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- H.M.Jr: Morris Wilson seemed very happy over that.
- Purvis: I finally got worried about it, and pressed Morris very hard to bring those people into line, because they were taking a rather strong position on this. We got to the point that the machine gun program as it affects both the air and the tank is a case where owing to it having started a little earlier, the Army has been dealing with two or three people and has given us permission to deal with two or three people, and I think there is a great deal to be said for getting those together if we can. If they are too far advanced to bring them together at the machine gun stage, my hope had been that it might be possible to get them together at the machine tool for the machine gun stage and perhaps create some holder that licensed all the tools and loaned them to the contractors.
- H.M.Jr: Well, to get back to this formula, I wonder whether this couldn't be done today, Phil, on one piece of paper we could talk in terms of - I don't know - if you could put on one piece of paper that the United States Army has bought so many tanks of - what do you call it, N-3 - that they may want so many more and they have a capacity of five a day at Chrysler on an eight hour shift. The English want 20 a day. They might get five from Chrysler. Now, the Army has testified that the capacity in this country is so much, whatever it is, you see. What I am thinking of is, if the Army could always put their testifying on an eight hour shift basis --
- Purvis: I see your point.
- H.M.Jr: Then the English can take up the slack. In other words, let the Army set - did they say they might need 20 tanks a day?
- Young: No, the British want 20 tanks.
- Purvis: Somebody certified that a capacity of 20 would be good from a defense viewpoint. That was the Defense Advisory Commission.

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- Buckley: The Defense Commission.
- H.M.Jr: Let's just say those figures are right and they say they are willing to testify they need 20. They can do that on an eight hour basis. The English need 20, and there you are. Provided that the Army is willing to finance the manufacturers so they will be in such shape that they can manufacture 20.
- Purvis: In that particular case, the Army will probably say, "Well, we will only finance up to ten but we certify that the existence of 20 would be helpful." Is that about their position?
- Buckley: That is their position.
- H.M.Jr: Let's say whatever their position is, we will get it down on one sheet. Then if you go just as far as you can with the Army and then - all on this eight hour idea --
- Purvis: I see your idea.
- H.M.Jr: Then where you use up all that capacity and you still need more, you go to the manufacturer and make your own deal, just the way you did originally.
- Purvis: In the meantime, we are having a very substantial basis already arranged.
- H.M.Jr: Yes, arranged at once. Then the Army is out of it. We will just say, "All right, Army, we have gone this far together. Now do we have your permission to go to Mr. 'X'? We would like to give him an order for five tanks a day and we will arrange the financing directly with him and all the rest of it. We don't want the RFC or anybody else. We will just make the deal with him." You would come out better in the long run on that. This business of you and the Army and the RFC and all these other people sitting around the table is wasting too much valuable time and if you could go as far as possible along the way I am talking, then when we have reached the end of that road,

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you just sit down with the manufacturer and make the best deal that you can.

Purvis: Yes. In the meantime, we would already have a substantial amount of what we wanted.

H.M.Jr: I am just throwing this out.

Purvis: If it could be worked, it would be very simple.

H.M.Jr: That would go for machine guns and everything.

Purvis: That is --

H.M.Jr: Go just as far as you can, and when you reach the end of the road, all right, we have done what we can, but from this point on we will deal directly with the manufacturer.

Purvis: An eight hour day has points, of course. Do you (Young) see anything wrong with that?

Buckley: Under the recent legislation, the Army puts down 3% down payment, and under the plan suggested now, they are going to balk on the down payment.

Purvis: Accept the down payment of some sort of security. That wouldn't be anywhere near as great as you think it would.

H.M.Jr: Look, between now and tonight, this afternoon before I go, take this thing - maybe I am making a suggestion which is no good. If it isn't, you can tell me so, but I just -- I mean, the other thing seems just impossible.

Purvis: It is very difficult unless when you get your first pattern, the thing becomes easier, which I don't know, and, of course, we haven't got a first pattern.

Young: Well, doesn't it boil down to whether or not the Army will finance the creation of excess capacity over the ordinary amount?

Purvis: On a basis above eight hours.

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Young: Well, any amount of excess capacity.

Dewar: They have already in Chrysler.

H.M.Jr: They have, yes.

Dewar: That is where I thought your suggestion was so excellent, because they have already committed themselves.

H.M.Jr: You see, they have done this thing, never dreaming that I would come back and grab this Chrysler plant and say, "Now I want the other eight hour production for the English." It never occurred to them. In the meantime, I am having Mr. Bell, the Undersecretary, go through the Bureau of the Budget and we are getting every single financing plan that exists in Washington to lay on the table. Any method of finance that has been used, I am going to know in a day or two. You have got the idea, Mr. Dewar. They never dreamed that I would come along with this suggestion.

Purvis: That is really a ten-a-day capacity, not five.

H.M.Jr: They have done it. They have given them the working capital. Now, I have got a minute or two. I don't know how they are doing it.

Purvis: It is too deliciously simple after last week's struggles for us to take.

H.M.Jr: I may be over-simplifying the thing, but I am just coming in at the top, which is always dangerous.

The other thing, for instance, Mr. Evans of General Motors tells me that he is going ahead and spending 17 million dollars of their own to increase the Allison production to 40 a day. I don't know what that formula is, but he is just doing it.

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- Purvis: Yes, that is true. We made the best financing arrangement with Allison that we made with anybody. They have - they are moving the repayment period over toward delivery.
- H.M.Jr: Take a look at that one, because they are going ahead now with the Army --
- Purvis: They were very nice. We struggled to do it with the others, but couldn't get the Allison pattern.
- H.M.Jr: But don't forget, I think the tide is all running with you.
- Purvis: Quite. It is a great change. That was done in three to four months.
- H.M.Jr: I came back with this thought, that if I could this week, working with you gentlemen, work out a financing formula, I would have made a great contribution.
- Purvis: Oh yes. As a matter of fact, Mr. Secretary, it goes further. If we can't find some way of rolling this thing over, the excess airplane program is going to fall of its own weight. There is no doubt about it. I can see the talk of the people on the other side is, "You haven't yet got a pattern for doing this." That airplane thing, I believe, is dependent upon the solution of finding a pattern within the terms of that thing you told Mr. Knudsen.
- H.M.Jr: I had a splendid talk with Morris Wilson, and we discussed that. I don't know the details, but if it could be worked out during the day on the financing thing, I could find out enough about just what the Chrysler contract is. Do you think you (Young) could find out?
- Young: Yes, we could find out what the terms are.
- Purvis: Mr. Young, can we put up against that, so that

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I could appreciate what it would mean - look at the thing if it works the other way? Do we know enough about the RFC views so that one could look at the thing if it works out that way?

You (Buckley) raised the point of working capital.

- Buckley: I think the RFC hasn't explored as much as I have been thinking about what your maximum liability would be, and I think we can work that out to show you that it may not be as much as you fear, looking at both the side of the Army and the RFC, so we can work that out today and call for additional data. I would like to look at it.
- H.M.Jr: I wouldn't throw the other one out the window.
- Purvis: It would give us an idea of where we are going.
- Young: We ought to be able to get a pretty good idea of it.
- H.M.Jr: What are you trying to do with Continental?
- Purvis: Continental is held up pending - because of this breakdown, temporary breakdown, as we hoped it was, in this financing situation. Otherwise we had the negotiations pretty well advanced in every other thing. This is the only thing holding it.
- H.M.Jr: What do you want Continental to do?
- Purvis: That is the making of these engines for tanks.
- Buckley: They are not being held up at the moment because they haven't finished with the Army. We have worked out a deal and they have been working with the Army individually and Mr. Reese, the president, called me this morning and said that they would be with the Army until this noon before they would be ready to sit down in a conference with the British to wind the

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thing up and possibly not until this afternoon, so we have got the major portion of today without hindrance from Continental.

- Purvis: As a matter of fact, probably that negotiation between the Army and Mr. Reese is going on with the same basis as it would be with Chrysler, and it is on an eight hour day basis.
- Buckley: No, I don't believe that is true, Mr. Purvis, because they have all talked definitely about the maximum capacity of this plant as being 20 a day, working all of one shift, a goodly portion of a second, and a small portion of a third.
- Young: A 2 $\frac{1}{2}$  shift basis.
- Dewar: It is the maximum amount, allowing for spare parts, 20 a day, so I am afraid there is no loophole there.
- H.M.Jr: Well --
- Purvis: Underlying all --
- H.M.Jr: Twenty a day for Continental sounds awfully big. How much horse is this engine?
- Dewar: Four hundred.
- H.M.Jr: We might give it to two companies. Twenty a day for one company sounds awfully big. Nobody is doing it. Continental has a very poor organization.
- Young: We explored that.
- Dewar: We explored that rather thoroughly.
- Purvis: That has been gone into strongly.
- Dewar: Mr. Knudsen's department are rather against dividing it.

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- H.M.Jr: Is it their own engines they are making, the 400 horse?
- Dewar: It is the Wright.
- Young: Wright engine, radial.
- H.M.Jr: I didn't know that. I am just thinking out loud. I realize coming in like this - if they gave them - divided it to two plants and stuck on the eight hour theory, if the Wright engine - maybe put Lycoming or somebody else on the thing.
- Young: We discussed the possibility of Buick going into it.
- Purvis: That got quite a little way along until it was held up.
- Young: It seemed to be the general consensus of opinion on all fronts, as I followed the conversation, that one company could do the job better for that number of engines, which is not considered a large amount, that it is hardly large enough to divide it up into two companies.
- Buckley: There is a lot to the machine tool problem.
- H.M.Jr: If you could divide up?
- Buckley: Yes.
- Purvis: There is something I would like to say about machine tools.
- H.M.Jr: Well, I still - I mean, it is still - well, the Army is going to make a contract with them first, aren't they ?
- Buckley: Well, in theory they were to run along parallel and then in the same meeting with the RFC there, then because Mr. Purvis wanted to be absent from the meeting scheduled Friday morning, which was to start these negotiations, the Army

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preferred to go ahead and work out their deal with Continental up to the point of signing separately and then get together and the British do the same thing and then they would get together and iron out anything that ought to tie in between the two contracts.

- Purvis: I took fright at this thing. When I heard that security had to be put up, I realized it cut to the very heart of the thing and did not achieve the roll over that we had hoped to achieve on the basis of the - and I thought I should keep out of anything which would tend to get that to solidify.
- Young: The RFC position is pretty much now boiled down to the point where they figure there has got to be some security for at least a certain part of the British order, either in the form of British-owned American securities deposited in trust or a letter of credit or cash or something else.
- Buckley: I may say that Mr. Schrom, Friday morning when we met him, was very sympathetic. He felt that what he was suggesting was an alternative to what you suggested, but was in some degree and in the greatest degree, they felt, they could attempt at that point to meet your objective. In other words, he felt that they couldn't go 100% but that this maybe went some fraction, 60 or 70, which represented their ultimate, as he thought. They were very sympathetic.
- H.M.Jr: Yes, but --
- Purvis: I hope I fully understand what he is suggesting, because I haven't been quite able to see how it helps and it is probably entirely my fault.
- Buckley: He was under the impression you were more interested in serving - getting your depreciation on income on whatever balances you might have. Under that you wouldn't have to pay a cent to

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Continental until December, 1941.

Purvis: Wouldn't we have to put up securities?

Buckley: Yes.

Purvis: But all we are getting for it in exchange, if you take it in its ultimate effect - because the other way, they are loath to accept, according to whether the market is going up or down.

Buckley: He would say, "Well, they ought to put up securities covering  $4\frac{1}{2}$  million of plant plus their maximum liability for goods in process at any one time," which might be 5 million, so that your total that you would have to hock would be  $9\frac{1}{2}$  million dollars against the total commitment order plus plant of maybe 25 million.

Purvis: So far, Mr. Buckley, we have not had to do anything like that except in very exceptional instances. As a whole, even proceeding interestedly, we have not had to put up either securities or cash --

Buckley: In contrast, there are your down payments. Under his scheme, that would take the place of down payments.

Purvis: But I doubt whether this would be an improvement because we have been able to arrange the down payment spread only as the commitments were made.

H.M.Jr: But you had to put down 30% as a down payment.

Buckley: Under this you would have to put 9 million dollars, approximately, in cash before you ever got the motors if you followed the Continental terms, plus  $4\frac{1}{2}$ , which would be 3 million 5 in cash you would have to put out before you got a motor. Under Mr. Schrom's suggestion you wouldn't put up a cent until you got a motor in February, 1941, and then you would only be paying for motors

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as you got them.

- Purvis: You see, to me the minute you put the securities, you put the total amount up just the same.
- Buckley: Then contrast the 13 million 5 which you have to put in cash with probably 9 million 5 worth of securities which you would have to place, which seems to me is almost a maximum. That would represent the  $4\frac{1}{2}$  million dollars initial liability on the plant plus around 5 or 6 million dollars representing the maximum liability at any time for the manufacturer's commitments of working capital as the contract is canceled.
- H.M.Jr: What is the total contract for the English?
- Buckley: It is about 20 million dollars for the motore plus  $4\frac{1}{2}$  million for planes.
- Purvis: Getting back to the basic policy, as I understand it - I may be wrong - but as I understand it, it was something like this, that as these manufacturers of facilities useful to defense were under the sovereign rights of the United States at all times, it was all right from their view and, of course, excellent from ours in spreading out the cash and security situation to let us repay capital facilities at the delivery there. This seems to me to be getting - you say the difference for us is instead of putting up  $1\frac{1}{2}$  million we would put up 8 or 9 or  $9\frac{1}{2}$ ?
- Buckley: Instead of putting up 13 million in cash, it would be 9 or 10 million dollars in securities in trust.
- Purvis: It achieves a small part of the possible --
- H.M.Jr: Then if what he says is so, it may not be as bad as it looks at first.
- Purvis: Except that is apparently what you think it looks like when you look at it.

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Buckley: That is my best estimate.

