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M. I. D., W. D.
Tentative Lessons
Bulletin No. 40
September 5, 1940.TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPENOTICE

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The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and are in no sense mature studies.

FURTHER NOTES ON GERMAN ATTACKS UPON
FORTIFICATIONS

SOURCE

The information in this bulletin is from a German document translated in London late in June, 1940.

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NOTE

Although the subject of German Attacks upon Modern Permanent Fortifications has been discussed in TENTATIVE LESSONS BULLETIN NO. 28, the present bulletin enlarges considerably upon the previous study with little repetition of the information contained therein.

I. ATTACK ON A FORTIFIED FRONT BY A DIVISION.

The capture of a starting line must precede an actual attack on a fortified front. This starting line must be as close as possible to the front which is to be attacked, and must provide O.P.'s for the artillery. The reconnaissance of obstacles and works must be completed while the troops are moving up to the starting line.

The attack on a fortified front may be divided into the following phases, which may, however, overlap in practice:

- a. Driving the enemy outposts back to the principal line of resistance along the whole front to be attacked, and at the same time removing obstacles.
- b. Breaking through the fortified line at the most favorable points.
- c. Extending the break-through and following up the attack along the whole sector.

No rules can be given for calculating the time necessary to carry out these various phases. The time will depend upon the ground, the strength of the line attacked, the degree of preparedness of the enemy defense, the respective strength and fighting qualities of the attacking and defending troops.

Advantage must be taken of every opportunity for a rapid local penetration, even if it means sacrificing the continuity of the attack over the front as a whole. It is essential where this is done, however, to send immediate reports to all concerned.

When the point of attack is chosen, the following must be taken into consideration: The ground; the number, nature, and situation of the enemy's permanent works, and especially their field of fire; his field works, and obstacles of all kinds.

Frontal attacks must never be made on enemy fortifications or works. They must either be attacked from the rear or isolated. If even a few mutually supporting works are neutralized, the whole

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system of defensive fire may be disorganized.

Even where an attack is carried out by a whole division, the initial penetration on a fortified front will not be achieved by a mass infantry attack, but rather by a carefully planned attack, executed by a limited number of specially selected assault troops provided with the necessary equipment. These troops, who must be placed under the orders of an energetic commander, should not exceed two or three infantry companies in number, but should have infantry guns, antitank guns, attached engineer personnel, and, if possible, tanks, antiaircraft guns, and any other types of guns suitable to engage emplacements. Direct signal communication must be arranged with the supporting artillery.

An attack on a fortified line must be in depth in order to provide flank protection. The first task of the engineers is to remove obstacles of all sorts, including mine fields, and to bridge streams. Decontamination detachments will open up lanes across contaminated ground. Antitank artillery may, in addition to its essential task of defense against enemy tanks, successfully engage emplacements.

An attack against a fortified line requires detailed preparations even if, in order to achieve surprise, only officers are told beforehand which sector is to be attacked. The assault troops themselves must be brought up as late as possible to the starting line.

In general, the start of the attack against the principal line will not begin until all the artillery is in position. In order to drive in the outposts, however, it is often sufficient to bring only a part of the available artillery into action. Advantage will, therefore, be taken of every opportunity to press on boldly--for example, to get behind the outposts as they retire--particularly when there is a chance of achieving local surprise.

While the enemy outposts are retiring and the artillery preparation for the attack on the principal line is being put down, the enemy artillery and its O.P.'s must be neutralized.

Concentrated artillery fire may make gaps in the enemy antitank obstacles. The advance of the assault troops up to the principal line of resistance is followed up as soon as possible by the assault troops who are to exploit the penetration in the enemy's fortified line. The works to be attacked by the assault troops will be laid down in a pre-arranged plan, and the attack will be supported by infantry guns, antitank weapons, and tanks engaging not only the fortifications to be attacked, but also those supporting them from the flanks. Emplacements in the intervals between the fortifications must also be neutralized.

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The extent to which the infantry guns will take part in the artillery preparation will be arranged beforehand with the artillery commander.

If the enemy's system of defensive fire is disorganized at any one point, other assault troops, accompanied by forward observation officers from the artillery, must be pushed through at once. These assault troops will enlarge the breakthrough by attacks against the flank and in rear of supporting fortifications. They will thus open up a passage for the main body of the attacking troops.

Every subsequent opportunity of enlarging the breakthrough will be exploited to the full. The attack will thus develop along the whole of the front and allow the division to make the weight of its attack felt throughout the depth of the defensive position.

At the same time, antitank, antiaircraft, and infantry guns are pushed up behind the assault detachments. Their role is to silence works, antitank weapons, and machine gun nests by a few well directed rounds. Fortifications which are not to be attacked may frequently be neutralized by smoke.

Part of the infantry guns support the advance, and the remainder follow up the attacking infantry as closely as possible in order to be in a position to give supporting fire throughout the depth of the defensive position.

During the attack, it will not be possible for the artillery to put down a creeping barrage, as the attack will resolve itself into a number of local actions against defended positions. Ranges will be indicated to the artillery by liaison officers or forward observation officers.

Only a commander who is actually on the spot can have any direct control over this form of attack. This is particularly true of infantry. The divisional commander, if he is to control the attack, must therefore be well forward.

The various positions to be occupied by the artillery must be arranged beforehand in such a way as to enable them to accompany or follow the infantry with sufficient rapidity. Certain batteries must be detailed to act in close support of the infantry. These batteries will have their wagon lines suffi-

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ently near to their gun positions to enable them to move without loss of time.

According to the situation, the artillery may best support the infantry either by sending observers forward or by moving its guns. Artillery officers must follow immediately behind the infantry to reconnoiter positions for the close support artillery to come into action.

In most cases, it will be necessary to place a battery under the orders of the leading infantry regiment as soon as the attack has penetrated the fortified zone.

It may also be necessary for smoke units to follow the advance. (Smoke units are also gas units, if and when chemical warfare is employed.) Arrangements should also be made for the early employment of flash-spotting and sound-ranging units.

During the attack, and particularly while the artillery is moving from position to position, dive bombers and fighter aircraft must engage the enemy throughout the depth of the position. The principal task of the air force in such an attack is to prevent the enemy reserves from being moved up to stop the break-through. Its employment against a retiring enemy may be particularly fruitful. The air intelligence liaison units provided with the necessary signal equipment accompany the first waves of attacking infantry and keep the air force constantly informed of the exact position of our own front line.

II. ROLE OF THE ASSAULT DETACHMENT.

A. Preparation for the Attack.

Before a plan of attack is drawn up, numerous patrols must be sent out. All arms, the engineers in particular, should take part in these patrols, which obtain information on the following points:

1. The exact situation and direction of fire of each of the fortified works.
2. Position of field works in the intervals between the permanent fortifications.
3. The nature, strength, and position of obstacles such as wire, antitank mines, and contaminated ground.

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4. Natural obstacles, such as streams, canals, marshes, and steep slopes.

The company commander must have at his disposal specially chosen assault detachments. The commanders of the assault detachments will be chosen from among experienced platoon commanders, and the N.C.O.'s and men must be selected for their courage, determination, physical fitness, and mental alertness.

Every man in the assault detachment must thoroughly understand his task and be specially trained to carry it out.

The preparation of an attack by an assault detachment must be so thorough that the attack is carried through without any hitch whatsoever. This means that the attack must be planned down to the most minute details.

B. The Organization and Equipment of the Assault Detachment.

The assault detachment must be highly mobile, and it can, therefore, only carry such equipment as is absolutely indispensable. Each man in the assault detachment carries a ground sheet, a water bottle, one day's reserve rations, and a bayonet. The respirator is carried in its container on the back or in a pocket of the tunic. The revolver, which is attached to a strap about the neck, is carried in the other pocket. Ammunition is carried in the pockets, as pouches are dispensed with.

The following table gives an example of the way in which the various parties in an assault detachment may be organized.

<u>Party</u>	<u>Strength</u>	<u>Equipment</u>
Assault detachment commander		Machine-pistol, wire cutters, Verey pistol, hand grenades, compass, field-glasses, whistle
Wire-cutting party	3-4 men for each breach to be made	4 rifles or revolvers, 4 entrenching tools, 12 hand grenades, 4 wire-cutters, 2 claw hatchets, 8 sandbags, explosive charges
Embrasure destroying party	3 men for each embrasure to be engaged	2 revolvers, 1 rifle, 10 sandbags, 2 hand grenades per man, one 3 kg. charge with fuse, 2 containers of Benzol, Verey pistol

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<u>Party</u>	<u>Strength</u>	<u>Equipment</u>
Supporting parties	2-3 parties of 2-3 men each.	2 hand grenades per man, Verrey pistols, signalling flags, 2 smoke candles or grenades. Number of rifles, machine pistols, and light machine guns depends on nature of ground and cover
Smoke party (if required)	2-3 men	Rifles or revolvers, 4 hand grenades, 8 smoke candles or grenades, 1 entrenching tool, 1 pair wire-cutters

C. Method of Attack.

The assault detachment is first brought up to a starting line close to the edge of the area which is effectively covered by the fire of the enemy's weapons. The attacking companies then begin their advance covered by artillery fire.

When the assault detachments begin their attack, the artillery and the infantry guns put down a barrage in front of their successive positions, and machine guns, antitank guns, and tanks engage at short range the embrasures of the fortifications which are to be attacked.

The wire-cutting party is pushed forward either supported by fire or hidden by smoke. They either blow up the wire or cut their way through it. The remainder of the assault detachment then advances. The supporting parties cover its advance with fire initially from the starting position. When a break in the wire has been made, the commander of the assault detachment and a party detailed to destroy the embrasures dash forward and take cover in the dead ground in front of the embrasure.

At the same time, the supporting parties take up positions alongside and behind the fortifications so as to give protection from the flanks and rear. If a smoke party is available, it covers the advance of the party detailed to destroy the embrasures and keeps putting down smoke until this party is up to the fortification and the covering parties have got to their allotted positions.

The parties detailed to destroy the embrasures may find it effective to roll in front of them containers of Benzol, and to ignite the Benzol by revolver fire. The thick black smoke which will be given off will blind the fortification.

The attack on the embrasures may be made in the following ways:

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1. By throwing hand grenades through the embrasure if it is open.
2. By blowing up the embrasure if it is closed.
3. By blowing up the gun in the embrasure.
4. By stopping up the embrasure with sandbags if it is close to the level of the ground.
5. By blowing up the entrance to the fortification.
6. By using flame throwers.

Even if the party detailed to destroy the embrasures does not succeed by any of these means in capturing the fortification, it will at least have prevented the enemy from using his weapons against the attacking troops.

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Date- 1-9-70

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September 5, 1940.
3:25 p.m.

H.M.Jr: How are you?
Senator Scott
Lucas: Just fine, how are you Mr. Secretary?

H.M.Jr: Very well.

L: This is Scott Lucas out here in Chicago.

H.M.Jr: Yes.

L: We're getting started on Regional Headquarters.

H.M.Jr: I don't hear you terribly well.

L: I'm out here in Chicago getting started in the operation of Regional Headquarters.

H.M.Jr: Yes, I got that.

L: Now I'm setting up, in this office here, a foreign language group.

H.M.Jr: Yes.

L: And trying to find the most outstanding men in the different racial groups out here.

H.M.Jr: Yes.

L: And I would like to have you give me a starter or two, I mean give me two or three names after you've given consideration as to who you consider in these 13 states, the outstanding Jewish people who live here.

H.M.Jr: I see.

L: In other words, this is what I'm trying to do Mr. Morgenthau. I want the very best I can find in all of these departments.

H.M.Jr: I know.

L: And if we get the right front here, why we'll go through in these states, otherwise we're going to fail. This is a very, very difficult situation out here.

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- H.M.Jr: Well I'll be glad to ask some of my friends and is Monday time enough or is that too long.
- L: That'll be fine. Monday will be plenty of time.
- H.M.Jr: Well I'll get you - I'll get you several names by Monday.
- L: That's fine. You do that. In other words, I'd like to have them clear on the outside and beyond the realm of politics.
- H.M.Jr: Making it easy for me, what?
- L: That's all right. Independent outstanding fellows that really want to get in here and fight for this cause.
- H.M.Jr: I understand.
- L: Yes.
- H.M.Jr: All right. Goodbye.

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Paraphrase of Code Cablegram Received
at War Department 12:20 p.m., September 5, 1940.
A Canadian troop convoy arrived safely on September

(garbled, probably 5th).

London, filed 12:04, September 5, 1940.

It seems apparent that German air attacks have been increasingly effective in causing damages. However, the most serious result so far has been the time of employees lost to Weybridge, which manufactures the Vickers Wellington heavy bomber, industry by repeated air warnings. The present regulations were seriously damaged with five or six direct hits on the buildings giving workers to take cover will probably be modified, and others outside. Forty-seven persons were killed and about 300 injured. Production of this airplane will be seriously affected. The Pobjoy aircraft factory at Rochester was set on fire

but there has been no interference with production. Up to this time the only fuel oil installations destroyed by enemy bombing have been the naval storage at Pembroke and the civilian installation at Llandoverly, both of which have previously been reported. I am informed that Pembroke was almost without protection yesterday. German aircraft losses were 52 confirmed, 19 probable, and 22 damaged. The British lost 17 airplanes and 6 pilots.

During the night of September 3-4 the Royal Air Force attacked the West power station, the Frederichseele transformer station, the Danzigerstrasse gas works and the Rheinmetall-Borsig armament factories, all in Berlin, as well as many other points. It also sunk one submarine in the Bay of Biscay. British bombers have been setting German forests on fire successfully.

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Present: A Canadian troop convoy arrived safely on September
(garbled, probably 5th).

It seems apparent that German air attacks have been increasingly effective in causing damages. However, the most serious result so far has been the time of employees lost to industry by repeated air warnings. The present regulations requiring workmen to take cover will probably be modified.

The British have not discovered any indication of an impending invasion.

LEE

Distribution:

General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
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Date- 1-9-70

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RE FRENCH BALANCES

September 5, 1940
10:00 a.m.

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

Chamber'n: I have this memorandum. I called Berle up and he told me that he would approve granting to the French Diplomatic Service expenses in the United States and Latin America.

H.M.Jr: And in Latin America?

