all not too tired, I would like you to go over it once more, because I haven't even done half my mail. I have never been in such a jam in my life. "Aid to those other groups or for those other purposes." I would like to add this. Distinctions should be made in helping those - wholly inadequate nutrition and who don't own their own farm. In other words - Harry, just pay particular attention to this. I want to get in a sentence there. I am for re-settlement of farms.

White:

Farm Security, isn't it? That comes later.

That is not in this budget, if I understand it correctly.

W. Jr: It isn't? All right. Well, what does that mean, aid to other groups for other purposes?

White: Well, we just wanted to make this consistent with your speech.

W. Jr: What does that mean, "and aid to other groups for other purposes"?

White: Well, you give aid to a lot of - parity payments, for example, are aid to farmers.

W. Jr: Why not stop there? It could mean anything. They will say, "what do you mean?" Well, I don't know what I mean. Put a period after nutrition.

White: We will have to change the sentence then. We can say a distinction should be made between.

W. Jr: And to aid other groups for other purposes. That might mean - that opens the door wide.

White: No, a distinction should be made on the one hand - maybe it isn't well stated. You don't want to include aid to the lowest income groups from wholly inadequate nutrition but you do want to eliminate aid to other groups or for other purposes.

W. Jr: Well, that isn't clear.

White: It has got to be clear.

W. Jr: That is not clear.

White: Then instead of "a distinction should be made" I think you should say, "Exceptions should be

made," and then you don't need the rest and you cut out, "aid to other groups for other purposes." Exceptions should be made, of course, for those expenditures.

H.M.Jr: Yes, for helping the --

White: Which are for the purpose of helping.

H.M.Jr: That is all right. Am I going too fast, Bill?

Heffelfinger: No indeed.

H.M.Jr: Well, now, this on the last page doesn't --

Heffelfinger: Here is the suggestion Mr. White has.

H.M.Jr: Who wrote these for you, Harry?

White: I wrote those.

H.M.Jr: Did you write those?

White: Yes. Do they seem foreign to me?

H.M.Jr: I didn't know that you had time.

White: It only takes a minute.

H.M.Jr: Well now, I do not refer to the bulk --

White: There is quite a list in this category.

Heffelfinger: The bulk of their expenditures are for rehabilitation.

H.M.Jr: How much is that amount?

Heffelfinger: Well, they had a hundred million and they carried over some thirty-five million. There

is about a hundred and thirty-five million available this year for loans.

H.M.Jr:

If you could say this again, use the same word that you did in the other thing to make it perfectly plain, something like this. I draw the same distinction in expenditures for helping those in the lowest income group, you see.

White:

And make the same exceptions.

H.M.Jr:

The same exceptions, you see, and therefore I would like to say something that it should be under - in other words, bring this thing in. I like Harry's paragraph but I again want to say that the man in distress, the man that hasn't got a home, the man that can't borrow enough money to make a crop, that I think that kind of fellow should be helped, you see. I don't think that the Farm Bureau member or the Grange member who owns his own home and has always made these things should be continued, but we have only bought ten thousand farms for these fellows and loaned to them. I think we ought to buy a million farms when the time comes, you see, and give these fellows a chance to have their thirty or forty acres or ten acres or whatever it is, and through the South particularly; and let these fellows - and the record on them is excellent. I mean, the record on the rehabilitation.

In other words, the rehabilitation program, if you can get something in there that I am for the rehabilitation of the lowly farmer, the poor fellow, the sharecropper, that fellow, I am for that and it doesn't cost an awful lot, you see. It doesn't cost an awful lot. I mean, the hillbilly and the fellow that hasn't got a home.

Gee whiz, if this fellow is going to live, we have got to have a country of farm owners, that is the point, you see. We have got to have a country of farm owners and all the records show we are having less and less farm owners and bigger and bigger farms. Now, if you can get that spirit into that last paragraph, I would like it.

Now, gentlemen, if you could do this for me, life would be very sweet.

Mr. Schwarz will not go to bed tonight. He hasn't done that in a long time.

Schwarz: This is worth it.

H.M.Jr: I don't want to wait until the last minute and all the rest of the stuff. You have got two jobs. In the mail tonight has to go my speech and this thing has to be ready for me at five minutes of ten and not at five minutes of eleven.

Schwarz: I will have you a reading copy of this --

H.M.Jr: Yes, and you ought to have a hundred copies.

Schwarz: Mimeographed.

Kuhn: How do you feel about sending it out? Is it a complication, sending it out to a little group of leading economic writers on this subject, columnists and so on, so that when this comes out on the ticker they will have the thing in front of them? You can't put this on the wire. There is too much of it.

H.M.Jr: I am for it. Now, Mr. Harry White, do you mean to say this thing, this program, means no more eggs, no more milk, no more chicken?

White: No, just the eggs and the meat. Milk and leafy vegetables, as stated, are accurate and it sounds to me - but they say their figures --

H.M.Jr: But leafy vegetables?

White: That is all right.

Kuhn: We had that in. We said we would have to double our consumption of those things.

H.M.Jr: Right now the Treasury's biggest question is how many eggs we are able to eat.

Kuhn: You missed the show.

H.M.Jr: May I thank everybody very, very much and I want to be sure that Schwarz doesn't go to bed until this is finished tonight, Mr. Schwarz.

Schwarz: Mr. Schwarz is sure, too.

Heffelfinger: We will have some photostats of the basic tables for the committee members but they are not to give out. They are all public figures, as a matter of fact.

H.M.Jr: That is all right.

Barnard: What do you want me to do tomorrow?

H.M.Jr: I want you to go up on the Hill, and you, too, Harry. If you see that Byrd is doing something, you can slip me a note. Have you got something on tomorrow?

White: No.

H.M.Jr: I would like you very definitely to go.  
I am sure you can make a contribution.

White: All right. I will be glad to be there.

Heffelfinger: Should we go prepared for all this general  
stuff, like interest rates on the public  
debt and everything?

H.M.Jr: You be ready for everything and when we get  
in a pinch Mr. White will give his story  
about the sandwich, which takes forty-five  
minutes.

AGENCIES ENGAGED IN VOCATIONAL ACTIVITIES

	<u>Amounts appropriated for 1942</u>			<u>Estimated Expenditures 1942</u>
	<u>Administrative Expenses</u>	<u>Other Activities</u>	<u>Total</u>	
	<u>(In Millions)</u>			
Civilian Conservation Corps - - - -	\$19.2	\$227.8	\$247.0	\$200.0
National Youth Administration:				
Regular - - - - -	5.8	86.0	91.8	90.0
National Defense - - - - -	3.0	57.0	60.0	60.0
Office of Education:				
Regular - - - - -	.9	25.4	26.3	30.1
National Defense - - - - -	1.2	106.9	108.1	118.8
<b>TOTAL</b>	<u>\$30.1</u>	<u>\$406.1</u>	<u>\$536.2</u>	<u>\$408.9</u>

Necessary Suggestions

Each of the above agencies is under the Federal Security Agency, and its primary function is the vocational training of youth, with emphasis during the present to employment in defense occupations.

It would seem that the regular activities of the Civilian Conservation Corps and National Youth Administration must conflict with the more important defense program, and should be eliminated or drastically reduced.

It is suggested that all vocational training activities be consolidated in a new Bureau of Defense Training. Any overlapping functions or duplication of work could be eliminated and one comprehensive training program, integrated with the defense program, could be formulated and administered more economically than appears possible under the present organizations.

Particularly, it is suggested that grants by the Office of Education to States and educational institutions be reviewed. I am in sympathy with the cultural activities made possible by these grants but when we should be devoting our major efforts to defense they should be put aside.

Reflected in Budget

Expenditures included in the Budget under the Farm program which was initiated in 1933, after the catastrophic fall in prices in 1932, were designed mainly to meet conditions involving low prices for farm products, surplus production and loss of export markets.

Present conditions are radically different from those which the Farm program was designed to meet.

Major expenditures under the Farm program are included under the following captions:

	<u>Expenditures (in Millions)</u>		
	<u>Estimated</u>	<u>Actual</u>	<u>Actual</u>
	<u>1942</u>	<u>1941</u>	<u>1940</u>
Surplus Marketing Administration, and Agricultural Adjustment Administration (Act of August 24, 1935) - - - - -	\$240.0	\$240.9	\$142.6
Soil Conservation and Domestic Allotment Act - - - - -	475.0	465.1	605.1
Administration of Sugar Act of 1937	48.0	50.4	48.8
Price Adjustment Act of 1938 and Parity Payments - - - - -	<u>205.0</u>	<u>198.3</u>	<u>215.0</u>
TOTAL - - - - -	<u>\$968.0</u>	<u>\$954.7</u>	<u>\$1011.5</u>

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GENERAL

There are certain classes of non-defense expenditures which consist in large part of construction projects, such as reclamation work, river and harbor work, road building, etc. Reductions in activities for these purposes will have multiple advantages, as follows:

- (1) Reducing non-defense expenditures.
- (2) Releasing man power needed for defense plants.
- (3) Increasing the supplies of materials and equipment which can be devoted to defense efforts.
- (4) Building up a back-log of projects for continued employment in the postwar period.

There are other instances where there appear to be overlapping and duplication of effort and expenditure of funds.

In other cases, the Government undertook programs aimed at correcting or adjusting certain inequities which had grown up in our economic system. Some of these inequities have been eliminated and circumstances which made the initial program urgent have altered. Nevertheless, large sums continue to be appropriated and spent under such programs despite the sharply reduced justification for such expenditures during the period of defense expansion.

I shall refer briefly to certain specific non-defense expenditures which I recommend to the Committee for its consideration.

RECLAMATION PROJECTS

(In Millions)

Fiscal years 1932 to 1941, inclusive

Total expenditures during the 10-year  
period (1932-1941) amounted to about - - - - 1280.0

This includes expenditures for irrigation and  
water conservation under the Emergency Relief  
Appropriation Acts.

Fiscal year 1941 - expended (checks issued)- - 86.0

Fiscal year 1942 - estimated to be spent - - - 95.0

Emergency Appropriations

It is suggested that all reclamation work be re-examined in the light of our present defense program and its anticipated acceleration. Wherever it is possible to delay existing or postpone proposed projects which are not necessary in connection with the generation of power for defense purposes, this should be done.

-3-

RIVER AND HARBOR WORK AND FLOOD CONTROL

(In Millions)

Fiscal years 1932 to 1941, inclusive	
Total expenditures during the 10-year	
period (1932-1941) amounted to - - - - -	\$1,870.0
Fiscal year 1941 - expended (checks paid) - -	219.0
Fiscal year 1942 - estimated to be spent - - -	200.0

Economy Suggestion:

It is recognized that certain river and harbor flood control and soil erosion work must continue in the interest of the lives and safety of our people. But all projects which are not vital from this standpoint or necessary for definite defense purposes should be reexamined. Work on all projects of this character which can be delayed or postponed should be prohibited and funds heretofore appropriated should be cancelled.

PUBLIC ROADS

139  
(In millions)

Fiscal years 1932 to 1941, inclusive

Total expenditures during the 10-year period (1932-1941) amounted to about - - - - - \$5,800.0

This includes expenditures for highways, roads, streets, etc. under the Emergency Relief Appropriation Acts and the Public Works Administration Act of 1938.

Fiscal year 1941 - expended (checks paid):

Regular - - - - -	\$17.1	
W.P.A., etc. - - - - -	522.0	639.1

Fiscal year 1942 - estimated to be spent:

Regular - - - - -		175.0
W.P.A. - - - - -		Not Available

Fiscal year 1943 - expenditures in this year were obligated on or before January 1, 1941.

Fiscal year 1944 - expenditures in this year will be obligated on or before January 1, 1942.

Fiscal year 1942:

The amount appropriated and being spent in the current fiscal year covers the Federal-aid highway, grade crossing, etc. authorization of \$162,000,000 for the fiscal year 1941 and balances of prior years' authorizations. These expenditures were obligated on or before January 1, 1940.

Fiscal year 1943:

The Act of September 5, 1940, contained an authorization of \$139,000,000 for Federal-aid highways, etc. for 1942. This authorization was obligated on or before January 1, 1941, and there is an obligation on the Congress to appropriate sufficient amounts in the next fiscal year to pay these obligations. This cannot be avoided.

Fiscal year 1944:

The Act of September 5, 1940 contained an authorization of \$139,000,000 for the fiscal year 1943. Under existing law this amount must be apportioned among the States not later than January 1, 1942. After such apportionment specific projects are approved. The approval of projects constitutes a contractual obligation of the Federal Government for the payment of its pro rata share of the cost of the projects approved. This can be postponed.

Economy Suggestions:

It is suggested that the Congress, by appropriate enactment, rescind the 1943 highway authorization. This would result in a reduction of expenditures for public roads in the fiscal year 1944 (July 1, 1943 to June 30, 1944).

State and local authorities should be requested to defer undertaking new projects, even though allotments have already been made for them. Other major projects already under way which can be appropriately discontinued or curtailed should be suspended.

Any new roads or enlargement of existing road facilities required by national defense activities could be specifically authorized as defense projects.

Farm income and population, in relation to national totals.  
1932 - 1942

Year	<u>Gross cash farm income</u>			<u>Net income from Agriculture</u>		Farm population as a percentage of total population
	From farm marketings (\$ millions)	Government payments (\$ millions)	Total (\$ millions)	Amount (\$ millions)	Percent of national income	
1932	4,682	0	4,682	3,232	8.1	24.9
1933	5,278	131	5,409	3,924	9.2	25.3
1934	6,273	44	6,317	4,507	9.0	25.2
1935	6,969	573	7,542	6,117	11.0	25.1
1936	8,212	287	8,499	6,534	10.0	24.9 1/
1937	8,788	367	9,155	7,341	10.3	24.7 1/
1938	7,652	482	8,134	6,144	9.5	24.6 1/
1939	7,861	807	8,668	6,404	9.1	24.6 1/
1940	8,354	766	9,120	6,544	8.6	23.2
1941	10,550 2/	650 2/	11,200 2/	8,600 3/	9.7 3/	22.8 1/
1942	12,350 3/	650 3/	13,000 2/			

1/ Estimate, subject to revision.

2/ Estimated by the U. S. Department of Agriculture.

3/ Approximate.

Sources: Agricultural income data from Department of Agriculture; national income and population data from the Department of Commerce, except farm population for inter-census years which are Department of Agriculture estimates.

Income Situation:

I believe that the Administration has done a wonderful job for the farmer when it took his income and raised it, tripled it in ten years. It is estimated that in 1941 the farmer's share of the total national income will be 20% greater than in 1931, notwithstanding a reduction of about 10% in the proportion of the farm population to the total population of the country. Where it was necessary through governmental aid to bring the farmer's net income from three and one-fourth billion dollars up to eight and one-half billion dollars or more in 1941, certainly after having reached this goal there does not appear to be any reason to continue spending at the same rate. This is especially important when the money we are using for this purpose is sorely needed for armaments and lend-lease aid. The farmer is getting his share of the total expenditures made by the Government as is indicated from the fact that his income is expected to reach more than twelve billion dollars next year. Of the amount of one billion dollars already allocated under lend-lease program for agricultural, industrial and other commodities, about five hundred million dollars have been allocated for agricultural commodities. In view of all these circumstances I feel at this time that we could well afford to make drastic cuts in our agricultural expenditures.

A distinction should, of course, be made between those expenditures which are for the purpose of helping the lowest income group which suffers from wholly inadequate nutrition, and aid to other groups or for other purposes.

FARM PROGRAMNot reflected in Budget

There are other phases of the Farm program involving loans for rural rehabilitation, farm tenancy and rural electrification. In 1941 and 1942 expenditures for these purposes have been shifted from the Budget and transferred to the R.F.C., which has been authorized to advance funds to the Secretary of Agriculture to enable him to make loans.

Activities of this character are as follows:

	<u>General Revels</u>	<u>R.F.C. Funds</u>
<b>Expenditures:</b>		
<b>Farm Security Administrations:</b>		
Fiscal year 1940 - - - - -	\$98.5	-
Fiscal year 1941 - - - - -	52.2	\$111.3
<b>Farm Tenant Act:</b>		
Fiscal year 1940 - - - - -	41.8	-
Fiscal year 1941 - - - - -	27.3	29.4
<b>Rural Electrification Administrations:</b>		
Fiscal year 1940 - - - - -	38.0	-
Fiscal year 1941 - - - - -	24.2	36.0
<b>Estimates for 1942:</b>		
Farm Security Administration - - - - -	60.0	134.0 <sup>1/2</sup>
Farm Tenant Act - - - - -	7.0	71.0 <sup>1/2</sup>
Rural Electrification Administration - - -	8.0	139.0 <sup>1/2</sup>

<sup>1/2</sup> Unused balances of authorizations.

Commodity Credit Corporation

Inter-related with the Farm program are the activities of the Commodity Credit Corporation. Expenditures have been made by this Corporation with funds received from the following sources:

- 2 -

<b>From the Treasury</b>		
<b>Included in the Budget</b>		
<b>Capital and surplus</b>		
Fiscal year 1934	-----	\$3,000,000
" " 1935	-----	97,000,000
" " 1936	-----	94,000,000
" " 1940 (net)	-----	76,000,000
" " 1942	-----	1,600,000
		<u>\$271,600,000</u>
<b>Not included in the Budget</b>		
Purchase of notes (net to Nov. 10)	--	120,000,000
From Public Borrowing (net to Nov. 10)	--	<u>701,000,000</u>
<b>TOTAL</b>	<b>-----</b>	<b><u>\$1,092,600,000</u></b>

1/ In addition receipts from repayments of loans and sale of commodities are available for expenditure.

Recent estimates furnished to the Treasury by the Commodity Credit Corporation show for the current fiscal year, the following

Estimated disbursements	-----	\$1,100,000,000
Estimated receipts	-----	<u>913,000,000</u>
Excess of disbursements, to be covered by borrowing funds from the Treasury	-----	<u>\$ 187,000,000</u>

1/ Include transactions under the loan-land program.

#### Economy Suggestions

It is suggested that we reexamine the need for continuing that part of the Farm program which is not reflected in the annual budget and which is financed from funds obtained through corporations or borrowed from the Treasury. The Congress is apt to overlook the substantial expenditures which are not reflected in the annual budget.

- 3 -

Eventually any losses which may be incurred through these programs will become budget charges. Each of these items should be reexamined in the same manner that has been suggested for the Farm program expenditures which are reflected in the budget proper.

November 13, 1941

Dear Eleanor:

I am enclosing herewith for your information a one-page statement showing that food costs in October of this year were 16 percent over those of last year.

Yours sincerely,

(Signed) Henry

Mrs. Franklin D. Roosevelt,  
The White House.

By Messenger *Sturges* 4:15  
n.m.c.

Food costs in October 16 percent over last year

The housewife of the moderate income family spent, on an average, 16 percent more money for food in October this year than she did a year earlier, and 19 percent more than in the pre-war month of August 1939, according to retail price data for 51 large cities recently released by the Bureau of Labor Statistics.

And the trend continues upward. Retail food prices in October averaged nearly 1 percent higher than in the previous month. Prices of bread and milk again advanced in many cities, and prices of fresh fruits and vegetables (which account for about one-sixth of the average working man's food budget) rose  $\frac{3}{8}$  percent in the one month.

In some cities, the increase since last year was even greater than 16 percent, with the rise in food prices running to over 20 percent in Norfolk, Richmond, Mobile, and Portland. The cost of food during October was at the highest level since January 1931. The following is a list of some of the outstanding increases since last year:

Article	Increase since October 1940 (percent)
Lard	67
Shortening in cartons	51
Fresh green beans	49
Whole ham	34
Salt pork	31
Cheese	30
Coffee	27
Oranges	25
Pork chops	25
Evaporated milk	25
Eggs	24
Potatoes	23
Flour	20

Office of the Secretary of the Treasury, November 15, 1941.  
Division of Research and Statistics.

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And the trend continues upward. Retail food prices in October averaged nearly 1 percent higher than in the previous month. Prices of bread and milk again advanced in many cities, and prices of fresh fruits and vegetables (which account for about one-sixth of the average working man's food budget) rose 3½ percent in the one month.

In some cities, the increase since last year was even greater than 16 percent, with the rise in food prices running to over 20 percent in Norfolk, Richmond, Mobile, and Portland. The cost of food during October was at the highest level since January 1931. The following is a list of some of the outstanding increases since last year:

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Potatoes	23
Flour	20

Office of the Secretary of the Treasury, November 13, 1941.  
Division of Research and Statistics.

November 13, 1941

Dear Mr. Knopf:

It was very thoughtful of you to send me some of your recent volumes and I shall read them at the earliest opportunity.

Mr. Gaer told me of your interest in my book and, as soon as we arrive at a definite publication plan, I shall communicate with you about my decision.

Thanking you again for sending me these books,  
I am

Yours sincerely,

(Signed) E. Borgenhnas, Sr.

Mr. Alfred A. Knopf,  
501 Madison Avenue,  
New York, N. Y.

*File n-m-c*



149

Alfred A Knopf *Incorporated*

November 6th, 1941

60 Madison Avenue  
NEW YORK

Dear Mr. Secretary,

I have had two very interesting and pleasant talks with Mr. Gaer and I am hoping very much indeed that things will work out in such a way that I become your publisher.

Meanwhile, in the belief that you might be interested in looking over some of our books, I take pleasure in sending the following to you under separate cover with my compliments:

WINTER IN VERMONT

BACKBONE OF THE HERRING

HANNA, CRANE AND THE MAUVE DECADE

NO OTHER ROAD TO FREEDOM

\* 2 \*

LANTERNS ON THE LEVEE

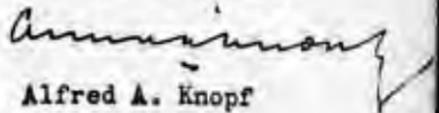
THE STRUGGLE FOR JUDICIAL SUPREMACY

ZONES OF INTERNATIONAL FRICTION

TAPIOLA'S BRAVE REGIMENT

With sincere regard, I am

Yours faithfully,



Alfred A. Knopf

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

1

P. S. I am sending also copies of THE BORZOI READER  
and AAK.

21 1 27 2 11 1951  
9/11

COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

November 13, 1941

Dear Henry:

Thank you very much for your letter. I will communicate with Mr. Gaston and let him know the date of our first meeting.

I want to thank you, too, for Lieutenant Jones. He will be a big help to us.

Sincerely,

*Bill*  
William J. Donovan

The Honorable

The Secretary of the Treasury

Washington, D. C.

NOV 12 1941

Dear Mr. Gaston:

At the request of the President, Colonel Donovan is organizing an advisory committee to be made up of Assistant Secretaries of State, Treasury, War, Justice, and Navy.

You are hereby designated as the Treasury member of this committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Herbert E. Gaston,

Assistant Secretary of the Treasury.

HWT:aja

*Tru*

NOV 10 1941

Dear Sir:

In reply to your letter of November 3rd,  
I am glad to advise you that I have designated  
Assistant Secretary Herbert E. Gaston to be  
honorary member of the advisory committee to  
be made up of Assistant Secretaries of State,  
Secretary, War, Justice, and Navy.

Sincerely,

[Signed] H. Morgenthau, Jr.

Special William J. Donovan,  
Director of Information,  
Washington, D. C.

*WJD*

COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

November 3, 1941

Dear Henry:

I talked with you briefly the other night about the President's request that I organize an advisory committee to be made up of Assistant Secretaries of State, Treasury, War, Justice, and Navy.

I would be very grateful if you would make such a designation so that you could be kept fully advised not only on the activity but on the policy of our unit.

Sincerely,

*Bill Donovan*  
William J. Donovan

The Honorable  
The Secretary of the Treasury  
Washington



## TREASURY DEPARTMENT

WASHINGTON

155

Nov. 13, 1941

Dear Mr. Secretary:—

While I realize how much harder a written word can come back to "bite" me, if it is a poor one, than can an unrecorded spoken one, nevertheless, I also know from sad experience that, difficult as it is to express myself clearly on paper, it is often even more difficult for me to do so in conversation. On balance, therefore, the scale seems to me to favor the crystalizing "in black and white" of my thoughts with regard to my working for you. This I have done on the enclosed memorandum.



TREASURY DEPARTMENT  
WASHINGTON

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I hope they meet with your approval, but if not I should appreciate the privilege of exploring with you the question as to whether it is my language or my basic ideas which are at fault. In either such case, I sincerely trust the fault can be corrected so that I can be of real use and help to you during this "emergency"

Very sincerely yours,

Dave ~~H~~ Morgan

The Honorable Henry Morgenthau, Jr.  
-ecretary of the Treasury,  
Washington, D. C.



TREASURY DEPARTMENT  
WASHINGTON

157

11/13/41

When war first broke out in Europe in the summer of 1939 many of my generation immediately felt the U.S.A. would eventually be involved and wanted to volunteer in some capacity to get prepared for whatever came. Those who, like myself, (and including myself) had had prior military or naval service explored the possibility of getting back into such service. In most cases we were too old, but we did what we could by going to the 1940 Plattsburg, taking the "Plattsburg Extension Course" in the following winter, and joining the New York Guard. (And if any of us could have one wish granted, it would

to do some actual personal fighting against the Nazis)

Some of us came to Washington at various times and took various jobs. At the beginning practically any job was considered a suitable outlet for patriotic zeal. However, as time went on several things became clear. On the one hand, it was obvious that some people were simply using the emergency as an excuse to be "in Washington". On the other hand, the amount of sacrifice made by some people was substantially disproportionate to the actual contribution possible through the job at hand - just because of the inherent limitations in certain jobs.

Certainly one would not want to be in the first category; and it would

seem unduly harsh on one's family to stick at one in the second category. However, when a situation develops in which one can be of real and important use in actual practice, and regardless of any technicalities or "trimmings", then any bearable sacrifice is well worth while.

Specifically, and personally, it appears to me that as long as the Secretary can use my services in direct aid to him in carrying out his immediate duties, then it is both my duty and my pleasure to serve him. However, if at any time, for any reason, my services become only of use as a member of the Treasury's general operating staff, then even if the

Secretary should <sup>wish</sup> me to stay, I do not  
feel that the amount of good I could do  
would fairly compensate for the sacrifice  
imposed on my family and I feel I should  
immediately be allowed to return to New York.

D. M. J.



DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT

161

WASHINGTON

November 13, 1941.

Dear Mr. Morgenthau,

I am writing this brief note because I want you to know how very interesting the work you've assigned me is becoming. It's also a very great pleasure to work with a group who appear so genuinely devoted to the objectives of the job they are doing.

Very sincerely yours,  
Julian Street, Jr.

November 13, 1941

## MEMORANDUM

To: The Secretary

From: Mr. Blough

The Associated Press papers last night and this morning describe a proposal, said to have originated with Vice President Wallace, to

"Require the retail purchasers of designated commodities to pay for a fixed quantity of defense savings stamps in order to obtain possession of the article they were buying. Thus a man who desired to get a small \$10 radio might be forced to buy \$1 worth of defense savings stamps in order to complete his purchase. When a consumer had accumulated sufficient stamps, he could turn these in on a Government bond which would be cashable after the emergency ended."

This proposal is, in effect, for a retail sales tax to be returned after the emergency. If the tax were limited to luxuries as suggested, the yield and the anti-inflationary effects would be relatively small, while enforcement difficulties would be great, in the light of experience during the World War. Luxury items, moreover, are not necessarily the kinds of goods the purchase of which needs to be restricted. Moreover, if the tax is limited to luxury items there may be little reason to provide for its later repayment.

If the tax were general, constituting a general retail sales tax, the burden would be regressively distributed, falling heaviest on the poor. The exemption of food would reduce the regressivity somewhat at the lower end of the income scale. The plan would have all the enforcement difficulties of a retail sales tax imposed on the stamp plan. These difficulties are comparable to the difficulties of a withholding tax.

November 13, 1941

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- 2 -

The compulsory savings feature would have the same disadvantages as compulsory saving under the withholding tax, among them the following:

- (1) It would be difficult to increase taxes after having made provision for compulsory savings in the case of this tax;
- (2) Persons in the higher and middle income brackets could simply substitute this form of saving for other savings, thus eliminating the burden entirely for them. This defect cannot be removed as it can in the withholding tax, by limiting the saving feature to the low income groups;
- (3) The purchase of defense savings bonds would probably diminish very greatly;
- (4) It would be necessary after the war to raise funds to pay off the bonds.

*Roy Blough*

November 13, 1941

## MEMORANDUM

To: The Secretary

From: Mr. Blough

This memorandum has further reference to my memorandum of this morning, about the compulsory savings plan attributed to Vice President Wallace.

Mr. Schwarz has communicated with the Vice President who says that he has not presented and is not supporting any tax plan. He said that the story probably originated with a non-committal memorandum prepared by Mr. Louis Bean and submitted to Senator McNary by the Vice President.

R/B

NOV 13 1941

My dear Claude:

Let me congratulate you on your action in requesting the reductions in price fluctuation limits on commodity futures. I note that the Chicago Board of Trade and the New York Cotton Exchange promptly complied with your request. The reduced price limits should help to prevent sudden price breaks due to a temporary lack of buying orders, such as that in wheat a few weeks ago, and it may have some similar influence in preventing unduly sharp price advances.

I recognize that at present you have no legal authority to compel commodity exchanges to fix margin requirements on futures transactions, and I appreciate that there might be somewhat more reluctance to increase margins than to reduce price limits. But the recent reduction in margin requirements on cottonseed oil by the New York Produce Exchange seems to me so clearly contrary to Administration policy with respect to inflation control that an effort might well be made to have the reduction rescinded on the basis of voluntary cooperation as in the case of the reduction of price limits. What do you think of the idea?

Sincerely,

(Signed) Henry

The Honorable,

The Secretary of Agriculture,

Washington, D. C.

GC81808 11-12-41

## TREASURY DEPARTMENT

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## INTER-OFFICE COMMUNICATION

DATE November 13, 1941.

TO Secretary Morgenthau  
FROM Mr. Schwarz *CS*

The Newsweek correspondent, Wesley McCune, says he has instructions from New York to ask at this morning's press conference for comment on the story in the box on the attached page from the issue of Newsweek out this morning. Harold Graves and Norman Thompson say that a joint investigation conducted by the Civil Service Commission and our Intelligence Unit has been under way for some months, that we have received no report yet and obviously will not comment until we do. They say that in no instance has there been any allegation involving public funds, that most of the individuals involved were temporary employees who are accused of not taking Civil Service regulations seriously enough.

For Dan Bell, Heffelfinger reminds that you wished to tell this morning about impressing bill offerings to \$200,000,000.

Would you announce to the press, please, your talk Saturday before the 75th annual meeting of the National Grange at Worcester, Mass.?

# The Periscope

Illustrated by G. H. Peters Oiler

## What's Behind Today's News, and What's to be Expected in Tomorrow's

### U. S. War Role

Broadly expressed, here's the best available picture of Administration plans regarding the European war as of today: Roosevelt is thinking in terms of intensified naval warfare and of later sending a U. S. air force to Britain (not before mid-1942, since it's improbable that an effective air force could be sent to Europe before then). F. D. R. now has no intention of sending an AEF to Europe, although leaks say a few mechanized divisions might be sent to Africa to help the British. The President believes that, barring complete Russian collapse, the efforts of British-American air and naval forces,

the psychological effect of American participation in the war, will gradually convince the German people that they have been misled and won't win. This, he hopes, will eventually lead to overthrow of the Nazis and establishment of a new German government which will approve a "just peace."

### Washington Trends

The Administration is making really serious war preparations in the Pacific as part of the plan to stand up to Japan now. Large bomber forces are being added to P. S. outposts. . . . Signs are that, with the Neutrality Act fight out of the way, the Administration will finally come much firmer about defense strikes, but Congressional stalling on price control, and about the defense effort in general.

The majority of Congressional Republicans are now "flouting themselves" on foreign-policy issues. Most are coming to view the best position for them political is not isolationist, but outright interventionist, but "one step behind the President." . . . Despite the President's appeal, higher taxes won't be enacted before next year. Social-security tax increases are sure to come, income tax deducted from wages highly likely—but neither of them much to stress.

### New Plane Route

Don't be surprised if Pan American Airways undertakes another giant operation like its present task of delivering planes to the Middle East via Africa. There are strong hints—without formal confirma-

tion—that Roosevelt will arrange to have the company fly planes to Russia by way of Alaska. Organizational details would be similar to those for the African delivery service.

### Soviet-U. S. Gesture

If advance word from Moscow is correct, a dramatic gesture of Soviet willingness to cooperate with the U. S. in postwar reconstruction will be made about the time Litvinoff takes over as new ambassador here. It will amount to full endorsement of

earlier interpretations of important understandings—and the capital hasn't forgotten.

### National Notes

F. D. R. has approved sending another 100 volunteer Army pilots to instruct in China, augmenting 100 already sent. . . . GOP Chairman Martin, disapproving Willkie's support of Roosevelt foreign policy but seeking to avoid a Republican split, has been working hard backstage to stop the efforts to read Willkie out of the party. . . . Roosevelt planned to appoint Dean Landis of Harvard Law School as Treasury Under Secretary to succeed Bell, who's becoming permanent Assistant Secretary. But Senator Walsh of Massachusetts warned he would exercise his Senatorial prerogative and block the confirmation.

### Philadelphia Mint Scandal

The lid has been kept tightly shut so far, but a whopping political scandal will be uncovered in the Philadelphia Mint before many months pass. Investigators from several Federal agencies have been on the scene checking into political manipulation, juggling of public funds, wholesale violation of the Hatch Act, and other unsavory practices. Since the inquiry started, the investigators have been threatened, offered fat bribes, and subjected to heavy political pressure. At least two prominent political figures have tried to quash the investigation. The case now seems certain to rock both state and Federal politics in Pennsylvania.

### Trends Abroad

Last week's news stories about a "counteroffensive" were overoptimistic. Military men regarded the Russian moves as, at most, counterattacks; felt that while Russia could continue to resist, it could not launch an offensive. . . . Unreasonable heat and continued sandstorms have been the main factor holding up the expected Libyan campaign. . . . Signs are that the much-demonstrated Nazi Ambassador to Argentina, Baron von Thiermann, won't be ousted but may take an extended "leave of absence." . . . Britain's food problem this winter will be further eased because its own farm production this year is the highest in history.

the so-called Atlantic Charter, with Stalin in effect, promising to adopt more democratic policies. Best information is that Stalin was prepared to make the gesture when F. D. R. announced the billion-dollar Lend-Lease arrangement, then decided to withhold it until Litvinoff's arrival.

### Litvinoff Record

Washington's "cordial welcomes" to Ambassador Litvinoff should be discounted. He's preferred to the unpopular Oumansky and is considered the most capable Russian for dealing with the U. S., but American officials think he pulled some fast ones when here in 1933-34 to negotiate for U. S. recognition of Russia and for other Soviet-American understandings. State Department and RFC people still insist he changed the terms of an agreement for settling the old czarist debt after previously approving the proposal in F. D. R.'s presence. As a result, the debt negotiations fell through. There are other cases in which Washington claims Litvinoff altered his

### De Gaulle's Political Plans

Working backstage, Free French General de Gaulle is trying to get a British commitment that he will represent France in any postwar settlement. So far, Churchill has refused, holding that the decision is not Britain's alone and that there is no need for it to be made now. Intimates say de Gaulle is worried about his political future, fearing that in the event of a Hitler collapse several French statesmen highly regarded by Britain and the U. S. will move in at the peace table.

### Weygand Caution

General Weygand is still playing cagey in North Africa. Just as he has done before, Weygand refused to commit himself on his future policy when he met secretly with a British emissary just before his last trip to Vichy. The British tried to sound him out on his attitude should British and

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CURTISS-WRIGHT CORPORATION  
30 ROCKEFELLER PLAZA  
NEW YORK

OFFICE OF THE PRESIDENT

November 13th, 1941.

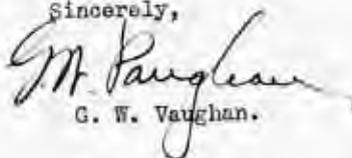
Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

Dear Secretary Morgenthau:—

I have your letter of November 6th  
and am very glad indeed the matter submitted will be  
of assistance to you.

I shall drop in to see you the next  
time I am in Washington, in accordance with your  
suggestion.