Purvis: There you are. It really means this is a method whereby we achieve about a third of what we hope to achieve. Is that it?

Buckley: It is a matter of degree.

Dewar: Could Mr. Young and Mr. Buckley and I collaborate to put something together in two schedules?

H.M.Jr: Supposing you do that, and if you could come back at 4 and give me a chance to have it before I see Mr. Knudsen.

Purvis: Yes.

H.M.Jr: I am seeing him the first thing in the morning and if I could talk to these two gentlemen for a minute and then would you (Dewar) want to wait in their office?

Dewar: Yes, I will be there.

September 3, 1940

To: The Secretary

From: Mr. Young

Re: Tank Financing

The British Purchasing Commission is currently attempting to develop a tank manufacturing program in this country with a production rate of approximately twenty medium weight tanks per day. The United States Army has already placed a contract with the Chrysler Corporation for a production rate of five medium weight tanks per day, with delivery beginning in approximately fourteen months. In addition, the United States Army would like to create production facilities for ten more tanks per day.

Because of the fact that the British and the Army have agreed upon a standardized design, it would seem to be indicated that both parties would benefit if a joint tank program could be arranged. Joint programs could be worked out in any one or more of four ways:

- (1) By utilizing the original complementary theory wherein the United States advanced money for the capital expenditures, and wherein the British paid their proportionate share of such expenditures over the unit price upon delivery.
- (2) By following a formula similar to that utilized in the Packard-Rolls Royce deal wherein the British found it necessary to make large down payments in advance.
- (3) By utilizing a formula which would be a compromise over 1 and 2, namely, the allocation of British-owned American securities or some similar collateral, perhaps embodying a trust agreement as security for the advance by the United States of funds representing the British interest in a production program.
- (4) By utilizing United States reserve production capacity (capacity over and above current needs for defense purposes) for the British.

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As method No. 1 noted above has been fully discussed in the past and as method No. 2 has been demonstrated in the Packard deal, the compromise method No. 3 is outlined on the attached sheet with respect to financing a tank engine program. As the original complementary program theory cannot be used, and as method No. 2 is unduly harsh on the British, a practical solution must rest in methods 3 and 4 or a combination of the two.

It would seem that method No. 4 could be based effectively and wholly legally upon the defense requirements of this country. If the Government can finance production capacity for defense purposes over and above that required for current needs, there are no obstacles in the way of utilizing such excess capacity for the British. The amount of excess capacity would have to be determined by the Army and Navy with the help of the Advisory Commission.

Thus, if the Army wished to create a plant to produce ten tanks per day on one shift, it might be possible for the British to secure ten tanks per day at the same time from a second shift. In this connection, however, it should be pointed out that it would be better to determine reserve capacity on a percentage basis rather than on a mechanical basis. For example, the Army could determine its current needs plus 50 per cent reserve capacity.

It must be pointed out, however, that the excess capacity certified by the Army, Navy, and Advisory Commission still may not be adequate to meet the requirements of the British on such a basis. In such an instance, the British would find it necessary to satisfy the British excess requirements by making a separate deal with some other manufacturer. It is perfectly possible that the cost of financing the British excess might equal or exceed the cost to the British under compromise method No. 3 outlined in the attached.

In utilizing method No. 4 there is also presented a proposal in connection with working capital inasmuch as it would seem that the British would have to supply this item in order to operate the additional production shifts.

At first glance it would seem that the complementary program method No. 1 would be the best of any method evolved to date, and that the advantages of method No. 4 over the compromise method No. 3 would depend upon the factors involved in the individual program.

## RE ALLIED PURCHASING PROGRAM

September 3, 1940  
4:00 p.m.

Present: Mr. Purvis  
Mr. Dewar  
Mr. Young  
Mr. Buckley

- Purvis: May I put on your desk, without asking you to read it now, the Allison statement as it was given, something that came out in Sunday's talk, which I haven't mastered myself? It is supposed to be shortly put.
- Young: After you called me today, I had a copy of a letter that just came in from the Swedish Minister to Mr. Welles. Here is a memorandum I wrote up. I am sorry I took so long.
- H.M.Jr: I had better take it all home.
- Purvis: That isn't clear yet, is it?
- Young: I gather from this letter that he has definitely given up on the planes now, but not on the other stuff.
- H.M.Jr: But you think he has on the planes?
- Young: Yes.
- H.M.Jr: Is the letter attached there?
- Young: Yes, I have got the letter here. It is very short and it takes a few cracks at me.
- H.M.Jr: Is this the Swedish letter?
- Young: Yes.
- H.M.Jr: I will take this home, too.
- Young: He accuses me of being unduly harsh.

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- H.M.Jr: Good. We will give you a promotion.
- Purvis: May I add my congratulations?
- H.M.Jr: Do you think the Swedish plane thing is through?
- Young: Yes. In that letter he asked for reconsideration of the munitions.
- H.M.Jr: But not the planes?
- Young: But not the planes.
- H.M.Jr: Did you know whether it is true or not?
- Purvis: Our negotiations with manufacturers are right up to the point where they are waiting word.
- H.M.Jr: Could I blindly call up Mr. Welles and ask him? Who does the releasing over there?
- Young: Mr. Welles does. You can go on the basis of that letter. You can call him up and say, "Have you replied to the other munitions?"
- H.M.Jr: I had better read it. Should I ask him just about the planes?
- Young: Yes, you can say that you have seen a copy of it and say that you infer from the language used that the planes are out from now on.
- H.M.Jr: Why not just put it in the affirmative, "I come back and I find out that the Swedish planes have not yet been released to Canada."
- Young: That is right, and it is at the point now where he has got to come back and find out the procedure to turn over the stuff.
- H.M.Jr: They haven't done anything yet.

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- Young: He wouldn't talk.
- H.M.Jr: Who wouldn't talk?
- Young: Bostrom, Swedish Minister.
- H.M.Jr: But Welles was all agreed at Cabinet two weeks ago last Friday.
- Young: Sure, and then he passed the buck to me. He backed me up in one of the dirtiest corners I have seen yet.
- H.M.Jr: Now, have you got a couple of pieces of paper?
- Young: Here is one and the next one is coming.
- Buckley: It went on to two pages and a quarter, Mr. Secretary. I am sorry.
- Young: That is the trouble. We didn't have time to make it simple.
- H.M.Jr: Well, what have you got?
- Young: That is on the RFC plan.
- H.M.Jr: Have you seen this (showing Purvis headlines concerning 50 destroyers to be sent to the British)?
- Purvis: I noticed that with great satisfaction. It began in early May.
- H.M.Jr: I will have to take it up with Mr. Hull. Welles is on vacation. I can't do this. I am tired.
- Buckley: If you go to the third page, there is a little table there that comes as close to putting it together as we could.
- H.M.Jr: Tell me about it. I don't want to read it. Tell me about it, somebody.

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Buckley: All right.

H.M.Jr: Well, what does all this mean?

Buckley: There are two problems --

H.M.Jr: Incidentally, find out from Mrs. Klotz the type that I use. I can't read this thing. And when you do a thing for me, use a type - it is about twice as big as this. Seriously, I can't read it. It hurts my eyes. Get from her the kind, and have a typewriter put in.

Buckley: On the capital items, the RFC will buy the machinery and lease it, that is their proposal, and get the money back in the cost of the product. There won't be any initial cost to the British, but under their plan the British would have to put up security for their portion, which is  $4\frac{1}{2}$  million dollars.

Now, ways in which that could be reduced somewhat within the RFC plan are, first, they might be willing to give a 10% allowance for ultimate scrap value, which would cut it down from  $4\frac{1}{2}$  to four million fifty. In addition, the Army might be willing to assume a higher proportion of the capital liability than their proportion of the total orders, because if they had to put up their own plant to buy 2,000 motors, which is 4/11ths of the order --

(Telephone conversation with Adolph Berle follows:)

September 3, 1940  
4:12 p.m.

Adolph  
Berle:

Hello, Henry. How are you?

H.M.Jr:

I'm fine. How are you?

B:

Well, I've been back ten days and .....

H.M.Jr:

And so the bloom is off.

B:

..... so the bloom is off but I must say  
that that couple of weeks was first rate.

H.M.Jr:

Good. Look, I wonder if you want to help  
me out.

B:

What's up?

H.M.Jr:

Two weeks ago last Friday at Cabinet it was  
agreed that we'd cancel all outstanding  
licenses to the Swedish Government with the  
exception of 7 million rounds of ammunition.

B:

Yeah.

H.M.Jr:

That was all agreed to. Welles agreed to it  
and everybody. The President approved it and  
everything. I come back today and the damn  
thing still -- the planes particularly have  
not been released for Canada, and it's really  
.....

B:

Well, that's hell.

H.M.Jr:

It is hell.

B:

All right.

H.M.Jr:

Now it was all agreed two weeks ago last  
Friday at Cabinet. Welles sat there and he  
said -- I said something -- well, you know  
he'd been for this just as much as I had.  
Well, it's two and a half weeks and these  
planes, a lot of them, are finished.

B:

Well, I agree with you absolutely.

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H.M.Jr: And they need them desperately.

B: Sure. All right, I'll get to work on that at once.

H.M.Jr: Now the man who has all the details is in my office now and he'd be glad to come over any time after fifteen or twenty minutes if you want him. It's Philip Young.

B: Which is he?

H.M.Jr: He handles the British Purchasing Mission for me.

B: All right. Will you ask him to come over if he could about 5 o'clock. I've got a fellow coming in here at 4:30.

H.M.Jr: He'll bring you over -- there's a lot of correspondence and what they did, they wished Bostrom onto him, so Phil has the whole story.

B: Right. In the meanwhile I'll have our Swedish people down. But I had a little chat here when I got back and I'd understood that our people were all agreed that .....

H.M.Jr: Well, it was all agreed at Cabinet Adolph.

B: Well, it seems to me inconceivable something hasn't been done about it. I'll find out about this right away.

H.M.Jr: See if you can't do it still tonight.

B: What is it?

H.M.Jr: See if you .....

B: Well, that's exactly what I thought. All right.

H.M.Jr: Phil Young will be at your office at 5 o'clock tonight.

B: Right. Thank you.

H.M.Jr: Thank you.

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- H.M.Jr: He says it is a damn outrage.
- Young: I think Bostrom was away over last week.
- H.M.Jr: He says it is a damn outrage. I want to do something today. I want to get something chalked up.
- Purvis: May I suggest this (exhibiting headlines concerning destroyers)?
- H.M.Jr: I only had a small part in that. These gentlemen are coming to dinner at a quarter of eight, so if Berle gets it done tonight, let me know, will you? He will do it. He is sending for the people immediately.
- Young: I will be delighted.
- H.M.Jr: You will go out and order yourself two Smorgasbords.
- Young: Here is the other memorandum.
- Buckley: Well, the maximum liability that RFC will want secured will be the  $4\frac{1}{2}$ . That may be reduced first by the loans, if that can be worked out, and second by getting the Army to take more than its proportionate share of the liability because obviously it can't buy 4/11ths plant for 4/11ths of its cost, because they are getting more than they could produce without having the British in with them and they might be willing to take part of the advantage they gain by having a complementary program plus the additional fact that they have asked for the privilege of taking up to one half of the plant's production if they want to expedite deliveries. So that is the whole capital. Something less than  $4\frac{1}{2}$  million would have to be secured. How far down it would go, we don't know.

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Now, on working capital, the RFC will advance to Continental all the working capital they will need up to reasonable limits and that limit figures out about 40% of the contracts or about eight million dollars. Now, that, however, is subject to certain reductions which can be worked out in two ways. In the first place, if the British had to terminate the contract sometime early in its existence, even though Continental might be stuck with eight million dollars worth of material commitments, they could use those to round out the Army contract because they wouldn't have committed for the whole hundred percent of the Army contract and I have worked out the mathematics on that.

In addition, as the British pay for motors that they take, they are reducing the amount of liability they have on the plant, the  $4\frac{1}{2}$  million, and releasing that collateral which could be shifted over to secure their working capital liability.

Now, the sum of all those factors boils down to the table on page 3, which I think may be clear.

H.M.Jr: Under the one called "Tank Financing"?

Buckley: No, the third page of the little memo I just gave you. That is right up at the top there.

Now, considering both the capital liability and the working capital liability and crossing off the amounts that they will be releasing in one place that they can use in another when that point comes, my view of the matter, these are the maximum estimated liabilities of the B.P.C. at these various points in this production program.

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- Purvis: You mean liabilities against which we would have to put up securities?
- Buckley: The liabilities against which the RFC on its present route would probably want you to put up securities, yes, sir.
- H.M.Jr: Well now, have you taken down at all the proposal which I sketched this morning, the Chrysler tank thing, and how they would fare under that? Is that on this other memorandum?
- Buckley: No, that isn't, unless it is on Philip's.
- H.M.Jr: I thought you were going to take the two and put them side by side and see which way they bear the best.
- Young: That was the idea. We were very definitely hampered by a lack of information as to how this other one would work out, as far as figures go.
- H.M.Jr: Oh.
- Young: You would have to go back to Continental, you see, and get a different set of figures from them.
- H.M.Jr: Well, I mean, do it the other way. I mean, take the Chrysler tank program - will anybody tell you how the Army has done that? I mean, then apply this RFC formula to that contract and then put those two side by side. Do you see what I mean?
- Young: You mean take Chrysler?
- H.M.Jr: Take Chrysler, whatever way the Army has done it, on an eight-hour shift, and supposing the English came along and got the other eight hours. It would be added to each machine

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after delivery, you see.

Young: Yes. There are two points which I bring out in my memorandum in that connection. The first one is that on the shift basis you have got to establish a reserve capacity which the Army and Defense Commission would like to have.

H.M.Jr: Yes.

Young: That capacity would have to be expressed on a percentage basis of, say, what the Army needs now, plus 50 or 100% extra, rather than on a shift basis because you run into mechanical difficulties.