Chamber'n: And he also approved strongly of that. He approved also of the general grant for the rest of the world, temporarily. He thought the consequences of our not doing so are serious and he suggested it might be a very useful thing to have the accounts go through the office here as they would in the monthly report to show what they were doing in Europe. This is in the Orient. He is particularly interested. His judgment was it was better to go ahead on the limited basis that you suggested to the French.

H.M.Jr: He does like the limited basis?

Chamber'n: He likes the limited basis.

H.M.Jr: You mean month to month?

Chamber'n: Month to month, yes, he likes that.

H.M.Jr: Would the United States representative to France pay all these bills?

Chamber'n: The State Department tells us they pay the bills and then bill France. They are going to ask us very shortly for a license to repay one hundred thousand dollars and they hope we can get quick action.

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Bell: That is the usual thing when they take over the representation of another country.

Chamber'n: And then they charge. That isn't exactly the same, but it is concerning the use of blocked funds for payment of expenses in South America.

H.M.Jr: The Department of State objected, and authority to be limited to this hemisphere?

Chamber'n: They object to it being paid over all the world because they felt the Minister here would have no control over the other parts of the world. They feel he has control over the Embassies and Consulates in this country.

H.M.Jr: On a monthly basis?

Chamber'n: No, I think it is on a general basis. Of course, it can be revoked at any time.

White: There is no reexamination periodically.

Bell: But you do have some control over the amount of money transferred out of the general account of the Bank to the Embassy account.

White: There is a ceiling.

H.M.Jr: Well, if we were going to do this month to month with France, I think we ought to do it with Denmark so we could treat them all alike.

Chamber'n: I think so.

H.M.Jr: We could say to France when they come over here, "Well, we are doing it that way with Denmark," and we could explain it to the Danes that we want to use them as a good example.

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Chamber'n: I think they would go along. The Minister is very friendly.

Bell: Very cooperative.

H.M.Jr: "The French Agency also requests licenses (1) to cover dollar expenses of French colonies, such as purchases in the United States or traveling expenses, with a monthly maximum of \$50,000; (A report on the use of the money would be given monthly. This license would be limited to purchases in this country for the colonies which are not included in the British blockade, as, for instance, the West Indies.)"

You don't know yet what that would be?

Chamber'n: No. I wanted to call your attention to the statement in the newspapers. They are quite concerned over the situation of the French colonies. This request may have some connection with their effort to help finance French colonies.

H.M.Jr: Well, I think that is a good report. Let me ask, how do you feel about this, Merle?

Cochran: I am in the minority, Mr. Secretary. I felt that we went too far in revoking all these things. I didn't think we had adequate reason for that, but now that it is done I think we ought to go quite a ways toward meeting their desires here. But you suggested a control and I would go along with that now, but I thought it rather unfortunate to have this happen just the day the new French Financial Attache arrived, you see, and he asked - he said, "Well, has there been any abuse of these privileges or is it political?" And you couldn't point out any abuses.

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H.M.Jr: Well, it is like the case that Gaston was telling me about last night. They didn't let this Swede go to Alaska and they asked why and then they finally had to give them some reason, so they said - some friends of his with very good connections in the State Department wanted to know why they picked on him and they said, "Well, we decided not to let any aliens go up to Alaska." It is pretty hard to explain why we don't let a Swede go up in his own yacht in Alaskan waters. In the room here, the War Department asked us not to let him go.

This is a good memo. This is what I want.

Chamber'n: I have some memoranda on this Swiss question.

H.M.Jr: Well, leave it with me.

Chamber'n: I will leave two of them. There is one for Mr. White. I would rather have Mr. White check his afterward.

H.M.Jr: All right.

September 5, 1940

Secretary Morgenthau

J. P. Chamberlain

Re: Requests of French Financial Agency.

The Agency requests that licenses be granted for payments from the blocked dollar accounts of the Bank of France in this country for the following purposes:

(1) To pay the expenses of the French diplomatic and consular representatives in this country. It is proposed that a maximum monthly amount be fixed for a period of one month. You suggested that the renewals for the succeeding months be taken up on the 15th of each month, to be acted upon for the following month. Reports would be made at the end of each month.

(2) To pay the salaries and expenses of French diplomatic and consular offices in the American Hemisphere. The amount necessary for this hemisphere would probably be about \$2 millions a year. This estimate is based upon a request for \$285,000 for three months, for French representatives in Argentina, Uruguay, Chile, Bolivia and Paraguay — the yearly expense being about four times this amount, or \$1,140,000.

(3) To pay the salaries and expenses of French diplomatic and consular offices in other parts of the world. The French have now no regular representation in Germany, Italy, Great Britain, Belgium, Holland, Norway, Luxembourg or Denmark. The United States represents France in all of these countries except Great Britain, pays the expenses and bills France. Expenditures for prisoners of war and for care of refugees has increased greatly since the collapse. A rough estimate would place this cost at between \$300,000 and \$400,000 during the next six months.

With no diplomatic or consular representation in so many countries, the total cost will be much less than normal, so the amount involved will probably not exceed \$5 millions a year for representation throughout the whole world with the exception of South America.

The total sum involved for both the American continent and other parts of the world will not exceed \$7 millions a year — less than \$600,000 a month. As, under the plan you propose, the license will be monthly, the amount which the French Government will dispose of will not be large as payments may be stopped at the close of any month.

The principal financial resources of the French Government appear to be in the accounts and earmarked gold blocked in this country, so that a refusal to grant the licenses requested might embarrass the French Government seriously. The Bank of France holds earmarked gold here in the amount of \$504 millions and \$257 millions in deposits.

Mr. Berle, on being consulted, approved of all three licenses being granted on the ground that the sums involved are not large and that a refusal would embarrass the present French Government. His favorable opinion is definite as to the expenses in the United States and in the other countries of the American Hemisphere. He felt that refusal of the license for expenses in Latin American countries might make a bad impression in those countries, especially if the embassies, legations or consulates were closed or their staffs reduced.

As a somewhat parallel situation, you might consider the treatment accorded Denmark in this respect. The Danish diplomatic and consular officers in the American Hemisphere are now being paid from blocked accounts. The Department of State approves the arrangement as the Danish Minister here has charge of disbursement from the accounts and exercises a certain supervision over the Danish diplomatic and consular agencies. All Danish diplomatic and consular expenses were originally paid from Danish blocked funds here, but there was objection by the Department of State and the authority was limited to this hemisphere.

The French Agency also requests licenses: (1) to cover dollar expenses of French colonies, such as purchases in the United States or traveling expenses, with a monthly maximum of \$50,000; (A report on the use of the money would be given monthly. This license would be limited to purchases in this country for the colonies which are not included in the British blockade, as, for instance, the West Indies.) (2) to cover purchases of merchandise made in other countries than the United States, up to \$30,000 a month. (Monthly reports would be made.)

If these licenses are approved in principle, negotiations with the French Agency will be necessary to fix the terms and conditions of the purchases to be made.

(Initialed) J. P. G.

Received Sept 5, 1940
from La Fredrick agent
(Andrew)

Minutes.

September 5th, 1940

OIL FOR SPAIN

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NOTHING TO BE WRITTEN IN THIS MARGIN.

Oil in Metropolitan Spain is distributed by the Spanish Monopoly "Campsa" which imports petroleum products from two sources, namely the U.S.A. and the refinery at Teneriffe belonging to the Spanish Company Cepsa.

2. The Texas Company has a virtual monopoly in supplying Campsa ex U.S.A. although certain special lubricants and diesels are purchased from others. The oil is purchased f.o.b. American ports, and is lifted in Spanish tankers or tankers chartered to Campsa.

3. Cepsa normally obtains the crude oil from which the products are manufactured from four sources (1) Royalty oil which it owns in Venezuela; (2) Colombian oil supplied by Socony-Vacuum; (3) Saudi Arabian oil supplied by Cal-Ab, a joint subsidiary of Standard of California and Texas Corporation (4) Venezuelan oil supplied by Standard of New Jersey. The Standard of New Jersey delivers in its own tankers, the balance being lifted in chartered vessels.

4. ^{1/20} The British owned or controlled oil is sold to Spain, except that Shell has a small position for the delivery of Venezuelan crude within the Socony-Vacuum contract with Cepsa.

5. During June 1940 His Majesty's Government became greatly perturbed at the accumulation of oil reserves in Spain. They estimated stocks at nearly 400,000 tons, and consumption at 50,000 tons per month. In addition to the Spanish and Panamanian tankers normally employed, a very large number of tankers were chartered for June and July voyages to Spain and Teneriffe including a British, a Swedish and eleven United States flag vessels. It was therefore felt that there would be a most dangerous increase in the already abnormally high stock situation in Spain.

6. The British tanker was requisitioned and, as a result of steps taken by the United States Government, American owned vessels under the U.S. or neutral flags were prevented from going to Spain or Teneriffe. Because of the delicate political situation, it was decided that Spain should not be cut off entirely from oil supplies but that, until the Spanish situation had been investigated by a British oil expert, Spanish imports from all sources should be restricted to the carrying capacity of the Spanish tanker fleet. The Spanish tanker fleet is estimated as being able to lift an average of 42,000 tons per month from the Americas. Navicerts were to be granted only for shipments in Spanish tankers which continued to lift products from the U.S.A. under its Texas Company contract.

7. The Spanish tankers take from six to eight weeks to make a round trip. Only one vessel loaded in August, but six are about to load in September -

- Campuzano
- Campoamor
- Campas
- Campero
- Castillo Campanario
- Badalona

8. Mr. Mark Turner, who was sent to Spain, has now reported that Spanish consumption was under-estimated and that, in fact, the stocks at August 1st were 217,000 tons. He estimates that present consumption is 62,000 tons per month and would be 75,000 tons per month if the existing restrictions

on /

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on gasoline use were lifted. The Ministry of Economic Warfare are anxious that these restrictions should be lifted because German propaganda is making full use of them to arouse anti-British sentiment in Spain.

9. It is proposed that restrictions on imports by Spain should be sufficiently severe to adjust Spanish stocks to a figure of 87,500 tons and that if the Spanish Government removes the restrictions on gasoline they should thereafter be permitted to import from U.S.A. and Teneriffe at the rate of 75,000 tons per month - the estimated level of current consumption. This oil will be drawn from the normal supply sources mentioned above, and will involve the use of some non-Spanish tankers.

10. Further advice on these figures has been requested from London.

The State Department has been kept fully informed of the progress of restrictions and the proposed steps.

PH:MS

NOTHING TO BE WRITTEN IN THIS MARGIN.

TREASURY DEPARTMENT

115

INTER OFFICE COMMUNICATION

DATE 9-5-40

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

I

According to the report of his remarks in the Wall Street Journal, Mr. Knudsen, speaking before the Senate Finance Committee on September 4, 1940 in a personal capacity, said the following:

"The defense commission decided that the excess profits tax bill, while very important, had no direct effect on the prosecution of the defense program; therefore was not an appropriate subject for the defense commission to comment on or make recommendations.

"Consequently, you will realize that anything I say here is purely personal—just an expression of my own ideas.

* * *

"I assume that you intend this to be an excess profits tax law, as its name implies. That seems to me to mean a tax on the excess profits which may flow to various companies directly or indirectly as a result of the defense program. Consequently, it seems fair that this should be a tax on earnings above their normal past record and not a tax based solely or largely on earnings above an arbitrary percent or standard. I do not think a penalty tax should be imposed on normal earnings. If the government needs more revenue, why not obtain it by a flat increase in the corporation tax rate?"

Apparently Mr. Knudsen does not distinguish between an "excess" profits tax and a "war" (or defense) profits tax. Moreover, his request that the Government obtain more revenue by a flat increase in the corporation tax rate is fundamentally inconsistent with the request of the President for a steeply graduated excess profits tax.

- 2 -

II

Messrs. Knudsen, Biggers and Henderson also testified in opposition to the amortization deduction. Under subdivisions (i), (j) and (k) of Section 124 of the Second Revenue Act of 1940, no taxpayer taking amortization deduction for emergency facilities may destroy or substantially alter the facilities without the consent of the Secretary of War and the Secretary of the Navy. If such consent is not given within 90 days, the Secretary of War and the Secretary of the Navy can purchase the facilities at a price not to exceed the adjusted basis, which if the facilities had been fully amortized would be zero.

Mr. Knudsen stated that the Government's interest in the facilities could be protected through imposing restrictions on demolition or alteration of facilities in procurement contracts. Mr. Biggers also pointed out that the statute would be less flexible than a contract and would apply even to those cases in which manufacturers did not recover the cost of the additional facilities either through increased prices or through annual reimbursement by the War Department to the manufacturer. According to the Wall Street Journal, Mr. Biggers said:

"We feel that if a man puts up his own capital with no commitments from the government, no strings should be tied to it (amortized construction)."

P. W. H.

CONFIDENTIALFOR YOUR INFORMATION

September 5, 1940

To: The Secretary

From: Mr. Young

Re: Martinique

Among the items belonging to the Belgian Government which had been shipped on the French aircraft carrier "Bearn" and subsequently unloaded at Martinique are:

Six Brewster single seater pursuits
Twelve Colt machine guns .50 calibre
146,000 rounds of .50 calibre ammunition
Four oxygen inhalators
Spare parts for the Brewsters.

The Belgian Embassy has informed the British Purchasing Commission that it can obtain possession of these items, with the possible exception of the ammunition, and that it will arrange for the export from Martinique if they are purchased by the British.

The British Purchasing Commission has informed the Belgian Embassy that it would like to buy this material.

704.

15 BROAD STREET, NEW YORK



TELEPHONE HANOVER 2-2460

BRITISH PURCHASING COMMISSION

September 5, 1940

Dear Mr. Morgenthau,

I have not forgotten that I promised you particulars of the Heinkel 113 Single-Seater Fighter Aircraft.

I find we have no reliable figures here and am endeavoring to obtain them for you.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'C. R. Fairey', written over a horizontal line.

C. R. Fairey

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

CRF;pc

FILE COPY

September 5, 1940.

Dear Mr. Knudsen:

I am sending you herewith, for your confidential use, two copies of the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 31, 1940; Unfilled Orders
and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 31, 1940; Unfilled
Orders and Estimated Deliveries on
August 31, 1940.

These tables carry forward through August 31, 1940 the information furnished you last week.

Sincerely,

(Signed) E. Morgenthau, Jr.