Sincerely,

  
G. W. Vaughan.

GWV:JS

November 6, 1941

My dear Mr. Vaughan:

I received your letter of Nov. 5th with the three enclosures.

Please accept my thanks for the admirable manner in which this material was prepared. It will be most useful.

The next time you are in Washington I would appreciate your dropping in to see me so we can have a chat.

Yours sincerely,

(Signed) H. K. Rosenthal, Jr.

Mr. G. W. Vaughan,  
Curtiss-Wright Corporation,  
30 Rockefeller Plaza,  
New York, N. Y.

*File n. m. c.*

CURTISS-WRIGHT CORPORATION  
30 ROCKEFELLER PLAZA  
NEW YORK

OFFICE OF THE PRESIDENT

November 5, 1941

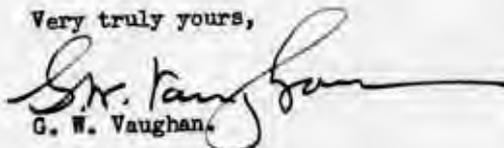
Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Treasury Department  
Washington, D.C.

Dear Secretary Morgenthau:

I am sending you herewith, by special messenger, the material which you asked for with respect to the negotiation of Government contracts since the first of January, 1941. I asked each of the three divisions (airplane, engine and propeller) to prepare this material with respect to all contracts of \$100,000. or over as I assume that you would not be interested in a multitude of smaller contracts relative to spare parts, etc.

While this material was prepared in great haste, it seems to cover what I understand you want and I hope that you will find it fills your needs.

Very truly yours,

  
G. W. Vaughan.

# WRIGHT AERONAUTICAL CORPORATION

(A DIVISION OF CURTISS-WRIGHT CORPORATION)

PATERSON, NEW JERSEY

U. S. A.



## CONTRACT NEGOTIATIONS WITH GOVERNMENT

FOR

ENGINES AND PARTS

Negotiations for engine contracts with the Government are conducted in two stages; first, the establishment of basic price of each engine type and of the major details, the combinations of which will constitute an engine model, second, the discussion of the elements of a specific contract.

In preparation for price negotiations for Army contracts, Wright prepares an analysis of its actual cost experience together with a careful study of probable future trends. This is submitted to the Materiel Division, Air Corps, which in turn makes its own analysis based upon Air Corps audits of Wright's accounts, and advises Wright as to those elements of Wright's cost analysis which it considers too high or not allowable. A conference is then called between the Materiel Division and Wright representatives for the purpose of reaching a mutually acceptable price. Three such conferences, lasting several days each, have been held this year, one each in January, June and October, as changing cost experience indicated a need for revision of prices.

Acceptable prices having been established for definite quantities and production schedules, the negotiations of contracts become principally a matter of specifications and delivery dates. The record of the details of this stage are set forth in the attached data, in so far as they are shown by documentary records. Visits of Government officials and oral conferences at our plant and at Wright Field are not indicated as full records are not available.

The data furnished are those pertaining to contracts amounting to more than \$100,000., which excludes a considerable number of small contracts - mostly for maintenance parts and miscellaneous services - the handling of which involves a minimum of negotiation. Data relating to parts contracts amounting to more than \$100,000. have been included.

In the majority of cases, the contract formalities have been completed or have progressed to the stage where the contract number has been determined and this number has been used as the means of identifying

the negotiations. If no contract number has yet been assigned but a formal invitation to Bid has been issued, the number of the letter is used. In the few instances where no identifying number is available, reference is made to the governmental procuring agency involved.

There have been one or two cases in which, after negotiations for certain engines have been initiated, the changes in tactical requirements based on combat experience in the present conflict have necessitated a modification of the specifications with a consequent delay in the final execution of the contract. It is worthy of note, however, that regardless of whether or not such a condition may be considered a delay in negotiations, there has been, to date, no delay or interruption in our production or deliveries of engines attributable to the lack of formal contracts. Our deliveries have been limited only by our ability to produce.

## WRIGHT AERONAUTICAL CORPORATION

CONTRACTS FOR ENGINESW535AC-16288 SUPPLEMENT

- April 3, 1941 - Dayton representative of Wright Aeronautical Corporation advised by Materiel Division of its desire to procure additional engines by supplement to contract W535AC-16288.
- April 4, 1941 - Wright wired its Dayton representative to advise the Division that it was agreeable to Wright to amend the original contract to call for these additional engines at the same estimated cost as in the original contract.
- May 16, 1941 - Supplemental contract forwarded to Wright by Materiel Division.  
(Received by Wright May 19th).
- May 28, 1941 - Wright returned signed contract to Materiel Division.
- June 20, 1941 - Materiel Division wired Wright that contract had been approved by Under Secretary of War on June 17th.
- July 2, 1941 - Materiel Division forwarded executed copy of contract to Wright,  
(Received and acknowledged by Wright July 7th).

"USE AIR TRANSPORTATION"

W535AC-17348

- Nov. 26, 1940 - Materiel Division wired to Wright a request for quotation on a number of engines.
- Nov. 27, 1940 - Wright wired quotation to Materiel Division.
- Jan. 3, 1941 - Materiel Division forwarded contract to Wright. (Received by Wright Jan. 6th).
- Jan. 8, 1941 - Wright returned signed contracts to Materiel Division.
- Jan. 27, 1941 - Materiel Division advised Wright that contract had been approved Jan. 24th by Under Secretary of War. (Received by Wright Jan. 29th).
- Feb. 7, 1941 - Materiel Division forwarded executed copy of contract to Wright. (Received and acknowledged by Wright Feb. 10th).
- Apr. 24, 1941 - Materiel Division requested Wright to quote on additional engines.
- May 15, 1941 - Wright forwarded quotation to Materiel Division.
- June 11, 1941 - Materiel Division forwarded Change Order, increasing quantity of engines, to Wright. (Received by Wright June 16th).
- July 2, 1941 - Materiel Division advised Wright that Change Order had been approved by Under Secretary of War on June 27th. (Received by Wright July 7th).
- Sept. 4, 1941 - Executed copy of Change Order received by Wright. The lapse of time between approval of the Change Order and delivery of the executed copy to Wright was due to the necessity for furnishing an increase in the bonds to correspond to the increase in the amount of the contract.

"USE AIR TRANSPORTATION"



W535AC-17838 (Short form)

- Jan. 7, 1941 - Materiel Division requested Wright to quote on a number of engines.
- Jan. 23, 1941 - Wright forwarded quotation to Materiel Division.
- Jan. 30, 1941 - Materiel Division called to attention of Wright, Douglas' questions as to suitability of engines quoted on as regards installation in various DC-3 airplanes.
- Feb. 7, 1941 - Wright forwarded revised quotations, as required to Materiel Division.
- Feb. 25, 1941 - Materiel Division authorized Wright to proceed with assurance that quotation was accepted.
- Mar. 27, 1941 - Materiel Division forwarded contract to Wright.  
(Received by Wright April 1st).
- Apr. 14, 1941 - Wright returned signed contract to Materiel Division, proposing changes in detail specifications.
- May 12, 1941 - Materiel Division forwarded executed contract to Wright.  
(Received and acknowledged by Wright May 16th).

"USE AIR TRANSPORTATION"

W535-AC-18071

- July 11, 1940 - Materiel Division requested Wright to furnish specifications and price quotations on an indeterminate quantity of engines of a certain type.
- July 27, 1940 - Materiel Division requested Wright expedite action on above request.
- Aug. 12, 1940 - Wright forwarded quotations on various models of requested type.
- Aug. 21, 1940 - Materiel Division advised Wright that proposed delivery schedule would not be satisfactory.
- Sept. 13, 1940 - Wright submitted to Materiel Division revised delivery schedule.
- Nov. 26, 1940 - Materiel Division forwarded to Wright formal invitation to bid on a definite number of engines, with an option to obtain a certain additional quantity.
- Dec. 19, 1940 - Materiel Division requested Wright to advise as to when bid would be submitted.
- Dec. 26, 1940 - Wright advised Materiel Division that bid was expected to be ready in about two weeks.
- Jan. 30, 1941 - Wright forwarded bid to Materiel Division.
- Feb. 4, 1941 - Wright, in response to telephone call from Materiel Division, forwarded revised specifications to correct an omission.
- Feb. 19, 1941 - Materiel Division forwarded to Wright contract for a quantity of engines of two models with a note that funds were not then available but that it was desired to have the contract in order so as to be ready to go ahead when the funds were made available.
- Feb. 24, 1941 - Wright returned signed contract.
- Mar. 28, 1941 - Materiel Division wired Wright requesting quotation on the same quantity but all of the same model.
- Mar. 31, 1941 - Wright wired quotation as requested.
- Apr. 2, 1941 - Materiel Division forwarded revised contract to Wright for these engines, but noted that funds were not yet released.
- May 7, 1941 - Wright returned signed contract.
- June 10, 1941 - Materiel Division forwarded executed contract to Wright. (Received by Wright June 12th and acknowledged June 16th).

"USE AIR TRANSPORTATION"

W535AC-18667

- Jan. 8, 1941 - Materiel Division requested Wright to quote on a number of engines of one model.
- Feb. 26, 1941 - Wright submitted quotation to Materiel Division.
- Apr. 8, 1941 - Materiel Division forwarded to Wright contract for these engines.
- May 7, 1941 - Wright returned executed contract.
- June 5, 1941 - Materiel Division forwarded executed contract to Wright. (Received by Wright June 7th and acknowledged June 10th).

"USE AIR TRANSPORTATION"



W535AC-19028

- Feb. 13, 1941 - At a conference between engineering personnel of the Materiel Division and Wright it was agreed that Wright would submit to the Materiel Division a proposal on one or two engines with fuel injection.
- Mar. 17, 1941 - Wright submitted to Materiel Division a proposal which provided that the government furnish the fuel injector and controls.
- Mar. 25, 1941 - Materiel Division wired request that Wright quote on furnishing the injector and controls.
- Apr. 2, 1941 - Wright, by wire to Materiel Division, quoted additional charge for injector and controls.
- June 19, 1941 - Materiel Division forwarded to Wright contract for 2 engines with injectors and controls.  
(Received June 23rd by Wright).
- June 23, 1941 - Wright returned executed contract to Materiel Division.
- July 1, 1941 - Materiel Division wired Wright that contract had been approved by Under Secretary of War on June 27th.
- July 16, 1941 - Materiel Division forwarded executed contract to Wright.  
(Received by Wright July 18th and acknowledged July 21st).

"USE AIR TRANSPORTATION"

W535AC-19438

- Feb. 12, 1941 - Materiel Division forwarded to Wright a formal invitation to bid on a number of engines, with option to procure additional engines.
- Mar. 5, 1941 - Wright representative at Materiel Division advised latter that Wright desired to change some details of the specification.
- Mar. 18, 1941 - At a conference between engineering personnel of the Materiel Division and Wright, the changes in the specifications were agreed upon.
- Mar. 19, 1941 - Materiel Division requested Wright to expedite submission of bid.
- Mar. 24, 1941 - Wright advised Materiel Division that revised specifications were being prepared on high priority basis and it hoped to submit bid by end of month.
- Apr. 5, 1941 - Materiel Division requested Wright to expedite submission of bid.
- Apr. 16, 1941 - Wright advised Materiel Division that specifications were being discussed with engineering personnel of the Materiel Division and that it hoped to submit bid in 10 days.
- May 5, 1941 - Materiel Division inquired of Wright as to when bid would be submitted.
- May 9, 1941 - Wright forwarded bid to Materiel Division.
- May 28, 1941 - Materiel Division forwarded to Wright contract for the desired engines.  
(Received by Wright June 4th).
- June 5, 1941 - Wright returned executed contract to Materiel Division.
- July 3, 1941 - Materiel Division forwarded executed contract to Wright.  
(Received and acknowledged by Wright July 7th).

"USE AIR TRANSPORTATION"

W535AC-19764 (Short form)

- May 2, 1941 - Materiel Division wired request to Wright to submit quotation on various quantities of engines of one model.
- May 9, 1941 - Wright wired quotations as requested.
- May 20, 1941 - Materiel Division forwarded to Wright formal invitation to bid on a definite number of engines.
- June 2, 1941 - Wright submitted bid to Materiel Division.
- June 9, 1941 - Contracting Officer, Materiel Division, accepted the bid.
- June 17, 1941 - Under Secretary of War approved the contract.

"USE AIR TRANSPORTATION"

W535AC-20096 (Short form)

- April 15, 1941 - Materiel Division forwarded to Wright formal invitation to bid on a number of engines for a certain model of airplane.
- May 6, 1941 - Wright wired Materiel Division inquiring whether, in view of a recent decision to use a different model engine in these airplanes, the Division still desired bids.
- May 21, 1941 - Materiel Division wired Wright that engines were to be used on another project and hence bid should be submitted.
- June 2, 1941 - Wright submitted bids as requested. It was noted, however, that the destination set forth in the invitation was no longer appropriate in view of the change in project.
- June 9, 1941 - Materiel Division forwarded to Wright a modified invitation (short form contract) with revised destination.
- June 17, 1941 - Wright submitted bid as requested.
- June 24, 1941 - Contracting Officer, Materiel Division, accepted bid.
- June 27, 1941 - Under Secretary of War approved the contract.

W535AC-20295 and  
DA-W535-164

- June 16, 1941 - Wright called attention of Materiel Division that no Letter of Intent had been issued with respect to certain models which were on Wright's production schedule.
- June 27, 1941 - Wright, in response to telephone request from Materiel Division, submitted price quotation on these engines. This quotation was presented in person by Wright officials and a Letter Contract was drawn up and accepted by these officials on the same day.
- July 7, 1941 - Materiel Division wired Wright that the letter contract had been approved by the Under Secretary of War on June 30th.
- July 15, 1941 - Materiel Division forwarded approved letter contract to Wright.  
(Received by Wright on July 18th).
- Aug. 29, 1941 - Materiel Division wired request for extension of time for preparation of formal contract to Sept. 30, 1941. Wright granted extension by wire on same day.
- Aug. 30, 1941 - Materiel Division forwarded to Wright formal contract for execution.  
(Received by Wright Sept. 2nd).
- Sept. 17, 1941 - Materiel Division inquired of Wright as to when Wright would execute contract.
- Sept. 30, 1941 - Materiel Division wired Wright inquiring as to reason for delay in executing contract. Wright wired reply on same day that delay was due to time required to determine changes in price due to changes in engine details and assured the Division that work on the engines was in no way being delayed.
- Oct. 14, 1941 - Wright returned contract to Materiel Division unexecuted and requested that it be revised to incorporate the latest engine specifications and corresponding prices.

"USE AIR TRANSPORTATION"

W535AC-20296 and  
DA-W535AC-165

- June 10, 1941 - Materiel Division advised Wright of its intention to purchase certain engines and authorized Wright to proceed with production. This letter of intent had been approved by the Under Secretary of War on June 11th. (Received by Wright on June 16th.)
- June 16, 1941 - Wright accepted the letter of intent.
- June 27, 1941 - Wright submitted to the Materiel Division price quotations for the engines covered by the Letter of Intent.
- This quotation was presented in person by Wright officials and a letter contract drawn up and accepted by Wright on the same day.
- July 7, 1941 - Materiel Division wired Wright that the letter contract had been approved by the Under Secretary of War on June 30th.
- July 15, 1941 - Materiel Division forwarded approved letter contract to Wright. (Received by Wright July 17th).
- Aug. 29, 1941 - Materiel Division wired request for extension of time for preparation of formal contract to Sept. 30, 1941. Wright granted extension by wire on same day.
- Aug. 30, 1941 - Materiel Division forwarded to Wright formal contract for execution. (Received by Wright Sept. 2nd).
- Sept. 17, 1941 - Materiel Division inquired of Wright as to when Wright would execute contract.
- Sept. 30, 1941 - Materiel Division wired Wright inquiring as to reason for delay in executing contract. Wright wired reply on same day that delay was due to time required to determine changes in price due to changes in engine details and assured the Division that work on the engines was in no way being delayed.
- Oct. 14, 1941 - Wright returned contract to Materiel Division unexecuted and requested that it be revised to incorporate the latest engine specifications and corresponding prices.

"USE AIR TRANSPORTATION"

W535AC-16234 Supplement

- Aug. 20, 1941 - Materiel Division requested Wright to quote on a number of engines of one model.
- Oct. 6, 1941 - Wright submitted quotation on a greater quantity of this model in view of understanding that in the interim need for additional engines had arisen.
- About Oct. 20, 1941 - Wright was advised verbally by the Materiel Division that it was planned to procure these engines by supplement to contract No. 16234 but no formal documents have been received by Wright as yet.

"USE AIR TRANSPORTATION"

W535AG-22003

- Aug. 20, 1941 - Materiel Division requested Wright to quote on several types and models.
- Oct. 13, 1941 - Wright submitted a quotation on definite quantities of the desired types and models.
- About Oct. 20,  
1941 - Wright was advised verbally by the Materiel Division that contract No. 22003 had been assigned to this order but the contract has not yet been received by Wright.

"USE AIR TRANSPORTATION"

Air Corps Inquiry

Oct. 30, 1941 - In response to request of Materiel Division, Wright submitted price quotations on various types and models.

"USE AIR TRANSPORTATION"

W-741 - Ord-6158 - Supplements Nos. 5 and 6

June 2 & 3, 1941 - Ordnance Dept. 'phoned Wright requesting quotations on additional tank engines similar to those procured by the original contract. Wright quoted by 'phone and confirmed by letter of June 4th.

June 25, 1941 - Ordnance Dept. delivered by hand to Wright a Letter Contract dated June 18th and approved by the Under Secretary of War on June 20th covering the purchase of these engines. Wright indorsed its acceptance on the same day and a fully executed copy was returned to Wright on June 28th.

Note: This Letter Contract was incorrectly designated as Supplementary Agreement No. 2 but, by letter of Oct. 17, the Ordnance Dept. advised Wright that it should be No. 5.

Oct. 20, 1941 - Wright requested Ordnance Dept. to issue the formal supplement, which is understood to be identified as Supplemental Agreement No. 6.

"USE AIR TRANSPORTATION"

W-741-Ord-6158 - Supplements #7 and #8

- July 14, 1941 - Ordnance Dept. 'phoned Wright requesting quotation on a second additional quantity of engines similar to those procured by the original contract. Wright wired quotation on same day and confirmed by letter on July 15th.
- Aug. 22, 1941 - Ordnance Dept. forwarded to Wright a Letter Contract dated Aug. 19th covering these engines.  
(Received by Wright Aug. 23rd).
- Sept. 27, 1941 - Ordnance Dept. requested Wright to expedite acceptance of Letter Contract.
- Sept. 30, 1941 - Wright accepted the Letter Contract and forwarded it to Ordnance Dept.
- Oct. 23, 1941 - Ordnance Dept. forwarded to Wright, fully executed copy of Letter Contract, approved by Under Secretary of War Oct. 10th. This Letter Contract is identified as Supplementary Agreement No. 7.  
(Received by Wright October 24th).

Formal agreement not yet received, but under date of October 17th the Ordnance Dept. advised that it would be identified as Supplemental Agreement No. 8.

Ordinance Inquiry for Tank Engines

- Sept. 13, 1941 - N.Y. Ordnance District requested Wright to quote on a number of tank engines.
- Sept. 18, 1941 - Wright submitted quotation as requested.

No contract has as yet been received by Wright but one engine is scheduled for delivery early in November.

"USE AIR TRANSPORTATION"

Contracts for Engine Parts

Negotiations in the case of parts contracts generally proceed in the following manner. The governmental procuring agency submits to the contractor a list of the parts and quantities which it desires to purchase and requests the contractor to quote thereon. In the case of standard form contracts, if the quotation is acceptable, and the government desires to expedite performance, it may forward a letter of intent and/or notice of award to the contractor in advance of the completion of the formalities of the contract. Otherwise the government forwards in due course copies of the contract for execution by the contractor. The contract is then executed by the government (including approval by the Under Secretary) and a copy forwarded to the contractor. In the case of short form contracts, indorsement of acceptance of the bid by the government (including approval of the Under Secretary) and return of the bid so indorsed complete the formalities.

The dates of these various steps in the negotiations for parts contracts are set forth in tabular form below.

"USE AIR TRANSPORTATION"

PARIS CONTRACTS - ARMY AIR CORPS

<u>Contract Number</u>	<u>Request to Bid Recd. by W.A.C.</u>	<u>Bid Submitted</u>	<u>Contract Recd. by W.A.C. for Execution</u>	<u>Contract Executed and forwarded by W.A.C.</u>	<u>Contract Approved by Under Secretary of War</u>	<u>Executed Contract Received by W.A.C.</u>
W535AC-17376	11-4-40	11-26-40	12-30-40	1-7-41	1-15-41	1-29-41
17823	1-6-41	1-16-41	2-19-41	3-5-41	3-7-41	3-20-41
18245	1-20-41	2-4-41	3-17-41	3-18-41	3-28-41	4-18-41
18392	2-24-41	3-4-41	3-17-41	3-19-41	3-21-41	4-4-41
18521	3-5-41	3-27-41	4-24-41	5-7-41	5-21-41	6-13-41
18798	3-13-41	3-28-41	4-21-41	4-25-41	4-28-41	5-12-41
19412	5-12-41	5-26-41	Exec. at Wright Fld.	6-27-41	6-30-41	7-10-41
19679	5-12-41	5-15-41	6-23-41	6-23-41	6-27-41	7-21-41
20022	6-2-41	6-11-41	Short form	Short form	6-19-41	6-26-41
20274	6-16-41	6-24-41	7-25-41	8-12-41	8-14-41	8-25-41
21192	7-10-41	8-11-41	9-20-41	10-3-41	10-14-41	10-29-41
21074	7-25-41	8-11-41	9-18-41	10-7-41	-	-
21912	8-18-41	9-9-41	10-6-41	10-22-41	-	-
Invitation to Bid W42-2568	9-19-41	10-27-41	-	-		
DA-W535AC-11	4-28-41	4-30-41	5-26-41	5-28-41	6-4-41	6-16-41
62	5-17-41	6-13-41	(1)6-23-41	6-27-41	6-30-41	7-12-41
118	6-2-41	6-18-41	(2)8-4-41	8-7-41	8-20-41	9-2-41
214	6-19-41	7-9-41	8-4-41	8-7-41	8-23-41	9-4-41
299	7-16-41	7-23-41	8-20-41	9-2-41	9-6-41	9-25-41
421	7-28-41	8-16-41	9-17-41	9-25-41	10-2-41	10-20-41

(1) Letter of Intent rec'd. 6-19-41

(2) Letter of Intent rec'd. 6-26-41

PARTS CONTRACTS

11.2

<u>Contract Number</u>	<u>Request to Bid Recd. by W.A.C.</u>	<u>Bid Submitted</u>	<u>Contract Recd. by W.A.C. for Execution</u>	<u>Contract Executed and Forwarded by W.A.C.</u>
<u>NAVY</u>				
NI56s - 18848	2-25-41	2-17-41	2-27-41	3-14-41
19771	4-11-41	5-14-41	6-6-41	6-18-41
20500	6-19-41	6-30-41	8-13-41	9-3-41
20640	7-7-41	7-11-41	(1) 7-24-41	9-2-41

(1) Notice of Award recd. 7-21-41

ORDNANCE

R.I.A. Inquiry	9-15-41	10-6-41		
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Curtiss-Wright Corporation  
CURTISS PROPELLER DIVISION

November 4, 1941

Contract Negotiations with the Material Division, Air Corps  
Wright Field, Dayton, Ohio  
During the Year 1941.

The first War Department contract entered into during 1941 was for a quantity of Curtiss controllible pitch propellers intended for Air Corps' use. The unit prices specified in the contract were maintained the same as those arrived at during negotiations held in the month of November 1940, when a previous contract had been awarded for the same model propeller.

In April 1941, this contractor was requested to furnish informal quotations on all current production models, to serve as a basis for negotiations through which new prices would be established for procurement then being contemplated. These data were forwarded on April 27 and subsequent negotiations established new prices for the models involved.

Subsequent to the establishment of prices as indicated above, various contracts were in the course of preparation when it was learned by this contractor that the office of the Secretary of War had ruled against the use of the average hourly earnings in the Aviation Industry as the labor index for computation of changes in labor costs. Since the contracts then in preparation contained price adjustment clauses and unit prices which had been correlated on the basis of an index discarded before the contracts had been executed, it became necessary to re-negotiate prices for all propeller models. These negotiations required considerable time, and no mutually acceptable combination of unit prices and labor adjustment provisions was arrived at until late in June, at which time, basic prices were coupled with a labor index based on the Durable Goods Industry. All contracts which have been awarded to this contractor by the War Department since that time, have been entered into on this basis.

While negotiations on proposed contracts have frequently required considerable time in which to work out a price structure acceptable to the Air Corps, both parties have realized the urgency of the situation and made every effort to reach an agreement as promptly as possible, and in no case has the time consumed in these negotiations been the cause of any delay in production.

Contract DA W535 ac-49

- June 23, 1941 to) - Propeller Division representative negotiated  
June 25, 1941 ) prices for various propeller models at conference held at Materiel Division, Wright Field.
- June 30, 1941 - Short-form contract, covering certain propellers and controls for which prices had been established in previous conference, executed by Propeller Division representative.
- June 30, 1941 - Short-form contract approved by the Government and advance copy forwarded to contractor's representative.
- July 21, 1941 - Materiel Division forwarded contractor's executed copy of short-form contract to Propeller Division.
- July 24, 1941 - Propeller Division received contractor's executed copy of short-form contract from Materiel Division.
- July 24, 1941 - Materiel Division forwarded formal contract to Propeller Division for execution.
- July 31, 1941 - Materiel Division forwarded rewritten pages for insertion in formal contract because of necessity for setting up unit and total prices not appearing in original pages.
- August 18, 1941 - Materiel Division requested, by letter, that the execution and return of the formal contract be expedited.
- August 21, 1941 - Contractor executed formal contract and returned it to Materiel Division by Propeller Division representative.
- September 10, 1941 - Materiel Division wired Propeller Division that formal contract had been approved by Under Secretary of War on September 6, 1941.
- September 25, 1941 - Materiel Division forwarded executed copy of contract to the Propeller Division.

TRACT DA W535 ac-65

- June 23, 1941 to ) - Propeller Division representative negotiated prices for  
 June 25, 1941 ) various propeller models at conference held at Materiel  
 Division, Wright Field.
- June 30, 1941 - Short form of contract, covering certain quantities of  
 propellers for which prices had been established during  
 the above mentioned conference, signed by Propeller Division  
 representative at Wright Field.
- June 30, 1941 - Advance copy of short form contract delivered to Propeller  
 Division representative at Wright Field.
- July 14, 1941 - Contractor's copy of original short form contract forwarded  
 to the Propeller Division.
- August 26, 1941 - Proposed formal contract forwarded by Materiel Division to  
 contractor for execution.
- August 28, 1941 - Proposed formal contract received by Propeller Division.
- September 8, 1941 - Letter from Materiel Division requested contractor to  
 expedite return of contract.
- September 17, 1941 - Propeller Division representative conferred with Materiel  
 Division regarding change in number of tool kits specified  
 in proposed contract as compared with basis on which short  
 form contract was negotiated.
- September 30, 1941 - Materiel Division wired contractor requesting advice on  
 status of contract.
- October 1, 1941 - Contractor advised Materiel Division that executed contract  
 was going forward on this date.
- October 23, 1941 - Materiel Division wired Propeller Division that contract had  
 been approved on October 20, 1941.
- November 3, 1941 - Contractor's copy of executed contract received.

CONTRACT DA W535 ad-143

- June 23, 1941 to ) - Propeller Division representative negotiated prices for  
June 25, 1941 ) various propeller models at conference held at Materiel  
Division, Wright Field.
- June 30, 1941 - Short form contract, covering certain propellers for  
which prices had been established in previous conference,  
executed by Propeller Division representative.
- June 30, 1941 - Short form contract approved by the Government and advance  
copy forwarded to contractor.
- July 14, 1941 - Contractor's executed copy of short form contract received  
by Propeller Division.
- August 13, 1941 - Materiel Division forwarded formal contract to Propeller  
Division for execution.
- September 3, 1941 - Propeller Division forwarded executed copies of formal  
contract to the Materiel Division.
- October 2, 1941 - Contractor notified of approval of formal contract.
- October 20, 1941 - Contractor's copies of formal contract returned to the  
Propeller Division by the Materiel Division.

Contract DA W535 ac-171

- June 14, 1941 - Propeller Division received Materiel Division letter dated June 12, 1941 requesting quotation on overhaul tools.
- June 24, 1941 - Propeller Division forwarded quotation.
- June 30, 1941 - Propeller Division received short-form contract for execution.
- July 10, 1941 - Contract executed and returned to Materiel Division.
- July 24, 1941 - Propeller Division received executed contract.
- September 5, 1941 - Propeller Division received formal contract for execution.
- September 17, 1941 - Materiel Division letter received requesting that formal contract be executed and returned.
- September 22, 1941 - Propeller Division representative discussed inclusion of advance payment clause with Materiel Division.
- October 2, 1941 - Contract executed and returned by Propeller Division.
- October 7, 1941 - Formal contract approved by the Government.
- October 27, 1941 - Copy of approved contract received by Propeller Division.

Contract DA-W535 ac-172

April 23, 1941

- Materiel Division forwarded a letter of intent covering the purchase of substantial quantities of various controllable pitch aircraft propellers.

May 5, 1941

- Propeller Division returned executed letter of intent to the Materiel Division.

June 28, 1941

- Materiel Division forwarded advance copy of short form contract to the Propeller Division.

~~July~~ 11, 1941

- Materiel Division forwarded original signed short form contract

CONTRACT W535 ac-16957 (Supplemental)

- June 23, 1941 to }  
June 25, 1941 ) - Propeller Division representative negotiated prices for various propeller models at conference held at Materiel Division, Wright Field
- June 30, 1941 - Short form contract covering certain propellers and controls for which prices had been established in previous conference, executed by Propeller Division representative.
- June 30, 1941 - Short form contract approved by Government.
- July 14, 1941 - Materiel Division forwarded contractor's copy of executed copy of contract.
- July 16, 1941 - Contractor's copy of executed contracts received by Propeller Division.

CONTRACT W535 ac-17243 (Supplemental)

- June 23, 1941 to ) - Propeller Division representative negotiated  
June 25, 1941 ) prices for various propeller models at conference held at Materiel Division, Wright Field.
  
- June 30, 1941 - Short form contract covering certain propellers and controls for which prices had been established in previous conference, executed by Propeller Division representative.
  
- June 11, 1941 - Materiel Division forwarded contractor's copy of executed contract.
  
- July 14, 1941 - Contractor's copy of executed contract received by Propeller Division.

Contract W535 ac-17807

- December 14, 1940 - Propeller Division received wire from Materiel Division requesting delivery schedule and decrease in contract price which would result from substitution of model C5328 propellers for model C5428 on Contract W535 ac-14143.
- December 18, 1940)- Revised prices and delivery schedule wired to Materiel Division  
December 20, 1940) as requested.
- January 17, 1941 - Materiel Division advised contractor by letter, that proposal to substitute different model propellers on Contract W535 ac-14143 was believed impractical and that a new contract would be initiated.
- January 31, 1941 - Proposed contract W535 ac-17807 covering purchase of C5328 propellers forwarded by Materiel Division.
- February 1, 1941 - Proposed contract W535 ac-17807 received by Propeller Division.
- February 1, 1941 - Contract executed and returned to Materiel Division.
- February 4, 1941 - Contract approved by Materiel Division.
- February 18, 1941 - Contractor's copy of approved contract forwarded by Materiel Division.
- February 20, 1941 - Contract received and acknowledged.

TRACT W535 ac-18281

- February 25, 1941 - Propeller Division quoted spare blade assemblies by telephone in reply to an urgent request to Propeller Division representative at Wright Field.
- March 6, 1941 - Contract received by Propeller Division for execution.
- March 6, 1941 - Contract executed and returned to the Materiel Division.
- March 10, 1941 - Contract approved.
- March 21, 1941 - Executed copies of contract received by Propeller Division.
- June 17, 1941 - Materiel Division wired requesting quotation and deliveries for contemplated exercise of option.
- June 18, 1941 - Propeller Division wired, quoting same price, contained in option and furnishing delivery dates.
- June 25, 1941 - Materiel Division, forwarded Change Order. Received by Propeller Division June 27, 1941.
- June 28, 1941 - Change Order executed and returned.
- June 30, 1941 - Change Order approved.
- July 24, 1941 - Copy of approved Change Order received by Propeller Division.

Contract W 535 ac-19046

- March 4, 1941 - Propeller Division received request for formal bid covering governor assemblies.
- April 4, 1941 - Materiel Division telegraphed requesting return of bid.
- April 7, 1941 - Propeller Division advised that prices and deliveries were being investigated and bid would be furnished as analysis could be completed.
- April 26, 1941 - Propeller Division forwarded bid.
- May 17, 1941 - Propeller Division received contract, for execution, contract contained modified Price Adjustment Clause.
- June 2, 1941 - Materiel Division forwarded letter requesting execution and return of contract be expedited. Contractor advised contract being held pending final decision regarding Price Adjustment Clause.
- June 18, 1941 - Materiel Division telegraphed requesting execution and return of contract.
- June 19, 1941 - Propeller Division replied advising representative would visit Materiel Division June 23, 1941 to discuss contract.
- June 23, 1941 - Propeller Division representative negotiated  
to prices based upon use of modified Price  
June 25, 1941 Adjustment Clause.
- June 29, 1941 - Propeller Division representative executed contract.
- June 30, 1941 - Contract approved by Government.
- July 12, 1941 - Propeller Division received contractor's copy of executed contract.

Contract W 535 ac-19224

- March 29, 1941 - Materiel Division telegraphed request for quotation covering a quantity of controllable pitch propellers.
- April 27, 1941 - Propeller Division forwarded quotation by letter.
- May 23, 1941 - Materiel Division forwarded formal contract for execution. Contract held pending decision regarding Price Adjustment Clause.
- June 16, 1941 - Materiel Division forwarded letter requesting execution and return of contract be expedited.
- June 23, 1941 to  
June 25, 1941 - Propeller Division representative negotiated prices based upon use of modified Price Adjustment Clause.
- June 30, 1941 - Contract executed by Propeller Division representative
- July 8, 1941 - Materiel Division forwarded Contractor's approved copy of contract.
- July 10, 1941 - Approved Copy of contract received by Propeller Division.

Contract W535 ac-19634

- May 12, 1941 - Materiel Division forwarded Propeller Division an invitation to bid on substantial quantity of controllible pitch aircraft propellers.
- May 20, 1941 - Propeller Division forwarded bid to Materiel Division.
- June 23, 1941 - Materiel Division forwarded formal contract for execution by Propeller Division.
- June 24, 1941 - Propeller Division received execution copies of formal contract.
- June 25, 1941 - Propeller Division returned executed copies of the formal contract through its representative.
- June 30, 1941 - Contract approved by the Government.
- July 8, 1941 - Materiel Division forwarded executed copies of the contract to the Propeller Division.
- July 10, 1941 - Propeller Division received executed copy of the contract.

Contract W535 ac-20391

- June 23, 1941 - Propeller Division received from Materiel Division an invitation to bid on various assemblies comprising parts of a controllable pitch aircraft propeller.
- July 3, 1941 - Propeller Division forwarded bid to the Materiel Division.
- July 22, 1941 - Materiel Division forwarded copies of the proposed formal contract to the Propeller Division for execution.
- August 21, 1941 - Contract executed by Propeller Division and forwarded to Materiel Division by contractor's representative.
- August 27, 1941 - Propeller Division notified of approval of the contract by the Government.
- September 5, 1941 - Propeller Division received executed contract which had been forwarded by the Materiel Division.