Secondly, it may be possible that that sort of program in certain instances would cost the British more than something like this RFC scheme because the reserve capacity over and above Army current needs may be a good deal less than the British requirements, in which case their financing of the excess might cost them more than doing the whole thing on a joint basis.

H.M.Jr: Well, we don't know. We haven't got it. You haven't had time to get it.

Buckley: Mr. Dewar and I made a very rough estimate of that on the engine program and as against this 908 million maximum on the RFC plane production, it seems that on the other plan it would probably run around 12 million.

Purvis: Mr. Secretary, I do think there is a little danger by getting away from the base on this. I feel there is the danger that we are not very carefully trying to work out the mechanics of this and we shall automatically limit the output of the munitions in question, according to, A, appropriations in Congress, and B, our dollars, whereas what we really want to achieve

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if we can is the military needs of the situation and I am a little afraid of the effort to help that turning out to be a bottleneck on what really is a good defense program.

H.M.Jr: Well, supposing you sleep on this.

Purvis: Well, I think it needs a little more thought and if you wouldn't mind, perhaps tonight we can have a little more discussion.

H.M.Jr: Maybe I will get a chance to read these between now and a quarter of eight.

Purvis: I think --

H.M.Jr: Supposing we let the rest go until then.

Purvis: I think that is wise, rather than rushing it.

Young: Oh yes, sure.

H.M.Jr: What do you think, Mr. Dewar?

Dewar: I have only one comment, and I have no doubt Mr. Young can take care of that, and that is our relations with the Army and the Defense Advisory Committee. They are not wanted to have this discussion here with us?

Young: They don't want it tonight and probably will not before lunch time tomorrow.

H.M.Jr: At lunch tomorrow, I am having Mr. Stimson, Mr. Patterson, Mr. Forrestal, Mr. Knudsen and Mr. Jones, and I am going to have you (Young) and I will talk about the whole business at that time and I am sure that Mr. Stimson and Mr. Forrestal and Mr. Patterson all will have to start from scratch. From the conversations I have had with them, I don't think they know as much as I know

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about this, and I know very little. I don't think they know a single thing. I talked with Forrestal and he said, "I am just getting into it today. My head is in a swim." That was his answer. I said, "I want to get you all together and see if we can't simplify the thing." He said, "For heaven's sake, do. I am absolutely dizzy."

It hasn't reached that layer. It has been handled by the Admirals and the Generals and the fellows that are really responsible and it hasn't got to them and I think tomorrow's luncheon may prove to be very useful and I decided to ask Jones.

Purvis: I do think that Schram's attitude has been extremely friendly in intent, don't you think so?

Young: Oh, I think so.

Purvis: But I have the same doubts that you have on this thing.

H.M.Jr: Well --

Purvis: I may have some ideas myself.

H.M.Jr: Sure, if you worked until 2:00 o'clock today, you must have found enough to keep yourself busy.

Purvis: I was on the telephone for an hour.

H.M.Jr: Maybe this is all right. Maybe this is a better deal than you all think it is.

Purvis: I am not sure but what it carries implications that would tend to reduce the output in the country.

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- H.M.Jr: What I am talking about?
- Purvis: Oh no, not yours.
- H.M.Jr: I thought you meant mine would reduce it.
- Purvis: No, no. I was really thinking of this, as a matter of fact.
- Young: I think it might, very definitely.
- H.M.Jr: Which, mine?
- Young: Yes.
- H.M.Jr: Would reduce it?
- Young: Yes.
- H.M.Jr: You mean because it would be using up the Congressional money?
- Young: Yes, and it depends upon how much perception you can get in determining what is reserve capacity and so on, and from what I have seen so far, it isn't going to be very large.
- H.M.Jr: I am glad you did get through the destroyers.
- Purvis: Has there been any reaction yet?
- H.M.Jr: Is the Packard deal sewed up?
- Purvis: The Packard deal, I understand, is still rocking along. I don't think it is closed up.
- H.M.Jr: Do you know what the Packard company are doing?
- Purvis: As far as I know, certain things are going forward, but I can't help feeling they are not going forward fast enough. However, I

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think there is a certain amount going on, but it doesn't seem to finish up. As far as I know, it is not signed yet and our people are just waiting. We have continued to play the same hand from May 31st, as you know, on that. It is difficult to reach a conclusion.

- H.M.Jr.: Just to switch back again to the Swedish thing, there must be a lot of those planes that are finished, aren't there?
- Purvis: Yes, there are some on the docks there.
- H.M.Jr.: The last --
- Purvis: They are very valuable just now.
- H.M.Jr.: Was it 30 or 40? Have you got all that information?
- Young: Oh, I don't think that many are waiting.
- H.M.Jr.: Oh yes. That was two weeks ago, of the Republic planes. There were 30 or 40 that were finished.
- Purvis: And it seems such a shame.
- H.M.Jr.: Could they get that information for Phil before he goes over?
- Purvis: Yes, because we are right up with the manufacturers.
- H.M.Jr.: Could you get that for him before 5:00 o'clock?
- Purvis: Yes, we can get it on the telephone.
- H.M.Jr.: Two weeks ago there were 30 or 40 of those Republics which were finished then. There must be a lot more.
- Purvis: That is what I understood.
- H.M.Jr.: All right.

CONFIDENTIALACTION REQUIRED

September 3, 1940

To: The Secretary

From: Mr. Young

The attached request, which requires special action, has been received from the British Purchasing Commission.

I forwarded this request to Colonel Burns pointing out that it was not an ordinary one and should be called to the attention of Assistant Secretary Patterson. I also forwarded a copy to Mr. Knudsen and again emphasized the fact that it should receive special attention.

This matter is of vital importance to the British and needs pressure handling.

*RY.*

Copy

REQUEST FOR PRIORITY OF  
SIX CONSOLIDATED AIRCRAFT  
CORPORATION MODEL LB-30

The Government of the United Kingdom have on order with the Consolidated Aircraft Corporation 120 four-engined landplane bombardment aircraft, Model LB-30. The first of these is due to be delivered February, 1941.

The British Government are, however, extremely anxious to obtain six of these aircraft during September and October, 1940, and as they are the same model as the United States Army B-24, which is also on order and due for delivery prior to our own, it is desired to know whether the United States Government would be willing to allow the British Government to take early delivery of six in exchange for six of the British contract in February, 1941.

These aircraft are required to fly back to Canada pilots engaged in ferrying planes to England. Other available means of transport are inadequate either, as in the case of the overseas airways service, because in October ice sets in at Botwood, or, because as in the case of sea transport, it takes too long for the scheme to be workable without a very large number of crews.

It is understood that the French had an arrangement with the United States Army to obtain two or three of the earliest deliveries. The larger quantity of six now asked for arises from the fact that the Embassy hope to persuade England to use this type of landplane for continuing the original transatlantic air service during the winter, which means three for ferry pilots and three for transatlantic service.

A. C. McKim

August 16, 1940.

Copy

PROPOSAL BY THE RECONSTRUCTION FINANCE CORPORATION FOR  
 FINANCING THE REQUEST FOR PRIORITY OF PRODUCTION OF TANK ENGINES  
 SIX CONSOLIDATED AIRCRAFT CORPORATION MODEL LB-30

Capital Items

The Government of the United Kingdom have on order buy \$7,100,000 order with the Consolidated Aircraft Corporation Motors. The B-120 four-engined landplane bombardment aircraft, as Continental Model LB-30. The first of these is due to be delivered by and British Purchasing Commission February, 1941. engines are delivered. Liability of the purchasers will be in proportion to their share of the initial order of \$5,500,000 for the United States Army B-24, which is also on order and due for delivery prior to our own, it is desired to know whether the United States Government would be willing to allow the British Government to take early delivery of six in exchange for six of the British contract in February, 1941.

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Prior to delivery \$4,500,000.

These aircraft are required to fly back to Canada pilots engaged in ferrying planes to England. Other available means of transport are inadequate either, as in the case of the overseas airways service, because in October ice sets in at Botwood, or, because as in the case of sea transport, it takes too long for the scheme to be workable without a very large number of crews.

It is understood that the French had an arrangement with the United States Army to obtain two or three of the earliest deliveries. The larger quantity of six now asked for arises from the fact that the Embassy hope to persuade England to use this type of landplane for continuing the original transatlantic air service during the winter, which means three for ferry pilots and three for transatlantic service.

Working Capital

The Reconstruction Finance Corporation will loan Continental at 4% funds needed for working capital. They require from the British Purchasing Commission security to cover their liability if the contract is terminated. The actual liability of the British Purchasing Commission at any termination date will be for cancellation penalties, engines-in-

A. C. McKim

August 16, 1940.

PROPOSAL BY THE RECONSTRUCTION FINANCE CORPORATION FOR FINANCING COMPLEMENTARY PROGRAM FOR PRODUCTION OF TANK ENGINES

Capital Items

The Reconstruction Finance Corporation will buy \$7,100,000 of machinery and tools to be leased to Continental Motors. The Reconstruction Finance Corporation will be reimbursed as Continental collects this cost from purchasers (United States Army and British Purchasing Commission) as engines are delivered. Liability of the purchasers will be in proportion to their share of the initial order of 5,500 engines, which will mean 4/11 or about \$2,600,000 for the United States Army and 7/11 or \$4,500,000 for the British Purchasing Commission.

The Reconstruction Finance Corporation will require security from the British Purchasing Commission in the form of trust certificates secured by United States securities to assure satisfaction of this liability. As motors are taken and paid for by the British Purchasing Commission, this liability will decrease as follows:

Prior to delivery	\$ 4,500,000.
Upon 20% deliveries	3,600,000.
Upon 40% deliveries	2,700,000.
Upon 60% deliveries	1,800,000.
Upon 80% deliveries	900,000.
Upon 100% deliveries	-- 0 --

The Reconstruction Finance Corporation might be willing to reduce this liability initially by an estimated scrap value of say 10%, which would decrease the initial and subsequent liability by \$450,000.

The Army might be willing to assume liability for more than its 4/11ths share, since it could not put up a plant to produce 4/11 of a total order of 5,500 engines at 4/11 of the cost. In point here is the fact that the Army has asked for an assurance that it can have up to 1/2 the daily capacity of the plant if it desires its deliveries expedited.

Working Capital

The Reconstruction Finance Corporation will loan Continental at 4% funds needed for working capital. They require from the British Purchasing Commission security to cover such liability if the contract be terminated. The actual liability of the British Purchasing Commission at any termination date will be for cancellation penalties, engines-in-

process, and material commitments which at most is estimated not to exceed 40% of the approximately \$20,000,000 order, or \$8,000,000. This liability at worst would probably be as follows:

At beginning of production	\$ 8,000,000
After 20% production	8,000,000
After 40% production	8,000,000
After 60% production	8,000,000
After 80% production	4,000,000
After full production	- 0 -

Two factors, however, operate to reduce this liability in actual practice. These are:

- (1) The fact that until the Army portion of the order is in its final stage, commitments released by termination of the British Purchasing Commission contract can be used to fill the portion of the Army order for which the manufacturer has not yet made commitments.
- (2) The fact that the liability for capital items will be reduced in proportion to deliveries, releasing collateral pledged there to take up this liability.

A rough estimate of the effect of these two factors on the working capital liability of the British Purchasing Commission is as follows:

	<u>Gross BPC Liability</u>	<u>Amount which Could be As- sumed by Army</u>	<u>Collateral Released from Capital Items</u>	<u>Net BPC Liability</u>
Start of Production	\$8,000,000.	\$6,850,000.	\$ -0-	\$ 1,150,000.
After 20% "	8,000,000.	4,550,000.	900,000.	2,550,000.
After 40% "	8,000,000.	2,275,000.	1,800,000.	3,925,000.
After 60% "	8,000,000	-0-	2,700,000	5,300,000
After 80% "	4,000,000	-0-	3,600,000	400,000
After 100% "	-0-	-0-	4,500,000	-0-

The probability is that the above figures represent a maximum actual liability. Adjustments and refinements would possibly cause an average decrease of 10% or more. It should be noted, however, that this is an exposition of the Reconstruction Finance Corporation suggestion which goes beyond any point they have yet reached in its application.

Summary

On the basis of the above discussions, the estimated maximum British Purchasing Commission liability for both capital items and working capital at various production points is as follows:

Start of Production	\$ 5,650,000
After 20% Production	7,050,000
After 40% Production	8,425,000
After 60% Production	9,800,000
After 80% Production	4,900,000
After 100% Production	-0-

September 3, 1940.  
9:10 a.m.

Robert  
Patterson: Hello.

H.M.Jr: I'm fine. Is this Judge Patterson?

P: Yeah.

H.M.Jr: Morgenthau.

P: Yeah. How are you?

H.M.Jr: I'm very well.

P: Have a good time?

H.M.Jr: Very well.

P: Where did you go?

H.M.Jr: We went to a place called the Seigniory Club.  
It's half way between Montreal and Ottawa.

P: Yeah, I've heard of that.

H.M.Jr: It's very nice. Good fishing.

P: That's where the Dutch family is, isn't it?

H.M.Jr: Was. They parked there for a while but she  
has a house in Ottawa now.

P: Oh yeah.

H.M.Jr: I sent a message to you on Allison.

P: Yeah, I passed it on. General pow-wow  
tomorrow.

H.M.Jr: Well, I wanted this. I tried to get hold of  
Mr. Stimson but he's not here.

P: He won't be back until tomorrow I believe.

H.M.Jr: Well, will you keep him straight on it, I mean,  
so that I can go ahead with you on it?

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P: Yes, sir.

H.M.Jr: Now, what time would be good for you tomorrow?

P: Any time you like.

H.M.Jr: Is 10:30 a good time?

P: Yes.

H.M.Jr: That is a good time?

P: That is. Shall I marshal my crowd?

H.M.Jr: Will you?