Mr. William S. Knudsen,
Chairman, The Advisory Commission to the
Council of National Defense,
Room 2262, Federal Reserve Building,
Washington, D. C.

EA
H
FILE COPY

By Messenger 4
By Messenger 4 35

September 5, 1940.

September 5, 1940.

My dear Mr. Secretary:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes, May 1 - August 31, 1940; Unfilled Orders and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane Engines, May 1 - August 31, 1940; Unfilled Orders and Estimated Deliveries on August 31, 1940.

These tables carry forward through August 31, 1940 the information furnished you last week.

Sincerely,

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of War,
Washington, D. C.

War Department,
Washington, D. C.

FILE COPY

By Messenger 4²⁵
By Messenger 4

September 5, 1940.

My dear Mr. Patterson:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 31, 1940; Unfilled Orders
and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 31, 1940; Unfilled
Orders and Estimated Deliveries on
August 31, 1940.

These tables carry forward through August 31, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Robert F. Patterson,
Assistant Secretary of War,
Washington, D. C.

cc - [unclear]
Washington, D. C.

GA
Am
FILE COPY

By Messenger 4 25

September 5, 1940.
September 5, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 31, 1940; Unfilled Orders
and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 31, 1940; Unfilled
Orders and Estimated Deliveries on
August 31, 1940.

These tables carry forward through August 31, 1940 the
information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.
H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

FILE COPY

By Messenger 4 25

September 5, 1940.

Dear Mr. Secretary:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 31, 1940; Unfilled Orders
and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 31, 1940; Unfilled
Orders and Estimated Deliveries on
August 31, 1940.

These tables carry forward through August 31, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

Washington, D. C.

FILE COPY

By Messenger

425

September 5, 1940.

Dear Mr. May:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - August 31, 1940; Unfilled Orders
and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - August 31, 1940; Unfilled
Orders and Estimated Deliveries on
August 31, 1940.

These tables carry forward through August 31, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Stacy May, Director,
Bureau of Research and Statistics,
The Advisory Commission to the
Council of National Defense,
Room 2715, Munitions Building,
Washington, D. C.

FILE COPY
FILE COPY

By Messenger

425

September 5, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes
Deliveries of and New Orders for Airplanes, May 1 - August 31, 1940; Unfilled Orders and Estimated Deliveries on August 31, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane Engines, May 1 - August 31, 1940; Unfilled Orders and Estimated Deliveries on August 31, 1940.

These tables carry forward through August 31, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold R. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.

will you also submit a statement including identification of all airplanes and new orders received during the period September 1 through September 7, classifying these deliveries and orders by the following six groups of purchasers: (1) United States Army; (2) United States Navy; (3) British Empire and France; (4) South America; (5) Other Foreign; and (6) United States Commercial. Please note for each new order or estimated delivery schedule by month, classified as above, with by class of purchaser and by type of airplane.

Handwritten initials

FILE COPY

By Messenger 425

All data should include serial or lower of engine number with fractions pointed to the correct data column.

Please forward the tables to Mr. George September 5, 1940.
of Research and Statistics, Broadway
when I have asked to arrange to check the
I have no objection to being the
leader week. I shall

Dear Mr. Northrop:

In connection with reports I am receiving from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplanes on order on August 31, 1940. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to September 7 the estimated deliveries of the unfilled orders on August 31, 1940 by (1) deducting deliveries made during the period September 1 through September 7 under each type of airplane and class of purchaser; (2) indicating any revisions you have made in the estimated deliveries of the remaining orders now shown on the schedule; and (3) inserting new orders received during the period September 1 through September 7 in their proper place, combining new orders with orders now shown on the table where the type of airplane and class of purchaser are the same, and using a new line for any type of airplane or class of purchaser not already included in the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on September 7, including new orders received during the week.

In addition to the above, will you also submit a statement showing, by type of airplane (including identification number), all deliveries made and new orders received during the period September 1 through September 7, classifying these deliveries and orders by the following six groups of purchasers: (1) United States Army; (2) United States Navy; (3) British Empire and France; (4) South America; (5) Other Foreign; and (6) United States Commercial. Please make for each new order an estimated delivery schedule by months, classified as above, both by class of purchaser and by type of airplane.

All data should include spares in terms of complete units, with fractions rounded to the nearest whole number.

Please forward the tables to Mr. George C. Haas, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date at the end of each calendar week. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, September 9.

In connection with reports I am receiving from the airplane and airplane engine industry, I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplanes on order on July 31, 1940. Will you please review this table and return to me the corrections outlined below.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Bring forward to September 7 the estimated deliveries of the unfilled orders as July 31, 1940 by (1) deducting deliveries made Mr. John K. Northrop, President, September 7 under each type Northrop Aircraft, Inc., purchaser; (2) indicating any revisions Hawthorne, California; and (3) inserting new orders received during the period August 1 through September 7 in their proper place, including new orders with orders now shown on the table. Enclosure ✓ of airplanes and class of purchaser are the same, as, using new line for new type of airplane or class of purchaser sent Air Mail Spec. Delivery. These revisions have been taken to Post office by Mr. Dickerson of all orders unfilled as September 7, including new orders received during the week.

In addition to the above, will you also submit a statement showing weekly, by type of airplane (including identification number), all deliveries made and new orders received during the period August 1 through September 7, classifying these deliveries and orders by the following six groups of purchasers: (1) United States Army; (2) United States Navy; (3) British Empire and France; (4) South America; (5) Other Foreign; and (6) United States Commercial. Please make for each new order an estimated delivery schedule by weeks, classified as above, both by class of purchaser and by type of airplane.

SOT/vsa

SOT/vsa

Mr. France - 2

All data should include orders received during the period August 1 through September 7, 1940, with provisions made for the week ending September 7, 1940.

Please forward the estimated deliveries of September 7, 1940, by type of airplane and class of purchaser, when I have advised to the War Department. Figures as are available at the end of 1940 should be included.

September 5, 1940.

Dear Mr. France:

In connection with reports I am receiving from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplanes on order on July 31, 1940. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to September 7 the estimated deliveries of the unfilled orders on July 31, 1940 by (1) deducting deliveries made during the period August 1 through September 7 under each type of airplane and class of purchaser; (2) indicating any revisions you have made in the estimated deliveries of the remaining orders now shown on the schedule; and (3) inserting new orders received during the period August 1 through September 7 in their proper place, combining new orders with orders now shown on the table where the type of airplane and class of purchaser are the same, and using a new line for any type of airplane or class of purchaser not already included in the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on September 7, including new orders received during the week.

In addition to the above, will you also submit a statement showing weekly, by type of airplane (including identification number), all deliveries made and new orders received during the period August 1 through September 7, classifying these deliveries and orders by the following six groups of purchasers: (1) United States Army; (2) United States Navy; (3) British Empire and France; (4) South America; (5) Other Foreign; and (6) United States Commercial. Please make for each new order an estimated delivery schedule by months, classified as above, both by class of purchaser and by type of airplane.

S22/rak

TREASURY DEPARTMENT

130
129

Mr. France - 2 INTER OFFICE COMMUNICATION

DATE September 5, 1940

All data should include spares in terms of complete units, with fractions rounded to the nearest whole number.

Please forward the tables to Mr. George C. Haas, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date at the end of each calendar week. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, September 9.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

(1) To pay the expenses of the French diplomatic and consular representatives in this country. It is proposed that a maximum monthly amount be fixed for a period of one month. The renewals for the succeeding months be taken up on the 15th of each month, to be acted upon for the following month. Reports would be made at the end of each month.

(2) To pay the salaries and expenses of French diplomatic and consular representatives in the following countries: **Mr. C. W. France, General Manager, Curtiss-Wright Corporation, St. Louis Airplane Division, Robertson, Missouri.** The amount necessary for this purpose is estimated to be about \$2 millions a year. This estimate is based on a salary of \$285,000 for three months, for French representatives in Argentina, Uruguay, Chile, Bolivia and Paraguay -- the yearly expense being about four times this amount, or \$1,140,000.

enclosure
Air Mail Express Delivery by Mr. Tichon
taken to Post Office by Mr. Tichon
(3) To pay the salaries and expenses of French diplomatic and consular officials in other parts of the world. The French have now no representatives in Germany, Great Britain, Belgium, Holland, Denmark, Norway, Sweden, Finland, Poland, Czechoslovakia, Yugoslavia, Greece, and the United States represents France in all of these countries except Great Britain, pays the expenses and bills France. Expenditures for prisoners of war and for care of refugees has increased greatly since the collapse. A rough estimate would place this cost at between \$300,000 and \$400,000 during the next six months.

With no diplomatic or consular representation in so many countries, the total cost will be much less than normal, so the amount involved will probably not exceed \$5 millions a year for representation throughout the whole world with the exception of South America.

The total sum involved for both the American continent and other parts of the world will not exceed \$7 millions a year -- less than \$600,000 a month. As, under the plan you propose, the license will be monthly, the amount which the French Government will dispose of will not be large as payments may be stopped at the close of any month.

SGT/vsa

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1940

TO Secretary Morgenthau

FROM J. P. Chamberlain

Re: Requests of French Financial Agency.

The Agency requests that licenses be granted for payments from the blocked dollar accounts of the Bank of France in this country for the following purposes:

(1) To pay the expenses of the French diplomatic and consular representatives in this country. It is proposed that a maximum monthly amount be fixed for a period of one month. You suggested that the renewals for the succeeding months be taken up on the 15th of each month, to be acted upon for the following month. Reports would be made at the end of each month.

(2) To pay the salaries and expenses of French diplomatic and consular offices in the American Hemisphere. The amount necessary for this hemisphere would probably be about \$2 millions a year. This estimate is based upon a request for \$285,000 for three months, for French representatives in Argentina, Uruguay, Chile, Bolivia and Paraguay — the yearly expense being about four times this amount, or \$1,140,000.

(3) To pay the salaries and expenses of French diplomatic and consular offices in other parts of the world. The French have now no regular representation in Germany, Italy, Great Britain, Belgium, Holland, Norway, Luxembourg or Denmark. The United States represents France in all of these countries except Great Britain, pays the expenses and bills France. Expenditures for prisoners of war and for care of refugees has increased greatly since the collapse. A rough estimate would place this cost at between \$300,000 and \$400,000 during the next six months.

With no diplomatic or consular representation in so many countries, the total cost will be much less than normal, so the amount involved will probably not exceed \$5 millions a year for representation throughout the whole world with the exception of South America.

The total sum involved for both the American continent and other parts of the world will not exceed \$7 millions a year -- less than \$600,000 a month. As, under the plan you propose, the license will be monthly, the amount which the French Government will dispose of will not be large as payments may be stopped at the close of any month.

The principal financial resources of the French Government appear to be in the accounts and earmarked gold blocked in this country, so that a refusal to grant the licenses requested might embarrass the French Government seriously. The Bank of France holds earmarked gold here in the amount of \$504 millions and \$257 millions in deposits.

Mr. Berle, on being consulted, approved of all three licenses being granted on the ground that the sums involved are not large and that a refusal would embarrass the present French Government. His favorable opinion is definite as to the expenses in the United States and in the other countries of the American Hemisphere. He felt that refusal of the license for expenses in Latin American countries might make a bad impression in those countries, especially if the embassies, legations or consulates were closed or their staffs reduced.

As a somewhat parallel situation, you might consider the treatment accorded Denmark in this respect. The Danish diplomatic and consular officers in the American Hemisphere are now being paid from blocked accounts. The Department of State approves the arrangement as the Danish Minister here has charge of disbursement from the accounts and exercises a certain supervision over the Danish diplomatic and consular agencies. All Danish diplomatic and consular expenses were originally paid from Danish blocked funds here, but there was objection by the Department of State and the authority was limited to this hemisphere.

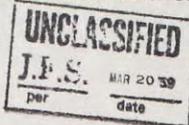
The French Agency also requests licenses: (1) to cover dollar expenses of French colonies, such as purchases in the United States or traveling expenses, with a monthly maximum of \$50,000; (A report on the use of the money would be given monthly. This license would be limited to purchases in this country for the colonies which are not included in the British blockade, as, for instance, the West Indies.) (2) to cover purchases of merchandise made in other countries than the United States, up to \$30,000 a month. (Monthly reports would be made.)

If these licenses are approved in principle, negotiations with the French Agency will be necessary to fix the terms and conditions of the purchases to be made.

J.P.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION



DATE September 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

~~STRICTLY CONFIDENTIAL~~

The attached memorandum was handed to me by Mr. Alphanand, Financial Counselor of the French Embassy, on August 29, 1940. I discussed it the next day with Acting Secretary Bell. It was recalled that Mr. Bell and I had received Mr. Leroy-Beaulieu on July 19. My memorandum written on the following day, recounting our interview, made no mention of any such assurance as Mr. Leroy-Beaulieu stated had been made. It was recalled, however, that the subject of permitting French colonies or protectorates to use for purchasing in the United States the proceeds of exports made from those areas to the United States was discussed, and we showed a sympathetic attitude toward such a proposition. Mr. Bell has penciled on Mr. Alphanand's memorandum the following note: "I think it would be accurate if he had said 'would willingly consider granting'".

At eleven o'clock this morning Mr. Alphanand telephoned me from New York and referred to the memorandum under reference. I suggested that to be correct the memorandum should be amended in the words of Mr. Bell, which I quoted to Mr. Alphanand's secretary.

A handwritten signature in dark ink, appearing to be "J.F.S.", written in a cursive style.

(Handed by Mr. Alphand, Financial Counselor of the French Embassy,
to Mr. Cochran in the Treasury at 1:30 p.m., August 29, 1940.)

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AMBASSADE
DE LA REPUBLIQUE FRANCAISE
AUX ETATS-UNIS

Washington, le August 29, 1940.

MEMORANDUM

In the course of a conversation, which he had with the Financial Attache of the French Embassy on July 19, 1940, Mr. Bell was kind enough to assure Mr. Leroy-Beaulieu that the Treasury would willingly grant the necessary licenses for releasing the funds obtained from export products of French colonies or protectorates to the United States in the event such funds were to be used for purchases in this country.

The Financial Attache would be grateful to receive from the Treasury a confirmation of the above statement./.

COPY

ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

Federal Reserve Building

September 5, 1940

Mr. Rozell
Federal Reserve Bank
New York, N. Y.