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ARMY - AO 15802 C.O.7  
1000 - P-40F

NEGOTIATION SUMMARY  
CONTRACT NO. W535 AC 15802  
Change No.7  
Installation of Rolls Royce Engines

- December 4, 1940 - We received Air Corps letter dated December 3rd, signed by Colonel E. W. Kennedy (then Major) stating that the Government elected to exercise the option to install the Rolls Royce Merlin engine in the last 1,000 P-40E type airplanes and requesting our quotation.
- December 27, 1940 - In view of the tremendous undertaking of placing Rolls Royce engines in production in the United States so that they would be suitable for installation in American built aircraft with these engines using American accessories and standards, the installation design information essential for the airplane manufacturer could not be as readily obtained as would have been the case had the engine been of American design and manufacture in the first place. This information was obtained by Curtiss engineering personnel from the Packard Company and the Rolls Royce representative stationed there, as it became available from time to time, but the information was wholly insufficient to enable us to make a quotation.
- December 27, 1940 - Curtiss Wright telegraphed Air Corps and requested that the option be exercised covering only the last 236 airplanes, so that production could continue without the change until the engine work was complete on the airplanes changes necessary to accommodate the new engine.
- December 31, 1940 - Mr. W. J. Crosswell interviewed Colonel K. B. Wolfe (then Major) at Wright Field concerning the possibility of reducing the quantity of airplanes to have the Rolls Royce engine. Colonel Wolfe advised that the Rolls Royce installation was essential on the last 1000 airplanes, and that in view of the fact that there would be necessarily an interruption in our production on this contract while the changes were being made in the airplane to accommodate this engine other orders would probably be placed, covering airplane types which we then had in production so that there would be no idle period.
- January 3, 1941 - Mr. P. N. Jansen, General Factory Manager of the Airplane Division of Curtiss-Wright, telephoned Colonel Wolfe to discuss further the probable delay which would be occasioned by the Rolls Royce installation. An agreement was reached that we would still submit the proposal as agreed upon at the December 31, 1940 conference.

- Jan. 3 - 20, 1941 - Study continuing of production requirements in connection with Rolls Royce installation in last 1000 airplanes. Engineering personnel were, meanwhile, continuing their endeavors to obtain balance of design information on installation of Rolls Royce engine from the Packard Company and Rolls Royce representative stationed there.
- Jan. 20, 1941 - Mr. W. J. Crosswell telephoned Colonel K. B. Wolfe with reference to possible relief from additional orders to fill the probable idle period caused by the change in engines for the last 1000 airplanes.
- January 22, 1941 - Curtiss prepared proposal letter covering production schedules of the last 1000 P-40E airplanes with Rolls Royce engines installed.
- January 23, 1941 - Mr. W. J. Crosswell visited Dayton and submitted Curtiss-Wright proposal letter dated January 22, 1941, which outlined the suggestion for additional airplanes of the P-40E type in the event the Rolls Royce installation was required in the last 1000 airplanes as set forth in the letter. General Kenney (then Colonel) discussed the subject of the engine change with Mr. Crosswell and expressed the opinion that the change-over was necessary in view of the necessity for greater altitude performance, but gave his approval to further discussion of the subject by Curtiss-Wright personnel with Air Corps personnel in Washington.
- January 24, 1941 - Mr. Crosswell and Mr. Jansen further discussed the seriousness of the Rolls Royce change-over with Colonel Volandt of the Chief of Air Corps Office, Colonel Wolfe from Wright Field and Major Timberlake in Washington. At the conference it was agreed that if possible Curtiss would receive a letter of intention, which later proved impossible in view of insufficient funds being available then, for additional P-40E airplanes to fill the idle period created by the Rolls Royce Change-over,

Contract No. W535 AC 15802  
Change No. 7

- January 30, 1941 - General Kenney requested Mr. E. L. Noonan, Dayton representative for Curtiss-Wright, to have Curtiss submit a quotation based on the Air Corps furnishing full heat rejection data for the Rolls Royce engine by February 10, 1941, and on the further basis that Curtiss would proceed with production with the Air Corps accepting full responsibility for cooling of the installation.
- February 3, 1941 - Following further studies and proceeding with the design of the Rolls Royce installation, Mr. Jansen and Mr. Crosswell attended a conference at the Packard Company in Detroit between General Echols, Colonel Wolfe, Major Deolittle, and Major Irvine of the Air Corps at which it was agreed that Packard would make every effort to determine their best delivery schedule of engines. Pending this no further production delivery schedules would be submitted by Curtiss.
- February 6, 1941 - Mr. Crosswell called General Kenney at Wright Field to advise him that in view of the decision at Packard to determine their most accurate delivery schedule of engines, no further schedule would be submitted by Curtiss pending this determination.
- February 11, 1941 - Colonel K. B. Wolfe advised Mr. Berlin, Director of Military Engineering of the Airplane Division of Curtiss-Wright that the original Packard engine delivery schedule was considered the most accurate it was possible to estimate.
- February 14, 1941 - The Air Corps telegraphed heat rejection and other engineering data concerning the engine to Curtiss; Curtiss, meanwhile, was considering the best delivery schedule with the Air Corps accepting responsibility for cooling.
- February 17, 1941 - The Materiel Division, Air Corps, telegraphed the Curtiss Company authorizing proceeding on the basis of installing the Rolls Royce engines in the last 1000 P-40E airplanes, advising definitely further, that 312 additional airplanes to be powered with Rolls Royce engines would be ordered and granting authority to Curtiss to make an experimental Rolls Royce engine installation in one P-40E airplane.
- February 18, 1941 - Curtiss submitted its proposal letter, giving the new delivery schedule based on the Air Corps accepting responsibility for cooling, showing a two months earlier initial delivery if this were done, over what would maintain if Curtiss had to accept responsibility for satisfactory cooling of the installation.
- February 21, 1941 - Materiel Division furnished additional heat rejection data for the Rolls Royce engine by telephone.

- February 22, 1941 - Curtiss advised the heat rejection figures satisfactory providing they were acceptable to the Rolls Royce representative at Packard and providing certain conditions of our proposal letter were accepted by the Air Corps.
- February 27, 1941 - Mr. F. E. Flader, Chief Engineer, Buffalo Plants, Airplane Division of Curtiss-Wright had further agreements with representatives of the Air Corps, including Colonel Wolfe, Major B. S. Kelsey and Major Bradley based on a procedure, to the effect that Curtiss would release for production and that the Air Corps would accept responsibility for cooling, provided Curtiss constructed the installation in accordance with a drawing to be approved by the Air Corps.
- March 4, 1941 - Mr. Crosswell had discussed the detailed considerations of the change order to the contract with Major Kelsey and agreement was reached to prepare a new proposal letter accordingly, which would supercede the proposal letter of February 18, 1941.
- March 9, 1941 - Proposal letter was submitted following coordination with the attorneys and other interested people.
- March 10, 1941 - Mr. Crosswell discussed further details of the change order with Major Bradley and it was agreed that preparation of change order to the contract would proceed on the basis of installing the Rolls Royce engine in the last 1000 P-40E airplanes.
- March 20, 1941 - Mr. Crosswell telephoned Mr. John Schwinn, Contract Administrator at Wright Field who advised that the change order was being prepared in accordance with Curtiss proposal.
- March 21 to April 8, 1941 - Change order in preparation at Wright Field.
- April 11, 1941 - Change Order received at Buffalo.
- April 18, 1941 - Change order No. 7 to the contract dated April 8, 1941, providing for the Rolls Royce installation was executed and forwarded this date following its receipt by Curtiss by one week which was necessary for coordination with attorneys prior to its execution.
- May 3, 1941 - Contract change approved by War Department.

Contract No. W535 AC 15802  
Change No. 7

ARMY - AC18685  
312 P-40 F

NEGOTIATION SUMMARY  
CONTRACT #W 535 AC 18685

- November 28, 1940 - Material Division letter of this date requested quotation covering 312 airplanes (Rolls Royce Engines). Since these airplanes would of necessity have to be produced following the 1000 airplanes covered by change No. 7 to Contract #W 535 AC 15802 no quotation could be submitted until negotiations have been completed with reference to the change order.
- February 18, 1941 - Proposal submitted following parallel proposal on Contract #W 535 AC 15802.
- Feb.18 - Mar.9, 1941- Negotiations taking place with reference to change No. 7 to Contract #W 535 AC 15802.
- March 9, 1941 - Revised proposal submitted.
- Mar.9 - Apr.8, 1941- Contract being prepared by Army.
- April 8, 1941 - Contract received for signature.
- Apr.8 - 22, 1941 - Change Order No. 7 to Contract #W 535 AC 15802 being reviewed. No action on this contract could be taken until change order executed.
- April 22, 1941 - Contract signed by Curtiss and returned to War Department.
- May 3, 1941 - Contract approved by War Department.

ARMY - 19164  
1 - C-55

NEGOTIATION SUMMARY  
CONTRACT NO. 19164

- January 22-23, 1941 - Mr. Smith visited Dayton and discussed with General Kenney the utilization of the C-55 airplane. Proposal was requested giving a price both as a separate purchase and as the delivery of the first production C-46 with outline of our desired program for demonstration, etc. A-1-D Priority was also discussed.
- January 24-February 18, 1941 - Steps were immediately taken to obtain the necessary engineering data for preparing the proposal requested by General Kenney. Following the receipt of the necessary information, estimates were made up and all details coordinated for preparing the proposal letter.
- February 19, 1941 - Messrs. Crosswell, Noonan, Warren met with General Kenney, Major Cooke and Mr. Roush to advise that Curtiss proposed offering the C-55 "as is" on an additional contract rather than as the first article on the C-46 contract. There was further discussion as to details. Mr. Crosswell stated that the price would be the average price of one C-46 airplane plus a service charge, \$25,000, plus equipment installed in lieu of G.F.E.
- February 20-24, 1941 - In line with the discussion at the previous meeting the proposal was then prepared.
- February 25, 1941 - The proposal letter was delivered to the Materiel Division at Wright Field.
- February 26-March 5, 1941 - Army considering our proposal. Several conferences were held regarding the Army's taking the C-55 immediately.
- March 5, 1941 - Following a conference of Mr. Crosswell and Department Heads at the St. Louis Plant, Mr. Crosswell telephoned Major Morgan at Wright Field and arranged for him to visit the St. Louis Plant on Monday, March 10, 1941, with an inspection board for the purpose of inspecting the airplane.
- March 13, 1941 - Major Morgan visited St. Louis and conferred with Mr. Scott and Mr. Moles. It was agreed for us to remove or alter various installations.

- March 17, 1941 - Major Morgan informed Mr. Scott by telephone that the C-55 would be taken "as is" and have additional fuel tankage added to have total tankage amount to 3,000 gallons fuel and 120 gallons oil. Weights and performance were also discussed.
- March 18, 1941 - Lt. Coupland phoned Mr. Page and advised that General Arnold desired us to proceed at once with the preparation of provisions for a 3600 mile range. This was a definite go-ahead to proceed with the project.
- March 19, 1941 - Mr. Warren telephoned Mr. Koepnick, Major Morgan's assistant, relative to the visit of technical group.
- March 20, 1941 - Mr. Smith visited Washington and discussed with General Eccles our proposal for altering the fuel system in the airplane to provide additional range.
- March 20, 1941 - Messrs. L. Koepnick, L. L. Aspelin, E. V. Argabright and H. Harrington of the Air Corps visited St. Louis and conferred with Messrs. Page, Wolford, Blount, Moles, Chaffee, Parks, Talley of Curtiss-Wright, relative to long range provisions, equipment, etc.
- March 24, 1941 - Major Morgan verified by phone conversation with Mr. Smith that 2500 gallons of fuel was sufficient for the long range proposal, and approved cabin installation of the tanks.
- March 24, 1941 - Telegram was received from Materiel Division constituting our authority to proceed with revision of fuel system.
- March 28, 1941 - Major Morgan and Major Thurlow visited St. Louis to confer on long range airplane. They were accompanied by Mr. Weatherford. Conference was held with Air Corps personnel and was attended by Messrs. Smith, Page, Wolford and Moles. Messrs. Moore, Rumph, Chaffee, Forster and Ruggie were present for part of the conference.
- April 4, 1941 - Mr. Scott conferred in Dayton with Major Morgan relative to Army cooperation with the C. A. A. in their inspection of the power plant installation at our plant.
- April 5-9, 1941 - Work proceeding on proposal letter as a result of above conferences.
- April 10, 1941 - Curtiss-Wright proposal letter to purchase of C-55 with long range provisions.
- April 10, 1941 - Messrs. Scott and Moles, with Materiel Division personnel discussed long range provisions with Major Morgan at C. A. A. meeting in Kansas City.
- April 10-15, 1941 - Army considering our proposal letter.

- April 15, 1941 - Major Morgan called Messrs. Warren and France on quotation, saying that it was too high.
- April 15-19, 1941 - Estimates were carefully gone over and all factors in the make up of our quotation given careful consideration.
- April 19, 1941 - Mr. France confers with Project Officer on Training, Production Engineering Section, by telephone on price of above quotation.
- April 19-22, 1941 - Studies continue on our quotation.
- April 22, 1941 - Curtiss-Wright Forwarded letter to Division reducing price for long range fuel, oil and navigation to an amount of \$44,592.00, also agreeing to revise specification.
- April 22-28, 1941 - Work progressing as agreed on the revised specification.
- April 28-29, 1941 - Mr. Smith and Mr. Scott conferred with Mr. Kellhofer and Lt. Coupland on tentative program:  
 Abandon attempts for C. A. A. license  
 Later C-46 for flight test for license.  
 Delivery to Air Corps for acceptance test 60 days from date of signing contract.  
 Payment upon completion of Air Corps acceptance tests.
- April 29, 1941 - Mr. Page spoke to Major Morgan on engineering changes. Major Morgan informed that airplane is laid up because of mishap.
- April 30-May 7, 1941 - Army considering new proposal and revised specification.
- May 7, 1941 - Mr. Noonan received advance copy to Contract W535 AC19164 and immediately forwarded it to St. Louis.
- May 8, 1941 - Contract studied and conferences held concerning it.  
 May 13, 1941
- May 13, 1941 - Mr. Crosswell and Mr. Warren at the Materiel Division at Wright Field agreed to the contract as written with certain modifications.
- May 16, 1941 - Executed contract forwarded to Wright Field with modifications.
- May 29, 1941 - Contract approved.

Contract No. 19164

ARMY - AC 19174  
120 - C-46

NEGOTIATION SUMMARY  
 CONTRACT NO. W 535 AC 19174

February 19, 1941 - Mr. E. A. Warren, Sales Manager of the St. Louis Plant of Curtiss-Wright Corporation, talked with Mr. Roush of the Contract Section of the War Department at Wright Field. Mr. Roush suggested that Curtiss-Wright Corporation, St. Louis Plant, prepare a proposal covering an additional 120 C-46 airplanes.

The necessary steps were immediately taken to set in motion the machinery for submitting a proposal. It has been previously stated that deliveries would not begin on this contract until December 1942, a long time in the future, and it was extremely difficult to try and prognosticate the cost at that far distant date. As a result numerous conferences were necessary with the Director of Sales, Mr. W.J. Crosswell, Jr., the Production Departments and the Estimating Departments.

March 1, 1941 - Mr. C. W. France, Vice President and General Manager of the St. Louis Plant received a telephone call from Captain (now Major) Morgan, War Department at Wright Field, requesting that we prepare estimates and quotations for an additional 234 airplanes (C-46) instead of the quantity of 120 previously requested by Mr. Roush. He asked that quotations be made on a normal basis with no expediting fees and with no more facilities involved.

March 3, 1941 - Mr. E. A. Warren talked with Major Morgan at Wright Field who confirmed in detail his telephone conversation with Mr. France on March 1st.

March 4-31, 1941- Steps were immediately taken to prepare a completed estimate. This required a great amount of detailed work. Numerous discussions and conferences were held with the Department Heads affected.

March 31, 1941 - A tentative proposal letter was taken to Buffalo by Mr. E.A. Warren for discussion with Mr. Crosswell. It was decided to rewrite the proposal and revise it asking for a cost-plus-fixed-fee contract.

April 2, 1941 - Mr. Crosswell, Mr. E. A. Warren and Mr. E. L. Noonan, Curtiss-Wright Corporation representative at Wright Field, discussed with Mr. Roush at Wright Field the pros and cons of a fixed price contract versus a fixed fee contract.

Mr. Crosswell and Mr. Warren took the position that most of the deliveries under the contract would be in the year 1943 and it was impossible to accurately forecast general costs and the condition as to labor rates that far in advance; that

the 200 C-46 airplanes now under contract are not sufficiently under-way in production so that we have any production cost data on which to base our estimates; that many Defense Contracts were being let on a cost-plus-fixed-fee contract basis and as a result of which we would be at a disadvantage in competing for personnel at that future date under a fixed price contract.

- April 3, 1941 - Mr. Crosswell called Mr. Burdette S. Wright, Vice President and General Manager of the Airplane Division, and informed him that Mr. Roush wanted a fixed price contract. Mr. Wright gave Mr. Crosswell a proposition on the basis of a fixed price contract for further discussion.
- April 8, 1941 - Mr. Warren advised Mr. Crosswell that the Army now wished to have our proposal written on the basis of a smaller number of airplanes with an option for the balance.
- April 9, 1941 - The St. Louis Plant forwarded to Mr. Crosswell an estimate for 256 C-46 airplanes plus 12½ spares. This estimate was revised to conform with various agreements arrived at by Mr. Crosswell and Mr. Warren with Mr. Roush at Wright Field on April 3.

We received the following wire from the Materiel Division of the Air Corps:

"WITH REFERENCE PROCUREMENT ADDITIONAL 257 C-46 AIRPLANES MONEY IS AVAILABLE FOR 137 AIRPLANES ONLY AT PRESENT TIME AND FUNDS WILL BE AVAILABLE FOR ADDITIONAL 120 AIRPLANES IN THE NEAR FUTURE STOP CONTRACT WILL BE WRITTEN FOR 137 AIRPLANES WITH OPTION FOR 120 AIRPLANES TO BE EXERCISED IN NINETY DAYS FROM CONTRACT DATE STOP THIS REVISED BREAKDOWN SHOULD BE INCORPORATED IN PROPOSAL LETTER NOW BEING COMPILED BY CONTRACTOR."

- April 17, 1941 - Mr. Crosswell and Mr. Warren delivered our proposal letter (dated April 16, 1941) covering the manufacture and delivery of 137 C-46 airplanes and 10% spares. This proposal included option for exercise within ninety days for an additional 120 C-46 airplanes and 10% spares. This proposal was made on the basis of a fixed price with an escalator clause and stated that it was our preference that the contract be on a cost-plus-fixed-fee basis and went into great detail explaining our reasons for this.
- April 24, 1941 - Mr. Crosswell at Wright Field, Dayton, telephoned Mr. Wright in Buffalo for approval on a unit cost estimate and a unit fixed fee as the basis for a cost-plus-fixed-fee contract. Mr. Wright talked with Mr. France and both approved the unit cost estimate as the basis for said contract.
- April 25, 1941 - Mr. Crosswell advised the Air Corps of Mr. Wright's and Mr. France's decision. It was then stated that the contract would be delivered to Mr. Noonan on the following Wednesday, May 7th.

- May 7, 1941 - Three copies of Contract #W 535 AC 19174 were transmitted to us by the Air Corps, by letter dated May 7, 1941.
- May 9, 1941 - Mr. Crosswell advised Mr. France that he and Mr. Wright had checked the contracts and they were satisfactory.
- May 13, 1941 - After carefully checking the contract, Mr. E. A. Warren advised Mr. Roush that the contracts were generally satisfactory and would be signed and returned with a letter taking exception to some few minor details.
- May 14, 1941 - Mr. France, Mr. C. W. S. Scott (St. Louis) contacted Mr. Kellhofer and Captain Coupland, War Department Representative at Wright Field, and discussed with them some engineering items in connection with the C-46 contract.
- May 16, 1941 - We returned Contract #W 535 AC 19174 signed by the proper officials of Curtiss-Wright Corporation, in triplicate, to the contracting officer with the minor exceptions outlined in our letter of transmittal.
- June 12, 1941 - The signed contract was received by Curtiss-Wright Corporation, St. Louis Plant.
- July 22, 1941 - Air Corps exercised option in contract for 120 additional airplanes by change order No. 1.

Contract No. #W 535 AC 19174

ARMY - AC 18551  
1 - XP-60

NEGOTIATION SUMMARY  
CONTRACT NO. W535 AC 18551

- October 28, 1940 - Major Bogert (now Colonel) and Captain Swafford (now Major) discussed with Mr. Flader the possibility of including a laminar flow wing on the XP-53 airplane.
- October 29-November 18, 1940 - Curtiss conducting studies.
- November 18, 1940 - Curtiss proposes to Air Corps an additional airplane to have the laminar flow wing and be powered by the Rolls Royce Merlin engine.
- November 19-December 3, 1940 - Curtiss conducting additional studies and awaiting Air Corps action.
- December 2, 1940 - Air Corps agreed with Curtiss proposal and designated one additional airplane.
- December 5-6, 1940 - Mr. Berlin in conference with Major Bogert regarding engineering matters pertaining to the airplane.
- December 7-10, 1940 - Curtiss conducting further studies.
- December 10, 1940 - Mr. Berlin called Major Bogert and, among other matters discussed, proposed the price of \$300,000. and approximately an eight months delivery of the airplane and agreed to immediately start preparation of preliminary specification.
- December 11-23, 1940 - Curtiss further considers design and proceeds with preparation of preliminary specification.
- December 23, 1940 - Mr. Flader in conference at Wright Field to discuss further design matters.
- December 24-January 12, 1941 - Curtiss further studying design and currently working with Wright Field on certain possible modifications to the design.
- January 13, 1941 - Mr. Flader and Mr. Berlin in conference with General Echols, Colonel Kenney and Major Bogert at Wright Field, where General Echols definitely established that the XP-60 and XP-53 airplanes would be identical, except that the XP-60 would include the Rolls Royce engine instead of the Continental and that production P-60 airplanes would be capable of accommodating either engine.

- January 14-23, 1941 - Curtiss proceeding with further design studies in preparation of preliminary specification.
- January 23, 1941 - Mr. Crosswell and Mr. Flader at Wright Field - Negotiated price for two airplanes and delivered the preliminary specification (purchase of the second airplane still doubtful).
- January 24-28, 1941 - Curtiss continuing with design studies.
- January 28, 1941 - Mr. Wright telephoned Major K. B. Wolfe at Dayton proposing that Curtiss proceed with production engineering for P-60 airplanes in advance of the XP-60 completion, so as to make possible earlier production deliveries. Major Wolfe agreed and further advised that he was working up a program for 1943 calling for P-60 production.
- January 28-February 6, 1941 - Curtiss begins preparation of final specification and data.
- February 6, 1941 - Curtiss formal proposal forwarded to Materiel Division, confirming negotiations of January 23, 1941.
- February 7-26, 1941 - Curtiss engineering personnel currently discussing specification requirements with Materiel Division engineering personnel.
- February 27, 1941 - Mr. Flader visited Wright Field and in conference with Materiel Division personnel agreed on final specification covering the XP-60 airplanes. At this conference Mr. Flader was advised that the Army intended to procure 1300 P-60 production airplanes.
- March 1, 1941 - Materiel Division confirmed the program established in the conference with Mr. Flader.
- March 1-26, 1941 - Curtiss proceeding with the design of the production airplanes.
- March 26, 1941 - General O. P. Echols and Colonel B. E. Meyers visited Buffalo and were in conference with Colonel Simonin, Messrs. Flader, Jansen, and Crosswell. At this conference it was confirmed that the XP-60 contract would soon be forthcoming and that Curtiss was proceeding with the design of the XP-60 airplane and meanwhile carrying on parallel production design. General Echols urged that this program continue as rapidly as possible and further emphasized the desirability of having both experimental and production airplanes accommodate either the Rolls Royce or Continental engine.

- March 27-April 3, 1941 - Curtiss continuing the engineering work on the XP-60.
- April 3, 1941 - Curtiss received the contract for the XP-60 airplane (covering 1 airplane only), forwarded with Materiel Division letter, dated March 31, 1941.
- April 4-10, 1941 - Certain necessary specification deviations were not clearly covered in the contract, which were being studied by Curtiss.
- April 11, 1941 - Additional data requested by Curtiss.
- April 11-16, 1941 - Further coordination and study of contract by Curtiss.
- April 17, 1941 - Mr. Flader visited Wright Field for conferences regarding necessary specification deviations not covered in the contract.
- April 18-21, 1941 - Agreements reached by Mr. Flader being coordinated with reference to contract.
- April 22, 1941 - Contract provisionally executed and returned to Wright Field, its acceptance by Curtiss predicated on specification deviations discussed in Mr. Flader's conference at Wright Field of April 17th being accepted by Army.
- April 22-30, 1941 - Air Corps studying specification deviations.
- April 30, 1941 - Materiel Division verbally requested Mr. Noonan to have Curtiss cancel the April 22d letter forwarding the contract.
- May 1, 1941 - Materiel Division telegram received formally requesting this cancellation and giving specification deviations which are probably acceptable to Curtiss.
- May 1-6, 1941 - Curtiss studying specification deviations proposed by Air Corps.
- May 6, 1941 - Curtiss and Materiel Division agree to specification deviations by telegram.
- May 6-19, 1941 - Curtiss all along had proceeded with design and now began inclusion of design changes according to agreements reached. Curtiss also awaiting Army action on contract approval.
- May 19, 1941 - Contract approved.

Contract No. W535 AC 18551

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ARMY - DAW535A0-3  
1500 P-40E-1

NEGOTIATION SUMMARY  
CONTRACT NO. DAW 535 AC 3

As early as April 1940 the British Government had expressed an intention to purchase 600 additional Hawk 87A airplanes over and above what they then had on order with us. Options for this number of airplanes were included in letters of intention then in force with the British Government. Negotiations with the British continued for several months for the additional airplanes, with the British giving every assurance that option for the full quantities would be taken up. In September 1940 there was a conference at Buffalo between executives of the Curtiss Company and General Arnold of the Air Corps, Mr. Knudsen of OPM, and Mr. Fairey of the British Purchasing Commission, at which it was again definitely stated the British would take up our option for the full quantity of Hawk 87A airplanes. During September 1940 the British exercised the option for 180 of the airplanes covered by options leaving a balance of 420 airplanes. The British during October 1940 requested permission of the Treasury Department to purchase these additional 420 airplanes, which permission was given by Mr. Philip Young's letter dated October 15, 1940. Negotiations continued with the British from approximately that time until the middle of December 1940 at which time they definitely informed Curtiss that they would not purchase the airplanes until certain procedures of finance then being considered within the U. S. Government had matured. The British assured Curtiss, however, at this time that the airplanes would be purchased by someone and that they, the British, definitely wanted the airplanes.

In view of the situation which would call for interrupted production unless Curtiss proceeded with the placing of orders for materials in advance of definite contract commitments, Curtiss decided to place material orders on January 1, 1941, and proceeded accordingly. Prior to this, assurances had been obtained by Curtiss from Government officials, including General Echols of the Air Corps and Mr. Philip Young of the Treasury Department that the orders would definitely be forthcoming.

During the month of January 1941, Mr. Crosswell contacted Mr. Philip Young several times and Mr. Lovett of the Office of the Assistant Secretary of War with reference to a contract covering these 420 airplanes and received assurances from both that a contract would eventually be forthcoming. During early January 1941 the British finally advised Curtiss definitely that they would be unable to, themselves, place the order for the 420 airplanes, but that they still wanted the airplanes.

January 24, 1941-Mr. Crosswell and Mr. Jansen were in conference with Colonel Volandt, Colonel K. B. Wolfe, Major Timberlake, all of the Office of the Chief of Air Corps in Washington on the subject of the 420 airplanes, at which conference it was agreed that Curtiss would be given a letter of intention covering the airplanes providing this could be done. There was some doubt

that it was possible to cover the entire number of 420 by a letter of intention in view of funds not being available. However, there was definite authorization for 100 airplanes.

- Jan. 25 - Feb. 4, 1941 - Curtiss awaiting Army action.
- Feb. 5, 1941 - Mr. Crosswell telephoned Major Timberlake in the Office of The Chief of Air Corps requesting information as to the progress and was informed that a letter of intention covering 420 airplanes had been prepared which it was contemplated the Army would cover with funds borrowed from RFC. The letter of intention, however, would not be issued until the funds had actually become available. Major Timberlake advised that Curtiss should receive information from Wright Field at a reasonably early date.
- Feb. 6 - 7, 1941 Curtiss awaiting Army action.
- Feb. 8, 1941 - Curtiss received telegram from the Materiel Division requesting quotation on 100 P-40E airplanes.
- Feb. 9 - 12, 1941 Curtiss preparing quotations.
- February 12, 1941 Crosswell telephoned Major K. E. Wolfe at Wright Field, when Major Wolfe requested quotation on 400 P-40E's.
- Feb. 13 - 16, 1941 - Curtiss preparing quotation in accordance with Colonel Wolfe's request of 2/12/41.
- Feb. 17, 1941 - Mr. Crosswell delivered Curtiss letter, dated February 16, 1941 to Wright Field proposing the 400 P-40E-1 airplanes.
- Feb. 18 - 20, 1941 - Curtiss awaiting further Army action.
- Feb. 21, 1941 - Mr. Crosswell telephoned Major Timberlake in Washington who advised the 400 P-40E airplanes would be purchased on a letter of intention from the RFC following Wright Field's approval of negotiation for the airplanes.
- Feb. 22, 1941 - Mr. E. L. Noonan, Dayton Representative for Curtiss-Wright, was advised by Wright Field that the quantities stated in our letter of February 16th were in error and that the number should have been 334 airplanes, plus 20% spares.
- Feb. 23, 1941 - A further proposal was prepared on the basis of Mr. Noonan's advice.
- Feb. 24, 1941 - Mr. Crosswell visited Wright Field with the proposal letter and at that time found that the quantity had again been changed to 420 P-40E airplanes, plus 20% spares. Mr. Crosswell prepared a new proposal letter in Dayton, based on the new quantities, dated September 24th and submitted same. At this time the designation became P-40E-1. Mr. John Schwinn, Contract Administrator at Wright Field, requested additional data concerning price.

- Feb. 26, 1941 - This additional data was forwarded to Wright Field as requested by Mr. Schwinn.
- Feb. 28, 1941 - Mr. E. L. Noonan was advised by Wright Field that the procurement had again been changed, pending passage of the Lend-Lease Act and that a contract would be prepared covering 100 airplanes with option covering 1026 additional airplanes. At the same time Mr. Noonan was advised of the likelihood that a contract for 320 airplanes would be offered us by the Defense Supplies Corp.
- Mar. 1, 1941 - Curtiss awaiting Air Corps action on the contract for 100  
Mar. 9, 1941 airplanes and on the Defense Supplies Corporation contract and Defense Supplies Corporation's convenience for conference.
- Mar. 10, 1941 - Mr. Paul Van Anda, Council for Curtiss-Wright, and Mr. Crosswell were in conference with Mr. George Hill of Defense Supplies Corporation and Mr. Warren Ege of the Assistant Secretary of War's Office, at which conference the proposed contract with the Defense Supplies Corporation was presented by Mr. Hill. Curtiss objected seriously to certain provisions of the contract and it was necessary to further consider the matter.
- Mar. 12, 1941 - Mr. Crosswell telephoned Mr. Ege and set a further conference tentatively for March 18th. Meanwhile Curtiss and Defense Supplies would further consider the proposed contract.
- Mar. 18, 1941 - A conference between Messrs. Crosswell, Van Anda, Hill and Ege - certain objections to the contract which Curtiss-Wright raised could not be granted by Defense Supplies Corporation. Accordingly the conference was concluded with the understanding that Curtiss would consider further the points in question.
- Mar. 19, 1941 - After further coordination, Mr. Crosswell telephoned Mr. Hill and proposed that the Defense Supplies Corporation contract be held in abeyance for a period of 10 days to 2 weeks pending the passage of the Lend-Lease Act which would probably permit the Air Corps to enter into a contract with Curtiss for the airplanes and it might therefore be unnecessary to enter into the Defense Supplies contract at all (the intent of the Defense Supplies contract was ultimately to transfer to an Air Corps contract) with which Mr. Hill was in complete agreement.
- Mar. 20, 1941 - The Air Corps had meanwhile been proceeding with preparation of a contract for 100 P-40E-1 airplanes. Mr. Crosswell telephoned Mr. Schwinn with reference to progress on this date. Mr. Schwinn advised that the contract was ready and would be forwarded this date or the following day.
- Mar. 21, 1941 - Contract W 535 AC 18496 for 100 P-40E-1 airplanes plus 20% spares with option for 1026 additional airplanes was forwarded to Curtiss by Wright Field.

- Mar. 22, 1941 - The contract was executed and forwarded to Mr. Noonan.
- Mar. 24, 1941 - Contract was delivered to Wright Field by Mr. Noonan.
- Mar. 25 - April 2, 1941 - Curtiss awaiting Army further action on contract.
- April 3, 1941 - Mr. John Schwinn negotiated a price with Mr. Crosswell for the airplanes covered by the option of the contract, no price for which was stipulated therein.
- April 4, - April 16, 1941 - Curtiss awaiting further Air Corps action on contract.
- Apr. 17, 1941 - Mr. Crosswell and Mr. Jansen discussed with General Kenney and Colonel Wolfe at Wright Field, Curtiss' future production requirements, at which conference it was agreed that Curtiss would submit a complete statement of future requirements up through the end of 1942.
- Apr. 18 - 23, 1941 - Curtiss preparing statement.
- Apr. 24, 1941 - Mr. Crosswell was in Dayton and presented Curtiss letter, dated April 23, 1941 containing the statement of production requirements for the Buffalo plants. A conference was held between General Kenney and Colonel Wolfe, Mr. D. R. Berlin, Mr. E. L. Noonan and Mr. W. J. Crosswell with reference to data contained in letter. At this conference it was brought out that Curtiss had originally been scheduled for delivery of 350 pursuit units per month, but in view of certain readjustments of the other airplanes requested of Curtiss and certain increased productive efficiency on the part of Curtiss, a capacity had become available for 520 pursuit airplanes per month of the P-40E type. At the conference, however, General Kenney and Colonel Wolfe advised Curtiss should hold the pursuit capacity to approximately 350 airplanes per month, the remaining capacity to be absorbed by other types. At this conference Curtiss was also advised that 2000 P-40E airplanes, which number would include the 420 airplanes, were to be ordered by the Army for the British. Curtiss at this time was also advised that the funds covering Contract W 535 AC 18496 covering the 100 airplanes had been withdrawn, but that with the Lend-Lease funds becoming available, the contract would be reworked to cover 420 airplanes, plus 20% spares with option for 1580 additional airplanes plus 20% spares.
- Apr. 25, 1941 - The reworked contract was forwarded to Curtiss.
- April 26, 1941 - Curtiss executed the contract and forwarded same to Wright Field.
- Apr. 26 - May 12, 1941 - Curtiss awaiting Air Corps action on approval of contract.
- May 12, 1941 - Contract approved by War Department.

- Mar. 22, 1941 - The contract was executed and forwarded to Mr. Noonan.
- Mar. 24, 1941 - Contract was delivered to Wright Field by Mr. Noonan.
- Mar. 25 - April 2, 1941 - Curtiss awaiting Army further action on contract.
- April 3, 1941 - Mr. John Schwinn negotiated a price with Mr. Crosswell for the airplanes covered by the option of the contract, no price for which was stipulated therein.
- April 4, - April 16, 1941 - Curtiss awaiting further Air Corps action on contract.
- Apr. 17, 1941 - Mr. Crosswell and Mr. Jansen discussed with General Kenney and Colonel Wolfe at Wright Field, Curtiss' future production requirements, at which conference it was agreed that Curtiss would submit a complete statement of future requirements up through the end of 1942.
- Apr. 18 - 23, 1941 - Curtiss preparing statement.
- Apr. 24, 1941 - Mr. Crosswell was in Dayton and presented Curtiss letter, dated April 23, 1941 containing the statement of production requirements for the Buffalo plants. A conference was held between General Kenney and Colonel Wolfe, Mr. D. R. Berlin, Mr. E. L. Noonan and Mr. W. J. Crosswell with reference to data contained in letter. At this conference it was brought out that Curtiss had originally been scheduled for delivery of 350 pursuit units per month, but in view of certain readjustments of the other airplanes requested of Curtiss and certain increased productive efficiency on the part of Curtiss, a capacity had become available for 520 pursuit airplanes per month of the P-40E type. At the conference, however, General Kenney and Colonel Wolfe advised Curtiss should hold the pursuit capacity to approximately 350 airplanes per month, the remaining capacity to be absorbed by other types. At this conference Curtiss was also advised that 2000 P-40E airplanes, which number would include the 420 airplanes, were to be ordered by the Army for the British. Curtiss at this time was also advised that the funds covering Contract W 535 AC 18496 covering the 100 airplanes had been withdrawn, but that with the Lend-Lease funds becoming available, the contract would be reworked to cover 420 airplanes, plus 20% spares with option for 1580 additional airplanes plus 20% spares.
- Apr. 25, 1941 - The reworked contract was forwarded to Curtiss.
- April 26, 1941 - Curtiss executed the contract and forwarded same to Wright Field.
- Apr. 26 - May 12, 1941 - Curtiss awaiting Air Corps action on approval of contract.
- May 12, 1941 - Contract approved by War Department.