P: I understood you wanted a man named Doolittle from the plant and someone here, either Brett or Arnold. Is that right?

H.M.Jr: That's right.

P: Fine. And you're going to have Evans?

H.M.Jr: Well, Evans isn't getting here until 11:00 o'clock Thursday. He said did it make a lot of difference and I said no, as a matter of fact, it gives me an extra day.

P: Should I get anyone from Knudsen's office?

H.M.Jr: Yes, I think if Mead would be here.

P: Mead? Should I arrange to pull him in?  
I will.

H.M.Jr: I wish you would.

P: Be glad to.

H.M.Jr: And I don't know whether Knudsen wants to sit in himself. What do you think?

P: Well, I don't know. It's a general going over and review of the Allison business isn't it?

H.M.Jr: That's right, in connection particularly with the English but I'd like also to know what

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you people are going to do both for your Bell fighter, you see, and for your Lockheed interceptor -- I don't know what the numbers on these things are, I think they call them P-39.

P: I understood that their stuff was coming out better now.

H.M.Jr: I talked to Mr. Evans Friday and for the first time he sounded very cheerful and I understand, and that's one of the things I want to verify, you see you were to get 200 planes of these Curtiss P-40's.

P: Yeah.

H.M.Jr: He will complete the delivery of those engines he told me Tuesday or Wednesday of this week. Then you are to get 100 spares and as you remember I asked whether you wouldn't let the English have some of those.

P: Yeah.

H.M.Jr: And he said that the arrangement that he has with the Army that if Allison will give them one spare a day until they get 100 that they'll let the balance go to the English.

P: I see.

H.M.Jr: See?

P: Who said that?

H.M.Jr: Mr. Evans who is Vice President of General Motors in charge of the operation.

P: Yeah. I didn't take that up here because for the time being with no engines coming out why we decided that it was moot.

H.M.Jr: Well, that's what he told me as of Friday but I get these things from all corners and then so often they are contradicted, so I wanted to sew it up to know what you people would or wouldn't do because if you would -- if the Army is agreed to that, that from the English standpoint will be swell.

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P: Yeah.

H.M.Jr: You see?

P: Yeah. We haven't done anything about it because there were no engines coming out anyway. We can thrash that out tomorrow.

H.M.Jr: Would you? And if you would invite Mead, you see. Hello?

P: Yeah.

H.M.Jr: Mead and Captain Kraus.

P: Who's Kraus.

H.M.Jr: Well, he is the Navy man who works with Mead. That was my original set-up. K-r-a-u-s. He's very able, and what I'll do is, I'll call up Knudsen and tell him the meeting is taking place and if he'd care to come we'd be delighted to have him. How's that?

P: Good.

H.M.Jr: And then if you could put for yourself on your calendar 11 o'clock Thursday, that's when Evans is going to be here, you see.

P: Yeah.

H.M.Jr: And then by that time you and I'd be posted. And I'm going to have the English who are doing the buying of the planes in Washington both Wednesday and Thursday so they can come in on a minute's notice.

P: All right, fine. I'll get my gang together.

H.M.Jr: But that's the thing and -- I mean, all these different types which they're turning out -- and I thought both from your standpoint and from the English standpoint if it could be straightened out I think it'll be helpful.

P: Yes. I'll get my crowd together.

H.M.Jr: And then I'll look forward to seeing you 10:30 Wednesday and 11 Thursday.

- 5 -

- P: 11 Thursday. Good.
- H.M.Jr: Now, while I have you one other thing. I've sent word -- I've invited Mr. Stimson to have lunch with me tomorrow. They tell me he's up at .....
- P: He may not be back.
- H.M.Jr: Well, what I have in mind -- the thing that I'm anxious to talk with both of you is this question of a formula of financing the English. I told Foley to send over to you an opinion prepared in my office that where the Government financed the manufacturer to make something for the Government with the -- what I call Government money, that that manufacturer could turn out something for the English.
- P: I think I got that.
- H.M.Jr: Have you had time to look at it?
- P: Yes. I read that over hurriedly.
- H.M.Jr: Well, could you .....
- P: But I'm content with it.
- H.M.Jr: You are?
- P: Yes.
- H.M.Jr: Well, there were all kinds of troubles during the last two weeks I understand from Purvis in regard to where the English want to buy and they're all bogged down and I wanted to get together with the Army and Navy and see if we couldn't work out something so that these people can place their orders rapidly.
- P: Yes.
- H.M.Jr: It's in terrible shape; machine guns, tanks particularly and if you'd have that in mind -- now do you think I ought to wait until Mr. Stimson gets back on that -- oughtn't I?
- P: Well, I'd be glad to discuss it with you.

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H.M.Jr: Well, if you would do that maybe we could save a little time and possibly when this engine meeting is over you could stay behind and we could talk about that.

P: Be glad to.

H.M.Jr: Because something has got to be done this week.

P: Well, I'm not familiar with it at all. It's very new to me.

H.M.Jr: Well, I'd like very much to bring Mr. Stimson and you up to date on it, also Mr. Knox.

P: Yeah. Yeah, fine. Of course, I suppose Forrestal will be doing Knox's business.

H.M.Jr: Well, I'm going to get in touch with him -- but they have no orders on Allison and they're not interested in that.

P: I see.

H.M.Jr: See?

P: Right.

H.M.Jr; O.K.?

P: Fine.

H.M.Jr: Thank you.

P: Yes, sir. Good-bye.

September 3, 1940  
10:25 a.m.

H.M.Jr: Hello?

Wm. S.  
Knudsen: Yes.

H.M.Jr: Henry Morgenthau.

K: Hello, Henry.

H.M.Jr: Is this Knudsen?

K: Yeah.

H.M.Jr: How are you?

K: Very well.

H.M.Jr: Look, I'm full of vim and vigor and in the first place I asked your office whether you could have lunch with me tomorrow at 1 o'clock and what I'm trying to do is to have Mr. Stimson here -- Henry Stimson -- and also somebody from the Navy. Now what I've got in mind is this -- I'd like to lay on the table all the various, different plans that the War and Navy are using to finance Government purchases, you see?

K: Yeah.

H.M.Jr: And I think that there're just too, God-damn many different plans. Hello?

K: Yes I get it.

H.M.Jr: And whether we couldn't agree on -- well, maybe some kind of a formula -- the thing that you've been talking about.

K: Well, of course the formula went haywire when Jones wouldn't do it.

H.M.Jr: Well, that's just the thing and I wanted -- do you think I ought to have Jones there or not, or just talk it over Army and Navy and you and I.

- K: Well, I think if Jones is involved he ought to be there or we'll have to start all over again after we get through with the Army and Navy.
- H.M.Jr: Well, I've got a way I think I can do it without Jones.
- K: I see. Well, have they got the defense corporation set up now so that it is functioning?
- H.M.Jr: Well, I don't know.
- K: I don't know either but I see it in the paper.
- H.M.Jr: Well, I've been away and I've had time to read the papers and I'm as mixed up as anybody else is.
- K: Uh-huh. I was over -- I saw some of the boys from Indianapolis yesterday. They say that you want to see them on Thursday.
- H.M.Jr: That's right. That's the other thing.
- K: Is it essential that you see them on Thursday?
- H.M.Jr: Well, I asked them for Wednesday and just Evans -- he said he -- can't Evans come Thursday?
- K: Well they are right in the middle of a lot of changes down there but of course if you want him you can get him.
- H.M.Jr: Well, I tell you, that's the other thing. Patterson is coming over tomorrow with his people who know the Army end of Allison. You see?
- K: Yeah.
- H.M.Jr: And I wondered whether you would care to sit in. I'm looking at it from the standpoint of the Allied Purchasing Mission, you see.
- K: Well, I know the Allison picture now.
- H.M.Jr: Well, would you be available tomorrow morning?
- K: Yes.
- H.M.Jr: At 10:30?

K: Yes.

H.M.Jr: Well, supposing we meet .....

K: I tell you what I'll do. I'll be back in Washington this evening. Where are you going to be this evening?

H.M.Jr: I'll be at home.

K: Uh-huh. Well, I'll call your house.

H.M.Jr: Well, here's the thing, Assistant Secretary Patterson is coming to the office at 10:30 and he's bringing somebody from -- well he's got different people -- anybody that knows anything about Allison and maybe if you sat in maybe we wouldn't need Evans.

K: I see.

H.M.Jr: But I think that the English may want to change their order out there.

K: Uh-huh.

H.M.Jr: I mean, they're thinking in terms of keeping on the C engine and not fussing with the next one.

K: Well, of course, that we can do. We can increase the amount of material to be purchased. There's something over 2,000 ordered ahead for them now.

H.M.Jr: So I understand.

K: We can make that anything you want.

H.M.Jr: Well, why not leave it that -- tell Evans to come on and then if we find that we don't need him tomorrow we can telephone him -- I mean, if we don't need him Thursday.

K: Yeah, we can have our meeting in the morning and then we can call him.

H.M.Jr: How would that be?

K: That's all right.

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- H.M.Jr: Well, now, I'm expecting you twice tomorrow. One's at 10:30 and one's at 1 o'clock.
- K: All right.
- H.M.Jr: Is that all right?
- K: Yeah.
- H.M.Jr: And now I want to talk to you again. I don't know whether I ought to have Jones or not because the thing I have in mind -- we don't need Jones. What do you think?
- K: Well, of course, I don't know what you have in mind.
- H.M.Jr: Well, what I've got in mind is this, take this contract which is all signed and sealed that the Army has with Chrysler for tanks. We believe and Patterson believes that where the Government does the entire financing that they could let the English have some of those.
- K: They could what?
- H.M.Jr: Let the English have some of those tanks that Chrysler is making.
- K: I see.
- H.M.Jr: Now if that is so, then you don't need Jones.
- K: No. That's right.
- H.M.Jr: See? Now I sent a legal document over to Patterson and he's read it and he says he agrees with Foley.
- K: Yes, but everybody agreed with Foley except Jones.
- H.M.Jr: Well, but in this picture -- the one that I've got we don't need Jones.
- K: Uh-huh. Of course, you'll have a lot of plants on that basis.
- H.M.Jr: What?

- 5 -

- K: You'll have a lot of plants on that basis.
- H.M.Jr: Well, hell, we'd have them anyway.
- K: Uh-huh. But you'll have a lot of plants that you'll be responsible for 100% won't you?
- H.M.Jr: Well, the other way the R.F.C. is, and when the R.F.C. has a deficit they come to the Treasury anyway so what the hell's the difference.
- K: (Laughs). I see.
- H.M.Jr: All I'm trying to do is to make the thing simpler so instead of sitting around and trying to bargain with a half a dozen people .....
- K: Well, there's no question about that.
- H.M.Jr: ..... if you only had to bargain with one person which would be either the Army or the Navy and the manufacturer and yourself, and then after you got it all straight you could say to the English, now, do you want some of this or don't you; say yes or no.
- K: Yeah. Of course, that could all be arranged for in a different way which I thought I'd like to talk with you about tonight.
- H.M.Jr: What's that?
- K: I say that could be arranged in a different way which I'd like to talk to you about tonight if I could.
- H.M.Jr: Well, I tell you. I've got Lothian and Purvis coming to the house for supper but if you wanted to pick me up -- I'm available any time from 8 o'clock on tomorrow morning.
- K: I see. All right. Well, I'll pick you up in the morning then.
- H.M.Jr: Do you want to do that?
- K: Yeah.

- 6 -

H.M.Jr: 8 o'clock in the morning.

K: Yeah.

H.M.Jr: We'll spend the whole morning together.

K: All right.

H.M.Jr: O. K.

K: Bye-bye.

All right.

Excuse me, I wondered if you were going to be here for lunch tomorrow.

I certainly will if you're going to ask me.

I am and I'm trying to get Mr. Silman and Peterson and I've got Eadsen. I tell you what I've got in mind so that you might be thinking about it. I am very much distressed over the many, many plans that are in Washington to finance the manufacturer who gets a war contract and particularly the interests which I'm looking after for the President -- the English Purchasing Mission and what they're up against in trying to get their orders placed, and I want to talk about that and see if there isn't some way of simplifying this thing because everybody seems to have a different plan and so contracts are being signed. So that's what I've got in mind.

Well, I think it's a very good thing -- something to explore myself.

And it's just unbelievable the number of formulas that they're floundering around with and they're not getting them signed.

Well, I just had three or four of these formulas just in the morning and I don't exactly see how I thought that you had had there ought to be some contract which would that would cover all of these things and

September 3, 1940  
11:53 a.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello.

Mr. James  
Forrestal: Good morning, Mr. Secretary.

H.M.Jr: How are you?

F: All right.

H.M.Jr: Forrestal, I wondered if you were going to be free for lunch tomorrow.

F: I certainly will if you're going to ask me.

H.M.Jr: I am and I'm trying to get Mr. Stimson and Patterson and I've got Knudsen. I tell you what I've got in mind so that you might be thinking about it. I am very much distressed over the many, many plans that are in Washington to finance the manufacturer who gets a war contract and particularly the interests which I'm looking after for the President -- the English Purchasing Mission and what they're up against in trying to get their orders placed, and I want to talk about that and see if there isn't some way of simplifying this thing because everybody seems to have a different plan and no contracts are being signed. So that's what I've got in mind.

F: Well, I think it's a very good thing -- something to explore myself.

H.M.Jr: And it's just unbelievable the number of formulae that they're floundering around with and they're not getting them signed.

F: Well, I just had three or four of those formulas come to me this morning and I had exactly the same thought that you had that there ought to be some common method adopted that would cover all of these things and

in addition to the form also they ought to be looked at from the standpoint of what people will think of it about three years hence.

H.M.Jr: Well, that's a lifetime.

F: Yeah.

H.M.Jr: So that's what I've got in mind and if you would come at 1 I'll give you a little something to eat and either Stimson or Mr. Patterson will be here and Knudsen.

F: Fine. I'd like to come very much.

H.M.Jr: Thank you.