Dear Mr. Rozell:

I understand you have been studying British policy and operations in connection with the use of British gold resources. I am hoping to include in a study of British war finance the extent of the use of gold and foreign exchange for the payment of war supplies and your data on the use of gold would be extremely useful to me. I would appreciate your sending me a copy of anything you may have written or telling me in what manner I can arrive at the proper figures.

With many thanks, I am

Very truly yours,

(Signed) James S. Earley

The Advisory Commission to the
Council of National Defense
1424 K Street - Room 420
Washington, D. C.

JSE:EVR

(Rec'd. by telephone from Mr. Rozell, Federal Reserve Bank of N. Y.
11 a.m., Sept. 26, 1940.) - emk

September 5, 1940
9:24 a.m.

H.M.Jr: Hello.

Operator: Leon Henderson.

H.M.Jr: Hello, Leon.

Leon Henderson: Hello. You mad at me?

H.M.Jr: Am I mad at you?

H: Yeah.

H.M.Jr: No, I'm just disappointed.

H: In what way?

H.M.Jr: At your whole crowd over there, particularly you, so long as you're asking me.

H: Well, you know, I thought we knew each other well enough that you'd call me

H.M.Jr: No, I'm not -- I just figure what's the use.

H: Well, you have to live from day to day, Henry, and you have to do things according to your best judgments

H.M.Jr: Sure, I know.

H: I know you do and I certainly try to.

H.M.Jr: I know. I was very disappointed and Sullivan was absolutely flat last night.

H: Well, how do you suppose we felt -- I mean, you were away -- I called you; you were away, Ed was away, nobody over there -- Harry was away -- nobody I could talk to

H.M.Jr: Can't you talk to Sullivan?

H: No. Sullivan -- Johnny -- the only kind of conversation that we could have outside of just on a friendly basis, that is on an old

- 2 -

friendship basis -- when we get onto anything like this he just says, well, you're sold out. I don't like that kind of talk, I don't take it from anybody except somebody that I'm friendly with. He said I'm a chamber of commerce guy and so forth.

H.M.Jr:

(Laughs)

H:

On merits of anything it's just been impossible to talk to John.

H.M.Jr:

I see.

H:

That was just terrible that we had to go down there yesterday and there was no occasion for it, but all I could understand, Henry, was after it had appeared -- after we had made/much of a protest to him and to anybody else as we could, after we had spent as much time as we had on that thing, when the thing appeared and we'd learned that Johnny had insisted on it I thought it had your O.K. and you've got no other choice then than what you believe. Those amendments, Henry, are entirely unworkable, absolutely unworkable, and in my opinion and I've spent quite a bit of time on it in addition to having handled a lot of this stuff in the last war, and I don't make snap judgments that way.

H.M.Jr:

Well, it's a good thing you called me up. I wouldn't have called you because -- well, I just don't understand the attitude of the Commission and -- oh, I'd like soon to sit down with you because I just don't understand it, I mean, I can't understand why this stuff is going on.

H:

Well, sure.

H.M.Jr:

I'm just disappointed.

H:

I thought that was the way you felt. You didn't call me at all and whatever it was you were having yesterday noon, I got a garbled account on that. My idea was that -- what we heard was from Knudsen that the whole thing -- that you'd said our whole procedure was illegal. Well, that bothered me.

- 3 -

H.M.Jr: Well, I mean the idea of an agency writing to the Comptroller General to get an opinion on a tax matter without even showing it beforehand to the Treasury has never happened since I've been in Washington and this fellow Biggers setting himself up as a committee on taxation and finance and then writing to Comptroller General on an opinion which is purely a Treasury matter and never even giving us the courtesy of showing it to us. Lots of things have happened to me before but that's never happened before.

H: Well

H.M.Jr: It's unheard of.

H: Well, there're two items in there. One of them is Biggers setting himself up on that

H.M.Jr: I mean, it's unheard of. I mean, what the hell does the National Defense Council want a committee on finance and taxation and then to be writing on a purely a matter of Internal Revenue and not even giving us a chance to look at it and then sticking it all in the papers.

H: Well, let me separate the two items, Henry, one of them is the question of Biggers setting himself up. I thought I told you and if I didn't I was remiss that all kinds of things having to do with taxation and finance were being done in that division by Jesse and by some of Stettinius' group and none of them were coming up to the Commission for review. And what I did, I forced -- I forced the organization of a committee on which Nelson and McReynolds and myself, all three of whom are -- well, shall we say, considered to be at least in apropos with you and relatively fond of you -- as three out of that five, and we've been forcing everything into that picture. The other day Kades told me for example about the Curtiss-Wright contract. Nelson and I just forced the rewriting of that contract on the basis of what Kades had told us. I mean, I talked to Ed and Kades and so did Ginsberg and we talked to Oscar -- we talked

- 4 -

with your people every day. We've tried to get some organization out of

H.M.Jr:

Well, on that letter to the Comptroller, I asked, when I read about it in the paper, I had a complete check made of the Treasury and nobody in the Treasury knew anything about it. Nobody.

H:

Nobody knew about it -- Oscar didn't know about it?

H.M.Jr:

Well, all I know was that I called up Sullivan and asked him to make a check amongst the legal staff and amongst his staff and the answer was ^{was} nobody in the Treasury knew anything about it.

H:

Well, now, that may have gotten away

H.M.Jr:

Look, Leon.

H:

..... it may have gotten away from me.....

H.M.Jr:

Look, Leon. Leon, let's not get bogged down. You and I want to get the armament program going.

H:

That's right.

H.M.Jr:

I have no personal feelings. I want to see this country rearm, now God-damn it I'm here ready to go 75% of the way. See?

H:

Yeah.

H.M.Jr:

So if any of you fellows want to see me, I'll meet you anywhere you want, but I'm here to be helpful and my personal feelings don't amount to a God-damn.

H:

Well, now, Henry, on the matter of this contract procedure business to the best of my lights Ginsberg and myself constantly kept checking back and forth with your people, and on the opinion request I may have slipped, but just the minute we had the contract procedure I sent it to you as you will recall. Now, on the Committee itself, I mean -- has been working under a lot of pressure and Biggers or nobody

else ever thought of doing anything like that. We've taken the responsibility, Don Nelson knows it and so does Mac. McReynolds knows it that as to -- we have wanted not ever to keep you -- your people out of it but to utilize them completely and every chance we've got to take anything away from somebody that was trying to side-track why we've done.

H.M.Jr: Well, the way I feel at present, I mean, certainly relations on this tax thing the way it is now are none too good and I can't keep track of all the people over at the Council who are messing into taxes, I mean, the day isn't long enough and what I would suggest is that after this conversation you talk to McReynolds and tell McReynolds to come over and have a talk with me. See?

H: Yeah.

H.M.Jr: And let's see if Mac and I can't get this thing going again on parallel tracks or on the same track.

H: All right. Now look, Henry, another thing. On the matter -- I don't know whether you know it or not, but there was started somewhere within the members of the staff -- Marion Falsome and so forth an attempt to get the Defense Commission on record about the excess profits tax. They wanted to weaken it. Well, Nelson and I handled that together with Mac and we killed the whole thing off, that is, as far as I know we've tried to play ball according to what our lights are.

H.M.Jr: Well, I'm glad you called me, Leon.

H: Well, Henry, I've

H.M.Jr: And you just asked me how did I feel, I said I felt disappointed. But tell Mac to come on over and see me. See?

H: Yeah.

H.M.Jr: And let me talk with him.

- H: Well, Mac, between you and me, isn't abreast of what's going on.
- H.M.Jr: Well, he ought to be.
- H: I'll tell Mac to do that but I will also tell Nelson and I'll tell him that whenever he sees anything that we're going to check with -- if it's very important -- we'll check with you or Ed and we'll make sure, but we've been very badly disturbed, frankly, by -- well, our inability to get a working basis with John.
- H.M.Jr: Uh-huh.
- H: Now, I've got the greatest admiration for his capacity and his earnestness. He wants the same things that I do, but I can't seem to get on a basis where we can talk things.
- H.M.Jr: I see.
- H: Now, we've got to find that because of people and things that are involved. You saw the scrap report, didn't you?
- H.M.Jr: Yeah. Yeah.
- H: I sent that to the President and I also got the Commission to endorse it and the President's got that.
- H.M.Jr: How many fellows are in on this tax thing over at your Commission?
- H: Here's the Committee: Biggers is the chairman, Nelson, and he's the tower of strength in the thing, Carl Adams representing Stettinius, McReynolds and myself, Ginsberg is chairman -- secretary and Fred Eaton, who's from Blackwell Smith's firm, represents Biggers as counsel. They're the main things, but as far as -- I've been trying to bring everything into that Commission -- we've been having our scraps as we go along, we've fought every one of them through. As I say, Don Nelson, when he gets a clear line of principle he's a tremendous help because he brings a business point of

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view that just upsets Biggers and Adams and Eaton and those fellows and I don't have to get indignant -- sort of a rabid New Deal Reich you know and business flaunting and all like that. We've had fairly good success. If it hadn't been for that I think we'd be in a pretty bad position although part of that's due to something as I told you -- the form or organization of this Commission.

H.M.Jr:

O. K.

H:

Well, I think I'm going to try to get something done on that.

H.M.Jr:

Well, if it's the form -- say, let me start with McReynolds.

H:

All right, you start with Mac. Now look, if you've got anything, call Don or me, will you?

H.M.Jr:

O. K. All right.

H:

I'm not going to let you get away from me.

H.M.Jr:

O. K. Glad you called.

H:

All right.

H.M.Jr:

Good-bye.

September 5, 1940
10:05 a.m.

H.M.Jr: Hello.

Wm.
McReynolds: Yes sir.

H.M.Jr: Mac? Leon Henderson called me up this morning, wanted to know what I thought about it, see. So I said I simply was very disappointed, that's all. And I said that I thought the whole thing yesterday was too bad. Well, he went on for fifteen or twenty minutes about their troubles, particularly with Sullivan, see? Hello.

McR: Yes.

H.M.Jr: And of course the thing that bothered me was that it's been reported, I don't know - sort of off the record, not an off the record, but a special statement. I'm told Knudsen said yesterday that he thought it was a mistake to have the excess profits tax.

McR: He said what?

H.M.Jr: That it was a mistake to have the excess profits tax. Now that's what Sullivan tells me he said in a supplementary statement.

McR: Bill said that.

H.M.Jr: Sullivan tells me that Knudsen said that.

McR: He hasn't said anything to me that would indicate any such answers.

H.M.Jr: Well, I've got a copy of the statement.

McR: I don't know of course. I wasn't there.

H.M.Jr: Well, I'm repeating what Sullivan told me.

McR: Yes.

H.M.Jr: What I want to know from you, as I told Henderson, I'm not interested in personal differences of opinion and all that, we want to get this God damned rearmament program going. Now if you think it would help any, I'm not crazy to do it, I'll have anybody

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over there, that's got anything to do with this tax program, for supper tonight, see?

McR: Yes.

H.M.Jr: And I'll have Sullivan and Foley there, let them have it out, see if we can't get the Treasury and the Commission back on the same track, because we're not on the same track, we're not going in the same direction since yesterday.

McR: Yes that ought to be straightened out somewhere. They've never been - well of course Johnny has - well, the boys haven't seemed to get along and see through the same spectacles as Johnny has on this. I think Bill Knudsen and Jack Biggers, both of whom have done a lot of work on this in trying to be - so far as any conversation that I've had with them, I've had lots, I think they're trying awfully hard to go in a straight line on this.

H.M.Jr: Well, I think they got off the track yesterday and frankly I don't think Biggers has been playing ball at all.

McR: You don't think he has.

H.M.Jr: Oh, no. Not if what Sullivan tells me is so, and Sullivan has always told me the truth.

McR: Well of course Johnny wouldn't tell you anything deliberately that - he wouldn't misrepresent, he's the last person in the world to do that.

H.M.Jr: No. He told me Biggers has been very tricky on this whole thing, very tricky.

McR: I think that it's lack of understanding. I don't agree that Jack is tricky on it, because -

H.M.Jr: Sullivan says that he's explained it to him over and over again and he deliberately misleads the Committee on the Hill, deliberately. I'm just repeating this.

McR: Yes, I understand.

H.M.Jr: Now I think - what I'm willing to do, you can talk it over with your crowd, if they want to come for supper tonight, see, hello?

McR: Yes.

H.M.Jr: Knudsen, Biggers and Nelson and Henderson and yourself.

McR: Yes.

H.M.Jr: I'll have Foley and Sullivan there and we can have it all out.

McR: Well, I'll talk to them this morning. See, we're going over to the President's at two.

H.M.Jr: Oh!

McR: I'll get a hold of the boys and have a little talk with them, and I'll call you later in the day. What time would you like to know?

H.M.Jr: Well, I'd like to know before one o'clock so I could order supper.

McR: All right, I'll get hold of them.

H.M.Jr: If they're coming it would be, let's say, quarter of eight.

McR: Huhhuh. Well, quarter of eight.

H.M.Jr: What?

McR: At that time of course, it would be all right.

H.M.Jr: What?

McR: I'll let you know -

H.M.Jr: Eight o'clock would suit me. Which suits them better?

McR: Well, I think eight would be quite all right.

H.M.Jr: Eight o'clock.

McR: And no dress.

- H.M.Jr: There would be Knudsen, Biggers, Nelson, Henderson and yourself.
- McR: Yes.
- H.M.Jr: Those are the fellows - is Stettinius in on this at all?
- McR: No, Ed - Ed's going to New York this afternoon anyhow, on some of his material stuff.
- H.M.Jr: Well
- McR: He hasn't been in on it to amount to anything. And I'll get in touch with him this morning.
- H.M.Jr: Because you know Mac, that - sending that letter to the Comptroller General to get a ruling without ever letting anybody in the Treasury know anything about it, it just isn't playing the game.
- McR: Well, of course the letter to the Comptroller was, that came about because I told them I didn't think they could get a clearance from the Comptroller on the kind of a contract they were working on and he said well -
- H.M.Jr: Yes, but Mac, when you were over here, if anybody wanted something that had to do with taxes, we would go over to Internal Revenue and find out and then if we needed a ruling from the Comptroller, the Treasury would get it.
- McR: Well, of course, the Comptroller, the limits of the Comptroller didn't have anything to do with the question of what the taxes would be.
- H.M.Jr: Well, it's a question of amortization.
- McR: No, the question put up to the Comptroller was whether we could make contracts which segregated a repayment of capital from the price of the material contracted for.
- H.M.Jr: Yes.
- McR: Well, and of course I told them and I wouldn't go along with a proposal to include as the Navy

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and the Army have always done, the item of paying for special facilities built in order to carry out a contract as a part of the price of the material they bought. I said you can't do that, I won't be a party to it because that is giving the contract to the facilities with no consideration - no consideration of the Government's interest in it. I said I don't believe that you can get a contract where you segregate that, you've got to find some other way to pay for your facilities.