- June 19, 1941 - The Air Corps requested Curtiss extend option an additional 30 days.
- June 26, 1941 - General Kenney advised Mr. Crosswell that British had cut their requirements from 2000 to 1500 airplanes and proposed to Mr. Crosswell that the Air Corps would exercise the option for 1080 additional P-40E-1 airplanes providing Curtiss would agree to further option calling for last 500 airplanes to be equipped with improved supercharger to which Mr. Crosswell verbally agreed.
- June 27, 1941 - Curtiss formally confirmed to Wright Field that the terms of the further option would be satisfactory.
- June 28, 1941 - A change order covering the exercising of the option was given to Mr. Noonan at Wright Field by the Air Corps, who proceeded to Buffalo. The change order was executed this date and Mr. Noonan returned to Dayton.
- June 29, 1941 - Mr. Noonan delivered the executed change order to Wright Field.
- June 30, 1941 - The Change order approved by the War Department.

ARMY - Ac 22239  
1 - 24B Flying Model

NEGOTIATION SUMMARY  
CONTRACT NO. AC 22239

- Jan. 23, 1941 - Mr. Smith conferred with Major Simms of Experimental Section at which time he said the Division would be anxious to get a complete report and discussion of the airplane's status, together with our Engineering schedule showing how and when we could handle this project without interfering with production -- that with this information they should be able to recommend procurement with their spring experimental funds.
- May 20, 1941 - Mr. France in Dayton has a conference with Major Craigie, Captain Moyer, Major Simms. Mr. France was accompanied by Mr. Scott. The Division favors Curtiss-Wright building a flying model -- suggesting that certain wind tunnel testing be done -- and suggests Curtiss-Wright submit a proposal letter. Curtiss gave an approximate cost of \$150,000 and Air Corps seemed agreeable.
- May 20-29, 1941 - Proposal letter being prepared by Curtiss.
- May 29, 1941 - Curtiss-Wright's proposal letter: "Proposal for Building a Full Scale Flying Model XP-55 Type Airplane" forwarded to Division. Price of airplane tested and delivered given as \$169,740.00.
- May 29-July 10, 1941 - Air Corps studying Curtiss' letter of proposal.
- June 6, 1941 - Mr. Smith visited Major Bogert, who stated he was anxious to see us supply pressure to obtain all possible results from wind tunnel testing, to answer the Division's doubts as to stability, etc. Specification left with Major Bogert, who said he would hold this until the wind tunnel results were obtained from MIT.
- June 6-July 10, 1941 - Engineering Department working on design study for flying model. During the course of these studies a proposal was made to the Army that the Mengel Box Company build the flying model.
- July 10, 1941 - Air Corps reply to above proposal dated May 29; price out of line, request restudy and resubmittal, mentioning figure of \$125,000.
- July 10-29, 1941 - Contract for building the wings of the flying model awarded to the Mengel Box Company. Experimental Department proceeding with the work of building the fuselage and engine mounts.

- July 29, 1941 - Curtiss resubmittal of proposal: Estimated Cost, \$117,924.53, fixed fee, \$7,075.47.
- July 29 - Sept. 17, 1941 - Engineering Department proceeding with the design and production work for the flying model and the construction work of the flying model going on.
- Sept. 17 - 19, 1941 - Messrs. Scott and Smith conferred with Major Bogert and Major Roth, who informed them they were anxious to push through flying model proposal. Scott went over specifications with them and agreed on changes. As soon as this printed and forwarded authorization will be issued, as general contract terms were agreed upon.
- Sept. 22, 1941 (approximately) - Telephone call between Mr. R. A. Ruge and Lt. Col. Lewis on assignment of radio frequencies for use at Muroc Dry Lake.
- Sept. 25, 1941 - Major Roth to Mr. Smith via telephone: A propeller brake considered satisfactory on 24B as means of reducing hazard of emergency parachute jump, include in specifications.
- Sept. 29 - Oct. 9, 1941 - Army considering proposal
- Sept. 29, 1941 - Mr. Smith took specifications and letter to Materiel Division (trip devoted to other projects).
- Oct. 9, 1941 - Notification by Contract Branch of award of Contract W 535 AC 22239 of above project. A-1-D priority given.

Contract No. AC 22239

NAVY - 88659  
1 - XSB3C-1

NEGOTIATION SUMMARY  
CONTRACT #88659

- January 10, 1941 - Received Bureau of Aeronautics letter dated January 8, 1941, asking if Curtiss is interested in participating in the design of an experimental scout bomber. The letter advised that the Bureau expected that if the design were suitable, experimental contracts would be awarded very shortly thereafter for two or more prototype airplanes which contracts were to be negotiated under authority of Section 10K of the Act approved July 2, 1926. It is understood this same letter was sent to a number of other manufacturers.
- January 12, 1941 - Curtiss forwarded letter signifying its interest in participating in the design competition.
- February 9, 1941 - Curtiss received confidential information pertaining to design requirements of the type.
- Feb.10 - Apr.27,1941 - Curtiss preparing design data with accompanying documents for submitting to the Navy Department.
- April 28, 1941 - Curtiss mailed its proposal with enclosed data of this date to the Chief of Bureau of Aeronautics.
- Apr.30 - May 25,1941 - Navy considering Curtiss proposal.
- May 25, 1941 - Mr. R. G. Blaylock was requested to discuss specifications in detail for the new development. Mr. Crosswell on this date was also requested to see Commander L. B. Richardson, Procurement Officer of the Bureau of Aeronautics, with reference to agreement as to price, looking toward a contract for the project.
- May 26, 1941 - Mr. Crosswell collected data in preparation to discussing the price with Commander Richardson on May 27, 1941.
- May 27, 1941 - Mr. Crosswell and Mr. J. A. Williams discussed the price at some length with Commander Richardson. Commander Richardson desired additional data presented.
- May 28, 1941 - Mr. Crosswell submitted additional data requested by Commander Richardson.
- May 29, 1941 - Mr. Crosswell telephoned Commander Richardson to inquire whether there had been any decision and was informed at that time there had been no decision.
- May 29, June 2, 1941 - Awaiting Navy action.

- June 2, 1941 - Commander Richardson telephoned Mr. G. G. Emerson, Washington Representative for Curtiss-Wright Corporation, and advised of a price on the project which would be satisfactory to the Navy Department. Later in the day Mr. Crosswell telephoned Captain Webster in the Bureau of Aeronautics, being unable to reach Commander Richardson, to discuss the matter with him and finally in this telephone conversation agreed to the price which Commander Richardson had stated to Mr. Emerson.
- June 3 - June 20, 1941 - Awaiting processing of papers.
- June 21, 1941 - Received Bureau of Supplies and Accounts Schedule, No. 500-3490, with accompanying letter dated June 20, 1941, calling for bids on the airplane.
- June 23 - June 26, 1941 - Bid being prepared by Curtiss.
- June 26, 1941 - Bid forwarded to Bureau of Supplies and Accounts.
- June 30, 1941 - Notice of award of contract received by Curtiss in accordance with our bid.

NAVY - 76925 EXT.  
150 - SNC-1

NEGOTIATION SUMMARY  
EXTENSION TO CONTRACT NO. 76925

August 27, 1941 - Mr. Crosswell informally advised by Commander Miles that we would be requested to submit quotation on 150 additional SNC-1 airplanes plus 20% spares.

August 30, 1941 - Navy Bureau of Supplies and Accounts letter to Curtiss-Wright, letter of intent, extension to Contract 76925 for 150 additional SNC-1s plus 20% spares.-

6% Fixed Fee or \$249,300  
Total price not to exceed \$4,404,300

August 30- September 11, 1941 - Curtiss coordinating letter of intent with Department Heads and attorneys and studying price and delivery schedules.

September 12-13, 1941 - Messrs. Warren and Crosswell contact Navy and accept letter of intent with letter of exception dated September 12th, taking exception to the ceiling on price stated by Navy in letter of intent. Executed copies of letter left with Navy September 13th. This a Lease-Lend Contract for Great Britain.

Mr. Warren contacted Mr. Micotti of the Specification Section on September 13th but Bureau of Aeronautics not prepared to enter into detailed specification negotiations as of this date although stated the repeat order will be for an airplane known as the SNC-1B.

September 13-22, 1941 - Awaiting word from Mr. Micotti of the Specification Section on detailed specification negotiations.

September 17, 1941 - Messrs. Crosswell, Clark, Wadsworth and Warren contacted Commander Miles, Procurement Officer. Agreement reached on extending costs to apply on additional quantity on current 76925 contract. No particular engineering changes contemplated.

Mr. Warren contacted Mr. Torbert of the Procurement Section who states that our letter of exception dated September 12, appears satisfactory.

September 22, 1941 - Messrs. Warren, Driefke and Page contact Mr. Micotti of the Specification Section. Curtiss to rewrite Specification 279 and submit a letter of description on the Lease Lend Airplane. The rewritten version shall include all changes made in accordance with Trial Board review.

Mr. Warren and Mr. Driefke contacted Lieutenant Richardson of the Electrical Section on electrical changes in the airplane.

- September 22, 1941 - Curtiss letter "Expenditure Authorization, Materials, Labor, Engineering and Tools - 150 airplanes Plus 20% spares, Model SNC-1" forwarded to Navy, Bureau of Supplies and Accounts.
- September 25, 1941 - Curtiss letter "Contract 76925 - SNC-1 Airplanes and Spares - Additional Procurement" forwarded to Navy, asking that award be made not later than October 15, 1941.
- September 29, 1941 - Navy, Bureau of Aeronautics letter giving Preference Rating of A-1-D to 150 additional airplanes.
- October 2, 1941 - Navy Bureau of Supplies and Accounts letter "Preliminary Award of Extension to Contract No. 76925, for 150 SNC-1 Airplanes also Authorization for procurement of materials". Navy accepted Curtiss figures of our letter of September 22d.
- October 3, 1941 - Curtiss immediately proceeds with arrangements for procurement of materials.
- October 15, 1941 - Navy Bureau of Supplies and Accounts letter "Contract No. 76925 - SNC-1 Airplanes and Spare Parts - Extension to cover Additional Quantity" giving A-1-D Priority, in agreement as to price with our letter of September 25th, deliveries through August 1942, beginning April 1942.
- October 17, 1941 - Curtiss-Wright letter to Procurement Office, Bureau of Aeronautics questioning Priority Rating, revising delivery dates of airplanes.

Contract No. 76925

241

NAVY - 76800  
250 - 8030-1

SPEEDO NON-  
INFLAMMABLE

NEGOTIATION SUMMARY  
CONTRACT NO. 76800

- August 27, 1941 - Mr. Crosswell informally advised by Commander Miles that we would be requested to submit quotation on 250 additional SO3C-1 type airplanes - 200 for Navy, 50 for British.
- September 2, 1941 - Received Navy Department letter, dated August 29, 1941, requesting a quotation for 200 additional airplanes, plus 20% spares.
- September 2-12, 1941 - Preparing price estimates based on an extension of Contract 76800 to cover 250 additional airplanes and 20% spares, coordinating this with our proposal dated September 3 covering additional SB2C-1 airplanes and the change-over of the basic contracts (76800 and 79082) from fixed price to cost plus fixed fee.
- September 6, 1941 - Received Navy Department letter dated August 30, 1941, confirming the advice previously furnished as to intention to purchase 50 additional airplanes and 20% spares, and requesting estimates of maximum cost of materials necessary for the construction of these airplanes and spares.
- September 9, 1941 - Forwarded acceptance of the procedure outlined in Navy Department letter of August 30, and submitted our estimates of material costs.
- September 12, 1941 - Mr. G. B. Clark, Sales Manager at the Curtiss-Wright Corporation, Airplane Division, Columbus Plant and Mr. W. J. Crosswell, Director of Military Sales, Airplane Division, Curtiss-Wright Corporation, discussed the price for the additional airplanes with Commander Miles, Procurement Officer of the Bureau of Aeronautics. Commander Miles desired additional data which we agreed to furnish.
- September 17, 1941 - Following preparation of the data Mr. G. B. Clark and Mr. J. Wadsworth, Assistant to the Director of Personnel for the Airplane Division of Curtiss-Wright, and Mr. W. J. Crosswell discussed the additional data requested at the former negotiation by Commander Miles. Mr. Crosswell later discussed the data jointly with Captain Krauss, Chief of the Materiel Division of the Bureau of Aeronautics of the Navy Department, and Captain Webster, Assistant Chief of the Materiel Division of the Bureau of Aeronautics. Later Mr. Crosswell discussed the costs again with Commander Miles

at which time Commander Miles informed Mr. Crosswell that the Navy would not recognize the payment by the Navy Department of any royalty to Handley Page Limited for Curtiss' use of slotted wings. Since this matter would require further coordination with attorneys Mr. Crosswell advised Commander Miles that the question would be discussed at a later date when it had been properly coordinated with attorneys.

- September 19, 1941 - Mr. W. E. Valk, Patent Attorney for Curtiss-Wright, discussed the question of Handley Page royalty with Commander Miles and Commander Caldwell, the latter of the Judge Advocate General's Department of the Navy, at which time Commander Caldwell agreed to consider the matter and render a decision within several weeks.
- September 24, 1941 - Following coordination with attorneys Mr. Crosswell telephoned Commander Miles and advised that the Curtiss-Wright Corporation would accept the estimated cost for the additional airplanes which was established by Commander Miles in the September 17th conference as being acceptable to the Navy Department, and that the matter of the Handley Page royalty would be left open. Mr. Crosswell further advised that our formal letter confirming negotiations would be prepared and forwarded forthwith.
- Commander Miles informed Mr. Crosswell that in view of this the arrangements would be satisfactory to the Navy Department and that he would immediately commence processing of the contracts for the change-over from the fixed price to cost plus a fixed fee on the basic contracts, Nos. 79082 and 76800 with the extensions to cover the additional SB2C-1 and SO3C-1 airplanes, plus spares.
- September 25, 1941 - Formal proposal letter in confirmation of negotiations mailed to the Navy Department.
- September 26-30, 1941 - Curtiss-Wright Corporation and Navy Department both giving further consideration to the Handley Page royalty question, meanwhile above referred to processing of basic papers was proceeding.
- September 30, 1941 - Received Navy Department letter dated September 25, giving authorization to proceed with purchase of materials for construction of the 50 additional airplanes for the British plus 20% spares.

Contract No. 76800

- October 2, 1941 - Mr. W. E. Valk discussed the Handley Page royalty question with Commanders Miles and Caldwell, Mr. Schmidt of the Bureau of Aeronautics, and Mr. McLean of the Judge Advocate General's Office, at which conference it was agreed that a letter would be submitted to the Navy Department covering the Handley Page royalty question.
- October 2-10, 1941 - The letter was in preparation with the coordination of all interested parties.
- October 10, 1941 -The letter covering the Handley Page royalty question was forwarded to the Chief of the Bureau of Aeronautics by Mr. W. J. Crosswell.
- October 17, 1941 - Mr. Crosswell and Mr. Clark discussed with Mr. Custer of the Bureau of Supplies and Accounts the inclusion of provisions for advance payments in the contracts and further the time that awards of additional quantities of SO3C-1 and SB2C-1 airplanes could be made, the awards carrying the change-over from fixed price to cost plus a fixed fee of the basic contracts. Agreement was reached that Curtiss-Wright would submit a letter requesting the advance payments.
- October 18, 1941 - Mr. G. B. Clark submitted the letter requesting advance payments to Mr. Custer and was informed that the letters of award would be available on October 21, 1941.
- October 21, 1941 - Mr. G. B. Clark was informed by Mr. Custer that the originals of the letters of award, extending the two basic contracts, had been mailed that day and Mr. Clark was given copies.
- October 22, 1941 - Letter of award was received at Buffalo.

Contract No. 76800

NAVY - 79082  
287 - SB20-1 (Add'tl)

NEGOTIATION SUMMARY  
CONTRACT NO. 79082

- July 28, 1941 - Bureau of Supplies and Accounts letter of July 24, 1941 was received which requested quotations on 287 additional SB20-1 airplanes plus 18% spares.
- July 29 - Aug. 4, 1941 - Estimates were being prepared.
- August 5, 1941 - Mr. W. J. Crosswell discussed with Commander Miles, Lt. Commander Dowell and Mr. Gorman of the Navy Department a contract for the airplanes on a fixed price basis. In view of no apparent meeting of the minds as to a satisfactory price, Mr. Crosswell discussed an alternate proposition of accepting the additional airplanes on a cost plus a fixed fee basis, providing the basic contract and Contract 76800 would both also be changed from fixed price to a cost plus a fixed fee, so that the contract covering the additional airplanes would be an extension of the basic contract.
- August 6, 1941 - Mr. Crosswell continued negotiations with Commander Miles, Commander Miles requesting additional data substantiating the anticipated costs.
- August 7, 1941 - The data requested by Commander Miles was being prepared at Buffalo.
- August 8, 1941 - Mr. Crosswell discussed with Commander Miles the additional data which had been prepared at Buffalo on the previous day. Commander Miles desired still further data which Mr. Crosswell agreed to furnish.
- Aug. 9 - 11, 1941 - Mr. Crosswell returned to Buffalo to prepare the studies requested by Commander Miles.
- Aug. 12, 1941 - Mr. Crosswell and Mr. J. A. Williams discussed these additional data with Commander Miles. All data to date was discussed again with Captain Webster and Commander Miles and at the same time the proposal to accept the additional airplanes on a cost plus fixed fee basis, predicated on changing over the two basic contracts referred to above was also discussed. Captain Webster desired still additional data prior to rendering any decision which Mr. Crosswell agreed to prepare.
- August 13, 1941 - Mr. Crosswell was preparing the requested data.
- August 14, 1941 - Mr. Crosswell again saw Captain Webster at which time he wanted still additional data which Mr. Crosswell agreed to prepare.
- August 16, 1941 - Mr. Crosswell presented the additional data requested by Captain Webster to Commander Miles.

- Aug. 17 - 26, 1941 - The Navy Department was considering the data and the proposed change-over presented. During this time Mr. Crosswell arranged for a further meeting with Commander Miles on August 27, 1941.
- Aug. 27, 1941 - Mr. Crosswell and Commander Miles reached an agreement that Contract 76800 and Contract 79082 would both be changed from fixed price to cost plus a fixed fee type of contract and additional SB2C-1 airplanes would be accepted on an extension to Contract 79082 at the estimated cost agreed upon.
- Aug. 28, 1941 - September 2, 1941 - Mr. Crosswell was preparing Curtiss-Wright's proposal letter confirming negotiations, coordinating the letter as necessary with Department Heads and Attorneys.
- Sept. 3, 1941 - The proposal letter, prepared in accordance with negotiations, was forwarded.
- Sept. 4 - 24, 1941 - No action was taken by the Navy Department on the proposal letter, pending reaching agreements on additional SO3C-1 airplanes to be covered by an extension to Contract 76800.
- Sept. 24, 1941 - Mr. Crosswell telephoned Commander Miles with reference to the SO3C-1 Contract 76800 agreement, at which time Commander Miles advised he would immediately start processing the papers through the Navy Department.
- Sept. 25 - Oct. 16, 1941 - Papers being processed in the Navy Department.
- Oct. 17, 1941 - Mr. Crosswell and Mr. Clark discussed with Mr. Custer of the Bureau of Supplies and Accounts the inclusion of provision for advance payments in the contracts and further discussed time that awards of the additional airplanes would be made, the awards carrying the change over from fixed price to cost plus fixed fee of basic contract. An agreement was reached that Curtiss-Wright would submit letter requesting advance payment.
- Oct. 18, 1941 - Mr. Clark submitted the letter requesting advance payments to Mr. Custer and was informed the letters of award would be available October 21, 1941.
- Oct. 21, 1941 - Mr. Clark was informed by Mr. Custer that the originals of the letters of award had been mailed that day and Mr. Clark was given copies.
- Oct. 22, 1941 - Letters of Award received at Buffalo.

NAVY - 88195  
1 - XF14C-1

NEGOTIATION SUMMARY  
CONTRACT NO. 88195

- August 19, 1940 - Commander F. M. Pennoyer (now Captain) asked Mr. Crosswell whether or not the Curtiss Company would be interested in negotiating a contract with the Navy Department for the development of a shipboard fighter, powered by the highly experimental Lycoming engine. Mr. Crosswell agreed to coordinate the matter with the Curtiss Company.
- August 20, 1940 - Mr. Crosswell telephoned Commander Ostrander, being unable to reach Commander Pennoyer, and advised the Curtiss Company was definitely interested and made an appointment for Mr. Berlin to discuss the matter further with Commander Pennoyer on August 22d.
- August 22, 1940 - Mr. Berlin discussed the project with Commander Pennoyer, Lieutenant Commander Stevenson and Lieutenant Commander Pearson.
- Aug. 23 - Sept. 30, 1940 - Based on Mr. Berlin's original conference and other subsequent conferences between Curtiss and Navy Engineering personnel, a proposal was prepared for submitting to the Navy Department.
- October 1, 1940 - The proposal was submitted and conference was held between engineering personnel of the Navy and Curtiss. At this conference other design considerations were agreed upon which were not covered by the proposal.
- Oct. 2 - Dec. 12, 1940 - In view of the highly experimental nature of the airplane and the limitations imposed by its shipboard use, it was necessary to hold frequent conferences between engineering personnel of the Navy and Curtiss in order to crystallize the design features of the airplane. Several conferences were held during this period with Curtiss preparing additional data as a result of each.
- December 12, 1940 - Conferences held between Commander J. B. Pearson, Mr. Berlin, Mr. Clark, Mr. Flader and other members of the Curtiss Engineering Department, which served to crystallize still further the design of the airplane. However, many questions were still left open including whether or not the engine would be equipped with two speed propeller gear, which feature would have a serious effect on the wind area and other features of the airplane.

December 13, 1940

- January 10, 1941 - Further investigations continuing with coordination with Navy.
- January 11, 1941 - Preliminary specification received.
- January 12-23, 1941 - Curtiss studying detailed specification.
- January 24, 1941 - Curtiss received a letter from the Bureau of Aeronautics giving decisions as to many open items but not completely establishing the design.
- January 25-February 16, 1941 - Curtiss further studying detailed specification.
- February 17, 1941 - Curtiss forwarded its comments on the detailed specification.
- February 18 - 20, 1941 - Navy considering Curtiss comments.
- February 20, 1941 - Conference held at Buffalo between Commander Pearson, Lieutenant Nieman, Mr. Berlin and Mr. Wedberg in which details of the specification were further discussed and it was requested that we consider certain additional design items and submit a proposal accordingly.
- February 21-May 4, 1941 - Curtiss was further considering the items discussed at the conference and meanwhile studying the alternate installation of an air cooled engine in view of the highly experimental nature of the Lycoming engine. At the same time Curtiss was proceeding as rapidly as possible with the design of the airplane insofar as this was permitted by the extent of the crystallization of the design.
- May 5, 1941 - Curtiss submitted all final comments on detailed specification covering all items and changes to date.
- May 5-12, 1941 - Navy considering Curtiss specification comments. Meanwhile Curtiss proceeded with design of the experimental airplane.
- May 12, 1941 - Curtiss received Schedule 500-3069 to formally bid on the experimental contract for the airplane.
- May 13, 1941 - Mr. Crosswell negotiated a price for one airplane to be bid upon in the schedule and a price on a second airplane, option for which was to be included in our bid.
- May 18, 1941 - Mr. Crosswell and Mr. Flader telephoned Lieutenant Commander Stevenson with reference to performance guarantee negotiations. Curtiss formal bid was submitted this date, including an agreement to furnish an alternate air cooled engine installation, should the Navy so desire.

Contract No. 88195

- May 19-June 4, 1941 - Curtiss proceeding with design of the airplane but meanwhile awaiting Navy action with reference to the bid.
- June 4, 1941 - General conference was held in the Bureau of Aeronautics, at which the final design of the airplane was crystallized.
- June 5-26, 1941 - Additional negotiations with reference to details of the contract were conducted between Curtiss and the Navy Department.
- June 27, 1941 - Notice of award of Contract 88195 was received by Curtiss.

Contract No. 88195



NEGOTIATION SUMMARY  
CONTRACT NO. W 535 AC 19440

- Jan. 6, 1941 - Conference at Washington - Messrs. Vaughan, B. S. Wright, General Arnold, Spaatz and Echols. Curtiss proposed and Air Corps agreed to purchase experimental pursuit of certain performance characteristics designed around W. A. C. 3350 engine. It was further agreed that the proposal is to be submitted as soon as possible.
- Jan. 6-16, 1941- Curtiss making further design studies.
- Jan. 16, 1941 - Materiel Division forwarded a letter assigning designation XP-62 and gave various additional data for study and preparation of proposal.
- Jan. 16-21, 1941 - Curtiss submitted preliminary drawings and performance data.
- Jan. 21-April 1, 1941 - Curtiss engineers coordinating design data with Materiel Division engineers and preparing the specification.
- April 1, 1941 - Materiel Division telegram requesting definite date when proposal will be submitted. Curtiss advised Engineering will be finished about April 15.
- April 1-23, 1941 - Preparation of specification proceeding.
- April 23, 1941 - Curtiss forwarded letters to Materiel Division submitted specification, drawings and comparison between turbo vs. two-stage.
- NOTE: At the original conference on January 6 only preliminary proposal data had been prepared. From that date to April 23 Engineering worked steadily on studying and further crystallizing the design.
- April 24, 1941 - At conference between Curtiss and Materiel Division engineering personnel, Materiel Division advised they wanted one airplane with two-stage engine, one with exhaust driven turbo. A quotation was also requested on the installation of standard type engine since dual rotation engine would not be available.
- April 25-29, 1941 - Quotation and formal proposal being prepared.
- April 29, 1941 - Proposal submitted basis of fixed price contract.

**CONFIDENTIAL**

- Apr. 30 - May 12, 1941 - Army studying design and quotation which were submitted.
- May 13, 1941 - On request of Army, Mr. Crosswell proceeded to the Materiel Division and negotiated the price with Majors Craigie and Swofford. Agreement on fixed price was not reached. There-  
fore negotiations proceeded on basis of a cost plus fixed fee type of contract where agreement was reached. Mr. Crosswell on this date submitted a new proposal confirming negotiations.
- May 14 - June 1, 1941 - Army further studying data.
- June 2, 1941 - Wright Field advised Mr. Flader that the turbo supercharger was desired on both airplanes in lieu of the two-stage supercharger in one airplane.
- June 3 - 17, 1941 - Army preparing contract.
- June 18, 1941 - Materiel Division forwarded the contract for execution by Curtiss.
- June 19, 1941 - Contract being studied by Curtiss.
- June 20, 1941 - Contract executed by Curtiss and forwarded to Wright Field.
- June 21 - 27, 1941 - War Department processing contract.
- June 27, 1941 - Contract approved by War Department.

Contract #W 535 AC 19440

**CONFIDENTIAL**



AVIATION INDUSTRY

Many large Detroit automobile manufacturers have received sizeable contracts for the production of bombers and bomber parts. The Murray Body Corporation, for instance, has turned over a large section of its floor space to the manufacture of wing sections for Douglas and Boeing Bombers. The Briggs Manufacturing Corporation is also engaged in the manufacture of wing sections on sub-contracts from the same companies. These companies are already fully tooled up for bomber production. A large labor force has been trained. However, only one out of three main production lines in the Murray Aircraft Corporation is now at work.

Information from UAW-members, as well as designers and engineers employed by Briggs Aircraft, indicate that the whole flow of production is being checked by a lack of certain vital parts. Essential parts received from outside vendors by the Murray Aircraft Corporation must pass through three separate inspections: (1) by a Murray Aircraft inspector, (2) by a United States Army inspector, (3) by a Douglas Aircraft inspector. Reports indicate that parts received are approved by the Murray inspector and the Army inspector, but in practically all cases such parts are rejected by inspectors for Douglas Aircraft.

This has meant that nearly completed wing sections are stacked up in the Murray Aircraft Corporation while awaiting a few essential parts necessary to their completion. The same situation exists, we are advised, in regard to parts produced in the Murray Aircraft plant itself. Again approval is received from Murray inspectors, from Army inspectors, but representatives of the Douglas Aircraft Company refuse to give approval. Murray workers tell of a number of instances in which such parts, rejected by Douglas inspectors, have been taken back and submitted without any alteration of any kind for a second inspection. On such second inspection they have received approval from Douglas inspectors.

The conclusion has been drawn, therefore, that the Douglas Aircraft Company is not anxious to cooperate with the Murray Corporation in the development of that company's aircraft production levels. The conviction is strong that Douglas fears competitive complications from any considerable success in the aircraft production activities of automobile plants.

We are advised also that the Murray Aircraft Corporation was forced to wait for a period of four months before receiving from Douglas a master checking jig essential to the production of aircraft wing sections. It should be added also that similar difficulties with inspectors from Douglas Aircraft have been encountered by the Briggs Corporation in its sub-contract work.

The technical experience and supervisory skill of companies long engaged in aircraft manufacture should be placed at the disposal of companies newly entering that field of production. The engineering experience, for instance, of the General Motors Corporation in the production of Allison engines should be placed at the disposal of the Packard Motor Company. This company was supposed to be in production by last February on Rolls Royce Liquid-Cooled Aviation Engines. However, through a whole series of technical fiascos Packard has not yet been able to swing into engine production in any appreciable quantity. An analysis of the Packard experience would indicate that the major share of its problems could have been avoided or solved in a minimum time had the services of experienced aircraft engineers been available even in a supervisory capacity to that company. Packard's engineering staff is at the present time composed almost exclusively of engineers whose experience has been limited to the automobile field. Only one member of their staff has had previous experience with the modern aircraft industry, and this individual's background was limited to the field of light aircraft engines.

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- 2 -

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SOME ASPECTS OF DELAYS IN BOMBER PRODUCTION  
IN THE DETROIT AREA

Prepared For:

MR. LEE PRESSMAN

Under the direction of

Richard T. Frankenstein  
National Director of Aviation  
U.A.W.-C.I.O.

Factual information contained herein was obtained from committees of workers actually employed in the manufacture of bomber parts.

Briggs Manufacturing Company

*- get appropriation date.*

It is now, more than a year since the Briggs Manufacturing Company started tooling up for airplane production in its Conners Avenue Plant, in the City of Detroit, the first of the automobile giants to enter the airplane field. And yet at this late date, there is just a mere dribble of airplane parts flowing from the O.K. ends of their production lines.

Briggs are manufacturing parts on sub-contracts for BOEING, SIKORSKY, MARTIN AND DOUGLAS BOMBERS.

Murray Corporation

*get appropriation date*

Eight months ago the Murray Corporation started its tooling program for Douglas center wing sections and only last week were the first pair completed and okayed. While their plant is progressing in the manufacture of parts and sub-assemblies, the day is still far distant it appears, when the completed assemblies will flow from their production line, as definite assets to the National Defense Program if the present delays continue.

Murray Corporation has sub-contracts for DOUGLAS and BOEING bomb parts.

Chrysler Corporation

*get appropriation date*

The Chrysler Corporation obtained their sub-contracts for parts for Martin Bombers six months ago. They are not building a new plant but are utilizing floor space leased from the Graham Paige Co. There are presently approximately 400 men employed in the Bomber Plant; 2/3 of these are trainees being trained for executive or supervisory positions. The rest are tool-makers and maintenance men, (millwrights, painters, carpenters, etc.) New machinery and equipment is coming in and being placed, daily. Tools, jigs, fixtures, etc. are not in sight at this time.

Hudson Motor Car Company

*get appropriation date*

Hudson has been working on its sub-contract for parts for Martin Bombers for months. A tooling program is about completed but production is very meager.

Ford Motor Company

The Ford Motor Company received its contract for the manufacture of complete Consolidated 4-Motored Bombers, and bomber parts, some six months ago. This Company appears to be the only one in the Detroit area that is really getting things done. A few weeks ago, Willow Run was a barren field; today, machinery and tools and being installed into this, the largest, most modern airplane assembly plant in the world. Tool and die jobbing shops in the Detroit area are humming with activity, building tools, dies, fixtures and gauges for the Ford Bomber Program on sub-contracts from Fords.

From time to time the activities of these jobbing shops are stopped by the War Department ordering changes in design. Unless the War Department soon freezes this model to allow the Ford Motor Company to get into production, many thousands of dollars in tools will be scrapped and priceless months of production will be sacrificed. If the War Department could be induced to freeze the Ford Bomber design immediately, it is our opinion that production of bombers would start around the end of February. A colossal achievement!

It is quite apparent from the brief report on Bomber production in the Detroit area, that with the exception of the Ford Motor Company project, something is radically wrong with the methods presently pursued.

An analysis of information which we have obtained from "on the job" participants in Bomber production lead us to conclude:

1. Automobile Manufacturers have exhibited an unwillingness to enter National Defense production as long as they were permitted to build automobiles.
  - (a) From Sept. 1940 until Sept. 1941, the two giant automobile manufacturers, General Motors and Chrysler had transferred a relatively small portion of their facilities for car manufacture to National Defense Production.
  - (b) During the Automobile Tooling program for 1942, in early summer 1941, several Automobile Tool and Die Departments, with both defense work and automobile work, stopped all defense work in order to tool up for their civilian production. When Army and Navy officials made a tour inspection of these plants, they hurriedly and at great expense set up all their machines with defense jobs, so that when the Army and Navy inspection passed through their plants these large departments of skilled men were all working feverishly on defense work. After the inspectors departed, the defense jobs were again ripped off the machines and replaced by automobile tooling jobs.
  - (c) In the spring of 1941 representatives of the Tool and Die Jobbing Shops in the Detroit area were called to Washington, D.C. and told to inspect various arsenals and select work they could do in their plants. They all hesitated about their selections, because of their fear that the other jobbers were withholding selection of government work in order to be free to take anticipated automobile work with its higher profit. As a consequence very little defense work was produced by Tool and Die Jobbers in the Detroit area until AFTER the tooling for Automobile was completed. We believe the Automobile Manufacturers were responsible for this.
  - (d) A large automobile manufacturer last September brought several hundred castings for dies and tools for a bomber into its Die shop, the week AFTER their production reached a normal level on automobiles for 1942. WAS THIS COINCIDENTAL OR PLANNED?
  - (e) There has been much hue and cry from the Automobile Manufacturer that their machinery and men were not adaptable to the close limits (tolerances) required for Aircraft Tooling and production. This (our Tool and Diemakers inform us) is all bunk. They say it is just as easy to work to tenths of thousandths as it is to thousandths of an inch.

The contention that a high percentage of automobile machine tools are single purpose machines is also not true in fact. Most of the so-called single purpose machinery can be adapted to Defense work by removing fixtures and jigs used in auto production; and re-tooling for Defense jobs.

It is our contention that these arguments were raised in order to permit the manufacture of Automobiles on a "Business as Usual" basis.

We predict that with the anticipated drastic curtailment of civilian production, the auto manufacturers are going to suddenly, develop ways and means of using a very high percentage of their equipment for National Defense purposes.

2. Managements representatives within the Office of Production Management have acted as "buffers" between Government and Industry.

- (a) Industry still pays the salaries of their Executives who are now working full time for the O.P.M. Industry has never been known to spend large sums of money without a return on their investment. This is especially true in the light of the fact that Industry is very hostile "to our present government in Washington."
- (b) The National Defense effort bogged down during 1940-41. The experts on O.P.M. knew the reasons, but did not dare make them public. It would hurt their people. Consequently the President was forced to re-organize O.P.M. on several occasions. The problem is not yet solved, but curtailment of civil production will shortly leave the experts free to act, and solve the problem.
- (c) The O.P.M. got the Automobile Manufacturers to agree to a 20% curtailment of production on 1942 models. But it was Leon Henderson not a member of the O.P.M. who demanded the 50% curtailment and got it.