F: All right.

H.M.Jr: And you can sit around and kick the night.

F: Yeah, well, maybe we can be helpful.

H.M.Jr: I'm sure you can. Jesse, I've asked both Mr. Stimson -- Kurt won't be here but Stimson is coming for lunch tomorrow and Knudsen, and I'd like you.

F: Tomorrow?

H.M.Jr: Tomorrow.

F: O. K.

H.M.Jr: And I want to talk partly on finishing these various war contracts partly from the Treasury standpoint as to what the English and see whether we can't get -- there are about a dozen different formulas and see whether it could be simplified a little bit. See?

F: Uh-huh.

H.M.Jr: Hello?

F: All right. I was just listening.

H.M.Jr: And that's what the purpose is. I don't know whether it can be set up.

F: You'll have Stimson and Knudsen.

September 3, 1940  
4:00 p.m.

Jesse  
Jones: Hello. How are you?

H.M.Jr: Oh, I'm fine. How are you?

J: Pretty good, thank you.

H.M.Jr: I hope you had as good a vacation as I did.

J: Well, I had a vacation of one week -- 8 days.  
That's pretty good.

H.M.Jr: Well, I welcome you into the Cabinet.

J: Thank you.

H.M.Jr: And you can sit around and join the fight.

J: Yeah. Well, maybe we can be helpful.

H.M.Jr: I'm sure you can. Jesse, I've asked both  
Mr. Stimson -- Knox won't be here but Forrestal  
is coming for lunch tomorrow and Knudsen, and  
I'd like you.

J: Tomorrow?

H.M.Jr: Tomorrow.

J: O. K.

H.M.Jr: And I want to talk partly on financing these  
various war contracts partly from the Treasury  
standpoint and partly from the English and see  
whether we can't get -- there are about a  
dozen different formulas and see whether it  
could be simplified a little bit. See?

J: Uh-huh.

H.M.Jr: Hello?

J: All right. I was just listening.

H.M.Jr: And that's what the purpose is. I don't know  
whether it can be but .....

J: You'll have Forrestal and Stimson .....

H.M.Jr: Forrestal and Stimson and Knudsen and you.

J: I'll be glad to come.

H.M.Jr: And Patterson.

J: I'll be glad to come.

H.M.Jr: 1 o'clock.

J: O. K. Thanks.

H.M.Jr: You're welcome.

J: Good-bye.

H.M.Jr: Forrestal and Stimson and Knudsen and you.  
J: I'll be glad to come.  
H.M.Jr: And Patterson.  
J: I'll be glad to come.  
H.M.Jr: 1 o'clock.  
J: O. K. Thanks.  
H.M.Jr: You're welcome.  
J: Good-bye.

H.M.Jr: Forrestal and Stimson and Knudsen and you.

J: I'll be glad to come.

H.M.Jr: And Patterson.

J: I'll be glad to come.

H.M.Jr: 1 o'clock.

J: O. K. Thanks.

H.M.Jr: You're welcome.

J: Good-bye.

H.M.Jr: Forrestal and Stimson and Knudsen and you.

J: I'll be glad to come.

H.M.Jr: And Patterson.

J: I'll be glad to come.

H.M.Jr: 1 o'clock.

J: O. K. Thanks.

H.M.Jr: You're welcome.

J: Good-bye.

BRITISH EMBASSY,  
WASHINGTON.

~~Personal and Secret.~~

September 3rd 1940.

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,

*Adrian*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram despatched from London late in the evening of September 1st.

Enemy air targets were reported being bombed. Heavy bombs and explosions were observed amongst stations at Magdeburg. Railway targets, especially all factory, ships at Radebeul and gun

1. Naval.

Aircraft having reported large number of enemy ships off Northern Holland yesterday evening our mine laying destroyers in the vicinity were ordered to jettison their mines and attack. Early this morning three destroyers were mined off this coast, one is sunk and other two are returning at slow speed. Destroyers and other craft have been sent to their aid.

Yesterday morning a submarine sighted three enemy cruisers and destroyers south-east of Messina and yesterday afternoon a second submarine reported four enemy cruisers and five destroyers in the same area, going south at high speed. This submarine attacked and claims two hits.

2. Royal Air Force.

During bombing operations on night of August 30th/31st nine heavy bombers attacked Siemens Electric factory at Berlin, causing very large fires and explosions. Four large explosions were caused at Berlin Gas Works, after which target appeared ablaze from end to end, and it is thought the gas holder was hit. Damage also caused to electric power station and

adjacent/

adjacent railway sidings, to air port, and to an aircraft works and oil cisterns.

Latter two targets were reported burning freely. Many bursts and explosions were observed amongst cisterns at Magdeburg. Railway targets, synthetic oil factory, ships at Emden and gun positions opposite Dover were also bombed, but observation was difficult. A number of enemy aerodromes were attacked.

Clear weather conditions prevented cloud-flying bombing by our aircraft yesterday.

Last night medium bombers were sent against gun emplacements opposite Dover, and a shipping concentration near Emden. Heavy bombers were sent to aircraft factories, a gas works and air port at Berlin; also to oil and railway targets elsewhere in Germany. All our aircraft have returned safely and one medium bomber landed in the sea very near the shore, and the crew were rescued. Coastal command aircraft went to attack fuel tanks and a seaplane base in Holland. Two aircraft are missing.

### 3. German Air Force.

Total civilian casualties in London area during the night of August 30th/31st are reported as nine killed and one hundred and sixteen injured. Industrial damage was slight but there is appreciable damage to house property in certain areas. Property and public services suffered in Liverpool area and in Staffordshire, where/

city, including the Tower Hill, and fires were caused in the houses. Bomb damage was also reported in other parts of the country. Casualties reported from this area were 26 killed and 75 wounded. The damage was slight and, except for slight damage to property, mainly affected house property.

where an iron and steel works was attacked; cables, water mains and buildings were damaged but machinery was only slightly affected.

Yesterday, about 800 enemy aircraft were operating. During the morning two main raids developed over southern England, and attacks were made on aerodromes. Three received extensive damage, but are still operationally serviceable. At Dover all the balloons were reported shot down, and at Croydon a factory employed on aircraft work, already twice attacked was finally wrecked. The first raid numbered about 150 aircraft and the second about 100. Both were interrupted and dispersed by our fighters. Apart from damage mentioned, other damage caused was chiefly in Essex and Kent, mostly house property and was in no way proportional to the attack. Casualties were not heavy.

Last night enemy operations chiefly directed against north west England, although London was lightly raided and 56 casualties are so far reported from this area. At Liverpool bombs fell in the centre of the

city/

city, damaging the Town Hall, and fires were caused in the docks. Minor damage was also caused to docks at Birkenhead. Casualties reported from this area are 31 killed and 75 wounded. Elsewhere damage was slight and, except for minor railway dislocation, mainly affected house property.

Enemy bomber reconnaissance aircraft are regularly active around English coasts, for some distance in the Bay of Biscay, and into the Atlantic as far as western Ireland. Patrols have been maintained by day in the Calais area, and along the Dutch coast at night. Mine laying continues actively.

#### 4. Summary of Air Casualties.

##### Enemy:

by our fighters:

		<u>destroyed</u>	<u>probable</u>	<u>damaged.</u>
Bombers	31	13	21	
Fighters	39	21	12	
by anti-aircraft fire:				
Bombers	8	-	-	
Fighters	7	-	-	
Totals	85	34	33	

British: 37 (25 pilots safe).

#### 5. Shipping Casualties.

By U Boat. One Belgian ship (7,500 tons) and one Greek ship (3,900 tons) neither in convoy, were torpedoed in north western approaches

September 3, 1940.

MEMORANDUM

TO: Secretary Norwegian  
FROM: Mr. Nathan

*(Handwritten mark)*

At a meeting of the Inter-Departmental Experts General Advisory Committee with Colonel Marshall in the War Room Building this afternoon, U. S. Bishop, representing the Price Stabilization Section of the Defense Advisory Commission under Lt. Col. ... recommended a complete embargo on iron and steel ... of a memorandum prepared in the Price Stabilization Section.

last night; also a British ship (6,000 tons) in convoy in the same area on the 29th. All this crew got away in boats. A Norwegian ship (1,800 tons) in convoy was torpedoed by aircraft off the east coast of Scotland on the 30th.

The large Dutch ship reported torpedoed yesterday is in tow. 257 persons excluding 77 children have been landed. 6. Libya.

A new air corps has been formed with head quarters at Cirene, which will include all air units operating in Libya. This is the fifth air corps in the Italian Air Force, the head quarters of the other four being at Milan, Bari, Rome and somewhere in Sicily.

September 3, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

*MS*

At a meeting of the Inter-Departmental Export Control Advisory Committee with Colonel Maxwell in the Munitions Building this afternoon, C. A. Bishop, representing the Price Stabilization Section of the Defense Advisory Commission under Leon Henderson, recommended a complete embargo on iron and steel scrap. Copies of a memorandum prepared in the Price Stabilization Section were distributed at the meeting. ~~attached copy~~

Colonel Maxwell at the same time distributed a few carbon copies of a proposed regulation for the President's signature which would extend the present control now embracing only number one melting scrap to all scrap iron and steel. Colonel Maxwell said that no decision had yet been reached but he was distributing copies of the proposed revised order only for information and comment.

You will recall that both the State Department Division of Controls and the office of the Export Control Administrator resisted the inclusion of scrap metal in the list of controlled commodities, and that at a meeting on July 29th, the Inter-Departmental Committee went on record as favoring the issuance of export licenses even for number one melting scrap freely and without restriction.

At today's meeting Colonel Maxwell also presented for the approval of the Committee, which was granted, a new proclamation including under the controls (1) equipment which can be used for the production of aviation gasoline and plans and descriptions of such equipment; (2) equipment which can be used in the production of tetraethyl lead and plans or descriptions of the same; (3) plans, specifications, et cetera for the design or construction of aircraft or aircraft engines.

The Committee also discussed a bill now pending before Congress which will permit the War or Navy Department to requisition materials or machines needed in the national defense which have been denied export. The Munitions Control Board has

September 3, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston



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- 2 -

suggested an amendment which would permit resale of machines or materials requisitioned and the use of the proceeds to replenish the appropriations from which they were purchased. This would permit the War or Navy Departments to requisition a machine tool and sell it to a manufacturer of defense equipment.

Mr. Vance of the Defense Advisory Commission informed the meeting that delay by Congress in the passage of special amortization provisions was not nearly so important a factor in holding up accomplishments under the Defense Program as the delay in Congress in enacting the June 30th recommendations for increased defense appropriations. He said the importance of the amortization provisions as a factor in delay had been greatly exeraggerated.

~~STRICTLY CONFIDENTIAL~~

ALLISON ENGINEERING COMPANY  
Deliveries of Airplane Engines

	: Actual deliveries :	: Estimated deliveries on existing orders
<u>1940</u>		
January.....	10	
May 1 - 23.....	10	
May 24 - June 1.....	5	
June 2 - 8.....	4	
June 9 - 15.....	8	
June 16 - 22.....	11	
June 23 - 30.....	8	
June 30 - July 6.....	6	
July 7 - 13.....	18	
July 14 - 20.....	11	
July 21 - 27.....	15	
July 28 - August 3.....	30	
August 4 - 10.....	1	
August 11 - 17.....	1	
August 18 - 24.....	14	
August 25 - 31.....	45	
September.....		348
October.....		359
November.....		381
December.....		386
<u>1941</u>		
January.....		381
February.....		416
March.....		416
April.....		414
May.....		408
June.....		437
July.....		320
August.....		294
September.....		431
October.....		47
November.....		45
December.....		45
<u>1942</u>		
January.....		25
February.....		21
April.....		2
June.....		2

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

September 3, 1940.

September 3, 1940.

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Revocation of Swedish Licenses.

On August 22nd Mr. Yost, Assistant Chief of the Division of Controls of the State Department, called on me to explain that Mr. Welles had referred the Swedish Minister to the Liaison Committee in order to discuss any possible reconsideration of the revocation of the Swedish licenses. Mr. Yost stated that the Swedish Minister was going to make a last plea for reconsideration and then discuss the ways and means whereby the airplanes and other items could be made available to the United States Government. Evidently the Swedish Minister took the definite stand that he would only turn the airplanes over to the United States Army or Navy.

On August 23rd the Swedish Minister and the Swedish Air Attache met with the Liaison Committee. The Swedish Minister stated that Mr. Welles had told him that the Liaison Committee could accept requests for reconsideration and act as some sort of an appeal board. The Swedish Minister discussed the airplane motors and other accessories which had been ordered by Sweden in this country, and asked that the licenses which had been issued be not revoked and that the aircraft items for which no licenses had yet been secured be made available for export. I told the Swedish Minister that the Liaison Committee had no power in itself to reconsider an action which had been carefully studied and concurred in by the various interested agencies of the Government. I advised him that there was no hope of exporting those items and that the Liaison Committee would suggest the procedure to be used in turning over the Swedish contracts. The Swedish Minister refused to discuss turning over the contracts until he had entered one more plea for reconsideration with the State Department.

- 2 -

I received a copy of this plea today in the form of a letter from the Swedish Minister to Mr. Welles, in which it is stated, with respect to the Liaison Committee meeting noted above, "Mr. Young was very definite that irrespective of the merits of the case the whole of this material was needed for the defense of the country and this argument would overrule any other consideration. Only in respect of some minor spare parts for machines already delivered would Mr. Young be prepared to consider an application for review of the decisions".

The Swedish Minister does not ask for reconsideration of the action taken with respect to these planes in this letter. He does ask, however, for reconsideration with respect to the contracts, exclusive of aircraft and aircraft engines and accessories, namely Smith and Wesson automatic rifle, 9 mm. cartridges, .45 calibre cartridges, depth charges and detonator fuses.