H.M.Jr: I have got down Knudsen, Biggers, Nelson, Henderson and yourself, see.

McR: And I'll let you know before twelve o'clock.

H.M.Jr: And you let me know, and if they think they can be helpful I'll be very glad to have you all at eight o'clock, and they can call a spade a spade, but the way the thing is now, we feel over here in the Treasury distinctly as the injured party.

McR: Well, I'll let you know before twelve o'clock.

H.M.Jr: O. K.

11:00 a.m.

H.M.Jr: Hello.

Operator: Mr. McReynolds.

H.M.Jr: Hello.

McReynolds: Mr. Secretary, Bill Knudsen and Jack Biggers both have engagements for the evening, conferences with people that they have here from out of town, and Bill said he couldn't call it off much as he'd like to. He will be available any time tomorrow, but he couldn't do it tonight.

H.M.Jr: Well, those fellows all get up early, let's have a conference at the office at

McR: Nine tomorrow morning. I think that can be arranged without difficulty. You wouldn't want to come down for lunch at the - we've got a private dining room down here.

H.M.Jr: I'm lunching with the President tomorrow.

McR: Well I'll see if we can't arrange that at nine o'clock at your office.

HMJr: Earlier?

McR: Eight-thirty?

H.M.Jr: Would that help any?

McR: Well, it probably would, because we have an eleven o'clock meeting.

H.M.Jr: Make it eight-thirty.

McR: Well, that wouldn't interfere with your plans?

H.M.Jr: Who the hell is going to get McReynolds up?

McR: Well I put a slip in my pocket you know.

H.M.Jr: Yes all right, eight-thirty tomorrow morning.

McR: Eight-thirty tomorrow morning, unless I call you to the contrary.

H.M.Jr: All right.

McR: All right, goodbye.

September 5, 1940
4:10 p.m.

H.M.Jr: Hello.

Forrestal: Hello.

H.M.Jr: How are you?

F: Well, I'm well.

H.M.Jr: Good.

F: Two things, Mr. Secretary. One, I sent over some stuff on oil. I don't want to harass you about it, but I just want to be sure that's

H.M.Jr: Well, did you mean that they were getting some of this Kettleman fuel oil

F: Yes.

H.M.Jr: which might be made into aviation.

F: Yes.

H.M.Jr: I read it, got it.

F: Right. The second thing is, how would it sit with you if I asked you to let me have Oscar Cox for about a month or five weeks.

H.M.Jr: Uh-huh.

F: Huh?

H.M.Jr: I don't know.

F: Well, I tell you, the reason I - that fellow at lunch yesterday - the whole question of contracts is something that I want to get at here pretty vigorously, and I honestly mean that when I say that I think we could lay out a procedure in that length of time that would

H.M.Jr: Let me talk to Ed Foley about it.

F: All right.

H.M.Jr: And I want to be helpful. Our trouble is, with the exception of myself, everybody wants to borrow

somebody in the Treasury, I mean they don't want to borrow me, but they want to borrow the people.

F: Well, if you're available you can walk over here any day.

H.M.Jr: Thank you. And so we have this thing almost every day.

F: Yes.

H.M.Jr: Particularly the Defense Council, I mean I just had to put my foot down.

F: Well, I understand that.

H.M.Jr: One day they wanted to take seven of my chauffeurs, one for each member of the Council.

F: (Laughs) Well, I know how

H.M.Jr: But let me talk about it, and I'll give you an answer tomorrow.

F: All right.

H.M.Jr: I want to be helpful.

F: Well, I'll understand perfectly if you can't do it, I won't consider it as not being helpful.

H.M.Jr: I don't know what his situation is, but I'll look into it and I'll call you back in the morning. I was a little disappointed that each fellow wanted to sort of draw back yesterday but

F: Well, I was trying to lead in the other direction.

H.M.Jr: I know you were, and what I didn't tell them that they're going to learn if you've got to go up on the Hill and testify - the stuff that Bell was giving, I mean, after all the Secretaries of War and Navy are both supposed to be working for the same man.

F: Exactly.

H.M.Jr: And if you go up there and try to explain what

the Navy does is one way and the Army does it a different way, and I think they'll find out that, I don't know, I haven't checked. Mr. Price said he was going to do it for nothing but isn't.

F: You just can't make it

H.M.Jr: Well, it doesn't add up, it doesn't make

F: Of course not.

H.M.Jr: But I made my little offer and they didn't seem to think well of it and that's that.

F: Well, I just don't see - I don't think it's - I haven't stopped, I'm going to

H.M.Jr: But you - you mean - you definitely seem to take the same viewpoint that I did.

F: Yes, I mean, what the hell, we're trying to do the same job.

H.M.Jr: I mean, supposing a fellow like Bell, supposing let's say, some Republican had the information that Bell had yesterday

F: Yes.

H.M.Jr: and put that into the records and then they asked you and they asked somebody at the War Department to come up and explain it.

F: Yes.

H.M.Jr: How the hell would you explain it?

F: Can't, and anyway all that you are suggesting is - you are not suggesting that you are going to make rigid forms that won't be ever deviated from.

H.M.Jr: but a semblance of uniformity.

F: That's right, an effort to set up a pattern toward which you'll aim.

H.M.Jr: That's all.

- F: Well, that's a simple, sane business.
- H.M.Jr: I'll give you an answer tomorrow.
- F: O. K.
- H.M.Jr: And incidentally I have over here now - came over here at my request with the approval of the President - Sir Andrew Agnew, who has all of the oil figures at his fingertips.
- F: Yes.
- H.M.Jr: We are preparing a report to the President. I'll send you a copy most likely tomorrow. His estimates on the Japanese oil reserve are just half of what their Navy's has been.
- F: Is that so.
- H.M.Jr: But they check within a percent or two of what ours have been.
- F: Yes.
- H.M.Jr: The Navy told the State Department that the Japanese had some sixty million barrels of oil reserves. Agnew's figures and ours check about thirty-two or thirty-three.
- F: Yes.
- H.M.Jr: When the report is finished, I hope we'll be finished tomorrow, I'm going to give a copy to the President and a copy will go over to you, but I think it's pretty important and I think you'd enjoy meeting this fellow.
- F: I'd like very much to see him.
- H.M.Jr: I'll arrange it. He really knows his stuff and he knows the whole - he formerly was with Shell and he's retired.
- F: Uh-huh.
- H.M.Jr: He's running the whole oil show for England.
- F: Uh-huh.

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- H.M.Jr: Another thing that he told me which I thought was highly significant, that the octane of the German planes is steadily falling.
- F: That checks with what we've got.
- H.M.Jr: He said it's down as low as 67.
- F: We hadn't we didn't have those precise figures, but our fellows who are observing in England doped out that one reason for the slowing down on the volume of their long distance stuff is that they just haven't got the gas.
- H.M.Jr: Well, it's steadily falling. Whatever I get together for the President, I'll send you a copy.
- F: Well, that's very kind of you. Thank you.

September 6, 1940
8:30 a.m.

RE EXCESS PROFITS TAX

Present: Mr. Sullivan
Mr. Foley
Mr. Adams
Mr. Nelson
Mr. Henderson
Mr. Biggers
Mr. Knudsen
Mr. McReynolds

H.M.Jr: The reason I asked for an opportunity to see you gentlemen was really due to Leon Henderson's call to me yesterday. If he hadn't called me, I don't suppose I would have said anything. But he did, and I just wanted to say this, that I tried every way that I know to work along with the Defense Council and we have done everything here in the Treasury to give you assistance when you have asked for it.

Now, the Treasury is responsible for tax legislation, there is no question about it, and we are guided in this particular bill by statements which the President of the United States made as to what he wanted. It is no secret that the Treasury was not prepared for a steeply graded excess-profits tax bill at this time. I mean, after we got one tax bill through which agreed with the committee that we would work on this thing this summer and be prepared some time this fall - but the President asked for it and this is what he wants.

Now, we are trying to do the best that we can on a very, very difficult job, and we find ourselves on opposite tracks with the Defense Council going in opposite directions, and I don't think through any fault of our own.

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It makes the job which we are doing, which the President has given us to do, just that much more difficult. I feel very badly about it. I think it is going to slow up the bill.

I won't take second place to anybody in wanting to see the defenses of this country get ready as quickly as possible, but I think that the statements which have been made both in writing and by personal appearances recently are naturally magnified by the people who don't want an excess-profits tax bill. I mean, they blow them up as to difference between the Council and the Treasury, and it makes the job just that much more difficult. Speaking for myself, I was just wondering if there was something where the Council and the Treasury didn't see eye to eye and where I think the Treasury is carrying out the orders of the President in this case, couldn't we meet either at your place or my place or any place and have it out in the room and then if we couldn't agree, let's say, "Well, Mr. President, I have an important disagreement and we would like to see you," rather than going up and washing our dirty linen in public. I feel very badly about the thing, because I think it is just going to make it that much more difficult to get any kind of a bill. That is my story.

- Knudsen: But when we were in your office the first time here, an agreement was prescribed, wasn't it?
- H.M.Jr: I thought so, yes. You mean with the leaders, with Harrison and Doughton?
- Knudsen: Yes, and the only thing that upset the apple cart was that these provisions covering a tax write-off came into the bill.
- H.M.Jr: I don't know. I will have to refer it to Sullivan. Is that right, John?
- Sullivan: At the time of that conference, none of the details of the bill had been worked out, Mr. Knudsen.

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- Knudsen: But when we left here, I remember the Secretary telling you and Stam that you had to get together.
- Sullivan: That is right.
- Knudsen: By the next morning at ten o'clock.
- Sullivan: That is right, but all of this bill has been written since then.
- Knudsen: So that - this was after the agreement?
- Sullivan: Oh yes. There are over a hundred pages in the bill and they have all been written since that meeting.
- H.M.Jr: They did get together that morning, didn't you?
- Sullivan: Yes, sir.
- Biggers: Mr. Secretary, we set down after you approved the rapid amortization or depreciation principle. You then had a meeting in your office. You then were kind enough to take it up with the President and with the Congressional leaders and it was cleared in principle by the July 10th statement from the White House and subsequently you asked us, and we would have welcomed the opportunity anyway, to meet with Mr. Sullivan and try to work out that provision, not the tax bill but the amortization provision. So we met in Mr. Sullivan's office and had very adequate cooperation from him in solving the general principle, but he at that time thought or suggested that these last provisions that were now designated sections I, J, and K, should be added. We all demurred, and explained our objections and our people, our attorneys, worked with his attorneys, subsequently in the drafting of the bill and --
- Adams: Drafting of that section.

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- Biggers: Drafting that section of the bill, and we hoped that the whole thing would be worked out in a mutually satisfactory manner. It was when we found that Mr. Sullivan and his associates, or at least Mr. Sullivan, felt that these provisions should remain in the bill before it ever went to the House Subcommittee, Mr. Eaton, our Counsel, and I met with Mr. Sullivan at luncheon, I think it was, John.--
- Sullivan: That is right.
- Biggers: and we talked over and tried to very earnestly explain our continued objections and those of the Commission, and I recognized at the conclusion of our luncheon that we were still not of one mind.
- Sullivan: That is right.
- Biggers: On this subject. So it went before the House Ways and Means Subcommittee with these amendments added by the Treasury and we were asked our --
- Sullivan: Those amendments had not been written at that time, Mr. Biggers. I told the full Committee and executive section our position and I stated yours, and then I said that I thought in justice to the National Defense Commission that you and Mr. Eaton should be invited down to explain your provision and you will remember you and Eaton were invited down around noon and came down that afternoon.
- Biggers: Yes, and we explained the position of the Commission, which had been reviewed with the full Commission and voted on unanimously by the seven members of the Commission and they transmitted to Congressman Doughton, over Mr. McReynold's signature, a letter expressing their firm and unanimous disagreement with these three limiting amendments in a tax bill and we made clear - we tried

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to make clear to the House Subcommittee in Mr. Sullivan's presence why we agreed with you in principle that the Government's interest in these respects should be protected in this emergency and that we should profit by the experience of the World War and should avoid some of the things that happened in the aftermath. Yet we all strongly believed that because of the varying conditions which we encountered, that those protections of the Government interest should be written into the contract rather than into a tax law with an attempt to have it apply to everything.

That is the viewpoint of the Commission and the unanimous viewpoint of the tax committee of the Commission and in the Subcommittee's report to the full committee, there seemed to be no specific reference to these features, but when the bill came from the full committee to the House, these were contained.

Sullivan: That is right.

Biggers: I think it could be fairly said, Mr. Sullivan, that even though these amendments in I, J, and K were not perhaps before the Subcommittee at the time I testified, that nevertheless the amendment in principle had been drafted by you or your associates and it was presumably before them or at least we had a copy of what you proposed.

Sullivan: Yes, but --

H.M.Jr: May I interrupt a minute? If you don't mind, I think you are getting down into too much detail, see.

Biggers: I am just doing that, sir, to explain to you the efforts we both made, both your associates and our associates, to try to avoid public controversy.

H.M.Jr: Might I make this suggestion, because it is

water over the dam and all I am looking forward to is to working together. If you started with me and I referred you to Sullivan, you went along on the thing, a part of the bill which, to me, certainly can't be the major clause in the whole bill - it isn't that important - but in any case, at no time did you say, "Well, let's have a talk with Morgenthau, because we don't see eye to eye with Sullivan. Let's go back and see him." And then if I found that the Treasury and the whole seven members of the Council didn't see eye to eye, I should think we should have gone to see Mr. Roosevelt rather than have a public disagreement. In the future, I may suggest if we find we are not seeing eye to eye and you are working with somebody in the Treasury here or we are working with somebody in the Commission, before we go up and spread it on the Record, that the Council and the Treasury are in disagreement, for God's sake let's get together and see if we can't work it out here and if we can't we can always go across the street and see the President. Now, that is all. It is water over the dam, but looking toward the future we will all be here, we have got a hell of a lot to do, the battle isn't won, and I want to win. That is all. I just wanted to get that thing across. This has been going on now for a month.