3. Lack of coordination of effort between the holders of the prime contracts and the sub-contractors.

- (a) The principal delay in the tooling program of sub-contractors has been the long period of time they must wait before receiving Master jigs from the prime contractor. (Murray Corporation was forced to wait four months before receiving Master jigs from Douglas, the prime contractor.)
- (b) All parts, including those from vendors, are inspected by inspectors representing the sub-contractor, the prime contractor and the Army or Navy. There have been many cases where shipments of parts have been passed by inspection of the sub-contractors and the Army or Navy, only to be rejected by the prime contractor's inspector.
- (c) Many small tools are obtainable only through the prime contractor. Delays in obtaining these small tools have impeded production progress.
- (d) The Murray Corporation is already tooled up to manufacture center wing sections for the Douglas Bomber; The Briggs Mfg. Company is still tooling up for the wing tip or outside half of the same wing assembly. With the size of the Murray product prohibiting

storage of very many of them, it follows that Murray's production will necessarily have to wait a comparable production at Briggs to allow utilization of the production of both parts plants at final assembly.

The same conditions exist between the Hudson production and Chrysler Corp. production on Martin Bombers. Hudson's are in production, Chrysler is just beginning to install machinery. Production from both plants are to be assembled into one unit.

#### THE RESULT : DELAY.

#### 4. Sub-contracting not on a broad enough scale:

1. Both prime contractors and broad scale sub-contractors are attempting to do too much of their tooling program and manufacturing in their own plant.
  - (a) There are approximately 450 jobbing tool and die shops in the Detroit area. If more of the Bomber work were let out and a program of pooling the facilities of these plants were worked out, a more rational approach to the tooling program might be had. Many of these jobbing shops are taking any kind of work they can find, while the prime contractors and sub-contractors are back-logged with tool work. Length of time for tooling could be reduced at least 50% by "farming out" the work.
  - (b) There are some 16,000 small stamping plants in this country, a major portion of whom will be forced to close their plants unless more work is sub-contracted by the larger firm. These small plants could keep a continuous flow of parts, pouring into the assembly plants.

In the final analysis, we believe that if the Automobile Industry were given a larger share of the Bomber Program, insisting that they develop sub-contracting for Bomber work through the same channels that they used for Automobile work, both for tools and parts, that the Bomber program could be put on the same comparable high production basis as Automobiles. The Ford Bomber program is a good illustration of this point. We believe that Ford will be in production and at a higher rate, many months before the companies on the West Coast.

But we also are of the opinion that no type of manufacturing program can prove effective until both the War Department and the Aircraft Companies cease making countless numbers of changes in design. We believe that only design changes necessary to improve the production of the job or for safety factors should be permitted; and then, only if absolutely necessary.

We believe that if the Government would adopt a policy of allowing existing manufacturing companies actual cost to remove non-defense machinery and assembly lines and conveyors from their plants, and storage; and also actual cost for restoring the equipment after the Defense effort is concluded, that such valuable time and vast sums of money now being used to build new buildings could be saved.

Example: It might cost \$3,000,000 to dismantle the Dodge Plant in the City of Detroit and possibly \$5,000,000 to restore it afterwards, but it would cost upwards of \$60,000,000 to build a new building with comparable floor space. During the Defense efforts many millions of feet of floor space in the Body, Trim, Paint and Final Assembly Departments in automobile plants are going to lie idle because they have no utility in the Defense Program.

Prepared by:  
George W. Miller  
CO-ORDINATOR FOR NATIONAL DEFENSE  
International Union, UAW-CIO

Estimated Total Value and Number of Units Sold  
by Denominations and by Months  
May - October, 1941

(All figures in thousands)

Denomination	Number of Units by Denominations							Total	Total Value
	May	June	July	August	September	October	Total		
\$ .10	2,444	1,557	1,739	2,666	3,951	4,626	16,982	\$ 1,698	
.25	5,170	5,595	7,859	10,131	11,840	14,406	55,001	13,750	
.50	1,169	855	1,111	1,221	1,264	1,504	7,124	3,562	
1.00	673	457	571	765	659	781	3,906	3,906	
5.00	<u>111</u>	<u>60</u>	<u>51</u>	<u>56</u>	<u>66</u>	<u>68</u>	<u>412</u>	<u>2,059</u>	
Total	<u>9,567</u>	<u>8,524</u>	<u>11,331</u>	<u>14,838</u>	<u>17,780</u>	<u>21,385</u>	<u>83,425</u>		
Total Value	<u>\$3,349</u>	<u>\$2,738</u>	<u>\$3,520</u>	<u>\$4,454</u>	<u>\$4,978</u>	<u>\$5,936</u>		<u>\$24,975</u>	

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

November 10, 1941.

Source: Division of Postal Savings, Post Office Department. Total dollar sales for May, June and July are audited figures. Number of units by denominations for these months, as estimated from reports of 111 larger post offices, are prorated to agree with audited dollar sales. Dollar sales and number of units for August are estimated from unaudited reports of approximately 1,300 first class post offices; for September and October, they are complete but unaudited reports of first class offices and district accounting offices.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals. For the same reason, the sum of units times denominations does not necessarily agree exactly with total value.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Nine Business Days of September, October, and November, 1941  
 (September 1-11, October 1-10, November 1-12)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	November	October	September	November over October	October over September	November over October	October over September
Series E - Post Offices	\$ 16,583	\$ 15,906	\$ 15,361	\$ 677	\$ 545	4.3%	3.5%
Series E - Banks	<u>27,677</u>	<u>29,798</u>	<u>25,275</u>	- 2,121	<u>4,523</u>	- 7.1	<u>17.9</u>
Series E - Total	44,260	45,705	40,636	- 1,445	5,069	- 3.2	12.5
Series F - Banks	8,019	8,559	6,790	- 540	1,769	- 6.3	26.1
Series G - Banks	<u>50,762</u>	<u>50,054</u>	<u>44,529</u>	<u>708</u>	<u>5,525</u>	<u>1.4</u>	<u>12.4</u>
Total	<u>\$103,041</u>	<u>\$104,317</u>	<u>\$ 91,954</u>	- \$ <u>1,276</u>	<u>\$12,363</u>	- <u>1.2%</u>	<u>13.4%</u>

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

November 13, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

## UNITED STATES SAVINGS BONDS

Daily Sales - November 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
November 1941									
1	\$ 1,017	\$ 1,750	\$ 567	\$ 4,201	\$ 6,518	\$ 2,767	\$ 567	\$ 4,201	\$ 7,535
3	3,377	3,421	1,442	9,092	13,954	6,798	1,442	9,092	17,332
4	1,061	2,818	738	7,205	10,761	3,879	738	7,205	11,822
5	1,175	1,694	744	3,794	6,232	2,869	744	3,794	7,407
6	1,968	3,899	988	6,962	11,850	5,867	988	6,962	13,818
7	2,062	4,278	1,258	9,280	14,816	6,340	1,258	9,280	16,878
8	1,289	3,113	352	1,457	4,922	4,402	352	1,457	6,211
10	2,452	3,383	994	3,459	7,836	5,835	994	3,459	10,288
12	2,181	3,321	936	5,312	9,569	5,502	936	5,312	11,750
Total	\$ 16,583	\$ 27,677	\$ 8,019	\$ 50,762	\$ 86,458	\$ 44,260	\$ 8,019	\$ 50,762	\$103,041

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

November 13, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

## TREASURY DEPARTMENT

268

## INTER OFFICE COMMUNICATION

DATE Nov. 13, 1941.

TO Secretary Morgenthau  
FROM Mr. Haas *CH*  
Subject: Excess Reserves of New York City Banks and Interest Rates

Summary

Excess reserves of New York City banks have been much harder hit by the developments of the past year than excess reserves of all member banks. Excess reserves of New York City banks amounted, on November 5, to \$773 millions, and are expected to decline further by about \$250 millions to about \$523 millions on December 24. After some pause during the seasonal decrease of money in circulation, this decline is expected to continue with the end not yet in sight.

Excess reserves of New York City banks occupy a critical position in the money market. The deteriorating reserve position of the New York City banks has already caused a substantial rise in short-term money rates. This rise is likely to go further and may possibly affect long-term rates.

I. Recent and Prospective Changes  
in Excess Reserves

Excess reserves of all member banks declined from an all-time high of \$6,940 millions reached on October 23, 1940, to \$4,600 millions on October 29, 1941, the last reporting date before the increase in reserve requirements became effective. On November 5, the first reporting date after the increase became effective, excess reserves of all member banks amounted to \$3,410 millions. This is a decline of 51 percent from the all-time high.

Excess reserves of member banks in New York City declined from an all-time high of \$3,675 millions reached on June 19, 1940, to \$1,345 millions on October 29, 1941, just preceding the increase in reserve requirements. On November 5, the first reporting date after the increase in requirements, excess reserves of member banks in New York City amounted to \$773 millions. This is a decline of 79 percent from the all-time high.

Secretary Morgenthau - 2

These movements of excess reserves, both for all member banks and for those in New York City, are shown in Chart I.

The decline in excess reserves during the past year has thus hit New York City banks much harder than out-of-town banks. On October 23, 1940, when excess reserves were at their all-time high, 51 percent of such reserves were held by New York City banks. On November 5, 1941, excess reserves of New York City banks amounted to only 23 percent of the total. Of the decline of \$3,530 millions in excess reserves which had occurred in the intervening period, \$2,747 millions, or 78 percent, had occurred in New York City. The comparative movements of excess reserves inside and outside of New York City between June 19, 1940, the date when excess reserves of New York City banks attained their all-time high, and November 5, 1941, are shown in the attached table.

The vulnerability of the present excess reserve position of the New York City banks is also emphasized by the fact that they held as of November 5, \$3,664 millions of deposits of domestic banks, or about \$4.75 of such deposits for each dollar of their own excess reserves. As shown in Chart I, these deposits have not been drawn down a great deal during the past six months. They would be subject to very substantial withdrawals, however, should out-of-town banks expand their loans and investments to the point where they desired to bolster their own reserve positions.

Mr. Roelse of the Federal Reserve Bank of New York expects that excess reserves for the country as a whole will decline another \$375 millions to \$3,035 millions on December 24, the probable date of the seasonal high of currency in circulation. Of this decline, he expects that \$250 millions will occur in New York City, reducing excess reserves there to \$523 millions, or 86 percent below their all-time high.

During the period from December 24 to the end of January, Mr. Roelse expects excess reserves of all member banks, aided by the seasonal decline of currency in circulation, to increase by about \$175 millions. During this period he expects New York City banks will just about hold their own. Commencing about the first of February, he expects the decline in excess reserves to be resumed, slowly in the case of all member banks and more rapidly in the case of New York City banks, with the end not yet in sight.

Secretary Morgenthau - 3

## II. Significance of the Reserve Position of New York City Banks

The excess reserve position of New York City banks is of critical importance -- in many respects of greater importance than that of all member banks -- because New York City is the central money market of the country, and it is here that interest rates, particularly short-term interest rates, are made. It is, therefore, of great interest to inquire what effect the change in the reserve position in New York City has had and is likely to have upon the investment policy of New York City banks and upon money rates generally.

Chart II shows the deposits of all member banks and of weekly reporting banks inside and outside of New York City, respectively. Deposits of all member banks and of weekly reporting banks outside of New York City are still rising to new highs. Deposits of weekly reporting banks in New York City reached an all-time high of about \$12.0 billions on May 28, 1941. On November 5 they amounted to about \$10.9 billions, a decline of \$1.1 billions. During this same period the New York City banks increased their loans and investments by about \$400 millions, drawing down their reserves at the Federal Reserve Banks by a total of about \$1.4 billions, or \$300 millions more than the decline in deposits. Such a course of action clearly cannot last long. If the deposits of New York City banks continue to decline, they will have to liquidate loans and investments.

As shown in Chart III, the holdings of United States securities of New York City banks have remained about unchanged since the end of May. The \$400 millions increase in total loans and investments occurring during this period was entirely in loans and in other investments (about four-fifths of it in loans).

It appears, therefore, that the tightening reserve position of New York City banks has already barred them from the United States security market, and is likely soon to induce a liquidation in total loans and investments. If this occurs, the brunt of the liquidation is likely to fall on United States securities, and particularly on short-term United States securities which are especially concentrated in New York City banks.

Secretary Morgenthau - 4

The effect which the tightening reserve position in New York City has already had on short-term money rates may be seen by a comparison of the yields of three Treasury securities of widely varying maturity classes as of September 23 (the day before the announcement of the increase in reserve requirements) and November 10, respectively.

Changes in Yields of Treasury Securities

September 23 - November 10, 1941

	: Sept. 23 :	: Nov. 10 :	: Change :
	(Percent)		
2-1/2's of 3/15/56-58	2.15	2.08	-.07
3/4's of 9/15/44	.60	.75	+.15
91-Day bills (Average yield at issue)	.04	.20	+.16

As appears from the above table, yields of long-term securities have continued to fall since the announcement of the increase in reserve requirements and are now at about their all-time lows (high prices). Short-term rates, on the other hand, have tightened appreciably during this period.

What will happen from here on is hard, as always, to predict. It is very likely that short-term rates will continue to tighten. Whether this tendency will spread to long rates is more questionable. The Federal Reserve Board appears to believe that it will not. It is interesting to note, however, that, on the occasion of the increase in reserve requirements in 1937, when a similar expectation was had by the Board, long-term bond prices finally broke sharply after continuing strong and reaching new highs for three months during which short-term securities had been acutely weak.

Attachments

Comparative Movement of Excess Reserves  
Inside and Outside of New York City

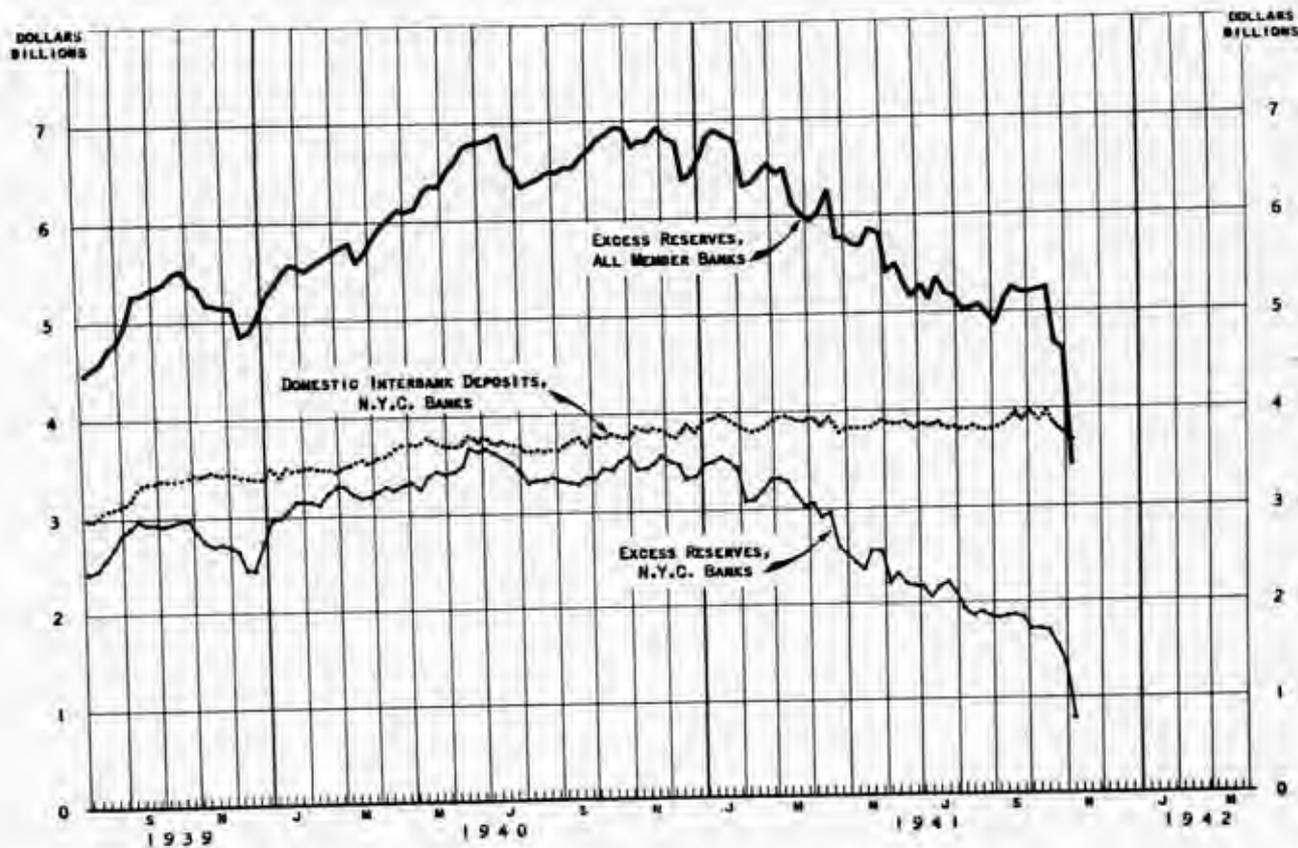
	June 19, 1940	October 23, 1940	May 28, 1941	October 29, 1941	November 5, 1941
(Millions of dollars)					
Banks in New York City	3,675	3,520	2,535	1,345	773
Banks outside of New York City	<u>3,092</u>	<u>3,420</u>	<u>3,289</u>	<u>3,255</u>	<u>2,637</u>
Total	6,767	6,940	5,824	4,600	3,410

Note - The dates used in this table are as follows:

- June 19, 1940 - All-time high of excess reserves in New York City.
- October 23, 1940 - All-time high of excess reserves in all member banks.
- May 28, 1941 - All-time high of deposits in weekly reporting member banks in New York City.
- October 29, 1941 - Last reporting date before increase in reserve requirements.
- November 5, 1941 - First reporting date after increase in reserve requirements.

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# EXCESS RESERVES AND INTERBANK DEPOSITS

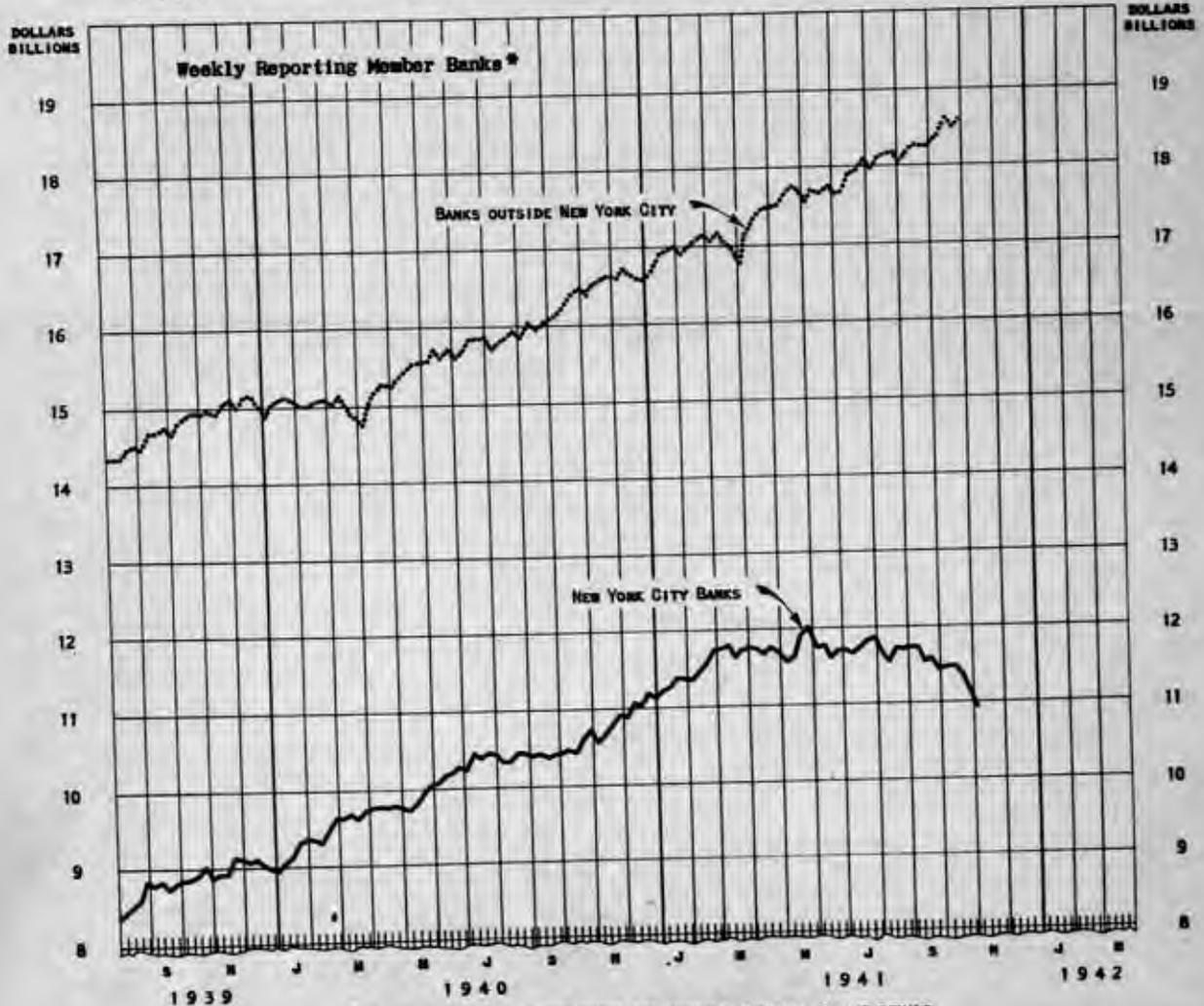
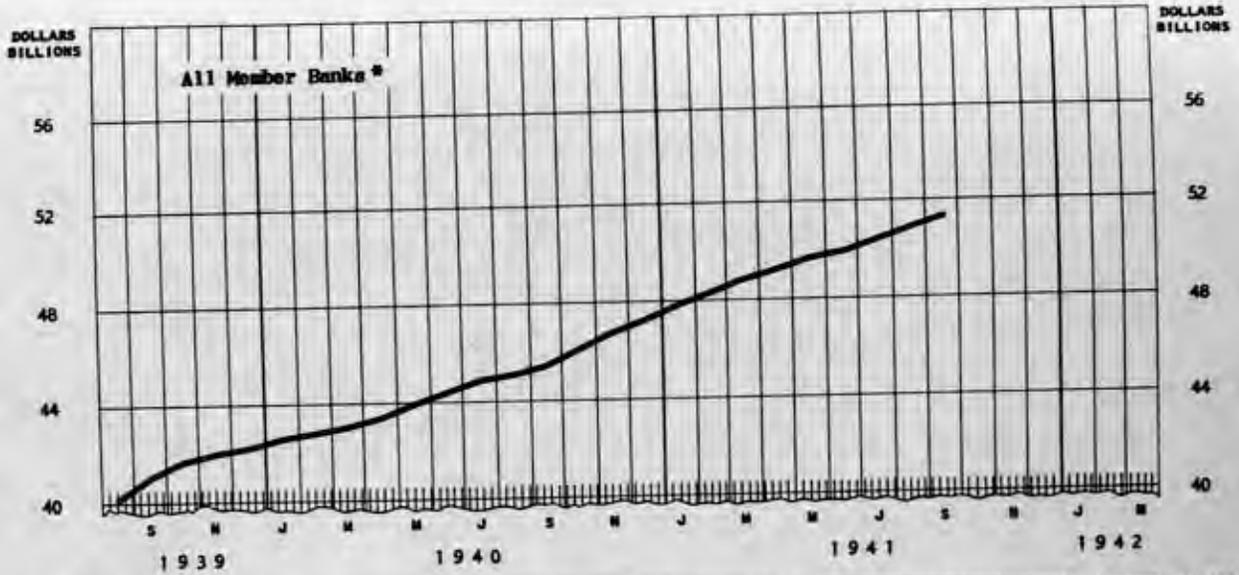


Office of the Secretary of the Treasury  
Division of Research and Statistics

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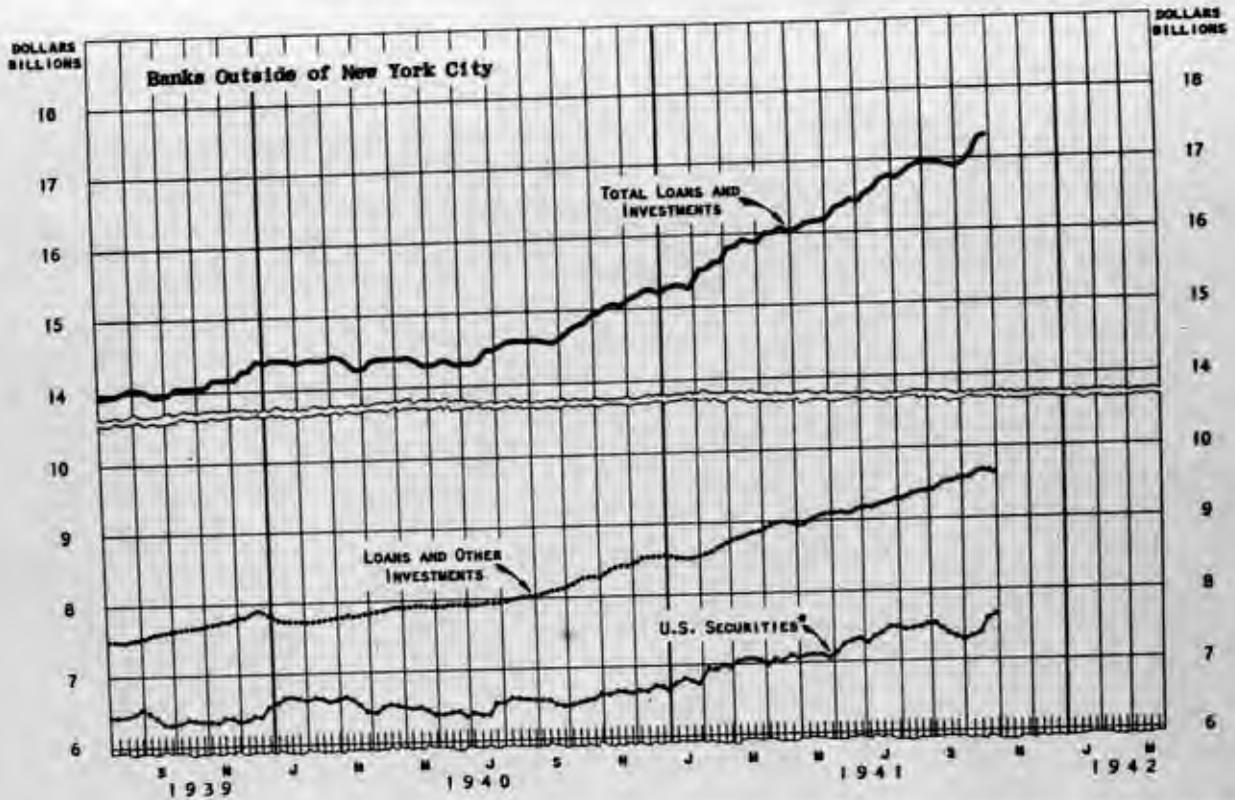
275

MEMBER BANK DEPOSITS



\* DEPOSITS FOR ALL MEMBER BANKS ARE MONTHLY AVERAGES OF NET DEMAND PLUS TIME DEPOSITS. DEPOSITS FOR WEEKLY REPORTING MEMBER BANKS ARE WEDNESDAY FIGURES FOR ADJUSTED DEMAND PLUS TIME DEPOSITS.

LOANS AND INVESTMENTS OF WEEKLY REPORTING MEMBER BANKS



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE November 13, 1941

TO Secretary Morgenthau  
 FROM Mr. Haas  
 Subject: Current Developments in the High-grade Security Markets; Relationship of Long- and Short-term Interest Rates.

SUMMARY

- (1) Intermediate Treasury bonds have advanced during the past two weeks, while Treasury notes and long-term bonds have declined (Chart I). Taxable Treasury securities have manifested greater strength than comparable tax-exempts.
- (2) New public offerings of bonds in the New York market totaled \$93.6 millions for the two weeks ending November 7. The Treasury average yield of high-grade corporate bonds was 2.57 percent at yesterday's close (Chart II). Meanwhile the Dow-Jones average yield of municipal bonds reached 1.91 percent, only three basis points above its record low yield (Chart III).
- (3) Yields of long-term Government securities are now somewhat lower (prices higher) than at the previous peak in the market reached on December 28, 1940. Yields of short-term securities are markedly higher (prices lower) than at that time, however (Chart IV). This is due in part to extraneous factors, particularly the deflation of rights values on the shorter securities, but is principally due to a shift in the real relationship of long and short rates. This, in turn, is due primarily to the weakened reserve position of member banks, particularly those in New York City.
- (4) Loans of weekly reporting member banks increased by \$2.7 billions between August 7, 1940, and October 15, 1941 (Chart V). Since that date they have shown little change. New York City banks have shown as little restraint upon loan expansion as other banks, despite their deteriorating reserve position.

Secretary Morgenthau - 2

I. United States Government Securities

Trading in the Government security market during the past two weeks was quiet to moderately active. The Federal Reserve Bank of New York reports that swap transactions and insurance company buying of new 2-1/2 percent Treasury bonds of 1967-72 accounted for the bulk of the volume.

During the past two weeks prices of Treasury notes have continued the decline and intermediate Treasury bonds have continued the advance which began in the latter part of September (Chart I). Prices of long-term Treasury bonds, on the other hand, have ceased their advance and have eased slightly during the past two weeks.

In all maturity classes taxable Treasury securities have displayed greater strength than tax-exempt Treasury securities. The comparative changes are presented in the following table:

	Average price change		
	October 29 - November 12		
	Taxable	Tax-exempt	All issues

(In thirty-seconds)

Notes

1 - 3 years	- 3	- 7	- 6
3 - 5 years	- 5	- 11	- 8

Bonds

5 - 15 years to call	+ 7	+ 4	+ 5
15 years and over to call	+ 7	- 9	- 4

Secretary Morgenthau - 3

The average yield of long-term partially tax-exempt Treasury bonds, moving inversely to prices, has risen to 1.84 percent from the all-time low of 1.82 percent achieved about two weeks ago (Chart II).

## II. Other Domestic High-grade Security Markets

New public offerings of bonds in the New York market totaled \$93.6 millions for the two weeks ending November 7. This marked a very sharp upturn in the volume of offerings as the previous two-weeks' total had been only \$5.4 millions.

The bond market continued firm with the Treasury average yield of five high-grade corporate bonds declining to 2.57 percent at yesterday's close (Chart II). This is down one basis point in the past two weeks and is the lowest level for this average since January 22, 1941.

Prices of municipal bonds strengthened meantime with the Dow-Jones average yield of twenty 20-year bonds declining two basis points to 1.91 percent, or three basis points above the all-time record low yield (high prices). This is shown in Chart III.

The offerings consisted principally of four issues -- \$38.0 millions Central Illinois Public Service Company 30-year bonds, \$30.0 millions State of Arkansas highway re-funding bonds due 1944-72, \$10.2 millions Asbury Park, New Jersey serial bonds, and \$10.0 millions Beneficial Industrial Loan Company 15-year bonds. The Arkansas issue is part of a total of \$136.3 millions issued in February and sold at that time to the Reconstruction Finance Corporation. Including the present offering, the Corporation has now disposed of \$122.2 millions of these bonds, reportedly at a substantial profit. Although not many new municipal offerings are in prospect -- due in large part to the impact of priorities and building restrictions on local government public works -- several sizable industrial and utility issues are in prospect.

Secretary Morgenthau - 4

III. Recent Changes in the Relationships  
of Long- and Short-term Interest Rates

The yields on long-term Government bonds are now considerably lower (prices higher) than at the time of the previous peak of the Government bond market reached on December 28, 1940, just prior to the issuance of the Federal Reserve statement recommending various restrictive monetary measures, including increases in reserve requirements. This is not true of yields of shorter-term Government securities, which are now higher (prices lower) than at that time. As shown in Chart IV, yields of Government securities with maturities or first call dates of less than about eleven years are now higher than last December, while yields of securities with maturities or first call dates longer than about eleven years are now lower.

This change in the relative position of long- and short-term securities is certainly due in part to a deflation of rights values on the shorter securities, and may also be due in part to enhanced scarcity value on the part of the longer-term partially tax-exempt securities. (All of the yields shown on the chart are those of partially tax-exempt securities in order to assure the maximum degree of comparability.)

The main cause of the shift, however, appears to be a real change in the relative level of long- and short-term interest rates, rather than extraneous factors such as those just mentioned. This change appears to be due, in turn, to a reduced absorptive capacity of banks (the principal demanders of short-term securities), due to lower excess reserves, and more particularly to the almost complete elimination of the net absorptive capacity for Government securities of New York City banks due to sharply reduced excess reserves in New York City.

The chart also shows the pattern of interest rates for Treasury bonds on August 4, 1937, the date of the low in excess reserves of all member banks following the 1936-37 increases in reserve requirements. (Excess reserves for all member banks amounted to \$704 millions on that date as compared with \$3,410 millions on November 5 of this year. Excess reserves of New York City banks amounted to \$96 millions during the week including that date, as compared with \$773 millions on November 5 of this year.)

## Secretary Morgenthau - 5

As shown by the chart, interest rates were generally higher on August 4, 1937, than on either of the more recent dates. The relationship of long and short rates at that time and on each of the recent dates as read off the curves on the chart is shown in the following table:

	5 years	10 years	15 years
August 4, 1937	1.78%	2.50%	2.72%
December 28, 1940	.63	1.49	1.91
November 10, 1941	.99	1.55	1.84

#### IV. Changes in Loans of Weekly Reporting Member Banks

Loans of weekly reporting member banks experienced a long and rapid rise of \$2.7 billions between August 7, 1940, and October 15, 1941 (Chart V). Of this increase, 82 percent was due to a rise in commercial\* loans and the balance to all other types of loans. During this same period holdings of Government securities, direct and guaranteed, rose \$2.4 billions.

\* "Commercial" loans include loans for "commercial, industrial, and agricultural purposes" and open-market paper. Real estate and security loans and other loans (including personal and small loans) are excluded.

Secretary Morgenthau - 6

The peak of the rise in loans was \$11.2 billions reached on October 15, 1941. It was higher than the previous post-depression peak of \$10.0 billions in September 1937, and was equal to loans held in July 1932.