On August 27th the Swedish Minister and members of the Swedish Purchasing Mission met with the Liaison Committee to discuss these other items exclusive of aircraft. I informed the Swedish Minister at that time, after going over the matter thoroughly, that the situation was the same as in the case of aircraft. In the Swedish Minister's letter to Mr. Welles of August 28th, he states, with respect to these munitions items, that: "As you no doubt recollect, at one of our interviews you expressed the opinion that whatever would be the outcome with regard to airplanes there should be no difficulty in the way of obtaining licenses for other material. I might add that the impression I brought away from my conversation with the President was that he held a similar opinion. Mr. Young however spoke in a very different vein. He held out no hope that licenses would be granted in any case. What I felt particularly disturbing was that this seemed to be a foregone conclusion whatever the merits of case, whatever cost or inconvenience involved and whether or not the material would be of any conceivable use to the United States defense forces.... I shall be grateful if you would see your way to use your good offices to obtain an impartial review of these cases on their merits".

Conference held at Secretary Morgenthau's office, September 3, 1940,  
2:45 P.M.

Present: Secretary Morgenthau, Lord Lothian, Sir Andrew Angew,  
Mr. H. D. White

The Secretary explained that his special interest in the oil problem was pursuant to a special assignment given to him by the President.

Sir Andrew Angew explained that he was Chairman of the petroleum board which had control of all the oil problems in the United Kingdom; that he reported to Jeffry Lloyd, Secretary of the Petroleum Board, who was directly under the President of the Board of Trade. He later indicated that there was also a special board, of which he was a member, which handled questions of oil distribution to the Empire and foreign countries.

Sir Andrew Angew stated that he was in complete agreement with the Secretary that oil constituted a very powerful weapon, and that if used properly, could be vital to the winning of the war. He said that in view of the distribution of oil resources and ownership it was necessarily a problem for joint action between the British and American Governments. He stated that they were most eager to cooperate with the American Government in any program dealing with oil.

The Secretary asked him about the reports in the newspapers on British shipments of aviation gasoline to Spain and Japan, and indicated that Americans naturally expected that if steps were taken by the United States Government to reduce sales by Americans to those areas that the British would do likewise, else the American producers would feel that they were being "sold down the river." Sir Andrew Angew and Lord Lothian both emphasized their desire to cooperate fully and stated that they would at once get the data on sales to both Spain and Japan. They believed that there were no sales of aviation gas to Japan (except some minor amounts in fulfillment of a prior contract) and that the amount of oil going to Spain was a curtailed amount which the British Government estimated to be the minimum which Spain must have for her own use. These shipments, further, were supposed to have been carried in tankers carrying the Spanish flag. They indicated they would obtain all the details and present a memorandum to the Secretary on the matter.

Lord Lothian stated that the Japanese were bringing a great deal of pressure against the Dutch in order to arrange for much larger export of oil and gasoline from the Dutch East Indies to Japan. This, the Japanese, were doing because of their fear that they might be shut

off from their American sources of supply. Sir Andrew stated that he did not feel that the pressure could be withstood much longer. Lord Lothian stated that the Dutch were naturally reluctant to antagonize the Japanese since they felt that the British would not be able to help them out in the event of trouble in view of the European situation, and there was no assurance that the United States would help. Lord Lothian pointed out that the situation was so delicate in the Far East that the British could hardly be expected to antagonize the Japanese by interfering with the oil supply in the Dutch East Indies unless the British were able to depend upon the United States for support in the Far East. Lord Lothian said the situation was similar with respect to the reopening of the Burma road.

The Secretary made no answer to this feeler.

The Secretary asked whether they had any information with respect to the stocks of oil in Japan and Sir Andrew replied that they did have some information and would be very glad to give us what they had on the matter. It was arranged that Sir Andrew would have his oil experts meet with Mr. White to go over the data relating to the Japanese and European oil situation.

Lord Lothian stated that the exchange of destroyers for bases was an extremely important step and that history might well point to that as the crucial episode in the war. Lord Lothian mentioned that there were a couple of other items which the President said the British were to get but they had not yet received them. The Secretary stated that those were matters which Lord Lothian would naturally have to take up with the President.

*HDW*

Sept 3, 1940 154

Dear Daddy.

I hope these notes may be of some use to you, although I cannot vouch for their accuracy.

I want to say again what a grand vacation I had. I only hope you will be able to hang on to some of the rest you got.

Love,  
Henry

100  
195

The following notes will relate only sketchy fragments of Captain Balfour's comments. The first part was taken down while I was sitting in the adjoining room, during which time I was interrupted at intervals. The second part was taken down in the room in which you were sitting. Here I took only a very few notes and did not duplicate those which you took yourself.

Captain Balfour said that the need (of pilots trained in the U.S. or Canada to help Great Britain) is potential rather than actual at the present time. However, this need will soon become actual (particularly when Britain takes the offensive next spring as she expects to do.)

He suggested that we set up civil training schools "say in Texas" to be set up as private corporation and later be "married into the government service" when it becomes expedient to do so. He suggested a man by the name of Mosely in California and others who would be able to run such ventures. They would take:  
40 days to organize;

cost \$50,000, per school;

turn out 450 <sup>pilots</sup> per year per school;

require 90 advanced trainers;

be operated on an hourly contract basis.

some of the more advanced training for fighting would be omitted until fliers arrived abroad.

This scheme depends on three limiting factors. [There were interruptions here and I was only able to hear the first]

1. The goodwill of The Administration;
2. Possibly, the right type of aircraft for training purposes, of the "Moth" type;
3. ?

H.M. Jr.: I'm doing this at The President's request and also because I'm crazy to do it.

Balfour: This is really a "plus". I'm not in a position to put it on paper now but I will soon.

2,000 pilots to be released from training schools by next June would require 360 advanced trainers.

H.M. Jr.: When you ~~are~~ are able to send over this information, will you send it both through The Embassy and through The purchasing commission?

Balfour: A number of operational pilots under the age of twenty-eight have had to ~~be~~ be turned down because they lacked a few hours of the required training. If you (U.S.) could give them those few hours — perhaps ~~##~~ only fifty — of necessary training; we would then be able to accept them and immediately take them into our operational training course.

I consider it vitally important to keep the transport link open between U.S. and Britain.

"Clair" and "Clyde" can only fly during the summer months. Secondly they may have to be taken off and put in the Near East service — Egypt etc. If Lisbon is closed by forced capitulation to Germany we shall not be able to use "Clair" and "Clyde" anyway. [Evidently these two ships can not make the direct hop.]

Churchill is "a great war lord", <sup>but</sup> He underestimates the importance of keeping this ferrying service open. It might be necessary for the Prime Minister to

a quick journey to this side.

[I believe Balfour referred to the following request when he said, as I have noted previously "this is really a 'plus:'"]

Balfour: I understand that there are 120 consolidated LB-30 bombers on order ~~for~~ due April 1st. Could you release six, to us? <sup>They</sup> would be demilitarized and used for transport service.  
[You took some notes on this request]

H. M.: Told Balfour of the new secret (for commercial reasons) 4-motor Lockheed stratosphere plane now being developed.\* suggested that he inquire about them through their inspector at the <sup>Lockheed</sup> plant. Balfour was most enthusiastic; thought this plane was too good for the Atlantic ferrying service but was most anxious to obtain some for offensive warfare.

Balfour also said that Britain needs about 200 Volte(?) dive bombers as a protection in case of invasion. H.M. suggested Curtiss.

\*. H.M.: suggested that this <sup>plane</sup> ~~bomber~~ could be equipped with the new Sperry bomb-site which is better than the so called "secret" bomb-site which could not be released at present with this bomb-site such a plane capable of flying at tremendously

great heights would be a deadly and almost unassailable weapon. All agreed the psychological effect on the enemy would be terrific. None appeared to know about the Sperry bomb-site.

Balfour suggested that the U.S. develop the balloon barrage. Britain has found it tremendously effective both in popular appeal and as an actual defense measure. It has now been worked out so that it has a 30% chance of shooting an attacking enemy plane. In addition to the cables they have added some special secret "lethalizers."

Originally 600 balloons were constructed with 100% reserve. The present plan is to construct 2600 balloons with 100% reserve at the rate of 2,000 per month.

These balloons are inexpensive, and the British find that operation of the barrage provides an excellent form of voluntary service for older men.

Balfour: The Germans have some 4-motor bombers which can do about 250 mph.

The Merlin-10, engine in the Whitley bomber can do England to Italy and back but not more.

The English are considering the use of towed gliders loaded with bombs. The Germans used them at Liege.

The English haven't done anything with the pilotless radio-operated plane except for target practice.

In summing up Captain Balfour said that trained personnel is the key to the whole war problem.

He warned us not to make the same mistake that the British have made: to make plans which by the time they are put into operation are too small to meet the <sup>present</sup> needs. He said that operations were usually several schedules behind the ever increasing ones being planned resulting in terrific dislocation and confusion in industry.

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE  
FEDERAL RESERVE BUILDING  
WASHINGTON, D. C.

September 3, 1940

The Honorable  
The Secretary of the Treasury

My dear Mr. Secretary:

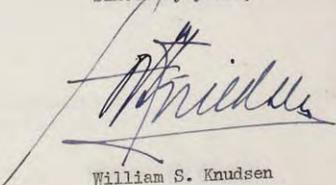
Referring to your memorandum regarding the Howard Hughes plant in Los Angeles, please be advised that we visited the plant, which is but small, and through some misunderstanding we were denied admission.

Mr. Hughes called at the hotel the following day and we had a lengthy discussion about planes. He regretted the misunderstanding regarding the plant visit but claimed to have nothing to show us anyway.

His main argument was to advocate an all purpose plane -- a sort of combination pursuit, observation, and bombing plane, which could be placed in mass production like automobiles. He did not convince the Air Corps people of the practicability of this and promised to send a drawing illustrating his idea.

There was no difference of opinion as to mass production if a single type plane could be developed.

Sincerely yours,



William S. Knudsen

September 3, 1940

MEMORANDUM FOR MR. W. S. KNUDSEN  
 THE HONORABLE  
 THE SECRETARY OF THE TREASURY

My dear Mr. Secretary:

Referring to your memorandum regarding the Howard Hughes plant in Los Angeles, please be advised that we visited the plant, which is but small, and through some misunderstanding we were denied admission.

Mr. Hughes called at the hotel the following day and we had a lengthy discussion about planes. He regretted the misunderstanding regarding the plant visit but claimed to have nothing to show us anyway.

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There was no difference of opinion as to mass production if a single type plane could be developed.

Sincerely yours,

Note:

The above memorandum was dictated by Secretary Morgenthau's office to Mr. Knudsen's office by telephone.

William S. Knudsen

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~~STRICTLY CONFIDENTIAL~~ 160

TREASURY DEPARTMENT

INTER-OFFICE CORRESPONDENCE

CONFIDENTIAL

DATE September 3, 1940.

TO Secretary Morgenthau

August 16, 1940

FROM Mr. Hughes

SUBJECT: Employment in the Aviation Manufacturing Industry

1. MEMORANDUM FOR MR. W. S. KNUDSEN  
FROM THE SECRETARY OF THE TREASURY  
during the month -- approximately 100,000 workers -- was the greatest monthly increase in employment ever recorded by the Mr. Hinckley informed me that so far they have been able to get very little information on the plant which Howard Hughes has somewhere near Los Angeles for building plywood planes. As far as Mr. Hinckley knows, it is still in the experimental stage, but Hughes has been working very secretly and they have not been able to find out much about it.
2. There is another plant near Los Angeles by the name of Timm which is supposed to be working on this same kind of plane, and it is rumored that Hughes is also backing this company. They have one ship completed and the tests were very satisfactory. Mr. Hinckley thinks that the Timm Company is planning to build only trainer planes.
3. The attached chart shows total employment in the aviation manufacturing industry and the percentage of increased production since January 1937. The attached tables show the figures plotted on the chart. The figures show that the industry has covered almost all of the industry, and it is believed that employment of some of the smaller concerns in the industry. Data were not available.

Note:

The above memorandum was dictated by Secretary Morgenthau's office to Mr. Knudsen's office by telephone.

161  
~~STRICTLY CONFIDENTIAL~~

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 3, 1940.

TO Secretary Morgenthau  
FROM Mr. Haag *HAAG*  
SUBJECT: Employment in the Aviation Manufacturing Industry

1. The number of factory workers employed in the aircraft manufacturing industry passed the 100,000 mark during July. The increase in the number of employees during the month -- approximately 10,000 workers -- was the greatest monthly increase in employment ever experienced by the industry.
2. Of the 101,300 factory workers employed in the industry, 77,500 workers were in airplane plants and 23,800 were engaged in the manufacture of airplane engines. The number of employees in the engine plants in July was double that existing in December 1939. Employment in the airplane plants has increased by 50 per cent during the same period.
3. The increase in employment during July was distributed among all the producers of airplanes and airplane engines except the Douglas Aircraft Company. The largest increase in employment -- approximately 1,000 employees -- occurred at the Lockheed Aircraft Corporation. The largest percentage increases, however, occurred at the Bell and Vultee airplane plants, and at the Allison Engineering Corporation. Allison added 663 workers to the rolls, during the month, an increase of approximately 20 per cent.
4. The attached chart shows total employment in the aviation manufacturing industry and the employment of selected companies since January 1937. The attached tables give the figures plotted on the chart. The figures used for total employment cover almost all of the industry, but do not include the employment of some of the smaller companies for which complete data were not available.