Knudsen: You asked --

Biggers: It has been going on almost since July 10th.

H.M.Jr: I was away the last two weeks in August. Well, I have been here this week and your appearance has been this week. Before we go up and do this thing again, let's get together. That is all. We are all of a --

Biggers: The Commission, of course, went on record with the House Ways and Means Committee some more than two weeks ago to the same effect they did in the Senate.

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H.M.Jr:

But I don't think this is so important we have got to disagree publicly before we get together privately. I am always available. We have got lots of groups working here with your people. We have machine tools and tanks and this thing and that thing. Every day I could write a letter to some - the Committee on Military Affairs, this or that, and so forth, but I just wanted to use this for myself. If I am wrong, tell me. Is that all right? Is the various - the tremendous organization you have plus the Treasury and all the subdepartments, if they can't let the bosses get together and sit down - I just wanted a chance to say that.

Henderson:

I think, Henry, you started out by saying you wouldn't have called this meeting if it hadn't been for me. I think I ought to say I called you on a personal basis because of our sort of a long-standing understanding that if you and I have any difficulties, we will have them out with each other and I asked you were you mad at me and that --

H.M.Jr:

And what did I tell you?

Henderson:

You told me you were disappointed with me.

H.M.Jr:

That is all. It isn't a question of getting mad.

Henderson:

I told you I didn't feel any too damned well myself.

H.M.Jr:

Well, I have got nothing more to say. Have you?

Knudsen:

Where are we at now?

H.M.Jr:

Well, if we have any differences of any importance, before we take it to the Hill or publicly, we will sit down and fight them out here.

Knudsen:

Can't we decide whether those three sections are desirable or undesirable while we are here? Then we are at least that far ahead.

- H.M.Jr: As I understand the thing - the question is, if the bill goes through and allows a man to write off a piece of property in five years, after he has built a plant, when that period is over if he wants to continue using the property, that is his decision, but if he wants to demolish it, before he can demolish it the Government has the right to say whether it wants to take it over or not.
- Nelson: No, if it were just demolished, Mr. Secretary, I think you would find a lot nearer agreement. Substantially impair or move any part of it.
- H.M.Jr: That is the way it was explained to me this morning.
- Nelson: Demolish is another word.
- H.M.Jr: The experts are here.
- Sullivan: Mr. Nelson is correct. It is demolish or alter.
- H.M.Jr: Well, was it explained to me this morning as demolished?
- Sullivan: No, I think it was demolish or alter.
- H.M.Jr: Well, here it says, "No taxpayer taking amortization reduction for the emergency facilities may destroy or substantially alter the facilities without the consent of the Secretary of War and the Secretary of the Navy. If such consent is not given within 90 days, the Secretary of War or Navy can purchase the facilities at a price not to exceed the just basis, which, if fully amortized, would be zero."
- Nelson: Mr. Secretary, those facilities may be machine tools and you will have to change them all around in order to accomplish the job of running your plant. That is substantially altering.
- H.M.Jr: One of the things that sticks in my crop is what you told me the way Sears Roebuck

does the thing. You told me if Sears Roebuck wants to put somebody in business, you buy the tools, keep title to them, and if at any time during the contract you don't like it, you can pick up the tools and move them somewhere else. Isn't that right?

Nelson: That is right.

H.M.Jr: And that stuck in my crop --

Nelson: And in the contract that can be done. This makes it hard and fast, and the law says that you can't substantially alter a facility that you have taken depreciation on, Mr. Secretary, you have just tied it up into a bow knot.

H.M.Jr: I will take the time now and say that we will settle it before we leave the room, one way or the other, I am willing to do that.

Now, supposing the fellow wants to demolish his building, using the example the President uses so often of Charleston Armor Plate, which is the apple of his eye. He put grease on it and kept it there so he could use it 25 years later. Supposing they would want to demolish that again in a war.

Nelson: I should think they have a perfect right to, Mr. Secretary. Just because they allowed them to take extra-rapid depreciation - the man has paid for that facility with his own money.

H.M.Jr: No.

Nelson: Oh yes, sir.

H.M.Jr: We loaned them the money.

Nelson: No sir, not under this provision.

Henderson: I think we ought to get it clear, Mr. Secretary. Under the contract procedure which we have worked out, the 20% reimbursement for expenditures, yes. Under what we call Plan No. 1, the contractor puts up his own money, gets no

addition in price, and takes his chances on that. What he does get is this accelerated depreciation for tax purposes and what he gets is the value of that to him as a concession from the Government.

H.M.Jr: Leon, let's talk about - you divide the thing into a plan where the fellow borrows the money from the RFC or where he uses his own money. Do you make any distinction?

Henderson: Yes.

H.M.Jr: Let's talk about where he gets the money from the RFC or from some Government agency.

Henderson: Don, will you explain that?

Nelson: May I --

Biggers: Explain the three steps.

Nelson: It will take just a few minutes.

H.M.Jr: Take all the time you want.

Nelson: In Plan No. 1 the manufacturer puts up his own money, takes all the chance. He asks the Government to do nothing more for him. In the event of cancellation of contract, even, he asks for no protection. All he gets is a certificate and a right to take extra-rapid depreciation for five years.

Biggers: For tax purposes.

Nelson: At the sixth year he starts paying taxes without any depreciation because it is all written off. In the event the man has put up the facility with his own money, he has gotten no reimbursement from the Government except as to the profit he has made on the transaction, but no increase in price. Those are all requisites for Plan No. 1.

H.M.Jr: Increases in price?

Nelson: To pay for amortization facilities. He has

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made that chair at the same price Mr. X will make the chair, without increasing facilities. We believe the man has put up his own money and the Government has no right to say to him just because he took extra-rapid depreciation on that property he can't do anything with it.

Plan No. 2, he takes a contract from the Government - well, may I start the first one over?

In each case what we have tried to do is to separate amortization from price per unit of the thing bought. We think that one of the worst features of Government buying is that you have inflated the price of the unit item by an amount equivalent to that necessary to approximate the amortization of the facilities.

H.M.Jr: Is that the Curtiss-Wright plan?

Knudsen: That is the opposite.

Nelson: It has become so.

H.M.Jr: Curtiss-Wright?

Nelson: They are working on this plan now for Curtiss-Wright.

Knudsen: It becomes the Curtiss-Wright plan if the contract is approved.

Henderson: But that will be under Plan No. 2.

Nelson: I wanted to get that point, that we tried to separate amortization of the facility from the price of the unit object.

Now, under Plan No. 2, he takes the contract to make "X" number of whatever it may be. He is going to need "X" amount of new facilities.

H.M.Jr: You can't give it to me in the form of an actual example?

Nelson: Yes, sir. I can give it to you in the form of

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an actual example.

Let's say that a man is going to make these airplane motors. He is going to need 57 million dollars worth of new facilities to make airplane motors. The contract is for 5, 6, 7, 10, any number of thousands, say 10,000 airplane motors. Now, the contracting officer agrees on the price of that airplane motor, irrespective of the amount of money needed for new facilities to make them. He talks price, airplane motors, just as if there were no amortization of facilities in it at all. We believe, Mr. Secretary, that that is where the Government is quite apt to get rooked, is where you begin to try to amortize over the unit price of the product because you don't know how many you are going to make, over what period of time you are going to make them in. You don't know how long the contract will last or anything else.

Now, after that is agreed upon, he is going to give him the order.

H.M.Jr: At so much --

Nelson: Irrespective of how much facilities are going to be needed. Now then, the contractor talks to him about the amount of facilities he is going to need and they approximate they will need 57 million dollars worth of new facilities. The contract is entered into under this Plan No. 2 for so many airplane motors and such and such facilities to be repaid - the amount of money put up is to be repaid by one fifth amortization each year, to be paid by the War Department.

H.M.Jr: The War Department is to pay back --

Nelson: One fifth each year, sir.

McReynolds: Part of the contract.

Nelson: That is part of the contract. One fifth of 57 million dollars a year for five years.

- Adams: But in a separate section from --
- H.M.Jr: You mean they are to pay back the manufacturer?
- Nelson: The manufacturer has put this up with his own money. He has either taken his own cash, gone to the bank and borrowed the money, or he has gone to the RFC and borrowed the money.
- McReynolds: He gets the money at his own expense, whether it is his own or whether it is borrowed.
- H.M.Jr: And the Army and Navy pays them back in five equal payments?
- Nelson: Five equal payments over five years, pays him back for that facility. He goes to work and makes airplane motors.
- H.M.Jr: Could it be six years?
- Nelson: No sir, we set it at five years.
- Henderson: The President set it at five years at that conference where all these things were put in one ball of wax.
- Nelson: Your extra depreciation bill also is five years.
- H.M.Jr: I know.
- Nelson: And this hooks right in, one dovetails with the other. Now, at the end of the five year period or after the contract has expired, whatever length of time it may be, he may go right on making the motors for 6, 10, 12, 13 years if the emergency should last that long, but the payments stop at the end of the fifth year, quite naturally. At the termination of the contract period, then is set in motion certain things which we think protect the Government and do the thing that you and I were talking about when I was over here with you. At that time the facilities are appraised or rather they are arbitrated under the present form of contract. This may have to be modified some because there

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is still some little - some few kinks to iron out and which came up late last night.

McReynolds: Right there, Don, you should make it entirely clear, after that fifth payment has been made by the Government, the Government owns those facilities.

Nelson: Oh, the Government owns the facilities but the title is still in the manufacturer until the end of the contract.

H.M.Jr: Now wait a minute. This is an airplane motor factory. You say the Government owns the tools?

Nelson: Owns everything. This is tools, machinery, buildings, everything.

McReynolds: It is a new building put up under this contract and the Government has repaid the contractor for what he has put in at 20% a year and at the end of five years, the Government owns that.

Nelson: The Government has repaid it.

Foley: Why doesn't the Government do it directly in the first instance, that's what I don't understand.

McReynolds: Wait just a minute.

Nelson: May I just complete this? At the end of the contract period, you see the Government now has repaid this man entirely for the money he has put up for the facility. Then there is the question of an option coming to the manufacturer as to whether he wants to buy those facilities and a price to be set on them, in which case he may buy the facility from the Government or he may turn it completely back to the Government and say, "I don't want it." I won't go into all the details of the option.

H.M.Jr: But the Government has no option?

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- Nelson: That is the thing we are working on now, sir.
- H.M.Jr: This is entirely at the discretion of the manufacturer?
- Nelson: It was at that moment. We think we can work out - this was brought up to us last night. We had a meeting of our Tax Subcommittee and we think we can work out a plan where the Government has an option. That can be worked out. I am sure that I am at no impasse.
- H.M.Jr: This is no Sears Roebuck plan the way you describe it now, because everything is with the manufacturer.
- Nelson: I think it is. That is a different sort of opinion. I think if I took the time I could prove to you it is. I don't think the fact the Government has that option is the point. I think the Government will make more money without the option, but that is a difference of opinion.
- H.M.Jr: What about the question Foley raised? Why do we have to go into the installment business, the Government?
- Nelson: All right, sir, why do we go into the installment business? If the Government goes in and buys those facilities, private capital has no chance to be used in this thing at all. We started out in plan No. 2 with two definite objectives, first to find a method by which these facilities could be fairly appraised at the end of the operation and fairly disposed of to the Government, either by selling to the manufacturer or by the Government taking them over. If it hasn't been perfectly fair, I am sure that we will sit down to make it so and it will be fair before we get through. We wanted also, No. 2, to try to use private capital rather than having the Government make the outlay at the very start. True, what the Government is doing

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is borrowing that money four or five years and it is being repaid every five years, but private capital has had a chance to get in on that business during that five year period. The bank can make the loan. RFC could make the loan. The man can use his own money. We think that --

- H.M.Jr: You don't think of RFC as being private capital?
- Nelson: No, sir. I didn't mean RFC was private capital, sir.
- Henderson: Isn't there a third, and stronger, reason, Don, to Foley's question? The number of these facilities aren't all Curtiss-Wright and Buffalo plants, complete plants. In many cases they are increased facilities - that is what we called them in the last war - for manufacturers already in business with plants ready with machinery where extra facilities are needed to meet the defense contract needs. In that case, there is a great advantage in having the manufacturer who is familiar with the sources of his machinery supply and tool supplies do it rather than introducing the Government into it and the Government having to go out and hire competents of all sorts for those particular needs, and it would run too many kinds of facilities.
- H.M.Jr: I am sure you have had this in mind. How about the thought of industry not wanting to be in the position it has a lot of extra plants, stand-by plants? Who is going to decide whether these plants should be demolished in over-production?
- Nelson: In No. 1, in the first case, where the man has paid for this out of his own money and all he has gotten is the benefit of an extra-rapid income tax amortization and at the sixth year start paying taxes on the full amount undepreciated again, we think the Government hasn't any interest, hasn't any equity in that plant, none whatever, and therefore has

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no right to say whether he shall not demolish it or substantially impair and so forth and if by putting that in there you prevent those things happening, you prevent that plant from ever being used.

Now, it may not be used. I am telling you that it will be an important part of the plan, but I think that manufacturers today feel that they want to use it. They feel that they will put up some of their own facilities.

- McReynolds: Some of them expressed the desire to use it, particularly one or two of them in there who said they preferred to do it that way.
- Nelson: We can't see the equity, Mr. Secretary, of why the Government should say that merely because they have allowed them to take depreciation for tax purposes in five years rather than ten, why don't you have in your regular bill at the end of 15 years that they can demolish it.
- H.M.Jr: Now, you have got a third plan.
- Nelson: Now, the third plan is the Government putting up the money entirely. It becomes the Government plan, they hire somebody to manage it, as a purely Government-owned plant.
- H.M.Jr: Like Chrysler on tanks?
- Nelson: Like Chrysler on tanks.
- H.M.Jr: What happens in that case?
- Nelson: That is purely Government property.
- Knudsen: That is your plan, you get it back. And while we are talking about Chrysler, do you remember Mr. Bell said Chrysler was getting a 4% fee? The fee is \$2.00, one for the building and one for the machinery.
- H.M.Jr: You also know he only had overnight to get that.