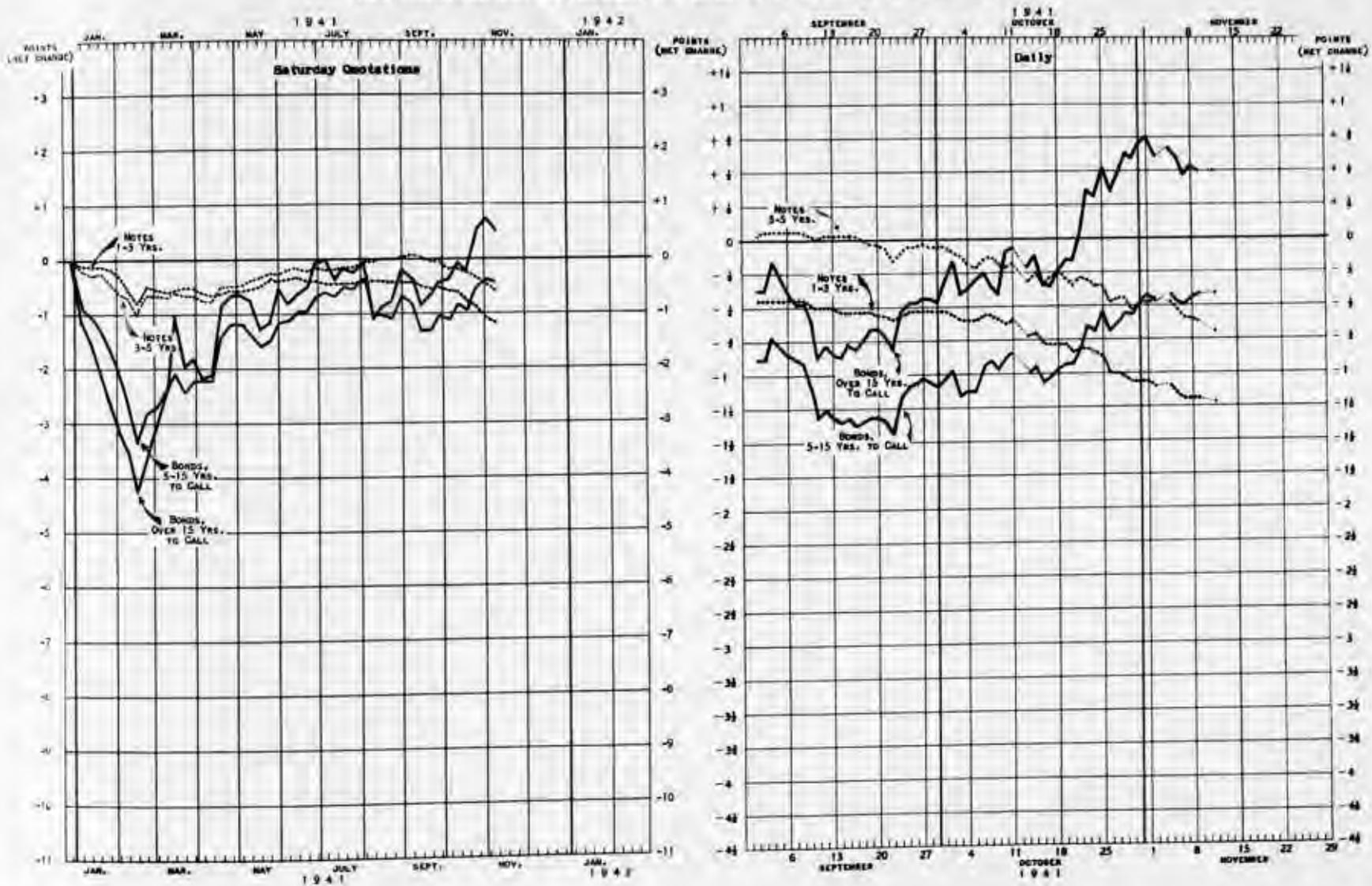
For the past few weeks -- October 15 to November 5 -- little change has occurred in total loans of all weekly reporting banks or in those of any major group -- i.e., banks in New York City, Chicago, or in all other cities. It is difficult to determine what significance there may be in this leveling off of loan expansion.

Although the excess reserve position of the New York City banks is much tighter than that of other member banks, New York City banks do not appear as yet to have shown any greater restraint upon lending than reporting banks in other cities. As indicated in a separate memorandum of today's date, the deterioration of the reserve position of New York City banks may force some liquidation of total loans and investments by these institutions. If this occurs, however, it is probable that the brunt of the liquidation will be borne by Government securities, while loans may even continue to increase if attractive lending opportunities present themselves to the banks.

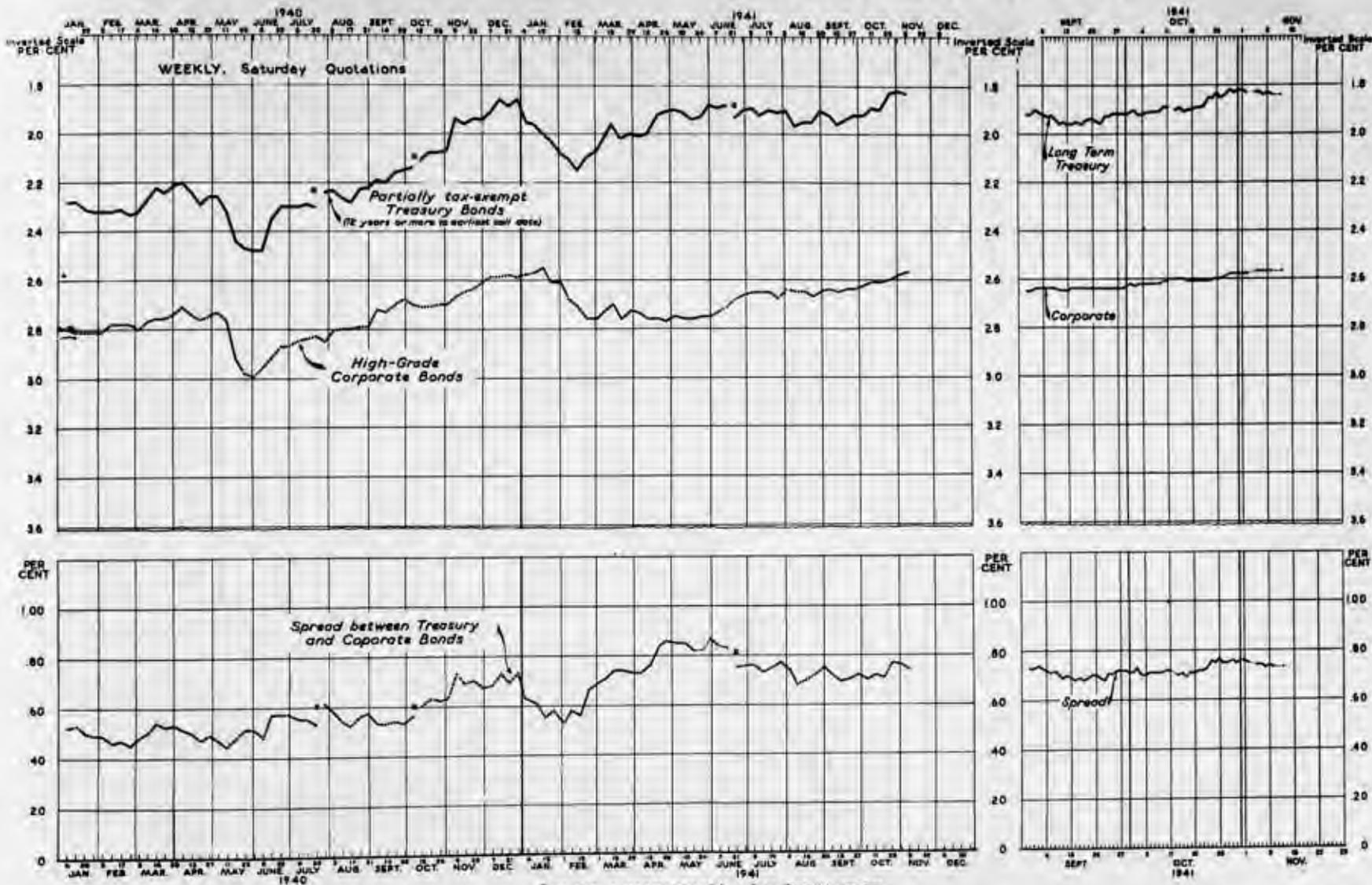
Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES  
 Points Plotted Represent the Difference from December 20, 1940 Price of Each Maturity Class



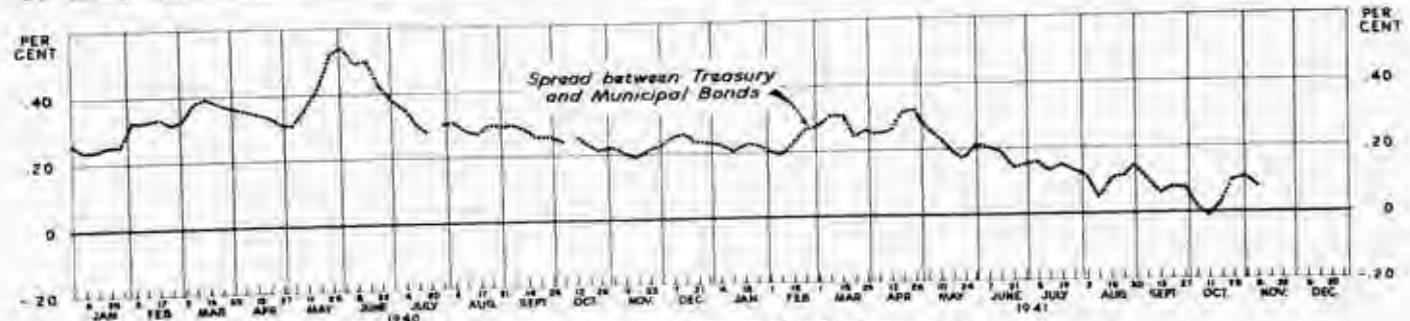
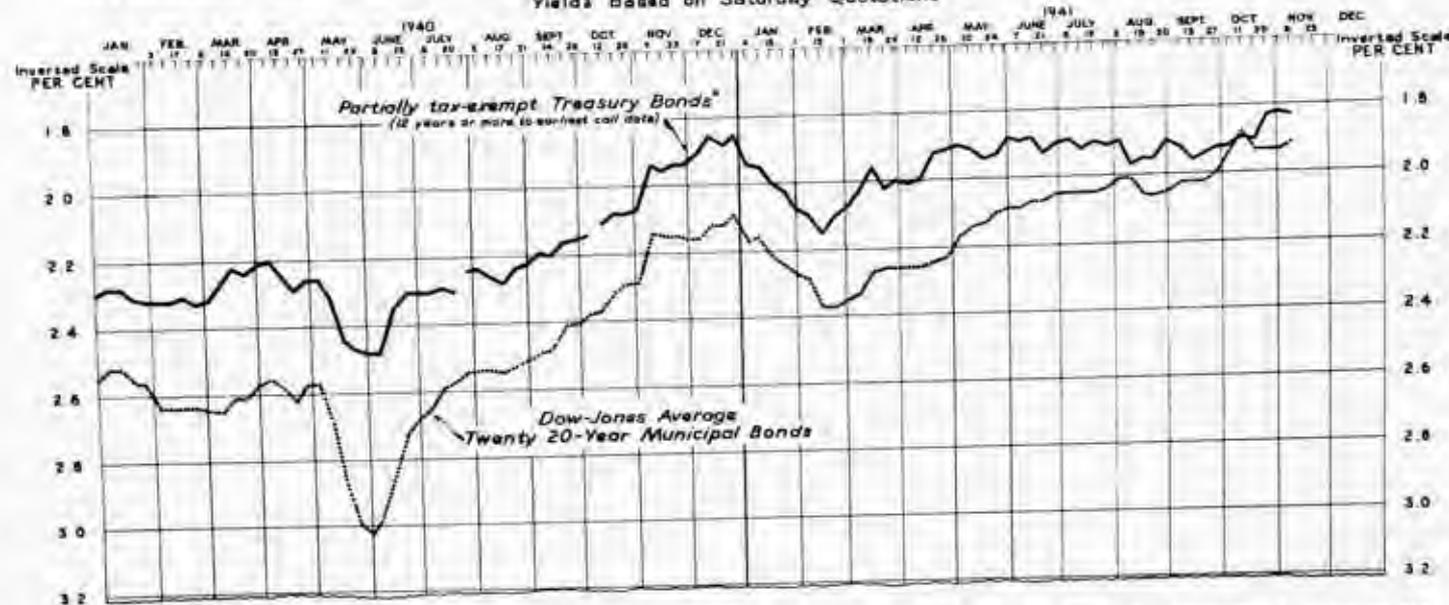
# AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS



\* Change in composition of Long Term Treasury average

# AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

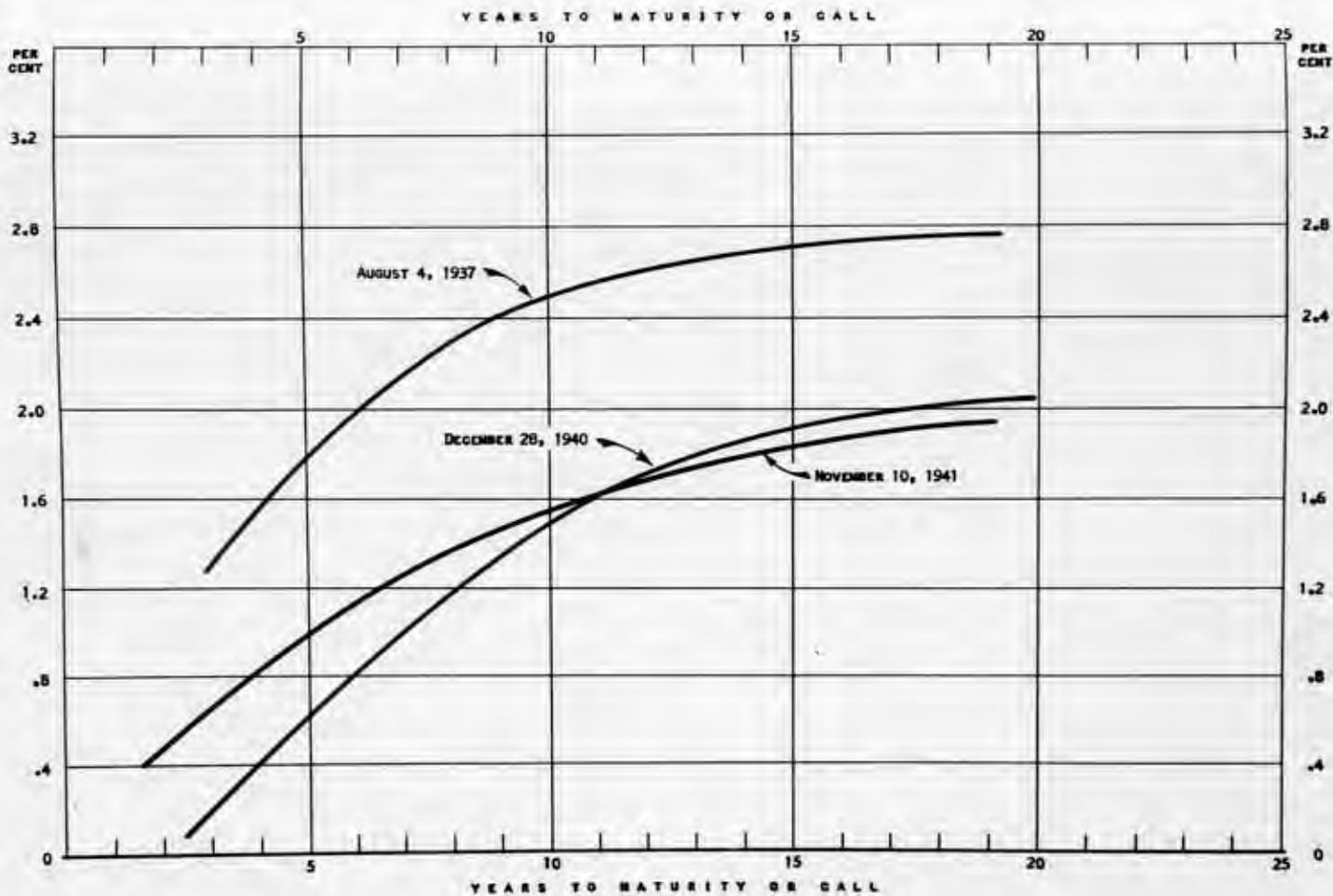
Yields Based on Saturday Quotations



\*Break in line indicates change in composition of Long-Term Treasury average

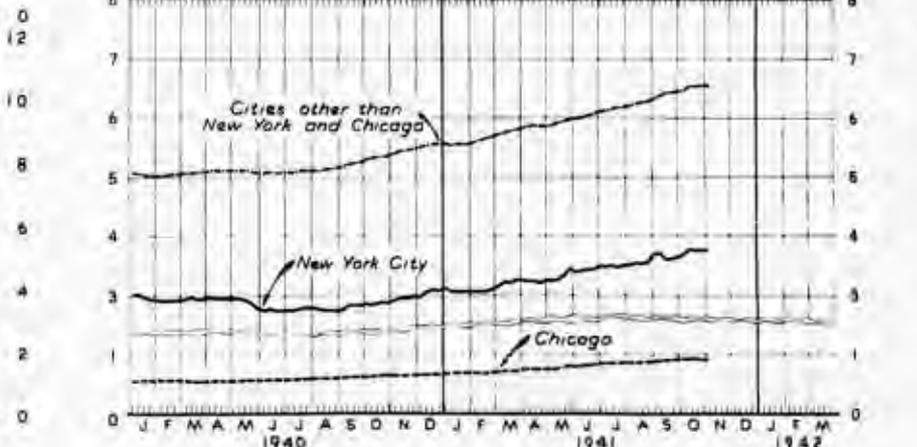
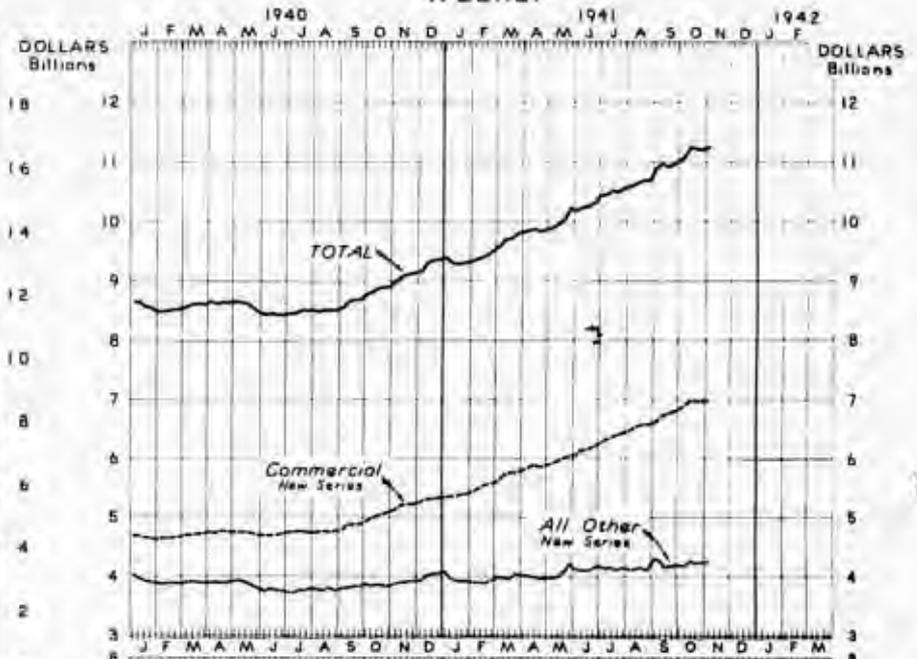
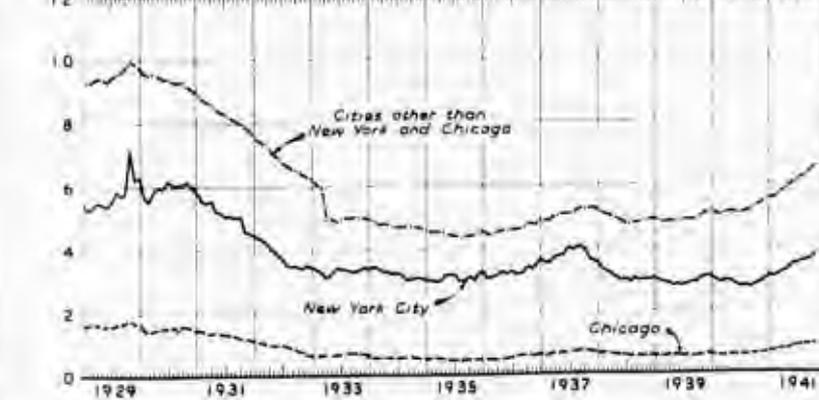
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Chart IV  
 YIELDS OF TREASURY BONDS\*



\* BASED ON PARTIALLY TAX-EXEMPT BONDS ONLY.

# LOANS - WEEKLY REPORTING MEMBER BANKS



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Treasury Department  
Division of Monetary Research

Date.....Nov. 13, 1941

To: Secretary Morgenthau

Appended is the report from  
Mr. Lubin that you asked for last  
week on machine tool production.

There is also appended a  
memorandum by Mr. Ullmann comment-  
ing on Mr. Lubin's report.

H.D.W.

MR. WHITE  
Branch 2058 - Room 214 $\frac{1}{2}$

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE November 13, 1941

TO Mr. White  
FROM Mr. Ullmann

Comments on Mr. Lubin's Memorandum

1. It appears, on the basis of Mr. Lubin's figures, that the machine tool industry is using only about one-half its capacity -- if measured on the basis of three-shift operation.

The fact that the average worker in machine tools is working fourteen hours per week overtime suggests that the industry is working at full capacity during the main shift. However, this implication is not necessarily correct, since the average may be heavily weighted by a few large plants in which a large amount of overtime is worked, excluding plants representing substantial capacity where work is less intense. More data is needed on this point before a definite conclusion can be drawn as to whether or not the main shift is working at full capacity.

The second shift employs only one-third the number of workers engaged in the main shift, which would indicate that two-thirds of the plant capacity is idle during the second shift.

The situation is worse in the third shift, which employs only one-tenth as many workers as are working in the main shift.

In other words, if the machine tool industry were operating in second and third shifts on as high a level as it is functioning in the main shift, it would employ twice as many workers. To put it in another way, the machine tool industry is working at roughly one-half capacity (on a three-shift basis).

The situation may, in fact, be worse than that indicated, because the figures we use are those of a sample of the most important machine tool plants. It is possible that the less important plants would make a poorer showing. In addition, as pointed out above, there is no proof that the plants are operating at full capacity on the main shift -- and all the other calculations are based on the main shift's employment conditions.

2. Mr. Lubin notes that there has been "some improvement in multiple shift operations since June".

A comparison of the September figures of labor distribution to the June data (from the Bureau of Labor Statistics) indicates that the improvement has been negligible.

Distribution of Workers in the Industry

	<u>September</u>	<u>June</u>
Main Shift	67.6%	68.6%
Second Shift	25.0%	24.6%
Third Shift	7.5%	6.8%

3. There is no indication that machine tool production has increased during the last few months. September production figures are not yet available to us but the July and August figures are; and they show that machine tool output in terms of volume (which, after all, is the important thing) may have declined in July and August. The value of output rose 2% over June and increased by 4% in August, but the price index of machine tools rose slightly during the same period. A report by the Commerce Department on machine tool production questions the validity of the price indexes and has stated that "It is freely commented by sophisticated buyers that the August price index is not representative of the average level of all types".
4. Mr. Lubin believes that some machine tools are being delivered to non-defense uses, despite the claim to the contrary. In this connection, it is interesting to note that it is still possible to purchase lathes and drill-presses on the counters of hardware stores and mail-order stores.
5. According to the Department of Commerce report, the machine tool industry is complaining about a shortage of adequately skilled labor. There is no evidence, however, that any serious effort has been made to tap the large body of skilled machinists and craftsmen in the machine shops and small plants of the country, or those engaged in the precision machine work involved in durable consumer goods industries, such as automobile factories, which are curtailing operations.

THE WHITE HOUSE  
WASHINGTON

November 10, 1941

MEMORANDUM

To: Mr. White  
From: Mr. Lubin  
Subject: Machine Tool Allocations

Under an order issued by the Director of Priorities, January 31, 1941, no machine tool builder is supposed to get material or supplies to make machine tools for any except defense purposes.

Theoretically under this order, no machine tools are being delivered to any but defense industries.

Of the 9,430 machine tools shipped in September, 2,708 went to defense contractors with an A-1a rating; 2,455 with an A-1b rating and 1,687 with an A-1c rating. The balance went to contractors with ratings below A-1c.

Despite the ruling of January 31, it is hard for me to believe that machine tools are not being delivered to non-defense contractors. There is a whole series of small machine tools that are made by specialized manufacturers who must be finding a market for their production. Moreover, the manner in which priorities were allocated convinces me that a lot of people have high priority ratings for machine tools that are <sup>not</sup> absolutely essential for defense work.

Unless a textile mill, for example, is devoting its entire capacity to Army or Navy needs, it would be next to impossible to determine whether a machine tool it purchased was necessary for defense. Similarly, in the case of the textile machine manufacturer, one could not determine whether a given machine tool that he ordered is necessary to complete certain looms which are required by a firm that has an order for government cloth.

THE WHITE HOUSE  
WASHINGTON

November 10, 1941

MEMORANDUM

TO: THE SECRETARY OF THE TREASURY

FROM: MR. LUBIN

SUBJECT: MACHINE TOOL OPERATIONS IN SEPTEMBER

A sample of the 79 most important machine tool plants shows that five were operating on a one-shift basis in September; 48 operated two shifts and 26 operated three shifts.

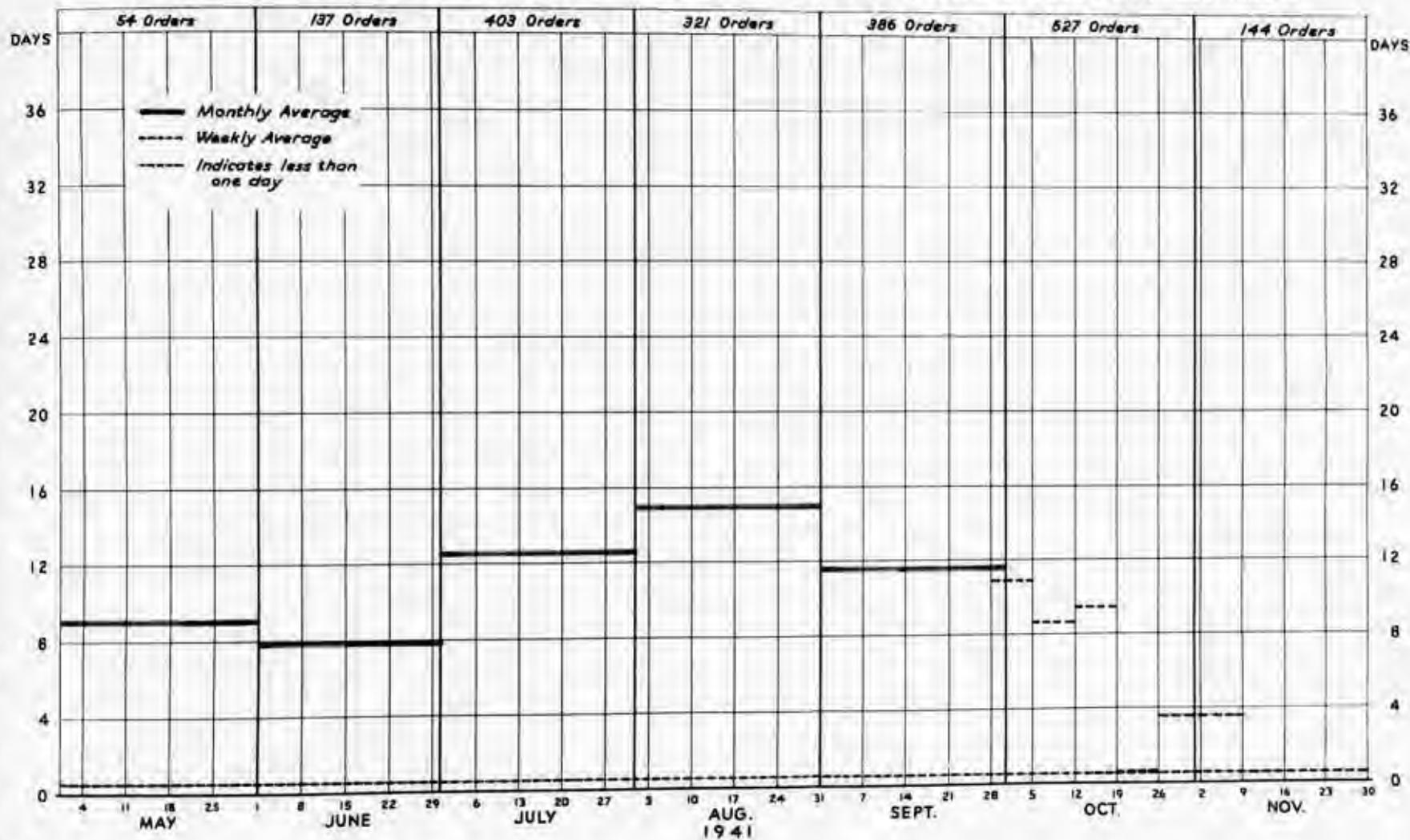
The one-shift plants employed about 2% of the total labor force. In terms of the actual employment on all shifts, it is significant to note that 67.6% of all the workers were on the first shift and approximately 25% of all the workers in the industry were employed on the second shift. Only 7.5% of the workers were employed on the third shift.

It should be noted, however, that there has been some improvement in multiple shift operations since June. However, the progress has been relatively slow. It is worthy to note that the number of workers employed on Sundays increased from 5.7% of the total in June to 9.8 of the total plant force in September. 96% of the workers worked overtime. They averaged 14 hours per week in overtime work.

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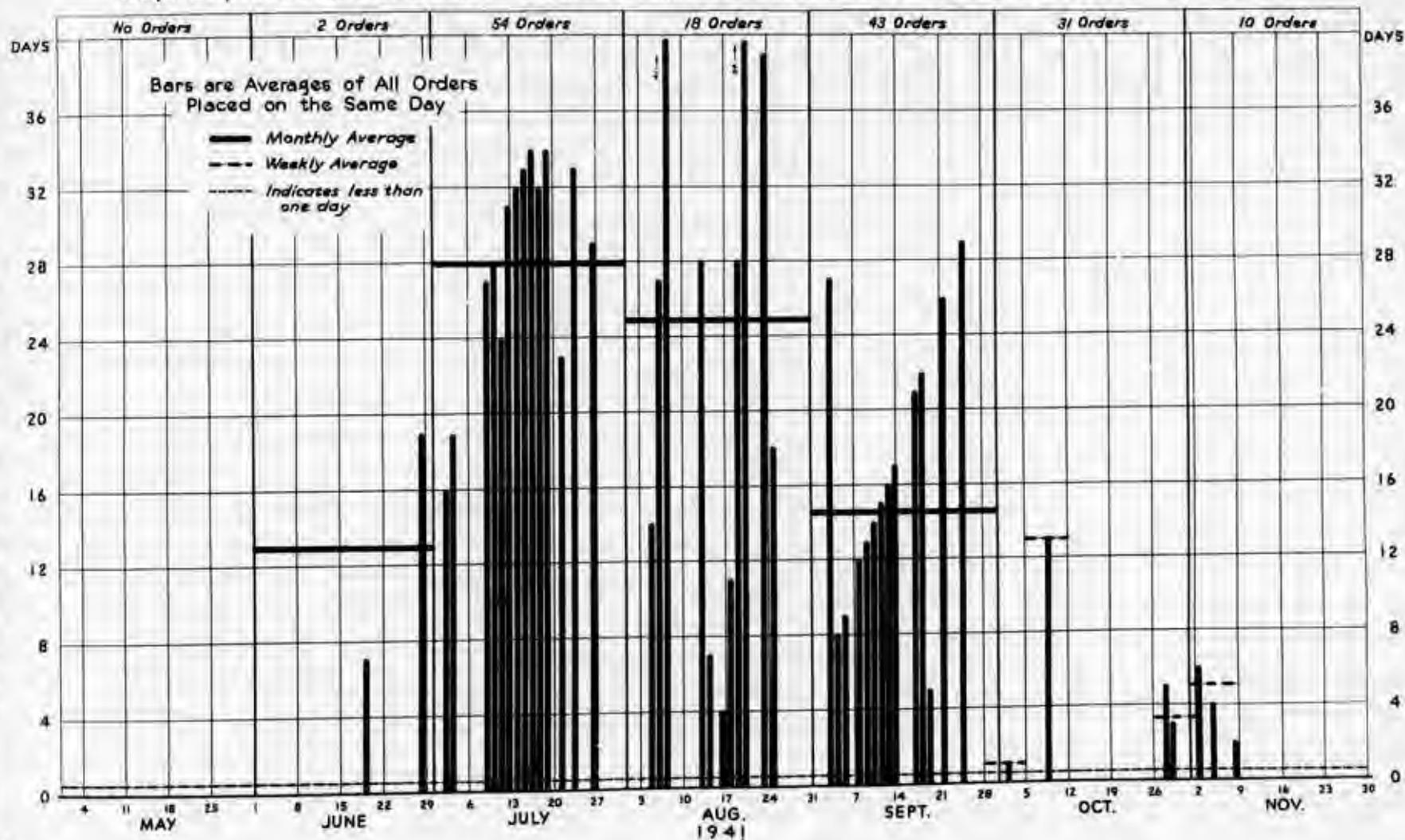
No distribution made of this set of charts.