Attachments

Employment in Aviation Manufacturing Industry  
(Airplanes and Airplane Engines)

1937-1940

	1937	1938	1939	1940
<u>Airplanes</u>				
Jan.	22,100	23,700	25,000	56,800
Feb.				57,200
Mar.	24,100	24,200	27,400	58,700
Apr.				60,600
May				65,200
June	25,200	22,800	36,500	70,300
July				77,500
Sept.	23,400	21,700	41,100	
Dec.	23,800	24,100	52,800	
<u>Airplane Engines</u>				
Jan.	5,403	6,318	6,769	13,036
Feb.				14,873
Mar.	5,905	6,347	7,555	16,320
Apr.				17,562
May				19,556
June	6,485	6,517	8,365	21,647
July				23,800
Sept.	6,290	6,610	8,909	
Dec.	6,406	6,688	11,996	
<u>Total Industry -- Airplanes and Airplane Engines</u>				
Jan.	27,503	30,018	31,769	69,836
Feb.				72,073
Mar.	30,005	30,547	34,955	75,020
Apr.				78,162
May				84,756
June	31,685	29,317	44,865	91,947
July				101,300
Sept.	29,690	28,310	50,009	
Dec.	30,206	30,788	64,796	

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

Employment of Selected Aircraft Manufacturing Corporations  
1937-1940

	1937	1938	1939	1940
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Bell Aircraft Corp.

Jan.	615	222	654	859
Feb.				865
Mar.	850	290	912	896
April				840
May				873
June	808	440	1,410	1,192
July				1,480
Sept.	718	235	703	
Dec.	213	606	799	

Boeing Aircraft Co.

Jan.	1,834	1,493	2,666	5,567
Feb.				5,445
Mar.	1,726	1,742	3,016	5,319
April				4,776
May				5,785
June	1,249	1,836	3,374	6,513
July				7,313
Sept.	1,109	1,948	4,468	
Dec.	1,380	2,485	5,199	

Consolidated Aircraft Corp.

Jan.	3,169	2,540	968	2,837
Feb.				3,477
Mar.	3,246	2,518	819	3,807
April				4,349
May				5,040
June	3,099	2,104	832	5,821
July				6,743
Sept.	2,617	989	1,408	
Dec.	2,580	981	2,540	

Employment of Selected Aircraft Manufacturing Corporations  
1937-1940  
(continued)

	1937	1938	1939	1940
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Curtiss-Wright Corp.

(excluding Wright Aeronautical Corp.)

Jan.	1,241	2,211	3,802	4,380
Feb.				4,744
Mar.	1,500	2,347	2,939	5,016
April				5,213
May				5,698
June	1,933	2,310	2,848	6,314
July				6,531
Sept.	2,202	2,736	1,562	
Dec.	2,007	3,491	3,447	

Douglas Aircraft Co., Inc.

Jan.	5,591	6,328	4,334	11,952
Feb.				12,077
Mar.	5,961	6,173	4,177	13,119
April				14,033
May				14,656
June	6,653	4,672	5,445	14,957
July				14,662
Sept.	5,532	4,028	6,318	
Dec.	6,771	4,110	10,362	

Lockheed Aircraft Corp.

Jan.	910	1,577	2,305	5,157
Feb.				4,768
Mar.	1,094	1,594	3,509	4,362
April				4,400
May				5,016
June	1,338	1,797	5,699	5,591
July				6,599
Sept.	1,383	1,997	5,324	
Dec.	1,428	2,123	5,156	

Employment of Selected Aircraft Manufacturing Corporations  
1937-1940  
(continued)

	1937	1938	1939	1940
<u>Glenn L. Martin Co.</u>				
Jan.	1,364	1,814	2,905	10,984
Feb.				9,407
Mar.	1,716	1,892	4,092	9,133
April				9,010
May				9,357
June	2,044	2,134	6,029	9,133
July				9,513
Sept.	2,032	2,341	10,070	
Dec.	1,818	2,777	11,174	
<u>North American Aviation, Inc.</u>				
Jan.	829	1,713	2,223	4,049
Feb.				4,324
Mar.	889	1,935	2,457	4,154
April				4,371
May				4,336
June	841	2,400	3,125	4,782
July				4,918
Sept.	1,272	2,685	2,992	
Dec.	566	2,530	3,795	
<u>United Aircraft Corp.</u> (excluding Pratt & Whitney)				
Jan.	2,350	2,245	1,826	2,757
Feb.				3,051
Mar.	2,444	2,168	1,766	3,468
April				3,735
May				3,912
June	2,497	1,972	1,952	4,282
July				4,823
Sept.	2,439	1,880	2,123	
Dec.	2,338	1,774	2,588	

Employment of Selected Aircraft Manufacturing Corporations  
1937-1940  
(continued)

	1937	1938	1939	1940
<u>Vultee Aircraft, Inc.</u>				
Jan.			364	742
Feb.				938
Mar.			440	959
April				1,008
May				1,334
June		560	533	2,127
July				2,618
Sept.		430	288	
Dec.		334	662	

Continental Motors Corp.  
(All-Phase Motor Division)

Jan.	174	427	174	206
Feb.				206
Mar.	177	328	174	206
April				206
May				206
June	212	244	174	206
July				206
Sept.	175	246	201	
Dec.	175	182	201	

Lycoming Division of Lycoming Manufacturing Corp.

Jan.	207	178	217	213
Feb.				213
Mar.	228	208	201	213
April				213
May				213
June	202	202	213	213
July				213
Sept.	208	218	208	
Dec.	210	208	202	

Employment of Selected Airplane Engine Corporations  
1937-1940

	1937	1938	1939	1940
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Allison Engineering Co.

Jan.	218	262	454	1,114
Feb.				1,261
Mar.	229	297	466	1,610
April				1,958
May				2,766
June	238	339	558	3,254
July				3,917
Sept.	238	382	642	
Dec.	266	439	901	

Continental Motors Corp.  
(Airplane Engine Division)

Jan.	151	153	134	288
Feb.				344
Mar.	153	152	138	358
April				368
May				378
June	162	144	171	388
July				398
Sept.	135	146	203	
Dec.	152	142	243	

Lycoming Division of Aviation Manufacturing Corp.

Jan.	849	729	519	581
Feb.				638
Mar.	889	704	521	657
April				711
May				765
June	901	549	573	819
July				873
Sept.	756	514	644	
Dec.	762	506	689	

Employment of Selected Airplane Engine Corporations  
1937-1940  
(continued)

	1937	1938	1939	1940
<u>Pratt &amp; Whitney Aircraft</u>				
Jan.	1,931	2,567	2,264	5,642
Feb.				6,549
Mar.	2,119	2,489	2,659	7,158
April				7,541
May				7,765
June	2,384	2,555	3,066	8,504
July				9,121
Sept.	2,471	2,384	3,394	
Dec.	2,618	2,227	5,022	
<u>Wright Aeronautical Corp.</u>				
Jan.	2,254	2,607	3,398	5,411
Feb.				6,081
Mar.	2,515	2,705	3,771	6,537
April				6,984
May				7,882
June	2,800	2,930	3,997	8,682
July				9,491
Sept.	2,690	3,184	4,026	
Dec.	2,608	3,374	5,141	

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 4, 1940

TO Secretary Morgenthau  
 FROM Professor Chamberlain

The French Minister of Finance has requested through Financial Attache Alphanth the release of \$407,744.88 to assure the payment of the 4-1/2% 1937 French loan coupons maturing on September 1. The Federal Reserve Bank of New York has applied for the necessary license to debit the account of the Bank of France and to credit the account of the Swiss National Bank with this amount, which is the equivalent of the Swiss francs which have been bought by the Swiss National Bank to remit to the Bank for International Settlements, the paying agents, to cover their requirements on the September coupons. This issue of National Defense Bonds carries an exchange option and guarantee and provides for payment in Switzerland in Swiss francs.

Under date of August 7 the Federal Reserve Bank of New York applied for a license to transfer on its books from the dollar account of the Bank of France \$454,445.45 to the dollar account of the Swiss National Bank to provide cover for the Swiss francs necessary to pay the coupons due August 1 on the French 4% loan of 1939. This external loan of France was issued in part on the Netherlands and in part on the Swiss markets. Interest is payable at the option of the holder in Swiss francs or in florins. The Swiss Minister has appealed to the State Department in support of this application, stating that the bonds and the coupons for which funds are now desired are owned entirely by Swiss corporations or Swiss citizens and that there is no reason to suppose that the moneys thus released will be abused or will violate the objectives of the American blocking order.

The above interest service on the two loans could be paid in Swiss francs. The French Government, however, has chosen to keep its reserves principally in the United States, in gold or in dollars. To pay the obligation other than through dollars the French would have to buy Swiss francs from the Swiss authorities against French francs. The French Government in unoccupied France is now prepared and ready to make payment out of its dollar resources in this country. In these troubled times the dollar is naturally playing its role of the one best currency for international payments. The Swiss Minister emphasized to the Treasury some weeks ago the urgent desire of Switzerland to collect from the French Government as many of the obligations due therefrom as possible in dollars while the French Government is still comparatively free. Surrounded by Germany, its allies, or German-occupied territory, the Swiss feel that they may risk being engulfed with reichsmarks. They desire to obtain dollars and other acceptable foreign exchange to the greatest possible extent with the view to maintaining their own currency on a firm gold basis, realizing that the Swiss franc is the only currency of this type remaining in Europe.

Out of friendship for Switzerland, the sole remaining partner in our Tripartite Agreement, it seems that we should permit the above payments out of blocked dollar balances of the Bank of France in the United States. Any other procedure would be causing undue hardship to Switzerland and might discourage that country's resolution to hold fast to the Swiss franc at its present parity. Such a rebuff might even

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throw the Swiss more in the direction of Germany. It is certainly not in our interest to encourage default on French Government obligations to a non-belligerent. There is no question of the funds going to Germany, since the bonds are held by Swiss banks. Furthermore, there is no reason to believe that Germany would coerce the French Government at Vichy into paying out dollars to the benefit of Switzerland. With our enthusiastic approval, France is continuing to pay out of blocked dollars the sums necessary to meet service on French loans floated in the United States.

On August 15 the Federal Reserve Bank of New York applied for a license to transfer on its books \$27,768.25 from the dollar account of the Bank of France to the dollar account of the Bank for International Settlements, by order of the French Treasury, to cover interest on French Treasury 4% notes of 1939 held by the Bank for International Settlements. It is recommended that the funds necessary for this normal transaction, to the benefit of the B. I. S. in Switzerland, an international banking institution whose life depends upon its income from such investments, be permitted to be transferred as requested.

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FEDERAL RESERVE BANK  
OF NEW YORK

September 4, 1940.

Dear Mr. Secretary:

We have been trying to look ahead toward our part in the Treasury's financing problems during the present fiscal year. In the process, a question has been raised concerning which I thought you might like to have an expression of our views.

Under the terms of the Federal Revenue Act of 1940, Title III, Section 302, there is authorized (by the addition of a new paragraph "(b)" to Section 21 of the Second Liberty Bond Act) the issuance of obligations, to be designated "National Defense Series", not to exceed in the aggregate \$4,000,000,000 outstanding at any one time, less any retirements made from the special fund provided for the national defense by Section 301 of the Act. The Act levies additional taxes for a period of five years, and in respect to such additional taxes it is provided, in Section 301, that: "The Secretary of the Treasury shall, as soon as practicable after the end of each quarter, determine the additional amount of taxes collected attributable to the increases in taxes made, and to the floor stocks taxes imposed, by the amendments to the Internal Revenue Code in title II of this Act (not including the amount of taxes attributable solely to section 209 and not including any amount collected under section 1700 (a) (1) of the Internal Revenue Code attributable to a basic admission charge of more than 40 cents), and the amounts so determined shall be set aside as a special fund which shall be available only for the retirement of any of the obligations issued pursuant to the authority contained in section 21 (b) of the Second Liberty Bond Act, as amended."

It is thus clearly provided that the proceeds of specific taxes shall be determined, and the amount thereof placed in a special fund and used only for the retirement of National Defense Series obligations. The Congress has thereby authorized the issuance of obligations which by statute have the specific benefit of earmarked amounts of taxes, and which, when issued, will be in competition with the present general obligations of the United States of America. The technical characteristics of the obligations that may be issued, the plethora of short term funds seeking investment, and the fact that all obligations are based on the general credit of the United States in any event, make it extremely unlikely that the market will distinguish, on this basis, between general obligations and these obligations which, in addition to the full faith and credit, will have had the proceeds of defined taxes specifically set aside to provide for their retirement. However, an obligation is created which may be considered as having an unfair advantage in this respect over the Treasury's general obligations, and its issuance could set an undesirable precedent.

9/4/40. 172

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It was made plain in your testimony before the Committee on Finance, United States Senate, on June 12, that it was not in your mind that by earmarking these taxes, National Defense Series obligations would be given a certain advantage over other obligations of the Government. On the other hand, questions by some Senators seemed to indicate that they saw a possibility that the dedication of special revenues to special bonds would affect adversely the value of other bonds of the United States.

Inasmuch as the appropriations by the Congress for national defense have now been further increased and, before the end of the fiscal year, will probably necessitate renewed consideration of tax measures and the debt limit, may not there be an appropriate opportunity to reconsider this question of the earmarking of the proceeds of certain taxes to service certain specific Government obligations? If that is likely and if the Treasury's position will permit, it is our opinion that it would be preferable not to sell any National Defense Series obligations to the public pending such consideration. It seems to us undesirable from every standpoint of the Government security market to make this sort of experiment in our fiscal operations.

Faithfully yours,

*George L. Harrison*  
George L. Harrison,  
President.

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

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING PETROLEUM PRODUCTS  
SCRAP IRON AND SCRAP STEEL TO JAPAN, RUSSIA, SPAIN AND GREAT BRITAIN.