- Knudsen: Yes. I wasn't sure myself. I thought somebody had changed the contract.
- Henderson: Before you pass from that, Don, I don't believe you had explained what was the provision for - in the event that the Government takes the property at the end of the five years for the contract period under Plan No. 2, that is, that it has possibilities of compulsion of maintenance of stand-by facilities. You might want to explain that.
- Nelson: Well, because that whole thing was still in the twilight area after our meeting last night, I didn't want to go into it too much. I want to assure the Secretary this, that we are going to try to iron all that out to be fair to everybody concerned, because that was the intent of plan No. 2.
- Let me ask you, Sullivan, what is the Treasury's arguments for having this provision in here?
- Sullivan: The plan Mr. Nelson just told about where the Government reimburses and pays for the building, the plan Mr. Nelson has just outlined, gives more protection to the Government than the provisions that are now in the bill. The House Ways and Means Committee felt very strongly that it should be spelled out in the law and not left to be put into the contracts and at the time Mr. Biggers and Mr. Eaton appeared there, they asked Mr. Biggers to furnish them with sample clauses that they were to put into the contract, and at the conclusion of that meeting, Mr. Biggers and Mr. Eaton and I continued a conversation we had had at luncheon the day before, in which we were going to try to work out different treatments for what Mr. Nelson now describes as Plan 1 and as Plan 2.
- Now, the opposition in the House is this, that if the Government is paying outright for a plant, it should have some measure of control over it at the conclusion of the

emergency and these measures were put in there for that purpose.

Now, the bill itself, doesn't give the Government as good a break as the clause that Mr. Nelson has spoken about, but the House feels that that should be in the bill itself and not left to a contract.

H.M.Jr: Well, I have a suggestion to make. I am thinking as I am going along here. I realize the difficulty of having things too hidebound and even if they are, if the good will isn't there, you can always find a way to get around it. Would you people be willing to agree with me to go on record publicly and give your word that from now on every contract that the Government makes be immediately published, be made a matter of public record? Now, if you are willing to do that, I will go along with you on this.

Biggers: May I object --

Henderson: Now, Henry --

H.M.Jr: If you are willing to go along with me on that, I will go along with you on these suggestions.

McReynolds: The contract is a public record.

H.M.Jr: No, excuse me. I want to keep --

McReynolds: I know, you want it practically that. As a matter of law, it is.

H.M.Jr: Now, wait a minute, Mac. We are here amongst ourselves. The first time somebody signed a contract with the Roberts Construction Company, if that had been made public he wouldn't have gotten 30 million dollars worth of business. I am willing to trust the American public. I am sure you gentlemen are, too, and I say if every one of these contracts, as soon as it is signed, can get out into a contract record and be given out to the newspapers

in full detail, I am willing to go along with you. You can't argue very much about that. Let the American public decide.

Henderson: I want to be reported in favor of publicity on contracts, but isn't there this consideration as to whether there is information of value to the potential enemies in some of the contracts?

H.M.Jr: Listen, Leon, I am not a kid. My God, you no sooner have a plane than the design and everything is in the papers and everybody tells every contractor four times over.

Biggers: Mr. Secretary, I see no objection at all to your suggestion, but I don't think it is our prerogative. It is the War and Navy Department's.

H.M.Jr: Here you are advocating a certain kind of a contract. You can advocate a public contract.

Henderson: That is within our bounds of advice.

H.M.Jr: You put your shoulders behind it, and if I may say so, while I was sitting here, we had the first ones with Colt and then we had a couple more, and we were attacked by the Senator from New Hampshire. I immediately put the contract in the paper and said, "Let the public decide. If it is not all right, okay. If the public says it is all right, all right." It took the heat right off me last fall.

If the American public aren't satisfied, then you can't spend one minute pushing for one certain kind of a thing and the next minute say you won't put the Commission on record --

Knudsen: There is no argument about that, that is all right.

H.M.Jr: Isn't that all right? I am willing to trust the American public.

Knudsen: Sure it is all right. Why don't you publish

the three forms, and you can say, "This is Form No. 1 and this is Form No. 2 and this is Form No. 3." XYZ Company gets a contract according to Form No. 2.

- Biggers: But Mr. Morgenthau means as to details of the contract and the price and the name of the contractor and everything, as I understand it.
- Nelson: The only objection I would see, Mr. Secretary, is the publishing of the specifications in every case.
- Foley: You are talking about the financing of the contract for the new facilities, you are not talking about the contract for the materials.
- Biggers: I thought you meant all contracts. You said all contracts.
- H.M.Jr: Under the Walsh-Healey Act, each week they have to - Miss Perkins publishes each contract, doesn't she, and how much it was let for and all that?
- Nelson: Yes, sir, she gets out weekly statements showing the amount, to whom the contract went, and the amount of the contract and the particular kind of classification that the thing was for.
- H.M.Jr: Now, what I am talking about is that the financial details of the contract should be made public.
- Knudsen: That means --
- Adams: That means Plan 2.
- H.M.Jr: Whatever it is. If Chrysler signed this contract and you and I and Bell sit there and none of us have taken the notes and whether Chrysler did get \$2.00 or 4% we don't know --
- Knudsen: That was just because we were busy at the time.

As soon as I went home and got the contract, I called you up and I knew it was \$2.00, but the gentleman had been there later than I had and I thought he knew something I didn't know.

H.M.Jr:

What I am talking about is the financial details of the contract. As each contract is signed, what are the financial things, just a way - well, SEC publishes how much does a financing house make and how much does a commissioner make and so forth and so on, just the way the SEC does it, as to the - what are the details as to the man's profits and so forth and so on, and I am going to let the American public decide; and if it isn't right, they will come back - Congress will come back and change it. What is the matter with that?

Knudsen:

The facilities contract, that is what you are talking about?

H.M.Jr:

For anything.

Biggers:

I understand the Secretary to mean for guns or for blankets or uniforms or anything.

Nelson:

If you would eliminate the certifications, Mr. Secretary, that that didn't have --

H.M.Jr:

I am not interested in specifications.

Nelson:

Because the specification is the thing that may --

H.M.Jr:

No, leave out the specifications.

Biggers:

You mean the number and the price and the details of the financing?

Nelson:

I see no objection to that at all.

Biggers:

I see no objection to recommending that to the Commission and if they in turn recommend it, it should go to the War and Navy Departments, isn't that right?

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- Knudsen: Publish the price.
- Nelson: Oh, yes. Price will be published anyway. It is a public record. You publish now the number of pieces taken and the price.
- Biggers: So really anybody can work out the piece price for those things.
- H.M.Jr: If Chrysler has an order, if he gets an order for a thousand tanks, I don't care what armament it has or what size gun or the speed, but I want to know on what basis did the Government enter, how much are they paying him, and what is he going to make out of it.
- Knudsen: We can't tell that.
- H.M.Jr: Well, as far as you can. Whatever the financial part of it is.
- Knudsen: He gets 2,000 tanks at \$33,000 and he gets a Government plant paid for by the Government and it remains the property of the Government.
- H.M.Jr: Do you understand what I mean?
- Nelson: I do, certainly, sir.
- H.M.Jr: What do you say?
- Nelson: I see absolutely no objection to it. I would be 100% for it.
- H.M.Jr: If the Army and Navy and the Commission will go along on that, I am willing to have the thing decided in the contract provided the various parts that have to do with money are made public.
- Knudsen: That is fair enough.
- Biggers: I do, too, Mr. Secretary. If I may attempt to amplify one point, because I don't want to leave here, with your permission, without feeling quite sure that you and your associates and we understand the fundamental

on which there has been a difference of opinion accurately.

H.M.Jr:

I understand.

Biggers:

Well, I don't concur quite in Mr. Sullivan's statement, and here is why, if I may --

H.M.Jr:

Would you feel better if you explained it?

Biggers:

I am certain, sir, that it is not understood.

H.M.Jr:

All right, go ahead. I have got all the time that you fellows have.

Biggers:

In the first place, I don't care to take up your time in amplifying this unless you wish, sir, but I thought your purpose was, as you stated, and I think very soundly so, to avoid misunderstandings between those of us who are working for a common objective.

Under Plan 1, as Mr. Nelson outlined it, the contractor puts up his own money for his own plant without Government guarantee or without reimbursement. His only benefit under the tax law is that if his plant cost a billion dollars, he can write off \$200,000 worth of depreciation a year, and under the present law his normal tax on that would be approximately 21%, 20.9. His tax saving, therefore, on that accelerated depreciation would be \$42,000 a year. His normal depreciation would average about 6% instead of 20, or his write-off would be \$60,000 and 21% of that would be \$12,600, so the difference between those two figures is the amount that he actually benefits by this accelerated depreciation written into this tax law and applicable under Plan 1 and the difference is \$29,400 a year, or \$147,000 in five years.

Henderson:

That is in case there aren't any excess profits.

Sullivan:

That is where I dissent.

Biggers:

That is under existing law. Suppose his tax be doubled under the excess profits tax. Then his savings in the course of five years, might be two times \$147,000 but still it is a long way from the million dollars of his own capital which he has invested, and we argue that inasmuch as the Government give him a tax saving to encourage him to take the risk and to employ his own capital without any drain or demand on Government credit and without any inflation of price, that that is all to the Government's interest, and that the Government in the long run doesn't lose anything because he happens to take his depreciation quickly instead of taking it over the normal longer period. And if tax rates advance, the Government may actually gain because after the property has once been depreciated, of course, he has to pay taxes on his entire profit.

H.M.Jr:

I know all that.

Biggers:

Now, we say that under that plan if the - the more people we can encourage, especially in the borderline cases where a man just amplifies or extends his present facilities, if he can be encouraged by that tax incentive to go ahead and use his own capital and initiative without Government obligation, it is good. If he won't do it and wants Government reimbursement and wants Government protection, then we say plan two applies or plan three.

Nelson:

We say the facilities belong to the Government.

Biggers:

And in those cases, we say the Government has paid for the facilities and the Government should control the future use of those facilities and should not only control them but should be reimbursed for the sound value of the Government equity at the end of the emergency under Plan 2, and, of course, under Plan 3 the Government owns it from start to finish, and we just say that to try and impose

that in Plan 1 isn't equitable and would drive everybody to either Plan 2 or 3, which means eventual or present reliance on Government credit or a drain on Government credit, and another thing that is quite important in both Plans 1 and 2, Mr. Secretary, is fee. To the extent that we can get private capital to go ahead and build on their own initiative or build with a contract for Government reimbursement under Plan 2, they can put these facilities up with less regulation and restriction by the War and Navy Departments and less delay by the Quartermaster Corps and get going faster and be making the materials we all think we so vitally need.

H.M.Jr:

I am not going to get into this particular discussion. I don't think - I don't know whether Mr. Sullivan agrees with you or not. I started out my statement by saying that I wouldn't take second place to anybody in wanting to see this country get ready to defend itself. Now, you people are down here to help the Government get these contracts signed. You are convinced that you need this thing. Otherwise, you wouldn't have made such a fuss about it. I don't know whether you are right or not, but I am willing to let the American public decide, if they know, what the Government is doing each day and how these contracts are signed and how much the public is going to make and let each fellow get out his own pencil and figure and not wait like in the last World War until the war is over and then all of you manufacturers be dragged down here for the next five years having to explain what you did with the contracts and so forth and so on, and I think the suggestion I am making as far as the American manufacturers are concerned is all in their interest, and I think - because then the American manufacturers sign up - he can always say, "Well, after all, gentlemen, it is a matter of public record and has been a matter of public record for five years," and if any

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Congressman or any competitor didn't like his contract, it was right in the newspapers, he knew how they were signed and the time to object was the time when it appeared in the newspapers. And there will be certain things they will object to. You will have to adjust yourselves accordingly, but it is a damned sight better to do it within three or six months from the time you signed it than to wait until the contract or the war is over and you spend the next five years down here like U. S. Steel and some of these other companies did, and I think it is absolutely in the interest of the manufacturer, this suggestion, and I don't see how anybody can be afraid of the publicity.

- Nelson: The more I think of it, the more I am sure you are absolutely right.
- H.M.Jr: And I can not, as Secretary of the Treasury, sit with you people or try to tell you day to day how to write a contract, and I wouldn't if I could.
- Biggers: I think it is a very valuable and practical suggestion.
- H.M.Jr: You will make mistakes and they will object to some of them and if they do, it is a damned sight better for you to know it now than five years from now.
- Nelson: And you correct them as you go along rather than later.
- Henderson: Mr. Secretary, as I understand it, if we get publicity on contracts, what, in effect, happens is that I, J, and K that we have been referring to is not present in the bill.
- H.M.Jr: No, we will take the initiative. I will hold up my end. I will tell them that we will withdraw it if they will let us.

Henderson: That is what I am canvassing. I happen to know that in Ways and Means and in the Senate Committee - we know the personnel down there. There are some people that are honest about those things, and some people would be very glad to tie us up and we have had this public brawl about the thing which some people, as you know, will take advantage of. That is what is bothering you and me. People are not interested as this group is.

H.M.Jr: I was sick over it.

Henderson: If they press for something and even if they don't press, why isn't this something to be considered, that - you see, what we objected to and what I objected to in my discussion with Clark as to whether you handle it administratively or whether you handle it by statute - I didn't go into a long explanation of the productions. I think you can get under handling it administratively. Shouldn't we think the general principles that are to go in contracts, as well as the publicity, would be recommended to both groups? Suppose we took the general standard - just like in the SEC we get a general standard for the administration of the Public Utilities Holding Company Act and then we administer that in terms of that standard. That is binding on us. We have got our limits. Now, why don't we consider whether or not that as a substitute for I, J, and K a declaration of principle and a general standard to be observed in the writing of contracts for protection of Government interests included, that is, that would not be a Procrustean bed, as I called it before the Commission, because you have the proper limits of interpretation.

H.M.Jr: You are bringing up something new.

Henderson: And a contracting officer would have its direction.

H.M.Jr: You are bringing up something new which I would have to think about. I don't know

what the clause of the SEC is as to financing publicity, but I know that in the prospectus you have got to put down in every detail just how much you make and what your commissions are and your cost and so on.

Henderson: That isn't specified by law, Mr. Secretary.