**ALL ORDERS  
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE**  
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



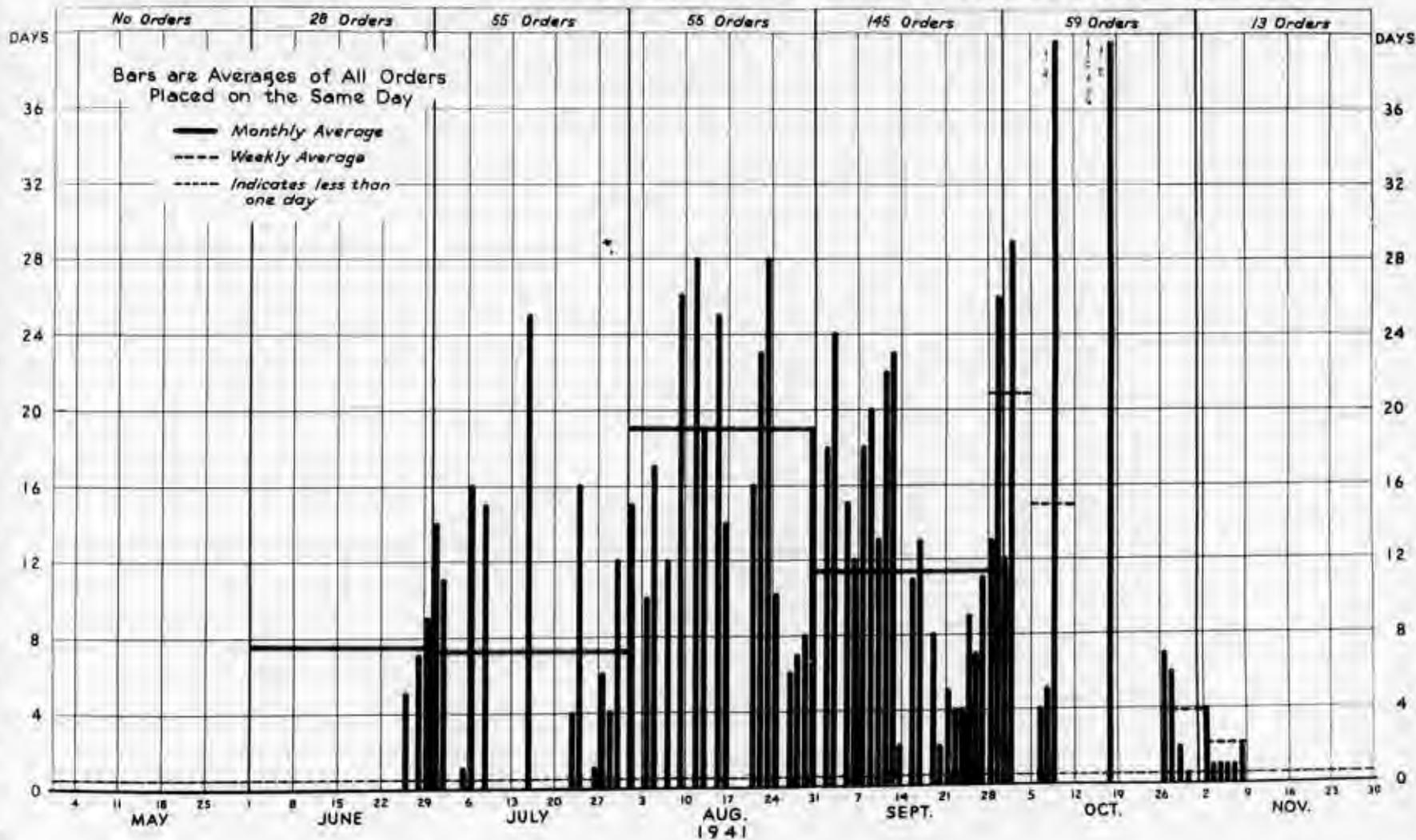
## ALLOY STEEL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



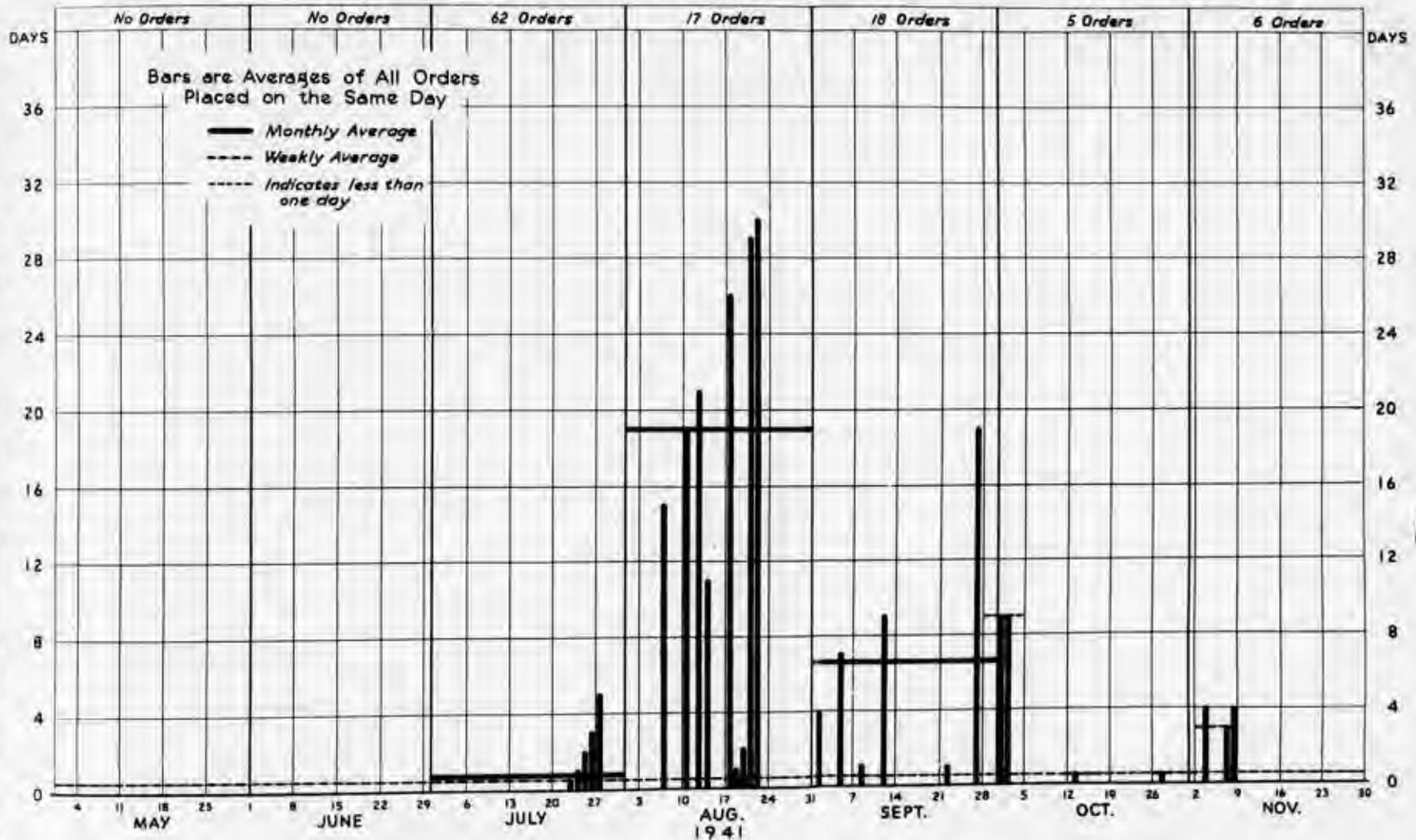
## CARBON STEEL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



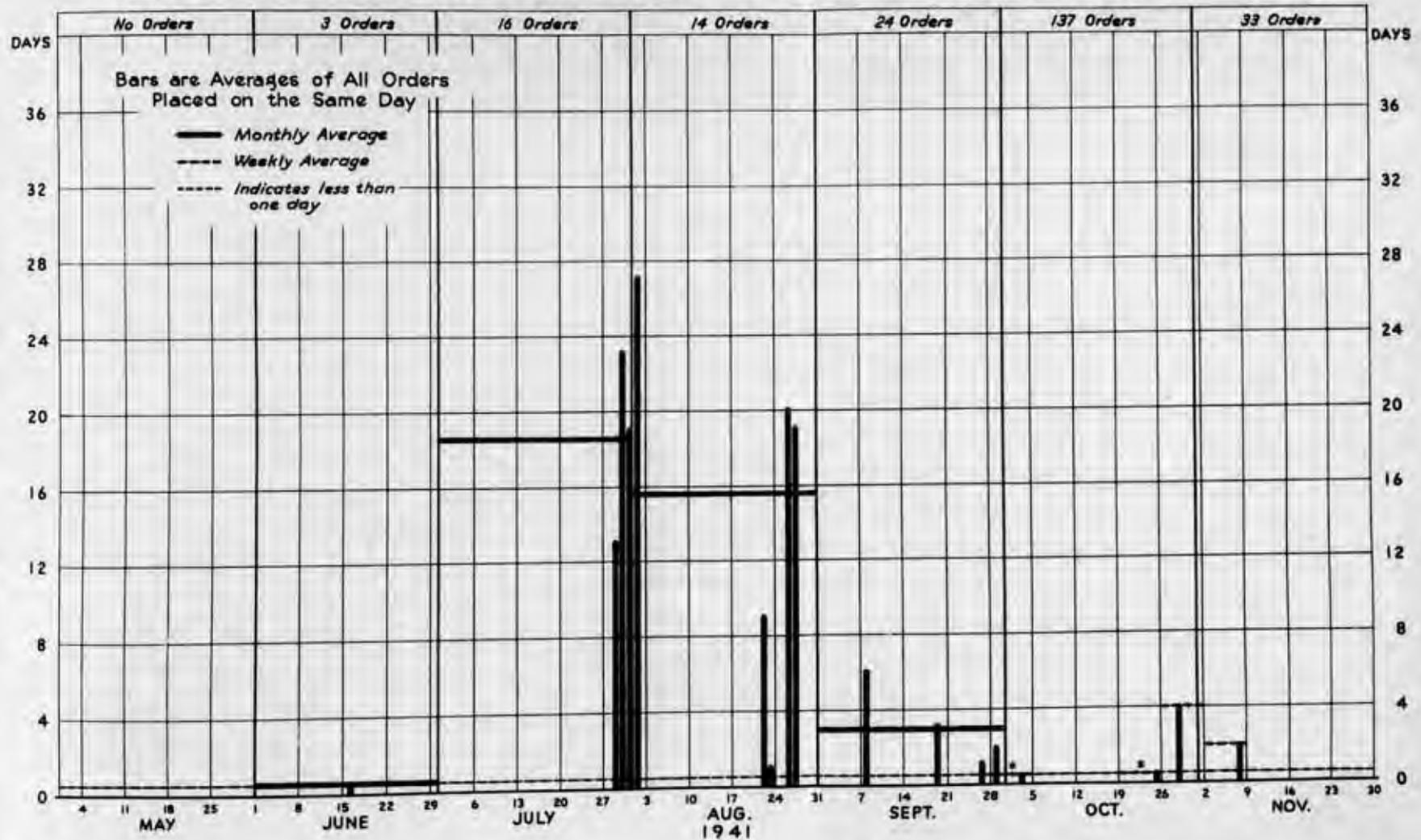
## DROP FORGING ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



## TIN PLATE ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

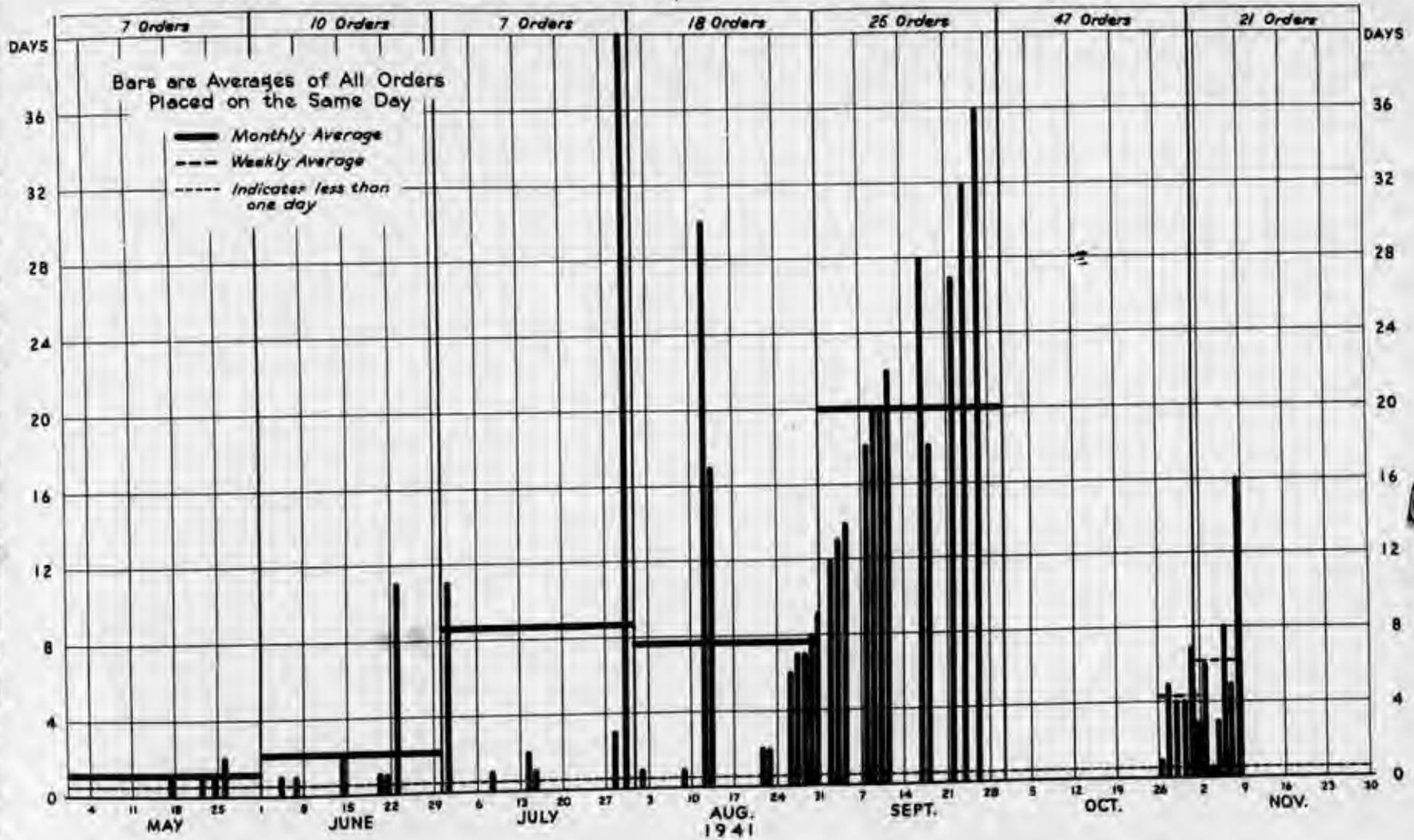
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



\* Purchase Negotiations Completed Prior to Clearance

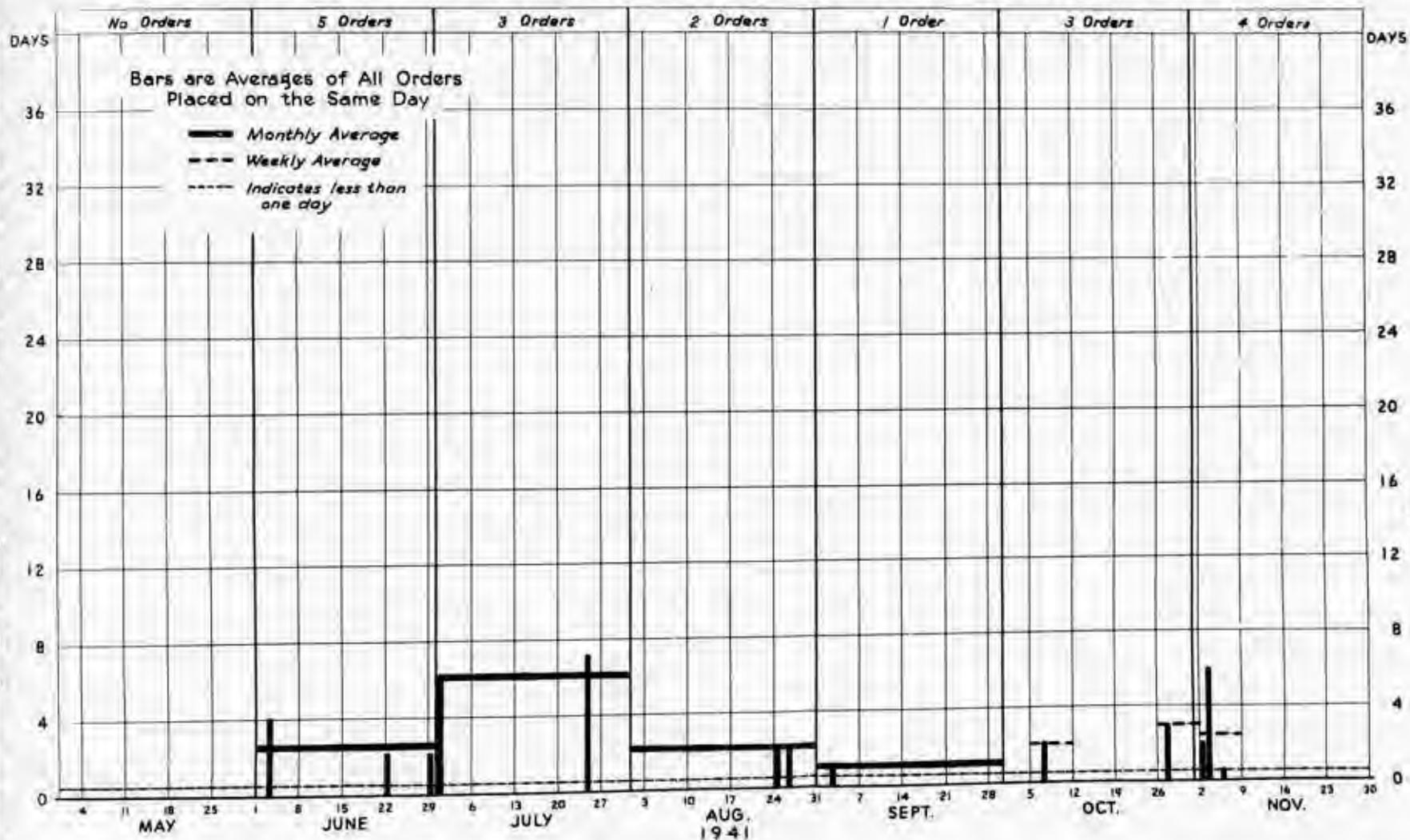
# MISCELLANEOUS STEEL AND STEEL PRODUCT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



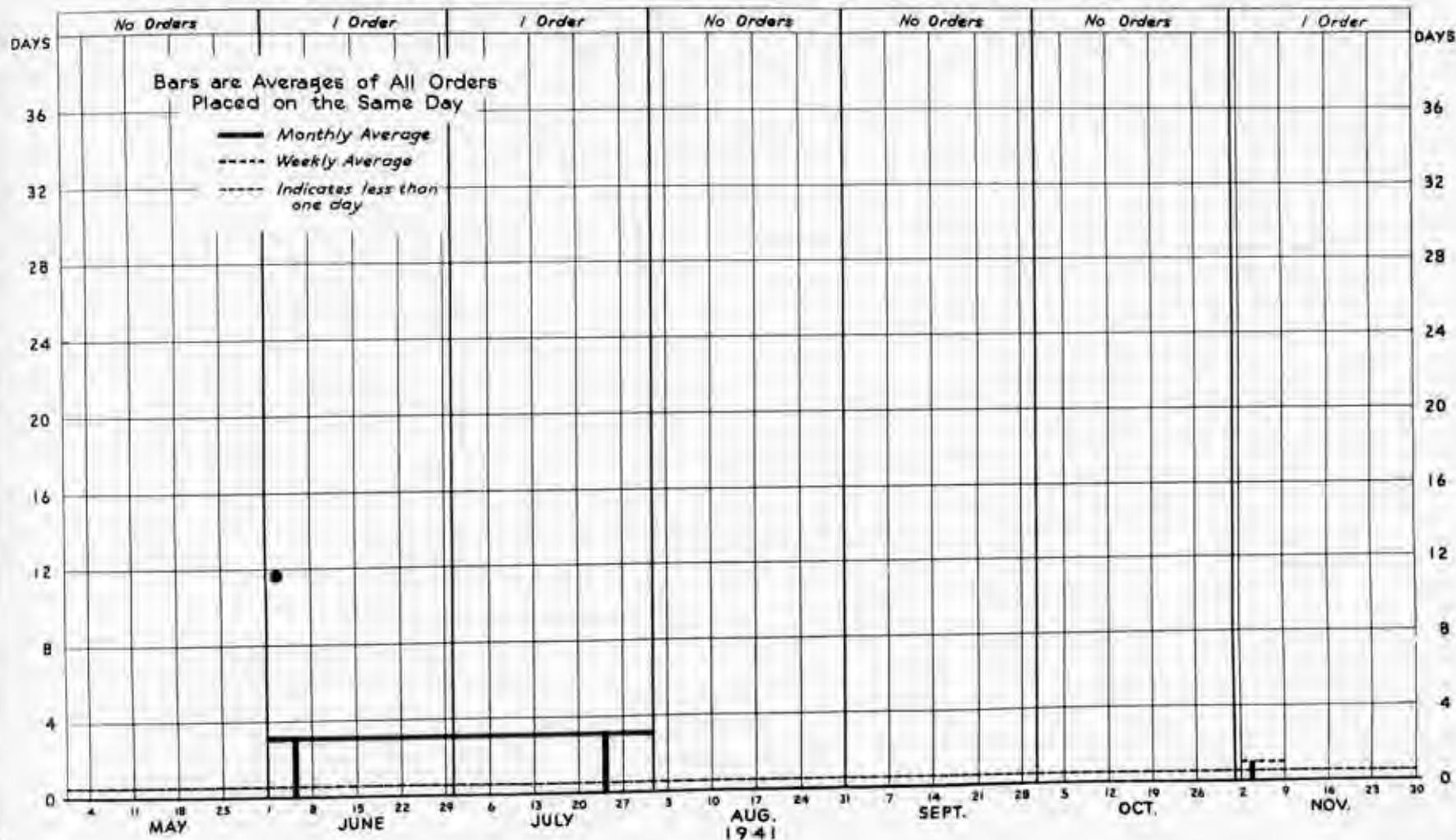
## COPPER ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed

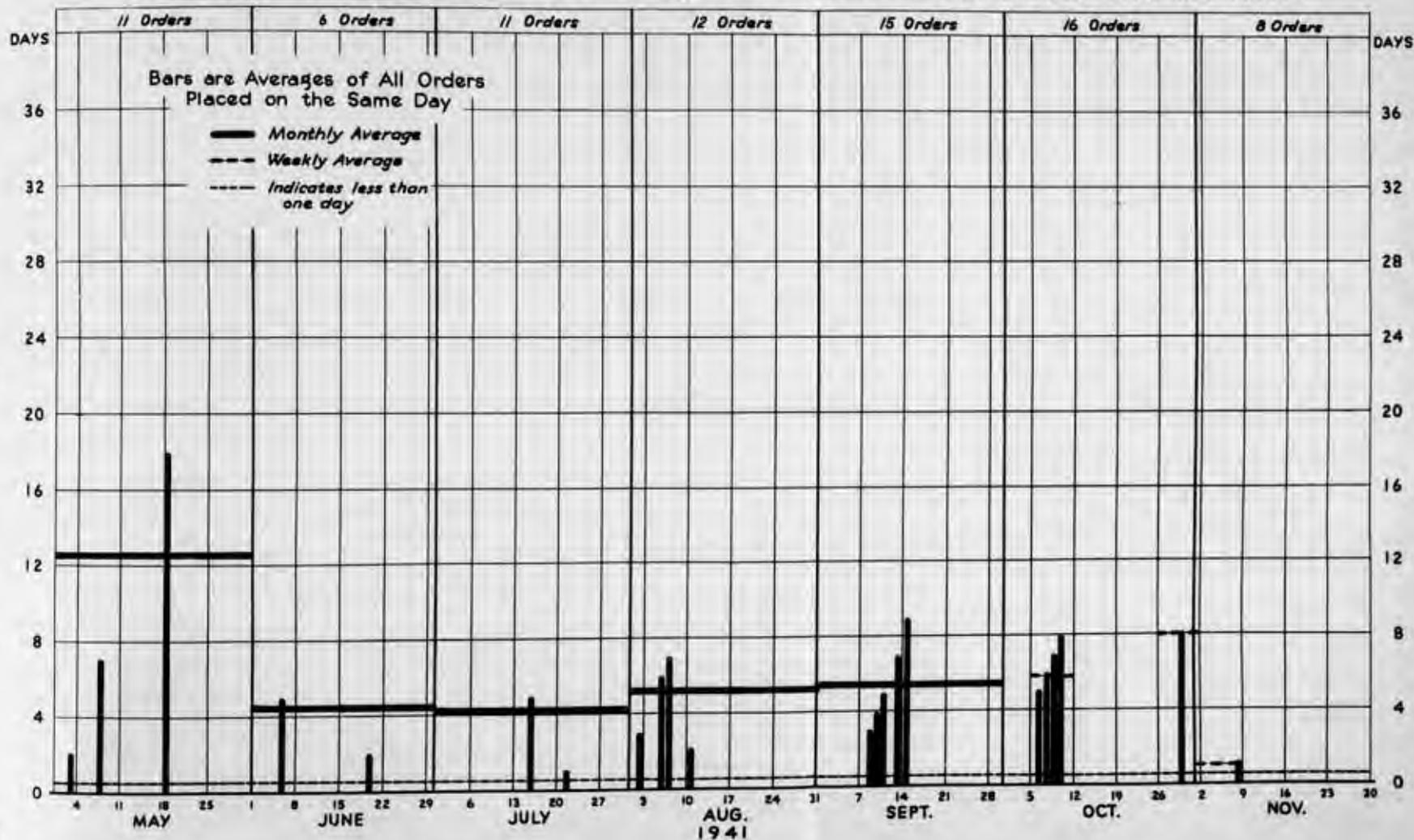


## LEAD ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed

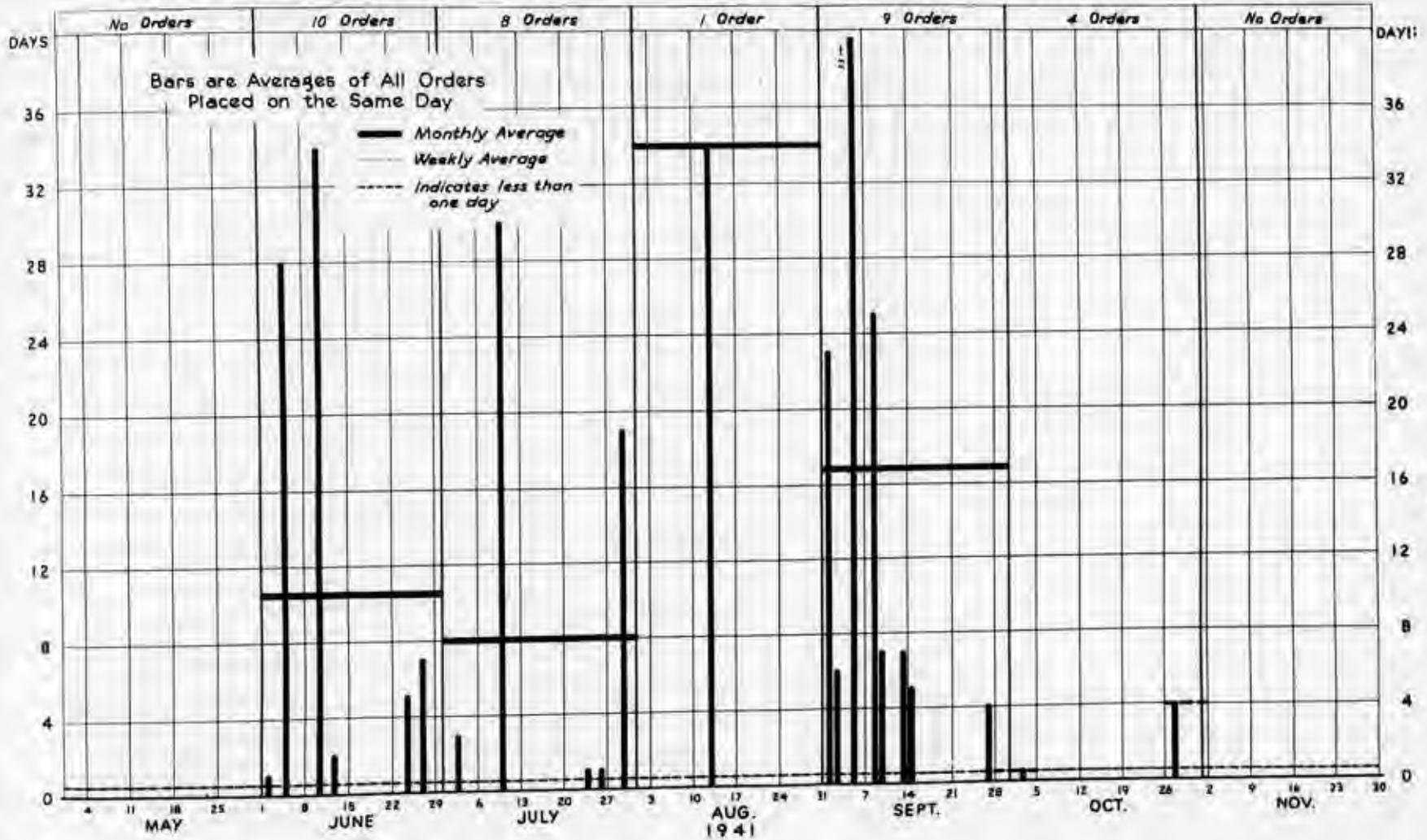


**ZINC ORDERS**  
**EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE**  
 Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



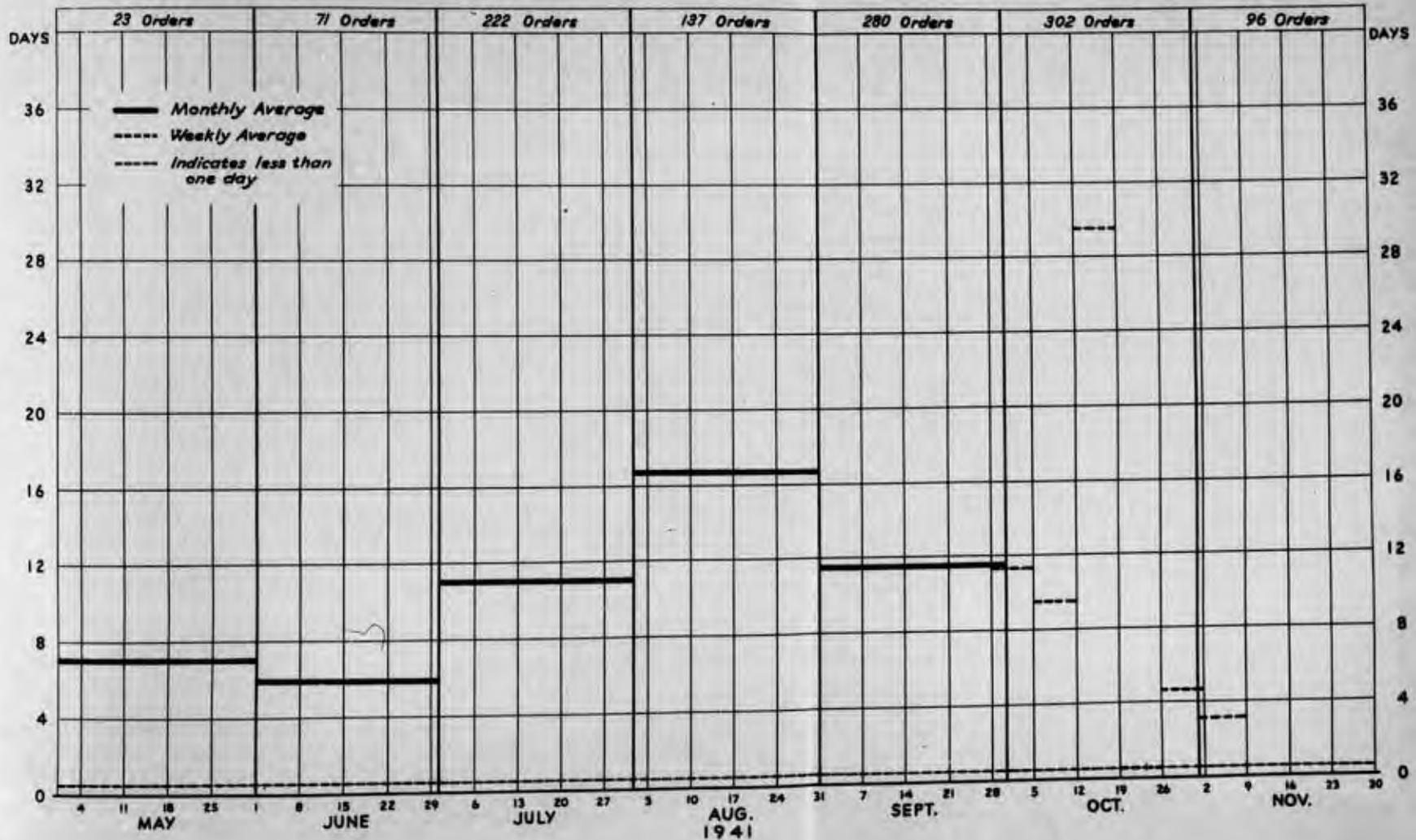
## MISCELLANEOUS METAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



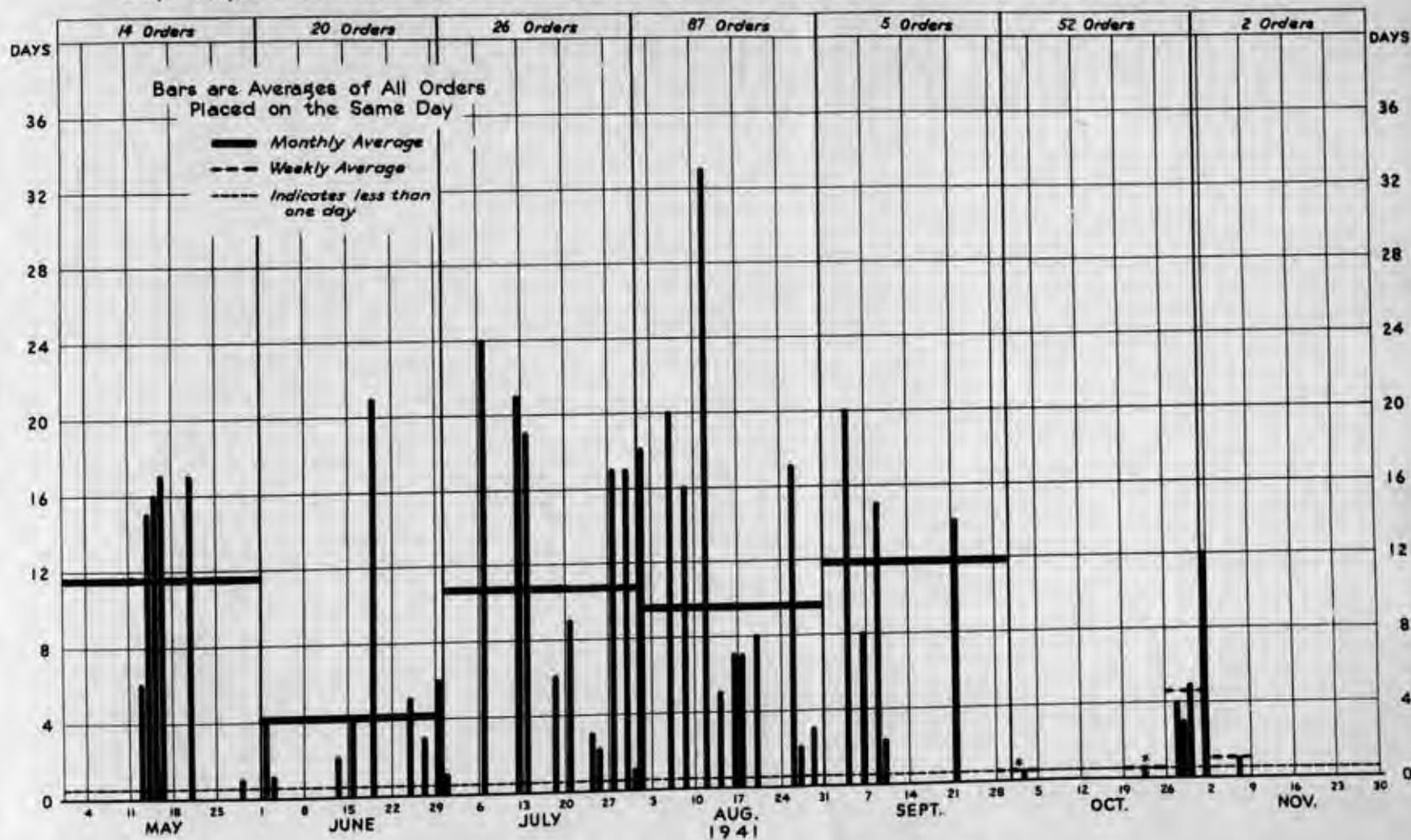
## ALL METAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



## AGRICULTURAL EQUIPMENT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

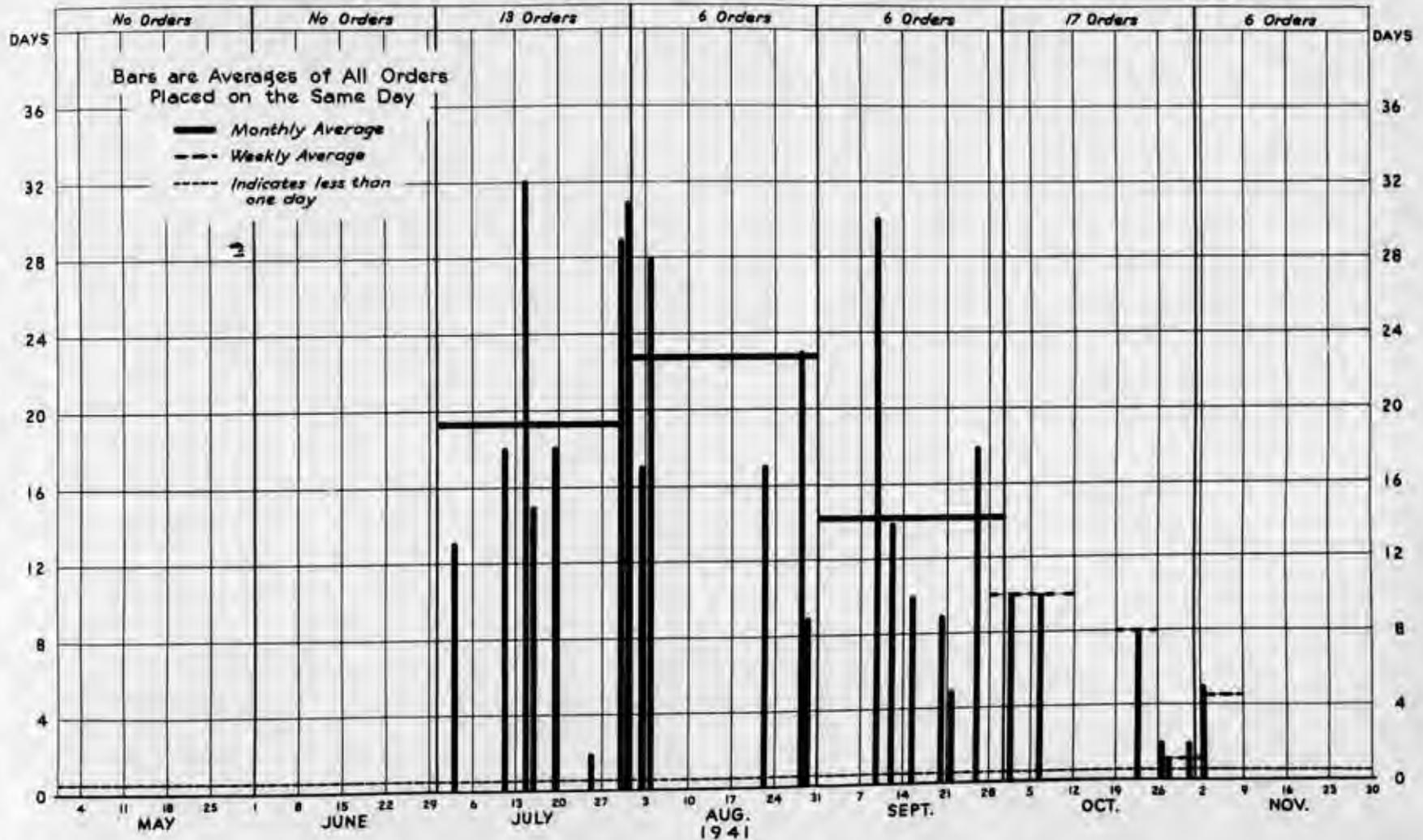
Days Elapsed Between Date of Clearance by OPM and Land-Lease, and Date Order Was Placed