SEPTEMBER 4, 1940

<u>VESSEL</u>	<u>NAT.</u>	<u>CARGO</u>	<u>AMOUNT</u>	<u>FROM</u>	<u>TO</u>
RIKKO MARU	Jap.	California Crude Oil Regular Lubricating Oil	84,500 bbls. 2 bbls.	San Francisco	Japan
DANAHOLM	Swe.	Aviation Gasoline	37,875 bbls.	New Orleans	Japan
SOMMERSTAD	Nor.	Aviation Lubricating Oil Regular Lubricating Oil	3,273 bbls. 52,795 bbls.	Houston	U.K.
PACIFIC GROVE	Br.	Regular Lubricating Oil	201 bbls.	New York	U.K.
MARIA STEPHATOS	Grc.	No. 1 Heavy Melting Steel Regular Scrap Steel	1,100 tons 2,900 tons	Providence	Japan (via Savannah)
TAXIARCHIS	Grc.	No. 1 Heavy Melting Steel Regular Scrap Steel	1,365 tons 3,172 tons	Norfolk	U.K.
INDAUCHU	Sp.	No. 1 Heavy Melting Steel Regular Scrap Steel	339 tons 1,131 tons	Wilmington	Spain
TATUTAKE MARU	Jap.	No. 1 Heavy Melting Steel Regular Scrap Steel	300 tons 3,825 tons	San Pedro	Japan
POINT JUDITH	Grc.	No. 1 Heavy Melting Steel Regular Scrap Steel	342 tons 1,444 tons	New York	Japan (via Bridgeport)

September 4, 1940  
4:30 p.m.

RE FRENCH BALANCES

Present: Mr. White  
Mr. Chamberlain  
Mr. Bell  
Mr. Cochran  
Mrs. Klotz

H.M.Jr: Does Mr. Bell participate in this? The stock market went up  $2\frac{1}{2}$  points on Hitler's speech, because Hitler said evidently in the speech that he had to prepare now for four years more of war. On the strength of that, the last thing the stock market went up  $2\frac{1}{2}$  points.

Chamberlain: I always maintained, Mr. Secretary, that the British could hold out.

H.M.Jr: I have been studying the tides of Dover. From this information that the English give you, they told me from the 6th to the 7th - this is Arthur Purvis - would be the high tides. He is all wrong. It is interesting. The highest tide at Dover is on the 5th of September and then it goes down and doesn't get high again until the 13th, so really when they passed the 6th, 7th, 8th and 9th, when they pass that, he doesn't get a high tide again.

Chamberlain: Then they get one?

H.M.Jr: Then they get it. They need a high tide to land. I have got all the tables.

Chamberlain: It looks very hopeful.

H.M.Jr: I think so.

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Chamberlain: That is interesting. It may have some effect on what you think --

H.M.Jr: We are going to use this against you.

Chamberlain: I will have to tell you about what it is. It is a question of policy that we think our committee ought not to decide in regard to the use of French funds. You see, the French are asking that a considerable amount - asking that we permit them to draw from the fund - from their funds here, Bank of France, for the payment of the expenses of their Embassies and Legations everywhere in the world. Now, as far as the United States is concerned, there is no trouble. We won't bother about that. So far as the other question - the other question would be divided into two parts, one, whether we would permit them to draw for their Embassy expenses to South America and the other, would we not extend it to Canada.

H.M.Jr: There are really three proposals. One, should we let them draw funds for the United States; two, for this Hemisphere; three, for the rest of the world.

Chamberlain: For the rest of the world. As to the first, we think that should be done with probably a maximum set.

H.M.Jr: Per month?

Chamberlain: Per month, and no time on it. As to the second, our committee felt that it is a question of policy. If we start, if we don't let them draw out this money, it will probably embarrass them quite considerably. If, therefore, the policy of the Government is to help the Petain Government, we probably should let them have the money.

For South America, it will not amount to a very large amount of money anyway. For South America we have a request for a three month period for Uruguay, Argentina, Chile and

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Paraguay that amounts to about \$280,000 which are the biggest expenses except Brazil, a little over a million a year. If you don't put in Brazil and all the others --

(Mr. Bell entered the conference.)

- Chamberlain: I was talking about this, that we are pressed by the French Government to unblock for the Embassies the French funds, and I was talking particularly about the South American situation. From the request of \$285,000 for the major embassies except Brazil for a three month period, it would look as though the total amount wouldn't be - say it would be under two million, see, for this Hemisphere.
- H.M.Jr: Well, fix me up a memorandum tonight to take to the President tomorrow. He has given me a tentative luncheon engagement. One, for the United States and how much it would cost. Two, what we think it would cost for South America and for Canada --
- Chamberlain: I don't think they have - have they got a representation in Canada?
- H.M.Jr: Yes, I saw the Legation there. Three, how much are they asking for for the outside countries?
- Chamberlain: They haven't fixed a figure.
- H.M.Jr: One, two, three, if I could have that.
- Chamberlain: They haven't fixed a figure.
- H.M.Jr: Just put little notes under that, how your committee feels about each one of those proposals, how your committee feels about it.
- Chamberlain: I will give you that. The committee feels much more friendly toward the South American Hemispheric proposal than they do to the general.
- H.M.Jr: If you don't mind, keep it on a month to month basis, don't let's give them any money beyond

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a month.

White: Renewable without special action unless you see fit.

Chamberlain: And we thought we should get reports. Would you use that for the Embassy in this country?

H.M.Jr: Yes.

Chamberlain: We thought of giving them three months and requiring a report.

H.M.Jr: In this country?

Chamberlain: For this country.

H.M.Jr: And how about South America?

Chamberlain: Well, in South America, I am inclined to think that if we are going ahead it would be better to give them three months with a report each quarter. It would make it much easier for them.

Bell: If you have got control over it, you can always revoke the license.

Chamberlain: We can revoke the license if necessary.

Bell: If they don't move the money out of the country, and we will assume they will not.

Chamberlain: We will fix a maximum anyway, so much a month, monthly reports.

H.M.Jr: I would keep it on a monthly basis, and we can tell them we will let them know - for instance, let's say this was the first of September. I would advance them enough money to run for September and tell them that on the 15th of September we will let them know whether we will give them the money for October. I would give them the money on, say, the 15th of September, for October.

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Chamberlain: Yes.

H.M.Jr: Do you see? I would do that.

Chamberlain: That gives them 15 days' notice.

H.M.Jr: Yes. I would give them 15 days' notice. In other words, if on the 15th of September they didn't get a check from us for October, then they would know that they weren't going to get it.

Chamberlain: What we will do, unless some - there would be only one difficulty with that, Mr. --

White: They could request a license each 15th to be passed on for the - calling for the expenditures for the ensuing month. They would merely request the license, which would be automatically granted unless there was some reason not to grant it.

Bell: Make them put in an application for that or just on the basis --

H.M.Jr: Make it automatic.

Chamberlain: And in the amount fixed.

H.M.Jr: But things move so fast that to give them three months' time and three months' money, it is lifetime these days.

Chamberlain: Yes, it is. I think we would require a report at the end of each month anyway.

H.M.Jr: Yes. What do you think of that?

White: I would be inclined to think it is better to let them send a monthly sum within this country and let it go on - let it come up before the committee each month, but not have them come before the committee and ask for it.

H.M.Jr: That is what I mean. It would be just automatic.

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- White: Thereby renewed automatically, so they don't have to come to us.
- H.M.Jr: Just the way we do with the Canadian silver. I write a letter every month to Canada saying we will continue to do the thing. Canada doesn't make a request. I just write them a letter at the end of each month that we will continue for another month, but I don't want to give them three months and then let them go sour on us for two and a half months, in which we don't have that money. Supposing, for instance, we just issued the money for three months and two weeks after we did that, Germany took over all of France.
- Bell: You would revoke the license.
- H.M.Jr: But you would have advanced them the money for three months.
- White: They could have drawn on it and they might have withdrawn it.
- H.M.Jr: Sure, they might take the whole three months' allowance the first day and the next day Germany takes all of France.
- White: It is possible.
- H.M.Jr: Perfectly possible.
- Bell: What would they do with the money if they drew it out in the first place?
- White: Pay it over to some other - Italy or Germany or South America.
- H.M.Jr: It is an unnecessary risk.
- Bell: There aren't very many places they can put it without having it frozen.
- H.M.Jr: Look, let's be a little stiff at the beginning and you can always ease it.
- Chamberlain: Now, I wanted to call your attention,

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Mr. Secretary, to the fact that - to ask you whether you wanted to consult with the State Department on this - on the point that the French may be getting close to the Nazis, I don't know, and it is possible that something will raise a feeling that the French Embassies, the French Diplomats, in South America may be close to the Germans, and may get closer and therefore the money spent on these French Legations and French Diplomatic Missions may be used improperly. I think the - I think it might be well to check with the State Department. I feel that I don't want to go to the State Department without speaking to you.

H.M.Jr: I wish you would.

Chamberlain: I can speak to the Latin American Division or you can go to the Secretary.

Bell: Didn't you have a memorandum from --

White: Was Mr. Berle, who was most interested in the use made of the funds, there?

H.M.Jr: I would go to Berle.

Bell: You had a memorandum, didn't you, last week from -- was it Welles or Berle?

Chamberlain: I have got a memorandum here from Berle, but it doesn't say - it is simply a memorandum of his conversation with the French Ambassador. He doesn't make any recommendation.

Bell: He protested rather vigorously --

Chamberlain: The French Ambassador protested very vigorously --

Bell: About repealing the general licenses we gave them.

H.M.Jr: You go to Berle and give me something for noon tomorrow and I will take it up with the President.

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- Chamberlain: All right, I will do that early in the morning. Then the question as to the - as to Europe and the rest of the world is perhaps a little different. In Europe, you see, they have no longer Embassies or Legations in England, in Italy, Belgium, Holland, and Norway. They have cut down in the other districts and other countries, I don't know.
- H.M.Jr: They can always draw on the 250 million dollars they have in Martinique.
- Chamberlain: I discussed that with Mr. White, and it doesn't seem a very practical scheme. There is always the chance, too, that something may happen to Martinique. I saw in the newspaper that they were carrying on a plebiscite in Martinique to decide whether or not they wanted to join the British. If they do, and the French ships, French sailors there, follow the plebiscite, they will be holding the money and that money wouldn't be available to the Petain Government.
- H.M.Jr: Put it up to Berle and let me put it up to Roosevelt.
- White: They doubtless have funds elsewhere that they could use, but if they tell us that they haven't, there is no way that we could go back of it. They would prefer, naturally, to unloose these frozen funds and so wouldn't say that they had other funds available, but they probably have.
- H.M.Jr: Let's see.
- Bell: What do they want to use this money for, Harry?
- White: To maintain their Consulates and Embassies.
- Bell: I thought this was different.
- White: No, I was speaking of Consulates and Embassies outside the United States.

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Chamberlain: It then depends in part on your attitude or policy toward the Petain Government.

H.M.Jr: Well, they tell me you go to the Embassy here in Washington and some of them are very nice and some of them are not. There are no two men alike. Each one is governed by his own personal feelings. They told me a story last night about a very prominent Frenchman who said, he happened to be a designer of this - what is this best battleship? Not the Richelieu, but one of their best vessels.

Bell: The Dunkirk?

H.M.Jr: One of those, anyway. For some reason he is over here. He thinks it is perfectly all right to bomb the French people but when they bomb the battleship he designed, he turned and everything the English did was poison. You just don't know how it hits a person. Colonel Jacquin comes in and says he is going over to France and work and I understand he is coming back here as aviation attache.

White: In the realm of higher politics, there is this consideration, that the less money the Petain Government has to support its various Legations and Colonies, the less likely those Colonies to select adherence to the Viche Government as against the Government in London, if there is a choice.

H.M.Jr: Yes.

Chamberlain: It runs into --

H.M.Jr: Well, let Mr. Roosevelt decide this.

Chamberlain: All right. There is another question after the Embassies. They want - I would also like to see if I can get some information from the State Department on this. They want permission to have free \$30,000 a month to spend in the United States for supplies for the French Colonies, Martinique, Guadalupe,

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food, they say, principally, Martinique, Guadalupe, and Indo-China. Whether that will be true now, I don't know.

H.M.Jr: I would put that down.

Bell: Isn't that new money? They are going to bring supplies from these islands, sell them to the United States, largely strategic materials, and get the dollars and use the dollars to buy exports from the United States, I thought.

Chamberlain: That is going on.

Bell: That was the original proposition.

Cochran: That was one part of it. The other is, they are to draw from some funds they have.

Chamberlain: This is another proposition that we are allowing them to do. They are having no difficulty.

H.M.Jr: Oh, you mean if they bring in, say Martinique Rum or something like that, and sell \$10,000 worth, you free that?

Chamberlain: There hasn't been any such case, Mr. Secretary.

Bell: Free that to buy stuff in the United States.

Chamberlain: And the bank in Martinique has money that could finance purchases in this country.

H.M.Jr: But frozen funds to feed - buy food here to feed the people in Martinique is something else again.

Chamberlain: That is --

Cochran: That is included in this, because they have done it.

White: That may be in it, but aren't you going to get more information on that point?

Chamberlain: We are going to try to get more information on that.

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- White: That is right, because they don't specify at all clearly --
- H.M.Jr: Out of this thing, the President may get a couple of more bases.
- White: From whom?
- H.M.Jr: I've been crazy to have him get a base at St. Pierre, and Miquelon, and it is very important.
- Chamberlain: Yes, they are.
- H.M.Jr: Out of this thing, we will maybe get a little deal.
- Bell: Where is that?
- H.M.Jr: Just south of Newfoundland.
- Chamberlain: They have another proposition to which we haven't - we think it is somewhat curious. They want \$30,000 a month to finance purchases and the payment of expenses already incurred in South America in connection with the purchase of property, goods. Now, in - they say at first they wanted an unlimited right to buy what they wanted. They said they would like to get this \$30,000 a month for all of Latin America to - contrarywise, if they had any large purchases in line we should be given a request for consideration. Now, you would be interested in knowing that we had some trouble about a request for \$400,000 in Chile.
- H.M.Jr: I have always heard of Chile and jumping beans.
- Chamberlain: No, those are Mexicans.
- H.M.Jr: Oh, they don't jump in Chile?
- Chamberlain: No, they don't jump, they stick. We haven't given them the permission - something is sticking somewhere. These are beans the French bought during the war.