H.M.Jr: All I know is that they tell me that the Commission thinks this is a good suggestion and they will push for that and put the same pushing behind it that you did to kill the other thing and I will bring it up in Cabinet. I don't think I will have any trouble. The easiest thing to do is if this thing is important enough and we find that we can't get Harrison and Doughton, we will ask them to come down and we will sit down with them and have another talk.

Henderson: You could start on this. I think Ed sees what I am driving at. You can start at least with a pious - what we call a pious expression of wish, at any rate. It would operate then as a mandate on two things, that the contracts be published --

Knudsen: What do you want to do with this pious wish, publish it?

Henderson: Incorporate it in the statute as a directive --

Knudsen: Put it in the law?

Henderson: Yes, but it in the law.

Knudsen: You mean for Plan 1, 2 or 3?

Henderson: No, that is why I say pious wish, Bill, that the contractor in making any contract or the Defense Commission in giving any certificate shall insert clauses which will properly protect the Government's interest. That is the pious wish way of stating that. Now, you might want to - if you were making a standard for an administrative agency, you would go a

- 30 -

little bit further and spell out in generality, not in specificity, as to what the protective clauses were, because I can write it before I get out of this room.

- Biggers: There is a good word.
- Knudsen: I am learning a good word.
- H.M.Jr: That is a \$2.00 word.
- Henderson: That is right. Anybody want to bet?
- Sullivan: Well, now, Mr. Secretary, so there won't be any misunderstanding about this, I doubt very much if the House will be satisfied without having some standard set forth in the law and I think Mr. Henderson's suggestion is a very good one.
- H.M.Jr: Are you for specificity?
- Sullivan: I don't know.
- Henderson: I can give you an illustration as between what I had in mind.
- Biggers: Mr. Secretary, wouldn't it - as a matter of practical cooperation, if we can take your suggestion back to the Commission at a meeting at 11:00 o'clock today and if they can approve it --
- H.M.Jr: That is right.
- Biggers: And if the War and Navy Departments can be persuaded --
- H.M.Jr: Put as much pressure on them on this as you did on the other thing.
- Biggers: If they can be persuaded to put this into effect without compulsion, won't the same objectives be accomplished and won't they feel better about it than if Congress delays further by attempting to write something into the law?

- 31 -

Henderson: No, John, for this reason --

H.M.Jr: This is getting down to a discussion. Why don't you fellows have it in your own shop and you can give me a ring afterwards.

Nelson: You want us to do it on our own time.

Henderson: You can guarantee a policy for two more months or four more months.

H.M.Jr: Leon, I would rather have these men give me their word plus the word of the Secretary of War and the Secretary of the Navy that they are going to see that this step is going to be made public than all the law in the world. If they give me their word and I have the word of the Secretaries of War and Navy that they are going to have every contract made public --

Nelson: I think it is valuable to the manufacturer and the Commission and everybody else.

Biggers: It will be quite a strong influence on the Procurement officers.

Nelson: I think so, too.

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H.M.Jr: We had very much

John. And everybody said that it was something
that ought to have been done before and we're
sorry it happened at all and I think the thing
worked very well.

H.M.Jr: And I made it clear that after all the Secretary
of the Treasury is responsible for the
legislation.

Publicity on all 184
contracts having
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185

September 6, 1940
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H.M.Jr: He did say that.

McR: Yeah. And everybody said that it was something
that ought to have been done before and we're
sorry it happened at all and I think the thing
clicked very well.

H.M.Jr: And I made it clear that after all the Secretary
of the Treasury is responsible for tax
legislation.

September 6, 1940
12:50 p.m.

H.M.Jr: Hello.

Operator: Mr. McReynolds.

H.M.Jr: Hello.

Wm. H.
McReynolds: You wanted me to call.

H.M.Jr: Yes. I wanted to know before I saw the President what action, if anything, your Committee took.

McR: Well, the thing was reported to the Commission and the Commission unanimously and enthusiastically approved the suggestion.

H.M.Jr: Good.

McR: The thing is being prepared this afternoon and will be put in the hands of the Secretary of War and Navy with urgent recommendation this afternoon.

H.M.Jr: Good. What was the reaction from the meeting over here, Mac?

McR: Well, of course, Leon and I were just tickled pink to get the thing out in that way. Biggers in reporting to the Commission meeting made entirely clear that point that you'd made that you wanted us to wash our linen in our own joint offices hereafter instead of the poor committee and so I think it sunk in.

H.M.Jr: He did say that.

McR: Yeah. And everybody said that it was something that ought to have been done before and we're sorry it happened at all and I think the thing clicked very well.

H.M.Jr: And I made it clear that after all the Secretary of the Treasury is responsible for tax legislation.

- 2 -

McR: Yeah.

H.M.Jr: Huh?

McR: Yes, sir.

H.M.Jr: Well, I think it was a good meeting.

McR: It was a very excellent meeting and the solution you proposed was just one of your usual strokes of genius.

H.M.Jr: Thank you. Oh, Mac, let me ask you this. Did Leon keep on on the theory that you had to write it into the bill?

McR: Well, his thought -- he talked to Johnny later as they came out -- his only purpose there is as a substitute, that is, if it's necessary to get -- in order to get the other out -- to get something in, that should go in its place, that's all.

H.M.Jr: Well

McR: It's a question of negotiation, that's all. I told him to stay close to Johnny and work with him and he and Johnny are on pretty good terms. He had lunch with him yesterday and went out to his house for dinner last night and they're getting along and Leon is just as well, thoroughly convinced as I am that Johnny -- there isn't any more honest or proper-purposed person around as Johnny Sullivan, and the thing is all on an even keel once more.

H.M.Jr: Well, Mac, if there is any resolution or anything in writing that you pass on, could I have a copy of it?

McR: Yes, sir. I'll see that you get it.

H.M.Jr: Will you?

McR: Yes, sir.

H.M.Jr: All right, Mac, and there's no argument that we ought to do those things in our own offices and not in the public.

TREASURY DEPARTMENT

- 3 -

INTER OFFICE COMMUNICATION

McR: No argument at all.

DATE December 2, 1928

H.M.Jr: Right.

McR: Right-o.

H.M.Jr: Thank you.

McR: Thank you.

Without prejudice to the Department's position.
The Secretary of the Board of Financial Affairs.

I called Mr. [redacted] [redacted] last night. He outlined his opinion as stated in [redacted]'s memorandum, after consultation with various officials of the Department of State. He was entirely of the opinion that the payment of the French should be granted to cover the [redacted] as to diplomatic and consular officers in the United States, both [redacted] and the rest of the world.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1940

TO Secretary Morgenthau
FROM Joseph P. Chamberlain

Supplement to yesterday's memorandum,
Re: Requests of French Financial Agency.

I called Mr. Berle about 5:30 last night. He confirmed his opinion as stated in yesterday's memorandum, after conversation with various officers of the Department of State. He was entirely of the opinion that the request of the French should be granted to cover the next month as to diplomatic and consular offices in the United States, South America and the rest of the world.

J.P.C.



THE SECRETARY OF COMMERCE
WASHINGTON

September 6, 1940

Dear Henry:

I can't tell you how pleased I am with your note this morning. It is difficult to realize that I am actually leaving my associations here, at any rate on a formal basis. Government seemed a pretty impersonal thing to me years ago, but now it lives with a vital human force.

When I go over my years here, the thing that I am sure that I did the best was the giving of relief to the unemployed. No one did more than you to support that program. Many times when the days seemed pretty dark you were the one who helped influence a favorable decision on behalf of the millions who were out of work. I want particularly to say this to you because during those early years many people said publicly and privately that you were opposed to relief measures when just the contrary was the case, for never once in the long history of unemployment relief did you fail. I presume people will never know what a great friend you have been to those who have little in life.

I have such a real regard for you and Elinor which is based on the integrity with which both of you live, that I am looking forward to the continuance of it with the greatest of pleasure. Do give her my love.

Ever so cordially yours,

A handwritten signature in cursive script, appearing to read "Henry".

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

September 4, 1940

Dear Harry:

I am writing to express my regret that you are leaving us and to wish you good luck in your new adventures. I know it is through your own choice and your own insistence, but there are many of us who hate to see you go.

It may not be amiss to tell you that I have had a lot of satisfaction in working with you, from the beginning of the T.E.R.A. in Albany right down to today. But I think you know that. I seem to remember that when we got together we usually got results. I have always thought of you in a dual role -- as a man of action and a friend. That's a pretty good combination here in Washington.

You have done a grand job here. I am sorry that it has been at so great a physical strain that you now have to stop and rest; but knowing what a good job you've done you ought to be able to loaf with some contentment.

I don't want to lose touch with you and I hope you feel the same.

Sincerely,

Henry

Hon. Harry Hopkins,
Secretary of Commerce.

183
191
192

September 4, 1940

Dear Harry:

I am writing to express my regret that you are leaving us and to wish you good luck in your new adventures. I know it is through your own choice and your own insistence, but there are many of us who hate to see you go.

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Sincerely,

Henry

Hon. Harry Hopkins,
Secretary of Commerce.



THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON

September 4, 1940
September 6, 1940

193
192
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please send
me a copy
P.H.

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Sincerely,

Henry

Hon. Harry Hopkins,
Hon. Henry Warrenthau
Secretary of Commerce.



THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON

September 6, 1940

193 *Hmf has not seen - please send me a copy PJ.*

My dear Mr. Secretary:

I am enclosing a memorandum on Plastics in Aircraft Construction, as prepared for me by Colonel Aldrin.

Since its preparation, Mr. Young called me regarding a possible meeting with Mr. Vidal for a discussion of what his company is doing in plywood aircraft construction.

I am therefore sending this memorandum to you by Colonel Aldrin so that he may discuss the topic of Mr. Young's last telephone conversation with him.

Sincerely,

Robert H. Hinsey

Hon. Henry Morgenthau
The Secretary of Treasury

[Faint, mostly illegible text from the reverse side of the page is visible through the paper.]

PLASTICS IN AIRCRAFT CONSTRUCTION

Plastic materials are used in aircraft construction: (one) as a binder and adhesive in the making of plywood, molded shapes for airplane wings and fuselages; (two) in the making of aircraft propellers, instrument boards, etc. by compressing layers of wood impregnated with resinous material, and (three) in the making of aircraft parts from resinous material, such as windshields, knobs, etc.

The term "plastic airplane" has been greatly misunderstood. Airplanes have been made out of veneer, using various glues and molded to form like, for example, the Lockheed Vega, long before plastics became a fad for everybody to talk about. As a matter of fact, there has never been constructed a true "plastic airplane". Several airplanes, however, have been built in the United States from plywood molded into various shapes in a manner peculiar to plastic binders.

The new synthetic resin adhesives can conveniently be used between layers of veneer and when molded under a reasonable pressure and temperature can be formed directly into the desired shapes without internal strains. Besides, this resulting product remains stable and retains its shape under atmospheric conditions that previously were not possible.

The aircraft companies who have recently gone into plywood construction using resinous binders are: Fairchild Engine and Airplane Corporation, which developed the "Duramold" process, now also licensed to Hughes Tool Company; the Aircraft Research Corporation of Bendix, New Jersey, have developed some other way for molding this material under the so-called "Vidal Process"; and the Timm Aircraft Company have evolved another process called "Aermold" and built a training plane by it. Other aircraft companies have taken an interest in the question, such as the Glenn L. Martin Company, which established a fellowship for researching this at the Mellon Institute. Haskelite Manufacturing Corporation, as well as the United States Plywood, and possibly others, have done a good deal of development work on this subject. The National Bureau of Standards, on a project sponsored by the N.A.C.A., are likewise developing the subject.

The U. S. Army Air Corps have given considerable attention to the subject and have placed experimental contracts for sample parts for study, as well as investigating the building of a complete "plastic" trainer airplane by this means. The U. S. Navy Bureau of Aeronautics also has had seaplane floats built for study.

As occurs in so many other cases, we in the United States are lagging far behind in this development work. The Germans seem to have undertaken this in the most active form, having airplanes made from plastic treated plywood which have flown in various parts of the World as early as 1936. No training airplanes of United States manufacture have yet passed type approval. One model several years ago, the Clark cabin monoplane was given an Approved Type Certificate.

The opinion of many informed, but disinterested individuals, is that it is too difficult for new manufacturers to finance a program of this sort. The government agencies, on the other hand, although interested assume the attitude of having "to be shown" and are too busy with higher priority military projects.

The advantages of building aircraft from plastic molded plywood are many, but there are also disadvantages depending upon the class and type of airplane considered. It is fairly obvious that the largest multi-engined airplanes can best be built out of metal. In general, air transport equipment is best when constructed of metal because of the long period of utility. There seems to have been considerable question regarding the safety in using wood under all sorts of conditions for a long time. The real reason behind this is that compression failures in wood cannot be detected as well as in metal, directly or indirectly. When metal is overstressed it buckles or stretches, as the case may be, and this can generally be detected on the outside in the case of any internal structure. Such is not the case in wood. Consequently, even for training planes, there are disadvantages where they have student rough-landing and questionable handling. The factory equipment, facilities and skilled personnel needed for the construction of metal aircraft are many-fold more than in the case of wood. The latter would be a simpler production problem starting from scratch and this is certainly important when we are talking about multiplying factory facilities by four or five.

It would appear that the most useful application for building aircraft would be in the case of war-time models for which a long number of years of utility is unnecessary. If adequate strength under repeated peak loading could be assured as in pulling out of dives, then this material might well be used in the construction of interceptor fighters.

Although the utilization of wood veneer might relieve peak demand on aluminum to some degree, it should not be assumed that an unlimited war supply of the proper wood can be had. Our experience in the last War, as well as some recent investigation points a warning in this direction.

From the standpoint of the usual safety features desired in aircraft it can be stated that, curiously enough, the wood construction is more fire-safe than the metal construction. This resinous treated wood will only char under a torch; whereas aluminum disappears into ash. Also, the wood construction does not blow out at the exit holes when bullets are shot through it as in metal.

It is contended that metal cockpits are safer in the event of a crash than other cockpits. Wood enthusiasts have pointed out that the metal being strong in tension has a tendency to buckle and fold in; whereas the wood being weak in tension gives away and opens up like an eggshell. Possibly the metal cockpit is safer most of the time, but there are arguments both ways.

E.E.A.
E.E.A.

9-6-40