\* Purchase Negotiations Completed Prior to Clearance

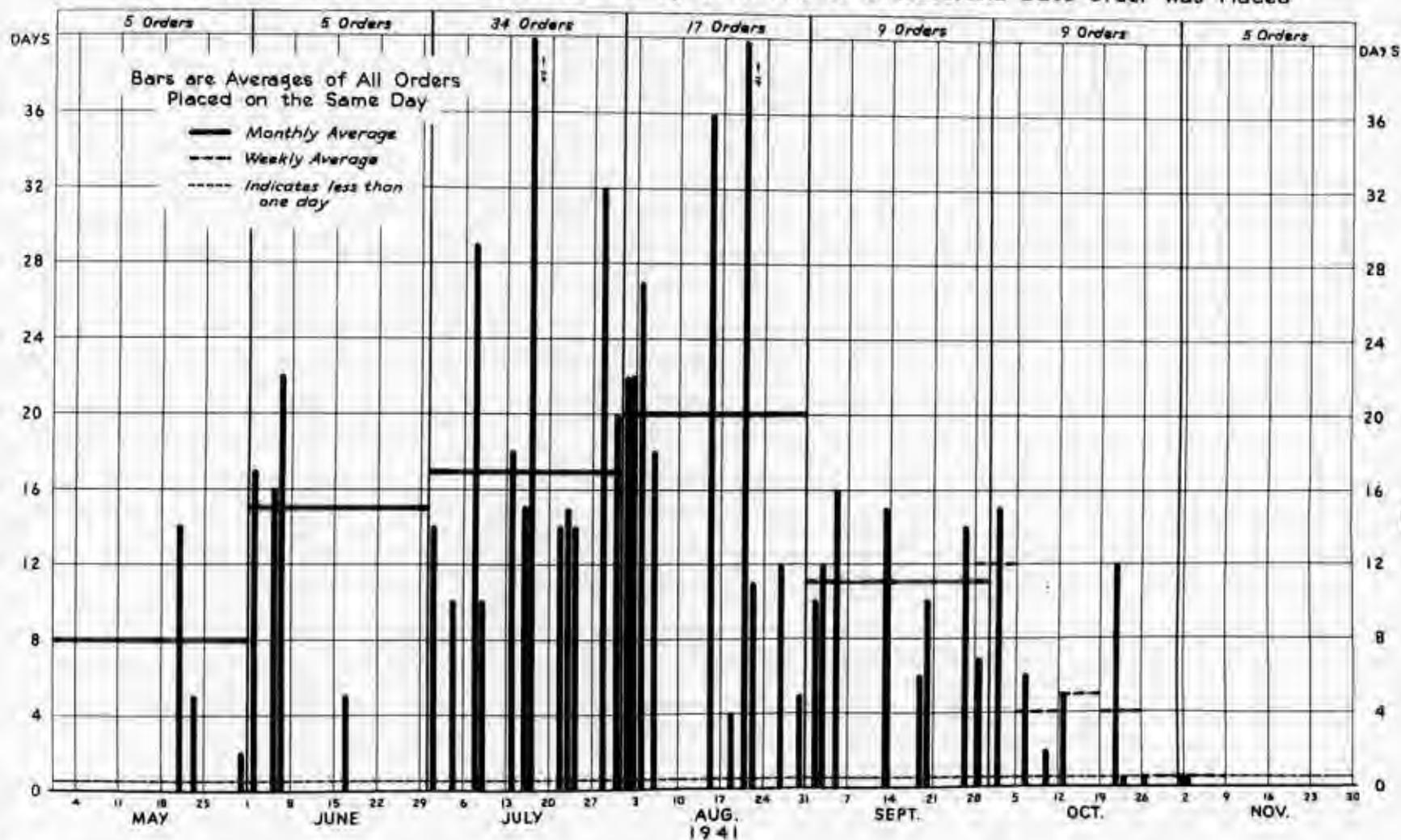
## AUTOMOTIVE EQUIPMENT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



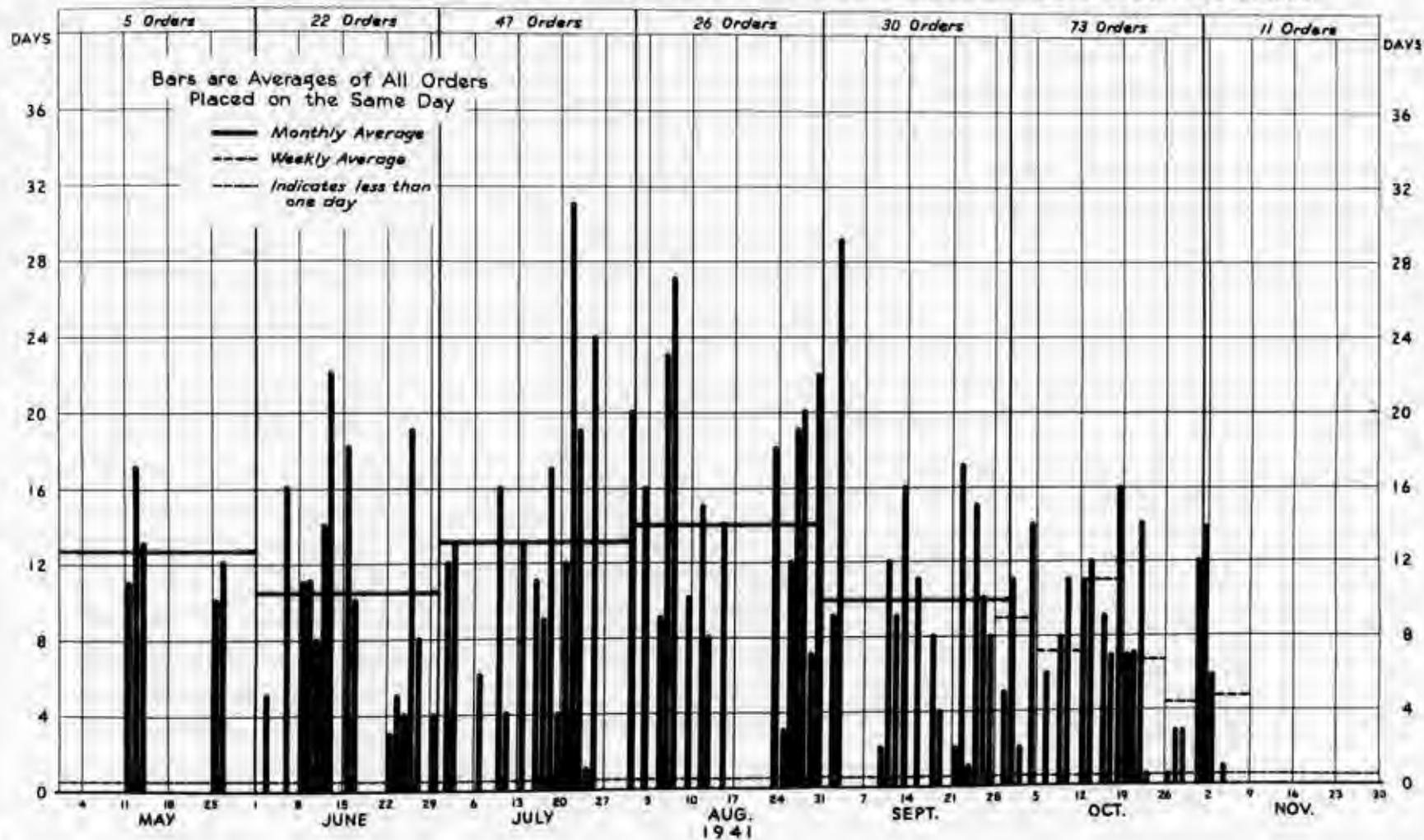
# CHEMICAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



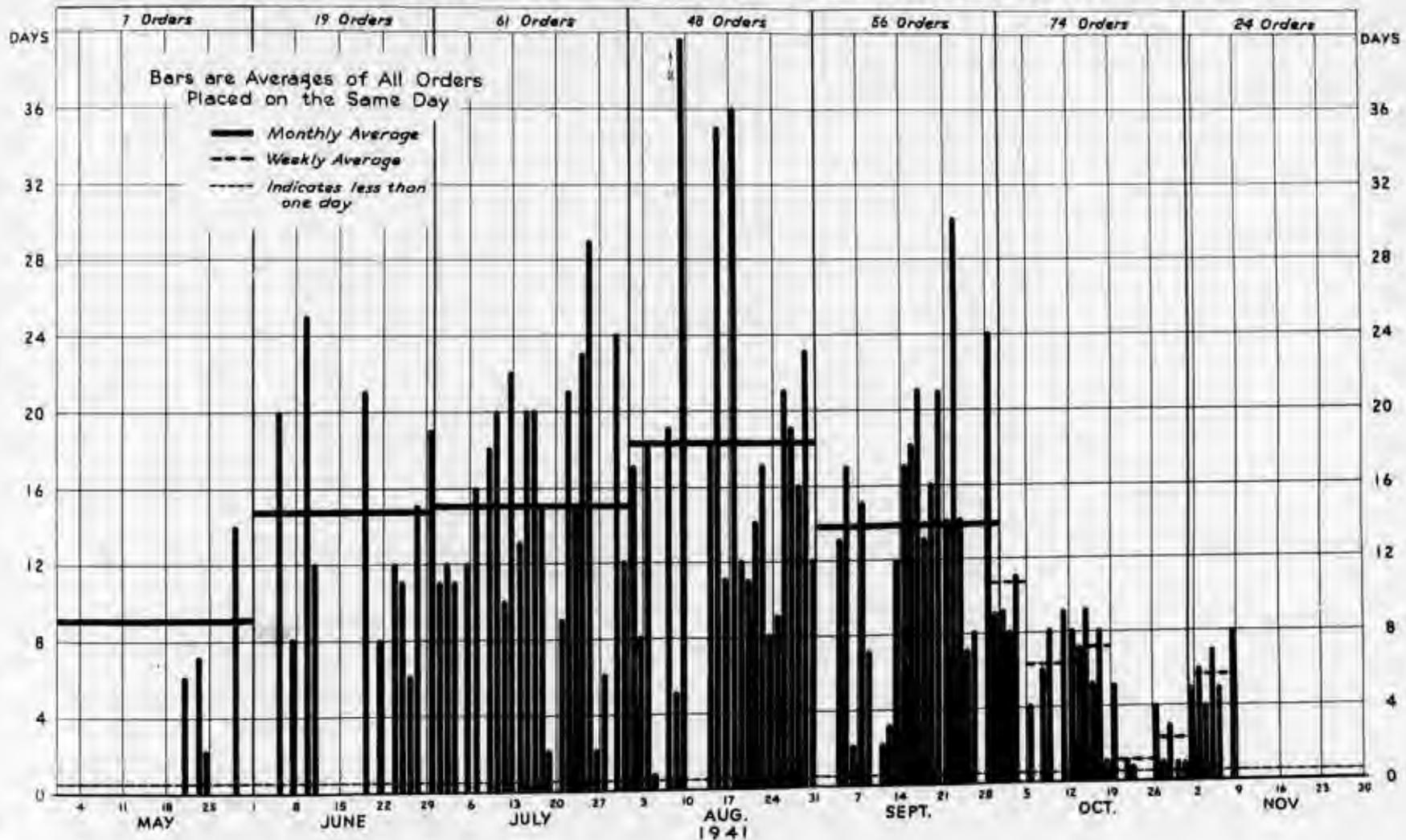
# MACHINERY ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



## MISCELLANEOUS ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



OFFICE OF LEND-LEASE ADMINISTRATION  
FIVE-FIFTEEN 22d STREET NW.  
WASHINGTON, D. C.

E. R. Stettinius, Jr.  
Administrator

November 13, 1941

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

Dear Mr. Secretary,

For your information and use, I  
am sending you herewith two photostatic  
copies of the two letters signed by the  
President on November 11, 1941.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

Attachments

THE WHITE HOUSE  
WASHINGTON

570

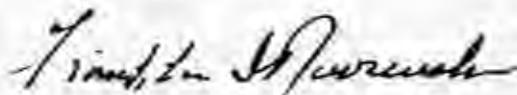
November 11, 1941

My dear Mr. Stettinius:

For purposes of implementing the authority conferred upon you as Lend-Lease Administrator by Executive Order No. 8926, dated October 28, 1941 and in order to enable you to arrange for Lend-Lease aid to all nations already receiving aid in such manner as I shall have directed, whether directly or by way of retransfer, I hereby find that the defense of the following countries is vital to the defense of the United States:

1. India, Burma, the Dominions of Australia, Canada, New Zealand and South Africa, (including mandated territories under Dominion mandate) Newfoundland, Southern Rhodesia and the British colonial dependencies (including mandated territories under British mandate).
2. The Kingdom of Yugoslavia.
3. The Kingdom of Egypt.

Very sincerely yours,



The Honorable

E. R. Stettinius, Jr.

Lend-Lease Administrator

THE WHITE HOUSE  
WASHINGTON

November 11, 1941

My dear Mr. Stettinius:

For purposes of implementing the authority conferred upon you as Lend-Lease Administrator by Executive Order No. 8926, dated October 28, 1941, and in order to enable you to arrange for Lend-Lease aid to the French Volunteer Forces (Free French) by way of retransfer from His Majesty's Government in the United Kingdom or their allies, I hereby find that the defense of any French territory under the control of the French Volunteer Forces (Free French) is vital to the defense of the United States.

Very sincerely yours,



The Honorable

E. R. Stettinius, Jr.

Lend-Lease Administrator

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission,  
who enclose statement No. 6, covering aircraft  
shipped, for week ending November 11, 1941

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

November 13, 1941

STATEMENT NO. 6.

AIRCRAFT DESPATCHED FROM THE UNITED STATES.  
WEEK ENDED NOVEMBER 11, 1941.

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA.
<u>CESSNA</u> T-50	Canada	—	—	—	24
<u>CONSOLIDATED</u> Catalina Liberator II	U. K. U. K.	U. K. U. K.	— —	2 1	— —
<u>CURTISS</u> Kittyhawk	Middle East Canada	Port Sudan —	30 —	— —	— 4
<u>DOUGLAS</u> Boston III	Middle East U. K.	Port Sudan U. K.	5 6	— —	— —
<u>GLENN MARTIN</u> Baltimore	Middle East	Port Sudan	2	—	—
<u>NORTH AMERICAN</u> Harvard II	Middle East Canada	Port Sudan —	6 —	— —	— 12
<u>PITCAIRN</u> Autogiro	U. K.	U. K.	2	—	—
TOTAL			51	3	40

British Air Commission,  
November 13, 1941.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

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TELEPHONE: REPUBLIC 7860



BOX 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

November 13, 1941

SECRET

Dear Dr. White:

The figures at the close of business on November 7th are as follows:

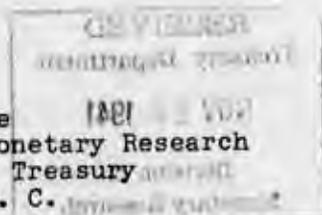
Total Gold (Including Belgian	366
Official dollar balance	<u>119</u>
Total gold and dollars	485
Less: Belgian Gold	105
Scattered Gold	33
Reserve against immediate liabilities	<u>10</u>
AVAILABLE GOLD AND DOLLARS	337

The increase in the dollar balance reflects a further instalment of \$100 millions on the R.F.C. Loan partly which has already been spent.

Yours sincerely,

*T. K. Bewley*  
T. K. Bewley

Dr. H.D. White  
Director of Monetary Research  
United States Treasury  
Washington, D. C.



11/13/41

315 ✓

Sent directly to Secretary Ickes by  
Mr. White's office today.

November 13, 1941

Secretary Morgenthau

Mr. White

Subject: Oil Shipments to Spain

U. S. exports of petroleum products to Spain in the four weeks ending November 8 have been as follows:

(In Thousands of Barrels)

	<u>Total</u> <u>4 Weeks</u>	<u>Nov. 8</u>	<u>In week ending</u>		<u>Oct. 18</u>
			<u>Nov. 1</u>	<u>Oct. 25</u>	
Aviation Lubricating Oil	40.5	40.5	-	-	-
Other Lubricating Oil	1.2	1.2	-	-	-
Aviation Gasoline	1.6	-	1.6	-	-
High Octane Gasoline	66.0	-	-	66.0	-
Fuel and Gas Oil	172.5	127.7	44.8	-	-

Source: U. S. Treasury Department, Office of Merchant Ship Control

WLU:as  
11/13/41

November 15, 1942

Mr. Bernstein

Mr. Stetson

Mr. Cohen of Nelson Rockefeller's office called me and inquired whether, if Brazil wished to purchase gold here and then imported that the gold be shipped to Brazil, such transaction would be allowed. I told Mr. Cohen that the Federal Reserve Bank of New York has a license to export and ship unworked gold but that he should remember that in times like the present all such transactions are scrutinized by the Treasury.

I asked Mr. Cohen what gave rise to his inquiry and he said that Brazil was one of the countries accumulating dollar exchange as a result of not being able to purchase all the goods it would like to in the United States and that Mr. Rockefeller's office was considering some way of immobilizing the excess dollars of Brazil. He also mentioned that nothing definite had been done about this matter but that they were exploring possibilities.

I told Mr. Cohen that recently we had consummated a purchase of mirrors under our stabilization agreement with Brazil and that gold had been pledged as collateral. In view of this transaction I told Mr. Cohen that perhaps at the present time the Brazilians were short of dollar exchange or if they had dollars available they preferred not to use them but to obtain dollars from us under the stabilization agreement. I also explained that the Brazilians may be retaining part of their dollar balances to cover dollar accounts which they are carrying on their own books. Mr. Cohen expressed surprise to hear this and said that his office would delve into the matter of Brazilian balances more thoroughly.

Mr. Cohen brought up the question of the use of gold by South American countries and I told him there was an application under consideration whereby the Central Bank of Peru wishes to buy gold owned by it to Banco Alfas, which is to be held for account of the Swiss National Bank. He said he was glad to get the information that I had given as it threw additional light on the question of holding up dollar balances in the United States by South American countries.



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DEPARTMENT OF STATE  
WASHINGTON

318

November 13, 1941

In reply refer to  
FF 853.515/40

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of the paraphrase of telegram No. 1634, dated November 1, 1941, from the American Embassy, Rio de Janeiro, Brazil, and five copies of the paraphrase of telegram No. 1041, dated October 29, 1941, to the American Embassy, Rio de Janeiro, Brazil, concerning the Government Banks of Portugal and Switzerland informing the Bank of Brazil that they may ship gold to Brazil for safekeeping.

These telegrams have further reference to telegram No. 1553. Copies of the paraphrase of telegram No. 1553 from the American Embassy, Rio de Janeiro, Brazil, dated October 21, 1941, were sent to the Secretary of the Treasury in this Department's letter of October 24, 1941.

Enclosure:

1. From Embassy, Rio de Janeiro, Brazil, No. 1634, November 1, 1941, 3 p.m.
2. To Embassy, Rio de Janeiro, Brazil, No. 1041, October 29, 1941, 5 p.m.

COPY

PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Rio de Janeiro

Dated: November 1, 1941, 3 p.m.

No.: 1634

This is in reference to telegram no. 1041 sent by the Department on the twenty-ninth of October. Further inquiries from Switzerland and Portugal have not as yet been received by the Bank of Brazil. I know, however, that this matter has been discussed with Aranha by the Ambassador of Portugal here.

Portuguese and Swiss banks have been informed by the Bank of Brazil that although it will receive the gold, it will be returned only to QUOTE rightful owners UNQUOTE.

GAFFERY

FF:FL:MCW

Copy:lc:11/15/41

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320

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil.

DATE: October 29, 1941, 5 p.m.

NO.: 1041.

Reference is made to the Embassy's telegram No. 1553, 9 p.m., under date of the 21st of October.

It is the Department's wish that you follow as closely as possible any further developments in this matter. Has the Bank of Brazil received any indication as to the probable origin of the gold to be shipped to Brazil? That is, whether shipments of gold would be from the United States or Europe?

HULL  
(FL)

COPY:hmd:11/15/41

November 13, 1941

Mr. Liveness

Mr. Dietrich

Will you please send the following cable:

TO THE DIPLOMATIC MISSIONS IN CENTRAL AND SOUTH AMERICA:

"Please inform Department for transmission to Treasury regarding any recent and all future shipments of gold from Japan. With reference to these shipments, it is desirable to know if they are in payment for goods delivered or for the establishment of exchange assets for future purchases. Information urgently needed."



Note: Mr. White's division stated that this instruction should be sent to Philip Hensel, Chief of Division of American Republics.

COPY

TREASURY DEPARTMENT  
UNITED STATES COAST GUARD  
Washington

\*\*\*\*\*

13 November, 1941.  
(3:05 a.m. S.S.T.)

From: Spagat, Shanghai, China.  
Re: Secretary of the Treasury.

Gochran left Hongkong via the clipper on the  
twelfth. He asks that Pan-American, Washington, safeguard  
his priority through to San Francisco.

Received Washington  
13 November, 1941  
(6:21 a.m.)

NOTE: Mr. Dietrich contacted Mr. Rothrock at Pan-American  
Airways who said that Mr. Gochran's priority was  
secured to San Francisco.

shicoy - 11:13:41

November 13, 1941

Mr. Liversy

Mr. Dietrich

Will you please send the following cable to the American Consulate,  
Hong Kong:

"Per Fox from the Secretary of the Treasury.

If the Board can spare Mr. Taylor's services without too much inconvenience I would appreciate it if Mr. Taylor could be sent to Washington for a consultation visit. Inform us as soon as necessary approval is obtained."



FD:dm:11/13/41

## TELEGRAM SENT

MA

GRAY

November 13, 1941

9 p.m.

AIRMAIL CONSUL,

HONG KONG, (CHINA) VIA N. R.

406.

FOR FOX FROM THE SECRETARY OF THE TREASURY.

QUOTE If the Board can spare Mr. Taylor's services without too much inconvenience I would appreciate it if Mr. Taylor could be sent to Washington for a consultation visit. Inform us as soon as necessary approval is obtained. END QUOTE

HULL  
(FL)

FF:VCL

November 13, 1941

Mr. Livesey, State Department

Mr. Dietrich, Secretary's Office

Will you please send the following cable to the American Embassy, London:  
"For Lauren W. Casaday from the Secretary of the Treasury.

Please prepare at once and transmit by cable the pros and cons of the present British excess profits tax paying attention also to the fact that 100 percent is collected and also that 20 percent is savings. If you can, summarize the reactions of business, labor, and government officials as to the tax and its workings. Try to send a preliminary cable in a few days and follow it with additional cables and if necessary with a comprehensive memorandum on the subject by airmail."

TELEGRAM SENT

LET

GRAY

November 13, 1941

10 p.m.

AMEMBASSY,

LONDON, (ENGLAND)

5169

FOR LAUREN W. CASADAY FROM THE SECRETARY OF THE  
TREASURY.

QUOTE Please prepare at once and transmit by  
cable the pros and cons of the present British ex-  
cess profits tax paying attention also to the fact  
that one hundred per cent is collected and also that  
twenty per cent is savings. If you can, summarize  
the reactions of business, labor, and government  
officials as to the tax and its workings. Try to  
send a preliminary cable in a few days and follow  
it with additional cables and if necessary with a  
comprehensive memorandum on the subject by airmail.  
UNQUOTE.

HULL  
(FL)

FF:FL:EMcB

TREASURY DEPARTMENT

337

INTER-OFFICE COMMUNICATION

DATE November 13, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$51,000
Purchased from commercial concerns	\$115,000

Of the latter amount, \$75,000 represented the proceeds of machinery exports.

In the open market, sterling opened and closed at 4.03-1/2, with 4.00 being paid around noontime. Reported transactions consisted of \$2,000 sold to and \$8,000 purchased from commercial concerns.

The Uruguayan free peso advanced 50 points (1/2%) to reach a new high of .4725.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	11-1/2% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2530
Cuban peso	1/8% discount

The Federal Reserve Bank of New York reported that it purchased 214,000 Swiss francs in New York by order and for account of the Central Bank of the Uruguayan Republic. According to the latter, the Swiss francs are needed to meet overdrafts arising from commercial transactions.

We purchased \$1,680,000 in gold from the earmarked account of the Bank of Mexico. Yesterday, we made a similar gold purchase valued at \$1,687,000.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 3½. Handy and Harman's settlement price for foreign silver was also unchanged at 3½-3/4.

We made no silver purchases today.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

1129

DATE November 13, 1941

TO Secretary Morgenthau

FROM Mr. Kamarok

Subject: Military Report: Developments in the Last Three Weeks  
(Based on conference with M.I.D.)

Russo-German War

1. The major development in the war in the last three weeks was the almost complete halt of the German offensive. Aside from the Crimea and a sector near Leningrad there were no important gains made by the Germans in this period.

Lack of progress in the north and the center might be discounted as due mainly to bad weather, but the absence of any sizeable progress in the southern sector is the real surprise. While Colonel Betts, Situation Officer, was not willing to advance it as an absolute certainty, he believes it to be very probable that the enormous German casualties are at last having an effect. Colonel Betts even thought that it was doubtful whether the Nazis will have enough energy left, should they break through at Rostov, to make a large-scale attempt to gain the Caucasus this winter.

When it is recalled what Axis spokesmen were saying at the start of the offensive, the lack of German progress in recent weeks shows it to be a real Nazi set-back.

- (a) Six weeks ago, on October 2, Hitler issued an order of the day to his soldiers initiating the offensive, stating:

"During these three and one-half months, my soldiers, the pre-condition at least has been created for a last mighty blow which shall crush this opponent before winter sets in.

"All preparations, so far as human beings can foresee, have been made. Step by step has been prepared planfully to maneuver the opponent into such a position that we can now strike a deadly blow.

- 2 -

"Today begins the least great, decisive battle of this year. It will hit this enemy destructively and with it the instigator of the entire war, England herself.

"The German people, therefore, will be with you more than ever before during the few ensuing weeks.

"With bated breath, the blessing of the entire German homeland accompanies you during the hard days ahead. With the Lord's aid you not only will bring victory, but also the most essential condition for peace."

(b) On October 9, the Reich press chief, Dr. Otto Dietrich, after a conference in Hitler's field headquarters, announced in Berlin:

"...the last complete Soviet armies, those of Marshal Semyon Timoshenko defending Moscow, are locked in two circles and face inescapable destruction.

"...the southern armies of Marshal Semyon Budenny are routed, and virtually the only hindrance to further German conquest there is the human and mechanical factor of how fast men can drive machines.

"The military decision has already fallen. The rest of the operations will take the course we wish them to. For all military purposes Soviet Russia is done with. The British dream of a two-front war is dead."

2. It is becoming generally agreed that German casualties are running at a minimum of 12,000 a day or 1,500,000 to date. This represents about a third of the German Army. With such losses, the absence of the old German energy and drive in the south is understandable.

The Rumanian Army has largely withdrawn from the war. The bulk of the army (19 divisions) is now back in Rumania and probably will be demobilized. Only a few token divisions have been left to help the Germans. In view of the German need for more troops, the return home of the Rumanian Army must indicate a bad internal situation in the country and among the troops.

3. Because of the weather, we can expect a stalemate to set in around the first of December for the winter along most of the northern and central fronts.

#### Far East

Aside from a concentration of Japanese troops in northern French Indo-China during the past ten days, there have been no major developments. There are no evidences, as yet, of an imminent Japanese attack on Siberia.

The Japanese, now, have about 20,000 soldiers in northern Indo-China. While there is some talk that these are designed for an attack on the Burma Road, it is hardly likely. In view of the terrain difficulties in Yunnan province, much more than this number of troops would be necessary for such an expedition.

Other more likely purposes of this concentration are an invasion of Thailand or the creation of a strategic reserve in Indo-China. The most favorable weather for an invasion of northern Thailand is the early part of December and this force might be designed for such a task. Northern Indo-China is also a fairly good location for a strategic reserve of troops for possible defense or offense in the South China Sea.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

331

DATE November 13, 1941

TO Secretary Morgenthau

FROM Mr. Kamarok

Subject: Summary of Military Reports

Russo-German War

The British state that the morale of the garrison and population of Leningrad is reported to be very good.

(U.K. Embassy, London Telegram, November 10, 1941)

In order to relieve the shortage of supplies of their troops on the Russian front, the Italian Government has ordered them to live as much as possible on the resources of the country. Supplementary provisions are being sent to the troops by air. (This report shows that the Russian "scorched earth" policy is of real value.)

(U.K. Embassy, London Telegram, November 11, 1941)

Battle of the Atlantic

On November 8, aircraft from the "Audacity" (not listed in Jane's, may be a small aircraft carrier), shot down two Focke Wulf four-motor bombers. A Grumman Martlet was lost. (The British are increasingly providing their convoys with air protection. Since the long-range German bombers cannot be protected by fighters, fighter planes carried by the convoy escort should be particularly effective.)

(U.K. Embassy, London Telegram, November 10, 1941)

According to the following figures, only a little over half of the ship sinkings have been caused by submarines. Airplanes accounted for 17 per cent of the total losses, while mines and raiders each took a toll of 11 per cent.

- 2 -

Division of Monetary  
ResearchCauses of U.K., Allied, and Neutral  
Merchant Marine Losses  
(From September 3, 1939 - October 31, 1941)

	<u>Gross Tons</u>	<u>% of Total Losses</u>
Submarines	4,384,000	53
Air attack	1,426,000	17
Raiders	942,000	11
Mines	915,000	11
Capture	291,000	4
All other causes, and cause unknown	<u>303,000</u>	<u>4</u>
	8,261,000	100

(Office of Naval Intelligence, Table M-IV)

BRITISH EMBASSY  
WASHINGTON, D.C.

November 12th, 1941.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halper*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated November 11th.

1. Naval. His Majesty's Submarine Trident reports the following attacks vicinity North Cape a.m. November 3rd scored hit on eastbound convoy escorted by trawlers; shortly afterwards scored probable hit on 2,000 ton vessel proceeding westward from the same convoy. Night of November 6th/7th scored hit on escorted vessel which turned away but was not seen to sink.

2. His Majesty's Ship Quantock shot down Dornier 215 off Whitby p.m. November 10th.

3. On October 23rd His Majesty's Submarine Truant in the Adriatic south of Italy attacked southwest bound convoy 3 merchant ships 1 AMC; 1 ship of 3500 tons torpedoed and sunk AMC 8000 tons also hit proceeded at 10 knots. On October 24th Truant failed to torpedo 3500 tons ship so set vessel on fire by gunfire; still burning 9 hours later. On October 31st, south east of Ortona she scored hit on convoy of 3 tankers and 1 destroyer.

Military.

4. Russia. Leningrad sector Germans claim that their forces operating between Lake Ladoga and Lake Ilmen have captured Tikhvin on Leningrad Vologda Railway may well be true. The Crimea, German drive towards Kerch is continuing.

5. Italy. To relieve shortage of supplies of their troops fighting in Russia Italians have ordered them to live as much as possible on the resources of the country and are sending supplementary provisions by air.

Royal Air Force.

6. United Kingdom. Night of November 9th/10th Hamburg 96 tons of H.E. bursts seen on Blohm and Voess shipyards. Other targets identified and successfully

attacked/

-2-

attacked several large fires started. Total of 22 tons of H.E. on Ostend and Dunkirk. Day of November 10th. Hudson claimed two hits on 10,000 tons merchant vessel southeast of Egersund. Night of November 10th/11th. No bombing operations owing to weather.

7. Middle East. Night of November 9th/10th. Attacks on submarine base at Augusta and power station at Messina; also 6 hours nuisance raid on Naples.

BRITISH EMBASSY  
WASHINGTON, D.C.

November 11th, 1941.

PERSONAL AND SECRET.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable  
Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

TELEGRAM FROM LONDON DATED NOVEMBER 10th. 1941.

**Naval.** On 9th Fleet tug Buccaneer with battle practice target in tow bombed and damaged off Montrose.

2. Result of attack on Italian convoy east of Messina Straits during night of 8th/9th two destroyers sunk, one damaged, nine merchant vessels set on fire and sunk. One large tanker left heavily on fire considered total loss; sighted still burning on 9th. No survivors picked up. Our ships were undamaged. A.M. 9 enemy aircraft made torpedo attack on British force without success.

3. On 9th His Majesty's Submarine "Upholder" attacked enemy force east of Messina sank one destroyer, damaged another.

4. H.M. Submarine "Thrasher" fired torpedo at 800 ton schooner off Benghazi on October 28th: though no hits scored crew abandoned ship which was sunk by gunfire.

5. On 8th, aircraft from "Audacity" shot down two Focke Wulf 200 aircraft; one Martlet lost.

6. Military.  
Russia. Russian counter-attacks in Murmansk sector have driven Germans back to River Litsa. Leningrad: morale of garrison and population is reported to be very good. Kalinin sector: German attempts to cross river Bura have been unsuccessful. Tula, Germans have made heavy attacks with mechanized forces but the situation is in hand. Donets Basin: German attempts to cross river Donets have failed. Stepoff sector: Germans are attacking north west of the town. Grison: Germans have reached Yalta and made some progress towards Kerch.

7. Royal Air Force.  
United Kingdom. Night 8th/9th, Essen 45 tons of H.A., Dunkirk 20 tons, Ostend 12 tons. Night of 9th/

## 8.

10th main operations Hamburg (100) and small forces against Ostend and Dunkirk.

8. Middle East. Night of 7th/8th. Brindisi attacked (30 tons H.B.) hits claimed on aircraft factory, torpedo boat base and railway centres: Naples (20 tons H.B.) fires started railway centres and near torpedo factory: targets in Sicily including Bitumen Factory at Ragusa and gun powder factory near Comiso.

9. On 7th, night of 7th/8th and following day Harbour and Work shops at Derna and Benghazi were attacked.

10. On 7th and 8th: Blenheims attacked two medium merchant ships escorted by one destroyer first 150 miles W.S.W. Cape Matapan, later about 180 miles north of Benghazi. During first attack one ship was hit by four 250 lb. bombs. After second attack one merchant ship seen on fire, the other stationary with crew abandoning ship.

BRITISH EMBASSY  
WASHINGTON, D.C.

November 13th, 1941

PERSONAL AND SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable  
Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D. C.

Telegram from London dated November 12th, 1941.

Naval. Night of 8th 9th. Norwegian ship 3655 tons in convoy was sunk by enemy aircraft off Flamborough Head.

Royal Air Force.

United Kingdom. Day of 11th. Power station and railway targets attacked in Northern France. Coastal aircraft sank 900 tons merchant vessel off Den Helder.

Middle East. Night of 9th 10th. Attacks on Bengasi, Berca, Bardia, and dumps and M.T. at Bir Hacheim south-south-west of Tobruk. Night of 10th 11th Naples, Brindisi, Bianco bombed.

RESTRICTED

G-2/2657-220; No. 543 M.I.D., W.D. 11:00 A.M., November 13, 1941

SITUATION REPORTI. Eastern Theater.

Ground: There is no change in the situation at Leningrad and Moscow.

No information is available covering operations in the Donets Basin.

The Germans are mopping up the Crimea and are closing in on Sevastopol and Kerch.

II. Western Theater.

Air: Bad weather curtailed R.A.F. activity last night for the third successive night. London reports that only one Nazi plane appeared over England last night.

III. Middle Eastern Theater.

Air: The R.A.F. in North Africa was reported to be furnishing support to a British land force assault on the Italian garrison at Gondar, in Ethiopia.

RESTRICTED